SYSTEMATIC COUNTRY DIAGNOSTIC OF THE PHILIPPINES

Realizing the Filipino Dream for 2040

WORLD BANK GROUP
SYSTEMATIC COUNTRY DIAGNOSTIC
OF THE PHILIPPINES

Realizing the Filipino Dream for 2040

WORLD BANK GROUP

Report No. 143419-PH
Acknowledgments

The report was prepared by a World Bank Group team led by Gabriel Demombynes (Program Leader for Human Development) and Xubei Luo (Poverty and Equity) with a core team consisting of Lesley Cordero (Social, Urban, Rural, and Resilience), Souleymane Coulibaly (Program Leader for Equitable Growth, Finance and Institutions), Clarissa David (Communications), Marcelo Fabre (Social, Urban, Rural, and Resilience), Lewis Hawke (Governance), Sharon Piza (Poverty and Equity), and Rong Qian (Macroeconomics, Trade and Investment).

Development of the Systematic Country Diagnostic (SCD) was led in its initial stage by Birgit Hansl (Country Manager, Thailand) in her previous role as Program Leader for Equitable Growth, Finance and Institutions.

Contributions were made by the following:
- Maria Theresa Quinones and Frauke Jungbluth (Agriculture),
- Natasha Beschorner (Digital Development),
- Andrew Ragatz, Sachiko Kataoka, Akiko Sawamoto, and Takiko Igarashi (Education),
- Morten Larsen and Yuriy Myroshnychenko (Energy),
- Stephen Ling (Environment and Natural Resources),
- Robert Oelrichs, Tomo Morimoto, Netsanet Walelign Workie, Maria Vida Gomez, and Jewelwayne Salcedo Cain (Health, Nutrition, and Population),
- Ahsan Ali (Procurement),
- Pablo Acosta and Ruth Rodriguez (Social Protection and Jobs),
- Marivi Amor Jucotan Ladia, Maria Loreto Padua, and Pia Peeters (Social, Urban, Rural, and Resilience),
- Victor Dato (Transport),
- Edkarl Galing and Christopher Ancheta (Water).

The team received valuable feedback during "upstream" consultations in the early stages of the work in Dumaguete, Zamboanga City, Iloilo City, and in various parts of Metro Manila and at additional "downstream" consultations on the draft SCD in Makati, Quezon City, and Naga City. The events were organized with much guidance and support from our communications team consisting of Clarissa David, David Llorito, Stephanie Anne Margallo, and Joedie Perez. In Iloilo and Naga, multi-stakeholder consultations were organized in partnership with the Central Philippine University and Ateneo de Naga University Knowledge for Development Communities.

The team received outstanding research support from Damaris Yarcia, Michael Dominic del Mundo, and Chiyu Niu, and administrative support from Regina Calzado and Mildred Gonsalvez. The report design and layout was done by Christopher Carlos.

Peer reviewers for the report were Ambar Narayan (Lead Economist, Poverty and Equity), Bert Hofman (Professor, National University of Singapore), and Emilia Battaglini (Practice Manager, Climate Change Fund Management).
### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARBs</td>
<td>agrarian reform beneficiaries</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of South East Asian Nations</td>
</tr>
<tr>
<td>ARMM</td>
<td>Autonomous Region in Muslim Mindanao</td>
</tr>
<tr>
<td>BSP</td>
<td>Bangko Sentrial ng Pilipinas</td>
</tr>
<tr>
<td>BARMM</td>
<td>Bangsamoro Autonomous Region in Muslim Mindanao</td>
</tr>
<tr>
<td>BOL</td>
<td>Bangsamoro Organic Law</td>
</tr>
<tr>
<td>BPO</td>
<td>business process outsourcing</td>
</tr>
<tr>
<td>CDD</td>
<td>community-driven development</td>
</tr>
<tr>
<td>CARP</td>
<td>Comprehensive Agrarian Reform Program</td>
</tr>
<tr>
<td>CAB</td>
<td>Comprehensive Agreement on the Bangsamoro</td>
</tr>
<tr>
<td>CCT</td>
<td>conditional cash transfer</td>
</tr>
<tr>
<td>CPSD</td>
<td>Country Private Sector Diagnostic</td>
</tr>
<tr>
<td>DepEd</td>
<td>Department of Education</td>
</tr>
<tr>
<td>DENR</td>
<td>Department of Environment and Natural Resources</td>
</tr>
<tr>
<td>DSWD</td>
<td>Department of Social Welfare and Development</td>
</tr>
<tr>
<td>ECCD</td>
<td>Early Childhood Care and Development</td>
</tr>
<tr>
<td>ERC</td>
<td>Energy Regulatory Commission</td>
</tr>
<tr>
<td>ENGP</td>
<td>Enhanced National Greening Program</td>
</tr>
<tr>
<td>EITI</td>
<td>Extractive Industries Transparency Initiative</td>
</tr>
<tr>
<td>FDI</td>
<td>foreign direct investment</td>
</tr>
<tr>
<td>GHG</td>
<td>greenhouse gas</td>
</tr>
<tr>
<td>GDP</td>
<td>gross domestic product</td>
</tr>
<tr>
<td>GNI</td>
<td>gross national income</td>
</tr>
<tr>
<td>HCI</td>
<td>Human Capital Index</td>
</tr>
<tr>
<td>IPs</td>
<td>indigenous peoples</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>ISIS</td>
<td>Islamic State of Iraq and Syria</td>
</tr>
<tr>
<td>ISIL</td>
<td>Islamic State of Iraq and the Levant</td>
</tr>
<tr>
<td>LGBTI</td>
<td>lesbian, gay, bisexual, transgender, and intersex</td>
</tr>
<tr>
<td>LGC</td>
<td>Local Government Code</td>
</tr>
<tr>
<td>LGU</td>
<td>local government unit</td>
</tr>
<tr>
<td>MILF</td>
<td>Moro Islamic Liberation Front</td>
</tr>
<tr>
<td>MNLF</td>
<td>Moro National Liberation Front</td>
</tr>
<tr>
<td>NEDA</td>
<td>National Economic and Development Authority</td>
</tr>
<tr>
<td>NPA</td>
<td>New People’s Army</td>
</tr>
<tr>
<td>NDC</td>
<td>nationally determined contribution</td>
</tr>
<tr>
<td>NGO</td>
<td>nongovernmental organization</td>
</tr>
<tr>
<td>NTMs</td>
<td>nontariff measures</td>
</tr>
<tr>
<td>NEET</td>
<td>not in employment, education, or training</td>
</tr>
<tr>
<td>PDP</td>
<td>Philippine Development Plan</td>
</tr>
<tr>
<td>PPA</td>
<td>Philippine Ports Authority</td>
</tr>
<tr>
<td>PISA</td>
<td>Programme for International Student Assessment</td>
</tr>
<tr>
<td>PFM</td>
<td>public financial management</td>
</tr>
<tr>
<td>RRP</td>
<td>Risk Resiliency Program</td>
</tr>
<tr>
<td>RHU</td>
<td>rural health unit</td>
</tr>
<tr>
<td>SOGIE</td>
<td>sexual orientation and gender identity and expression</td>
</tr>
<tr>
<td>SUCs</td>
<td>state universities and colleges</td>
</tr>
<tr>
<td>SLP</td>
<td>Sustainable Livelihood Program</td>
</tr>
<tr>
<td>SCD</td>
<td>Systematic Country Diagnostic</td>
</tr>
<tr>
<td>TVET</td>
<td>technical and vocational education and training</td>
</tr>
<tr>
<td>TES</td>
<td>Tertiary Education Subsidy</td>
</tr>
<tr>
<td>TFP</td>
<td>total factor productivity</td>
</tr>
<tr>
<td>TIMMS</td>
<td>Trends in International Mathematics and Science Study</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>UHC</td>
<td>Universal Health Care</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
<tr>
<td>WFP</td>
<td>World Food Programme</td>
</tr>
<tr>
<td>WGI</td>
<td>Worldwide Governance Indicators</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>IBRD</strong></th>
<th><strong>IFC</strong></th>
<th><strong>MIGA</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vice President</td>
<td>Victoria Kwakwa</td>
<td>Nena Stoiljkovic</td>
</tr>
<tr>
<td>Director</td>
<td>Mara Warwick</td>
<td>Vivek Pathak</td>
</tr>
<tr>
<td>Task Team Leader(s)</td>
<td>Gabriel Demombynes</td>
<td>Tehmina Nawab</td>
</tr>
<tr>
<td></td>
<td>Xubei Luo</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# Table of Contents

Standard Disclaimer ......................................................................................................................... ii  
Copyright Statement ....................................................................................................................... ii  
Acknowledgments ............................................................................................................................ iii  
Abbreviations ................................................................................................................................ iv  
1. Overview ....................................................................................................................................... 1  
   1.1. Inclusive Growth and Jobs ........................................................................................................... 3  
   1.2. Human Capital ............................................................................................................................. 4  
   1.3. Resilience .................................................................................................................................... 6  
   1.4. Governance .................................................................................................................................. 6  
   1.5. Priorities ...................................................................................................................................... 7  
2. Country Context ............................................................................................................................ 9  
   2.1. Economic Growth and Macroeconomy ......................................................................................... 10  
   2.2. Fiscal Situation ............................................................................................................................ 13  
   2.3. Monetary Policy and Financial System ......................................................................................... 14  
   2.4. Poverty, Shared Prosperity, and Inclusion ..................................................................................... 15  
   2.5. Key Drivers of Poverty Reduction ............................................................................................... 22  
   2.6. Composition and Future of Jobs .................................................................................................. 24  
   2.7. Future Trends .............................................................................................................................. 29  
   2.8. Philippine Development Plan and Ambisyon Natin 2040 ............................................................ 31  
3. Inclusive Growth and Jobs ......................................................................................................... 32  
   3.1. Economic Competition ............................................................................................................... 34  
   3.2. Labor Market Rigidities .............................................................................................................. 37  
   3.3. Infrastructure Gaps ...................................................................................................................... 37  
   3.4. Natural Capital: Agriculture, Fisheries, and Natural Resources ............................................... 41  
4. Human Capital ............................................................................................................................. 46  
   4.1. Education and Skills ................................................................................................................... 49  
   4.2. Health and Nutrition .................................................................................................................. 53  
   4.3. Social Protection ......................................................................................................................... 57  
5. Resilience ....................................................................................................................................... 63  
   5.1. Conflict and Peacebuilding ........................................................................................................ 62  
   5.2. Climate Change, Environmental, and Disaster Risks .................................................................. 69  
6. Governance ..................................................................................................................................... 78  
   6.1. Government Effectiveness .......................................................................................................... 79  
   6.2. Control of Corruption ............................................................................................................... 82  
   6.3. The Rule of Law ......................................................................................................................... 82  
   6.4. Voice and Accountability .......................................................................................................... 84  
7. Policy Priorities ............................................................................................................................. 83  
8. Data and Knowledge Gaps ......................................................................................................... 90  
References ........................................................................................................................................ 93  
Annex 1: List of Consultations Conducted ...................................................................................... 99  
Annex 2: List of Censuses and Surveys ............................................................................................ 102
Boxes

Box 1  Migration and Remittances ................................................................. 27
Box 2  Country Private Sector Diagnostic ..................................................... 33
Box 3  Case Study: Tourism .................................................................. 42
Box 4  The Experience of Land Reform in the Philippines ..................... 45
Box 5  Other Social Protection Programs .................................................. 65
Box 6  Women's Health, Education, Employment, and Empowerment .......... 61
Box 7  Conflict Actors in the Philippines .................................................. 62

Figures

Figure 1  Thematic Areas and Key Priorities ................................................. 8
Figure 2  The Philippines has Achieved High Rates of Growth Since the Early 2000s .................................................. 10
Figure 3  GDP per Capita 1960-2018 for Philippines and Regional Peers (constant 2010 USD) .................................................. 11
Figure 4  Share of Sectors in GDP (%) ......................................................... 11
Figure 5  Share of Sectors in Employment (%) ............................................. 11
Figure 6  Contribution to GDP Growth from the Demand Side ..................... 12
Figure 7  Contribution to GDP Growth from the Supply Side ....................... 12
Figure 8  Composition of Gross Goods and Services Exports, 2017 .............. 13
Figure 9  Destinations of Gross Goods Exports, 2017 ............................... 13
Figure 10  Public Revenue as Percentage of GDP ......................................... 14
Figure 11  Domestic Credit as Percentage of GDP, 2018 ................................ 15
Figure 12  National Poverty Rates and Number of Poor ................................ 16
Figure 13  Poverty Trends Based on National and International Poverty Lines .................................................. 16
Figure 14  GDP Growth and Poverty Rates by Region .................................. 16
Figure 15  Prosperity Over Time in the Philippines and East Asia and Pacific, 2002–15 .................................................. 18
Figure 16  Inequality Measures ................................................................. 19
Figure 17  Average Growth Rates of Various Measures, 2006-15 .................. 19
Figure 18  Access to Basic Services and Assets by Income Quintile, 2015 ........ 20
Figure 19  Distribution of Population by Region and Major Group .................. 21
Figure 20  Access to Basic Services by Major Groups .................................. 21
Figure 21  Contributions of Household Income Growth and Change in Distribution to Poverty Reduction .................................................. 22
Figure 22  Decline in Poverty Rate for Each 1 Percent Increase in GDP per Capita .................................................. 22
Figure 23  Contribution of Income Sources to Poverty Reduction, 2006–15 .................. 23
Figure 24  Unemployment and Underemployment Rates .......................... 24
Figure 25  Composition of Jobs ................................................................. 24
Figure 26  Jobs in Business Process Outsourcing Services ........................ 25
Figure 27  Average Monthly Earnings of Employees in Asia-Pacific, 2016 (USD) .................................................. 26
Maps

Map 1  Poverty Incidence by Province, 2015 ................................................................. 17
Map 2  National Road Density ......................................................................................... 38
Map 3  Human Capital Index by Region ........................................................................... 48
Map 4  Vaccination Rates by Region ................................................................................. 55
Map 5  Mindanao, the Autonomous Region of Muslim Mindanao, and Marawi City .................................................. 67

Table

Table 1  Top 10 Countries in Number of Children Not Vaccinated for Diptheria, Tetanus, and Pertussis .......................................................... 54

Currency Equivalents

Exchange Rate Effective as of August 31, 2019
Currency Unit = PHP (Philippine Peso)
PHP 52.03 = USD 1.00
1 OVERVIEW
From its birth as an independent nation, the Philippines has held great potential. A 1960 World Bank report described the “dynamic qualities...of an economy in the ‘take off’ stage of development,” noting the country’s strong prospects due to its “good natural resources, a relatively high level of education, and political stability,” along with its government economic policies and close ties to the United States. Additional advantages are its links to China, strategic location in the heart of East Asia, and population of industrious people, evidenced by the high demand for Filipino workers around the world in a wide variety of professions.

Despite these advantages, for decades the country’s economic performance remained disappointing while many of its neighbors became celebrated success stories and lifted millions out of poverty. In 1960, the Philippines was one of the wealthiest countries in the region, with a higher level of GDP per capita than China, Thailand, and the Republic of Korea. By the close of the 20th century, the Republic of Korea’s GDP per capita exceeded that of the Philippines by tenfold. The country failed to reach its potential, held back by a long period marked by martial law, corruption, coup attempts, and macroeconomic mismanagement.

Steps taken during the 1990s provided the foundation for the Philippines to begin a second chapter in its development story at the start of the new millennium. During that decade, the country righted its macroeconomic ship, achieved institutional stability, and pursued a series of structural reforms. The country opened up to trade, began to liberalize foreign direct investment (FDI), and expanded competition in the air transport, oil, power, and financial sectors. Reforms in the telecommunications sector helped make possible the flourishing of the business process outsourcing (BPO) sector, which has grown rapidly over the last 15 years to comprise 8 percent of GDP today. Overseas remittances, equivalent to about 10 percent of GDP, have provided a steady source of consumption-based growth. The foundation from the 1990s reforms in tandem with these factors have generated substantial growth across the economy since 2003 and in particular over the last decade following the global financial crisis. Annual economic growth rates over 2010-2018 averaged 6.3 percent, one of the fastest rates in the world.

Decisions the country is making today will determine whether the Philippines will start a third chapter in its development story and achieve its dream for 2040. The government’s Ambisyon Natin 2040 vision, which derives from a wide consultation conducted with the Filipino public in 2015, describes the kind of life the Filipino people aspire for themselves and for the country by 2040: a prosperous middle-class society free of poverty. Achieving this long-term vision implies a tripling of per capita income by 2040.

The Philippines will not achieve Ambisyon Natin 2040 by simply riding its current wave of success. The Philippines needs to prepare its people for a future marked by technological change and the climate crisis. Technology has given the country a thriving BPO sector, but technology may also take it away, as some tasks become increasingly automated. And global heating threatens to devastate the economy over the long term in the absence of efforts to adapt. To achieve the country’s goals, policymakers will need to build on the country’s success with an eye to this future.

Realizing Ambisyon will require an expansion of inclusion. Only in the last few years has there been an appreciable decline in the poverty rate, and about 20 million Filipinos remain poor. Throughout much of its history, the country’s institutions have been erected by and for a narrow slice of Philippine society, serving primarily its interests rather than those of the broader
populace. In particular, portions of Mindanao have suffered from neglect and exclusion, leading to a vicious cycle of poverty and conflict. The areas of Mindanao most affected by conflict stand out as the one part of the country left behind in the country’s broader economic success. The highest levels of poverty are found in conflict-affected portions of Mindanao and areas at the eastern edge of the country that are highly vulnerable to typhoons.

This Systematic Country Diagnostic (SCD) identifies a four-part diagnosis of the constraints to the Philippines achieving its Ambisyon Natin 2040 goals. First, the country can enact policies that maintain its high rates of growth but also make that growth more inclusive and generate good jobs. Second, investments in human capital can ensure that Filipinos can lead healthy lives and have the skills for those jobs. Third, the Philippines can build its resilience to natural disasters and the looming climate crisis, while continuing to build peace in Mindanao. The common thread across all these challenges is the need for follow-through and implementation, which points to governance as the core cross-cutting challenge. The SCD addresses these thematic areas—inclusive growth and jobs, human capital, resilience, and governance—in turn.

1.1. Inclusive Growth and Jobs

Growth in the Philippines has not been highly inclusive. Median incomes have grown much more slowly than GDP per capita, while the wealth of the richest Filipinos has expanded much faster than the overall economy. The pace of creation of good jobs also remains inadequate. Millions of Filipino workers have moved out of low-productivity jobs in agriculture, and half of all workers now hold wage jobs with private firms. But the large bulk of these jobs pay meager wages, and fewer than half offer basic benefits.

Historically, many policies have not favored broad-based growth. Economic competition has been restricted by policies that favor existing conglomerates. Labor regulations have benefitted only those with formal wage jobs—less than a quarter of the workforce. Decades of underinvestment in infrastructure have limited possibilities for the private sector. And the country has failed to realize the promise of its natural resources; agriculture has been hampered by a heavy focus on rice to the detriment of other products with far greater potential. Confronting these constraints can simultaneously help the country maintain its high levels of growth, boost inclusiveness, and create good jobs. Further private sector growth will increase the demand
for labor, which will in turn lead to more employment and higher wages. Emphasis on addressing areas that most directly affect the less well-off can make growth more inclusive.

**Limited competition.** The Philippines has the highest level of market concentration and oligopoly power among major countries in the region. One reason many sectors are dominated by a small number of firms is that regulations create high barriers to entry. The Philippines is one of the most difficult countries in the world for launching a new business: only Equatorial Guinea and Venezuela require more procedures to legally start and formally operate a company. Such barriers particularly impede the growth of small enterprises that can be engines of jobs and inclusion. The 40 percent foreign ownership cap in most sectors further limits competition. In recent years, the government has taken steps towards improving competition: the Philippine Competition Commission was established in 2016, and the Ease of Doing Business Law was enacted in 2018.

**Restrictive labor regulations.** In practice regulations make it very difficult and costly to dismiss regular employees. Consequently, many workers are employed informally or on short-term "endo" contracts without benefits and job protections.

**Weak infrastructure.** International indices rank the Philippines as having the weakest infrastructure among major countries in the region. The country has achieved some notable successes including near-universal access to improved water sources. But it lags peers in developing digital infrastructure, and the critical elements of connective infrastructure—ports, rural roads, and urban public transport—are deficient, particularly in Mindanao. The government's stated top priority is infrastructure, with a focus on Mindanao.

**Underperforming agricultural sector.** Longstanding agricultural policy has been singularly focused on promoting rice, a crop for which the country does not have a comparative advantage. The Philippines was
until recently among a handful of countries with quota restrictions on rice imports. These quotas kept the price of rice very high, benefitting only the small number of farmers who were net rice sellers. The policies on rice also effectively discouraged farmers from moving into other products, stifling the growth of agriculture. The government recently enacted a law to convert the quotas to tariffs and move away from the focus on rice. Two other major constraints for agriculture have been lack of adequate extension services for farmers and poor rural infrastructure.

1.2. Human Capital

**Human capital is critical to both economic growth and inclusion.** The prospects for continuing economic growth in the Philippines will depend on harnessing the rising tide of technological change and expanding its high-skill services sector. The Human Capital Index (HCI), which captures the impact of human capital on future growth prospects, is a useful starting point for considering the country’s human capital challenges. The country’s HCI score of 0.55 indicates that due to shortcomings in education, health, and nutrition, the future productivity of an average child born today in the Philippines will fall 45 percent below potential.

**Absent interventions to shore up human capital investments in low HCI regions, the gaps between wealthy and poor stand to widen.** Children from the wealthiest one-fifth of families accumulate 40 percent more human capital than those from the poorest one-fifth. Children born into poor families have less access to high quality education and are more likely to suffer from health and nutrition deficiencies. They face an uphill climb through the education system partly because their families’ income is less stable and disproportionately vulnerable to shocks resulting from natural disasters and catastrophic health expenses.
**High level of child malnutrition.** One in three children under 5 years old—and half of those in the poorest fifth of households—are stunted, a key marker of undernutrition. Research tracking Filipinos from a young age has shown that children who are stunted at age 2 may struggle to learn in school, will be at greater risk to drop out early, and will be less likely to hold formal sector jobs as adults. The expansion of public insurance in recent years dramatically improved health care access, but challenges remain in leveraging that insurance to boost the quality of services.

**Low quality of schooling.** There have been huge advances in recent years in the education system. Kindergarten was made universal and mandatory, and the basic school cycle was expanded from 10 to 12 years with the creation of senior high school. However, the quality of schooling is low, such that children who attend 12.8 years of schooling in the Philippine system learn as much as a child in a high-performing system learns in 8.4 years. Boosting learning will require following through on plans to improve teacher training, instructional materials, curricula, and school infrastructure.

**1.3. Resilience**

**Geography and history have saddled the Philippines with twin risks of natural disasters and conflict.** Many countries have natural disaster hazards or conflict hazards, but few face high levels of both. These threats have stifled development and poverty reduction in the areas most directly affected. The enduring high level of these risks points to the critical importance of efforts to enhance resilience.

**Severe climate, environmental, and disaster risks.** The Philippines lies within the path of Pacific typhoons and along the Pacific Ring of Fire where the risk of earthquakes is high. It is one of the countries most at risk for the impacts of climate change, which poses the largest threat to the prosperity of the Filipino people over the long term. Global warming will increase the intensity of typhoons, threaten agriculture yields, decimate the coral and fish ecosystem, and curb economic growth. Climate change also threatens to amplify levels of violent conflict. These risks highlight the need to ramp up a wide variety of measures for climate change adaptation and disaster risk reduction. The government has launched a Risk Resiliency Program (RRP), but the program has yet to become an effective vehicle for these efforts. The country can also help lead the worldwide effort to slow global warming by moving away from coal-fired power and tapping its high potential for renewable energy, particularly solar and wind power.

