PIDS 2020–2021

ECONOMIC POLICY MONITOR

RESET AND REBUILD
for a Better Philippines in the Post-pandemic World

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Philippine Institute for Development Studies
Surian ng mga Pag-aaral Pangkaunlaran ng Pilipinas

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List of Acronyms

A&E	–	accreditation and equivalency
ABC-IADP	–	Agri-Industrial Business Corridors-Integrated Agribusiness Development Program
ACGF	–	Association of Southeast Asian Nations Catalytic Green Finance Facility
ADB	–	Asian Development Bank
ADO	–	*Asian Development Outlook*
AFC	–	Asian Financial Crisis
AI	–	artificial intelligence
AKAP	–	*Abot Kamay ang Pagtulong*
ALS	–	Alternative Learning System
AMERIAL	–	Advanced Mechatronics, Robotics, and Industrial Automation Laboratory
AMT	–	Asset Management Team
AO	–	administrative order
ARTA	–	Anti-Red Tape Authority
ASEAN	–	Association of Southeast Asian Nations
ASF	–	African Swine Fever
B2B	–	business-to-business
B2C	–	business-to-consumer
BE-LCP	–	Basic Education Learning Continuity Plan
BIR	–	Bureau of Internal Revenue
BMB	–	Biodiversity Management Bureau
BOI	–	Board of Investments
BOP	–	balance of payments
bpd	–	barrels per day
bps	–	basis points
BSP	–	*Bangko Sentral ng Pilipinas*
CAAP	–	Civil Aviation Authority of the Philippines
CAMP	–	COVID-19 Adjustment Measures Program
CAR	–	capital adequacy ratio
CHED	–	Commission on Higher Education
CIT	–	corporate income tax
CITIRA	–	Corporate Income Tax and Incentives Reform Act
CLIP	–	Comprehensive Local Integration Program
CLUP	–	Comprehensive Land Use Plan
CO2	–	carbon dioxide
ComDev	–	Committee on Devolution
COVID-19	–	coronavirus disease 2019
CPI	–	consumer price index

CREATE	–	Corporate Recovery and Tax Incentives for Enterprises
CSR	–	corporate social responsibility
DA	–	Department of Agriculture
DBCC	–	Development Budget Coordination Committee
DBM	–	Department of Budget and Management
DBP	–	Development Bank of the Philippines
DENR	–	Department of Environment and Natural Resources
DepEd	–	Department of Education
DHSUD	–	Department of Human Settlements and Urban Development
DICT	–	Department of Information and Communications Technology
DILG	–	Department of the Interior and Local Government
DO	–	department order
DOE	–	Department of Energy
DOF	–	Department of Finance
DOF-BLGF	–	Department of Finance-Bureau of Local Government Finance
DOH	–	Department of Health
DOLE	–	Department of Labor and Employment
DOST	–	Department of Science and Technology
DOTr	–	Department of Transportation
DPWH	–	Department of Public Works and Highways
DRRM	–	disaster risk reduction and management
DRRMS	–	disaster risk reduction and management service
DSWD	–	Department of Social Welfare and Development
DTI	–	Department of Trade and Industry
ECQ	–	enhanced community quarantine
EIU	–	Economist Intelligence Unit
EMB	–	Environmental Management Bureau
EMDEs	–	emerging market and developing economies
EO	–	executive order
ER	–	energy regulation
ESG	–	environmental, social, and governance
EU	–	European Union
EUA	–	Emergency Use Authorization
F2C2	–	farm and fisheries clustering and consolidation
FAO	–	Food and Agriculture Organization
FCAs	–	farmers' cooperatives and associations
FCI	–	financial conditions index
FDA	–	Food and Drug Administration
FIRe	–	Fourth Industrial Revolution
FIST	–	Financial Institutions Strategic Transfer

FSAP	–	Financial Sector Assessment Program
FTE	–	full-time equivalent
FY	–	fiscal year
GBV	–	gender-based violence
GCF	–	Green Climate Fund
GCQ	–	general community quarantine
GDP	–	gross domestic product
GFI	–	government financial institution
GHG	–	greenhouse gas
GSP	–	Generalized System of Preferences
HB	–	House Bill
HEI	–	higher education institution
HLURB	–	Housing and Land Use Regulatory Board
HOR	–	House of Representatives
HUDCC	–	Housing and Urban Development Coordinating Council
IBM	–	inclusive business model
ICCA	–	Indigenous Community Conserved Area
ICM	–	Integrated Coastal Management
ICT	–	information and communications technology
IGM	–	Initiative on Global Markets
ILO	–	International Labour Organization
ILRC	–	inclusive learning resource center
IMF	–	International Monetary Fund
IP	–	indigenous people
IPCC	–	Intergovernmental Panel on Climate Change
IRA	–	internal revenue allotment
I-RESCUE	–	Interim Rehabilitation Support to Cushion Unfavorably-affected Enterprises by COVID-19
IT-BPM	–	information technology-business process management
ITH	–	income tax holiday
JEC	–	Joint Economic Commission
JMC	–	joint memorandum circular
kg	–	kilogram
km	–	kilometer
LBP	–	Land Bank of the Philippines
LCP	–	learner continuity plan
LGU	–	local government unit
LSA	–	learning support aides
LTFRB	–	Land Transportation Franchising and Regulatory Board
MAV	–	minimum access volume
MC	–	memorandum circular
MGB	–	Mines and Geosciences Bureau

