

# DEVELOPMENT RESEARCH NEWS

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## In this issue

## Expert flags fiscal risk in SC ruling on LGU revenue share

THE RECENT SUPREME Court (SC) decision on the local government units' (LGUs) share in national taxes poses a threat on the country's fiscal sustainability.

In April 2019, the SC ruled with finality that the internal revenue allotment (IRA) share of all LGUs must be computed and sourced from all national taxes, not just from the national internal revenue taxes.

According to the High Court, the application of this ruling is prospective, with the increase in IRA of LGUs to start in 2022.

The Development Budget Coordination Committee estimated in December 2019 that the IRA of LGUs would reach PHP 1.1027 trillion in 2022, an increase of PHP 225.3 billion from what could have been their IRA share in the absence of the SC ruling.

In a study by state think tank Philippine Institute for Development Studies (PIDS) titled *"Fiscal sustainability, equity, and allocative efficiency in the light of the 2019 Supreme Court*

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## Editor's Notes

Since the administration declared a state of public health emergency in March 2020, local government units (LGUs) have been at the forefront of responding to the crisis. Several LGUs have stood out with their innovative practices. Yet, many of them were found to be deficient in exhibiting the proper response due to a lack of administrative and technical capacity and insufficient resources. The Supreme Court ruling on the new computation of the internal revenue allotment (IRA) of LGUs is a welcome development to address their resource constraints, especially with more pressing demands under a new normal scenario.

However, as revealed by the PIDS studies discussed in this issue, providing additional resources can exacerbate existing fiscal disparity among LGUs. This situation should be a cause for concern for the national government in the implementation of the Supreme Court Ruling because it will affect how LGUs will deliver the programs, activities, and projects (PAPs) that will be devolved to them. These PAPs refer to items in the budgets of national government agencies that, per the Local Government Code of 1991, should be performed by the LGUs. Shifting these PAPs to LGUs, which, in effect, transfers the budget for said PAPs, is the most prudent option, according to fiscal policy expert Dr. Rosario Manasan to enable the government to afford the additional resources that LGUs should receive in 2022 when the ruling takes effect. A way to address the fiscal disparities among LGUs, says Manasan, is for the national government to provide equalization transfers. (Page 20)

*ruling on the LGUs' share in national taxes",* former PIDS Senior Research Fellow Rosario Manasan outlined some options for government in funding the increase in LGUs' share of tax collection while ensuring fiscal sustainability.

### Options for fiscal sustainability

Manasan pointed out that "in principle, three options are available to the national government to cope with the increase in the LGUs' share in all national taxes while being mindful of fiscal sustainability concerns."

First, it may look for new revenue measures to cover the increase in LGUs' IRA share. This will be on top of the existing revenue measures that have been legislated. However, the author cautioned that this may be difficult to realize in the context of the suite of pending tax reform initiatives in Congress.

Second, the national government may increase its fiscal deficit target yearly by an amount equivalent to the increase in the IRA. While this is "fiscally sustainable in the short-term given the government's low debt-to-gross domestic product (GDP) ratio, implementing a long-term expansionary fiscal stance will be risky from a fiscal perspective," Manasan warned.

The third and most prudent option, according to Manasan, is to unfund some of the programs, activities, and projects (PAPs) that are currently being funded under the budgets of some national government agencies (NGAs) but which

represent functions that have been devolved to LGUs under the 1991 Local Government Code (LGC).

Examples of these projects include the rehabilitation and construction of various local infrastructure projects, such as provincial/municipal/city roads and bridges under the Department of Public Works and Highways, upgrading of local health facilities and deployment of health personnel to local health facilities under the Department of Health, provision of farm-to-market roads under the Department of Agriculture, and provision of services for residential and center-based clients and supplementary feeding program under the Department of Social Welfare and Development.

Since the functions devolved to LGUs are broadly stated under the LGC, some of these functions may not appropriately be assigned exclusively to LGUs when considered in their entirety. Thus, the author urged the government to unbundle such wide-ranging and expansive statements of governmental functions to identify the components of these functions that are best assigned exclusively to LGUs.

If pursued, the author suggested the government must ensure that there will be no corresponding diminution in the overall delivery of public services despite the reduction in the national government's spending for these services.

Manasan cited three conditions to make this happen.



First, the increase in LGUs' IRA, at least in the aggregate, should be enough for them to deliver the same level of services provided to their constituents by the national government prior to the effectivity of the SC ruling.

Second, LGUs should prioritize the services associated with the defunded PAPs when they allocate their budget. She noted, however, given that IRA is a block grant, LGUs have full discretion over its utilization.

Lastly, local constituents should be informed of the functional responsibilities of their respective local governments. This way, "effective demand for devolved services is created and local accountability is strengthened," the author explained.

### Fiscal imbalance among LGUs

The study cautioned that "financing the increase in the IRA share of LGUs by withdrawing the funding for devolved services currently included in the budgets of NGAs and redevolving them to LGUs will perpetuate, if not exacerbate, the existing vertical fiscal imbalance across different levels of local government in the aggregate and horizontal fiscal imbalance across individual LGUs within each level of local government."

Using the 2020 national budget data, it was found out that a vertical fiscal imbalance across different levels of LGUs is evident if the appropriations for the PAPs that are proposed to be redevolved to LGUs in 2022 are assigned notionally to provinces, cities,

municipalities, and barangays in a manner that reflects their expenditure need for the redevolved programs and activities (i.e., how much it would cost each one of them to deliver comparable level of the redevolved programs and activities).

For instance, the aggregate amount that provinces would need to be able to provide the redevolved services that national government agencies are currently funding under the 2020 GAA is estimated to be equal to 37.9 percent of the incremental IRA due to the SC ruling, almost 14.9-percentage points higher than the 23-percent share of all provinces in the IRA as mandated under Section 285 of the 1991 LGC, the author cited. On the other hand, the combined amount of the

appropriations for the redevolved PAPs assigned to municipalities is significantly lower than their mandated share in the IRA. The same holds for all cities combined and all barangays as a group.

Therefore, the increase in the IRA of all provinces will not be enough to provide the services formerly delivered by the national government prior to their redevolution.

The opposite is true in the case of municipalities, cities, and barangays when each of these levels of local government is taken as a group.

Manasan attributed these results to the inconsistency between how the IRA is allocated to each level of local government



*To ensure fiscal sustainability in view of the Supreme Court decision to increase local government units' share of tax collection, the national government may discontinue funding of local infrastructure projects, such as construction of provincial/ municipal/city roads, in the Department of Public Works and Highways' budget under the General Appropriation Act, the study suggested. (Photo by JPacres/Flickr)*

under Section 285 of the LGC and the nature of the redevolved services.