**Continuing armed conflict.** The multiple conflicts in the Philippines derive from a complex web of historical drivers, led by historical and social exclusion of the Muslim population in a portion of the Mindanao region. Armed groups do not pose a threat to the state. However, ongoing conflicts have paralyzed development and poverty reduction in particular places, with a secondary impact on the Mindanao region and the country as a whole. The recent formation of the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) as the result of a peace agreement offers new hope for peace in the region. The road to lasting peace will be long, and full implementation of the agreement will face challenges, among them the increasing terrorist threat posed by more radical groups.

**1.4. Governance**

The Philippines faces a complex mix of governance challenges. These pose a primary impediment to addressing the constraints related to inclusive growth and jobs, human capital, and resilience. There have been promising developments on many fronts in recent years. Almost every constraint has a corresponding existing program, law, or strategy intended to address it. The challenge is largely a question of follow-through and implementation.

Difficulties in implementation of policies and programs to address constraints weaken government effectiveness. Public administration challenges in the Philippines include weak public financial management, inefficient public procurement, overlapping agency responsibilities, limited civil service capacity, inconsistent decision-making over time, and excessive...
caution of civil servants due to the personal liability they face. The government has taken steps to resolve some of these challenges.

A major rule of law concern in the Philippines is weak judicial efficiency, which stymies economic growth and regulatory effectiveness. The heavily overburdened judiciary suffers from significant governance challenges, with large backlogs at all levels of the court system. Important reforms critical for economic and social development can face delays of several years due to court battles. Due to poor performance of the judiciary, the Philippines ranks 152 out of 190 countries in the “Enforcing Contracts” sub-index of Doing Business. The court system is viewed as favoring the wealthy and powerful. Substantial rule of law concerns have also been raised about the deaths resulting from the war on drugs.

Voice and accountability are limited by political dynasties and vote buying. Members of political families or dynasties hold most elected positions, and vote buying is pervasive. These twin phenomena stifle voice, discouraging active political participation by those without family connections and wealth. They reduce incentives for policymakers, particularly at the local level, to focus on improving the lives of their constituents.

Vote buying and political dynasties lie at the nexus between extreme concentration of wealth, oligopoly power, and the weak rule of law. Although systematic data is lacking, numerous case studies demonstrate how historically the political system in the Philippines has been hijacked by the interests of economic elites. Politicians with money and the right family ties enjoy an edge in elections. Politicians often block implementation of policies and programs that threaten the dominant oligopolies and their owners, who may be the politicians themselves, their family members, and others who fund their election campaigns. The weak rule of law also favors the elites, who can navigate the courts and use them to tie up legislation they oppose.
1.5. Priorities

The SCD team identified seven priorities to achieve *Ambisyon Natin 2040*, eliminate extreme poverty, and boost shared prosperity. The priorities were determined by considering the steps needed in the near term to lay the foundation for achieving the long-term vision for 2040 and beyond. Following the preparation of the initial diagnostic analysis and extensive consultations with government, the private sector, civil society, and academic experts, a prioritization exercise was carried out among the extended World Bank team. Drawing on the diagnostic analysis and input provided in the consultations, the team rated candidate priorities based on the extent to which addressing them will contribute to achieving *Ambisyon Natin 2040* and the World Bank’s goals of eliminating extreme poverty and boosting shared prosperity, the strength of the evidence basis for the priority, and the extent of complementarity between a given priority and others.

The priorities are not intended to be a comprehensive set of areas for government action. They were identified as having the highest importance for achieving *Ambisyon Natin 2040*. Many areas of more near-term concern and those in which government action has been effective—such as macroeconomic and monetary management—are discussed in the SCD but were not identified as top priorities.

A strong consensus emerged in the consultation process and the Bank’s prioritization exercise that the overarching priority is upgrading the country’s governance institutions to be “fit for purpose” for *Ambisyon Natin 2040*. Key steps include following through on implementation of the budget reform, improving the function of public procurement, and boosting the capacity of the civil service.

The remaining six priorities were categorized by the level of additional policy effort needed. Two priorities are classified as “Get in Gear”, meaning that a major shift in effort is needed: tackling malnutrition and protecting the country from climate and disaster threats. Two fall into the “Press on the Accelerator” category: building the foundation for peace and closing the learning gap in basic education. These are areas where the current policy direction is appropriate but effort needs to be enhanced. The third category, “Keep Driving,” covers two areas where the existing policy is on the right track but continued follow-through is needed: opening up economic competition and constructing quality infrastructure. Figure 1 shows the seven priorities mapped to the four thematic areas of the SCD.
COUNTRY CONTEXT
2.1. Economic Growth and Macroeconomy

The Philippines has emerged as a sustained growth powerhouse. The country’s unstable macroeconomic and political environment in the 1980s resulted in volatile growth rates that averaged just 2.5 percent per year over the period 1980-1997, far below the average of 4.6 percent of structural peers and 7.6 percent of regional peers. Structural reforms and a commitment to macroeconomic stability helped the Philippines achieve relatively high economic growth after 1998 (Figure 2). Favorable domestic and external conditions supported growth to accelerate to an average rate of 6.4 percent in 2010-2017, surpassing the average of both structural and regional peers.

The country’s recent success represents a substantial turnaround from its historical performance relative to neighbors. In 1960, the Philippines was one of the wealthiest countries in the region, not far behind Malaysia, and with a higher level of GDP per capita than China, Indonesia, Thailand, and the Republic of Korea (Figure 3). At the close of the 20th century, the Republic of Korea’s GDP per capita exceeded that of the Philippines by tenfold.

Structural reforms played a key role in the growth recovery of the 1990s, establishing the underpinnings for strong growth in succeeding decades. During the late 1980s and into the 1990s, the Philippine government took steps to liberalize trade and broadened its privatization efforts. The government also liberalized foreign direct investment in select sectors and opened several industries—finance, air transport, oil, power, and telecommunications—to increased domestic competition.

The period of renewed growth has been accompanied by an acceleration of the long-run shift of the economy away from agriculture. The sector’s contribution to GDP declined from 13.3 percent in 1998 to 8.5 percent in 2017 and employment fell more dramatically (Figure 4 and Figure 5). Labor productivity in the agriculture sector remains much lower than the average among regional peers. Investment and growth in the agriculture sector was stymied by the country’s vulnerability to natural disasters, a policy focus on rice self-sufficiency, the weakness of institutions that support agriculture, and uncertainties generated by a lengthy agrarian reform.

Figure 2: The Philippines Has Achieved High Rates of Growth Since the Early 2000s


1 Structural peers for the Philippines are defined as Bangladesh, Kenya, Morocco, Pakistan, Sri Lanka, and Vietnam based on the following criteria: lower middle-income countries with natural resource exports comprising less than 20 percent of exports, an above average score on the Natural Disaster Risk Index, a population of more than 20 million, an oil importer, exports not concentrated according to the Herfindahl index, and not landlocked countries, small states, or fragile states. Regional peers are China, Indonesia, Malaysia, Thailand, and Vietnam. Regional peers are used as the principal point of comparison throughout most of this Diagnostic.
Both the services and manufacturing sectors have been expanding. The services sector’s share of GDP increased from 51.4 percent in 1998 to 57.5 percent in 2017. Services grew annually at 5.8 percent in the same period. Meanwhile, growth in the manufacturing sector also accelerated in recent years, growing at an average annual rate of 7.6 percent in 2010-2017, compared with 3.0 percent in 2003-2009.

From the demand side view, the Philippine economy is a consumption-driven economy. During 2000-2017, private consumption represented 71.4 percent of the total economy, and contributed an average of 75.2 percent of economic growth. Economic growth is anchored on private consumption, owing to a large domestic market, robust remittances, and a pickup in investments in the services sector. Personal remittances sent to the Philippines averaged 11 percent of GDP in 2000-2016, compared to 4.4 percent in lower middle-income countries on average, and 0.4 percent in East Asia and the Pacific. The favorable domestic policy environment and global liquidity opportunity stimulated investments, which averaged 21.4 percent of GDP over 2000-2017.
In a decomposition analysis, capital accumulation emerges as the main contributor to economic growth, accounting for three-fifths of growth between 1981 and 2017. By contrast, expansion of the labor force accounted for less than one-third of growth, and its contribution to growth has steadily declined in the past three decades. The contribution of total factor productivity (TFP) to economic growth increased in 2000s, mirroring the path of overall economic growth. TFP accounted for a third of growth in 2001-17. The contribution of TFP to growth was higher in the Philippines than in regional peers (except for China) and structural peers (except for Sri Lanka) between 1995 and 2010.

The macroeconomic framework has strengthened further in recent years. Strong macroeconomic fundamentals supported rapid economic growth and job creation. Indebtedness remains moderate with the public and publicly-guaranteed debt to GDP ratio at 34.9 percent in 2017. The fiscal balance improved significantly, after some adverse effects during the global recession. By 2015, fiscal balance turned into a surplus of 0.8 percent of GDP from a deficit of 2.7 percent of GDP in 2009.

External performance has been satisfactory although deteriorating in recent years. The Philippines maintained lower trade deficits over the past decade, owing to gradual export diversification and favorable terms of trade. However, the current account and trade balances deteriorated, mainly due to export growth slowing down while import growth accelerated. The deficit has been financed with remittances, transfers, and foreign direct investments.

Philippines exports are concentrated in a few sectors and are principally directed towards East Asian neighbors. Total exports of goods and services were equivalent to 31.7 percent of GDP in 2018. Traditionally, goods exports have been largely of electrical machinery and equipment. ICT exports—principally business process outsourcing—have grown rapidly since 2005 and now comprise more than a fifth of total exports. The composition of Philippines’ goods export basket has not substantially changed over the past decade. China and Hong Kong SAR, China together are the destination for 27 percent of Philippines goods exports. Other destinations in Asia account for an additional 40 percent of goods exports, 15 percent go to Europe, and 13 percent are to the United States. (Data on destinations for services exports are not available).
2.2 Fiscal Situation

Prudent fiscal management in the early 2010s was critical to ensure macroeconomic stability, leading to improved fiscal space for the government to expand its expenditures in recent years. The government pursued a path of expenditure consolidation between 2010 and 2015 to strengthen its macroeconomic fundamentals and achieve an investment grade credit rating which would lower borrowing costs significantly.\(^2\) Lower borrowing costs freed up resources to increase expenditure on key sectors such as social services. The government shifted to an expansionary fiscal policy stance beginning 2016 as the government benefitted from improved fiscal space, with the goal of making growth more inclusive by addressing a large gap in both its physical and human capital investment. However, expenditure levels are still lower in the Philippines compared to peers in the region, apart from Indonesia.

The government is increasing domestic revenue mobilization. In recent years, government revenue increased gradually as a result of both tax policy and administration reforms but is still considerably below the regional average. The government has initiated further reforms, and as a result, total revenues reached 16.4 percent of GDP in the first three quarters of 2018. Additional tax policy measures are currently undergoing review in the legislative branch of the government. Public expenditure is expected to increase to 20.3 percent of GDP by 2021.

---

\(^2\) From 2011-2015, the national government deficit averaged 1.5 percent of GDP, well below the government’s deficit target over the same period. By end-2014, the Philippines had received 15 positive credit rating action from multiple credit rating agencies.
2.3. Monetary Policy and Financial System

Monetary management has been critical to macroeconomic stability. Since 2002, the primary objective of the Bangko Sentral ng Pilipinas’ (BSP) monetary policy has been to promote price stability conducive to a balanced and sustainable growth in the economy. The BSP explicitly announces its inflation target over a given period, and uses various policy instruments, primarily the reverse repurchase facility, to achieve its target. Prior to the adoption of inflation targeting, inflation averaged 6.9 percent between 1995-2001, declining to 4.7 percent in 2002-2008 and 3.2 percent in 2009-2015. In 2018, the combined impact of rising global oil prices, excise tax on fuel, rice supply shocks, and peso depreciation put pressure in inflation, boosted the inflation rate briefly to 6.7 percent, but it has since declined and is expected to continue to fall.

The Philippines’ financial system has been overall stable and resilient. The banks are well capitalized with average Basel III capital adequacy ratio at 15.3 percent as of March 2019, well above the 10 percent regulatory minimum. In addition, the banking sector’s profitability is moderate but stable with its return on equity at an average of 9.6 percent and its return on assets at an average of 1.2 percent. As of December 2018, gross NPL ratio was at 1.8 percent and net NPL ratio was at 0.9 percent, better than pre-crisis levels (5.8 percent pre-2007). Financial system assets were 121 percent of GDP with banking sector accounting for 82 percent of financial system assets. Total banking sector assets were US$321 billion as of December 31, 2018. Core loans (58.5 percent) and portfolio investments (20.3 percent) were main components of the banks’ assets.
Capital markets are considered shallow, which restricts the financing of infrastructure investments. The Philippine market is considered shallow in terms of financial depth of the primary market and available investment opportunities across asset classes. Issuances of private capital market products and government bonds each totaled 4 percent of GDP on average between 2013 and 2015. They are well under the 9 percent threshold associated with capital markets of developed economies but not far from the 5-plus percent level in China, Malaysia, and Thailand. Even so, the development of the Philippine capital market lags behind these three Asian neighbors (McKinsey and Company 2017).

The level of domestic credit to the private sector is low compared with regional peers with firms relying heavily on internal funds. At 50 percent of GDP, credit to the private sector in the Philippines is at the level predicted by its income level but substantially lower than the average 119 percent of regional peers (Figure 11). Less than 7 percent of working capital of firms is financed by banks, much lower than the 18 percent in regional peers. Even for the country’s large firms, only 11.6 percent of funds used for investment originate from banks.

2.4. Poverty, Shared Prosperity, and Inclusion

Following many years of minimal improvements in the standards of living, the last decade has seen declines in poverty. The poverty rate using the national poverty line decreased from 26.6 to 21.6 percent 2006-2015, with the most rapid declines taking place since 2012, while the number of poor only started to decline in recent years (Figure 12). Measured by the international poverty line and lower middle-income class poverty lines, the trends are similar (Figure 13). Projections suggest that the poverty rate continued to decline through 2018. While this represents significant progress on poverty reduction, the rate of decline has been slower than that of other lower-middle income countries in the region. Despite progress in terms of the poverty rate, fairly rapid population growth has meant that the absolute number of poor has remained roughly constant over time.

Although regional differences persist, growth and poverty reduction in recent years have reached all major regions of the country. Growth rates during 2010-17 were similar for all three major island groups, including Mindanao, which historically falls behind other regions (Figure 14). The one major exception to the country’s story of “spatially shared prosperity” is the conflict-affected Autonomous Region in Muslim Mindanao (ARMM), which experienced minimal growth and saw a rise in its already high poverty levels. Average GDP per capita in the region is one-fifth of the national level. One way to understand the size of that gap is to ask how rapidly the region would need to grow through 2040 merely to reach the 2018 level of GDP per capita for the Philippines as a whole. The region would have to sustain over two decades an annual GDP growth rate of 9.8 percent, which would far exceed historical growth.

3 The national poverty line is equivalent to $2.88 PPP.
4 The ARMM was replaced by the Bangsamoro Autonomous Region of Muslim Mindanao (BARMM) through a plebiscite in early 2019. The new region expands the previous ARMM to Cotabato City and 63 barangays in North Cotabato. The figures presented in this SCD are based on data collected before the formation of BARMM. Consequently, throughout the text discussions that involve data refer to ARMM rather than BARMM.
Poverty rates increase with distance from Metro Manila. Less than 5 percent of the population falls below the poverty line in Metro Manila, and poverty rates are less than 20 percent throughout the south and central portions of Luzon where Metro Manila is located (Map 1). The poverty headcount exceeds 30 percent in eastern areas of the Visayas island grouping and most portions of Mindanao. The highest poverty rates—exceeding half the population—are found in two areas: (1) conflict-affected areas of western Mindanao and islands of the Autonomous Region in Muslim Mindanao, and (2) provinces at the far eastern edge of the Visayas, which are most vulnerable to extreme weather arriving from the Pacific. A partial exception to the center-periphery pattern is the subregion around Davao City, which is quite distant from Manila but has experienced strong growth. Overall, three-quarters of the poor live in rural areas. At the regional level, the largest share of the poor lives in Mindanao, which is home to just a quarter of the country’s population but 39 percent of the poor.
Map 1: Poverty Incidence by Province, 2015

One of the most striking trends is the lack of progress on eliminating poverty relative to regional comparators. While the poverty rate based on the international poverty line of $1.90 per day declined by 2 to 2.5 percent per year in China, Indonesia, and Vietnam, it declined by only about 1 percentage point per year in the Philippines. In consequence, the share of the economically secure and that of the global middle class increased very little in the Philippines relative to other countries in the region (Figure 15).

Inequality remains high in the Philippines. The Gini index, calculated from the survey-based consumption data, shows a value of over 40, which puts the Philippines in the top third of economies for which recent data is available and above others in East Asia apart from China. (Figure 16). Survey data, however, has well-known limitations in capturing top incomes. The highest earning households may be less accessible to enumerators, may be less likely to agree to respond, and may underestimate their incomes if they do respond. Various imperfect approaches have been adopted to assess inequality taking into account the high end of the distribution.

Available measures suggest that the gap between the rich and the bulk of the population in the Philippines is one of the largest in the world. The Credit Suisse Wealth Report from 2014 estimates that the top 1 percent owns more than half of the nation’s wealth, the fourth highest after the Russian Federation, Turkey, and Hong Kong, SAR China. Another simple measure of wealth concentration is the ratio of the estimated wealth of the richest person in the country to the GDP per capita (based on estimates the 2018 Forbes Billionaires list and World Development Indicators GDP per capita data.). The Philippines ranks fourth by this measure, behind India, Mexico, and Nigeria: the wealth of the richest Filipino is 6.7 million times the country’s GDP per capita.

Economic growth also led to progress on shared prosperity. The bottom 40 percent of the population saw more rapid growth in income over 2006–15 than the average for the country as a whole (Figure 17). However, average income growth in the survey was far below the 3.6 percent growth of GDP per capita. This may be partly because incomes of very high-income households are not captured in the household survey. Average wages grew in real terms at a rate of just 0.4 percent over the same period.
Figure 16: Inequality Measures

A. Gini

Source: PovcalNet for Gini (measured by household consumption per capita); Credit Suisse 2014 for wealth shares.
Note: Regional peers are labeled and shaded yellow.

B. Wealth share of top percentile


Figure 17: Average Growth Rates of Various Measures, 2006-15

Rapid economic growth has yielded small poverty and wage gains in part because of the low and declining share of income that has gone to labor. The share is estimated to have declined from 44 percent in 1995 to 36 percent in 2015. The share in 2014 is the 15th lowest among the 137 countries for which estimates are available in the Penn World Tables. The combination of a high share of wealth concentration at the very top and an increasing share of income going to the owners of capital may have meant that much of the gains from the growth have been captured by the wealthy. Another piece of circumstantial evidence for this hypothesis comes from changes in the wealth of the richest Filipinos. A comparison of wealth estimates from 2006 and 2018 shows that the wealth of the richest 15 Filipinos increased at an average rate of 9.1 percent per year (adjusted for inflation), far exceeding the growth of average income, median income, and GDP per capita.\(^5\)

Access to basic services and ownership of communication and mobility assets significantly improved over the past decade, but the poor still fared worse than the nonpoor. Among the 40% poorest households, the proportion with access to many assets remained significantly below that of the national average (Figure 18).

The Philippines has a substantial population of ethnic minorities, including Muslim ethnic groups and non-Muslim indigenous peoples.\(^6\) The Philippines has 182 ethnolinguistic groups, 110 of which are designated indigenous peoples. According to 2010 census data, members of Muslim groups make up 5.5 percent of the population and are highly concentrated in Mindanao, particularly the Autonomous Region of Muslim Mindanao (ARMM). Non-Muslim indigenous peoples are spread across many regions in all three major island groups (Reyes, Mina, and Asis 2017).

Indigenous peoples (IPs) are poorer and have less access to services than other Filipinos. IPs have been historically marginalized and often face exclusion, loss of ancestral lands, displacement, pressures to and destruction of traditional ways of life and practices, and loss of identity and culture. They have consistently fared worse than others on basic measures of well-being (Figure 20).

**Figure 18:** Access to Basic Services and Assets by Income Quintile, 2015

<table>
<thead>
<tr>
<th>Asset</th>
<th>Poorest</th>
<th>2nd</th>
<th>3rd</th>
<th>4th</th>
<th>Richest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owns phone</td>
<td>0%</td>
<td>0%</td>
<td>5%</td>
<td>20%</td>
<td>70%</td>
</tr>
<tr>
<td>Owns vehicle</td>
<td>0%</td>
<td>0%</td>
<td>10%</td>
<td>40%</td>
<td>80%</td>
</tr>
<tr>
<td>Owns durable assets</td>
<td>0%</td>
<td>0%</td>
<td>5%</td>
<td>20%</td>
<td>70%</td>
</tr>
<tr>
<td>Lives in quality housing</td>
<td>0%</td>
<td>0%</td>
<td>5%</td>
<td>20%</td>
<td>70%</td>
</tr>
<tr>
<td>Has electricity</td>
<td>0%</td>
<td>0%</td>
<td>5%</td>
<td>20%</td>
<td>70%</td>
</tr>
</tbody>
</table>


---

5 This analysis is based on comparing the estimated wealth of the richest 15 Filipinos in the Forbes 2006 list to the estimated wealth from the 2018 list of the same individuals (or their heirs in the case of those who died.) The Forbes estimates are based on a variety of information, and changes over time may reflect in part changes in the information available to Forbes and the methodology used to produce the estimates.

6 The National Commission on Indigenous Peoples designates 110 ethnic groups as indigenous groups. Some Muslim ethnic groups are designated indigenous groups and others are not. “Muslim” is defined in this analysis by membership in a predominantly Muslim ethnic group.
Persons with disabilities continue to face barriers to their full participation and inclusion in society.
A specialized survey conducted by the Philippine Institute of Development Studies in 2016 showed significantly lower school enrollment and labor force participation rates for people with disabilities (PWDs). Low enrollment rates, especially among older children, are due to environmental and financial barriers while low employment rates could be attributed to low education, lack of experience, and lack of employment opportunities (Agbon and Mina 2017). The Magna Carta for Persons with Disability and the Act Expanding the Benefits and Privileges of Persons with Disability seek to ensure that rights and privileges are given to PWDs. However, monitoring is weak.

Lesbian, gay, bisexual, transgender and intersex (LGBTI) people face challenges in education, employment, healthcare, access to justice and other government services, and are subject to violence.
Data on LGBTI people and their development outcomes is sparse. Although sexual minorities (lesbian, gay, bisexual) people are allowed to serve openly in the military and transgender people are allowed to change their legal gender, discrimination remains a challenge (UNDP and USAID 2014). Local ordinances against gender discrimination, promoting gender fairness, and protecting the rights of LGBTI people including in employment, have been passed by numerous local government units. However, the Philippine Congress has not passed national LGBTI employment anti-discrimination legislation. LGBTI Filipinos report

Figure 19: Distribution of Population by Region and Major Group

Source: Reyes, Mina, and Asis 2017, based on 2010 census data.

Figure 20: Literacy and Access to Basic Services by Major Groups

Source: Reyes, Mina, and Asis 2017, based on 2010 census data.
common experiences of sexual harassment in the workplace (UNDP and USAID 2014). In 2017 the first openly transgender woman was elected a member of Congress and successfully lobbied the House of Representatives to unanimously pass a gender identity protection bill. Implementation of this law will be key as case studies have shown that transgender Filipino women are denied the right to express their gender identity in the workplace (UNDP and USAID 2014). While recent attitude surveys indicate that the majority of Filipinos are accepting of LGBTI people, in one survey almost 30% of survey respondents thought that people should be charged as criminals for being in same-sex relationships (International Lesbian, Gay, Bisexual, Trans and Intersex Association 2017). The Philippine Congress in 2013 passed an anti-bullying law and the Department of Education issued regulations prohibiting bullying in schools on the basis of sexual orientation and gender identity. The Department of Education also issued in 2017 a Gender-Responsive Basic Education Policy which expands the definition of gender to encompass relations between same-sex partners, gender awareness, gender-based violence, gender-based discrimination, gender expression and gender identity.