MOU	–	memorandum of understanding
MRT	–	Ministers Responsible for Trade
MSMEs	–	micro, small, and medium enterprises
NCR	–	National Capital Region
NDC	–	nationally determined contribution
NDVP	–	National Deployment and Vaccination Plan
NEA	–	National Electrification Administration
NEDA	–	National Economic and Development Authority
NGA	–	national government agency
NGAC	–	National Government Administrative Center
NHA	–	National Housing Authority
NHMFC	–	National Home Mortgage Finance Corporation
NIC	–	National Innovation Council
NPL	–	nonperforming loan
NREP	–	National Renewable Energy Program
NTC	–	National Telecommunications Commission
OECD	–	Organisation for Economic Co-operation and Development
OFW	–	Overseas Filipino Worker
PAMB	–	Protected Area and Management Board
PBEd	–	Philippine Business for Education
PCIC	–	Philippine Crop Insurance Corporation
PCO	–	pollution control officer
PhilHealth	–	Philippine Health Insurance Corporation
PHP	–	Philippine peso
PIDS	–	Philippine Institute for Development Studies
PMI	–	purchasing managers’ index
PNA	–	Philippine News Agency
PPE	–	personal protective equipment
PPP	–	public-private partnership
PSA	–	Philippine Statistics Authority
PTTI	–	passive telecommunications tower infrastructure
PUB	–	public utility bus
PUJ	–	public utility jeepney
PUV	–	public utility vehicle
Q	–	quarter
QRF	–	Quick Response Fund
R&D	–	research and development
RA	–	Republic Act
RCEP	–	Regional Comprehensive Economic Partnership
RESPONSE	–	Rehabilitation Support Program on Severe Events
RIRR	–	revised implementing rules and regulations
RRP	–	reverse repurchase

RRR	–	reserve requirement ratio
S&T	–	science and technology
S4CP	–	Science for Change Program
SARS-CoV-2	–	Severe Acute Respiratory Syndrome Coronavirus 2
SB	–	Senate Bill
SCEF	–	Swine Competitiveness Enhancement Fund
SCM	–	Stakeholder Capitalism Metrics
SDGs	–	Sustainable Development Goals
SEC	–	Securities and Exchange Commission
SETUP	–	Small Enterprise Technology Upgrading Program
SMEs	–	small and medium enterprises
SPED	–	Special Education Program
SPV	–	special purpose vehicle
SSS	–	Social Security System
STI	–	science, technology, and innovation
SUCs	–	state universities and colleges
SWS	–	Social Weather Stations
SY	–	school year
TESDA	–	Technical Education and Skills Development Authority
TRB	–	Toll Regulatory Board
TUPAD	–	*Tulong Panghanapbuhay sa Ating* Displaced/Disadvantaged Workers
TVET	–	technical-vocational education and training
UK	–	United Kingdom
UNEP	–	United Nations Environment Programme
UNFCCC	–	United Nations Framework Convention on Climate Change
UNIDO	–	United Nations Industrial Development Organization
US	–	United States
USD	–	United States dollar
WB	–	World Bank
WEF	–	World Economic Forum
WEO	–	World Economic Outlook
WESM	–	Wholesale Electricity Spot Market
WHO	–	World Health Organization
WTE	–	waste-to-energy

Foreword

The coronavirus disease 2019 (COVID-19) pandemic brought a serious rethinking of our conventional systems and practices. It poses an opportunity for us to resolve the cracks in our society and to reset and rebuild.

Although the pandemic is far from over, policymakers should already prepare in handling the medium- to long-term challenges in a post-pandemic environment, as discussed in the third chapter. There is a need to consider possibilities for post-pandemic transformations and for rethinking development more broadly. Thus, the Philippine Institute for Development Studies has chosen this as the theme for the *2020–2021 Economic Policy Monitor* (EPM). Our research experts at PIDS discussed the concepts and applications of resetting capitalism, making businesses more ethical through stakeholder capitalism, pursuing green and inclusive recovery, and maintaining a robust and healthy workforce.

This publication also tackles other aspects of our current socioeconomic situation. The second chapter talks about government interventions on poverty reduction and social protection; gender; health; education; labor and employment; housing; agriculture; environment and natural resources; trade and industry; services; science, technology, and innovation; infrastructure; energy; and fiscal policy. Meanwhile, the first chapter analyzes the country's macroeconomic scenario in 2020 and the prospects for 2021 and 2022.

We hope that this EPM issue will contribute to a better understanding of the impacts of the COVID-19 pandemic and the needed reforms to develop a resilient post-pandemic Philippines.

ANICETO C. ORBETA JR.
President

Acknowledgment

The *Economic Policy Monitor* (EPM) is an annual publication of the Philippine Institute for Development Studies. This issue was made possible through the collective efforts of many individuals.

In Chapter 1, Margarita Debuque-Gonzales, John Paul P. Corpuz, and Ramona Maria L. Miral wrote an analysis of the macroeconomic performance of the Philippines in 2020 and its prospects in 2021 and 2022.

Meanwhile, several PIDS researchers provided policy updates, including the government's responses to the pandemic, on key sectors of the economy in Chapter 2. It contains inputs from Aubrey D. Tabuga, Carlos C. Cabaero, Anna Rita P. Vargas, and Arkin A. Arboneda on poverty and social protection; Connie B. Dacuycuy and Lora Kryz C. Baje on gender; Valerie Gilbert T. Ulep and Lyle Daryll D. Casas on health; Aniceto C. Orbeta Jr. and Kris Ann M. Melad on education; Michael R.M. Abrigo on labor and employment; Marife M. Ballesteros and Jenica A. Ancheta on housing; Roehlano M. Briones on agriculture; Sonny N. Domingo and Arvie Joy A. Manejar on environment and natural resources; Francis Mark A. Quimba and Maureen Ane D. Rosellon on trade and industry; Ramonette B. Serafica and Queen Cel A. Oren on services; Jose Ramon G. Albert on science, technology, and innovation; Adoracion M. Navarro and Kris A. Francisco on infrastructure; Maureen Ane D. Rosellon on energy; and Charlotte Justine D. Sicat on fiscal policy.