The study also found evidence of fiscal imbalance, with individual LGUs not having the fiscal capacity (as measured by the incremental IRA they will receive as a result of the SC ruling) to provide the level of redevolved services that are relatively equivalent in quantity and quality as other LGUs. In particular, the projected increase in the IRA in 2022 in 66 out of 81 provinces, 43 out of 145 cities, and 161 out of 1,489 municipalities is found to be lower than what would be required if they were to deliver a certain level of redevolved services comparable with other LGUs.

Among the provinces, Batanes and Dinagat Islands will receive the highest per capita net transfers, at PHP 4,577 and PHP 1,135, respectively.

Meanwhile, Mountain Province and Abra will receive the lowest per capita net transfer at negative PHP 3,229 and negative PHP 2,752, respectively.

Across cities, Santiago and Iligan will have the highest per capita net resource transfer at PHP 3,274 and PHP 3,129, respectively, while those with the lowest per capita net resource transfer are Kabangkalan and Sipalay at negative PHP 2,523 and PHP 2,488, respectively.

To compensate for the horizontal disparities in LGUs' fiscal capacity relative to their needs, equalization transfers from the national government are needed, the author

suggested. However, she emphasized that "a more comprehensive assessment of both the vertical and horizontal fiscal imbalance should be undertaken by taking into account all devolved services, not just the redevolved services that are considered in the present study".

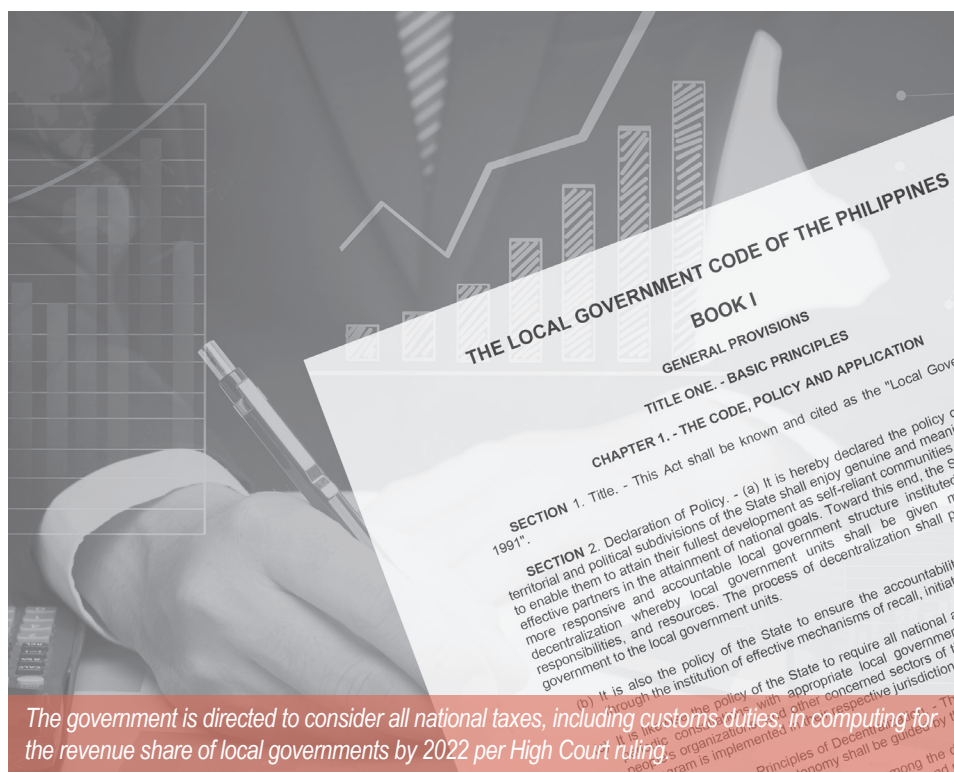
While this is "fiscally sustainable to increase the deficit target in the short-term given the government's low debt-to-GDP ratio, implementing a long-term expansionary fiscal stance will be risky from a fiscal perspective," Manasan warned.

The SC ruling was in response to the petition filed by Batangas Governor Hermilando Mandanas in 2012, asking the SC to compel the national government to include the internal revenue taxes

collected by the Bureau of Customs in computing the aggregate share of LGUs in national internal revenue taxes as provided under the LGC.

Mandanas also questioned the deduction of tax revenues earmarked for LGUs from the base for computing the IRA, such as the share of tobacco-producing LGUs in excise tax on cigarettes, and other deductions, such as one-half of 1 percent of national taxes as auditing fee of the Commission on Audit.

The High Court, as stated earlier, ruled in his favor and invalidated for being contrary to the Constitution the exclusion of other national taxes, such as like customs duties, from the base for determining the just share of LGUs. **GGM**



*The government is directed to consider all national taxes, including customs duties, in computing for the revenue share of local governments by 2022 per High Court ruling.*

# Poor PH towns struggle bagging governance seal



Majority (64%) of municipalities in the Eastern Visayas region failed to reach good local governance bar. (Photo by Nairb.Idi9/WikimediaCommons)

Poor municipalities are struggling to make the cut for the Seal of Good Local Governance (SGLG).

This appears to be the case as more financially able municipalities qualified for SGLG as compared to poor municipalities, according to the study, *“Assessment of the Performance Challenge Fund and the Seal of Good Local Governance: Perceptions from municipalities”*, released by the Philippine Institute for Development Studies (PIDS) recently.

SGLG stands as the highest recognition granted by the Department of the Interior and Local Government (DILG)

to local government units (LGUs). It recognizes those that have exhibited outstanding performance in various areas of governance, including financial transparency and business friendliness and competitiveness, among others.

The Seal also serves as the performance assessment tool used by the DILG to establish the eligibility of LGUs for the performance challenge fund (PCF), a performance-based incentive program that gives financial subsidies to LGUs.

Both SGLG and PCF were institutionalized with the passage of the SGLG Act in 2019. The former used to be the Seal of

Good Housekeeping (SGH), until DILG restructured it to SGLG in 2014.

Unfortunately, municipalities in the lower economic rungs face a rough road toward hurdling the SGLG bar.

The Department of Finance has classified the municipalities in the Philippines according to their average annual income level. Their classes range from first-income to sixth-income classes, with the latter classification earning the least.

Among the first-income municipalities, barely 14 percent failed to hurdle either SGH or SGLG assessment from 2010 to 2018.

Most of the repeat SGLG recipients, known as the Hall of Famers, also came from the first- to fourth-income classes.

This was in stark contrast to the situation of sixth-class municipalities, wherein more than half failed to make it to the SGH or SGLG passers' lists during the same period.

In terms of region, Eastern Visayas houses the greatest number of nonpassers, as 64 percent of municipalities in the region have not received the seal.

It is followed by Bicol and Central Visayas regions, respectively.

This failure to qualify to SGLG also made these municipalities ineligible for PCF.

