

Research Agenda 2015–2019



PIDS Policy Research Agenda 2015-2019*

1. INTRODUCTION

The PIDS is updating its policy research agenda for the next five years, 2015 to 2019. In the preceding period, the Institute had prioritized the task of defining policy options of Philippine society over a range of issues including fiscal, agriculture and other equally important policy topics (see **Box 1**). The agenda likewise underscored the importance of human development, taking

up the issues of social protection, education and health. This is easily understood since at the time it was adopted the government scaled up its conditional cash transfer (CCT) program to become its banner intervention in reducing poverty, improving the health and educational status of the country's poor.

Box 1. Policy Research Agenda, 2010-2014

1. Long-term Vision
2. Economic Policy Choices
 - a. Fiscal Issues
 - b. Agricultural Policies
 - c. Land Policy and Agrarian Reform
 - d. Poor Performance of Manufacturing, and Trade and Industrial Policies
 - e. Competition Policy
 - f. Small and Medium Enterprises
 - g. Geopolitics of the Region
 - h. Regulatory Structures
 - i. Infrastructure
 - j. Environment and Natural Resources
 - k. Labor Market Issues: Emphasis on OFWs and the Economy
 - l. Metropolitan Issues
 - m. Local Governance
3. Policies for Sustainable Human Development
 - a. CCT and Social Protection
 - b. Education Issues
 - c. Health Sector Policies
4. Better Institutions
5. Enhancing the Contribution of PIDS to the Research Community
 - a. Maximizing the Contribution of PIDS Research Fellows to Policy Research and Advocacy
 - b. Strengthening Policy Advocacy and Giving Policy Advice to Key Stakeholders
 - c. Promoting Other Research-Related and Policy Advocacy Activities

* This report is prepared by the Research Agenda Team led by Dr. Ramon Clarete with Dr. Myrna Austria and Dr. Emma Porio as team members.

The important role of institutions in ensuring effective governance was noted in the agenda. This search for better institutional forms is supportive of the current government's defining mantra of eliminating corruption to ensure effective delivery of public goods and services, essential sustaining high growth.

This report responds to the Institute's need of updating this agenda. Firstly, it undertakes a review of its past agenda and programs, to determine if it has responded adequately to the issues and research gaps indicated; and, identify issues that could still be considered valid at the present time and in the near future. Secondly, it scans the recent trends and developments in the socioeconomic environment of the

country and externally. Given the two, the report lays out its suggested research agenda from 2015 to 2019. The proposed agenda determines the research gaps, which the PIDS or the entire research community ought to respond to. It responds to the policy issues that may become important considerations in the future, anticipating the policy environment for the next two to three years. The suggested research agenda gives focused lens on cross-cutting concerns.

2. ASSESSMENT

The Institute had produced about 381 studies from 2009 to 2014 (Table 1).

Table 1. Number of Research Studies Conducted at PIDS, By Theme, 2009 to 2014

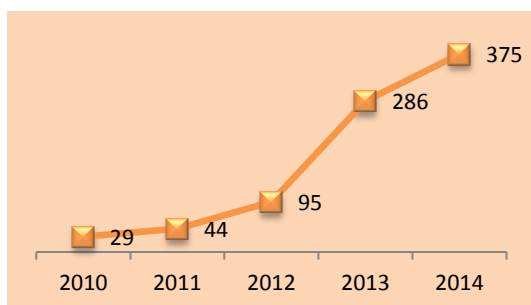
Themes	2009	2010	2011	2012	2013	2014
Long Term Vision						
Economic Policy Choices	37	37	44	58	59	44
Policies for Sustainable Human Development	6	10	5	15	16	15
Better Institutions	6	8	5	5	6	5

Nearly three fourths of these studies were on economic policy choices. Human capital development concerns and issues attracted nearly 18%, while the remaining 9% were on better institutions.

The relevance of these researches may be gleaned from them being cited in the day-to-day news in the country (Figure 1). Since 2010, the number of citations of the studies (and their authors) in the daily press has risen sharply.

In 2013, no less than President Benigno Aquino III himself cited the Institute in his State of the Nation Address that year (and this is not the only time he did). The President noted from a study done by PIDS how income of high school graduates was 40% higher compared to that of those who only finished elementary education. This information lent support to the government in scaling up its CCT program, which has advancing education of the poor to be among its key objectives.

Figure 1. PIDS in the News (no of media citations)



The important contribution of the Institute to shaping up good policies is also garnered from how it provides evidence on the inappropriateness of certain policies and programs. In 2014, the PIDS criticized the disproportionate bias of the DA in allocating budgetary resources for food security and agricultural development in rice. The agency has been doing this in pursuit of rice self-sufficiency, which until now remains to be an unachieved goal. The Institute noted how high value crops and livestock lack support because of the self-sufficiency programs of the Department.

It is not only government officials but also the stakeholders in private sector such as the organized labor groups that the PIDS has provided policy advice, regardless of how politically unpopular the policy view its studies take (Box 2).

The Institute had come a long way in projecting itself as an independent, dependable source of high quality economic studies.

¹ Interview with Ms. Love Basilote, PBED. October 21, 2014.

Research Gaps

In meeting with the various stakeholders in government and the private sector, the Team picked up areas that the Institute may consider giving more focused attention on.

1. *Human Capital Development*

The **Philippine Business for Education (PBED)** ¹ would like to see research support towards addressing the following concerns: skills Gap; Industry-Academe

Box 2. PIDS study weighs in on minimum wage

INCREASING minimum wages reduces employment and brings more people into poverty.

Raising the minimum wage reduced employment in smaller firms -- a result that is instructive for the Philippines considering that more than 99% of the total number of firms in the country are micro, small, and medium enterprises, the Institute said in its 2013 Economic Policy Monitor.

Rapid minimum wage increases also caused lower household income and a higher probability of poverty, the study said.

