LOOKING TO 2015

Social Watch Philippines

This year is significant for the Philippines and the rest of the member countries of the United Nations. As they all look forward to 2015, the 189 member countries of the UN need to make an honest assessment of where they stand on commitments they had promised to deliver.

For purposes of this review, the commitments referred to here focus on those made in the two summits convened by the UN in 1995, the World Summit on Social Development in Copenhagen and the Beijing Women Conference,[1] the Geneva 2000 World Summit on Social Development or Copenhagen+5,[2] and the Millennium Development Goals (MDGs) of the 2000 Millennium Summit.[3]

Social Watch, a worldwide network of social activists and NGOs, was formed in 1995 to monitor state compliance with these promised obligations. Since 1996 it has been publishing a yearly report which is accepted as a major input in the delibera-tions of the UN Commission on Social Development.

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1 The Copenhagen Social Summit made 10 commitments to address world poverty, unemployment and social breakdown. The Beijing Women Conference committed to achieve gender equality and promote women empowerment.

2 The Geneva 2000 World Summit on Social Development or Copenhagen+5 was convened to review progress from 1995 and to agree on further initiatives, emphasizing the role of broad partnerships.

3 In the Millennium Summit in 2000 at the UN in New York govern-ments pledged to achieve 8 millennium development goals (MDGs) by 2015 reckoned from the 1990 baseline: (1) eradication of extreme poverty and hunger; (2) universal primary education; (3) gender equality and women empowerment; (4) reduction of child mortality; (5) reduction of maternal mortality; (6) combating HIV/AIDS, malaria, and other diseases; (7) ensuring environmental sustainability; and, (8) global partnership.

The Social Watch reports monitor progress and reversals, analyze why these are happening, and make both visionary and practical recommendations.

Social Watch Philippines is part of the global Social Watch network and, like its counterparts in other countries, does monitoring and regular assessments at the country level. Results feed into advocacies for needed changes in policies and programs. Social Watch stands for social and environmental justice and advocates ending poverty the soonest.

To best capture the complexities of monitoring, Social Watch Philippines uses a simplified instrument called the Quality of Life Index, or QLI. This is a set of alternative indicators developed by the Action for Economic Reforms (AER) and Social Watch Philippines to monitor progress at the local level, across regions and provinces in the country. The index has been tested and was found to be strongly correlated with other poverty and welfare measures, making it a good alternative where no other indicator is available.

The QLI is also consistent with existing national and international statistical systems and can be computed easily, using indicators that are regularly generated by government agencies. It can be applied at both national and local levels. Moreover, since the index is based on outcomes rather than means in achieving development goals and excludes income variables, the QLI complements existing poverty measures that are based solely or partly on income.

The Quality of Life Index has been rigorously tested and recognized by the international Social Watch movement. Now renamed as the Capability Index, the QLI is up for wider adoption in the Social Watch 2005 report.

A word on data

Social Watch Philippines relies on official statistics despite the many problems attending those numbers. It also makes extensive use of case studies to make up for what numbers don't reveal when describing local realities of poverty and inequality.

Among the tools that government uses to monitor the poverty situation and social development are the Annual Poverty Indicators Survey (APIS) and the triennial Family Income and Expenditures Survey (FIES). FIES data on income and poverty measures can be disaggregated only by region and by province. Beyond this level, no other poverty statistics have been generated officially.

The implementation of the National Social Development Management Information System (SOMIS) was endorsed by the Philippine government to monitor the 20/20 commitments. It reflects the three core development goals for the Asian region identified by the UN (ESCAP) Economic and Social Commission on Asia and the Pacific in 1999: poverty alleviation, expansion of productive employment and social integration.

The SOMIS depends on the data collection activities of different statistical bodies and agencies, and is contingent on varying schedules of monitoring. Because of limitations posed by the annual collection of data, the SOMIS will not always reflect current statistics, much less regional and country realities. At best, the SOMIS serves as a repository for progress reports that can be used in fine-tuning government policies and programs intended to achieve the MDGs.

Social watching is hampered by the lack of information concerning the true poverty situation and the particular circumstances of the poor. Gaps in poverty analysis often result in deficient planning and poor targeting. The problem gets more apparent as one goes down to sub-national levels. In reality, there is very little information on the poverty situation in the provinces down to municipalities and *barangays* across the country. A recurring reason is limited local capacity to collect and process information on a regular basis. Moreover, existing income and poverty measures may not be uniformly applicable, or are difficult to replicate on the national scale.

In the course of its nationwide consultations, Social Watch Philippines gathered the following observations related to data gathering and the interpretation of results:

(1) Cultural norms and practices directly affect the indicators. Raised in one Mindanao consultation was the observation that dietary patterns varied in many parts of the country; hence, the indicators for hunger and nutrition could not be uniformly treated. Cultural definitions accounted for variances in interpretation. Areas identified as having problems related to hunger were notably areas where the dietary intake of vegetables was poor. Health conditions will also differ because of these dietary patterns. Farmers in Northern Luzon eat more vegetables than those in Mindanao. The Visayans eat vegetables sparingly, preferring the culturally derived preference for dried fish. Root crops are the staple food of farmers in Mindanao, again setting the tone for variances in interpreting indicators. Yet the tools do not factor in these cultural nuances in food consumption.

In one Northern Luzon consultation, participants from the province of Ifugao contested the government's inclusion of their province in the list of the 15 poorest provinces in the country, suggesting a need for redefining the notion of poverty and welfare.

(2) Using income as the unit of poverty measure will not give the true picture at the grassroots level. In many upland indigenous communities, a more acceptable measure of wealth is ownership of noncapital goods, such as livestock and poultry, rather than income. Such communities also have relatively easier access to basic survival needs such food and shelter.

(3) The deteriorating peace and order conditions have a direct effect on the indicators for poverty, health and education. In the Mindanao consultation, it was learned that armed conflict in several provinces have worsened problems of access to basic social services. Hence, the data gathered will not present the true picture and sweeping conclusions will fail to show the true face of poverty in the conflict areas.