“It is more likely that a rich municipality will be a PCF-grant recipient than a municipality that is poor,” the authors led



by PIDS Research Fellow Justine Diokno-Sicat explained.

According to them, PCF could have fueled the LGUs' local development projects supportive of the sustainable development goals, environmental protection, and the advancement of transparency and accountability.

PCF can also be used in stimulating local economic development and preparing for disasters and adapting to climate change.

Municipalities blamed the stringent criteria of SGLG, which they claimed as "too difficult" to meet, for their failure in qualifying the SGLG criteria.

Further, they pointed out their lack of plans, such as the land use plan and disaster preparedness, inability to fill mandatory positions, and lack of human resource as main reasons why they were left behind in the SGLG assessment.

### **Consider human factor, too**

Despite the challenges faced by poor LGUs in meeting the SGLG criteria, a select few among their ranks still managed to catch up.

For instance, "100 percent of the fourth-income class municipalities have received the Seal at least twice," Diokno-Sicat revealed during a webinar where she presented the study findings late July.

Aside from those in the fourth-class municipalities, this feat was observed only among the first-class municipalities, per study figures.

"While being rewarded with the Seal may depend on income, there is also the human factor of governance because even poorer municipalities have received the Seal more than once," the PIDS researcher explained.

One specific story is that of the Quirino Province, a third-class province in the Cagayan Valley region.

According to income classification, Quirino trails behind the provinces of Cagayan, Isabela, and Nueva Vizcaya, considered to be more financially able provinces in the region.

During the webinar, Quirino Governor Dakila Carlo Cua bared that his province still faces limited livelihood and high poverty incidence.

Despite this, "the Quirino Province consistently passed the SGH from 2010 to 2013 and the SGLG from 2014 to 2018," the local official highlighted.

Cua attributed this success to good planning, conduct of preassessment activities, and the province's efforts to build conservation partnerships with relevant stakeholders, among others.

### **Still, not a common experience**

Sharing his insights on the study, Dr. Lewis Hawke, lead governance specialist at World Bank, explained that the success of the higher income regions and the consistent failure of some regions to qualify is "a concern".

"It is impressive to know that some provinces are able to qualify for the scheme, but I do not think that it is the common experience," he said.

For this, Hawke urged the government to revisit the design and objectives of SGLG and PCF.

In terms of design, he zeroed in on the current fixed budget allotted to the program.

"The cap on the program is interesting when you hear some of the responses that the amount of money is not worthwhile given the effort they have to put in or the difficulty in applying for the fund," he explained.

"For a demand-driven program, what you really want is for people to maintain motivation and incentive to continue to use the program. But if more people qualify, then people get less," he added.

Diokno-Sicat shared the same sentiment, as "the current design translates into a smaller grant amount per recipient with an increase in the number of passers because of a fixed budget."

Hawke also prodded DILG to assess whether it would be better to have just one program, instead of having separate SGLG and PCF.

According to Hawke, this can reduce the administration cost and leave more money that can be used by the municipalities.

In terms of objectives, the World Bank expert urged the government to clarify whether the

objective of the program is to recognize the best or assist the laggard ones.

“While it is an important thing to motivate and reward, if you are looking at more balanced development across the country, then you want to see the potential returns on investment,” he explained.

Similarly, Diokno-Sicat said that though the overall objective of the program is to recognize good LGU performance, it is unclear whether it is to reward the best or ensure that no LGU is left behind.

“If it is to reward the best, then progressively adding criteria or increasing benchmarks would satisfy this. If it is to ensure that no LGU is left behind, then there should be focus on LGUs that have never received the SGLG,” she explained during the webinar.

The PIDS researcher also urged the government to implement Section 13 of the SGLG Act, which states that “concerned national government agencies should provide technical assistance for capacity building for

identified gaps of LGUs that have not qualified for the SGLG award”.

“These capacity building programs should not just create awareness and concrete steps to addressing the identified gaps but also highlight the importance of the objective of continuously improving governance and its link to the development of LGUs over and above the perceived difficulty in receiving the Seal,” she explained. **RGV**

## Municipalities are not spending enough

Municipalities are not spending enough, resulting in delayed development.

In 2016, they only utilized 73 percent of their Local Development Fund (LDF), according to researchers from state think tank Philippine Institute for Development Studies in the study, “*Baseline study on policy and governance gaps for the Local Government Support Fund Assistance to municipalities (LGSF-AM) Program*”.

The authors led by Research Fellow Justine Diokno-Sicat explained this is problematic because the LDF is intended to fuel development projects of local government units (LGUs) for devolved public services, such as infrastructure and other capital outlays. Underspending would cause unnecessary delays in local economic growth and development.

Aside from the underutilization of funds, they also noted low revenue efforts across municipalities.





Looking at the current fiscal performance of municipalities, they found that only a small portion of municipalities' total income came from their local tax collection.

In 2016, the local revenue effort, or the proportion of local revenues collected by LGUs to their total income, was only 17 percent.

In a webinar, Diokno-Sicat cited a Commission on Audit report in 2017, which attributed the poor spending to the municipalities' poor planning and monitoring, as well as nonprioritization of development projects.

This lack of prioritization of investment programs, according to the PIDS researcher, could result in less impactful development projects and inefficient use of resources.

In terms of poor planning, the study revealed that only half of the municipalities prepared project briefs for their proposed programs, projects, and activities (PPAs) for their Local Development Investment Program (LDIP). The authors noted that failing to ensure the feasibility and quality of their proposed investment programs compromises their potential development.

Apart from ensuring the feasibility of proposed PPAs, these briefs are crucial in ensuring alignment with local multisectoral development plans, such as the

comprehensive land use plan (CLUP) and comprehensive development plan (CDP).

The drafting of CDP ideally results in the local development investment program (LDIP) that identifies infrastructure investments aimed to bridge the gap between the vision of local governments and their current realities.

Moreover, while all municipalities had plans, these plans were mostly not updated.

Specifically, only 1 in every 20 municipalities had a valid CLUP with the correct range of nine-year coverage.

Meanwhile, only 40 percent and 30 percent of them, respectively, had a valid CDP within the mandated coverage of six years and a valid LDIP with the correct coverage of three years.

They reminded the LGUs that the mere presence of plans is not enough. Instead, these plans should also be useful in ensuring the implementation of prioritized projects impactful on local development.

To address the issue of outdated plans, the authors urged the municipalities to strictly comply with the Local Government Code, which requires them to draft and regularly update their multisectoral plans and land use plans.

This may need capacity-building interventions in the preparations of project

briefs to ensure feasibility and improve the quality of investments.

For instance, the National Economic and Development Authority and the Department of the Interior and Local Government are implementing a program on "Localization of the Philippine Development Plan" that offers capacity building in these areas.

"There is also a need to improve public resource management with clearly defines programs and estimate results to ensure proper utilization of funds and monitoring and evaluation of the program", Diokno-Sicat highlighted in the webinar.