Chapter 3, the theme chapter titled "Reset and Rebuild for a Better Philippines in the Post-pandemic World", was written by Adoracion M. Navarro, Margarita Debuque-Gonzales, and Kris A. Francisco.

As with previous EPMs, the Research Information Department performed the challenging task of producing this issue. Sheila V. Siar handled the overall editing and management, including consolidating the policy updates and putting the various chapters/sections together into one cohesive volume. Gizelle Manuel assisted in copyediting and proofreading and did the layout and cover design. Wenilyn M. Asuncion and Maryam Tubio provided editorial support.

Executive Summary

The coronavirus disease 2019 (COVID-19) pandemic has highlighted, even intensified, the inequalities and vulnerabilities in the Philippine society. The harrowing experience of the past year presents an opportunity to discuss what needs to change. It challenges the country to reset and rebuild—to set the right development policies while removing inequities and laying the groundwork for a better post-pandemic future.

In this *Economic Policy Monitor* (EPM), PIDS presents key concepts in resetting and rebuilding a better Philippines in the post-COVID-19 world. Chapter 3 specifically discusses resetting capitalism, ethical business, green and inclusive recovery, and robust and healthy workforce.

There are calls for a "Great Reset" of capitalism, which, as the World Economic Forum explains, involves "steering the market toward fairer outcomes, ensuring that investments advance shared goals, and harnessing the innovations of the Fourth Industrial Revolution to support the public good". The Great Reset pushes for a new form of capitalism, one that puts social sustainability and people's well-being at the forefront. This new brand capitalism should create demand for goods and services that contribute to attaining the Sustainable Development Goals (SDGs).

Debates on resetting capitalism also explore how to make businesses more ethical and which market model would deliver long-lasting and widespread prosperity. On one side is shareholder capitalism, where the interests of only one stakeholder (the stock owner) dominate. On the other is stakeholder capitalism, where the interests of all stakeholders—customers, employees, suppliers, and relevant communities—matter. The prolonged COVID-19 pandemic in the background and its serious negative impacts, as well as the rising income inequality exacerbated by the pandemic, reflect the need to improve how business should be conducted. The goals of stakeholder capitalism, which include more widespread prosperity, greater investment in and protection of a corporation's stakeholders, especially the vulnerable, and a long-term perspective on firm value that considers and tackles the undesirable effects of the conduct of business activities on the rest of society, present the way forward.

At the same time, pursuing "good capitalism" in the Philippines requires other factors. These include strengthening the country's competition framework, creating an equal environment for businesses, continuing corporate governance reforms, and encouraging businesses to renew their corporate purpose in a post-pandemic environment.

The Philippines needs to recover not only from the economic losses brought by the pandemic but also from setbacks in achieving the SDGs. Thus, the country needs to implement a green and inclusive recovery to induce concrete returns on the environment, health, income, and general socioeconomic well-being. It can create an opportunity for green recovery by creating a pipeline of climate-smart infrastructure projects and investing in green growth areas, such as productive and regenerative agriculture, clean energy transition, and healthy and productive oceans. By supporting the calls for a green new deal in the Association of Southeast Asian Nations, the Philippines can expand opportunities for job creation and sustainable economic growth.

In implementing inclusive recovery, the government can expand stimulus packages for micro, small, and medium enterprises (MSMEs) to cover not just wage subsidies but also support the accelerated adoption of sustainable solutions and technologies. This will push MSMEs to capture the value added from green growth opportunities in the medium to long term.

During the COVID-19 pandemic, workers suffer the consequences of lockdowns, remote work, job displacement, and job uncertainty. They also face health threats as they continue to perform their functions under the risk of exposure to the virus. Thus, the government has to provide adequate support mechanisms to maintain a robust and healthy workforce. A revamp of the social protection system is also timely to cover the growing employment in the gig economy. It is also essential to strengthen the health support programs to protect as many workers as possible.

Moreover, the pandemic accelerated technological progress, revealing the importance of upskilling and reskilling workers in technology use and development. The Philippines can also future-proof the education sector by improving teachers' digital competencies, incorporating digital skills in the curricula, and providing necessary materials to both teachers and students. The digital divide in the country must also be addressed to ensure that technology is accessible to all.

This EPM's Chapter 2 presents the impacts of the COVID-19 on different sectors and the government's interventions to address issues on poverty reduction and social protection; gender; health; education; labor and employment; housing; agriculture; environment and natural resources; trade and industry; services; science, technology, and innovation; infrastructure; energy; and fiscal policy.

Poverty and hunger are widespread amid the pandemic. The Asian Development Bank estimates that poverty jolted up to 20 percent in 2020, equivalent to at least 22 million poor Filipinos. Likewise, a Social Weather Stations survey revealed that 13.6 percent of respondents have experienced hunger, of which 2.1 percent experienced severe hunger, during the second quarter of 2020. This peaked in the third quarter, with 30.7 percent of respondents experiencing involuntary hunger. The National Accounts of the Philippines also showed a 7.9-percent contraction in household consumption, which indicates a decline in consumer spending during the pandemic.