Contrasting views of the future

Ten years gone by since the Copenhagen and Beijing summits and the Philippines is still struggling to deliver on its social commitments. The government would be compromising long-term sustainability by not investing enough in the development of our human resources. Then our country

might wake up to a scenario nobody wants: a generation of malnourished, less educated, less healthy Filipinos, living in insecure environments. Instead of social cohesion we may have a society more divided by 2015.

The table below shows contrasting projections of Social Watch Philippines and the government with respect to chances of achieving minimum entitlements due the poor.

Declining poverty, rising hunger

Poverty incidence has declined by 15.5 percentage points in 15 years, from 40.2 percent in 1990 to 24.7 percent now. Over 21 million Filipinos are still poor today.

MDG Targets	Official Assessment	SWP Assessment	
		Overall Prospects	Prospects for the Poorest Regions & Provinces
Poverty	High	Less Likely	Unlikely
Hunger/Nutrition	Medium	Unlikely	Very Unlikely!
Safe water	High	Access, Yes Quality, No!	Unlikely
Educ: Participation	Medium	Likely	Less Likely
Educ: Survival	Low	Unlikely	Unlikely
Educ: Gender	High	Parity, Yes Equality, No!	Parity Equality, No!
Child Mortality/IMR	High	Less Likely	Unlikely
Maternal Health	Medium	Unlikely	Very Unlikely!
HIV / AIDS	High	Likely	Growing Threat
Environment	?	Less Likely	Unlikely
On Slum Dwellers	?	Less Likely	Unlikely

Official figures are, however, contested, particularly the drop of almost three percent from 27.5 percent in 2001. The government has been criticized for reducing poverty through statistics, changing the methodology by lowering the poverty line and reducing family size from 6 to 5 members. The Asian Development Bank (ADB) itself asserts that the new methodology resulted in a lower poverty headcount and trends adjustment. The ADB believes poverty had worsened from 2000 to 2003.

Unemployment is another contested area. Unemployment went up from 10.4 percent in 2003 to 11.3 percent in January 2005. As high as these rates already are, many still believe that figures were massaged to hide the reality of massive unemployment and underemployment. The new method of determining rate now uses week instead of quarter as time reference and basis for trending.

Statistics compiled by the Employers Confederation of the Philippines (ECOP) indicate that employment in the formal sector contracted sharply, losing almost a million jobs from 1999 to 2003. These statistics point to the growing 'informalization' of labor, indicating the declining quality of jobs. Despite government claims of respectable economic growth, joblessness persists with corresponding impact on the poverty level.

The country's high population growth of 2.34 percent annually, rising from 60.7 million in 1990 to 85.5 million in 2005, has been complicating the efforts to reduce poverty and arrest the environmental decline.

Rural poverty has not improved at all, and in some provinces even worsened. Living conditions for the growing urban poor are not much better off either. Already, more than half of Filipinos are city inhabitants and their numbers are expected to rise by 2015.

Inequality continues to fester. The Gini coefficient hovers at 0.48. The income ratio of the richest one-fifth to the poorest one-fifth was 16 to 1 in year 2000 compared to 13 to 1 in 1990. Average household income has declined by 10 percent, from P175,000 to P144,000. Household spending also went down by 8 percent in parallel with shrinking incomes. The poor continue to be denied access to resources, like land and capital. Instead of land redistribution, the trend is displacement for the poor and landlord buyback.

The economy, among the most liberalized in Asia but dominated by large foreign and local corporations, is in deep crisis. The country is debt-trapped, in perennial trade deficit and unable to raise sufficient revenues to finance its budget. The national debt has reached up to US$65 billion. Consolidated public sector debt is US$107 billion.

Debt service eats up 85 percent of government revenues and, if off-budget debt payments are included, could run up to 51 percent of government expenditures for 2005.

Economic growth had been steady in 15 years, except during the 1997 Asian crisis. But it is a lopsided, narrow, inequitable and jobless growth.

The Philippines has been underinvesting in basic education, at levels generally below 3 percent of GNP and lower than most neighboring countries in Southeast Asia. United Nations Educational, Scientific and Cultural Organization (UNESCO) recommends an expenditure level of at least 6 percent of GNP.

The same is true for health. According to World health Organization (WHO), the Philippines ranks among the last (161st) in health spending and 126th in overall health level. It spends far less than other middle-income countries, and thus is unable to create comparable health conditions.

A World Bank study of 10 Asia-Pacific countries in 1993 shows that the Philippines has the second lowest both in per capita health expenditure and health spending as percentage of gross domestic product (GDP).[4]

Here's where the budget peso roughly goes: 33 centavos to debt service; 32 centavos to salaries of government employees; 12 centavos to basic education; 1.3 centavos to health; between 10 and 20 centavos lost to corruption.

A recent study presented at the 9th National Convention on Statistics estimated that it will take 41 years for the average poor Filipino to break away from poverty. This casts serious doubts on the government's assertion that poverty can be reduced by half by 2015.[5]

In mid-2004, the ADB reported that about 12 million Filipinos were trapped in extreme poverty and surviving on less than one dollar a day. The Philippine incidence of extreme poverty was lower than the Asian average of 21.4 percent. But it was the highest in Southeast Asia after Laos' 30.4 percent and Cambodia's 34.2 percent.[6]

The Social Weather Stations, Inc. (SWS) revealed that hunger rose to record levels in Metro

[4] Philippine Institute for Development Studies, 1998. Health Care Financing Reform: Issues and Updates. *PIDS Policy Notes # 98-06.*

[5] Jose Ramon Albert and Paula Monina Collado, *"Profile and Determinants of Poverty",* paper presented during the 9th National 'Convention on Statistics, EDSA Shangrila Hotel, Metro Manila, Oct. 4-5, 2004.