The government should also strengthen the capacity development programs of municipalities, particularly in the monitoring and evaluation of projects.

On their end, the municipalities need to realize the importance of following the two-round shortlisting and using the DILG-prescribed criteria in investment program prioritization.

In 2017, the Commission on Audit recommended improving the planning, prioritization of development projects, and securing the support of the local *Sanggunian* in the annual investment program. **JJOA**



# Provinces outperform municipalities in DRRM efficiency



Insufficient funds and unclear budget spending guidelines affect the disaster risk reduction and management rating on efficiency of some Philippine municipalities, study says.

PROVINCIAL DECISIONMAKING UNITS (DMUs) have scored higher on efficiency in disaster risk reduction and management (DRRM) than their municipal counterparts.

In a study titled *“Looking at local government resilience through network data envelopment analysis”*, Sonny Domingo and Arvie Joy Manejar from state think tank Philippine Institute for Development Studies (PIDS) assessed 79 out of the 81 provinces in the country and rated the efficiency of their DMUs from 0 to 1.0 using the Data Envelopment Analysis model, 1.0 being the highest score.

DMUs refer to provincial governments responsible for converting DRRM-related plans into desirable outcomes or level of efficiency.

Of the 79 DMUs assessed, 12 DMUs scored a maximum of 1.0 for provincial efficiency while only four managed to get 1.0 for municipal efficiency.

Among DMUs with the highest provincial efficiency ratings were Aklan, Basilan, Bataan, Batanes, Benguet, Guimaras, Ifugao, Nueva Vizcaya, Quirino, Rizal, Sulu, and Tawi-tawi.

Meanwhile, provinces with the highest municipal efficiency were Basilan, Batanes, Benguet, and Guimaras.

Domingo and Manejar noted that some of these provinces managed to score high despite not being in the best geographic locations.

For instance, Batanes is frequently hit by typhoons, Benguet experiences constant rainfall, and Guimaras is an island economy. Basilan, on the other hand, is known for armed conflicts and violence.

According to the authors, the “learnings from numerous experiences may have enabled a good working, collaborative environment for DRRM efforts to flourish and be successful” in these provinces.

The results also showed that the majority of DMUs were able to fulfill the documentary requirements for local planning, such as local DRRM plans, local climate change action plans, and contingency plans.

This means that “the programmed infrastructure and equipment reflected

in these plans are present, such as early warning structures, evacuation centers, search-and-rescue operations, and standard of operations”.

Still, the PIDS authors noted disparities in terms of financial resources, with some DMUs having limited DRRM funds.

They also identified other challenges across DMUs, such as the failure of local government units (LGUs) to comply with the guidelines of the Department of the Interior and Local Government (DILG) on mainstreaming climate change adaptation and DRRM in their respective plans.

Some LGUs have also yet to craft their own comprehensive land use plans (CLUPs).

Such delay in the formulation of CLUPs can be attributed “to the lack of coordination among the offices of the LGU, nonfunctional

technical working groups, and low absorptive capacity of the institutions”.

The study also cited the lack of alignment and harmonization of plans between and among local government levels.

Another issue mentioned by the study was the delay in budget programming.

Despite the availability of funds, Domingo and Manejar revealed that local DRRM budgets were unused due to varying interpretations of and advices from the Commission on Audit on how to use these funds.

The fast turnover of technical staff and limited fiscal resources in LGUs have also hampered data collection, capacity-building activities, and the procurement of DRRM-related equipment.

To address these issues, the study recommended the strengthening of the link between municipal and provincial sub-DMUs and the harmonization of DRRM plans and efforts in all levels of the local government.

The study also called for the consolidation of subregional and subprovincial data to make assessment platforms more valid and applicable not only to disaster planning, response, and resiliency but also to bigger development landscape and nation-building initiatives.

It also urged DILG to make available its annual assessment of disaster preparedness compliance and the Philippine Statistics Authority to have a community-level database similar to what is being espoused by the community-based monitoring system. **RTT**

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## Poor access to local weather info hurts Benguet farmers' productivity



*Better access to weather and climate information is beneficial in improving farm productivity of Benguet farmers, study revealed.*

LIMITED ACCESS TO weather and climate information may hurt Benguet farmers' productivity.

A study titled “*Barriers to application of weather and climate information in cut flower production in Benguet*” led by Sonny Domingo, senior fellow at the Philippine Institute for Development Studies (PIDS) revealed that the overall production of cut flowers in Benguet has



been decreasing by 10 percent yearly since 2014 due to farmers' limited access to weather information.

Benguet is one of the country's top producers of cut flowers.

The province's high topography and temperate weather condition make it ideal for growing cut flowers. These fresh flowers, or cut flowers, are popular for use in various occasions as bouquet, wreath, and other flower arrangements.

However, the province's shifting climate conditions have decreased farmers' productivity.

Cut flower farmers in La Trinidad, Benguet, reported that the province has been experiencing more frequent rains during summer and warmer conditions during the rainy season.

"Changes in weather and temperature patterns across the year may cause lack of blooms, smaller bloom size, discoloration and dullness in flowers, change in regular fragrances, and shorter blooming period/postharvest life, among other issues," the authors explained.

As such, access to weather and climate forecasts is crucial to help cut flower farmers come up with climate-sensitive decisions to protect themselves from climate variability and ensure farm productivity.

For instance, the decision on which type of flower to grow per season depends on rainfall forecast.

"More rain means keeping the field open versus installing rain shields. Installing a rain shield means optimal growing conditions for anthurium, while open fields are better for roses," the study cited.

### **Climate information too technical**

Farmers rely on the weather and climate information released by the Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAGASA), the country's main source of weather advisories and forecasts, cyclone warnings, flood advisories, and specialized reports relevant to the agriculture sector, among others.

While climate information is available, farmers find it "too technical to understand" and "rarely tailor-made to the Benguet region".

Also, they are unable to implement optimal decision alternatives due to lack of financial resources.

For instance, rain shields required to grow anthuriums during the rainy season can cost up to PHP 1,600.00 per square meter. On the other hand, providing manual irrigation without an installed system to grow roses on an open upland field may cost up to PHP 30 per water drum delivery in La Trinidad, the study revealed.

While credit programs are available to support the financial needs of farmers, this information barely reach the small cut flower farmers in the province.

This information gap may have stemmed from the fact that half of the farmers are not

part of organized farmer groups, which have relatively more access to credit, knowledge, and training.

Aside from financial resources, some climate-sensitive decisions also entail technology and infrastructure requirements, the study revealed.

"Even with internet access, most farmers favor the cheaper bar phones (that receive weather warning via text messaging) over smart phones that can access the complete set of PAGASA information."

### **Policy recommendations**

To address the information gap, the study recommends finding the correct channels to disseminate weather and climate information targeted to Benguet farmers.