Minimum wages significantly reduce the probability of employment of teenagers, the young, the women, and the less educated, the study added.

The study recommended a 12-point agenda, the Jobs Expansion and Development Initiative (JEDI).

Collaboration; Merit-Based Funding for Private Schools and Normative Funding for SUCs; Lack of Data in Education; Governance in Education; The future of Education; Improving the capacity of universities; Education investments and the experience of other countries; and Education and industry development.

The Team sees some of these actions as trying to address an important problem in our educational system: low access of the children of poor families to good quality education. What is apparent is that the majority of these children goes to sub-standard formal education or to technical vocational education institutions, finish such programs, but remain to be unemployable. This is an important burden to poor families: very low return to their investments, and accordingly the consequence of this to the future state of the country's human resource.

Addressing the low employability of the country's graduate population here or abroad, the **Commission on Higher Education (CHED)**² discussed the need in coming up with the Philippine qualification framework, and for PIDS to conduct studies in support of developing or improving the national qualification framework. The national qualification framework describes what finishers of formal or training program, entitling them to some qualification, should know, understand and be able to do. Having the framework enables the CHED to enforce its standards properly and to facilitate agreements in ASEAN of mutual

recognition arrangements for professionals or skills.

Apparently, CHED and PIDS have collaborated on doing studies in support of the qualification framework. Besides it, CHED would pursue (or may be pursuing) this partnership to do studies on a normative funding formula (how much does it take to educate a student); policy framework for tuition fee negotiations; and impact of K-12 to the university belt business community.

The K-12 program, currently implemented, needs technical studies to improve it and to measure how it improved the employability of the country's graduates. If the DSWD has the CCT program, which earlier got mentioned as in need of studies to evaluate its impact, CHED has put forward the K-12 program. There are critics of the program, particularly those calling for postponing it, who may be dissuaded with their improved understanding of the program. The **Department of Education (DepEd)**³ has articulated that all needed measures are being done to implement effectively the program.

The educational dualism is the segmentation of the educational and training markets into two: one for students or trainees from the lower income families; and the other for students who can afford better quality educational system. The former is definitely sub-standard, almost like students or trainees paying for time (only) while in school or

² Interview with Commissioner Cynthia Rose Bautista, CHED. November 17, 2014.

³ Interview with Undersecretary Dina Ocampo, DepEd. December 2014. The DepEd expressed the need for research support on pre-school education.

under training rather than learning or acquiring skills or competencies. The latter produces graduates that possess the competencies expected of what they completed in education and training. The former is relatively affordable to lower income classes, although the rate of return is near zero; the latter has competitive rates of return. The dualism has got to stop, if the country has to pursue more inclusive growth.

Towards this objective, CHED is looking for studies giving it ideas in developing the policy framework of assisting financially private educational institutions. These represent 88 % of HEIs in the country. They are part of the mechanism how the beneficial spillovers to society of a good higher education are generated. Regulating them is facilitated with state support to private HEIs or TVEIs for that matter.

This applies as well to research incentives in general. The country presently has a few high quality private educational institutions, capable of undertaking good quality research. State support for their research activities to private or for profit institutions is prohibited, which fuels educational dualism.

Research can contribute by providing recommendations exploring modality and institutional arrangements in providing support to private HEIs or TVEIs. Furthermore, the research community can document what other countries have done and identify models that can be applied to the Philippines.

Other research priorities of CHED that PIDS may consider taking up include the following:

- A policy study that may serve as framework for tuition fee increase or negotiation;
- Benchmarking of scholarship programs;
- Refinement of the Grants-in-Aid.
- Keeping track of the beneficiaries and looking at the gaps of the program;
- Shepherding the UNIFAST bill, which proposes to unify all government-funded scholarship and aid programs for students in all regions; and
- Study on the cost of sending a student to school.

In the **health care sector**, the Team got to meet with the representative of the **Zuellig Family Foundation (ZFF)**⁴, a non-governmental organization, which has been working on models for the delivery of public health services particularly in rural areas. The NGO received a grant from a pharmaceutical company to work with local government units. With the LGUs (the principals themselves), the organization develops these models and mechanisms. With ownership from the principals who are required to participate in these workshops the NGO organized, the chances of local officials implementing the programs themselves are high.

Health services had been devolved to the local government units by the local

⁴ Interview with Ms. Ana Go, Associate, Research & Advocacy, Zuellig Family Foundation. November

13, 2014.

government code of 1991. The work therefore of NGOs such as ZFF is highly important. Once these delivery models are found to be effective, scaling up by the LGUs of the health programs is facilitated. The national government is likely to partner with LGUs in scaling up programs for delivery of public health services.

In our meeting, the ZFF had asked if PIDS independently looks at the models they develop and assess their cost-effectiveness and overall impact to the health status of target populations.

Health care is an important sector for the poor. A major injury to a member of the family or a disease, which requires costly treatment, can be a poverty trap for the poor or impoverishing for the middle income classes of society.

The PIDS can look into how public funds can be used in order to avoid making health cost the reason for making the poor permanently so. While **Philhealth** is moving into universal coverage, there remain important issues to study on such as: the capacity of the public sector's hospitals to service their clients. It is noted that the hospitals in the regions severely lack the capacity so that even the poor would not anymore go to avail of their services knowing this constraint.

Out of pocket expenses of the poor in the treatment of serious injuries or diseases can be increasingly shouldered by the public sector. The latter becomes a purchaser of such services from public and

private suppliers of hospitals. What are the governance issues that policy makers need to consider into moving into a demand rather than a supply centered health system? What would be the impact of these innovations in public health care on the government's fiscal position – are among the questions that the Institute may look at.