Another aspect of inclusion is access to financial services. Slow progress in financial inclusion has been observed in the Philippines according to Global Findex. In 2017, only 34.6 percent of adults had accounts, up from 26.6 percent in 2011. Account ownership in the Philippines is lagging behind regional comparators. Among adults in the richest 60 percent of households in the Philippines, 45 percent have an account, versus 18 percent of those in the poorest 40 percent of households. The unbanked in the Philippines cite various barriers to getting an account, including distance (41 percent), high costs (53 percent), and lack of documentation (45 percent). Limited and uneven access to financial services also hinders digital payments of the country’s conditional cash transfer.

2.5. Key Drivers of Poverty Reduction

Over 2006-2015, growth in household income contributed 60 percent of poverty reduction, with the remainder from changes in income distribution. The relative contribution of the two factors varied over the period (Figure 21). During 2009-2012, poverty reduction was at a low ebb, due to slow growth under the influence of the global economic crisis but also to much higher distribution effects (Figure 22). The main drivers of poverty reduction over the period were an increase in wage income and movement of employment out of agriculture, government transfers, and foreign and domestic remittances (Figure 23).
The shift of employment from agriculture to services—and the resulting rise in non-agriculture wage income—was the largest factor in the decline of poverty over 2006–15. Those who transitioned to non-agricultural employment generally improved their incomes as lower-end industry and services jobs paid more than agriculture jobs. The movement out of agriculture is a continuation of a long-term trend. In the 1970s half of employment was in agriculture. The share of workers in agriculture declined from 36 percent in 2006 to 28 percent in 2015 and 25 percent of employment in 2017. The share of employment in services rose from 30 percent of total employment in 1970 to 56 percent in 2017.

New jobs in services were largely concentrated in lower-paying subsectors. A total of 7.5 million new jobs were created during 2006–17. The new jobs were concentrated in the services sector and for workers with at least a high school education. The subsectors in the services sector with the highest wages increased slowly compared with those with lower wages. A similar pattern holds for manufacturing and industry: 81 percent of the new jobs were in construction (1.63 million out of a total increase of 2 million), the second lowest paid of the manufacturing and industry sector jobs, while employment in the higher-paying subsectors changed little. The manufacturing subsector created 0.33 million new jobs over this period.

Transfers from government social programs were responsible for a quarter of the overall reduction in poverty. The national conditional cash transfer program, Pantawid Pamilya, expanded rapidly during this period and now reaches about 1 in 5 Filipinos. It provides cash grants to 77 percent of poor households. The program reduced the national poverty rate by up to 1.5 percentage points, lifting 1.5 million people out of poverty.

Two-thirds of Filipinos (15 million households) receive domestic or foreign remittances. Although foreign remittances are of much higher value than domestic remittances, both have similar impacts on reducing the poverty rate. This is because domestic remittances are more prevalent among the poor, while foreign remittances are more common among the non-poor. The cost of sending international remittances to the Philippines is relatively high. Box 1 provides a discussion on the impact of migration and remittances.

---

7 The subsectors refer to each of the 21 sections of agriculture, manufacturing and industry, and services of the 2009 Philippine Standard Industrial Classification (PSIC) by the Philippine Statistics Authority (PSA), which are mutually exclusive and exhaustive.
2.6. Composition and Future of Jobs

Both unemployment and underemployment have fallen over the last decade. The unemployment rate averaged 5.3 percent in 2018. Of those with jobs, 16.4 percent are underemployed, meaning that they would like to work additional hours (Figure 24).

Most working Filipinos are wage earners, but fewer than a quarter hold jobs working for private firms with benefits. Close to two-thirds (63 percent) of employed Filipinos, numbering 25.4 million in 2018, hold wage jobs. Half of all working Filipinos have wage jobs with private firms (Figure 25). Of those, less than half have jobs with benefits. In all, just 8.8 million or 22 percent of workers hold “modern” private-sector jobs that pay benefits. An additional two million are household workers, and 3.5 million work for government at various levels. Regular employees are entitled by law to social security and health insurance benefits. Those working wage jobs without benefits include those hired without contract and those hired on probationary contracts of less than six months (who are not entitled to benefits.) The widespread use of such “endo” contracts by employers has been a long-standing point of controversy.

What jobs will Filipinos have in 2040? While the future is inherently uncertain, it is very likely that

Filipinos will continue to move out of agriculture looking for opportunity in services and industry. Where those opportunities emerge will depend first on the impacts of technology and second on policy choices. Breakthrough developments in information and communications technology are driving a global “Fourth Industrial Revolution.” These have already wrought huge changes in a portion of the Philippine economy, and many believe a new wave of innovations in artificial intelligence and robotics will drive further transformations.

Thus far, the Philippines has dramatically benefitted from the technology advances that have catalyzed the global services trade. The country’s BPO industry

---

**Figure 24:** Unemployment and Underemployment Rates

Unemployment Rate, 5.3%

Underemployment Rate, 16.4%

Source: Labor Force Survey (various years), Philippines Statistics Authority.

**Figure 25:** Composition of Jobs

- Household employee (2 million)
- Government employee (3.5 million)
- Private company employee (20 million)
- Self-employed (14.7 million)

Source: World Bank staff calculations based on 2017 Annual Poverty Indicators Survey data.

Note: “Benefits” here refers to enrollment in either the Social Security System or its equivalent for government workers. Data is incomplete for the self-employed. Some self-employed workers are enrolled in the Social Security System.

---

8 Average of the first three rounds of the 2018 Labor Force Survey.
has created roughly 90,000 new jobs each year since 2004 (Figure 26). More than one million Filipinos—about one in 15 of those working for a private firm—are directly employed by a BPO services provider and the sector has become the second largest contributor to the Philippines’ foreign exchange earnings, after remittances. The Tholons Service Globalization Index, which identifies preferred destinations for outsourcing digital services, puts the Philippines as the No. 2 “Digital Nation” (after India) and five of its cities—Manila, Cebu, Davao, Bacolod, and Iloilo—among the top 100 globally (Tholons 2018). The country’s success in the BPO industry is largely attributed to cultural ties to the United States and the English skills of its workers. Other factors include liberalization of the telecommunications sector, which drastically reduced costs in the 1990s, combined with tax incentives (Kleibert 2015).

Looking toward the future, views on the global implications of digital and information technology fall broadly into two camps. One view is that with advances in artificial intelligence and robotics, machines will be able to do many jobs previously done by humans, displacing large numbers of workers. In support of this view, two studies estimate that half of jobs in the Philippines could be automated (Chang and Huynh 2016; Manyika et al. 2017). An alternative view starts with the observation that fears about technology are nothing new. Periodic warnings have been voiced since at least the First Industrial Revolution in the 1750s that machines were going to wipe out workers’ livelihoods. Waves of technology have indeed eliminated whole classes of jobs but have also generated new ones. Technological change has not produced mass unemployment as feared. Specific jobs and even sectors of the economy can shrink or disappear entirely, but what has been true for one job or sector has not been true for the economy overall (Autor 2015). In this light, historical experience suggests that today’s fears of technology-driven dystopia may be misplaced. There are reasons to be skeptical of the eye-popping numbers from “jobs at risk” studies. They are based only on technological feasibility of automation and disregard other factors, starting with the economics (Schlogl and Sumner 2018). A large number of jobs could ultimately be done by robots, but that future may remain on the horizon for the Philippines as long as wages remain low in comparison with competitor nations (Figure 27).

In developed countries, recent employment growth has followed a U-shaped pattern, with declining numbers of medium-skilled jobs, which typically involve routine tasks that are more easily automated (Autor 2019). In developing countries, the pattern is less marked and the Philippines only matches imperfectly to this pattern (Figure 28). The share of high-skilled jobs—including technician, professionals, and managers—increased during 2007–17, and the number of middle-skilled workers did decline. However, the decline chiefly reflected the drop in the “skilled agricultural, forestry, and fishery workers” category. The main occupational shift was from elementary occupations to service and sales workers. This analysis shows that the Philippines is not yet undergoing the polarization seen in the developed world. However, it is also not experiencing high growth in the middle-skilled jobs that would be expected to fuel the growth of the middle-class.

---

9 Elementary occupations include the following subcategories: cleaners and helpers; agricultural, forestry and fishery laborers; laborers in mining, construction, manufacturing, and transport; food preparation assistants; street and related sales and services workers; refuse workers, and other elementary workers.
**Figure 27:** Average Monthly Earnings of Employees in Asia-Pacific, 2016 (USD)

Source: ILOSTAT annual database.
Note: Regional peers are shaded yellow.

**Figure 28:** Changes in Share of Jobs by Occupation and Skill Category, 2007–17

Source: World Bank staff calculations based on Labor Force Survey data (various years).
Migration is a principal thread of the Philippine social and economic fabric. Filipinos from all walks of life have been migrants themselves or have family and friends living abroad. The UN and World Bank estimate the number of Filipinos abroad at six million (United Nations, Department of Economic and Social Affairs, Population Division 2017). About one-third of them are in the United States and a quarter in the Middle East (Figure 29). The number of migrants has increased steadily, from 3 percent of the Philippine population in 1990 to 5 percent in 2018 (Figure 30). Philippines government programs that prepare migrants for work overseas and protect their welfare are considered worldwide models (Testaverde et al. 2017).

Emigration rates may decline as the Philippines reaches upper-middle income status. Emigration flows follow an inverted-U pattern, first rising as a country’s income increases and then falling. The Philippines is at the peak of the inverted-U observed historically in other countries (Clemens 2014). If it follows this pattern, the migration rate will begin to fall as domestic job opportunities improve.

Remittances emerged as a cornerstone of the Philippine economy during the 1990s, climbing from 3 percent of GDP in 1990 to over 13 percent in 2005. Remittances have continued to grow in absolute value but have fallen as a percentage of GDP as the overall economy has shown strong growth and become less dependent on remittances. In 2015, 42 percent of all households received remittances from abroad (World Bank 2018a).

The impacts of overseas migration are complex. The effects can be considered in five categories: (1) consumption, investment, poverty, and labor force participation, (2) human capital, (3) social relations, (4) macroeconomy, and (5) political institutions.

---

**Figure 29: Locations of Filipino Migrants (in millions)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Migrants (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States of America</td>
<td>2.08</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>0.58</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>0.54</td>
</tr>
<tr>
<td>Kuwait</td>
<td>0.20</td>
</tr>
<tr>
<td>Qatar</td>
<td>0.15</td>
</tr>
<tr>
<td>Bahrain</td>
<td>0.05</td>
</tr>
<tr>
<td>Japan</td>
<td>0.24</td>
</tr>
<tr>
<td>Australia</td>
<td>0.23</td>
</tr>
<tr>
<td>Other countries</td>
<td>0.40</td>
</tr>
<tr>
<td>Canada</td>
<td>0.53</td>
</tr>
<tr>
<td>Hong Kong SAR</td>
<td>0.05</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.10</td>
</tr>
<tr>
<td>China (mainland)</td>
<td>0.15</td>
</tr>
<tr>
<td>Italy</td>
<td>0.15</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.14</td>
</tr>
</tbody>
</table>

Source: World Bank Bilateral Migration Database.

**Figure 30: Remittances and Filipinos Living Abroad**

- Remittances (% of GDP), 10.2%
- Filipinos living abroad (% of total population), 54%

Source: World Development Indicators and World Bank Bilateral Migration Database.

---

10 The UN and World Bank estimate the total migrant stock for the Philippines in 2017 at 5.68 million and 5.97 million, respectively. Counts of overseas Filipino workers (OFWs) are subject to substantial uncertainty. The Philippine Overseas Employment Administration (POEA) puts the number of “land-based” OFWs in 2016 at 1,669,511 and “sea-based” workers at 442,820. These figures only count temporary workers who have registered with the Philippines government.

11 The peak is at $7,000–8,000 GDP per capita in 2005 PPP terms. The Philippines GDP per capita was $9,599 in 2005 PPP in 2017.

12 It is difficult to draw conclusions about the impact of migration from simple observational studies. For this reason, this review emphasizes studies that use experimental or quasi-experimental approaches to identify impacts.
The main impact of migration and remittances is the improved welfare of migrant-sending households. Households that receive remittances are, on average, wealthier, but this is in part due to the remittances. Remittances have been found to reduce poverty among migrant-sending households and even in households without migrants in areas that send migrants (Yang and Martinez 2006). For example, the addition of remittances to household income reduced the poverty rate by 3.8 percent in 2015 (World Bank 2018a). An analysis of based on a lottery of temporary positions in the Republic of Korea shows that migration had large positive impacts on income and consumption of sending households. Contrary to concerns that those receiving remittances may work less, the Republic of Korea study and an earlier analysis find no impact of migration or remittances, or both, on the total labor supply of sending households (Yang 2008). Remittances rise after shocks such as typhoons, providing an important insurance mechanism for recipient households (Yang and Choi 2007).

Remittances finance investments in human capital. Concerns are often raised that migration depletes the country of its workforce. However, migration boosts human capital through multiple channels. Evidence from several studies demonstrates that migration and remittances generate large increases in spending on health and education in the Philippines (Clemens and Tiongson 2017; Theoharides and Yang 2018; and Yang 2008). Another study shows that each 1 percent increase in international migration from a province results in a 3.5 percent increase in secondary enrollment (Theoharides 2018).

A second channel by which migration affects human capital is by creating incentives to pursue education. The possibility of migration and earning high incomes as a result creates a powerful draw to Filipinos to complete more education. The combined impact of emigration and this incentive effect is to slightly increase the overall skill level of the population (Beine, Docquier, and Rapoport 2018). Nursing is a good case in point. In the 1990s, the United States made it considerably easier for Filipino nurses to obtain work visas. As a result, enrollment in nursing studies in the Philippines increased dramatically. For each new nurse who moved abroad, two individuals graduated with nursing degrees (Abarcar and Theoharides 2018). Consequently, while roughly 3,000 to 8,000 Filipino nurses move permanently abroad each year, the Philippines still has 33 nurses per capita, more than both China and Thailand and more than twice the number of a typical country at its level of income.

A third channel by which migration boosts human capital is via “skill flow”. Millions of Filipinos have returned to their country with skills and know-how acquired abroad through formal education and on-the-job training. In 2017, 16,578 Filipinos were studying abroad, twice as many as a decade previous, according to data from the UNESCO Institute for Statistics. The job experience of returning migrants is a form of human capital. As the world shifts further toward an economy built on knowledge, migration is a vital channel to bring ideas to the Philippines (Clemens 2009).

Although the impacts of migration and remittances are largely positive, they have two notable downsides. Migration has taken a toll on relationships between migrants and the children they leave behind. Qualitative studies document the hardship experienced by children who have one or both parents overseas. One study found that children with migrant mothers are worse off than those with migrant fathers (Cortes 2015). Another concern is that remittance inflows can cause a version of “Dutch disease”—an appreciation of the real exchange rate that makes exports relatively expensive and therefore less competitive. One simulation analysis shows that remittances have boosted the economy but also explain the slow growth of Philippine exports (Bayangos, Veronica, and Jansen 2013).

Emigration affects institutions through multiple channels. It provides people with an option to exit, changing their incentives to exercise their voice. Remittances may also act as a "safety valve" to alleviate economic, social, and political pressure for reform. On the other hand, emigration exposes a country to values and experiences in other countries, which could raise expectations and create more pressure for reform. The migrants themselves may become empowered political agents from abroad. One recent study found a positive impact of migration on both political and economic institutions for most countries, including the Philippines (Docquier et al. 2016).
2.7. Future Trends

This section outlines trends in five areas—demography, urbanization, technology, climate, and the role of China—and discusses their impacts for the Philippines.

Demography: The Philippines population will remain fairly young through 2040. Although the total fertility rate continues to fall steadily, the current rate of 2.7 is higher than that of all regional peers. Given the large number of people currently of childbearing age, even with continued fertility declines, the population will continue to grow rapidly, reaching nearly 140 million by 2040 (Figure 31). By UN projections, the share of the population under age 15 will drop modestly, from 31 percent in 2020 to 26 percent in 2040. The share of working age (15-64) will climb slightly, from 64 to 66 percent, and the share over 65 will remain low but grow, from 5 to 8 percent. Unlike some other countries in East Asia which have experienced rapid declines in birthrates, the Philippines has had a long, slow drop in fertility. As a result, it has not experienced a sharp bulge in the share of people of working age and the resulting “demographic dividend.” On the other hand, compared to its regional peers, the Philippines now has a demographic advantage: it still has a young population and does not yet have the challenges of rapidly aging population facing China, Vietnam, and Thailand.

Urbanization: In 1950, the Philippine population was overwhelming rural. Today Filipinos are split roughly evenly between urban and rural areas. With continued migration, nearly all future population growth is projected to be in urban areas (Figure 32). Both Metro Manila and other cities of all sizes will expand. Today only Metro Manila and Davao City have populations over 1 million. By 2035, Metro Manila will be nearing 20 million, Davao City will count 2.5 million inhabitants, and five other cities will have populations exceeding 1 million population: Cebu City, Antipolo, Zamboanga City, Dasmarinas, and Cagayan de Oro (Figure 33). Around the world, productivity is much higher in cities than in rural areas, and urbanization is strongly correlated with economic growth (Glaeser and Xiong 2017). This suggests that the growing urban population can be a positive force for achieving Ambisyon Natin 2040. At the same time, it will amplify existing challenges for infrastructure and basic service delivery.

**Figure 31: Population Pyramids, 1950–2040**

![Population Pyramids, 1950–2040](image_url)
Technology: Technology will continue to enable job growth but may also replace some jobs. Information and communications technology made possible the spectacular growth of the IT-BPO sector, which now employs more than 1 in 15 Filipinos working for a private company. As the previous section highlights, advances in robot technology and artificial intelligence have stoked global fears that many jobs may disappear, and two studies claim that half of jobs in the Philippines are at high risk for automation. However, the decline of “middle-skill” jobs seen in the developed world is not happening in the Philippines, and the country’s low wage level will slow the rate at which technology substitutes for labor. Policies to boost the country’s digital infrastructure and worker skills can make technology more job enabling than job replacing.

Climate: The Philippines is among the countries most vulnerable to climate change, in part due to its location in the path of Pacific typhoons and the sizable population living near sea level. Projections suggest the economic impact could be massive for the Philippines. Climate change is projected to increase the frequency and intensity of extreme weather events, depress agricultural and fishery yields, and kill off vital ecosystems. Climate adaptation—including restoring mangrove forests to protect coasts and switching to climate-resilient crops—can lessen the negative impacts. The country can also help mitigate climate change by meeting its target under the 2015 Paris Agreement to cut emissions by 70 percent below business-as-usual (BAU) by 2030. This would mean meeting growing energy needs with renewable sources instead of coal. In particular, the country has high potential to expand solar and wind power. These topics are discussed in greater detail in the Resilience section of the report and under the infrastructure heading of the Inclusive Growth and Jobs section.

The Role of China in the Global Economy: China’s changing relationship with the United States may present an opportunity for the Philippines. Strained trade ties between China and the United States may increase the costs of inputs and final outputs, dampening investor’s sentiments, and disrupting trade. The Philippines is integrated to the world economy via trade, financial, and investment linkages. In the near term, increased U.S. barriers to China goods could reduce demand for Philippine intermediate goods exports (mainly electronics) that are inputs for exports
to the United States. In the medium term, they could lead to the relocation of direct investment away from China to countries that could produce the affected products, including the Philippines.\textsuperscript{13} The Philippines has the capability to make many of the products targeted by the US tariffs on China. When deciding to relocate investment, investors consider other factors such as production cost including energy and logistic costs, FDI restrictions and incentives, and ease of doing business. Therefore, while the Philippines could potentially benefit from the US-China trade frictions, it would need to address structural constraints in infrastructure and the business environment to take full advantage of the opportunity.

2.8. Philippine Development Plan and Ambisyon Natin 2040

The government’s policy goals are encapsulated in the long-term vision for the Philippines known as Ambisyon Natin 2040. Developed by the National Economic and Development Authority (NEDA), Ambisyon Natin 2040 represents “the collective long-term vision and aspirations of the Filipino people for themselves and for the country in the next 25 years.” The long-term visioning exercise began in 2015 and involved focused group discussions with 300 citizens and a national survey with a sample of around 10,000. Technical studies were prepared to target strategic options needed to realize the collective vision by 2040. An advisory committee composed of government officials, the private sector, academe, and civil society provided guidance throughout the visioning process.

\textit{Ambisyon Natin 2040} describes the kind of life Filipinos aspire for themselves and for the country by 2040: a prosperous middle-class society free of poverty. Achieving this vision of tripling GDP per capita by 2040 will require maintaining average growth of 6.5 percent over the next two decades. This central vision will be the basis for development planning, under the leadership of the NEDA, over the next four administrations of the Philippine government through each administration's Philippine Development Plan (PDP).

\textit{Ambisyon Natin 2040} is supported by the current Philippine Development Plan. The PDP outlines policy priorities for delivering inequality-reducing transformation; increased growth potential; an enabling and supportive economic environment; and foundations for sustainable development. Central to the development agenda is an ambitious spending plan that aims to significantly accelerate investment in both human and physical capital. This is integrated into the national spatial strategy, which seeks to address spatial and socioeconomic inequality and improve connectivity to expand access to opportunity.

\textsuperscript{13} This paragraph is based on a World Bank analysis summarized by Cali (2018).
3 INCLUSIVE GROWTH AND JOBS
A combination of structural reforms and increasing remittances has fueled the country's high growth rates. While growth has begun to generate broad-based improvements in welfare, it has not been as inclusive as it might have been. Median incomes have risen much slower than GDP per capita, while the wealth of the Filipino elite has expanded much faster than the overall economy. The pace of creating good jobs also remains inadequate. Millions of workers have moved out of low-productivity jobs in agriculture, and half of all workers now hold wage jobs with private firms. But the large bulk of these jobs pay meager wages, and fewer than half offer basic benefits.

Historically, many policies have not favored broad-based growth. Economic competition has been restricted by policies that favor existing conglomerates. Labor regulations have benefitted only those with formal wage jobs—less than a quarter of the workforce. Decades of underinvestment in infrastructure have limited possibilities for the private sector. The country has also failed to realize the promise of its natural resources. In particular, agriculture has been hampered by a heavy focus on rice, to the detriment of other agricultural products with far greater potential.

Confronting these constraints can simultaneously help the country maintain its high levels of growth, boost inclusiveness, and create good jobs. Further private sector growth will increase the demand for labor, which will lead to more employment and higher wages. Within the broad constraints outlined here, emphasis on addressing areas that most directly affect the less well-off can make growth more inclusive. For example, reducing the barriers to creating a small business and building and maintaining rural roads can boost shared prosperity.

This chapter considers the constraints to inclusive growth and job creation across three areas: limited economic competition, rigid labor regulation, and large infrastructure gaps. It also examines particular challenges in agriculture, fisheries, and natural resources, which are given special attention because of the large share of the poor they employ. Further analysis of constraints to specific sectors can be found in the WB-IFC Country Private Sector Diagnostic.

Box 2: Country Private Sector Diagnostic

A Country Private Sector Diagnostic (CPSD) was recently completed by a WB-IFC team. The objective of the CPSD is to identify cross-cutting and policy constraints that hinder the expansion of market opportunities and subsequent private sector investment. The diagnostic identifies inadequate infrastructure and lack of competition as the main constraints and offers an extensive sector-by-sector analysis.

The CPSD points in particular to the lack of competition in most infrastructure markets. Limited competition has resulted in high costs and limited service quality for transportation services, electricity, and digital infrastructure. Poor infrastructure and corresponding expensive utility costs discourage private sector investment and subsequent job creation.