This will ensure that cut flower farmers, as well as other smallholder farmers in Benguet, are equipped with the right information to understand the risks of their climate-related decisions and the available options to mitigate such risks.

Information producers, such as the PAGASA, are also urged to produce usable, reliable, and timely forecasts that are suited to specific localities.

Climate information should be translated into the local language and presented in layman's terms.

"Providing end users with the technology to access it in its current state may also help," the study added.

Addressing information barriers also entails participatory interventions with stakeholders in the agriculture sector.

For instance, a separate PIDS study by the same lead author on smallholder vegetable farming in Benguet—where climate-sensitive decisions also play a vital role—suggests developing a rapid climate decision analysis tool that will simulate different cropping outcomes using farmer-generated data estimates (crop choice,

yield, income, and costs), and weather and climate forecasts provided by PAGASA.

“Participative and repetitive communication with stakeholders, as well as development of climate-sensitive tools and services through co-learning, may also lead to tailored and effective solutions to the identified barriers,” the authors noted.

The aforementioned studies are part of the Australian Center for International

Agricultural Research-funded project, Action Ready Climate Knowledge to Improve Disaster Risk Management for Smallholder Farmers in the Philippines, that aims to contribute in bridging the gap between producers and users of agricultural information. The project explores, among others, the context faced by farmers in making farm decisions, particularly those that are influenced by weather and climate information. **CPSD**

## Study warns against unfair red-tagging of IPs

Red-tagging remains prevalent in indigenous communities, compromising the security and welfare of the indigenous peoples (IPs).

In a study, *“Review of indigenous peoples policy and institutional grounding”*, researchers Sonny Domingo and Arvie Joy Manejar from state think tank Philippine Institute for Development Studies (PIDS) underscored that red-tagging has no place on the discussion table of IP rights and welfare.

Currently, the Philippines serves as home to 14 million IPs. Their cultural zones, known as ancestral domains, take up as much as 44 percent of the country’s land area.

**Jeff Pioquinto, SJ**

“The IPs and their respective ancestral domains must be insulated against the state’s anti-insurgency drive to allow them to truly pursue self-determination,” Domingo and Manejar said.



Such declaration of ancestral domains as areas of neutrality may lessen security concerns and potential conflicts with both the military and insurgents.

The PIDS researchers noted that the international community has already given due attention to the rising accounts of IPs facing challenges of displacement, discrimination, and militarization.

They reminded that “these impinge on their fundamental human rights, and as response to this, international declarations, mechanisms, and guidelines have been put forth by several bodies with the United Nations at its forefront.”

Unfortunately, IP personalities or groups in the Philippines continue to be “unfairly tagged” as leftists or separatists, compromising the security and welfare of a greater majority of their people.

According to Domingo and Manejar, at the center of this discussion were the Lumad communities whose tenurial rights and peace and security are besieged by concerns of insurgency and militarization

The study also noted that settlements and educational institutions catering to IPs have also been closed under the premise of such allegation.

“Whether there are certain truths to the allegations, it is never wise to rid a community of its access to basic services,

like education. The impressionable minds of the young would carry over the same misinterpretations and negative sentiments intergenerationally, making it more difficult to achieve lasting order and peace,” they explained.

The discussion becomes more current and complex when viewed through the lens of national security and anti-insurgency efforts.

“As extralegal elements have made home the uplands, comingling in certain cases with the ancestral domain inhabitants, the possibility of misinterpretations, false assumptions, and blame transfers come into the mix,” they expounded.

Among these elements mentioned by IPs interviewed during the study were paramilitary forces, such as the Bagani, which have become fixtures to major development projects, including extractive industries.

In the case of Kaliwa Dam, for instance, “chieftains whose areas were to be covered by the project publicly manifested complaints about certain irregular methods in securing their consent during the height of the dam project development issue,” Domingo and Manejar revealed.

### **No legal aid**

Amid these red-tagging and security concerns, IP communities need legal assistance.

Under the Indigenous Peoples Rights Act (IPRA), the National Commission on Indigenous Peoples (NCIP) is primarily mandated to represent and leverage the IPs and their communities against those that tamper with their rights.

However, the study found that NCIP offices are hampered by institutional issues that constrain their provision of legal support. This, the authors said, can aggravate the worsening welfare conditions in IP areas.

Meanwhile, those who attempt to engage in talks about IP rights to ancestral domain, self-governance, social justice, and cultural integrity suffer threats and unjust retribution.

As such, the authors prodded the government to beef up the human resource of NCIP, particularly when it comes to its legal service.

“The mainstream legal and governance system of the Philippines needs to manifest its protection over the more vulnerable members of the population, including IPs,” they explained.

“NCIP plays a critical role in realizing the aspirations of the framers of IPRA. Its optimal functioning requires apt resource complement, which includes human resource with technical expertise and anthropological, engineering, and legal capacity,” they added. **RGV**

Photo by Jeff Pioquinto/Flickr

# PH energy regulation hampers entry of distributed energy resources



Deployment of distributed energy resources could potentially improve energy access in the country, especially in remote and disaster-prone areas.

THE EXISTING ENERGY regulatory framework is not optimizing the full benefit of distributed energy resources (DERs).

The study, *“Enhancing the Philippine legal, regulatory, and policy framework for distributed energy resources”*, published in the *Philippine Journal of Development*, revealed this situation amid the major reforms being advanced under the Electric Power Industry Reform Act (EPIRA) and the Renewable Energy (RE) Act.

In particular, the EPIRA and the RE Act encourage energy competition and promote the use of indigenous and new and renewable energy resources in power generation to reduce dependence on imported energy.

While the existing regulatory framework has created a pathway for DERs, the potential of DERs is not maximized under the current regulatory regime, according to author Luther Ramos.

DERs are resources located “close to customers that can provide all or some of their immediate electricity and power needs,” according to the National Association of Regulatory Utility Commissioners of the United States.

“DERs include solar photovoltaic, wind, energy storage, and microgrids, among others. They are relevant in providing energy access and electrification in remote locations,” Ramos explained, as they can supply energy through a micro and minigrid system.

Traditionally, a grid-to-deliver power system exists in the country, where electricity is provided by the distribution grid.

However, not all areas in the country are serviced by the distribution grid due to its archipelagic nature.

As such, the deployment of DERs seems a viable solution to improve access to electricity, particularly in remote and isolated communities.

DERs also potentially generate cleaner power than the main electric grid and ensure reliable electricity, even in areas experiencing extreme weather conditions, such as typhoon and flooding.

In 2010 alone, as much as 16 million Filipinos were without electricity, according to an earlier study titled *“Post-EPIRA impacts of electric power industry competition policies”*, by Adoracion Navarro, senior research fellow at the Philippine Institute for Development Studies (PIDS).

The Philippine government targeted a 90-percent household electrification rate by the end of 2017.