[6] "Hunger stalks 15% of Pinoy households," PDI research, *Philippine Daily Inquirer,* Oct. 5, 2004
"Arresting Jobless and Industry-less Growth," Rene E. Ofereo, Opinion Section, Yellow Pad column, BusinessWorld, May 30, 2005, p. S1/4; www.ger.ph

Manila and Mindanao in 2004. Nationwide, 11 percent of household heads surveyed said their family had nothing to eat at least once in the last three months, two percentage points higher than the previous year. In March 2005 this rose to 13 percent or an estimated 2.1 million families. Overall incidence of hunger since SWS began monitoring it in 1998 registered a record high of 16.1 percent in March 2001. Hunger incidence in Mindanao rose to 16 percent, the highest in the country. In the Visayas, it doubled to 13 percent from 6 percent in September 2003.[7]

Chronic poverty in Mindanao may be explained by the failure of export crop production to bring progress to the island. Agribusiness companies in Mindanao have brought benefits to only a few agribusiness capitalists and landed families. Half of all Mindanao provinces belong to the country's 25 poorest provinces. At least half the population, in most of these provinces, lives below the poverty threshold.[8]

The government admits to a low probability of meeting the target of 50 percent reduction on malnutrition, as evidenced by: (a) chronic dietary energy deficiency affecting particularly young children, and pregnant and lactating mothers; (b) protein energy under-nutrition among preschool and school children; and (c) micronutrient deficiencies particularly in Vitamin A, iron and iodine among a large group of the population across ages.[9]

The Department of Environment and Natural Resources (DENR) says that close to 25 million Filipinos (33 percent of the total population) do not have access to clean potable water and only 26.25 million (35 percent) have access to water for sanitation.[10] This explains the vulnerability of the poor to water-borne diseases, like diarrhea, a leading cause of infant and child mortality.[11]

In some provinces only 30 percent or less of households have access to safe drinking water. Half of the provinces will not meet the target of improved access.

Progress and regress in education

There is hardly any improvement in school access, survival and learning outcome. Elementary participation rate has remained virtually stagnant over the last three years. An estimated 10 percent of children 6-12 years old are out of the school system. Cohort survival and completion rates improved marginally while dropout rates at both elementary and secondary levels remain high at 7.19 percent and 12.82 percent respectively.

Survival, more than participation, remains the bane of the education sector. A World Bank study noted that "for every 1,000 entrants to Grade I, 312 do not complete elementary schooling, 249 finish the six-year elementary at an average of 9.6 years due to repetition, and only 439 finish elementary in six years." Even more alarming, of the "688 who complete elementary schooling, only seven graduates score at least 75 percent in achievement tests in English, Science and Math, which is the standard for mastery of required competencies."[12] Despite rising school attendance, there has been no impact on functional literacy.

Based on the UNESCO Education For All (EFA) Development Index—a composite measure based on enrollment ratio, literacy rate, gender-specific survival rate up to grade 5— the Philippines ranked 44th, falling below Thailand, Vietnam, Indonesia and China. In quality of education as measured by survival rate, the Philippines fared no better than some of the poorest countries in Africa, like Burkina Faso and Ethiopia.

The Philippines is one of the few developing countries which have achieved basic parity between boy and girl children in school access, retention and achievement. Girls have consistently out-performed boys in gross and net primary enrolment rate, cohort survival to grade 6, repetition and dropout rates and in learning achievement. This has been observed throughout the 1990s and holds true generally for both rural and urban areas.

Gender disparity is reflected more in gender biases in the school system and especially in mass media, which engender violence and sexual harassment.

Progress and regress in health

According to the National Demographic and Health Survey (NDHS)[13] 2003 statistics, infant mortality rate (IMR) has declined from 34 deaths per 1,000 live births in 1990, to 29 deaths in 2000. But 40 out of 1,000 children born in the Philippines die before their fifth birthday.

Mortality levels in urban areas are much lower than those in rural areas. The Philippines has

[7] *"Low real income, more equal distribution"* by Solita Collas-Monsod, Philippine Daily Inquirer, Sept. 4, 2004.
[8] "Food for all: Can we achieve it? (Hunger stalks the country's food basket)", de la Rosa, B. *Philippine Daily Inquirer,* Oct. 10, 2004.
[9] Herrin, et al., 1993 as quoted by Manasan,, et al., 1996.
[10] Lacuarta, Gerald G. "25M Pinoys have no access to clean water – DENR" *Philippine Daily Inquirer*, March 26, 2003.
[11] *Philippine Health Statistics,* Department of Health, 1998.

[12] Cited in the Education For All (EFA) plan, DepEd, August 2004
[13] *Ibid.*

among the highest maternal mortality rates (172 deaths per 100,000 live births) and infant mortality rates (36 deaths per 1,000 live births) in the world. In 2000, 60 percent of pregnancies in the Philippines were considered high-risk due to poor health conditions and narrowly spaced childbirth. The 1998 (NDHS)[14] revealed that the risk of a Filipino woman dying from complications related to pregnancy or childbirth is 1 in 100. The 1998 NDHS statistics also show that women in the Autonomous Region in Muslim Mindanao (ARMM) and Northern Mindanao face nearly double the risk, with the maternal mortality ratio (MMR) at 200 and 300 in those areas respectively.

The high infant and maternal mortality rates in many parts of the country are the result of the lack of access to quality health care services and facilities, particularly for those in the rural areas and those in large urban poor communities. Most births are attended by traditional birth attendants (TBAs) or *hilots*, many of whom lack the knowledge and skills to ensure safe and healthy deliveries. For 1994, Department of Health (DOH) statistics on deliveries showed the following: 38 percent of births were delivered by *hilots;* 31 percent by doctors and 29 percent by midwives. Moreover, 40 percent of women of child-bearing age died of complications related to pregnancy.[15]

The MMR is estimated at 172 per 100,000 live births. Social Watch Philippines and others have consistently asserted that this figure masks the depth of the social problem in many parts of the country where the figures are much higher, according to the Population Commission and UN Food on Population Activities (UNFPA).