Republic Act (RA) 11464 or *Bayanihan* 2, an extension of RA 11469 or Bayanihan 1, was enacted to provide comprehensive economic relief to different sectors, including low-income households, Overseas Filipino Workers (OFWs), agrarian reform beneficiaries, displaced workers, students and teachers, frontline health workers, and MSMEs. To provide additional social amelioration for Filipinos, livelihood interventions, and food security and health interventions, the House of Representatives (HOR) passed House Bill (HB) 9411 or Bayanihan 3. However, as of this writing, it has not advanced in the Senate.

Several bills to address poverty have also been filed in Congress. Senate Bill (SB) 1907 proposes that local government units (LGUs) establish inclusive learning resource centers (ILRSC) for children with disabilities and special needs. Creating ILRCs in cities and municipalities, especially in rural areas, will enable poor children with disability to access individualized education. Another important feature of SB 1907 is the Child Find System, which aims to find all learners with disabilities, especially those in remote areas. Meanwhile, HB 9459 seeks to improve the social protection of the elderly by doubling the monthly social pension of indigent senior citizens from PHP 500 to PHP 1,000. Both the HOR and Senate are looking into institutionalizing a Study Now, Pay Later program to make education more inclusive and address intergenerational poverty and inequality.

Gender protection is lobbied through several bills, including SB 2088 or the Gender Responsive and Inclusive Management Act of 2021. This bill provides for women's participation in leadership, decisionmaking, and policymaking at all levels of response and recovery systems. It also seeks to consider gender-based violence preparedness and response systems as essential services in emergency situations and provide funds for the system. Meanwhile, SB 2143 calls for the establishment of a central database of all temporary and permanent protection orders to facilitate their enforcement. The Office of the Vice President also initiated training programs under the *Angat Buhay* Women to help women entrepreneurs expand their markets and livelihood opportunities.

The Philippines recorded 1.4 million confirmed COVID-19 cases and 24,000 deaths from July 2020 to June 2021. Bayanihan 1 and 2 provided for the augmentation of healthcare workforce, provision of resources for isolation and quarantine facilities, allocation of funds for COVID-19 data analytics, expansion of diagnostic and testing facilities, and realignment of resources from different government agencies to the pandemic response. Moreover, the Department of Health (DOH) issued the National Deployment and Vaccination Plan (NDVP), which gives strategic policy direction for the COVID-19 immunization program. As of July 10, 2021, around 12 million doses of COVID-19 vaccines have already been deployed, and about 3 percent of the population have already been fully vaccinated.

To prevent future emerging infectious diseases, the government updated the implementing rules and regulations of RA 11332 or the Mandatory Reporting of Notifiable Diseases and Health Act. The government also took steps to ensure a holistic public health response during the pandemic by developing policy guidelines to facilitate telemedicine and teleconsultation. This is to ensure access to healthcare providers even without physical interaction.

The pandemic forced the education sector to shift to remote learning. The Department of Education issued the Basic Education Learning Continuity Plan (BE-LCP) to enable continuous and flexible learning. Likewise, the Commission on Higher Education (CHED) issued several memorandum orders to encourage alternative learning modalities and provide financial assistance to state universities and colleges for the development of smart campuses. CHED and DOH issued Joint Memorandum Circular 2021-001 to guide the gradual reopening of schools for limited face-to-face classes.

Meanwhile, the Technical Education and Skills Development Authority (TESDA) implemented the Oplan TESDA *Abot Lahat*: TVET Towards the New Normal program to provide continuous service amid the pandemic. TESDA also released guidelines for the establishment of national and local industry boards composed of employers, labor, learning institutions, and government representatives. This is to encourage the participation of the private sector in TVET. The functions of the industry boards cover a wide range of activities where private sector inputs can help shape TVET into an industry-driven program.

Labor is another sector that continues to reel from the pandemic. The country's unemployment rate remained above pre-pandemic levels, rising to around 7 to 10 percent between July 2020 and April 2021 from around 4 to 5 percent in 2019. The Department of Labor and Employment facilitated financial assistance and employment programs for displaced workers. The DOLE-AKAP provided a one-time PHP 10,000 grant to repatriated OFWs, while the COVID-19 Adjustment Measures Programs provided a one-time PHP 5,000 grant to displaced local workers in the formal sector. DOLE also provided emergency wage employment of up to 16 days to displaced workers in the informal sector. Meanwhile, HB 7028 was filed in the HOR to institute a national unemployment insurance system and provide additional unemployment benefits, such as training allowance and employment facilitation assistance to aid workers in their job search.

Areas with a high concentration of informal settlements registered high COVID-19 cases as congested places increase the risk of community transmission. The National Housing Authority reported that about 1.5 million Filipinos (15% of the total urban population) live in informal settlements. The Department of Human Settlements and Urban Development (DHSUD) released the 2040 National Housing and Urban Development Sector Plan, which sets the holistic direction and framework in addressing the housing problem in the country. Among the proposed reforms is public rental housing for underprivileged families. The DHSUD also expanded the housing microfinance to enable low-income families to access formal housing loans. It also mandated LGUs to submit their updated Comprehensive Land Use Plans to enable the development of safe and resilient human settlements.