Among countries in the Association of Southeast Asian Nations (ASEAN), only Singapore and Brunei Darussalam have 100-percent electrification rate to date.

## Issues on the use of DERs

Despite the advantages offered by DERs, regulatory challenges exist, hampering their utilization.



Their deployment can “cause significant issues for traditional delivery of electricity, which employs a grid-to-deliver power system,” according to Ramos.

Apparently, “there is no established legal framework to support the establishment of a micro or minigrid system connected to the main grid yet,” he explained.

Moreover, “existing rate-setting methodologies and procedures for approving rates in off-grid systems are onerous and time-consuming,” Ramos added.

Connecting DERs to the existing grid may also require investing in new infrastructures, resulting in increased costs for all consumers.

According to Navarro, “as much as USD 48 million is needed by ASEAN to achieve universal access to electricity in the region by 2030.”

Another bottleneck to the entry of DERs is the burdensome requirements slapped on investors.

EPIRA is an energy reform aimed at restructuring the power industry by introducing competition and a stable regulatory framework for the sector. It also aims to transfer ownership of energy from the government to the private sector.

However, the imposition of burdensome requirements, such as lengthy permitting and licensing approval, curtails the development of decentralized systems, as these could entail high development costs

and risks for investors, according to Ramos.

In the meantime, to support the establishment of a micro or minigrid system in the main grid, the author said the government may “allow the existing utility to grant a concession to a private entity to operate decentralized systems within the utility’s franchise area”.

This option, he said, does not require legislative amendment.

He also urged the Energy Regulatory Commission to “streamline its process and avoid imposing burdensome requirements for the approval and operation of decentralized systems”.

The Department of Energy (DOE) should also “facilitate more private investment by simplifying and streamlining the accreditation of applicants offering decentralized systems”.

Streamlining the permit application for power generation, transmission, and distribution projects is the main objective of the Energy Virtual One-Stop Shop (EVOSS) Act passed in 2019.

Under the said law, the process is simplified through the online platform EVOSS, where companies can apply, monitor, and receive all the necessary permits, as well as make payments for charges and fees.

### **Greener technology**

The country is heavily dependent on coal as its primary source for power generation,

comprising almost half of the total power mix, according to DOE.

Given the impact of fossil fuels on the environment and climate change, countries are now shifting to alternative technologies and increased use of renewable energy sources.

In particular, the Philippines, as a signatory to the Paris Agreement, committed to reduce carbon emissions by 70 percent below projected levels by 2030.

The Paris Agreement is a landmark agreement by the parties to the United Nations Framework Convention on Climate Change, where the Philippines is a member. It aims to strengthen global response to the threat of climate change through the reduction of greenhouse gas emissions, including coal.

By diversifying energy sources and promoting the use of renewable energy, the country can reduce its dependence and use of coal.

Ramos emphasized the importance of the opportunities offered by this ongoing energy transition and highlighted the need to engage stakeholders in the energy sector in crafting policies and regulations.

“Effective collaboration among all stakeholders will ensure the crafting of a regulatory framework that is responsive to the challenges of energy transition and ready for an electricity future characterized by widespread deployment of DERs,” he said. **MJLS**

# Unclear benefit clouds

## PH participation in Chinese Belt and Road Initiative



THE POTENTIAL GAINS from the Philippines' participation in China's One Belt, One Road (OBOR) initiative are unclear, particularly in terms of trade and investments.

This was raised in the study *"Possible effects of China's Belt and Road Initiative on Philippine trade and investments"* published recently in the state think tank's *Philippine Journal of Development*.

While the Philippine government remains keen on being a part of China's transcontinental Belt and Road Initiative (BRI), there is lack of a detailed investigation into what the country can benefit from its participation in the massive infrastructure and investment project.

"There are limited articles, both qualitative and quantitative, on the possible effect of China's OBOR on Philippine trade,"

said authors Ricardo Ang III and Marissa Maricosa Paderon.

The authors noted that existing studies are mostly "descriptive in nature" and "there are no estimates of how much the Philippines will gain in terms of trade and investments."

Nevertheless, they maintained that "there would be expected net gains" from the Philippines participation in the BRI as positive gains in the country's gross domestic product "outweighs the negative gains" with respect to trade.

Formerly known as OBOR, the BRI was aimed at establishing an infrastructure system and trade network that will connect Asia with Africa and Europe along the ancient Silk Road trade routes.

The project was introduced by Chinese President Xi Jinping in 2013 and was valued at about USD 1 trillion to USD 8 trillion.

To this day, the BRI has enjoined the participation of over 70 countries, including the Philippines, which signed a memorandum of understanding with China in November 2018.

China's efforts under the BRI "have stimulated new trends in international investment on infrastructures".

Such investments, the authors said, are expected to benefit participating nations, particularly in priority areas like infrastructure development and connectivity, policy dialogue, unimpeded trade, financial support, and people-to-people exchanges, which are crucial to "build international trade pivot cities".

However, for the Philippines, "there is little incentive for any economic agent in funding the country's infrastructure development and connectivity" given the country's geographic location with no common border with any country, the authors emphasized.

### Closer partnership, G2G projects resumed

Meanwhile, government-to-government (G2G) cooperation projects between the Philippines and China have continued operations and reached more than 80-percent capacity, according to the Chinese Embassy in Manila.

This was in the middle of the COVID-19 pandemic, which "had far-reaching impact on the economic development of countries like China and the Philippines".



Chinese Ambassador to the Philippines Huang Xilian said in a statement that China endeavors to synergize the BRI with the Philippines' "Build, Build, Build" infrastructure program as the two Asian nations are "steadily carrying out major cooperation projects in infrastructure construction to further consolidate and upgrade China-Philippines relations".

Apart from the importance of assessing the viability of the country's participation in the BRI and being transparent with the public in its implications, it is important to look into the possibility of meeting operational and financial risks.

They called on the government to "maximize the Philippines' potential benefits from the BRI by giving incentives to investors in the local manufacturing sector, specifically to its relative comparative advantage good to China".

"The government should also improve its trade facilitation measures particularly in infrastructure (i.e., land, sea, and air) to help develop the supply value chain between the Philippines and China, including other countries in Asia involved in the global supply network," the authors added.

In 2018, 13 percent of the total exports of the Philippines valued at USD 804.53 million was exported to China, according to Philippine Statistics Authority data.