The CPSD also highlights the regulatory and trade restrictions that limit competition and investment more generally. Firms trying to enter markets are discouraged by the complexity of regulatory procedures, administrative burdens on startups, and regulatory protection of incumbents. Similarly, firms requiring imports and wanting to export face high trade costs. Over 93 percent of exporters and 98 percent of importers report procedural obstacles as the main barriers to trade, the highest among peer countries.
3.1. Economic Competition

The Philippines’ unlevel economic playing field limits growth, inclusion, and job creation. Large, established, and well-connected firms have advantages that limit opportunities of newer firms and entrepreneurs without connections. A more level playing field would produce greater competition, resulting in lower prices for goods and services, higher quality, more innovation, higher growth, and more jobs. Competition pressures firms to become more efficient to avoid exiting the market. It also ensures that when more productive firms increase their market share, it is at the expense of less productive ones. Greater competition erodes the rents that otherwise accrue to firms with monopoly or oligopoly power. Additionally, the presence of only a small number of employers, known as monopsony power, can repress wage growth. Given the dominance of a single employer in many rural areas, monopsony power may be one factor limiting wage growth in the Philippines.

The unlevel playing field is largely the consequence of government regulations. One key barrier to inclusion and the formation of small businesses is the high regulatory hurdle to forming a new firm. The Philippines is one of the most difficult places in the world to start a business. In terms of the Starting a Business subindex of the 2020 Doing Business indicator, the country ranks 171 out of 190 countries. (It ranks 95th in the overall Doing Business rankings.) Thirteen procedures are required to start a business (Figure 34). Only two other economies in the world require more procedures. The Philippines also ranks very poorly in enforcing contracts (152 out of 190), which may create particular challenges for smaller firms. Product market regulation (PMR) data show that the country’s regulatory environment is more restrictive than comparator countries. Furthermore, price controls and other regulations that limit competition in input markets, such as professional services, hinder the competitiveness of downstream firms. World Bank (2018c) estimates indicate that tackling the restrictions in the services sector could boost GDP growth by 0.2 percent per year.

Public subsidies given to particular firms further limit competition. The discriminatory granting of government subsidies to firms, whether state-owned enterprises (SOEs) or private players, can uneven the playing field between competitors. World Bank research shows that 8 percent of product markets across sectors reported at least one firm receiving a subsidy. In 40 percent of those markets receiving subsidies, just one firm received a subsidy (World Bank 2018c).

High trade costs further restrict competition and reduce opportunities for domestic firms to access.

Figure 34: Number of Procedures to Start a New Business, 2019

Note: Regional peers are shaded yellow.
larger markets. Trade costs in the Philippines are among the highest in ASEAN. Investors in the Philippines pay twice as much as those in Thailand to export or import a shipping container. In addition, the Philippines ranks lowest among peer countries on the World Bank’s Logistics Performance Index; it scores especially low on connectivity to international markets.\(^{14}\) Besides tariffs, importing and exporting firms need to comply with nontariff measures (NTMs), which encompass a wide range of requirements, including technical regulations, product standards, and custom procedures. NTMs have become an increasingly important obstacle to trade in the Philippines. A survey conducted by the International Trade Center in 2015 shows that 60.7 percent of Philippine exporters and 69.6 percent of importers reported obstacles due to NTMs. These figures are high compared with peers.

Partly because of restrictions on competition, the innovation ecosystem lags behind ASEAN peers. Philippine start-ups raised a total of $28.8 million from venture capitalists (VC) in 2018, the smallest amount among major ASEAN economies. Myanmar, a much smaller economy with a lower per capita income, outperformed the Philippines with $32.8 million of VC funding while Indonesia attracted $1.6 billion (Venzon 2019). Philippine regulators recently denied the application of Go-Jek, an Indonesian ride-hailing firm, to enter the market because of its ownership structure.

Months earlier, they ordered Angkas to stop ferrying passengers because motorbike transport services were not permitted. The Philippines’ youthful demographic and its large population make e-commerce an attractive investment opportunity, but regulations restrict foreign investment in retail.

A symptom of limited competition is that foreign direct investment in the Philippines remains low relative to its peers. Limited FDI results in part from restrictions on foreign investment. Such barriers include explicit rigidity stipulated in the Philippine Constitution, which imposes foreign investment restrictions on natural resources, public utilities, mass media, educational institutions, and the practice of professions. In addition, the country’s foreign investment negative list puts a 40 percent cap on foreign equity ownership in most sectors. As a result, compared with its peers in the region, the country’s level of FDI is still low—2.6 percent of GDP versus 4.3 percent in Malaysia in 2016 (Figure 35). Moreover, a decomposition of net FDI into direct-equity and intercompany borrowing reveals that direct-equity investment in the Philippines’ economic sectors fell from 0.8 percent of GDP in 2005 to 0.7 percent in 2016. Most of the increase in net FDI has been due to an increase in intercompany investment through debt instruments, which increased from 0.3 percent of GDP in 2005 to 1.7 percent in 2016.\(^{15}\)

Figure 35: Net FDI as Percentage of GDP

![Figure 35: Net FDI as Percentage of GDP](image)

Source: World Development Indicators.

14 The index measures the timeliness of deliveries, quality of infrastructure assets, logistics quality and competence, and the ability to track and trace shipments.

15 Debt instruments include the borrowing and lending of funds between direct investors and subsidiaries, branches, and associates. Debt instruments include loans, debt securities, financial leases, and suppliers’ credit (trade credit and advances).
Among the 62 countries included in the Organisation for Economic Co-operation and Development (OECD) FDI Regulatory Restrictiveness Index, the Philippines is the most restrictive in terms of FDI regulation. The country belongs to the top five most restricted countries in almost all sectors and tops the list in terms of equity restrictions. There are foreign investment restrictions in several industries typically open to FDI, including utilities, retail, and education.

Sectors that received FDI experienced the highest productivity growth. The bulk of overall FDI over 2014–18 flowed to the metals, real estate, hotels and tourism, food and tobacco, and coal, oil, and gas sectors. The largest sources of FDI were China (20 percent of all FDI), Japan (16 percent), and the United States (13 percent), according to data from IFC’s Cross-Border Investment Tracker. Sectors that received FDI in the form of direct-equity investment had either high productivity growth or high productivity levels. Firm-level evidence shows that regardless of the sector, firms with foreign capital are more productive than firms with only domestic capital. In addition, firm productivity tends to increase with more foreign ownership.

A result of restricted competition is that across many sectors the Philippine economy is dominated by a small number of players. The Global Competitive Report (Schwab and Sala-i-Martín 2017) rates the Philippines 119 out of 137 countries on the extent of market dominance, making it one of the worst performers in the region (Figure 36). Very high levels of market concentration are found in transport, agriculture, wholesale and retail, and manufacturing, as measured by Herfindahl–Hirschman Index (HHI) thresholds (World Bank 2018c). These sectors also show high price-cost margins (PCMs), a proxy for lack of competition. The average four-firm concentration ratio across all subsectors rose from 71 percent in 1988 to 81 percent in 1998 with the most concentrated subsectors involving the production of intermediate and capital goods such as machinery and transport equipment (Aldaba 2008).

Major steps have been taken in recent years towards improving competition. In 2016, the government formed the Philippine Competition Commission (PCC) to implement the 2015 Competition Act, which prohibits anticompetitive practices and regulates mergers and acquisitions. In 2018, an Ease of Doing Business law was signed.

**Figure 36:** Extent of Market Dominance in Selected East Asia and the Pacific Economies, 2017-18

<table>
<thead>
<tr>
<th>Country</th>
<th>Dominance Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>6.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>5.8</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5.4</td>
</tr>
<tr>
<td>Hong Kong SAR, China</td>
<td>4.8</td>
</tr>
<tr>
<td>China</td>
<td>4.6</td>
</tr>
<tr>
<td>New Zealand</td>
<td>4.5</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4.3</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>4.2</td>
</tr>
<tr>
<td>Australia</td>
<td>4.1</td>
</tr>
<tr>
<td>Vietnam</td>
<td>4.0</td>
</tr>
<tr>
<td>Cambodia</td>
<td>3.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.8</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>3.7</td>
</tr>
<tr>
<td>Philippines</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Notes: A lower number indicates a greater level of dominance by a small number of firms. Regional peers are shaded yellow.*
3.2. Labor Market Rigidities

Labor regulations in the Philippines are relatively restrictive. On the Global Competitiveness Index, the Philippines ranked 77th out of 137 countries on the ease of hiring and firing, which makes it more restrictive than all of its regional peers: Malaysia, China, Indonesia, Thailand, and Vietnam. In practice, it is very difficult and costly for firms to dismiss regular workers. The country’s minimum wage is considered high by several measures, both relative to Filipino worker productivity and to the minimum wage of other countries with similar income levels. Finally, redundancy costs are high in the Philippines at 27 weeks of salary, resulting in a rank of 118 out of 136 countries (World Bank 2018c).

The restrictive labor regulations may discourage employers from hiring workers on long-term regular contracts. Among workers employed by private firms, only 44 percent report that they are enrolled in the social security system, a mark of long-term regular employment. The remainder are employed informally or on short-term “endo” contracts without benefits and job protection.

3.3. Infrastructure Gaps

Weak infrastructure in many areas has been a primary constraint to inclusive growth. Reliable quality infrastructure is the foundation for private sector growth and job creation. In particular, infrastructure that connects the poor to opportunity or provides basic services to a wide swatch of the population can boost inclusion. A study using province-level panel data for the Philippines shows that access to infrastructure significantly boosts growth of the nonfarm sector in rural areas where most Filipinos below the poverty line live (Fuwa, Balisacan, and Piza 2016).

The Philippines has underinvested in infrastructure, leading to a large infrastructure deficit. The scale of the country’s infrastructure deficit is reflected in its poor rankings across various indicators. Out of 140 countries included in the World Economic Forum’s 2017–18 Global Competitiveness Index, the Philippines has the worst quality of overall infrastructure in East Asia (Figure 37). The World Bank’s latest Logistics Performance Index ranks the quality of trade and transport-related infrastructure in the Philippines 67th out of 160 countries (Figure 38).

**Figure 37:** Quality of Overall Infrastructure, 2018

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore (1)</td>
<td>5</td>
</tr>
<tr>
<td>Hong Kong SAR, China (2)</td>
<td>5</td>
</tr>
<tr>
<td>Japan (5)</td>
<td>5</td>
</tr>
<tr>
<td>Korea, Republic of (6)</td>
<td>4</td>
</tr>
<tr>
<td>Taiwan, China (22)</td>
<td>4</td>
</tr>
<tr>
<td>China (29)</td>
<td>4</td>
</tr>
<tr>
<td>Malaysia (32)</td>
<td>3</td>
</tr>
<tr>
<td>Thailand (60)</td>
<td>3</td>
</tr>
<tr>
<td>Indonesia (71)</td>
<td>3</td>
</tr>
<tr>
<td>Vietnam (75)</td>
<td>3</td>
</tr>
<tr>
<td>Philippines (92)</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Schwab and Sala-i-Martin 2017.
Notes: Regional peers are shaded yellow. Rank among 140 countries is shown in parentheses.

**Figure 38:** Quality of Trade and Transport Infrastructure, 2018

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan (2)</td>
<td>5</td>
</tr>
<tr>
<td>Singapore (6)</td>
<td>5</td>
</tr>
<tr>
<td>Hong Kong SAR, China (15)</td>
<td>4</td>
</tr>
<tr>
<td>China (20)</td>
<td>4</td>
</tr>
<tr>
<td>Korea, Republic of (22)</td>
<td>4</td>
</tr>
<tr>
<td>Taiwan, China (23)</td>
<td>3</td>
</tr>
<tr>
<td>Malaysia (40)</td>
<td>3</td>
</tr>
<tr>
<td>Thailand (41)</td>
<td>3</td>
</tr>
<tr>
<td>Vietnam (47)</td>
<td>3</td>
</tr>
<tr>
<td>Indonesia (54)</td>
<td>3</td>
</tr>
<tr>
<td>Philippines (67)</td>
<td>2</td>
</tr>
</tbody>
</table>

Notes: Regional peers are shaded yellow. Rank among 160 countries is shown in parentheses.
Map 2: National Road Density

CONCRETE ROAD DENSITY
km per square km of land

- <0.1
- 0.1 - 0.3
- 0.3 - 0.5
- >0.5

Source: World Bank staff calculations using the Department of Public Works and Highways’ (DPWH) 2017 Road Atlas.
Note: Kilometers of concrete road per square kilometer of land.
Transportation infrastructure across the Philippines faces multiple weaknesses. The challenges include chronic road traffic congestion, poorly performing seaports, and overcrowded airports. Urban transport is characterized by traffic jams, a saturated transport system, and few alternatives. Metro Manila generates approximately 13 million motorized trips per day and a total of around 19 million with the adjoining provinces. Only around 10 percent of the total daily trips for the National Capital Region are serviced by rail, versus 25 to 75 percent in comparable world cities (IFC 2016). This means that a majority of the country’s trips are made on the road. Rural road networks are insufficient, particularly in Mindanao (Map 2).

The weak performance of Philippine ports is a product of a restrictive and conflicting regulatory framework. While the Philippine Ports Authority (PPA) has regulatory jurisdiction over most ports, a number fall outside its mandate and are instead overseen by a myriad of regulators. Most of these authorities act as both regulators and port operators. As a result, they have a tendency to approve policies and regulations that may be beneficial to the terminal operators on the one hand, but may hurt the logistics services providers and shippers on the other (Tongzon 2018). In 2017, container cargo dwell times at the port of Manila ranged from five to eight days, compared with 3.6 days in Indonesia.

The country’s telecommunications sector is marked by high costs and low speeds. Two telecom companies own and control most of the existing telecom and Internet infrastructure. Consequently, these companies dictate access and quality for telecom services. The country has only 20,000 cell towers serving the entire population, compared with 70,000 towers in similarly sized Vietnam. The Philippines lags behind the region in mobile broadband penetration, affordability, and quality of service. Download speeds for fixed and mobile broadband are lower than in Malaysia, Thailand and Vietnam. Large portions of the country, including much of Mindanao, have very limited broadband access. The government has recently licensed a new full service operator which has not yet commenced service. Better regulation would create a more competitive market environment and thus increase access and affordability.

The Philippines is behind most regional peers in the adoption of digital technology. According to the World Bank’s Digital Adoption Index (DAI), in terms of overall use of digital technology, the Philippines lags all regional peers other than Indonesia. The DAI business subindex shows that Philippine firms rank slightly above the regional peer average but below Vietnam in terms of digital technology use. The Philippines scores low in digital technology adoption for use by people and the lowest among regional peers in digital technology adoption by government (Figure 39).

Figure 39: Digital Adoption Index for the Philippines and Regional Peers

Source: World Bank Digital Adoption Index
Note: Values shown are deviations from the averages for the six countries.

16 These include the Cebu Ports Authority, Subic Bay Metropolitan Authority, Phividec Industrial Authority in Cagayan de Oro, ARMM Regional Port Management Authority, and local government units.
Filipinos have high rates of access to electricity but pay high prices. In 2017, 96 percent of the urban population and 90 percent of the rural population had access to electricity, behind Malaysia, Thailand, and Vietnam, which have achieved nearly 100 percent access (World Development Indicators and 2017 Philippines Demographic and Health Survey). Filipinos face some of the highest prices in the region, paying more than twice the rates in Indonesia and 50 percent more than those in Thailand (Figure 40). The high cost of energy has been cited by investors as a central reason the Philippines is unable to attract more manufacturing investments (Joint Foreign Chambers of the Philippines 2010).

A major challenge in the power sector is the lack of competition due to vertical integration. The Philippines has made great strides in achieving a competitive energy market. However, there is no explicit prohibition on cross-ownership between generation and distribution, and many supply companies are subsidiaries of distribution utilities. Cross-ownership gives the distribution firm a substantial incentive to purchase power from its affiliated generation firm, resulting in higher prices than a competitive market would yield. Reforms to ensure vertical separation between distribution and supply would reduce prices for consumers (Rudnick and Velasquez 2019). (A further discussion on energy and particularly the prospects for expanding renewable energy can be found in the Resilience chapter of this report.)

Significant gaps exist in the provision of water and sanitation services for Filipinos. Although the large majority of Filipinos have access to improved water sources, more than half of those in the poorest quintile lack access to improved sanitation. Access is far lower in ARMM, where just 71 percent have access to improved sources of drinking water and 35 percent have improved sanitation. The large majority of improved sanitation facilities nationally are septic tank systems, which can pose health hazards if not properly maintained and during flood conditions. Only 4.5 percent of Filipinos (6 percent in urban areas) have a toilet connected to a piped sewer system. Lack of access to adequate sanitation is one driver of the country’s very high level of child stunting. Lack of water and sanitation infrastructure is also a constraint for water-intensive industries like food and beverage manufacturing and for tourism, starkly illustrated by the closure in 2018 of Boracay due to inadequate sanitation infrastructure and environmental compliance.

**Figure 40:** Average Retail Electricity Costs (USD/kWh), 2016

<table>
<thead>
<tr>
<th>Philippines</th>
<th>Thailand</th>
<th>Korea, Republic of</th>
<th>Malaysia</th>
<th>Taiwan, China</th>
<th>Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>$16</td>
<td>$14</td>
<td>$12</td>
<td>$10</td>
<td>$8</td>
<td>$6</td>
</tr>
</tbody>
</table>


**Figure 41:** Access to Water and Sanitation by Income Quintile, 2017

- Blue: with improved, non-shared toilet facilities
- Red: using an improved water source

Source: World Bank staff calculations based on the 2017 National Demographic and Health Survey.
Closing these gaps is envisioned under the Philippine Water Supply and Sanitation Masterplan being finalized by the government. Metro Manila has also faced water scarcity that is affecting the population. The water demand for the city is increasing compared to the available supplies, creating water scarcity and highlighting the need to augment water supply by developing new water sources. In addition, more than 95 percent of the water is sourced from the Angat dam which is located near a geological fault. In case of an earthquake affecting the dam, there is a major risk that water supply will be interrupted to the city that is an engine of growth for the country. The Government is considering preparation of a road map to ensure water security in Metro Manila which should include measures to reduce water losses and also increase the capacity to produce more water to meet the increasing demand.

Capital markets need to be better developed and leveraged to provide the required long-tenure finance for infrastructure projects. The amount of capital available in the Philippines market is significant but not sufficient to keep pace with the actual demand for infrastructure financing. There is a need to deepen the capital markets by introducing new capital market solutions and products to promote local currency financing and project bond-issuance that create long-term liquidity for new infrastructure and PPP projects. These would need to be coupled with enabling regulatory reforms to maximize the mobilization of capital from both domestic and foreign investors.

3.4. Natural Capital: Agriculture, Fisheries, and Natural Resources

Natural capital contributes significantly to the Philippines’ wealth. A 2014 World Bank study estimated that natural capital—as opposed to human capital and produced capital—accounts for 18 percent of the country’s total capital.17 Cropland accounts for the bulk of the natural capital in this measure (Figure 42). However, this is an underestimate because it does not factor in coastline and marine natural resources, which yield fishery output and are responsible for much of the country’s tourism potential.

Underperformance of natural resource-dependent sectors leaves considerable unrealized potential for increasing the economic contribution of natural capital. The agriculture and fisheries sectors perform significantly below their potential. Forestry production is a fraction of former output following widespread deforestation and depletion of remaining timber stocks in the latter part of the 20th century. Although the Philippines is endowed with rich natural assets tourism can rely on, it ranks 75th out of 136 in World Economic Forum’s (WEF) Travel and Tourism Competitiveness Index, significantly behind its regional neighbors. Box 3 discusses the challenges the tourism sector faces. On the basis of geology, the Philippines is expected to have similar mineral resources as its close neighbors such as Indonesia and Papua New Guinea, but very little exploration has happened in the last 20 years.

---

17 Based on 2014 data from the Changing Wealth of Nations data set.
The tourism industry provides a clear example of how constraints to the private sector have limited inclusive growth and the creation of good jobs. The Philippines has substantial natural advantages for tourism: some of the most spectacular beaches and most renowned diving spots in the world, natural sites such as rice terraces and mountains for trekking, a friendly and English-speaking population, a rich and fascinating history, and a vibrant and fun-loving culture. Yet relatively few foreigners visit the Philippines. In 2017, the Philippines received just 7 million international arrivals, a fraction of the arrivals to Vietnam (13 million), Malaysia (26 million), and Thailand (36 million). Tourism receipts and investment are also relatively low in the Philippines. The experiences of the Philippines’ neighbors suggest that tourism has high potential to generate inclusive growth and jobs.

The poor performance of the tourism industry is the result of factors that affect the private sector more broadly. Transport and energy infrastructure used by tourists is typically of low quality and high cost, making the Philippines an expensive destination compared with its neighbors. Restricted competition has limited investment, and limited government capacity, most notably at the local level, has resulted in haphazard planning and partial implementation of tourism strategies.

The sector faces critical sustainability concerns. In 2018, the government closed Boracay for six months to address a range of issues such as environmental degradation due to insufficient solid waste management. The law requiring establishments to connect to sewage treatment plants has not been enforced, resulting in untreated water discharged into the sea. Similar problems affect other top tourism destinations such as El Nido, Panglao, Coron, and Siargao.

The tourism sector is attracting far less investment than its regional competitors, in part due to restrictions on competition. It is estimated that the Philippines invested $1.9 billion in the tourism sector in 2017, lagging far behind Indonesia ($12 billion), Thailand ($7.7 billion), Malaysia ($5.3 billion), and Vietnam ($5.1 billion). The tourism sector only accounted for 2.4 percent of private sector investment in the Philippines that year. Investment is particularly lacking in the accommodations sector. Foreign ownership of tourism assets, particularly land, is restricted.

The provision of infrastructure is largely the responsibility of local government units (LGUs), which generally lack the capacity to deliver it. The Local Government Code of 1991 was intended to provide greater autonomy, responsibilities, and resources to LGUs. However, most LGUs lack the technical capacity to implement infrastructure projects and provide services in a timely and quality manner.

Despite the low level of investment and international arrivals, the sector is growing, fueled by rising domestic consumption. In 2017, the Department of Tourism (DOT) recorded over 97 million local tourist arrivals who spent ₱2.6 trillion in aggregate. During 2011-17, the sector grew at over 14 percent per year, reaching 21 percent of GDP in 2017. This suggests that addressing the constraints to the tourism industry could attract large numbers of international arrivals and make the industry an engine of inclusive growth and jobs.
Agriculture has greatly underperformed but has high potential. Agriculture’s share of GDP in 2017 was 9 percent and its annual growth rate lower than other Southeast Asian countries. About 70 percent of the country’s poor reside in rural areas and depend on agriculture for their livelihoods and employment (Figure 43).

Longstanding agricultural policy has been focused on promoting rice, a crop for which the country does not have a comparative advantage (Figure 44). The Philippines was until recently among a handful of countries with quota restrictions on rice imports. These quotas kept the price of rice very high, benefitting only the small number of farmers who were net rice sellers. The policies on rice also effectively discouraged farmers from moving into other products, stifling the growth of the agriculture sector.

The government recently enacted the Rice Liberalization Law which replaces import quotas with tariffs. The Law has lowered rice prices for consumers. It is expected to encourage farmers to move into other commodities and should shift attention to addressing other constraints faced by the sector.
An overarching challenge for agriculture is the looming impact of climate change. The country is highly exposed to climate-related shocks, which often affect agriculture. Projected temperature increases of 3-4 degrees Celsius by the end of the century and associated changes in weather patterns threaten to dramatically disrupt agricultural production.

Three other major constraints for agriculture have been lack of adequate extension services for farmers, poor rural infrastructure, and access to finance. Research and extension linkages are limited and not sufficiently focused on addressing identified gaps in promoting value chains and climate risks. A barrier to developing markets for agriculture products has been poorly developed infrastructure for transport, particularly all-weather farm-to-market roads, ports, and interisland shipping. As of December 2017, only about 60 percent (1.89 million hectares) of potential irrigable area is irrigated. Irrigation infrastructure has been primarily designed for rice cultivation, thus missing opportunities for crop diversification. Additionally, existing governmental programs to support access to finance in agriculture and provide crop insurance have limited outreach. The forthcoming Agriculture and Fisheries Modernization Plan is expected to outline strategies to improve address these and other constraints and support agri-food systems.

A final challenge for agriculture—and for development more generally, particularly in rural areas—is the weakness of land tenure. There are overlapping mandates between various institutions with authority over land administration. Issues for the reform agenda include establishing an integrated land information system for all types of land that integrates information across agencies, simplifying procedures to transfer and document owners’ rights, and clarifying land use regulations so they are clearly reflected in land documents and easily enforced.