A fact sheet of the Population Commission and the UNFPA, released in time for the 10th year of the International Conference on Population Development (ICPD)[16], revealed that 10 Filipino women or an estimated 3,650 women die everyday from pregnancy-related causes.

In the 1998 NDHS, maternal deaths were estimated to be 14 percent of all deaths among women 15-49 years old. Major causes identified are post-partum hemorrhage, eclampsia, obstructed labor and complications from abortions.

Regional disparities in access to maternal care have been noted. The number of women receiving prenatal care from a health professional registered highest in Western Visayas (93.4 percent) and in the NCR (92.1). In ARMM, pre-natal care is available only to 49.9 percent of women. Only 56 percent of deliveries were attended by skilled health professionals. Among the regions ARMM registered the lowest percentage of birth delivered by a health professional (21.7 percent) and births delivered in a health facility (10.7 percent).

The Philippines exports many doctors, nurses and caregivers yearly, yet many women and children in rural areas die without seeing a doctor. The average hospital bill is three times the average monthly income[17] despite the Generics Act of 1988 which intended to provide safe and effective but affordable drugs to low-income households. Prices of drugs and pharmaceutical products are the highest in Asia, 250 percent to 1,600 percent higher than neighboring Indonesia, Malaysia, India, Bangladesh and Sri Lanka.[18]

Many women's groups have criticized the government for reneging on its commitment to support women's reproductive health.

Failing to arrest environment decline

The rehabilitation of our environment has seen little progress since 1990. The Philippines continues to face serious challenges in urban air and water pollution, natural resource degradation, and declining quality of coastal and marine resources. The Philippines is among the richest in the world in biodiversity but its rate of deforestation is one of the highest. Laws intended to arrest, if not reverse, the

[14] NDHS data cited in the *Philippine Progress Report on the Millennium Development Goals,* January 2003.
[15] Department of Health, 1994. *Investing in Equity in Health: The Ten-Year Public Investment Plan for the Health Sector (1994-2004).*
[16] In Rina Jimenez-David's column in the *Philippine Daily Inquirer*, July 16, 2004.
[17] DOH, *1999 Updates: Philippine Health Statistics*
[18] "Fighting the high cost of health," Feria, Monica. *Philippine Graphic,* September 27, 1999.

decline have been failing.

Based on the environmental sustainability index developed by Yale and Columbia University the Philippines ranked 117th of 142 countries studied. In environmental quality (water, air, biodiversity), the Philippines ranked third to the last.

Liberal policies have led to the relaxation of investment rules and compliance with environmental standards. The government is in self-denial, insisting that the natural resources are underexploited despite mounting evidence of overexploitation and abuse. It has opened the door wide to extractive industries, especially mining, which the government sees as a solution to the country's fiscal crisis.

There's no shortage of environmental policy and legislation; however, attempts to integrate sustainable development principles into policies and programs have failed to bring about a fundamental shift away from what many believe to be an unsustainable path of development.

Equity and justice are at the core of the environment problem, expressed in unequal access and use and control of the natural resources, and in the vulnerability of the poor to environmental hazards and disasters.

Problems of financing commitments

As early as 2002, Social Watch Philippines and many others had warned about an impending fiscal crisis owing to increasing budget deficit and unsustainable public debt. The debt level is more than 130 percent of GDP and a third of the national budget goes to servicing its interest alone. After repeated denials, President Gloria Macapagal-Arroyo admitted to the problem two years later.

The country's budget history is a story of consistent and accumulating deficit rather than balance. An alarming trend of continuing deficits has been noted since 1998. Among the many factors cited is the Asian crisis. More basic, however, are the structural defects in the fiscal structure. Revenues have been dormant since the post-Marcos years, prompting the passage of the Tax Law in 1986, with amendments in 1988, 1994, 1997 and 2000. The first half of the 1990s under the Ramos administration also saw much of the government's commitment to bilateral and multilateral arrangements, highlighted by the accession to the World Trade Organization-General Agreement on Tariff Trade (WTO-GATT). The lowering of custom duties, following liberalization, seriously affected tax collection. Privatization and sale of public assets, which explain much of the surplus in 1996 and 1997, saved the day somewhat, though only temporarily.

At the start of the new millennium, tax effort went down to its lowest levels. To maintain spending levels, the government incurred deficits that are also the highest in fiscal history (*see Table below*).

For 2004 and 2005, the target deficits are P197.8 billion (4.3% of GDP) and P184.5 billion (3.6 percent of GDP). As part of keeping government targets, revenue enhancement and austerity measures are being implemented. With revenues going down and the demand increasing, the government engaged in deficit financing, thus increasing indebtedness.

The Philippine debt problem has been around for more than three decades. A look at the country's history of indebtedness is provided on the next page.

Figures will show that since 1997, public debt had surpassed the country's economic output. As of September 2004, public debt was around 130 percent of the GDP.

The national government accounts for more than half of the public debt (58 percent), with

NATIONAL GOVERNMENT FISCAL POSITION, 1999-2003
(In Million Pesos)

	1999	2000	2001	2002	2003
Revenues	478,502	514,762	563,732	567,141	626,630
Expenditures	590,160	648,974	710,755	777,882	826,498
Surplus/(Deficit)	-111,658	-134,212	-147,023	-210,741	-199,868
Financing	181,698	203,815	175,235	264,158	286,823
Change-In-Cash	38,984	3,810	-22,229	-1,706	25,767
Budgetary	70,040	69,603	28,212	53,417	86,955
Non-Budgetary	-32,563	-62,420	-50,441	-55,123	-61,188
Coll. (BIR & BOC) subject to holding period	1,507	-3,373	0	0	0
Tax Effort (Tax as % of GDP)	14.50%	13.90%	13.30%	12.50%	12.50%