For the Philippines to have positive trade impacts, "the government must develop the country's port network infrastructures to better facilitate trade flows," the authors said. **EGR**

## RESEARCH DIGESTS

### **Philippine Journal of Development, Vol. 44 No. 2** by *Various Authors*

This volume of the *Philippine Journal of Development* features articles on migration, performance and competitiveness of local small and medium enterprises (SMEs), trade and investments, and energy. The first article examines how Filipinos' social standing, migration culture and history, and perceptions of the government collectively influence their intentions to migrate, particularly for employment reasons. The second article looks into the benefits of supply chain integration for local SMEs and their stakeholders while the third article focuses on the likely effects of China's massive infrastructure project, the Belt and Road Initiative, on Philippine trade and investment. Concluding this issue is an article that reviews the country's legal and regulatory framework for distributed energy resources. It gives recommendations on how the Philippines can adapt to current trends in the global energy sector especially in small-scale power generation and storage technologies.

### **PN 2020-07** **Bottlenecks to formalization of small-scale mining in PH** by *Sonny N. Domingo and Arvie Joy A. Manejar*

This *Policy Note* assesses the efforts of the government to formalize small-scale mining economy. Using the insights from national government agencies, nongovernment organizations, and other stakeholders, it notes several issues hindering the formalization of this sector. Among these issues is the absence of monitoring and profiling mechanisms in the sector, resulting in the lack of basic information, such as the profile of workers. It also reveals that the current definition of small-scale mining is unfit with the current operations. The study recommends the holding of rigorous and comprehensive documentation of the small-scale mining subsector. It also urges the government to clarify the definition of the law, as well as mainstream the documentary requirements needed for government clearance, such as the free, prior, and informed consent and the environmental compliance certificate.

### **DP 2020-22** **Poverty, the Middle Class, and Income Distribution amid COVID-19** by *Jose Ramon G. Albert, Michael R.M. Abrigo, and Francis M.A. Quimba,*

The study provides an updated profile of the poor in the Philippines, as well as various segments of the income distribution, based on the 2018 Family Income and Expenditure Survey. It follows the typology of the low-, middle-, and high-income classes proposed in previous research reports and simulate the likely effects of contractions in per capita income on poverty and the entire income distribution amid the coronavirus disease (COVID-19) pandemic. Due to the unavailability of required data to estimate the impact of COVID-19 on poverty and income distribution, simulation scenarios and assumptions were used. The study finds, among others, that in a medium case scenario of declines of incomes by 10 percent across the entire income distribution, the number of poor Filipinos can increase by 5.5 million. With emergency financial subsidies in place, however, the number may decrease to 1.5 million, i.e., 4 million less than the expected number of Filipinos falling into poverty. Among other recommendations, the study urged the Philippine Statistics Authority to start reviewing its official poverty measurement system, as well as its poverty line setting methodology given the changes in income and expenditure patterns in the past decade.

### **DP 2020-21** **Assessing the Resurgent Irrigation Development Program of the Philippines: Synthesis Report** by *Arlene B. Inocencio and Albert D. Inocencio*

This paper synthesizes the results and findings of the four component studies under the resurgent irrigation development assessment: the technical and institutional assessments of national and communal irrigation systems, the water resource assessment, and the governance component. This synthesis is structured according to the research questions posed on the component studies along the project cycle. Policy recommendations are also provided in the study.

# Do We Have Enough Health Workers in PH?

The country's health human resource density appears to be sufficient based on national figures. However, when disaggregated, less than a quarter of local governments have the ideal density proposed by the World Health Organization. This maldistribution of healthcare workers

can aggravate the already unequal access to healthcare services.

This infographic attempts to answer the following questions: Who are the health workers? Where are they? Why are they there? **GGM**

## The Philippines' Health Workforce

In 2015, there were

**40.8** per **10,000** physicians, nurses, and midwives population in the Philippines.

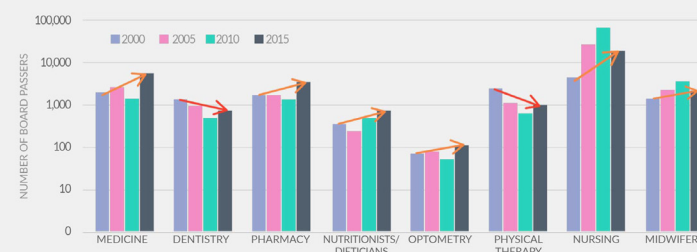
This ratio is higher than the recommended thresholds by the World Health Organization (WHO) and International Labour Organization (ILO).

WHO (2006)	23 : 10,000
ILO (2011)	34 : 10,000
ILO (2014)	41 : 10,000
WHO (2016)	45 : 10,000

Specifically, for every **10,000** population in the Philippines, there were...

34.9	PROFESSIONAL NURSES
8.6	HEALTHCARE TECHNICIANS
5.2	PHYSICIANS
2.7	DENTISTS
1.0	PHYSIOTHERAPISTS
0.7	PROFESSIONAL MIDWIVES
0.5	NUTRITIONISTS AND DIETICIANS
0.4	OPTOMETRISTS AND OPTICIANS

The number of board passers among the different healthcare professions has been increasing in the past 15 years, except for dentistry and physical therapy.



SOURCE: Philippine Statistical Yearbook, NSCB (2001, 2006, 2011) and PSA (2016)

Nurses comprise the largest number of new healthcare professionals.

YEAR	PASSERS	APPLICANTS
2000	4,600	9,300
2010	67,000	175,000
2015	18,800	36,400

Over the last 25 years, the number of health workers has been growing.

ANNUAL GROWTH IN THE NUMBER OF HEALTH PROFESSIONALS IN THE PHILIPPINES, 1990-2015

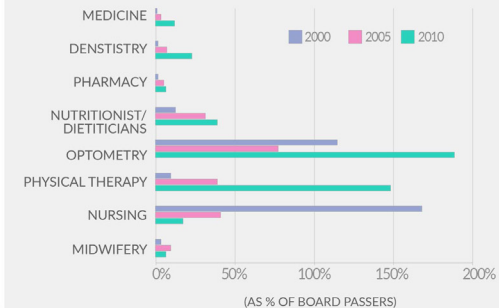
7.7%	PROFESSIONAL NURSES
6.5%	PHYSIOTHERAPISTS
4.8%	PHARMACISTS
4.4%	MEDICAL AND PHARMACEUTICAL TECHNICIANS
2.6%	PHYSICIANS
1.8%	DENTISTS
0.2%	NUTRITIONISTS/DIETICIANS
0.0%	OPTOMETRISTS AND OPTICIANS

Except for dentists, nutritionists/dieticians, and optometrists and opticians, all groups have grown faster than the Philippines' 2-percent annual population growth.

SOURCE: Philippine Statistical Yearbook, NSCB (2001, 2006, 2011) and PSA (2016)

However, many of Philippine-trained healthcare professionals do not necessarily end up working in the country.

NEW-HIRE INTERNATIONAL MIGRANT WORKERS AS PERCENT OF BOARD PASSERS

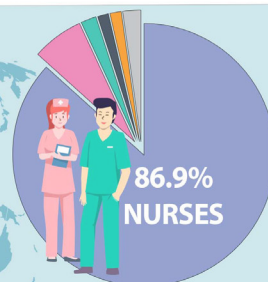


In 2000, the outflow of new-hire nurses exceeded the number of board passers but went down to 20 percent of board passers in 2010.