Land policy restrictions also limit investment and the rollout of infrastructure. Constitutional restrictions prohibit foreigners from legally acquiring and fully owning land in the Philippines. Corporations with foreign ownership need to have at least 60 percent domestic ownership to be able to acquire land. Issues linked to land tenure affect infrastructure investments through difficulties in legally acquiring right of way.

While the Philippines remains a major fisheries producer, production has declined. Annual losses of ₱5.7 billion per year are estimated to be incurred due to illegal and unlicensed fishing, depleted stocks, unsustainable coastal development, pollution, climate change, and postharvest losses at around 40 percent of catch. As a result, the country fell from being the fourth largest global producer to the 12th in the past 20 years.

The mining industry has dramatically contracted over the past 40 years. The Philippines has gone from being one of the global top 10 exporters of gold, copper, nickel, and chromite to a marginal producer of all minerals except nickel. A combination of investment restrictions, high taxation, and environmental and social concerns has virtually halted new exploration and mine development. A large number of operating mines and abandoned mine sites have caused negative environmental and social impacts. Mining operations are largely seen as enclave economies dissociated from public planning of infrastructure and social services in the areas of operation.

More recently, the Philippines’ successful implementation of the Extractive Industries Transparency Initiative (EITI) has created a platform for dialogue between civil society, private operators, and government agencies. The Philippines is one of only five countries worldwide fully compliant with EITI requirements concerning openness and accountability of fiscal contributions from the industry. The EITI presents an opportunity for the industry and decision makers to engage in coordinated planning of the future role of the mining sector in integrated planning of land and natural resources as well as provision of infrastructure and social services.
The Philippines has launched multiple land reform initiatives over a period of decades. The most far-reaching was the Comprehensive Agrarian Reform Program (CARP) and its successor, the CARP Extension with Reforms (CARPer), which ended in 2014. Roughly 2.8 million agrarian reform beneficiaries (ARBs) have received land. Various evaluations find at best modest impacts of the land reform on poverty (Ballesteros et al. 2018, Ravago et al. 2018, World Bank 2009). A recent study estimated that the program reduced agricultural productivity by 17 percent on affected land (Adamopoulos and Restuccia 2019). Amid many competing views about land reform, there is a consensus that its results have not met expectations. What went wrong? The literature identifies five factors:

Restriction on title transfer. Land titles issued under the program cannot be sold or leased for 10 years after the effective date of the transfer. Restrictions on transfer continue even after this period has elapsed. As a result, titles have limited value as collateral.

Collective titles. Almost half of the total number of hectares (nearly 2.17 million hectares) of land distributed were issued with collective land titles. These titles have little or no collateral value and constrain options for farmers in choosing crops and technology.

Excessively low ceiling. Landowners subject to the program could retain only five hectares, and beneficiaries are allowed to own only three hectares. These limits are more restrictive than in most historical land reform cases. The low ceilings stopped farmers from adjusting the scale of their farms to achieve efficiency, thus discouraging private investment.\(^\text{18}\)

Undermining by elites. Owners of large plantations count among the economic and political elite. In many cases, they avoided the application of land reform to their land altogether or negotiated with tenants to end up with arrangements highly favorable to the landowners.

Lack of complementary support. Land reform was intended to be tied to technical and infrastructure to farmers, including access to well-functioning irrigation systems and extension services for marketing and technical training. These services in practice have been limited.

---

\(^{18}\) Adamopoulos and Restuccia (2019) show that by a “restrictiveness ratio”—the land holding ceiling relative to the average farm size prior to the reform—CARP’s ceiling was more restrictive than those in Bangladesh, Ethiopia, the Republic of Korea, Pakistan, and Sri Lanka.
Human capital is critical to both economic growth and inclusion. The prospects for continuing economic growth in the Philippines will depend on its ability to harness the rising tide of technological change and expand its high-skill services sector. The Human Capital Index (HCI), which captures the impact of human capital on future growth prospects, is a useful starting point for considering human capital challenges. The country’s HCI of 0.55 indicates that the future productivity of a child born today will be 45 percent below what could have been achieved with complete education and full health (Figure 45). The Philippines ranks 84th in the world and 14th (among 24) in East Asia and the Pacific in the index. In terms of the HCI’s subcomponents, the country ranks high in quantity (expected years) of schooling but low in education quality—measured by harmonized test scores—and low in health and nutrition measures.

Figure 45: Human Capital Index

Map 3: Human Capital Index by Region

HUMAN CAPITAL INDEX

- <0.50
- 0.50 - 0.54
- 0.54 - 0.58
- 0.58 - 0.62
- >0.62

There is a wide disparity in human capital development in the country. Just as economic outcomes are widely disparate, human capital development across regions varies greatly. Regions with higher rates of poverty have lower rates of immunization and fewer years of schooling. As a result, children born in poorer regions have dramatically lower opportunity to achieve their full potential. This perpetuates the vicious cycle that traps generation after generation in poverty. The lowest levels of human capital development are found in the regions with the highest poverty rates: ARMM and Eastern Visayas (Map 3).

Absent interventions to shore up human capital investments the gaps between wealthy and poor households and areas will widen. Children from the wealthiest one-fifth of families accumulate 40 percent more human capital than those from the poorest one-fifth of households (Figure 46). Children born poor are more likely to be undernourished and suffer from poor health. They have less access to high quality education and are less likely to complete high school. They face an uphill climb through the education system because their family’s income is unstable and disproportionately vulnerable to shocks resulting from natural disasters and catastrophic health expenses.

Education is a path out of poverty. As in many other countries, more schooling leads to access to wage employment and higher income in the Philippines. The probability of employment in the formal sector rises with high educational attainment (Figure 47). For each additional year of education, the potential to earn income increases by 15 percent for women and by 9 percent for men. The rate of return to education is higher for postsecondary and tertiary education, particularly for women. Almost no households headed by a college graduate are poor (World Bank 2018a), as shown in Figure 48.

Compulsory basic education has expanded from 10 years to one year of kindergarten plus 12 years, supported with substantial increases in public education spending. Completion of kindergarten became mandatory for enrollment in first grade through the Enhanced Basic Education Act of 2013. In June 2016, the two-year senior high school program was implemented nationwide, admitting 1.5 million grade 11 students for the first time. That year, the Universal

**Figure 46: Human Capital Index by Wealth Quintile**

![Human Capital Index by Wealth Quintile](source.png)


4.1. Education and Skills
Access to Quality Tertiary Education Act was enacted, providing free tuition to Filipino students in state and local universities and colleges and subsidies to poor students in private higher education institutions. To implement these reforms, among others, public education spending rose from 2.6 percent of GDP in 2013 to 3.8 percent in 2017 (World Bank forthcoming).

The basic education reform has greatly increased enrollment rates. The enrollment rate of five-year-olds increased from 57 percent in 2010 to 84 percent in 2017. An impact evaluation shows an early childhood development program (ECD) in the Philippines significantly improved the cognitive, social, motor, and language development and the short-term nutritional status of children who lived in the program areas, particularly for those under age 4 (Armecin et al. 2006). At the primary level, enrollment among children in the poorest income quintile improved to close to universal for those up to age 12 and exceeds 80 percent for those up to age 16. Nearly all Filipino children up to age 17 in the richest 20 percent of households were enrolled in school in 2017 (Figure 49).

Pockets of low enrollment remain, and many students drop out before completing compulsory basic education. About half of Filipino students are struggling to complete basic education on time (World Bank 2018d). Among the bottom 20 percent, the main reason for not attending school is “lack of personal interest” for primary and junior high school age groups (Figure 50). About 65 percent of the total out-of-school children ages 5-15 in 2017 are boys. Especially when families are poor, boys are more likely than girls to drop out early because they can work for pay at an earlier age than girls. One out of four youths ages 15–24 is not in employment, education, or training (NEET). Students in conflict-affected areas still have limited access to education: school closures are prevalent and absence rates are high for both teachers (31 percent) and students (29 percent) in ARMM (Australia DFAT and World Bank 2015).

The rapid expansion of the education system has not been accompanied by quality improvements. Despite a high level of commitment by teachers and an improved learning environment, quality remains limited. In terms of learning 12.8 years of education in the Philippines is equivalent to just 8.4 years of education in a high performing system (Figure 51). Poor education quality, alongside financial pressures on poor families, contributes to loss of interest in schooling, which causes many students to drop out early, particularly among the poor.
Figure 49: School Enrollment Rates by Age for the Poorest 20 Percent and Richest 20 Percent

A shortage of qualified teachers with adequate knowledge and skills is a core constraint to improving learning outcomes. Teachers have on average insufficient knowledge of the subjects they teach and are poorly prepared in pedagogical techniques (Al-Samarrai 2016). Further, the demand of the public school system for teachers has increased sharply, exceeding supply. Not enough teacher education graduates qualify to take the annual licensure exam to allow the Department of Education a high level of selectivity and competition in the hiring process (David and Ducanes 2018). Because of lack of administrative support, teachers are often overloaded with non-teaching tasks, eroding teaching quality.

The low quality of basic education means that even Filipinos who complete secondary school may lack the skills they need for the job market. About 80 percent of unemployed workers have completed secondary education or higher, yet one-third of employers in the Philippines reported unfilled vacancies because of a shortage of applicants with the necessary skills (Acosta et al. 2017). This signals a mismatch between skills supply and demand in the labor market, including for traditional technical and cognitive skills as well as socioemotional skills. The mismatch is more acute for workers in skill-intensive occupations. Technical and vocational education and training (TVET) and tertiary education have largely been ineffective in imparting to students advanced technical knowledge and skills relevant and responsive to the needs of technology-intensive manufacturing and service-oriented industries (Orbeta and Paqueo 2017).

Socioemotional skills are highly valued in the job market in the Philippines. These skills are particularly important for women and youth.19 As a partial compensation to traditional technical and cognitive skills, socioemotional skills can offer a route to higher earnings for workers with low levels of formal education.

---

19 One standard deviation in socioemotional skills is associated with a 9 percent increase in average daily earnings (approximately $2).
The tertiary enrollment rate has increased rapidly over the last decade, but with wide gaps between the wealthiest and poorest quintiles. The gross tertiary enrollment rate rose from 27.5 percent in 2005 to 35.7 percent in 2014. Only about 10 percent of college-age youth in the poorest quintile are enrolled in or have graduated from tertiary education, far from the 72 percent for those in the wealthiest quintile. The enactment of the Universal Access to Quality Tertiary Education Act in the 2018-19 school year—which provides free tuition at state universities and colleges (SUCs)—could serve as a critical step toward increasing enrollment of the poor in tertiary education. Nevertheless, concerns have been raised that the spending associated with the new law may go largely to wealthier students, who would have enrolled even without the free tuition, and the costs of the program may be unsustainable.

The Philippines’ higher education system faces persistent issues, including rapid expansion—without quality monitoring, skills mismatch, low productivity in research and development, and weak governance (Licuanan 2017). The TVET sector faces challenges such as a huge loss of existing jobs due to innovation, technological advancements and the global transition to the Fourth industrial revolution.20 A study on the TVET system stresses the need to increase enterprise-based training, continuously update relevance of training to industry need and increase performance-based funding (Orbeta and Esguerra 2014).

4.2. Health and Nutrition

Access to health services has improved dramatically, particularly among the poor. Coverage of PhilHealth, the national health insurance system, expanded from 38 percent of the population in 2008 to 66 percent in 2017 (Figure 52). The coverage rate for the bottom quintile increased from 20 percent in 2008 to 59 percent in 2017. The benefits package was also expanded to include outpatient services. With these changes, public expenditure on health rose from 0.5 percent of GDP in 2013 to 0.9 percent in 2016. Health spending in the Philippines remains well below the levels of regional and structural peers.

The quality and scope of coverage remain insufficient to protect households from catastrophic health costs. Out-of-pocket household spending remains high (Figure 52). The poor utilize PhilHealth less due both to lack of awareness of their eligibility and administrative challenges (Bredenkamp and Buisman 2016). The share of the population driven into poverty by health spending has doubled over the past decade.

The country still fares poorly on many health outcome indicators in comparison with peers. The Philippines was unable to meet the Millennium Development Goal (MDG) targets for child and maternal health in 2015. Wide differences in access to good-quality health care remain across socioeconomic groups, genders, and regions. Noncommunicable diseases contribute increasingly to mortality and morbidity, challenging the health system to adapt to appropriate service delivery modalities to manage chronic disease conditions in the community. Communicable, maternal, neonatal, and nutritional diseases continue to be very significant. Given increasing levels of urbanization, government policy attention has also turned toward diseases associated with highly urbanized communities.

The expansion of PhilHealth has yielded some tangible gains. The combination of PhilHealth and the “No Home Birthing Policy” instituted in 2009 have boosted the fraction of births that take place in a health facility from just 28 percent in 1993 to 78 percent in 2017 (Figure 53). However, the health system is still weak in terms of basic service delivery, particularly in the areas where poorer Filipinos live.

---

20 The Technical Education and Skills Development Authority (TESDA) is currently finalizing the National Technical Education and Skills Development Plan (NTEDP) 2018-2022.
A key indicator of poor performance of the health system is the low immunization rate. The fraction of children who received all basic vaccinations fell 1998–2017 to 70 percent—dropping below the level of 1993 (Figure 53). Basic vaccinations include BCG vaccine, which protects against tuberculosis; three doses of DPT-containing vaccine, which protects against diptheria, pertussis, and tetanus; three doses of polio vaccines; and one dose of measles vaccine. The Philippines now has the fifth largest number of children in the world not vaccinated for diptheria, tetanus, and pertussis (Table 1), and the ninth largest number not vaccinated for measles. Much more effort and attention are required to expand the coverage of this very cost-effective childcare intervention.

Vaccination rates, other outcomes, and the quality of health care overall are worse in poorer areas. Rural health units (RHUs) in poorer areas score low service readiness. RHUs in wealthier municipalities have better basic infrastructure, more basic equipment, and higher diagnostic capacity than those in poorer municipalities (Morimoto et al. 2019).

Table 1: Top 10 Countries in Number of Children Not Vaccinated for Diptheria, Tetanus, and Pertussis

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Not Vaccinated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>India</td>
<td>6,126,000</td>
</tr>
<tr>
<td>2</td>
<td>Nigeria</td>
<td>5,740,000</td>
</tr>
<tr>
<td>3</td>
<td>Pakistan</td>
<td>2,810,000</td>
</tr>
<tr>
<td>4</td>
<td>Indonesia</td>
<td>1,913,000</td>
</tr>
<tr>
<td>5</td>
<td>Philippines</td>
<td>1,872,000</td>
</tr>
<tr>
<td>6</td>
<td>Congo, Dem. Rep.</td>
<td>1,129,000</td>
</tr>
<tr>
<td>7</td>
<td>Iraq</td>
<td>971,000</td>
</tr>
<tr>
<td>8</td>
<td>Ethiopia</td>
<td>867,000</td>
</tr>
<tr>
<td>9</td>
<td>Angola</td>
<td>772,000</td>
</tr>
<tr>
<td>10</td>
<td>South Africa</td>
<td>716,000</td>
</tr>
</tbody>
</table>

Map 4: Vaccination Rates by Region

Note: 2017 National Demographic and Health Survey, Philippine Statistics Authority.
Conflict-affected areas suffer from particularly weak health outcomes and services. In ARMM, only two in 10 children ages 12-23 months are immunized (Map 4). Malnutrition is especially prevalent in ARMM, and levels of micronutrient supplementation are very low. Nationally, 94 percent of pregnant Filipino women access antenatal care from a skilled provider, but only 69 percent of ARMM women do so. Infectious diseases such as tuberculosis and other respiratory infections remain prevalent. ARMM has systematic gaps in the availability of key inputs to deliver services, including significant gaps in essential medicines.21

The levels of child malnutrition in the Philippines are shockingly high.22 One in three children under the age of five is stunted—the principal marker of malnutrition—and stunting rates have been stagnant for over a decade. Malnutrition is particularly severe among children in poor households. Stunting in the Philippines is not only above that of wealthier countries in East Asia, including Thailand, Malaysia, and China, but also above that of Cambodia, Myanmar, and Vietnam.

Malnutrition is severe among poor households. Half of children in the poorest income quintile are stunted, and one in five is severely stunted (Figure 54). In poorer regions, particularly conflict-affected regions such as ARMM, stunting rates are particularly high. These data points demonstrate one facet of intergenerational poverty: children who grow up in poor households are often inadequately nourished and more likely to suffer from limited cognitive and physical development, putting them on a trajectory to poverty in adulthood.

Malnutrition in the womb and during the first two years of life inhibits brain development. A study tracking children born in Cebu has estimated the long-term impact of malnutrition. Children who were not stunted in their early years performed significantly better in school. They started school at a younger age, learned more during each year of schooling, were less likely to repeat grades, and stayed in school longer. Children who were better nourished also had a higher IQ at the age of eight. These effects endured into adulthood: those who were not stunted at a young age were more likely to hold formal sector wage jobs in their early twenties (Carba, Tan, and Adair 2009; Mendez and Adair 1999).

![Figure 54: Stunting Rate by Wealth Quintile, 2015](chart)


---

21 Results from a health facilities survey conducted in ARMM in 2017 were compared with the same indicators in the earlier national survey. ARMM scored lowest among the regions in seven out of eight tracer conditions that can be compared.

22 “Malnutrition” refers to a deviation from optimal nutrition status and includes both overnutrition and undernutrition. Overnutrition represents an oversupply of nutrients relative to the body’s physiological needs. Undernutrition refers to a state of nutritional deficiency and presents the most serious risks to health and development when experienced by women before and during pregnancy and lactation, and infant and young children. There are a variety of measures of undernutrition. This section focuses on child stunting, defined as low height-for-age in children under five years of age. Stunting results from chronic undernutrition and indicates a failure of a child to attain the height expected among healthy children.
Poor health and nutrition of mothers before and during pregnancy is a key cause of child stunting. In 2015, one in four pregnant women in the Philippines was categorized as “nutritionally at risk,” and a substantial number of mothers were anemic or iodine deficient. International research shows that a child with low weight at birth (less than 2.5 kilograms) is at very high risk of being stunted, and 14.5 percent of Filipino children had low birth weights. Low birth weight is principally a consequence of the mother’s health and nutrition before and during pregnancy.

Stunting can be addressed at scale effectively through a multisector approach. Key interventions include health and nutrition programs for pregnant women, vaccinations to protect children from illnesses, monitoring the growth of infants and young children, and promoting feeding and hygiene practices at home (PSA and ICF 2018).

The high rate of adolescent pregnancy is one contributing factor to the high rate of malnutrition. Women start childbearing in their teenage years, and the country ranks high in Asia in terms of adolescent fertility rate. One in 10 girls ages 15–19 is pregnant or has given birth. While the overall fertility rate has declined over time (3.7 in 1998 to 2.7 in 2017), the adolescent fertility rate remained unchanged (PSA and ICF 2018). Overall, women in the poorest 20 percent of the population have an average of 4.3 children, compared with 1.7 children for those in the richest 20 percent.

Poor women and young girls have high rates of unplanned pregnancies, reflected in the country’s high unmet need for modern methods of family planning. Twenty-two percent of married women want to delay childbearing (delay first birth or space another birth) for at least two years. Additionally, 49 percent of married women do not want any more children (PSA and ICF 2018). The total demand for family planning among married women ages 15–49 is 71 percent, but only 57 percent satisfied their family planning need by modern methods.

Recent government initiatives provide opportunities to address the country’s health and nutrition challenges. The First 1000 Days Law of 2018 directs policy attention to address malnutrition. The new Universal Health Coverage (UHC) Law mandates insurance coverage for all Filipinos and will shift a greater element of health financing to the PhilHealth channel. The law can be the platform for the government to leverage expanded access to improve the quality of service delivery, which is the core challenge for the country’s health system.

While health care in the Philippines is principally financed and delivered by the public sector, the private sector could fill some gaps. The private sector can help by investing in digital initiatives such as telemedicine, private primary care networks, health infrastructure, and pharmaceutical manufacturing.

4.3. Social Protection

Social protection programs have been critical for reducing poverty, empowering communities, and building human capital. Over the last decade, the Philippines has been successful in establishing the main building blocks of a well-functioning social protection system. It has one of the most advanced social protection systems in East Asia, with more of the poor benefitting from at least one intervention. Government transfers account for one-quarter of the poverty reduction in the past decade (World Bank 2018a). The national household targeting system, Listahanan, has enabled the government to target programs to the poor and vulnerable, increasing efficiency and effectiveness of public spending and improving governance.

The national conditional cash transfer (CCT) program has been important in increasing the human capital of beneficiary children and reducing the extent and incidence of poverty. The beneficiaries of the Pantawid Pamilyang Pilipino Program are objectively selected using a survey of the physical structure of the house, number of rooms and occupants, access to running water, and other living conditions. The poverty targeting system, Listahanan, is one of the most comprehensive
databases in the world, covering 75 percent of the country’s population. Aside from the CCT, it has been used extensively to identify poor and near-poor beneficiaries of national government (e.g., PhilHealth) and LGU programs.

The national CCT program expanded rapidly over 2007-2015. Coverage increased from 6,000 households in 2007 to 4.1 million in 2019, making Pantawid Pamilya the primary government social assistance program for the poor. The program extends cash grants to 77 percent of poor households and contributes both to reducing poverty and to building human capital. Its budget accounted for 0.5 percent of GDP in 2018.

Pantawid Pamilya has made a large contribution to reducing poverty. The grant received by beneficiary households every month allowed them to deal with one-fifth of their current income shortfall. Without the cash assistance, poverty among beneficiaries would have been higher by 6 percentage points. Thus, the program kept nearly 1.5 million poor beneficiaries out of poverty in 2015. At the national level, the cash grants filled 3.7 percent of the income gap of poor households and helped reduce the poverty rate by 1.5 percentage points in 2015 (Figure 55). While the real value and progressivity of the program’s cash grants have declined over time, the latest National Household Survey shows that it remains an important resource for poor households.

Pantawid Pamilya has multiple beneficial impacts on behavior changes that improve human capital building and stimulate local economies. It has improved school enrollments among older children, encouraged early childhood education, and increased the health-seeking behaviors of beneficiaries. Studies show that gross enrollment rate for the CCT beneficiary high school students is 6 percent higher, and the CCT contributes to reducing severe stunting among beneficiary children by up to 10 percentage points.

Figure 55: Number of People Kept Out of Poverty by Pantawid Pamilya

Source: World Bank staff calculations based on various rounds of FIES and APIS.

The Pantawid Pamilyang Pilipino Program was recently institutionalized by law. The government is launching an updated Social Protection Framework and Strategy to enhance its labor market and social insurance components, as well as coordination across multiple agencies besides those that work on the CCT. The updated framework seeks to improve delivery aspects of social protection interventions, including targeting, payments, links to identification (National ID), and new expanded roles of the system in terms of more integral response to shocks and disasters.

Social insurance and active labor market programs

The Philippines has one of the most advanced social protection systems in East Asia, with more of the poor benefitting from at least one intervention. Other social protection programs are discussed in Box 5.
The role of social insurance remains limited. As the country moves toward upper-middle-income status and as the population ages, the role of pensions need to be strengthened, particularly for the poor. Coverage is comparable to its Southeast Asian neighbors, but within the country coverage continues to be lowest among the poorest 20 percent of the population (Figure 56). Pensions account for a small share of total household income, particularly for the poor.

**Figure 56: Coverage of Contributory Pensions (%)**

![Coverage of Contributory Pensions (%)](image)


**Box 5: Other Social Protection Programs**

**Sustainable Livelihood Program (SLP):** The program has two tracks. The micro-enterprise development track supports poor households in their self-employment efforts. The employment facilitation track focuses on skills development training. Since 2011, SLP has served 1.3 million people, a large majority of whom are beneficiaries of *Pantawid Pamilya*.

**Community-Driven Development (CDD) Program:** This program, in existence since 2002, serves as an infrastructure and service delivery and empowerment program at the local community level. It has helped enhance the supply side of health and education services needed for the CCT.