2. Restructuring the Economy

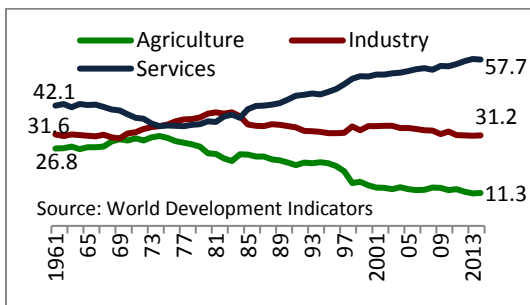
The underemployment is the bigger problem of the country. Studies would be needed to explore on alternative options of increasing labor productivity may be improved. Obviously investments are needed to spur demand for various skills of the country's labor force. This in turn requires the relaxation of hurdles to starting a business or of the equity ceilings on foreign direct investments.

The Team had met with the representatives of the **Department of Labor and Employment (DOLE)**⁵ on this matter. DOLE noted that most of the labor force is in rural areas, which are relatively less integrated. Agriculture and fisheries, which are the predominant economic activity in these areas, tend to have the lowest labor productivity in all three major economic sectors. Its contribution to the economy has also been going down. Although through time, agriculture's gross value added in proportion to the GDP falls as development proceeds, the apparent low productivity of the sector may convey that the expected decline may just be abrupt.

⁵ Interview with Undersecretary Reyluz Conferido and Ms. Mary Grace Riguera, DOLE. November 21, 2014.

Studies are needed in economic structural transformation as pointed out by **Former NEDA DG Arsenio Balisacan**. Pulling labor resources from low labor productivity areas of the economy to high is important in generating good quality jobs, and raise per capita incomes faster. Investments everywhere in the economy are needed to increase employment and more importantly reduce under-employment.

Figure 2. Sectoral Composition of Philippine GDP, 1961-2014 (%)



Industry and services, particularly the former, need to attract more of the fixed capital formation as they generate relatively higher labor productivities. Over the past three decades, the services sector's contribution to GDP exceeded that of industry (Figure 2). While this is characteristic of developed countries, i.e. that services tend to contribute the largest to their respective GDPs, the country's labor productivity in services is lower compared to that of industry, and definitely is even much lower compared to the labor productivity in the services sectors of developed economies.

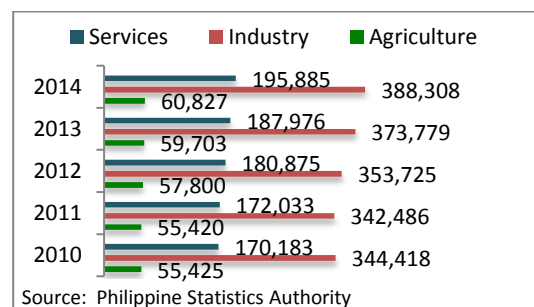
Fabella (2013) calls this odd pattern of the country's economic growth a development

progeria. While the economic contribution of services top in developed characteristics as in the country, the labor productivity of the country in services is low compared to the same in developed countries.

Resources would have to move to industry, which has the highest labor productivity (Figure 3) to generate better quality jobs, reduce the need to look for other part time jobs, and to raise faster per capita income. Research is needed to find out more about this problem of pre-mature aging of the economy, and the transaction costs of effecting an overall economic re-structuring.

The DOLE noted the importance of increasing entrepreneurship in the country to spur more investments particularly in micro, small and medium enterprises. Economic managers should enable the environment for entrepreneurship and investments, particularly taking the lens of boosting MSME investments and entrepreneurship.

Figure 3. Labor Productivity in the Philippines,



Financing of these investments may require coming up with business models how the country can tap on OFW remittances. Presently, there is the sense

that most of these remittances go into consumption rather than investments. Studies would need to be done to validate the hypothesis. If OFW families' savings need to be increased, the DOLE would like to know how to attain this. It would seem that presently, whatever savings go into property development, rather than into investments in MSMEs. Tourism was cited as having great potential of creating jobs with perhaps less lumpy investments required, building on site-specific assets.

The PIDS had already been into studies on the distortions of the labor market, which tend to destroy rather than create jobs. Such studies need to be continued in order to make labor market policies more flexible, and capable of responding to opportunities such as that of ASEAN integration.

Complementing economic incentives for development, the DOLE believes that the formula for success may lie on the quality of leadership. What the country needs are development champions. In particular, the country should develop informal leaders, which are more influential and have lasting effects to the people compared to formal leaders.

In the literature, this is about social cohesion. Effective community leaders inspire people to work together for the common good. When Korea went through the Asian financial crisis, women donated their jewelry just to get their economy going through the crisis.⁶

Philippine society has the *bayanihan* spirit. How it can translate this spirit into doing more for development can be the subject of studies for development. The DOLE noted how family, educational and religious institutions cultivate such informal leaders. Applying this at the macro level, the country can discover and document where these key leaders are and put them on the bright spot.

Informal leaders are good at finding in the culture of the Filipinos that makes them more productive. Inspiring workers to become more productive helps them in fact to be so. The high productivity then allows so-called social-entrepreneurs to pay according to their higher contribution. The DOLE cited the practices of entrepreneurs including Tony Meloto and Philipp Tan, who provide above the minimum compensation and incentives that will increase the employees' productivity. PIDS studies can document these cases and communicate to the public these alternative models of competitiveness.

These studies can also establish the link between the income of the firm and income of the employees. In the long term the employers will reap benefits if they pay their employees right by increasing their productivity, which can lead to higher income of the firm.

The DOLE views it is high time to highlight and focus on the strength of the society and magnify them. Perhaps research can

⁶ See <http://news.bbc.co.uk/2/hi/world/analysis/47496.stm>.

contribute through benchmarking and documentation of best practices.

Local governments are instrumental to the country's progress. There are many local governments that tend to be facilitative of local development. Studies are useful to document and highlight the successes of these LGUs and inform others of their governance models. The more society focuses on the positive things in us, the more likely development advances.