SOURCE: Philippine Statistical Yearbook, NSCB (2001, 2006, 2011); PSA (2016); and POEA (2016)

In 2010, about

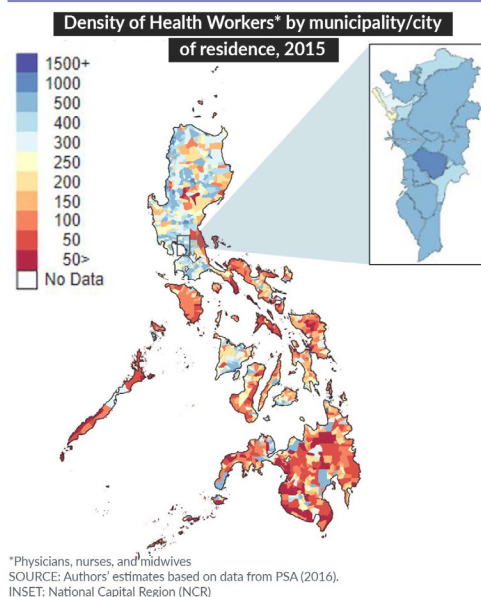
**13,900** healthcare professionals were hired for temporary employment overseas.



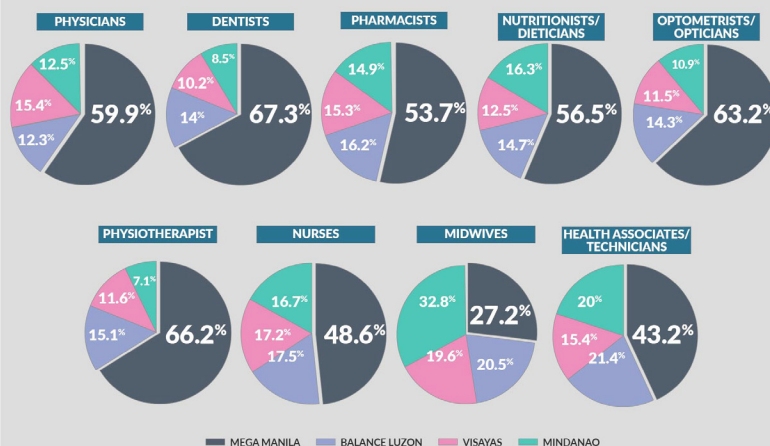


## Where Are the Health Workers?

Health workers are not evenly distributed to all cities and municipalities.



In 2015, more than half of all health workers in each group (except nurses midwives, and technicians) were residing in the Mega Manila region\*



\*(Composed of the NCR and surrounding CALABARZON and Central Luzon.)  
SOURCE: Authors' estimates based on data from PSA (2016).

## Why Are They There?



### LOCATION PREFERENCES OF HEALTH WORKERS BY CHARACTERISTICS

#### SEX AND AGE

No apparent systematic difference in preferences, except among elderly midwives (aged 60+) who are more likely to work in cities.

#### MARITAL STATUS

PHYSICIANS generally are more likely to work in cities and in hospitals, with unmarried physicians having slight aversion relative to married physicians.

Single MIDWIVES are more likely to work in areas with greater economic activity relative to those who are married.

No statistically significant difference among single and married nurses.

#### ETHNOLINGUISTIC MINORITY STATUS

Health workers from minority background are less likely to work in areas with higher poverty rates or with higher ethnic concentration relative to their nonminority counterparts.

This infographic is based on PIDS Discussion Paper titled *Who are the health workers and where are they? Revealed preferences in location decision among healthcare professionals in the Philippines* written by Michael R.M. Abrigo and Danica Aisa P. Ortiz, senior research fellow and former supervising research specialist, respectively.

The full version of this infographic can be downloaded from <https://www.pids.gov.ph/gallery/472>.

**POLICY  
ISSUE AT  
A GLANCE**

## Editor's Notes (continued from page 2)

Improving the administrative and technical capacity of the LGUs would need to be accelerated, given the additional responsibilities that they should perform with the transfer of the devolved functions. In a recent webinar co-organized by PIDS and the Department of the Interior and Local Government (DILG), Director Anna Liza Bonagua of the Bureau of Local Government Finance mentioned that the DILG would enhance its capacity-building initiatives to prepare the LGUs for their new functions. Additional PIDS studies featured in this issue revealed that many LGUs do not regularly update their development plans and do not fully utilize their Local Development Fund, thus denying their citizens the benefits they are entitled to receive. This low spending was found by PIDS Research Fellow Justine Sicat to be the result of poor planning and inadequate monitoring and evaluation by the LGUs. These deficiencies are reflected in the poor performance of many LGUs in bagging the Seal of Good Local Governance (SGLG), a recognition of the outstanding performance in various areas of local governance. A PIDS study also conducted by Sicat and her team found that most of the awardees were the more affluent municipalities. That there were a few less resource-endowed LGUs who won the award meant that financial resources were not the only determinant of good governance; the political leadership and efficient resource management were also critical factors. In fact, another PIDS study featured in this issue showed that some provinces, though confronting disaster and security concerns and not having the best geographic locations, scored better in efficiency rating in disaster risk reduction and management.

Another local-level topic featured in this issue was the need to provide farmers with localized climate information to assist them in making informed decisions. General climate information made available by the national weather agency was ineffective in helping farmers as this was too technical and not suited to local needs. Although not mentioned in the article, LGUs could step in and address this information deficit through their local agricultural and extension officers. Their function should cover laymanizing technical information for farmers.

Moreover, the goal of 100% electrification across the country has not been fully achieved with many needy families in remote areas still without access to electricity. Discussed in this issue was the option of pursuing distributed energy resources (DERs), such as solar photovoltaic, wind, energy storage, and microgrids as alternative energy sources, especially for remote and isolated communities. DERs, however, are capital-intensive, requiring new infrastructures. LGUs could pave the way in accelerating the adoption of DERs by making their localities attractive to private investments and by embarking on joint ventures through the public-private partnership scheme.

Other articles featured here include the unjust red-tagging of indigenous people and the ambiguous benefits that the country may get from participating in China's One Belt, One Road project. Completing this issue is an infographic showing the unequal spatial distribution of health workers across the county. **SVS**

## About DRN

*Development Research News* is a quarterly publication of the Philippine Institute for Development Studies (PIDS). It highlights the findings and recommendations of PIDS research projects and important policy issues discussed during PIDS seminars. PIDS is a nonstock, nonprofit government research institution engaged in long-term, policy-oriented research.

This publication is part of the Institute's program to disseminate information to promote the use of research findings. The views and opinions expressed here are those of the authors and do not necessarily reflect those of the Institute.

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