Aside from the COVID-19 crisis, agriculture had to deal with the African Swine Fever. Swine inventories collapsed by 24 percent in 2020, while the number of heads slaughtered contracted by 6 percent. As a result, pork prices soared to unprecedented heights, with belly meat hitting PHP 400 per kilogram by January 2021 compared to PHP 260 per kilogram in June 2020. The government issued Executive Order (EO) 124, series of 2021, to impose a 60-day mandated price ceiling on meat and EO 128 to temporarily reduce in-quota tariffs to 5 percent (from 30 percent) and out-quota tariffs to 15 percent (from 40 percent). Filed in Congress was HB 9256 to allow the importation of pork during state of calamity to bolster available supply in the market. This measure facilitates market competition with pork importers, which keeps prices affordable for consumers.

In the environment sector, the government beefed up adaptation measures against weather events and climate change. The National Government Administrative at New Clark City in Capas, Tarlac, was established through EO 119 to serve as a recovery center and backup administrative hub in case of disaster. Meanwhile, the Department of Agriculture established a separate disaster risk reduction and management service body in the agriculture and fisheries sector to safeguard food security and protect livelihood.

As COVID-19 cases pile up, hospitals and medical facilities also saw a surge in the volume of hazardous wastes. As such, the Revised Implementing Rules and Regulations of Presidential Decree 856 or the Code on Sanitation was passed. It serves as a guideline on sewage collection and disposal, excreta disposal, and drainage.

In trade and industry, the commitment of the government to create a more equitable and responsive tax incentive system intensified in 2021 with the passage of RA 11534 or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, which is the second package of the Comprehensive Tax Reform Program. It provides fiscal relief to domestic and foreign corporations by lessening corporate income tax from 30 percent to 25 percent for general corporate taxpayers and 20 percent for other corporate taxpayers.

The Philippines also participated in regional and multilateral efforts against COVID-19. It is one of the signatories of the Hanoi Plan of Action on Strengthening ASEAN Economic Cooperation and Supply Chain Connectivity in Response to the COVID-19 Pandemic, which seeks to facilitate the flow of essential goods. It covers 152 tariff lines of medicines, medical supplies, and equipment.

For services, a shift toward digitalization has enabled businesses to thrive despite the severe impact of the pandemic. To strengthen the digital economy, the government updated the *Philippine Development Plan 2017–2022* to prioritize programs related to improving information and communications technology (ICT), promoting economic liberalization, and enhancing the e-commerce industry.

In science, technology, and innovation, the Philippines is one of the economies that registered the most significant progress in the Global Innovation Index, from 100th in 2014 to 50th in 2020. Among lower-middle-income economies, the Philippines ranked 4th, with above-average performance in business sophistication, knowledge, and technology outputs. This achievement was supported by several legislative measures, such as the Philippine Innovation Act of 2020, Innovation Startup Act, and CREATE Act. These laws fostered wider opportunities for innovation by protecting intellectual property rights and stimulating entrepreneurship.

As for ICT infrastructure, new policies have been enacted to accelerate and expand the provision of internet services. The Department of Information and Communications Technology issued Department Circular 8 in 2020 to enable sharing and construction of telecommunications tower infrastructure. EO 128, series of 2021, also liberalizes access to satellite technology.

Although the community quarantines have been crucial in containing COVID-19 transmission, mobility restrictions have severe impacts on the productivity and profitability of the transport sector. As many businesses in the sector struggle, the Department of Transportation waived fees and charges. In addition, the government used service contracting for public utility vehicles to provide public transportation services while helping drivers and operators. Meanwhile, the government provided subsidies in dockage, lay-up fees, and testing expenses for returning Filipino seafarers. For affected businesses in air transport, the government facilitated assistance programs by subsidizing air navigation charges, landing and takeoff fees, and parking fees. HB 9324 or the Air Carriers Relief Act was filed in Congress to support the sector by extending loan payments and providing interest-free loans and regulatory reliefs.

In energy, policies focused on pursuing cleaner, more reliable, and sustainable energy sources. Through the *National Renewable Energy Program (NREP) 2020–2040,* the government envisions at least a 35-percent share of renewable energy in the power generation mix by 2030 and above 50 percent by 2040. One major component of the NREP is the promotion of renewable energy as an alternative source in the agriculture and fisheries sector to enhance productivity while protecting the environment.

Lastly, the country's fiscal policy has focused on providing social safety nets and healthcare assistance to those most affected by the pandemic. As of June 2021, the government has released about PHP 600 billion for pandemic response through Bayanihan 1 and 2. Another PHP 2.93 billion was allocated to the Quick Response Fund of the Department of National Defense, Department of Public Works and Highways, and Department of Social Welfare and Development. The Philippine COVID Emergency Response Project also received PHP 2.69 billion.

When the pandemic hit in 2020, annual revenues of the national government shrunk by 9 percent, while tax revenues declined by 11 percent. The Congress is deliberating the Real Property Valuation and Assessment Act, the third package of the Comprehensive Tax Reform Program. This policy will provide LGUs with more revenues in anticipation of the Mandanas ruling implementation. This will give LGUs more resources and responsibilities, particularly in mitigating the impact of the pandemic and managing the country's economic recovery.

Completing this issue is an analysis of the macroeconomic performance of the Philippines in 2020, when the COVID-19 pandemic started. Chapter 1 also looks at the prospects of the country in 2021 and 2022 against the evolving global and domestic backdrop.

In 2020, the country's gross domestic product fell by 9.6 percent, the steepest recession yet in the post-war era. Further, business restrictions and heightened uncertainty pulled down private investment by 34.4 percent, the worst performance since the 1984–1985 economic crisis. On the production side, services output fell by 9.2 percent and industrial output suffered a 13.2-percent drop as sectors dependent on mobility and physical contact slumped.