The social costs of overseas labor contracts had been cited. But DOLE did so to illustrate the benefit of being positive to produce better development results. Being positive about this phenomenon requires highlighting the good points of migration, and not just its social costs. If there are costs, which are already known, how do certain families cope with the burden of families being separated physically and for years?

3. Social Protection

The vulnerability of workers and their families to a range of shocks requires investing in economically viable social protection. These shocks may manifest into losing their jobs because the economy is going into a crisis; of natural disasters induced by climate change; of structural adjustments in the economy as in opening it to global trade as in the ASEAN integration; or of retirement. Studies are needed how to design such social protection programs and getting them funded in a sustained manner.

It is the new normal that the country copes with natural calamities induced by climate

change each year. Extreme flooding, and drought have been the recent natural hazards that inflict serious adjustments on the lives of the population particularly the poor. Typhoon Yolanda in 2013 and the on-going El Nino weather phenomenon illustrate the pressures to prepare for such contingencies each year.

Presently, the government sets aside funds for these contingencies. But this may not be the most efficient way of protecting society from these adverse contingencies. Studies may thus be needed in exploring efficient arrangements and getting these institutionalized. One that comes up is catastrophic insurance. Research may enlighten policy makers how private sector resources may be sustainably tapped for climate change related contingencies.

Existing social protection programs may have to be improved. For instance, public pensions systems may need to be adjusted as society is going through demographic changes. Another is unemployment insurance. The issue here may be enforcement, scaling up these programs, and improving its benefits. In a middle-income developing country, how can these changes be made viable? Portability of these programs, given the increased mobility of the country's work force, is also an issue.

The Team considers important for the Institute to pursue **multi-disciplinary research**. For example, the involvement of medical doctors in a research on universal coverage of health insurance, reduction of out of pocket expenses for health-related services, and the

government moving into a standard setter, regulator, enforcer, and purchaser of health services and medicines to attend to the health needs of the poor is needed.

The Team notes that the PIDS is mostly comprised of professional economists and statisticians, mostly the former. This is a handicap, which the Institute's management is very much aware of and is trying to address it with out-sourcing tasks that require skills outside of economics or statistics. It is encouraging if the Institute strengthens further its capability to do multi-disciplinary research. After all a good research may extend beyond the confines of economic analysis. The members elaborate on this further below.

4. Industrial Policy

The **Department of Trade and Industry (DTI)**⁷ sees the country needing studies that look at policies that ensure successful economic transformation and increase the share of manufacturing sector. Presently, the services sector dominates the economy when in fact labor productivity in industry exceeds that of services. DTI argues that industrial policy addresses inclusive growth by prioritizing industries that generates the most good-quality jobs. Services alone cannot guarantee job generation; the country needs to improve the performance of industry, and manufacturing in particular because of the relatively high labor intensity of these sectors.

There are analysts who are uncomfortable about industrial policy because of the

country's unsuccessful bid to industrialize with heavy industries during the martial law government. **DTI** distinguishes its advocacy for the new industrial policy from the failed targeted one in the past. Industrial programs these days differ as the current policy tools environment are very different from the past. With industrial taxes on imports now low because of multilateral or preferential trade agreements and other disciplines in the trading system, its industrial programs co-exist with import competition.

More importantly, industrial policy is a tool to level the playing field to as many industries as possible. Horizontal issues cut across so many industries in the economy such as high power cost, corruption, and lack of infrastructure. The DTI said that while firms have their own firm-level strategy, they also have common/shared goal with other firms and this is the objective that the government needs to focus its intervention on. For this, it needs research support for this policy objective.

Another difference is in promoting jobs and micro, small and medium establishments (MSMEs). While heavy, capital intensive industries are to come with industrialization, the support to industry at this stage is focused on sustaining economic growth with industries that generate investments and jobs. Industrial policy can be an important tool for providing support to those who face structural hurdles because of their size. **DTI** looks at the unique constraints facing the MSMEs, which make up 99% of

⁷ Interview with DTI Assistant Secretary Rafaelita Aldaba. December 23, 2014.

the country's establishments, and employ at least 60% of the country's work force.

There are vertical issues, and addressing them is where DTI's advocacy for industrial policy comes close to the targeted assistance to specific industries in the past. Its program to expand the country's car assembly, electronics, and other relatively capital intensive industries reminds critics of what transpired in the past. The thread that ties the two is fiscal incentives. It would seem that **BOI** has not weaned itself from its need for incentives in promoting industries. Private business organizations, including foreign chambers of industries, had made the stand of having such incentives, and DTI is pressed to respond to the clamor to maintain fiscal incentives. There are changes that can be perceived. DTI under the car program has a sunset clause for such incentives, and the returns to such spending the Department is open to measuring.

Industrial coordination of related industries is a feature of DTI's push for industrial policy. When it looks at the iron and steel or copper industry, it asks the question of identifying the constraints that prevent value adding. The issue is specific to the banner industry, e.g. jewelry industry, but in addressing them the constraints in upstream and downstream industries are included. Vertical issues are about closing supply chain gaps, addressing lack of economic scale, linking with large enterprises and human resource development.

The DTI noted the importance of working on industrial roadmaps. Employing the

bottom-up approach, the roadmaps are prepared in consultation with the private sector representatives who identify the constraints. Industry road maps articulate the industry goals and strategies as well as the role of government agencies to realize these goals. Once the roadmaps are complete, DTI ensures the close coordination among the key government agencies in implementing and overseeing the roadmaps. In the previous roadmaps, the plans were not implemented because nobody took the lead and thus there were no policy directives.

The DTI notes that roadmaps of different industries are highly interconnected. Industry clustering strategies can advance external spillovers, i.e. those that are available to all the industries, e.g. reduced cost of accessing manpower and particularly specialized skills, technology specific to industries, etc.

Industry road maps generate information on the constraints in the country's participation in global value chains. While there are industries already participating in such GVCs, e.g. electronics, contact centers, etc., the need to upgrade the value added of the country's industries arises. The country needs to upgrade to knowledge-based services. This entails delving into studies on global value chains. Such studies address the question why there is a need to move up. This will also build the country's competitive edge in services sector.