Source: *Bangko Sentral ng Pilipinas (BSP) and Department of Finance (DOF)*

Marcos era	● Mainly external debt, which grew 13 times from 1970 to 1986
Aquino (post-EDSA) administration	● External debt grew from US$28 billion to US$35 billion by end-1991, despite servicing US$18 million; ● Domestic debt grew while access to foreign debt contracted despite Aquino honoring all the dictatorship's debts; ● Outstanding debt stood at US$44 billion, for both domestic and external.
Ramos administration	● Debt grew to US$53 billion by 1998, despite implementation of the Brady Securitization Plan in 1993; ● Some temporary minimal relief was experienced with the decline in interest payments from 1993-1996.
Estrada administration	● Borrowings equivalent to those of Aquino and Ramos (12 years) combined, and done in 3 years' time. ● The Estrada administration borrowed a total of P725 billion (US$16 billion).
Macapagal-Arroyo	● Borrowing for the first three-years of their administration almost surpassed those of Ramos, Aquino and Estrada combined; ● The Arroyo administration borrowed a total of P1.2 trillion (US$21.8 billion).

Source: *Freedom from Debt Coalition, October 2004.*[19]

National Government Debt Payment, including Principal Amortization vs. the Education and Health Budget (amounts in billions of pesos and dollars where indicated).

Years	Interest payments	Debt service including Principal Amortization	Education budget	Health budget	Interest payments as %age of NG Budget	Education as %age of NG Budget	Health as %age of NG Budget
1998	99.8 (US$2.5)	164.5 (US$4.2)	106.9 (US$2.7)	13.5 (US$0.3)	18.6%	19.9%	2.5%
1999	106.1 (US$2.6)	205.4 (US$5.1)	110.6 (US$2.7)	15.0 (US$0.4)	18.3%	19.1%	2.6%
2000	140.9 (US$2.8)	227.8 (US$4.6)	116.8 (US$2.3)	14.7 (US$0.3)	20.6%	17.1%	2.1%
2001	181.6 (US$3.5)	277.2 (US$5.4)	121.5 (US$2.4)	13.6 (US$0.3)	25.9%	17.4%	1.9%
2002	185.9 (US$3.5)	358.0 (US$6.8)	125.4 (US$2.4)	14.5 (US$0.3)	25.0%	16.9%	2.0%
2003	226.4 (US$4.2)	470.0 (US$8.7)	129.0 (US$2.4)	12.4 (US$0.2)	28.4%	16.0%	1.6%
2004	271.5 (US$4.9)	581.3 (US$10.6)	133.3 (US$2.4)	12.9 (US$0.2)	31.4%	15.5%	1.5%
2005	301.7 (US$5.5)	645.8 (US$11.7)	135.5 (US$2.5)	12.9 (US$0.2)	33.2%	14.9%	1.4%

Source: *Various Department of Budget and Maanagement Publications, Budget of Expenditures and Sources of Financing and National Expenditure Program 2005*

[19] Paper presented by Lidy Nacpil, Freedom from Debt Coalition (FDC) Secretary General, at the "*Forum on Debt for Congressional Staff"*, October 28, 2004.

government-owned and -controlled corporations largely accounting for the remaining half. The distinction between sources becomes irrelevant, however, especially when public corporations perform badly. In such event, the national government assumes the liability.

The burden of incurring a large debt stock is directly manifested by way of servicing maturing loans. The national government automatically appropriates such payment, a policy that citizens movements have consistently opposed.

In the last five years, 23.6 percent of the budget was allocated to interest payments. Counting the principal, the proportion of the budget that went to debt service averaged 35.2 percent. Meanwhile, other budget items have been crowded out, including critical services and infrastructure.

Declining tax effort, increasing demands from the populace, and a large debt stock. The Philippines had sunk into a vicious cycle of borrowing to be able to pay off its debts and keep the government afloat. In 2002, it was noted that while the budget for debt service is only P185.8 billion, actual cash disbursements on debt service expenditures reached P1.3 trillion (Commission on Audit (COA) 2002 Annual Financial Report). In 2002, COA reported that the actual income or revenue earned by government totaled P601.8 billion as against total debt service disbursements of P1.3 trillion. Obviously, debts were serviced by more borrowings!

With debt payments squeezing the national budget, meager funds can only be put to social development. In the last five years, the share of social development to the entire budget has gone down from 33 percent in 1999 to 29 percent in 2003. The conclusion drawn is, while social sector budgets had to deal with cuts, the automatically-appropriated debt payment is the only one significantly increasing in nominal as well as real terms.

The Philippines is among those economies that has claim to being globally integrated, trading goods with the rest of the world last year to the tune of 85 percent of Gross National Prodcut (GNP), and compared to the years before accession to the WTO in 1994, the value of our trade doubled during the last decade (from 48 percent of GNP in 1990). Enhancing trade with the world had been a preoccupation. To date, the country has 41 bilateral trade and economic agreements, mostly signed in the last decade.

The country's trade balance remains in perennial deficit. Opening up has not alleviated its balance of payment position which has been deteriorating over the years. The promised benefits of free trade hyped by its advocates during the debates at the Senate in 1994 never came. Citizens movements, especially the peasant groups, and those belonging to the textile and garments industry, now question the wisdom of membership in the WTO. They claim that domestic products have been marginalized and swamped by imported goods; local production and livelihoods have collapsed, and many have been thrown out of their jobs.

The country has given up a lot by way of protection in return for so little. The government even exceeded required commitments and failed to utilize the breathing space allowed within WTO rules. Compliance was way beyond what was committed, particularly on measures that addressed the following disciplines: non-imposition of additional non tariff measures (NTM); conversion into tariff, or the tariffication of NTM and quantitative restrictions (QRs); commitment to the minimum access volume (MAV) schemes; tariff reductions; and reduction in subsidies

On the contrary, the government's commitment to strengthen affected sectors was deficient and in some cases non-existent. The government's Action Plan for GATT-Uruguay Round (GATT-UR) Adjustment Measures (1994) as well as other pledges envisioned remain to be fulfilled.[20] In contrast to the ease and haste with which the government moved to liberalize the economy, its internal commitments, and adoption of "enhancement" measures generally failed.