**Social Pension:** In 2011, the Senior Citizens Act was amended to provide a ₱500 monthly social pension to poor elderly not receiving a pension through the social security system. Initially, this benefit was granted to those ages 77 and over, but the age was lowered to 65 in 2015. The number of beneficiaries has expanded rapidly, from 1 million in 2015 to 3 million (40 percent of total elderly) in 2018.

**Disaster Relief:** The Department of Social Welfare and Development (DSWD) is responsible for disaster relief and early recovery. It has taken significant steps to strengthen its capacity to effectively perform its disaster risk reduction management functions. Super Typhoon Yolanda in 2013 brought attention to the lack of a flexible emergency income support program for affected households, which the government is trying to address. DSWD also coordinates cash-for-work, food, and temporary shelter assistance with LGUs.

**Social Care:** Delivery of the programs devolved to local governments has remained an important concern. These programs include the provision of social work and care services for the homeless, orphans, and victims of abuse and trafficking through the local social welfare offices. However, the resources and capacity of local governments remain underdeveloped.
The Philippines faces a challenge to improve social security coverage of workers and to increase the income protection coverage of the elderly. The pension system consists of nationwide compulsory contributory programs for wage employees in the formal sector (the Social Security System) and for government employees (the Government Social Insurance System). About 31 percent of elderly persons are covered by such pensions. Contributory pensions also include disability, temporary work stoppage, and life insurance for formal sector and government employees. The contributory system is complemented by an old-age noncontributory social pension (Social Pension for Indigent Senior Citizens), which has expanded to reach another 30 percent or 3 million elderly (but with low generosity, just $10 a month).

Labor market policies and programs have yet to reach the population beyond the formal sector (about a quarter of employment). Performance of the labor market regulation and policies as social protection instruments has been constrained by the structure of the economy where low-productivity, precarious jobs in the informal sector dominate and poor-performing agriculture is still a major employer. Thus, they remain out of reach for most people, except those in the top 20–30 percent of the income distribution. Despite efforts to improve them, labor market programs—including many livelihood support programs—remain small, fragmented, and poorly coordinated.

The social protection system has helped as a response to calamities and natural disasters. The Philippines has introduced some cash transfers for emergencies as part of its disaster response toolkit, which consists of a number of relatively small-scale programs (such as emergency public works employment and relief services) that can be expanded rapidly in the event of natural disasters. In addition, the country uses an adaptive system whereby standing programs can be ramped up quickly to cover large numbers of additional beneficiaries in response to disasters. The most notable large-scale use of cash transfers to respond to emergencies was in 2013 when Super Typhoon Yolanda left massive devastation, killing 6,300 people and affecting more than 1.4 million families. The government is considering institutionalizing the use of emergency cash transfers as a main instrument to respond to disasters.
Box 6: Women’s Health, Education, Employment, and Empowerment

The Philippine government and nongovernmental organizations have taken steps to improve women’s lives in various ways. The overall gender gap is small in the Philippines by global and regional standards. Challenges, however, lie in two critical areas: health care and equal pay.

Voice and agency. Women have steadily improved their agency in Philippine society. Although women still have limited property rights, they have good control over their own resources and spending, regardless of their level of household wealth. Women’s participation in business ownership is unusually high—69 percent of firms. The share of women with political power has increased. The proportions of seats held by women in the national Congress reached nearly 30 percent in 2017, compared with the world average of 24 percent. Women also participated in the peace negotiations between the government and the Moro Islamic Liberation Front (MILF).

The role of women in business leadership, however, remains a challenge. Women tend not to occupy middle to high management positions; only 30 percent of firms report women in top management positions. The Philippines is among the best countries in low vulnerability of violence at home. Still, almost 5 percent of Filipinas surveyed concurred that wife beating was justified for arguing with the husband, refusing to have sex, or burning food.

Health. The government has upgraded national and local government health facilities to support the provision of maternal health care services and has expanded PhilHealth coverage, especially to poor households. Still, household spending on health remains high, and the quality of health services is uneven. Recent data indicate that health outcomes for the poor have improved little, and rates of maternal mortality, infant mortality, and malnutrition among children remain high. The Philippines did not meet the Millennium Development Goal (MDG) targets for child and maternal health by 2015.

Life expectancy at birth in the Philippines is higher for females than for males but below the average of developing countries in the region. Nearly 20 percent of women in the Philippines do not access family planning because of opposition by the woman, her partner, or religion. However, over 60 percent lack relevant knowledge about family planning, also among the highest for all countries with data. This high level of unmet needs for family planning also reflects the challenges of women’s agency. The country’s high fertility rate continues to drive high population growth relative to the regional average (1.7 percent per year compared to 0.7 percent for the region). Adolescent pregnancy—57 births per 100,000 population in 2017, an increase from 46 births per 100,000 in 1998—is particularly high. Adolescent pregnancies have implications for poor health of newborns and contribute to high infant mortality.

Education and labor market. The government has carried out ambitious basic education sector reforms in the past decade and increased public spending on education. Enrollment and completion rates at all levels have improved over the period with women’s enrollment at all levels exceeding that of men. Primary and tertiary enrollment is close to the regional average, but secondary enrollment falls far below it. Higher returns accrue for educational attainment among females: An additional year of education offers a 16 percent rate of return for women compared with 9 percent for men.

The average daily wage by sex over time reveals a greater increase for females compared with the increase for males. The average daily wage of females increased by 15 percent, after adjusting for inflation, from 2006 to 2017. The average wage for men did
not increase significantly during that period. In 2006, males earned more than females, but starting in 2012, females earned more than males for two main reasons. First, there was a larger improvement in education among female workers. The share of female workers with tertiary education grew 5.7 percentage points from 32.7 percent in 2006 to 38.4 in 2015. In contrast, the share of male workers with tertiary education increased by only 2.6 percentage points from 22.2 percent in 2006 to 24.8 percent in 2015. Second, there was a higher increase for employed women taking more well-paying jobs than for men. The share of professional to total female workers increased by 2.5 percentage points from 16.2 percent in 2006 to 18.7 in 2015; for males it only increased by 1.3 percentage points from 8.8 to 10.1 percent. Interestingly, females more commonly work as professionals in information, communication, finance, education, and science (about 19 percent) than males (10 percent). Women are also a higher share of the government workforce, which typically offers higher wages.

Still, women have much lower levels of labor force participation than men and earn less than men for every single level of education. While half of working-age women participate in the labor market, three-quarters of men do. The ratio of employment to working-age population is nearly 60 percent, but only 45 percent for women compared with 70 percent for men. ARMM, the most conflict-ridden region, has a typical male labor force participation rate like that of other regions in the country (76.8 percent on average). However, its women’s labor force participation rate (28.6 percent) is significantly lower than in the other regions (50.6 percent on average). One recent labor market initiative for women is maternity leave, which was enacted in February 2019. This allows female workers to enjoy 105 days of maternity leave in both the public and private sectors, with an option to extend to additional 30 days without pay.

While more women entered the higher-paid sectors, a significant share remained in low-paid jobs, particularly low-end services jobs. Most females (73 percent) are employed in the services sector, compared with only 44 percent for males. Among employed females, 10 percent are in manufacturing and industry and 17 percent in agriculture, compared with 21 percent of males in manufacturing and industry and 35 percent in agriculture. Within the services sectors, about 29 percent of the females are involved with wholesale and retail trade, compared with only 12 percent for males. About 15 percent of the females work in other services activities (the lowest paid), compared with only about 3 percent of males. As a result, women have lower wages for any given education level. For workers with less than a tertiary education, female wages are only 65 percent to 80 percent of those for males with similar education; for workers with a tertiary education, the wage gap between female and male narrows to 92 percent.
5 RESILIENCE
Geography and history have saddled the Philippines with twin risks of natural disasters and conflict. Many countries have natural disaster hazards or conflict hazards, but very few face high levels of both. The INFORM Global Risk Index identifies the Philippines as having the highest level of natural hazard risk in the world. The country's level of human hazard risk declined in 2019 following the formation of the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) but remains high (Figure 57). These ongoing threats have stifled development and poverty reduction in the areas most directly affected by conflict and disasters. The enduring high level of these risks points to the critical importance of efforts to enhance resilience, principally through effective implementation of a range of climate adaptation measures and follow-through to ensure the success of the 2014 peace agreement with the Moro Islamic Liberation Front (MILF).

Figure 57: Natural Disaster and Conflict Risks

Source: 2020 INFORM Global Risk Index.
The Philippines has a complex multi-layered history of conflict that has involved armed groups including Muslim separatists, communists, clan militias and criminal groups. Although a long-running conflict with the communist New People's Army (NPA) simmers at a low level in rural areas across the country, the principal peacebuilding challenges involve a limited geographic area in western Mindanao. Conflict has been an acute obstacle to development and poverty reduction in directly affected areas. It has also had some impact on the broader Mindanao region and the Philippines overall. While they disrupt development, none of the conflicts pose a risk to the Philippine state. The various conflict actors are outlined in Box 7.

The roots of the Mindanao conflict stretch back several centuries, with a modern phase growing from developments in the 1960s. The area was historically largely Muslim due to influence from the Malay Archipelago predating Spanish colonization. During the 1960s, the national government pursued a policy of fostering development in Mindanao and integrating its indigenous inhabitants to mainstream Philippine society. A core element of that policy was resettlement of people from elsewhere in the country. The resettlement policies eventually resulted in a Christian majority in Mindanao overall, with Muslim-majority areas limited to the western portion of Mindanao. Social exclusion of Muslim residents fomented conflict, which led to the founding of the Moro National Liberation Front (MNLF) in 1971 with the goal of fighting for an independent Muslim state in Mindanao.
The complex roots of violence in Mindanao resist simple explanation. While the core conflict has been between Muslim armed groups and the government, it is not primarily religious. A list of the endemic drivers of violence in the region would include (1) social injustice and alienation, and exclusion of Muslim and indigenous peoples, (2) suppression of Muslim and indigenous traditions, customs, and institutions, (3) interethnic conflicts, (d) rido, or clan wars, and revenge killings, (4) land tenure and ownership disputes, (5) competition for scarce natural and mineral resources, (6) local election disputes, (7) ineffective governance and lack of rule of law and service delivery, and (8) widespread poverty and lack of job opportunities.

The principal impact of conflict has been in the areas which now make up BARMM. Those areas lag the rest of the country in delivery of basic social services as electricity, education, health, water, and sanitation. One estimate puts the direct costs of conflict in Mindanao at two to three billion dollars for 1970-2001 (Schiavo-Campo and Judd 2005). Conflict’s nonmonetary ill effects also take the form of the loss of cultural identity and social cohesion, loss of personal dignity, prejudice, ethnic and social tensions, and a rise in kidnapping, drug trafficking, and other illegal activities.

Conflict-related displacement has had high costs. A World Bank and World Food Programme (WFP) survey in 2011 showed that four in every 10 households in central Mindanao had been displaced at least once between 2000 and 2010 and one in 10 forced to leave their homes five times. Displacement disrupts all aspects of the economy, to the detriment of livelihoods, welfare, social cohesion, and service access. The impact of displacement does not end when people return home: returnee households were almost as vulnerable as those who were still displaced at the time of the survey.

Conflict-affected areas of Mindanao have followed a pattern different from Mindanao as a whole. Historically and up through the 1990s, economic growth in Mindanao overall lagged far behind the country as a whole. Consequently, the level of economic output in the region is far below that of Luzon and Visayas, and poverty rates are much higher. Since the turn of the millennium, however, growth rates in the region have matched the high rates in the rest of the country, and poverty has started to come down. Growth has been buoyed by the performance of Davao City and its surrounding region. The glaring exception within Mindanao has been the conflict-affected areas, which have seen little improvement since 2000. Across all indicators of service access and well-being, ARMM stands out as worse than Mindanao and much worse than the Philippines overall (Figure 58).

Figure 58: Socioeconomic Indicators in the Philippines, Mindanao, and ARMM

Source: 2015 National Nutrition Survey for stunting and 2017 Demographic and Health Survey for other measures.
The conflicts have had some impacts beyond the most affected areas in western Mindanao. Other areas in Mindanao and elsewhere have had to absorb refugees and have experienced spillover incidents of violence, including a bombing at a market in Davao City in 2016. Foreign government advisories discourage travel to all of Mindanao, which is likely to have reduced international tourism and investment in the region. While it is difficult to draw definitive links, the conflict may also have reduced tourism and investment for the Philippines as a whole. Activities of the NPA in various parts of the country, although limited in scale, have also disrupted economic activity and government service delivery.

The latest Global Terrorism Index ranked the Philippines among the top 10 countries affected by fatal terrorist attacks. Villages in some areas of Mindanao are reportedly under threat from ISIS-inspired local groups. The occurrence of ISIS-linked or -inspired violence in Jakarta, Mindanao, and Puchong, near Kuala Lumpur, has raised fears of a new era of transnational jihadist terrorism in Southeast Asia.

Protracted, low-intensity conflicts generate a fertile ground for the violent radicalization of tired and disenchanted fighters. The Marawi crisis typifies the risks present in conflict-affected Mindanao. The five-month-long siege in that city started on May 2017,
between Philippine’s government security forces and militants affiliated with the ISIL, including the Maute and Abu Sayyaf Salafi jihadist groups. The siege resulted in the destruction of 95 percent of the infrastructure in the main battle area and displaced over 350,000 inhabitants.

Persistent security risks illustrate how quickly a protracted sub-national conflict in otherwise a stable middle-income country can be captured by violent extremists, putting additional burden on the region already constrained by weak institutions, fragile conditions, and widespread poverty. The growing influence of violent extremist groups further highlights the need to deliver on the "peace dividend" for conflict-affected communities in Mindanao to stem the escalation of violence. Prevention of violent extremism has become an important global agenda that requires cross-regional and global collaborations.

The Peacebuilding Agenda for the Bangsamoro Autonomous Region

The year 2019 is an important milestone in the peacebuilding process. In 2014, the government and the MILF signed the Comprehensive Agreement on the Bangsamoro (CAB), ending decades of conflict. The MILF promised to decommission its troops and end the decades-long rebellion once the national government delivers its commitment of a new Bangsamoro region. The government approved the law creating the new region in 2018, and a related plebiscite was held in early 2019.

Implementation of the peace agreement will be fraught with challenges and uncertainty. The peace process has created the BARMM, superseding the ARMM region created by an earlier peace agreement and covering a larger geography. Among the challenges are creating a new and effective bureaucracy, the recovery and reconstruction of Marawi, the normalization process for former combatants, and advancing the broad development agenda for the region (Figure 59).

Ensuring that the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) develops an effective structure is critical to avoid a return to conflict. BARMM will need resources along with the trust and support of the national government if it is to succeed.

Successful normalization of ex-combatants is another critical ingredient for peacebuilding. A recent profile found that while they are poor in material terms and have limited access to government services, they have on average fairly high levels of education. Overall, ex-combatants are optimistic about the future and aspire to help build peace and stability in their communities (Institute of Bangsamoro Studies 2018).

The recovery and reconstruction of Marawi also constitute a vital step to build the peace. Two years after the start of the Marawi siege, little progress has been made on reconstruction, and the most affected area of the city remains uninhabitable. There is a substantial danger that if Marawi is not adequately rebuilt, the enduring spectacle of its desolation could make it a breeding ground for resentment and thus recruitment of militants.

The cessation of armed conflict has brought enormous expectations as well as widespread hope to the region. If the implementation of the Comprehensive Agreement on the Bangsamoro (CAB) between the government and the MILF is successful, the resulting peace dividend has the potential to free up significant public and
private resources for more productive use, secure large territorial areas for settlement and investment, reduce uncertainties in future planning, ease crippling social hardship, and enable more geographically equitable provision of public and infrastructure services.

5.2. Climate Change, Environmental, and Disaster Risks

The Philippines’ very high exposure to natural hazards poses a principal threat to economic growth and inclusion. Natural disasters generate large costs for the economy, which are borne disproportionately by the poor and vulnerable. In the absence of mitigation and adaptation measures, climate change may have massive impacts on economic growth and welfare by accelerating myriad disaster and environmental risks. The Philippine Development Plan (PDP) identifies climate change as one of the main challenges in achieving inclusive rapid and sustainable growth.

At least 74 percent of Filipinos are vulnerable to natural disasters, which have killed 33,000 people and adversely affected 120 million in the last 30 years (GFDRR and World Bank 2011). The Philippines has experienced more than 90 destructive earthquakes and 40 tsunamis in its history (Philippine Institute of Volcanology and Seismology 2013). The most frequent of the 2,754 natural hazard events that took place during 2005–15 were climate-related. Around 90 percent of damage in recent years has been from typhoons. In September 2009, typhoon Ketsana (Ondoy) struck Metro Manila, flooding parts of the city and leading to significant economic losses. Since then, the Government has been taking measures to reduce flood risks in the city and is now considering building a dam on the Marikina river to reduce flood risks. The country and particularly Metro Manila are at high risk of a major earthquake.

Disasters have major economic impacts. Expected annual asset losses for the Philippines are ₱233 billion on average, 75 percent of which are due to typhoons and the remaining to earthquakes (AIR Worldwide 2018). In 2013, Super Typhoon Yolanda alone killed 6,300, wounded 28,689 persons, and caused ₱571.1 billion in damage, according to data from the Philippines Statistical Authority. A projected 7.2-magnitude earthquake on the West Valley Fault, which crosses Metro Manila, could have catastrophic impacts, including 48,000 fatalities and $48 billion in economic losses (Philippine Institute of Volcanology and Seismology 2013).

The agriculture sector is highly affected by extreme climate events. Non-typhoon-related floods are common during the southwest (summer) monsoon. When the monsoon coincides with a shift of the intertropical convergence zone over the Philippines, such as in 2014, flood-related economic damage spikes. Conversely, droughts and dry spells linked to El Niño cause significant economic damage to agriculture, including 42–50 percent of total weather- and climate-related damages in 2010, 2013, 2014, and 2016.
Several parts of the country already have chronic water supply deficits. Current unmet water demand is estimated at 32 percent nationally, mainly due to the 33 percent water supply gap for agricultural purposes.

**The impacts of disasters on the poor are severe.** Poor people are more likely to depend on disaster-vulnerable livelihoods and live in unsafe areas. They invest less in reducing their risk, lose more when they are hit by a disaster, and receive less support to cope and recover. Farmers and fishers are particularly exposed to climate impacts. In barangays that have experienced a typhoon within the previous six months, household consumption falls by 6.7 percent and protein consumption by 10 percent, aggravating malnutrition in these areas. The poorest fifth of households suffers 9 percent of the total asset losses from disasters, but 31 percent of the total welfare losses. In the most exposed areas at the eastern edge of the country, over a third of the nonpoor population is at risk of being pushed into poverty by typhoons (Skoufias et al. 2019; Walsh and Hallegatte 2019).

**Climate change may have already reduced economic growth and could have very large economic impacts in the future.** Temperatures in the Philippines have risen by 0.68°C since 1950 and are projected to rise by more than 3°C under a high emissions scenario (Figure 60). Climate change thus far may have reduced economic output in the Philippines by a cumulative 25 percent (Diffenbaugh and Burke 2019). Projections suggest that without mitigation and adaptation, future climate change could have a huge impact on the country’s economy, stifling all growth by 2075 (Figure 61). Under a “no climate change scenario” the fraction of the population who are poor or vulnerable by current standards will fall to zero, and most Filipinos will join the global middle class by 2075. In contrast, under a climate change scenario, without mitigation or adaptation, most Filipinos will never reach the global middle class (Figure 62). This threat highlights the critical need for the Philippines to take climate mitigation and adaptation measures to avoid this scenario.

---

**Figure 60:** Recent and Projected Increases in Temperatures for the Philippines

**Figure 61:** Recent and Projected GDP per Capita for the Philippines

*Source: World Bank staff analysis of data from Carbon Brief (2018). Note: The climate change scenario corresponds to representative concentration pathway (RCP) 8.5. The no climate change scenario here corresponds to RCP 2.6. Temperature changes are relative to the 1951-1980 average. Source: World Bank staff analysis. The 2010-18 GDP per capita numbers are from World Development Indicators. Subsequent figures are projected based on growth rates from Burke, Hsiang, and Miguel (2015). Note: Figures are in 2010 US$. The climate change scenario corresponds to representative concentration pathway (RCP) 8.5. The no climate change scenario corresponds to temperatures remaining fixed at their 1980-2010 average.*
The projected economic impacts reflect a cascade of climate change effects. Projections indicate climate change will generate a drier dry season, wetter wet season, and wetter northeast monsoon season. The frequency and severity of typhoons will increase (Crepin 2013). Sea levels will rise, and an increase of 1 meter in sea level may submerge many small islands. Sixty percent of Philippine cities and municipalities are located along coastal areas; many will be at high risk of coastal flooding and coastal erosion.

Climate change will have a variety of impacts.

- **Agriculture.** Rice yields may fall by up to 75 percent in the Philippines by 2100 compared with 1990 (Asian Development Bank 2009). Pest infestations are also expected to increase.

- **Fisheries and aquaculture.** The seas around the Philippines are expected to be severely affected by changes in temperature, precipitation, ocean acidification, oxygen depletion, and sea level rise. Warmer waters associated with the El Niño event in 2016 led to documented declines in seaweed and farmed fish production of up to 16 percent in Palawan due to disease, mortality, and reduced growth rates. A simulation analysis of the effects of climate change on small fish suggests massive declines in catch value, leading to a total economic loss estimated at $165–700 million per year (Briones et al. 2005).

- **Ecosystems.** Around 1 million hectares of forest are vulnerable, with natural forests in the provinces of Davao del Sur, Leyte, Sarangani, Sultan Kudarat, and Zamboanga del Norte projected to experience reduced rainfall and increasing frequency of drought conditions (Philippines Climate Change Assessment 2017). Climate impacts on coral reefs have been documented. The longer-term risk to the estimated $4 billion per year provided by coral reef ecosystem services through coastal protection, fisheries, and tourism is high (Tamayo et al. 2018).
• **Health.** Climate change is expected to increase malaria, cholera, diarrhea, dengue, and cardiovascular and respiratory issues. The Philippines will be one of the countries most affected by increasing deaths from heat waves due to climate change, with mortality rates more than doubling in the "best case" scenarios (Guo et al. 2018).

• **Conflict.** Although the precise mechanisms are not well understood, global evidence suggests that climate change is likely to increase violent conflict. Overall, for a one standard deviation increase in temperatures or extreme rainfall, the frequency of interpersonal violence rises by 4 percent and the frequency of intergroup conflict by 14 percent (Hsiang, Burke, and Miguel 2013). In the Philippines, negative rainfall shocks have been shown to increase conflict incidents initiated by insurgents (Crost et al. 2018).

The Philippines also suffers from a range of risks due to environmental degradation and pollution. Air pollution is estimated to cause more than 150 deaths per day in the Philippines, and the total welfare loss from air pollution is estimated to be 4.3 percent of GDP (World Bank and IHME 2016). The urban poor are typically at greatest risk from exposure to both air pollution and solid waste, as well as the impacts of flooding arising from drainage channels clogged with waste.

**Solid waste management is a growing problem, with global implications due to marine plastic pollution.** Solid waste in the Philippines, which is mostly disposed of in environmentally noncompliant landfills, is expected to increase from 14.6 metric tons per year in 2016 to 29 metric tons per year in 2050 and (Kaza et al. 2018). Only 31 percent of barangays have access to a materials recovery facility, a key component of an effective solid waste management system. The Philippines is among the top five emitters of plastic wastes in the ocean (Figure 63).

**Figure 63: Flows of Plastic Waste in the Philippines**

Manila Bay is central to the economic development of the country but is suffering from acute water quality issues. Manila Bay directly supports the lives of some 30 million people and functions as the country’s main port. Its beaches, once a recreational resource for greater Manila’s 13 million residents, are littered with garbage, much of it plastic (Parker 2018). A Supreme Court ruling in December 2008 required all relevant government agencies to undertake the cleanup, rehabilitation, protection, and preservation of Manila Bay as part of their statutory responsibilities, but there has been little improvement in the ensuing decade. A Manila Bay Sustainable Development Master Plan is being formulated.