Moving up global value chains require innovation, technology upgrading, and research and development. The lack of link between the universities and the

industries through research needs to be closed if the country wants to move up the value chains. Right now most of the firms are into assembly and processing.

But in general, how can the country ensure and institutionalize the new industrial policy? It will help if the research community continuously conducts and produces study supporting the policy direction to reinforce the policy environment. Even though the roadmaps are private sector-led, DTI still evaluates the strategies that the private sector provides. Ultimately, the strategies that should be pursued should be beneficial to the industry and to the country. This is where DTI or other government agencies will need research. Policy interventions should be grounded on the objective analysis and findings of research. Evidence-based research should be the source of policy interventions.

5. Trade Policy

The DTI also mentioned that there is a need to assess the current Free Trade Agreements such as JPEPA and ASEAN +1 FTAs. The country lacks impact evaluation studies on the FTAs. Likewise, PIDS can position itself in doing studies on the feasibility of future FTAs such as Trans Pacific Partnership, Regional Comprehensive Economic Partnership, Ph-EU, and PH-Taiwan (Chinese Taipei) FTAs.

⁸ Interview with Director General Ronald Golding, Director Mervin Salazar, Director Xerxes Nitafan, and Director Maria Cristina Pardalis. SEPO, on November 12, 2014.

6. Improving the Quality of Laws

The **Senate Economic Policy Office (SEPO)** ⁸ and the **Congressional Planning, Budget and Research Department (CPBD)** ⁹ had very useful ideas for PIDS to help in setting the legislative agenda but more importantly in formulating good quality laws with its studies.

The CPBRD noted how PIDS provides a list of priority policy measures, which is a good source in setting the legislative agenda of Congress. However this is not the limiting part of the legislative process. The CPBRD noted the importance of studies on the **operationalization of a proposed law**.

Such studies fish out the practical problems of implementing a proposed law, and therefore give lawmakers ideas how to adjust the proposed law in order to make the law easier to implement, facilitate enforcement, and more importantly for stakeholders to avoid costly litigation arising from ambiguities in the law passed by Congress.

The idea was echoed by SEPO. The agency used the Bangsamoro Basic Law (BBL) as an example. The agency considers the proposed law to be such a very important, sweeping piece of legislative measure. The implications of its provisions on the national economy should be thoroughly analyzed. Notwithstanding the grave political importance of BBL in the overall peace situation in Mindanao, studies on

⁹ Interview with Dr. Emmanuel Miral, Jr., CPBRD, November 13, 2014.

operationalizing it helps in mitigating unwanted features of BBL that may only undermine the overall development of Mindanao or even for the whole country. Secondly, existing landmark economic laws ideally should be looked into at opportune time to see how these may be improved. SEPO mentioned the Electrical Power Industry Reform Act (EPIRA); the rationalization of fiscal incentives; comprehensive tax policy reform law; pension System for uniformed personnel; e-commerce; regulatory policies and the chargers of regulatory agencies; social protection: and national land use policy.

Some of these laws may have provisions that no longer apply or may need to be rethought given a new environment, e.g. the ASEAN integration, other forms of assisting industries such as industry road maps, or demographic changes which may make pension programs no longer financially viable.

Thirdly, the CPBRD zeroed in the government organizational structure, public financial management, impact of government under-spending; and conflicts between national and local laws, which would only confuse stakeholders and dampen business investments.

The two agencies, doing supportive research for the various legislative measures in both Houses of Congress, see the important role of an independent highly respected research institute like the PIDS in enlightening members of Congress on possible weaknesses or operational

gaps of existing or proposed laws. The value added is particularly important for measures with very large impact on the economy and well being of the population. Both mentioned how PIDS research fellows, who may be doing related research, can be asked to provide technical advice in the Congressional deliberation of proposed laws. The Institute has garnered the deep respect among policy makers, such that it very timely now not only to give rationale for proposed laws, but more importantly in proposing how upcoming pieces of legislation may be efficiently operationalized.

7. Measuring Impact of Public Spending

The evaluation of the impact of the government's major public spending program such as the conditional cash transfer program is a task that the PIDS may consider going into.

The Team picked this up from its meetings with the **Department of Social Welfare and Development (DSWD)** ¹⁰ and the **Department of Budget and Management (DBM)**. ¹¹

The DSWD is currently administering the CCT program with scores of billions of pesos of budgetary resources. It is extremely important for policy makers to know if the CCT program is attaining its objectives, and if the program is cost-effective in doing so.

¹⁰ Interview with Mr. Christian de Loria, DSWD-Research Monitoring Development Office. October 21, 2014.

¹¹ Interview with Undersecretary Mario Relampagos, DBM

A similar consideration came out from our meeting with the DBM. The Department is presently setting up its capacity to undertake impact evaluation and monitoring non-financial data of the government's banner programs. It stressed it would want to use third party studies essentially trying to do the same task of evaluating government programs.

This is an important role that PIDS may consider going into. The agencies implementing these programs would have a conflict of interest if they themselves took up the task. If there is the COA to do the financial monitoring of how the agencies and LGUs spent public funds, there should be a capability in government to measure what it has purchased with the funds spent. Admittedly, it is a very important pressure on the Institute.

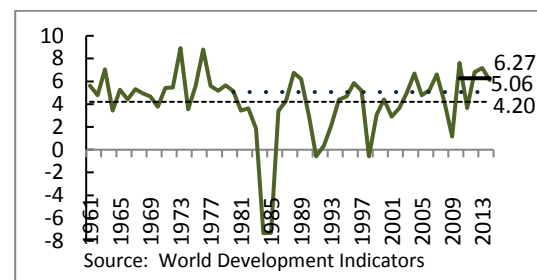
3. SCENARIOS FOR THE PHILIPPINE ECONOMY

The Philippine economy has grown at least 6% since 2010, a significant jump from the 4% average annual growth rate since the 1960s (Figure 4). If in the next 25 years, the country would be growing at least 7% each year, the performance would more than meet the poor's aspirations. With that accomplishment, the country may even qualify to become a high-income country in the world by today's standards.