Global and domestic indicators point to slowing economic activity in the Philippines due to the persistence of COVID-19. The emergence of new and highly transmissible virus variants fueled economic uncertainty and dimmed economic outlook. Considering the impact of the intermittent tight quarantines on aggregate demand, the Philippine economy is expected to grow at only 5.4 percent in 2021 and by 6.5 percent in 2022. The Philippines also faces the possibility of negative spillovers to the financial system. Prolonged economic pain reduces cash flows and diminishes savings of both households and firms, reducing their capacity to repay their loans. Banks, in turn, become unwilling to lend, impairing the credit flow to the real economy.

Uneven post-pandemic recovery is also expected globally due to differences in virus containment measures and outcomes, speed of vaccination rollout, and pre-pandemic trends and systems, among others. This could complicate domestic policymaking as the possibility of tighter external financial conditions, such as elevated inflation, alongside a worsening health crisis could set back domestic recovery. Global food and fuel inflation remains uncertain, while some domestic sources of inflation continue to present a challenge to the Philippines.

Lastly, the country needs to avert the longer-term risk of economic scarring. These include productivity losses due to business closures, deskilling of workers due to prolonged unemployment, and disruptions in education and training and planned investment. Thus, long-term growth in a post-COVID-19 future depends on investment in infrastructure and education to build up human capital and create jobs and spur near-term demand.

CHAPTER 1

Macroeconomic Prospects of the Philippines in 2021–2022: A Rough Recovery

Margarita Debuque-Gonzales
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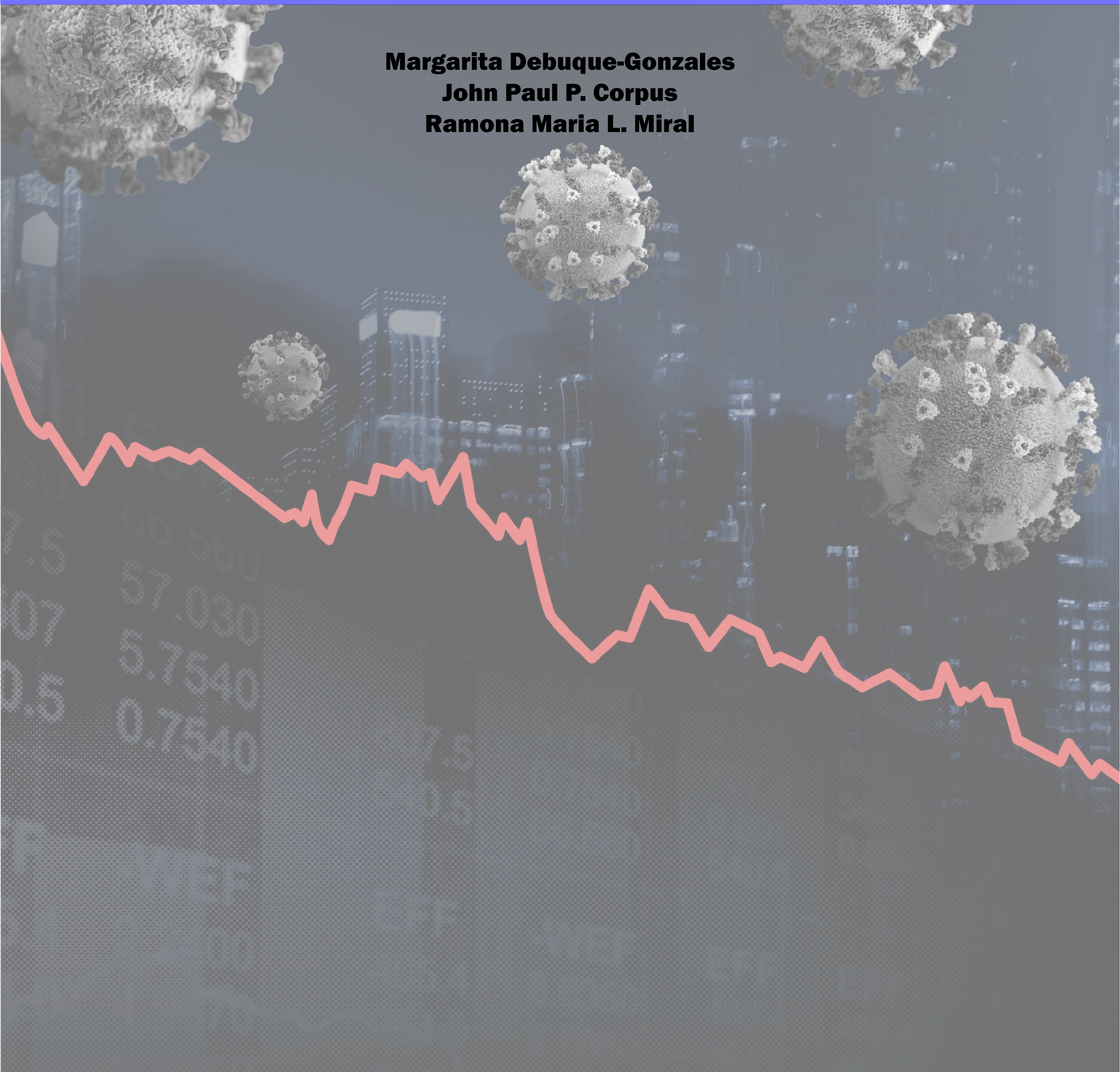


Introduction

Over one and a half years have gone by since the coronavirus disease 2019 (COVID-19) virus first shook the world economy. Divergence of economic prospects widened by the middle of 2021, with the success of vaccine distribution programs serving as the main dividing line. A new fast-spreading Delta variant became the dominant source of worry by midyear, even in countries with relative success in vaccination rollouts. This led to a return of stringent public health restrictions in many areas, including in Southeast Asia. As of the time of writing, the number of cases continued to rise in some parts of the world, fueling economic uncertainty.