Budget constraint was the ready excuse for the absence of support measures. The appropriation for agriculture, agrarian reform and natural resources in the last two decades only managed to take between 3-8 percent of the budget. Curiously, the budget of the sector was highest in the years before 1994 at 6.3 percent. The period after WTO (1995-2000) saw the sector maintain its portion of the budget on the average, but it later started to show a decline. The peak amounted to P41 billion in 1997 (8 percent), and expectedly so since it was during that year that the government decided to carry out the action plan. The most recent years (2001-2004) were the lowest, with the sector's share of the budget falling to an average of 4.2 percent.

Other sectors whose scope of function includes services and activities with bearing on enhancing competitiveness of the domestic economy also needed their budgets augmented. Consider how the budget for water resources

[20] Those contained in the Medium-Term Philippine Development Plan (1994-2000 and 1998-2004).

development, which includes water supply and irrigation systems, declined from 2 percent in 1980 to a fraction of a percent average between 2000-2004; the budget for communications, roads and other transportation services also began with 19.6 percent (1980), then slipped to an 8 percent average between 2000 and 2004.

Special funds created for the purpose were also ineffective if not wasted. The Agricultural Competitiveness Enhancement Fund (ACEF), established in 1996, came into operation only in 2001 and has yet to benefit those who need them most—the small farmers and fisherfolks. It is very vulnerable to capture by commercial operators who have much to begin with. The Agriculture and Fisheries Modernization Act (AFMA) started with a promise of P20 billion in addition to the Department of Agriculture's current allotment, but until now it remains a mere promise.[21]

The government has failed to prevent dumping, along with rampant smuggling which is killing many local industries. Traditional exports like food and produce, and garment and textiles are on the brink of collapse. Even in manufactured goods, the country is losing the battle. And we have yet to feel the full effect of China's integration into the global economy.

The move to reverse tariffs by 1.5 percent from 6 percent to 7.5 percent would have been commendable had the damage not been done. Social Watch suggested a 7.5 percent average tariff is still too low compared to the country's WTO-bound tariff for 2004 of 29.7 percent.

The country would be better off if the government desists from carrying out more of its unilateral liberalization program and starts a comprehensive review process. Much in the GATT -WTO has yet to be resolved, especially in matters surrounding the Agreements of Agriculture (AoA), and new areas such as the Trade in Services (GATS). WTO has yet to discuss the subsidies given to sectors, both by developed and developing countries. Other concerns, specifically those raised in the Doha Round are still unattended.

Social Watch believes that it is time for the government to review the country's policy on trade and economic liberalization, considering the widespread perception that it has brought more harm than good to the country.

Financial flows into the country have dwindled. The Philippines is widely seen as a poor investment choice. Since the 1997 crisis, investments had been cautious and slow. For good or ill, foreign rating agencies have consistently pictured the country as an investment risk. Last year, $545 million worth of investment fled the country owing to continuing political uncertainties.

Portfolio capital or short- term investments appear heavily in our payment's imbalance (see table below). After massive exodus during the 1997 crisis, a substantial part came back in 1999, registering a net portfolio inflow of US$6.8 billion, from a low of US$80

[21] AFMA was a budget trick, that is, it reflected projects and programs being given funds but behind it was attribution to existing and already implemented projects (from a participant who used to be with the Department of Agriculture, testimony made at the TDC Forum on Subsidies for the Fisheries Sector, November, 2004).

Investments Flows, 1998-2003

	1998	1999	2000	2001	2002	2003
Investments, Net (US$ M)	1,672	8,628	1,660	2,192	2,855	-545
Growth Rate (%)	119	416	-81	32	30	-119
Net Direct Investments	1,592	1,754	1,453	1,142	1,733	161
Net Portfolio Investments	80	6,874	207	1,050	1,122	-706

Source: *Bangko Sentral ng Pilipinas (BSP)*

OVERSEAS FILIPINO WORKERS' REMITTANCES, 1997-2003
(In US$ Thousand)

	1997	1998	1999	2000	2001	2002	2003
TOTAL	5,741,835	7,367,989	6,794,550	6,050,450	6,031,271	7,189,243	7,639,955
Sea Based	257,612	274,549	846,209	926,677	1,093,349	1,226,182	1,294,140
Land Based	5,484,223	7,093,440	5,948,341	5,123,773	4,937,922	5,963,061	6,345,815

Source: *Bangko Sentral ng Pilipinas*

What is Left of the Budget Minus Mandatory, Non-Developmental Expenses				
Mandatory Expenses	2004		2005	
	Amount	%/Budget	Amount	%/Budget
Personal Services	286,420,140	33.1	289,250,112	31.9
INTEREST PAYMENT	271,531,000	31.4	301,692,000	33.2
Net Lending	5,500,000	0.6	7,600,000	0.8
Allocation to Local Government Units	148,325,024	17.2	155,900,000	17.2
Subtotal	711,776,164	82.3	754,442,112	83.1
Total Proposed Budget	864,763,579	100	907,589,726	100.0
Discretionary Sum	152,987,415	17.7%	153,147,614	16.9%

million the year before. In 2000-2002, portfolio investment again dropped. For 2003, the country suffered further as net portfolio investment registered a US$706-million deficit (outflow of investments).

Foreign direct investments are not in better shape either. From a net investment high of US$1.7 billion in 2002, it fell to US$161 million in 2003. Even with tax holidays and other fiscal incentives, the country was unable to lure the same level of investment as in previous years.

In what Social Watch considers acts of desperation, the government is making steps toward changing the Constitution in order to be "competitive". Government has put away all stops on liberalization of the mining sector despite opposition from indigenous peoples and a broad range of sectors. A 10-year strike ban has been considered.