However, this depends upon how good the country is able to translate income growth into poverty alleviation. In the last ten years, the transformation of the country's income growth into poverty alleviation was slow. About a quarter of Philippine

families are presently poor, and the index has stayed just about at this level since 2003, despite the relatively high growth of the country since then sans the global economic crisis years, 2008 and 2009. Self-rated poverty dropped from 56% in the first decade of 2000s to 50% in the first half of the 2010s. However, the index is large, i.e. about half of the population still rated themselves poor.

Figure 4. GDP Growth Rates of the Philippines, 1961 to 2014 (%)



Data on growth episodes experienced by 80 developing countries since the middle of the 1990s to 2005 suggest that Income growth is the key to poverty alleviation. There are cases, however, where growth was high, but poverty alleviation remained sluggish, which raises the concern that growth alone may be inadequate to cut more deeply poverty.

The Philippines in the same period shed off poverty by only 1.811%, significantly below the average of 7.5% or the median of 3.1%. The income growth of the country was 1.4%. Among the 6 countries, which experienced similar per capita income growth between 1.3% and 1.5%, and those included India and Thailand, the country had the lowest transformation of growth to poverty alleviation, significantly below the group average of 8%. Among the East Asian developing countries in the sample,

the Philippines was lowest in getting growth to reduce its poverty problem.¹²

Income distribution apparently plays an important role in accelerating or slowing down the transformation of growth into poverty alleviation. If growth worsens income inequality in a country or if income inequality is already high at the start of a growth episode, which likely raises inequality, the dividend for poverty reduction of growth can be small.

Inequality influences the pace of poverty reduction. By delivering proportionately more the gains from growth to higher income classes in society, inequality slows down income growth for the lower income classes, and thus the pace of poverty alleviation. It lowers the responsiveness to growth of poverty alleviation.

The Philippines has relatively one of the most unequal distribution of income in East Asia. Its Gini coefficient in 2012 was 47%, slightly down from 49% in 2003. In the 1990s, the average coefficient was 43.8%, second to Malaysia. It slightly went down in 2000s to 43%. The ratio of per capita expenditure of the top quintile in the 1990s was 8.6 of that of the lowest quintile. The ratio slightly went down to 8.3% in 2000s, which is higher compared to the average quintile ratio in the same period for Asia and Pacific developing economies.¹³

¹² Fosu, A.K. (2011), "Growth, Inequality and Poverty Reduction in Developing Countries: Recent Global Evidence," Working Paper Series UNU-WIDER Working Paper W, World Institute for Development Economic Research (UNU-WIDER).

¹³ See ADB (2014). Asian Development Bank (ADB) 2014, "Key Indicators for Asia and the Pacific 2014". Mandaluyong City, Philippines: Asian

The recent record on income inequality raises the concern that the high growth required to attain the economic vision in the next 25 years may not be sustainable. Inequality may dampen growth prospects or shorten growth spells, slowing down poverty reduction. Several channels show how this may transpire.

First, it weakens the foundations of growth by depriving the poor access to education, training, health care, and related spending aimed at improving the quality of their human capital. It reduces the middle class in society, adversely affects social cohesion, as well as the quality of governance, which are regarded along with human capital to be the foundations of growth.¹⁴

Second, the bulk of consumption in countries with a high level of income inequality tends to be on sophisticated products, which are intensive in skills and capital. The technology to produce them does not help in generating the jobs for the poor to escape poverty. Without strong income growth among the majority of the population, demand for products weakens and growth fails to be sustained.

Third, if the income of the median voter is far below average, governments face tremendous pressures to provide social protection.¹⁵ Without adequate fiscal

Development Bank. Available at <http://www.adb.org/publications/key-indicators-asia-and-pacific-2014>.

¹⁴ ADB (2014) op. cit. Fosu (2011) op. cit.

¹⁵ See Alesina, A. and Rodrik, D. (1994). "Distributive politics and economic growth". The Quarterly Journal of Economics, Vol. 109, No. 2, pp. 465-90. MIT Press.

resources to spend for these programs, they tend to introduce distortionary taxation, causing economic inefficiency. Worse, these countries may finance fiscal deficits by creating money and fueling inflation. Furthermore, poorly designed social protection programs will themselves tend to aggravate inequality as the rich and politically powerful in society may benefit from significant leakages from such programs.

In the past, the country had the boom and bust pattern of economic growth, with the low average annualized growth of about 4 % since the 1960s. As early as in the mid-1990s, Fabella¹⁶ had raised the issue about the sustainability of growth if it is volatile. De Dios¹⁷ pointed out that the structural problems such as the low domestic savings rate and weak tax collection may be among the factors that explain why these cycles persist.

Bautista (2002) analyzed the data on Philippine growth from 1950 to 1999. The author described a pattern comprising three states of growth: low growth, moderate growth and negative growth. The average GDP expansion during low growth episodes is 2.12% per year, and these episodes lasted on average for 1.5 years. The moderate growth years saw the economy expanding at the rate of 5.16% per year, and lasted for about 5.7 years. The crisis years had the duration of 2 years and a mean growth rate of -7.76%.