In the Philippines, prolonged quarantines in key economic areas and deliberate social distancing still constrained economic activity until the third quarter of 2021. Despite macroeconomic policies designed to shore up aggregate demand, high uncertainty about the path of the COVID-19 virus continued to dampen business and consumer confidence. The country's vaccination efforts failed to provide the anticipated boost, mainly because of a slow start that stemmed from initial procurement delays and vaccine hesitancy, as well as uncertainty about supply. While there had been positive signs earlier in the year, with a reopening of partner economies expected to create positive spillovers through trade and remittances, the revival was short-lived and curtailed by a resurgence of COVID-19 cases.

This chapter looks at the macroeconomic prospects of the Philippines in 2021 and 2022 against this evolving global and domestic backdrop. We begin by examining the country's macroeconomic performance in 2020, the first year of the COVID-19 pandemic, followed by concise summaries of the global and regional economic environment and key domestic factors shaping economic outlook in the near term. How the COVID-19 pandemic and vaccination measures unfold will largely determine outcomes, but it is not the only source of risk. Other sources that need to be flagged (and ideally mitigated) include the possibility of negative spillovers to the financial sector; uneven world recovery, which may complicate domestic policymaking; and longer-term concerns, particularly related to economic scarring. We analyze these issues contributing to a rough recovery in the final section.

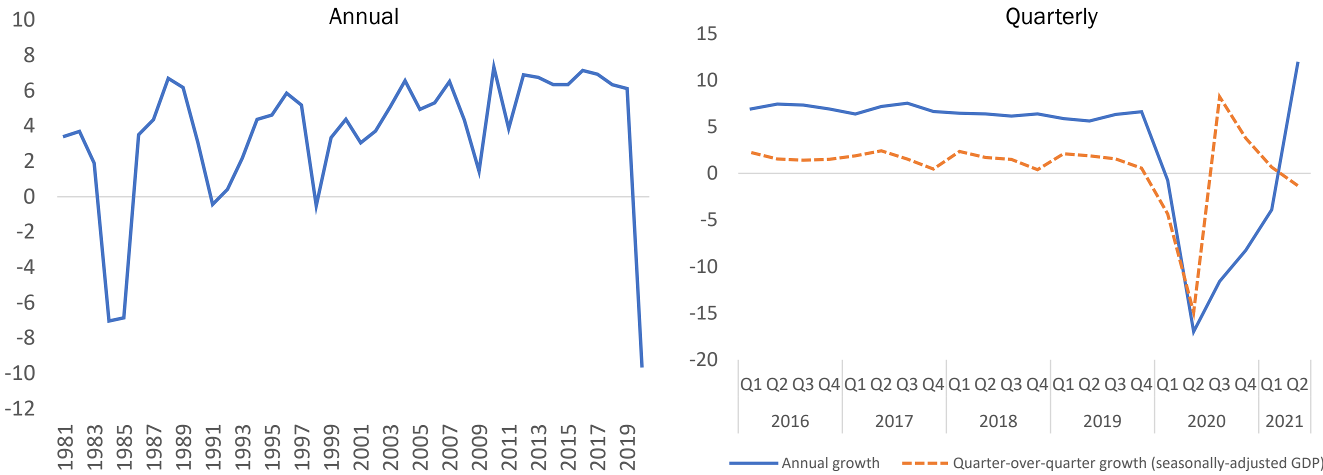
Macroeconomic performance in 2020

The country's real gross domestic product (GDP) fell by 9.6 percent in 2020 (Figure 1.1). This has been the steepest recession yet in the postwar era, as pandemic containment measures disrupted large swathes of the economy, especially the country's major economic regions.

Household consumption and services collapse

The downturn was marked by a disruption of the economy's main engines: consumption fell on the expenditure side (-7.9% annually), and services on the production side (-9.2%) (Figure 1.2). Household consumption accounts for over 70 percent of aggregate demand, while the services sector accounts for over 60 percent of total output. Although both