The Overseas Filipino Workers (OFWs) have been the country's savior. Their annual remittances are estimated to be between $7 billion and $14 billion (US$ 7.6 billion in 2003), a huge amount of "free" money, in contrast to tied Official Development Assistance (ODA). Inflows from OFWs drive consumption and create an illusion of a thriving economy. Rising demand in construction, particularly the real estate business, may be largely due to these inflows.

National government finances have not always been as dismal as they are now. In fact, fiscal surpluses were attained in 1996 and 1997, with tax effort at 17 percent of GDP.[22] It was after the 1997 crisis that everything fell. However, the crisis cannot be the excuse and will not explain the large budget deficit, running to P200 billion in 2003 and an expected P197 billion in 2004.

The drop in tax effort at 12.4 percent of GDP is a combination of factors. Foremost are implementation and collection issues that allowed tax evasion and avoidance to reach rampant levels. The decline in revenue is also due to the ongoing market liberalization program that rapidly reduced tariffs beyond GATT-WTO allowed levels. A third reason would be rigidities brought about by some provisions under the Tax Reform Program of 1997, particularly concessions to favored sectors and professions.

Borrowing has thus substituted for the more difficult task of revenue collection. In the last three years, the current administration borrowed P1.2 trillion, exceeding the combined borrowings of the preceding 10 years. This increased the national government debt stock to P3.4 trillion. Debt payments this year amounted to P535 billion (interest and principal), accounting for 42 percent of the 2004 budget. Taking away the other mandatory expenses, such as those for personnel, allocation to LGUs, and net lending to government corporations, little is left for new programs and expenses with developmental objectives.

The liabilities of Government Owned and Controlled Corporations (GOCCs) have been assumed by the national government. These contingent liabilities amount to as much as P3 trillion.[23] The biggest transfer for the year, apart from contingents, come from the state-run National Power Corporation amounting to P500 billion. This is part of the reform of the power sector, a move that would restore the company's financial viability

[22] Of course, lot of help came from the Ramos administration's privatization efforts. It was also during this time that infrastructure projects were contracted out under the Build-Operate-Transfer (BOT) program.

[23] World Bank (2004). ***Philippines- Improving Government Performance: Discipline, Efficiency and Equity in Managing Expenditure***, Manila.

Public Sector Debt, 1998-2005		
Year	**Amount in billions P (US$ equivalent)**	**As % of GDP**
1998	2,952.00 (US$75.6)	110.70
1999	3,666.00 (US$90.9)	123.20
2000	4,397.00 (US$87.9)	131.10
2001	4,411.00 (US$85.8)	120.10
2002	5,163.00 (US$98.4)	128.30
2003	5,391.00 (US$99.8)	126.00

Source: *Ben Diokno (2004)*

and make it attractive to private investors.

The public sector debt — that is, debt by the national government, government owned and controlled corporations, and local government units — now amounts to P5.9 trillion pesos (US$107 billion). This is equivalent to 130 percent of the GDP, as of September 2004. By any measure, the level is unsustainable and could cause the breakdown of the economy at any point.[24]

The administration hopes to avert the situation through renewed efforts in both revenue generation and cutback in spending. Eight (8) bills were prepared for legislative deliberations, hoping to bring in P83 billion in new revenues.

Yet the anticipated amount will not be enough to cover for the deficit (P184 billion), to say nothing about providing for the needs of the growing population. Moreover, financing for achieving the Millennium Development Goals by 2015 requires an additional spending of P244 billion, an amount that we clearly do not have. [25]

Urgent solutions must address the debt problem. The campaign for debt relief, conversion and swaps, moratorium and selective repudiation has been going on for years, alongside many bills pending in Congress. Notable among these proposed measures are the repeal of Presidential Decree No. 1177 or the Automatic Appropriations Act, and the Audit of Public Sector Debt. The repeal law is sought to allow the country to get a hold over the budget, specifically for allocation to basic services and other priorities. The debt audit intends to determine accountabilities, assess the utilization of debts, and apply justice as necessary.

While Official Development Assistance (ODA) has been declining, aid absorption has not improved either. Last year, the government was able to use P77 billion (US$1.4 billion). Of this P12 billion (16 percent) went to the agriculture, natural resources and the agrarian reform sector, P34 billion to infrastructure projects, i.e. power, water, transportation and communication, and the rest to community development and industry.

ODA requires counterpart, i.e. local funds to be shelled out by the government to show ownership and commitment over the loan. The counterpart funds run to 30 percent of the loan amount, and with the existing budget constraint, government more often than not has to cancel commitments.

ODA conditionality is another problem. Bilateral and multilateral assistance is designed in such a way that it serves donors' interests. All the bilateral and multilateral loans come with policy strings, like structural adjustment or liberalization. Donor terms run across all stages of the project or program, from design to implementation and evaluation. Aid plowback is most pronounced in procurement of goods and services from donor countries.

Aid appears cheap and readily available, and is often mistaken for free money, which it is not. These loans add to the debt stock.

Repayment obligations have been catching up in recent years and developing countries like the Philippines have run out of revenues to service these debts.

The country's debt experience is replete with accounts of corruption. Huge sums ended up in private pockets and funded infrastructure of questionable value. A patent case is the idle Bataan Nuclear Power Plant which we have been paying for with tax money and will do so until 2007. The government religiously devotes a large part of the national budget to appease the creditors.

Resource mobilization and allocation to ensure

[24] Shared by experts and economists from varying institutions, including the multilateral banks and rating's agencies Standard and Poor, Fitch and Moody. A debt default is the least of all the concern, foremost of which the dwindling resources devoted to government programs and basic services, instead, is automatically appropriated to pay for debt.

[25] Manasan, Rosario (2004). ***Financing the Millennium Development Goals: How much would the MDGs cost?***, presentation in a forum sponsored by the National College of Public Adminsitration and Governance (NCPAG).