¹⁶ Fabella, R. (1995) "Sustainability of the 1994 economic recover: portents from the past". il R. Fabella and H. Sakai, eds. Towards sustained growth. Tokyo: Institute of Developing Economies.
¹⁷ de Dios, E. (1998). "Philippine economic growth: can it last?" in D. Timberman, ed., The Philippines,

The boom and bust pattern of growth will not help realize the country's aspirations of eliminating poverty and raising overall income per capita in the next 25 years. Filipino 2040 requires sustained high growth. It is important that as it focuses on enabling and sustaining the present high growth of the economy, the strategies to be pursued would have features that mitigate the adverse effect of the initial condition of high inequality. More importantly, that such high growth would not come at the expense of more inequality. Growth had been accompanied with rising inequality in 12 Asian countries, including China, India and Indonesia, a result that needs to be avoided or mitigated.¹⁸

World and Regional Economy

The growth of the world and regional economies in Asia-Pacific is slowing down, posing a challenge for the Philippine economy to sustain high growth. According to Hill (2015) ¹⁹, East Asia, where the Philippines is a part of, will continue to be the driver of world economic growth. But the slowing down of the growth of China drags overall growth of the region. The Philippines trades with three of the 5 largest by 2050, by 2050: China, India, and United States. (the big 3), plus Indonesia and Brazil. This may mean the country relying more on unilateral reform such as promoting the

new directions in domestic policy and foreign relations'. USA: Asia Society.

¹⁸ See ADB (2014) op. cit.

¹⁹ The write up in this sub-section is a summary of Hill (2015) paper on the International and Regional Context of long term growth of the Philippines.

business environment to increase investments and generate jobs.

The extremely accommodative monetary policy and vulnerability to global or regional economic crises are likely to persist for several years, putting a drag on the high growth ambition of the country.

Trade and cross border investments flows will continue to drive the regional and global economy. The rising trend of intra-industry trade in support of global production networks presents an opportunity to the country, which is at present a minor participant. As barriers to cross-border commerce decline, and technological change lowers the costs of both the physical movements of people and goods, and of internet-based services, global competitive pressures are likely to intensify.

Global business service transactions are also rising quickly. Attuning the domestic business sector to the needs and opportunities of these networks will need to be a high priority. Alongside these global networks, nimble local enterprises can flourish, principally in non-tradable sectors, and if the local business environment is improved.

The share of services in the global economy will continue to rise. This trend will place a premium on a well-rounded creative education, flexible skills and training in the workforce, and a world-class IT network. The service sector is potentially an area of strength for the Philippines, as it will continue to be a net importer of both agricultural products and manufactures.

ASEAN will likely to continue to be a region of moderate growth. ASEAN is likely to strengthen its sense of identity, and deepen its economic cooperation and development. But it will never be a 'EU', and nor should it aspire to be.

4. RECOMMENDATIONS

The emerging themes from the Team's interviews are:

- Helping build resilient systems
- Making PIDS research become even more effective in influencing policies

Helping Build Resilient Systems in Society

In the literature (and the Team notes that there is much more written about the subject than what it can realistically take up), resilience is about the capacity of a community or nation that enables them to rise above adversity. In the meetings of the Team, the members extended this concept to include the capability of exploiting opportunities for the wellbeing of society.

Several features underpin the concept of a resilient community or society. The Team distinguishes the attribute from the underlying capability, which makes the entity so: effective, well-functioning, multi-faceted system in society or a community. The following underpins a resilient community or society:

- Capacity to reduce the vulnerability of society or communities to expected adverse shocks, and mitigate the

adverse effects of it if and when these adversities descend on them. This requires for Philippine society and policy makers to be pro-active, anticipating the adverse shocks that may influence the country.

- Capacity to quickly re-build after shocks and build back better.
- Capacity to take advantage of expected positive shocks such as trade agreements.

The Team's views on resilient systems may be hair-splitting. It recognizes that a resilient community is one capable of looking at potential adverse situations from a holistic or system perspective. Llanto (2016) ²⁰ in going over the resilience literature no longer sees as necessary to distinguish between the resilient entity and its underlying capability. The paper points out that "... 'Systems' ... could be individuals, households, communities, local governments (cities, municipalities, or provinces), regions, or the nation-state".

Sharing the same view, the Team however, at the risk of belaboring the idea, distinguishes the capability if only to stress the importance of taking a system-perspective in studying adverse situations or a betterment opportunity. This perspective has been rather weak among the various echelons of government, making society lose more in adversity or miss out in a once-in-lifetime opportunity. It comprises being aware of the relevant components of the system and how each of its various parts works together with the rest to make the community capable of

going through an adverse situation, and recover quickly from it and be more prepared to cope with it in the future.

Two points proceed from this. One is that a system is what economists refer to as a Leontief type production activity, whose output performance is constrained by its most scarce input. The lack of substitutability among the various inputs of the production process keeps its output low. In the case of a system, if other components can't make up for the weakness of its most constraining part, then the system may be only partly effective (or not at all) in dealing with adversity, or in taking advantage of an opportunity.

²⁰ Llanto, G. (2016). " Risks, Shocks, Building Resilience: Philippines". Chapter 3.

This leads the Team to its second point of identifying the weakest point, and the series of parts of the system, which if the most obvious constraint is addressed become the next in a line of tasks that must be fulfilled to make the system effective. This is where studies with this systems perspective is called for. The studies that may be required to helping build resilient systems are multi-dimensional.

Above (page 7), the Team cites the need in doing multi-disciplinary research, and this is largely in support of its recommendation for helping build resilient systems. A good number of professions, social workers, psychologists, sociologists, educators, economists and many others have taken up various lenses into understanding how resilient communities and their systems come about.

Increasingly, it is understood that additional gains in resilience may be obtained if professionals representing various related disciplines work together in helping understand better what makes up resilient systems and the interaction of its various components and come up with more effective, precise policy recommendations.

The Team stresses the importance in having a systems perspective in coping with adversity or in taking advantage of growth opportunities for the country. Understanding one side of the system is useful, but it is more useful if such knowledge is combined with others looking at the other components of the system. The systems perspective makes

research become more immediately useful to policy makers.