Environmental, climate, and disaster vulnerabilities exacerbate one another. Droughts and more erratic rains intensify the impact of poor land and water management on soil health. Water scarcity is aggravated by the deterioration of water quality due to pollution from untreated domestic sewage, industrial wastewater, agricultural runoff, and urban runoff. Widespread mining and deforestation in Mindanao were blamed for the 2011 and 2012 flash floods when typhoons Sendong and Pablo hit the country and took the lives of about 1,000 people. Neglect of drainage systems and lack of long-term planning and enforcement exacerbated the flood in 2012 that swamped nearly all of Manila. Projected increases in extreme rainfall events, alongside the historical loss of forest cover from 90 percent of total land area to 23 percent in 2010, compound the risk of landslides (GFDRR and World Bank 2011). The impact of the massive 2006 landslide in Leyte was exacerbated by extensive logging along mountain slopes. Rising temperatures will also intensify the health impacts of air pollution.

This negative confluence of environmental and climate-related risks is acute in coastal areas. More than half (55 percent) of municipalities and major cities are close to coasts, and approximately 16.7 percent of the total population live in low-elevation coastal zones. Climate change is expected to lead to more intense typhoons, coastal flooding, and stress on marine ecosystems. Climate scenarios project potential losses of 52.3 percent of coastal GDP with intensification of storm surges by 2100. Meanwhile, pollution and overexploitation of coastal ecosystems affect their economic functions and resilience to climate change. Mangroves reduce coastal flooding by about 20 percent, averting around $1 billion of damages to 613,000 people annually. If restored to 1950s level, mangroves would avert another $0.5 billion, but they are still being lost—by around 2 percent from 2000–15. The recent closure of Boracay to tourism due to severe water quality issues—mainly inadequate wastewater treatment—came at great economic cost.

The Philippines has demonstrated a strong commitment to addressing climate and disaster risks, but implementation challenges remain. The Climate Change Act of 2009 paved the way for the adoption of a long-term roadmap for climate action, focusing on building an enabling environment and scaling up climate investments. The Philippine Disaster Risk Reduction and Management Act of 2010 emphasized a substantial policy shift from emergency response to disaster preparedness, resilience, and financial protection. The Philippines has had a strong performance in some areas of disaster risk management. Government response in the wake of natural disasters such as typhoons has generally been well managed. And the government has managed the fiscal risks well with a disaster risk insurance program.

The high level of current disaster risk in tandem with the looming threat of climate change points to the need to ramp up disaster resilience and climate adaptation efforts. The Philippines has put in place the key building blocks for such an approach. Government policy recognizes the need for a long-term roadmap for climate action as well as efforts for disaster preparedness and resilience rather than disaster emergency response alone. The government is considering establishing an agency to lead disaster response as well as integrate climate and disaster resilience programs at the national and local levels.

---

23 In 2000, low-elevation coastal zones (LECZs) represent less than 6.8 percent of the total land area of the Philippines. The share of the national population located in LECZs (16.7 percent) is much larger than the relative area of the zone. The coastal population is projected to approximately double by 2060 (ADB 2017).
Current efforts are insufficient to address growing climate and disaster risks. Climate change expenditure tagging (CCET) has been carried out on the national budget since 2015 and has shown an increase in the allocation to projects and programs linked to climate action from 4.5 percent in 2015 to a proposed 6.5 percent of the national budget in 2019. Local government units (LGUs) have a high level of demand for additional investments in climate resilience, and struggle to effectively access those funds that are intended to support them such as Disaster Risk Reduction and Management funds and the Peoples’ Survival Fund. Many national agencies and LGUs have not substantially integrated risk-informed and prioritized investments into their programs, and there have not been effective mechanisms for coordination or evaluating progress.

The government’s Risk Resiliency Program (RRP), established through the Program Convergence Budgeting (PCB) approach in 2015, requires strengthening. Incentives for national agencies to participate in the RRP lack clarity. The criteria and procedures for RRP investments are inadequate. Resilience investment needs at the local level should be systematically identified and prioritized for integration into the national budget and mobilization of external funding.

Many different types of investments can make the Philippines more resilient to climate change. Four key categories of intervention where more investment is required are as follows:

1. **Coastal protection.** Restoration and protection of mangrove forests and coral reefs, combined with sea walls and engineered coastal defenses, reduce vulnerability to storm surges. Good examples of what can be done include the restoration of mangroves on Siargao Island in Surigao del Norte and Calbiga, Samar under the DENR’s Enhanced National Greening Program (ENGP). Mangrove restoration has also benefitted local communities on Siargao by increasing shellfish availability.

2. **Climate-resilient agriculture.** Examples of climate-resilient technologies include the adoption of stress-tolerant varieties of crops and the use of alternate wet and dry techniques for rice cultivation to reduce water consumption. Many of the actions in the agricultural sectors are ‘win-win’ for both adaptation and mitigation. For example, alternative watering and drying (AWD) for rice is a key adaptation measure as it reduces overall water consumption, but it also leads to reduced methane emissions.

3. **Management of water resources.** Such efforts encompass introduction of water-efficient irrigation, increasing water storage capacity, and restoring forest cover and natural function of watersheds.

4. **Infrastructure.** Transport, water, and other resources in both rural and urban areas can be made climate resilient. Farm-to-market roads can be made more resilient through raising road levels and concretizing and expanding road drainage systems. Technical standards for lifeline infrastructure like water supply, drainage, wastewater, transport and electricity can be revised to reflect that extreme weather scenarios now occur more frequently.

Boosting education levels can also help enhance climate and disaster resilience. Globally, higher levels of education (especially for girls) are strongly associated with lower levels of fatalities from disasters. Filipinos with higher levels of education are more likely to prepare for disasters (Hoffmann and Muttarak 2017; Lutz, Muttarak, and Striessnig 2014). Additionally, education can help drive public concern about climate change. When asked “How serious of a threat is global warming to you and your family?” 37 percent of Filipinos with primary education or less and 60 percent of those with tertiary education said it was a “very serious” threat (World Bank staff analysis of Gallup World Poll data from 2010.)
Further efforts are needed to improve earthquake preparation for Metro Manila. The top need is strengthening and retrofitting public buildings and structures such as schools, hospitals, bridges, and flood control structures. Other areas for attention are updating building standards, enhancing emergency management systems, and developing government service and business continuity systems. Development of additional water sources is needed to make the city earthquake resilient. The city currently depends on one source for 97 percent of its water.

As one of the most climate-affected countries in the world, the Philippines also has a strong interest in joining worldwide efforts to cut greenhouse gas (GHG) emissions. The demonstration effect of the Philippines can help spur other countries to action on climate mitigation, and many countries are working to chart a “low carbon” future. Costa Rica, for example, has launched an economy-wide plan to achieve zero net emissions by 2050. Cutting GHG would also have large public health benefits by reducing air pollution, which reduces worker productivity and is responsible for nearly 64,000 premature deaths per year in the Philippines (Health Effects Institute 2019). The Philippines has a stated target, made in the form of its Intended Nationally Determined Contribution (INDC) as part of the international Paris Agreement, to reduce GHG emissions by 70 percent relative to a “business as usual” scenario by 2030. The Philippines is currently revisiting its INDC in view of finalizing the Nationally Determined Contribution.

Agriculture currently accounts for about one-third of the country’s GHG emissions. Emissions stemming from agriculture are roughly on par with those from the power sector and greater than those from the transport sector. Agriculture-sector emissions are principally due to rice cultivation. In the future, agriculture GHG emissions are likely to grow at most modestly and to be overtaken by emissions from the power and transport sectors.

If the Philippines builds new coal-fired power plants, it is unlikely to meet its INDC commitments for 2030. GHG emissions in the energy sector are projected to increase substantially under both the “business-as-usual” and “clean energy” scenarios developed by the Department of Energy (DOE). Under the BAU scenario, GHG emissions due to power generation from coal alone would more than quadruple by 2040 (Figure 66).

**Figure 64:** Greenhouse Gas Emissions by Major Source


**Figure 65:** Agricultural Greenhouse Gas Emissions by Source

Source: FAOSTAT.
Total energy use is projected to nearly triple by 2040. To meet demand for the power component of energy consumption, the Philippines has been rapidly expanding coal-fired power production. Oil-based fuel is used for only a small portion of power but accounts for the dominant share of fuel for transport and other energy consumption. The Department of Energy projects that both coal- and oil-based fuel consumption will greatly increase by 2040 (Figure 67).

Worldwide the cost of renewable energy—and particularly solar—is falling rapidly, making coal-based power more expensive. Globally, in 2018, the cost of electricity declined 26 percent year-on-year for concentrated solar power (IRENA 2019). Likewise, construction of coal power plants around the world is slowing rapidly, with new construction dropping by 84 percent between 2015 and 2018 (Shearer et al. 2019). Power plants in the Philippines are typically built with long-term purchase contracts, by which the plant owner is guaranteed to be paid a set price over many years. There is a very high risk that new coal-fired power plants will become "stranded assets" that will lock Filipinos into paying high rates when renewable energy has become cheaper (Ahmed and Logarta 2017).

The Philippines has high potential to move more aggressively toward renewable energy. The government has programs to encourage renewables, but these have stalled in implementation. To satisfy energy demand, the country can develop a mix of renewables, including solar, wind, small hydro, biomass, and geothermal. Under one highly ambitious roadmap, with major investment in renewables, the country could achieve zero-carbon power production by 2050 (Figure 68). This would require major shifts including revamping the grid system and building storage capacity. This scenario highlights that prospects are bright for solar to become a major power source for the Philippines. Other recent studies have noted the large untapped potential for rooftop solar, which is discouraged by regulatory requirements (Ahmed 2018; IFC 2019).

The Philippines can meet ambitious NDC commitments and mitigate climate change through action by the government and the private sector. This will require integrating climate change throughout government planning. While simultaneously satisfying growing energy demand, the country can avoid the construction of any new coal-fired power plants and transition rapidly to renewables. Given the fast-declining price of solar and the country's untapped potential other renewables a low-carbon future is possible. Other key measures will include improving energy efficiency in public buildings and improving transportation infrastructure. With efforts by the government and the private sector, the Philippines can chart a course for green growth and a sustainable future.
Figure 68: Power Production under a 100 Percent Renewable Scenario for 2050

2050 ENERGY MIX UNDER 100% RENEWABLE SCENARIO

- Residential rooftop solar: 15.5%
- Solar plants: 9.6%
- Concentrating solar plants: 10.1%
- Onshore wind: 7.7%
- Offshore wind: 11.5%
- Geothermal: 11.2%
- Hydroelectric: 3.9%
- Wave devices: 0.6%
- Tidal turbines: 0.3%

Source: Jacobson 2017.
The Philippines faces a complex mix of governance challenges that span across inclusive growth and jobs, human capital, and resilience. The Philippine Development Plan has adopted the Worldwide Governance Indicators (WGI), which provides a rough snapshot view of governance concerns for the country. The Philippines ranks above regional peers in Voice and Accountability and Regulatory Quality but below them in Government Effectiveness, Control of Corruption, and Rule of Law (Figure 69). Limited government effectiveness results in poor implementation of the government policies and programs. More than one-third of firms identify corruption as a major constraint, suggesting that it stifles economic growth and poverty reduction. Weak rule of law in the form of judicial inefficiency both delays policy implementation and favors powerful firms over those without connections. Voice and accountability are limited by the twin phenomena of family political dynasties and vote-buying, which limit incentives for policymakers to seek votes through programs and policies that serve constituents and reduce poverty.

6.1. Government Effectiveness

Government effectiveness is limited by a range of public administration challenges. In combination, these profoundly limit policy and program implementation. The institutional structure emanating from the 1987 Constitution and subsequent legislation and regulations has been characterized by overlapping responsibilities and duplication between agencies. This is exemplified by the roles and responsibilities of financial management and accountability institutions of the Department of Finance, the Department of Budget and Management, and the Commission of Audit. Differences in views and approaches to financial management and fiscal governance among agencies have resulted in delays in development and implementation of reform agendas, mixed signals to line agencies about what is required, and reinforcement of a culture of excessive caution.

Figure 69: Worldwide Governance Indicators for Philippines and Regional Peers (Percentile Rank), 2018

![Figure 69: Worldwide Governance Indicators](image)


---

24 The Philippines Development Plan does not monitor the Political Stability and Absence of Terrorism/Violence indicator. This report does not discuss that indicator or the indicator for Regulatory Quality.
Public financial management (PFM) has been incrementally strengthened through successive administrations, and improvements in transparency and regulatory arrangements are evident. Nonetheless, there remain areas where additional reform has further potential, particularly in budget utilization, procurement, financial reporting, and parliamentary oversight of financial management. Better use of technology can improve PFM. The government is implementing a new financial management information system across all agencies to improve the reliability and timeliness of financial information.

Public procurement outcomes may not be achieving best value for money, based on a joint 2014 World Bank and government empirical study of infrastructure contracts. Data extracted from PhilGEPS, the government e-procurement system, indicate a high level of fragmentation of contracts into a plethora of very small contracts, with about two-thirds being under $1 million. This imposes a large administrative burden on government and bidders and undermines the potential benefits of economy of scale. Part of the reason for breaking up procurement requirements into smaller-value contracts could be that larger contracts require greater scrutiny through a more stringent approval process. Furthermore, the procurement process for larger-value contracts takes substantially longer to complete. Contracts exceeding $1 million on average take 60 percent longer than smaller contracts. Added to this, the time taken for contract signing is unusually long, sometimes up to three months. There is also a high percentage of unsuccessful procurement processes, the extent of which varies across agencies, but some experience more than 30 percent of bidding failures by value, even on low-value tenders.

Civil service capability is weak, and it lacks leadership, management, and motivation. Strengthening the civil service can start with having a leadership cadre whose capacities are rigorously demonstrated through relevant competencies and skills. This will require developing a strong alignment between such competencies and political appointments, which make up over one-third of senior administration positions (Figure 70).

Figure 70: Status of the Government’s Career Executive Service Positions, August 2019

Source: Data provided by the Career Executive Service Board. Note: There were a total of 2,716 positions as of August 2019.

Weak arrangements for strategic human resources management offer little support for career and succession planning. This is a necessary foundation to nurture the leadership and management cadre of the future and address the challenge of an aging workforce where more than 70 percent of executives are over 50 years old. In addition, the Philippines will need to expand use of digital technology within administrative activities, civil service processes, and service delivery. The Philippines lags far behind all regional peers in the adoption of digital technology for use by the government. (Figures for the World Bank’s Digital Adoption Index can be found in the Inclusive Growth and Jobs chapter.)

Inconsistent development and reform agendas between political administrations constrain progress on government reform initiatives. There has been a strong tendency for each new administration to announce ambitious agendas that are neither fully implemented nor continued by subsequent administrations (Teehankee 2012).
Another constraint is the lack of legal protection for bureaucrats in the conduct of their duties. Officials are personally liable for decisions taken, or for acts of commission or omission in the conduct of their duties, even where they did not make the decisions (for example, where their subordinates made the decisions) and even after they have left or retired from the service. This is a strong disincentive to autonomous decision-making, informed risk-taking, and innovation. Officials who may have served on an evaluation panel for a sizable procurement contract could be personally liable to respond to legal action taken by unsuccessful bidders or other aggrieved parties. They will be expected to retain legal counsel at their own expense, defend themselves in court, and be personally responsible for any damages awarded. In most countries, civil servants are protected from personal liability for actions or decisions taken in the conduct of their official duties and cannot be sued in their personal capacity for reasonable behavior. In these countries, legal actions are typically brought against the state rather than individual civil servants.

The challenges facing public sector governance in the Philippines are greater at local government levels. The Local Government Code (LGC) of 1991 devolved many service delivery responsibilities and was intended to provide greater autonomy, authority, responsibilities, and resources to local government units (LGUs). The intention was to improve local services by bringing resource allocation and prioritization close to the citizens, making it easier also to hold the government accountable. Nearly 30 years on, however, the impacts of decentralization on poverty reduction and access to services remain uneven across the country. Limited good governance remains a defining factor in the development of communities, including the progress in poverty reduction. Several studies have shown that the levels of fiscal transfers from the national level to LGUs are not sufficient for poor municipalities to assume the costs of devolved basic services. Previous and current administrations have taken initiatives to increase fiscal transfers from the national level to LGUs, with a bias for the poorer municipalities. In 2019, the Supreme Court affirmed a ruling that LGUs are entitled to a much larger “internal revenue allotment” (IRA) transfer than currently provided. The ruling, which takes effect in 2022, has raised concerns about the absorptive capacity of LGUs and other impacts on public services and the economy more generally.

LGUs lack the capacity to effectively plan for development. Despite decentralization, national line agencies retain a substantive role in the provision of subnational infrastructure and services, resulting in fragmented planning and diffused accountability. Local governance faces the challenge of achieving coherence in vertical planning and resource-sharing among the provincial, municipal, and barangay LGUs. In general, they lack sufficient technical capacity to implement infrastructure projects and provide services in a timely and quality manner, perpetuating dependence on the national line agencies.

Local governance in conflict-affected areas is often weak. Of the 123 LGUs in the ARMM, only 30 percent passed the 2014 Good Financial Housekeeping (versus a standard national average of 91 percent) and none received the 2015 Seal of Good Governance (versus a standard national average of 15 percent). Fiscal resources are limited (low revenue collection means that many conflict-affected areas rely on the national government for 99 percent of revenues) and most likely inefficiently spent (the number of qualified audit reports tends to be high in conflict-affected areas).

Establishment of the BARMM offers many challenges and opportunities that will have lessons for adoption of greater devolution of autonomy and responsibility to subnational governments. The Bangsamoro Organic Law will provide greater flexibility to the regional administration in allocating block transfers from the national government. It does not change the relationships between the regional government and lower-tier governments. LGUs will continue to be strongly dependent on the national government for their funding and operational framework. The disconnection between regional and local governments creates the potential for inefficient and conflicting activities while eroding accountability because of the lack of clear responsibility and contribution to regional, local, and national goals.
In large metropolitan areas, including Metro Manila, Cebu City, and Davao City, issues such as congestion and flooding often span administrative boundaries. There is no effective coordination of urban development in the Philippines. The limited capacity and resources available for the Metropolitan Manila Development Authority mean that it is unable to meet the needs of the region’s expanding population, let alone play a leading role in national urban planning and management (World Bank 2017). The challenges facing urban areas are exacerbated by weak land administration arrangements, conflicting intergovernmental responsibility and accountability, and lack of comprehensive preparedness for handling natural disaster and other risks to sustainable urban growth.

6.2. Control of Corruption

The Philippines ranks at the 34th percentile among countries in the WGI for control of corruption. The average percentile rank among regional peers is 45. A principal challenge for evaluating the extent of corruption is the lack of publicly available data. Most analyses of corruption rely on perception surveys.

Data from surveys of firms confirm that corruption affecting the private sector remains widespread. In the 2015 Enterprise Survey, 35 percent of firms identified corruption as a major constraint, more than double the average among countries in East Asia and the Pacific. The fraction of firms reporting that gifts are expected for various government transactions is also high but in most cases below the average for other countries in the region. Particularly high rates of expected gift-giving are “to get things done” (59%), to get a construction permit (40%), and to secure a government contract (21%) (Figure 71).

Figure 71: Corruption Reports in the Enterprise Survey (Percentage of Firms), 2015

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Philippines</th>
<th>East Asia &amp; Pacific average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identifying corruption as a major constraint</td>
<td>35%</td>
<td>16%</td>
</tr>
<tr>
<td>Expected to give gifts to public officials “to get things done”</td>
<td>59%</td>
<td>50%</td>
</tr>
<tr>
<td>Expected to give gifts to get a water connection</td>
<td>11%</td>
<td>27%</td>
</tr>
<tr>
<td>Expected to give gifts to get an electrical connection</td>
<td>20%</td>
<td>21%</td>
</tr>
<tr>
<td>Expected to give gifts to get a construction permit</td>
<td>40%</td>
<td>41%</td>
</tr>
<tr>
<td>Expected to give gifts to secure government contract</td>
<td>21%</td>
<td>41%</td>
</tr>
</tbody>
</table>

Source: 2015 Enterprise Surveys.
6.3. The Rule of Law

A major rule of law concern in the Philippines is weak judicial efficiency, which stymies economic growth and regulatory effectiveness. Stable economic growth, trade, and industry require an efficient judiciary to protect agreements, create an environment where contracts are enforced, settle disputes, and backstop regulators in implementing their mandates even in the face of strong commercial vested interests. Businesses need assurance that contracts are going to be honored and enforced, that government policies are consistently and transparently applied, and that decisions on disputes that reach the courts will be rendered in a timely manner and will not unduly extend uncertainties.

In the Doing Business subindex measure for “Enforcing Contracts,” which measures the time and cost of resolving a commercial dispute in court, the Philippines ranks 152 out of 190 countries. Limited court automation and case management systems mean courts do not report the time it takes to dispose of a case, do not provide single case progress reports, and are opaque about the age of pending cases. In a 2013 survey, 68 percent of enterprise managers said they do not believe the rich and poor receive equal treatment in court (Social Weather Stations 2014).

The heavily overburdened judiciary suffers from significant governance challenges. The Supreme Court was weighed down with a total caseload of 14,411 cases in 2017, including 8,726 pending cases. The backlog at all levels of the court system is high. For instance, the Court of Appeals had close to 20,000 pending cases at the end of 2016 and the lower courts had over 800,000 cases pending in 2017.

Judicial inefficiency hampers inclusive growth by favoring established and well-connected firms with the resources to engage in protracted court battles. Managers and owners from medium-size firms are nearly twice as likely as those from large firms to identify the court system as a major constraint to business.25 A poorly functioning judiciary helps entrench existing oligopolies and discourages small and medium enterprises (SMEs).

Important reforms critical for economic and social development often face fierce challenge in the courts. High levels of uncertainty in the integrity and timeliness of decisions can significantly undercut potential benefits for growth and development. For example, two challenges to the Reproductive Health Act of 2012 delayed full implementation for five years.

Substantial rule of law concerns have also been raised about the deaths resulting from the war on drugs. The Philippine National Police (PNP) report that more than 6000 people were killed in police anti-drug operations between July 1, 2016 and July 31, 2019 (Philippine News Agency 2019). This figure excludes those killed by unidentified gunmen.

6.4. Voice and Accountability

Voice and accountability are limited by political dynasties and vote-buying. These twin political phenomena stifle voice by discouraging active political participation of those without family connections and the ability to raise the funds. They limit the accountability of elected officials by weakening competition. In the economic sphere, limited competition is a constraint to inclusive growth. In the political sphere, political dynasties limit competition, stunting government performance, particularly at the local level.

Political dynasties are uniquely prevalent in the Philippines. A political dynasty is a family that retains political power by maintaining control over at least one elective position over successive generations. The Ateneo School of Government has documented the extent of political dynasties in the Philippines and their impact. The share of Philippine legislators who hail from dynasties is three in four, far higher than in Mexico, Thailand, and other countries for which estimates are available (Figure 72). Eighty-five percent of provincial governors are from dynasties.

The share of positions held by members of political dynasties has increased in the last decade (Mendoza and Banaag 2017). Concern about the impact of political dynasties is long-standing, and the Philippine Constitution enacted in 1987 prohibits political dynasties “as may be defined by law.” A law to define dynasties and enable this provision has yet to be passed.

There is a positive correlation between the extent of strong political dynasties and poverty in the Philippines. This relationship is particularly strong in Visayas and Mindanao (Mendoza et al. 2016). There is also a correlation between low political contestability and poor socioeconomic welfare in conflict-affected areas of Mindanao. The scholarly literature identifies how a deterioration of political competition as a consequence of dynasties may result in poor socioeconomic outcomes. The principal mechanism is that dynasties may erode checks and balances, weakening accountability and auditing mechanisms that are supposed to police the behavior of public officials, particularly in the way they manage public resources. In situations where the provincial governor, district representative, and several municipal mayors are related, for example, expenditure decisions will be strongly influenced by a single family. Political dynasties can potentially take advantage of state power for self-serving interests without fear of replacement or administrative sanctions.