ODA Loans Performance ODA Loans Disbursement Rate- By Sector/Sub-sector				
Sector/Sub-sector	**Disbursement**			
	(US$ Million)		**(PhP Million)**	**Rate**
	Target	Actual	Actual	(%)
Agriculture, Natural Resources and Agrarian Reform	248	232	12,737.45	93.5
Agriculture and Agrarian Reform	176	150	8,267.05	85.4
Environment and Natural Resources	72	81	4,470.40	113.3
Industry and Services	24	55	3,045.35	233.9
Infrastructure	777	630	34,638.45	81.1
Energy, Power and Electrification	106	68	3,740.55	64.1
Communication	4	3	151.25	68.1
Social Infrastructure	41	23	1,268.30	56.5
Transportation	468	410	22,554.95	87.7
Water Resources	158	126	6,923.40	79.8
Social Reform and Community Development	193	153	8,410.60	79.3
Education and Manpower Devt	83	52	2,839.10	61.9
Health, Population and Nutrition	31	26	1,405.80	83.3
Social Welfare and Community Devt	22	24	1,302.40	109.1
General Social Devt	57	52	2,863.30	91.1
Project Total	1,241	1,070	58,831.85	86.2
Program Total	338	338	18,564.70	100.0
Grand Total	1,578	1,407	77,396.55	89.2

Source: *12th Annual ODA Review, NEDA-Project Monitoring Staff.*
Exchange Rate Used: 1US$ = PhP55

the attainment of the Millennium Development Goals and specific targets by 2015 remains the primary concern. The pattern of social spending is worrisome.

A study conducted by Dr. Rosario Manasan for the United Nations Development Program (UNDP) revealed that the country needs a total of P221 billion to meet half the targets for basic education, health and water supply and sanitation (using high cost assumptions of schedules up to 2008, without budget reform).[26] Social Watch suggests that resources be matched with an order of priorities in order to increase the chances of meeting MDG commitments.

Financing for the MDG cannot be sourced alone from current revenues. It would be impossible with present generating capacity to produce the P221 billion and spread over 2008, through the 2009-2015 period. As it is, the deficit is being financed with borrowing, and by government projections. This will not stop until 2010.

An alternative would be to look into the country's debt and payments. As a first step, it would be prudent for the government and creditors to make the budget respond to the needs of the populace. Since the 1983 debt crisis, the country was not able to shake off the specter of a debt overhang. Appropriations for debt service must give way.

To finance the MDGs we need to consider the following measures: debt conversions and debt swaps with proceeds dedicated to MDG programs; debt write-offs and cancellation of unproductive and

[26] Manasan, R. (2002). **Analyzing Government Spending for Human Poverty Reduction, 1995-2000,** in Gonzales (ed.) ***Investing in People***, Presidential Task Force on the 20/20 Initiative, DAP.

National Government Spending Pattern, 2000-2005 (In Millions of Pesos)						
Items	2000	2001	2002	2003	2004	%age of the Budget FY 2004
Economic Services	167,216	141,236	151,255	164,108	155,924	18.0%
Social Services	212,982	217,217	230,495	235,568	248,252	28.7%
Defense	36,208	32,782	38,907	40,645	43,191	5.0%
General Services	122,526	120,019	132,878	134,944	140,365	16.2%
Net Lending	2,634	7,023	2,626	5,500	5,500	0.6%
Debt Service	140,894	181,601	185,861	230,697	271,531	31.4%
Total	682,460	699,878	742,022	811,462	864,763	100.00%

Source: *Benjamin Diokno (2004)*

odious debts; debt restructuring, and the renegotiation of terms, specifically relief and moratorium, to lengthening the maturities and lowering interest charges.

To complement such initiatives, the government needs to carry out the following measures:

One, plug the government income leakages. Leakages due to corruption and inefficiencies in tax administration are estimated to be between a low of P48 billion per year and a high of P250 billion per year. Estimated leakages for 2000 from corporate income tax alone already amount to P57 billion, which is more than enough to cover the financing gap for the MDGs.

Two, earmarking revenue to priority social development concerns. Government needs to put revenues where it counts and earmarking revenues to cover basic social expenses.

Three, rationalizing the pork barrel by prioritizing its use for the MDGs. Recent budget issuances giving guidelines for the allocation and use of special purpose funds are in the right direction. The government only needs to couple the said issuances with monitoring and audit schemes to assure that it was spent for the identified purpose and sector. Special purpose funds can cover at least half of the gap (PhP20 to 22 billion estimate).

Four, realigning the National Budget by increasing the allocation for social development spending to 20 percent of the total, in line with the government commitment to the 20/20 initiative – increasing the share of social development to at least 20 percent of total ODA in line with the 20/20 commitment of the donor community; increasing the grant component of ODA from 15 percent to at least 30 percent of total ODA; 100 percent grant priority for human development projects (in basic education, primary health care, water, child development, etc.); and converting ODA loans estimated at P30 Billion for health and education into grants. Along this line, Congress can call for an ODA audit.

Conclusion

Government must realize that commitments are less about targets and more about honoring human rights obligations and commitments to social and environmental justice. Development policy must be reoriented from a human rights perspective.

Government must be held to account for the disastrous outcomes of its liberalization, privatization and deregulation policies. A comprehensive public review is in order. Curbing corruption is urgent.

More and stronger popular mobilizations are necessary to get government to change policy and deliver on its promises. The Global Call to Action against Poverty (GCAP) is one opportunity for raising the level of public awareness and mass action.

Statistics and their contested interpretation are a continuing concern for for social watchers and activists. Disaggregating national figures by gender and location reveals the different realities of poverty and exclusion. Here Social Watch Philippines has shown leadership and this should continue.

Social Watch Philippines must continue engaging local governments to translate social and environmental commitments into local development plans, budgets, and investment priorities. Success stories and lessons must be documented and spread around to serve as examples to be emulated.