Box 3. Multi-disciplinary Research in Solving Key Development Challenges

Solving the traffic congestion problem in the NCR illustrates the need to have a multi-disciplinary research team. If economists take up this problem, the research may likely veer towards estimating the economic cost of the congestion. The research produces an estimate of how much GDP may go down because of it. This is already important by itself to policy makers. But it is likely to end with an appeal to get it solved. But this is precisely the next question policy makers have in mind: how does the study propose to solve it. And this is where the research needs other expertise to look at various technical options in solving the problem. In short, if studies on very important development problems have this holistic approach, the value added of development research of the Institute is substantially increased.

PIDS research is able to help build resilient systems if it recognizes even more the multi-dimensionality of the challenges or opportunities for growth and poverty eradication. When research entails looking at the adequacy of infrastructure for natural disasters for example, the lack of permanent evacuation centers particularly in areas more frequently visited by strong typhoons becomes prominent. Why should society allow the disruption of schooling just to let evacuees take temporary shelter at school buildings?

But should PIDS consider this to be its role, considering it is primarily an economic development research institute? The Team thinks it should since economic development is multi-dimensional. Economic constraints may expectedly be limiting to development from the perspective of the economics profession. But recognizing the interdependencies of other aspects of the socio-economic system requires looking at the development challenge (or opportunity) from other lenses. This way, the approach to solving challenges or taking advantage of opportunities becomes more holistic and hopefully gives the solution a better chance of working in a more lasting manner.

The Team recommends that PIDS may outsource tasks requiring the services of non-economists, needed to enlighten the research on other but important aspects of the problem. It does not need to recruit engineers or scientists into its roster of fellows. The Institute can keep its primarily economic development orientation, and be staffed with economists. However, it should engage the services of other experts if needed by a given research. The PIDS research fellows take the lead in such multi-disciplinary research, managing as well the research of consultants, and embed their outputs into the main report of the Institute.

The application of a holistic and multi-faceted research may be very useful in analyzing regulatory systems. It has the potential of enlightening policy makers better and make the recommendation

more compelling with a multi-disciplinary, holistic approach (Box 3).

Another area is solving the uneven access to good quality education in the country. It is easy to see how spreading limited resources in building state universities and colleges all over the country thinly, resulting in a lower average support per institution from the State. The recommendation may come in the form of concentrating these resources in a few key regional cities, and support the travel and accommodation costs of deserving students. **But what are the unintended consequences of such a solution?** A good understanding of the system, its components, and how it works is essential in discovering the true tradeoffs that policy makers need to consider in deciding on the recommendation of the study.

Looking for unintended consequences of policies and regulations has been proposed to the Institute.²¹ This was proposed in order to review the policies that had already been in place for a long period of time with the understanding that they are good policies for economic development and poverty eradication. Having minimum wages for example is good to those who receive them, but it is not to those who do not have work. Another is protecting rice farmers by restricting rice importation. But this may penalize the poorest of the poor rice farmers who are mostly rice consumers themselves.

In the context of analyzing policies and formulating policies, looking for

²¹ Dr. Vic Paqueo of PIDS had proposed such a study.

unintended consequence of proposed policies and regulations is helpful in strengthening the recommendation and ensuring that it is consistent with the development objective they are supposed to attain.

This has always been repeated time and again in Philippine development experience. Good development programs become distorted through time, and after decades become a fiscal burden with very little contribution to economic development.

The National Food Authority illustrates this example. When it was launched in the 1972, it was an innovation: a regulator and at the same time commercial operator rolled into one single entity. It was a fusion of the old Rice and Corn Administration (the regulator) and the National Rice and Corn Corporation (the commercial entity). The unintended consequence of it was the enabling of a conflict of interest, and through time got exploited by government officials with very low levels of integrity in the public service. The NFA is now the source of at least a PhP 170 billion debt. It is difficult to dismantle it because the development objective of it is just compelling. The point is that the analysis of unintended consequences of the fusion should have prevented policy makers from combining the two. Another point is to have a dynamic lens over the features of a policy recommendation.

Current development problems may profit from looking at these issues more holistically:

- *Procurement law.* How much cost is implied in following the process that lacks a good analysis of “what if” scenarios? How can you adjust it so that you still have the integrity of the system yet more responsive to procurement needs? The CPBRD and the SEPO emphasized the importance of looking at the operationalization of proposed laws. They see the need to anticipate the effects of how the law is worded. It may create new problems in implementing them, as in differences in legal interpretation, or delays in procurement in the case of government procurement law.
- 2014 Manila city government daylight truck bank. It was meant to solve the traffic congestion problem in the city of Manila, only to find out it transported it to other places, and cost more than the time cost of congestion in the nation’s capital.
- How good are government agencies in implementing the budget? Agencies may not be spending the budget or recruiting personnel at the rate they should to generate savings ostensibly to pay for some allowable expenses. When the DBM saw this, it launched the disbursement acceleration program (DAP) until the Supreme Court said the program was illegal. It is noted that 70% of DAP came from funded vacant plantilla positions. What’s the cost to the economy of a less than fully implemented budget? In 2014, the economy slowed down after the Supreme Court removed the DAP.

- What are the unintended consequences of the proposed Bangsamoro Basic Law?

Making PIDS Products More Effective

1. PIDS considers taking the task *moto proprio* to analyze key proposed legislations, particularly in operationalizing such measures. The analysis involves the Institute, and not just the Research Fellow doing the study. It is an Institute collective product. It is also integrative, and multi-disciplinary in nature. An example of a key proposed legislation can be the proposed Bangsamoro Basic Law.
2. The Institute considers taking up the suggestion of the NCC Chairman to undertake a rolling 30 year long term vision of the Philippine economy, adjusted regularly for the key changes in the environment.
3. The PIDS considers taking up the suggestion of the DBM and the DSWD to do a third party impact assessment of the government's banner public spending programs.
4. The Institute starts a series on unimplemented good economic development policies.
5. PIDS organizes itself around key thematic areas.