Academic research suggests that vote buying, which occurs in many countries, is widespread in the Philippines. One detailed study based on a 2016 survey of low-income voters in Metro Manila found that attempts at vote buying were widely prevalent: 100 percent of respondents were offered something in exchange for their vote (Canare, Mendoza, and Lopez 2018). Vote buying consisted of an offer of money, food, other material things, or favor in exchange for a vote (Figure 73). The sums voters received are surprisingly high: in one recent study, they range from $20 to $50 per household in local elections (Cruz et al. 2018). Politicians who can buy votes have less incentive to seek votes through programs and policies that serve constituents. International research has observed that in areas where vote buying is prevalent, the delivery of primary health services and health outcomes are weaker than elsewhere (Khemani 2018).

![Figure 72: Percentage of Legislators Who Come from Political Dynasties](source: Mendoza et al. 2016)

**Note:** Regional peer is shaded yellow.
Vote-buying and political dynasties lie at the nexus between extreme wealth concentration, oligopoly power, and weak rule of law. Although systematic data are lacking, numerous case studies demonstrate how the political system in the Philippines has historically been hijacked by the interests of economic elites (Hutchcroft 1998; McCoy 2009; Studwell 2013).

Politicians often block implementation of policies and programs that threaten the dominant oligopolies and their owners, who may be the politicians themselves, their family members, and others who funded their election campaigns. The weak rule of law also favors the elites, who can navigate the courts and use them to tie up legislation they oppose.
7 POLICY PRIORITIES
The Philippine SCD team identified policy priorities for achieving Ambisyon Natin 2040 and the World Bank's global twin goals of reducing poverty and boosting shared prosperity. The priorities were determined based on the diagnostic analysis which forms the core of this report, along with stakeholder consultations.

An extensive series of “upstream” consultations were conducted in the initial stage of the SCD. These consultations informed the selection of topics for the diagnostic. Consultations were held in Luzon, Visayas, and Mindanao with officials from several government agencies, academic and think tank experts, civil society organizations, development partners, and the private sector. The team greatly benefitted from the insights provided in the consultations.

In all the consultations there was a strong consensus about the critical importance of governance. Participants noted that many well-intended programs and policy reforms had not realized their promise due to weaknesses in implementation. They mentioned the lack of policy predictability, weak civil service capacity, and political dynasties as particular concerns. Examples were cited in the areas of inclusive growth and jobs, human capital development, and resilience.

Other key issues noted by participants covered a broad terrain. Issues that were highlighted repeatedly in consultations included weak infrastructure, cumbersome business regulations and the lack of competition, the need to improve the quality of education and provide skills to youth, service delivery for health and nutrition, how to bring urban women into the labor force, the balance between labor regulation and labor rights, wealth polarization, the spatial dimensions of inequality, and environmental risks and climate change. Following the consultations, these issues were all explored in the diagnostic analysis.

After the completion of the diagnostic analysis, the SCD team drew upon the diagnostic and input from the consultations to identify a candidate list of key priorities. Candidate priorities were assessed and identified based on three criteria:
1. The impact that addressing the priority will have on reducing poverty and boosting shared prosperity. (These are the World Bank’s global “twin goals”, and they are closely aligned with the Philippines’ Ambisyon 2040 vision.)
2. The strength of the evidence base for the priority.
3. The extent of complementarities with other priorities.

Based on this assessment, the analysis in the diagnostic, and the consultations, the World Bank Group experts identified seven priorities. The seven priorities are not intended to be comprehensive. They do not address many areas in which existing policies and programs have been effective, such as macroeconomic management.

Following this process, a series of “downstream” consultations were held to receive feedback on the priorities. These consisted of three events with a variety of stakeholders. Participants endorsed the overall priorities and provided comments which informed the fine-tuning of the priorities.

Of the seven priorities, one is tagged as an overarching priority and the rest are grouped in three categories defined in terms of the need for additional policy effort. The “Get in Gear” priorities are those for which extensive policy and program reform will be needed. “Press on the Accelerator” priorities are those for which the direction of current policy is appropriate, but additional efforts are needed. Finally, for “Keep Driving” priorities, current policy is largely on the right track, and follow-through is needed on current efforts.

**Overarching Priority**

**Upgrade public administration to be fit for purpose to meet the objectives and challenges set out in Ambisyon Natin 2040**

The Philippines has a policy or program to address nearly all its critical constraints. What is needed is principally not policies or programs but follow-through and successful implementation of existing efforts.
Strengthening public administration in multiple ways to establish strategic human resources management and leadership development across the civil service could make the government more effective. This priority covers a wide agenda, including boosting the effectiveness and capability of the civil service, increasing competition and contestability in public procurement, improving the functioning of the judiciary, and developing more effective and accountable local governments (including through participatory and community-driven mechanisms.)

Priority should also be given to improving the effectiveness of budget planning and management by aligning it more closely with national and regional plans while strengthening accountability for efficient financial and nonfinancial performance. Additionally, while the bond between political and economic power which undermines voice and accountability is inherently difficult to break, implementing the constitutional ban on political dynasties and strictly enforcing the existing prohibition on vote-buying would be meaningful steps.

**Group 1 Priorities: “Get in Gear”**

For priorities in this group, current policy has been insufficient to confront the magnitude of the corresponding constraint. Extensive policy and program reform will be needed.

**Reduce child malnutrition**

The high level of malnutrition threatens the economic future of the country and the prospects for poor Filipino children to achieve a better life as adults. Countries that have improved nutrition have done so with a multipronged approach.

Key action points for reducing malnutrition in the country are efforts to improve maternal and child health, increase consumption of healthy foods by young children and mothers, and expand access to sanitation facilities. The Pantawid Pamilya conditional cash transfer program, by promoting the demand for health services and making food more affordable, can be leveraged to increase its impacts on nutrition. Implementation of the Universal Health Coverage Law also provides a critical opportunity to address nutrition and broader weaknesses in health care access and quality. Finally, a wide public campaign and possibly a targeted funding mechanism could drive action to reduce malnutrition by local governments.

**Protect the country from climate, environmental, and disaster threats**

Over the long term, climate change poses the largest threat to the prosperity of the Filipino people. Under a pessimistic projection, climate change could end all economic growth in the country by roughly 2075, and the median Filipino would never join the global middle class.

A wide variety of climate adaptation efforts can reduce the impact. These include helping farmers shift to climate-resilient cropping systems, protecting mangroves and sensitive coastal areas to reduce the impact of typhoons, and better managing water resources. The Philippines has a Risk Resiliency Program (RRP) to enhance the integration of climate adaptation priorities into the national budget, but the program has not yet become an effective vehicle for action.

The Philippines also has a strong interest in joining worldwide efforts to cut greenhouse gas emissions and move towards a low-carbon future. The key step is to develop renewable energy sources and move away from reliance on coal-fired power plants. The government can work with the private sector to tap the country’s high potential for solar and wind power.

In terms of disaster risk management, the Philippines has a mixed record. On the one hand, it has generally managed post-disaster response well and managed the associated fiscal risks smartly through a disaster risk finance and insurance program. On the other hand, it is weak in its efforts to mitigate the risks posed by a potential large-scale disaster, particularly the possibility of an earthquake in Metro Manila. Efforts to improve preparation for disasters, in particular to make critical infrastructure and buildings more resilient to earthquakes, are needed. Emergency cash transfer mechanisms should be further developed to allow an efficient response that can help affected populations bounce back quickly after disasters.
Group 2 Priorities: “Press on the Accelerator”

For priorities in this group, the direction of current policy is appropriate, but additional efforts are needed.

Strengthen peacebuilding
The poorest parts of the Philippines are the areas most affected by conflict, principally in western and southern Mindanao. The country will not succeed in freeing itself from poverty unless it is able to build peace.

Passage of the Bangsamoro Organic Law (BOL), which led to the creation of the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM), is a huge step forward. A sustained peace will require effort to address multiple challenges: (1) creation of an effective bureaucracy for the BARMM to deliver basic services in health, education, and other areas, 2) the recovery and reconstruction of Marawi, 3) the normalization process for ex-combatants, (4) handling the threat of resurgent violence, and (5) advancing the broad development agenda for the Mindanao region to help it catch up with the country’s broader success.

Close the learning gap in basic education
The Philippines has made huge progress in expanding access to education through the provision of universal kindergarten and the creation of senior high school in recent years. The core challenge will be making sure that students learn while they are in school and acquire foundational skills, particularly basic literacy and numeracy along with socioemotional skills like perseverance, creativity, adaptability, and team work, which are essential to ensure a productive life and success in the labor market. The principal point of action will be improving the quality of teaching, mainly through improved teacher professional development. Parallel efforts are needed to improve access to teaching and instructional materials and improve school infrastructure.

Improving basic education can be the core of the broader agenda of preparing Filipinos for the economy of the future, through basic education as well as early childhood education, higher education, technical and vocational training, and lifelong learning.

Group 3 Priorities: “Keep Driving”

For “keep driving” priorities, current policy is largely on the right track. What is needed is follow-through on current efforts.

Build quality infrastructure
Infrastructure investments have been neglected for many years. Only recently has overall infrastructure spending been ramped up, with a focus on transport infrastructure in Luzon. Better infrastructure is critical to boosting agriculture and tourism, which have not achieved their potential. Developing digital infrastructure will also help the economy continue to generate new jobs.

Infrastructure planning should be conducted with an eye to ensure that new works benefit broad segments of the population and address the full gamut of needs, including water and sanitation. Development of rural roads, which can be carried out through a community-driven development approach, remains an effective way to connect farmers to markets and boost incomes for the rural poor.

Open the economy to competition
Limits to business competition have restricted private sector growth and favored the entrenched elite over new market entrants. Concentrated market power raises prices, harming all Filipinos.

The government has taken several major steps to improve competition, including passage of the Philippine Competition Act in 2015, the Ease of Doing Business Law in 2018, and the Rice Liberalization Law in 2019. Following through with the implementation of these measures could markedly advance shared prosperity. Complementary actions that can foster greater competition include amending the Public Services Act, loosening restrictions on foreign direct investment, and reducing nontariff trade barriers.
The World Bank Group team identified areas where there are gaps in data and in knowledge in the Philippines. In alphabetical order by subject, these are as follows:

**Education:** There is little information on the senior high schools, which were created in 2017, or the experiences of graduates. An extended study would be helpful to understand the impacts of senior high school and formulate improvements to the system. The analysis could detail transition rates and flows between different education levels, the pathways of mobility of students inside the tertiary education subsector, especially between technical and vocational institutions and universities, the degree of curriculum integration, the degree of flexibility of the curriculum, and the degree of inequality of the education system, including access, retention, and completion. A better understanding of tertiary education could help devise policies to boost human capital, increase country competitiveness, and improve the country’s capacity to transform its economy in the midst of the fourth industrial revolution.

More generally, available data on school quality and learning are limited. The upcoming releases of the 2018 PISA (Programme for International Student Assessment) and 2019 TIMSS (Trends in International Mathematics and Science Study) data will provide an opportunity to better understand the constraints to learning. If the Philippines’ National Achievement Test (NAT) is conducted on a timely basis, student-level results could be highly useful as a planning and research tool, particularly if the data are linked to student, teacher, and school characteristics. Although the Department of Education (DepEd) collects a range of detailed administrative data, the data are only used in a limited way, and little is released publicly.

**Employment:** Although a regular Labor Force Survey (LFS) is collected, understanding of the labor market and informal work is limited by the absence of data on job characteristics such as the size of the employer, job tenure, whether the employee has a labor contract, and what benefits he or she receives. There is also substantial policy interest and little recent work on many interlinked issues related to the future of work.
in the Philippines: the skills needed for future jobs, existing labor market policies and programs, and the technical and vocational education and training (TVET) system. A more updated and in-depth labor market analysis could help identify the skill sets for future jobs in light of the agenda of the World Development Report 2019.

**Gender:** Information on gender-based violence is lacking, particularly for conflict-affected regions. Additionally, insufficient work has been conducted on gaps in wage gaps and labor force participation between men and women.

**Governance:** Further analytics on various aspects of public administration would be useful, including comprehensive assessment and data analytics of the public procurement system. There are also gaps in understanding the links between the concentration of political and economic power.

**Infrastructure:** Information on the state of infrastructure is sparse. An infrastructure diagnostic study and associated data collection would be useful, given the current government focus on infrastructure investments. The diagnostic could assess infrastructure gaps in areas including transport, energy, water, and sanitation, and discuss financing options. This could inform a broader analysis of spatial development for the country.

**Migration and remittance:** In-depth analysis on migration trends, remittance dynamics, and the role of the Filipino diaspora is limited. A migration diagnostic, including taking stock of migration trends, governance, and regulatory structures, and analysis of challenges and opportunities can help devise solutions to harness the benefits of migration and support the execution of migration-related SDGs.

**Pensions:** There are gaps in understanding of public and private pension systems. A full-fledged pension reform analysis, including scenarios simulations, could help inform evidence-based policy-making, particularly in view of the Social Security Bill.

**Private sector:** Data on innovation, gross capital formation by sector, tourism statistics, and the contribution of small and medium enterprises (SMEs) to exports are limited.

**Vulnerable groups:** There is relatively little work in the Philippines on the situation for people with disabilities (PWDs); members of the lesbian, gay, bisexual, transgender, and intersex (LGBTI) community; and indigenous peoples (IPs).
References


DOE (Department of Energy). "Energy Demand and Supply Outlook 2017–2040."


ILOSTAT Annual Database. International Labour Organization.


———. 2020. INFORM Global Risk Index.


PSA (Philippine Statistics Authority) and ICF. 2018. Philippines National Demographic and Health Survey 2017. Quezon City: Philippine Statistics Authority; and Rockville, Maryland: ICF.


Studwell, Joe. How Asia works: Success and failure in the world’s most dynamic region. Open Road+ Grove/Atlantic, 2013.


# Annex 1: List of Consultations Conducted

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Agency represented</th>
<th>Date of consultation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Upstream consultations</strong></td>
<td>National Economic Development Authority&lt;br&gt;Department of Finance&lt;br&gt;Department of Education&lt;br&gt;Department of Health&lt;br&gt;Department of Budget and Management&lt;br&gt;Department of Social Welfare and Development</td>
<td>March 12, 2018&lt;br&gt;March 12, 2018&lt;br&gt;March 13, 2018&lt;br&gt;March 15, 2018&lt;br&gt;March 16, 2018&lt;br&gt;April 5, 2018</td>
</tr>
<tr>
<td>Development Partners</td>
<td>Manuel&lt;br&gt;Dumaguete City&lt;br&gt;Manila&lt;br&gt;Dumaguete City&lt;br&gt;Manila</td>
<td>March 19, 2018&lt;br&gt;March 20/21, 2018&lt;br&gt;March 19, 2018&lt;br&gt;March 20/21, 2018&lt;br&gt;March 22, 2018</td>
</tr>
<tr>
<td>Civil Society Organizations</td>
<td>Dumaguete City&lt;br&gt;Manila</td>
<td>March 20/21, 2018&lt;br&gt;March 22, 2018</td>
</tr>
</tbody>
</table>
# Multi-stakeholder Consultations

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Agency represented</th>
<th>Date of consultation</th>
</tr>
</thead>
</table>
| Iloilo      | Central Philippine University  
National Economic Development Authority – Region VI | March 14, 2019 |
| Makati      | 3M Philippines  
AIM Policy Center  
BDO Unibank, Inc.  
BMP Environment, Inc.  
CCI France Philippines  
China Banking Corporation  
Department of Budget and Management  
Department of Finance  
Department of Health  
Department of Labor and Employment  
Department of Public Works and Highways  
Department of Trade and Industry  
Department of Transportation  
European Chamber of Commerce of the Philippines  
Far Eastern University Policy Center  
Food and Agriculture Organization  
Food and Nutrition Research Institute  
IOM Philippines  
Manila Water Company  
Maynilad Water Services  
Metro Manila Development Authority  
National Anti-Poverty Commission  
National Nutrition Council  
Pasig River Rehabilitation Commission  
Philippine Business for Education  
Philippine Business for Social Progress  
Semiconductor and Electronics Industries in the Philippines  
Senate Economic Planning Office  
Technical Education and Skills Development Authority  
Canadian Chamber of Commerce of the Philippines  
Philippine Exporters Confederation, Inc.  
World Health Organization | May 10, 2019 |
<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Agency represented</th>
<th>Date of consultation</th>
</tr>
</thead>
</table>
| Downstream consultations | **Multi-stakeholder** Quezon City  
Action for Economic Reforms  
Asian Federation Against Involuntary Disappearances  
American Chamber of Commerce of the Philippines  
Asia Foundation  
Asian NGO Coalition  
Child Rights Coalition Asia  
Foundation for the Development of the Urban Poor  
Institute for Climate and Sustainable Cities  
Institute for Philippine Culture  
International Center for Innovation, Transformation and Excellence in Governance  
Migrant Forum in Asia  
Philippine Partnership for the Development of Human Resources in Rural Areas  
Philippine Support Service Agencies  
Population Commission  
Rappler  
Right to Know Right Now Coalition | May 14, 2019                                                                 |
|                        | **Naga City**  
Ateneo de Naga University  
Central Bicol State University of Agriculture  
Municipal Local Government of Libmanan  
Naga College Foundation  
PAMANA, Migrant Workers  
Sangguniang Kabataan (Milaor, Pili, Manalabac)  
Unibersidad de Sta. Isabel | June 13, 2019                                                                  |
| Business Sector         | **Baguio City**  
Philippine Chamber of Commerce and Industry, Baguio-Benguet Chapter | May 25, 2019                                                                  |
| Government              | National Economic Development Authority  
Department of Finance  
Department of Budget and Management | June 3, 2019                                                                  |
### Annex 2: List of Censuses and Surveys

<table>
<thead>
<tr>
<th>Type of census/survey</th>
<th>Latest available period</th>
<th>Second latest available period</th>
<th>Frequency of data collection</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Censuses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Census of Population and Housing</td>
<td>2015</td>
<td>2010</td>
<td>Every 5 years</td>
</tr>
<tr>
<td>Census of Agriculture and Fisheries</td>
<td>2012</td>
<td>2002</td>
<td>Decennial</td>
</tr>
<tr>
<td>Census of Philippine Business and Industry</td>
<td>2018</td>
<td>2012</td>
<td>Every 5 years</td>
</tr>
<tr>
<td><strong>Surveys: household based</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household surveys on income/consumption</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family Income and Expenditure Survey (FIES)</td>
<td>2018</td>
<td>2015</td>
<td>Every 3 years</td>
</tr>
<tr>
<td>Annual Poverty Indicators Survey</td>
<td>2017</td>
<td>2016</td>
<td>Annually in between FIES years</td>
</tr>
<tr>
<td>Household Energy Consumption Survey</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household survey on labor and employment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor Force Survey</td>
<td>April 2019</td>
<td>January 2019</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Household survey on education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Functional Literacy, Education and Mass Media Survey</td>
<td>2013</td>
<td>2008</td>
<td>Every 5 years</td>
</tr>
<tr>
<td>Household surveys on health and nutrition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Demographic and Health Survey</td>
<td>2017</td>
<td>2013</td>
<td>Every 5 years</td>
</tr>
<tr>
<td>National Nutrition Survey</td>
<td>2018</td>
<td>2015</td>
<td>Every 3 years</td>
</tr>
<tr>
<td>Global Adult Tobacco Survey</td>
<td>2015</td>
<td>2009</td>
<td>Ad hoc</td>
</tr>
<tr>
<td>Household surveys on agriculture</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Backyard Livestock and Poultry Survey</td>
<td>2nd Quarter 2019</td>
<td>1st Quarter 2019</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Costs and Returns Survey</td>
<td>2018</td>
<td>2017</td>
<td>Annually</td>
</tr>
<tr>
<td>Crops Production Survey</td>
<td>2nd Quarter 2019</td>
<td>1st Quarter 2019</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Farm Prices Survey</td>
<td>June 2019</td>
<td>May 2019</td>
<td>Monthly</td>
</tr>
<tr>
<td>Palay and Corn Production Survey</td>
<td>2nd Quarter 2019</td>
<td>1st Quarter 2019</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Quarterly Inland Municipal Fisheries Survey</td>
<td>2nd Quarter 2019</td>
<td>1st Quarter 2019</td>
<td>Quarterly</td>
</tr>
<tr>
<td><strong>Other household surveys</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Survey on Children</td>
<td>2011</td>
<td>2000</td>
<td>Decennial</td>
</tr>
<tr>
<td>Survey of Overseas Filipinos</td>
<td>2018</td>
<td>2017</td>
<td>Annually</td>
</tr>
<tr>
<td>Household Survey on Domestic Visitors</td>
<td>2016</td>
<td>2012</td>
<td>Ad hoc</td>
</tr>
<tr>
<td>National Migration Survey</td>
<td>2018</td>
<td></td>
<td>Ad hoc</td>
</tr>
<tr>
<td>National Disability Prevalence Survey</td>
<td>2016</td>
<td></td>
<td>Ad hoc</td>
</tr>
<tr>
<td>Type of census/survey</td>
<td>Latest available period</td>
<td>Second latest available period</td>
<td>Frequency of data collection</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>-------------------------</td>
<td>--------------------------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td><strong>Surveys: establishment based</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>General</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Survey of Philippine Business and Industry</td>
<td>2017</td>
<td>2016</td>
<td>Annually</td>
</tr>
<tr>
<td>Monthly Integrated Survey of Selected Industries</td>
<td>June 2019</td>
<td>May 2019</td>
<td>Monthly</td>
</tr>
<tr>
<td>Input-Output Survey of Philippine Business and Industry</td>
<td>2012</td>
<td>2009</td>
<td>Every 3 years</td>
</tr>
<tr>
<td><strong>Establishment surveys on prices</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Price Survey</td>
<td>July 2019</td>
<td>June 2019</td>
<td>Monthly</td>
</tr>
<tr>
<td>Producer Price Survey</td>
<td>July 2019</td>
<td>June 2019</td>
<td>Monthly</td>
</tr>
<tr>
<td>Retail Price Survey</td>
<td>July 2019</td>
<td>June 2019</td>
<td>Monthly</td>
</tr>
<tr>
<td>Wholesale Price Survey</td>
<td>July 2019</td>
<td>June 2019</td>
<td>Monthly</td>
</tr>
<tr>
<td><strong>Establishment surveys on labor and employment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integrated Survey on Labor and Employment</td>
<td>2016</td>
<td>2014</td>
<td>Bi-annual</td>
</tr>
<tr>
<td>Labor Turnover Survey</td>
<td>4th Quarter 2018</td>
<td>3rd Quarter 2018</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Occupational Wages Survey</td>
<td>2016</td>
<td>2014</td>
<td>Bi-annual</td>
</tr>
<tr>
<td><strong>Establishment surveys on agriculture</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Livestock and Poultry Survey</td>
<td>2nd Quarter 2019</td>
<td>1st Quarter 2019</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Survey of Slaughterhouses and Poultry Dressing Plants</td>
<td>2nd Quarter 2019</td>
<td>1st Quarter 2019</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Dairy Production Survey</td>
<td>2nd Quarter 2019</td>
<td>1st Quarter 2019</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Quarterly Aquaculture Survey</td>
<td>2nd Quarter 2019</td>
<td>1st Quarter 2019</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Quarterly Commercial Fisheries Survey</td>
<td>2nd Quarter 2019</td>
<td>1st Quarter 2019</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Quarterly Municipal Fisheries Survey</td>
<td>2nd Quarter 2019</td>
<td>1st Quarter 2019</td>
<td>Quarterly</td>
</tr>
<tr>
<td><strong>Other establishment surveys</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Survey on Tourism Establishment in the Philippines</td>
<td>2014</td>
<td>2009</td>
<td>Every 5 years</td>
</tr>
<tr>
<td>Survey on Information and Communication Technology</td>
<td>2015</td>
<td>2013</td>
<td>Ad hoc</td>
</tr>
<tr>
<td>Survey on Energy Consumption of Establishment</td>
<td>2010</td>
<td></td>
<td>Ad hoc</td>
</tr>
</tbody>
</table>