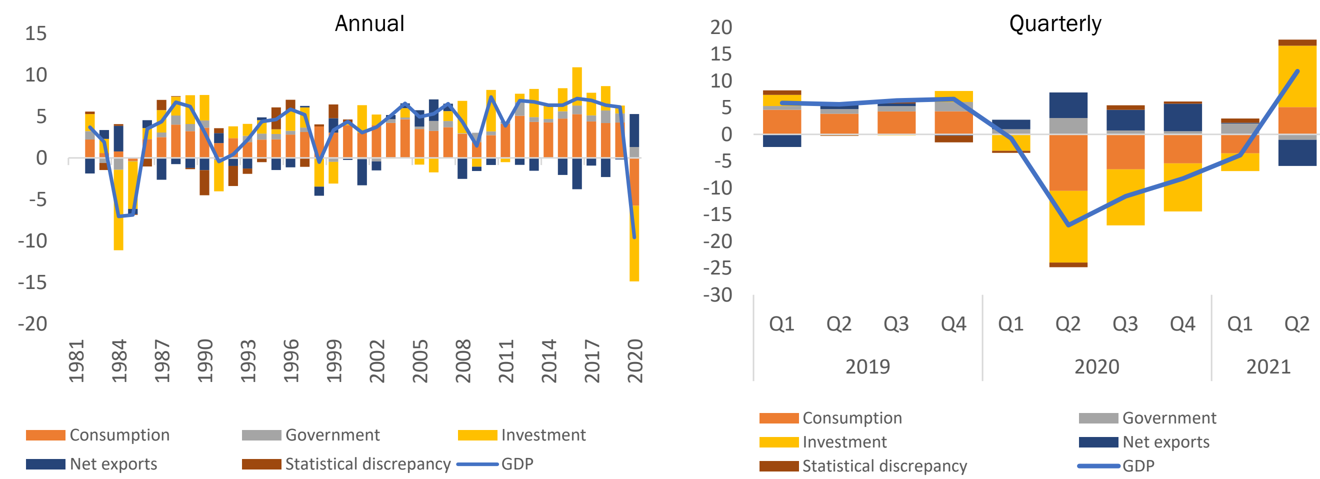
Figure 1.1
GDP growth



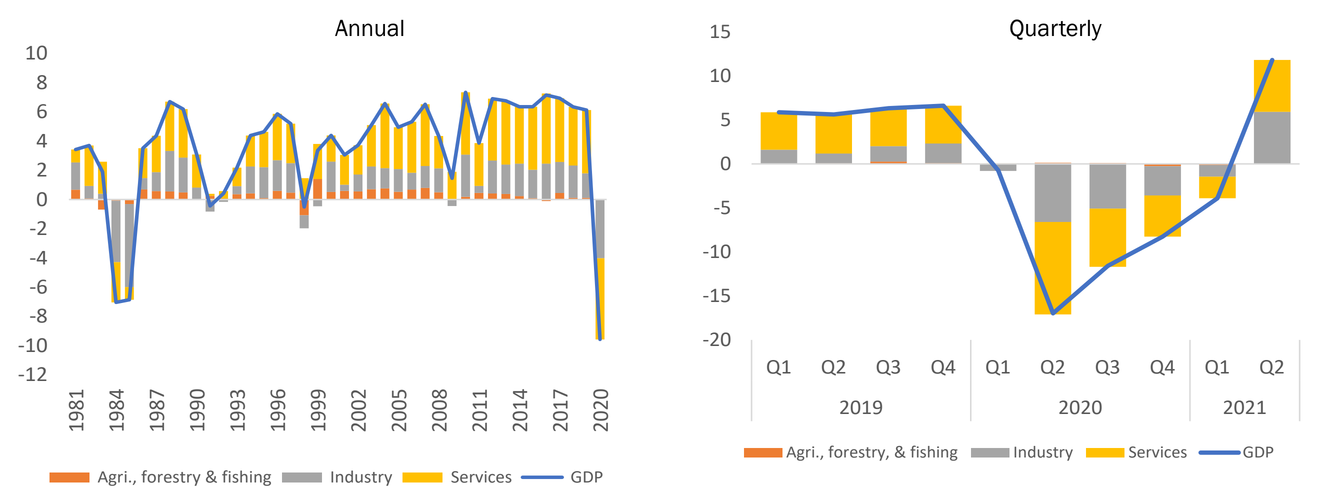
GDP = gross domestic product; Q = quarter
Source: Philippine Statistics Authority (PSA) (2021c)

Figure 1.2
Drivers of GDP growth

A. Expenditure



B. Output



GDP = gross domestic product; Q = quarter
Source: PSA (2021c)

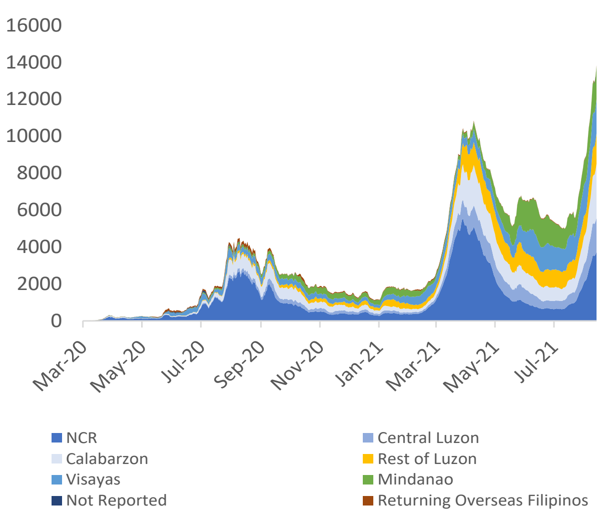
had been resilient in the last two recessions, they proved exceptionally vulnerable to health-related pandemic policies, which constrained mobility and prohibited activities requiring high social contact.

After causing a deep contraction in the second quarter (Q2) of 2020, pandemic containment measures continue to stifle growth. GDP dropped by 17 percent annually in the second quarter of 2020 when the strictest quarantine level (the enhanced community quarantine or ECQ) was imposed throughout Luzon and in many parts of Visayas and Mindanao. The gradual easing of restrictions starting May 2020 spurred a tentative rebound in the second half of the year based on seasonally adjusted quarter-over-quarter growth. However, the recovery has been mired by the reinstatement of tighter restrictions to stem waves of COVID-19 infections (Figure 1.3), such as those that occurred in NCR-Plus[1]—the country's main economic hub—in the third quarter (Q3) of 2020 and Q2 2021. Quarterly growth stalled in the first half of 2021, registering at 0.7 percent in the first quarter (Q1) of 2021 and -1.3 percent in Q2, when it was weighed down by the NCR-Plus's reversion to stricter quarantine levels (around April–May 2021). Coming off a low base, annual GDP growth was 3.7 percent in the first half (H1) of 2021.

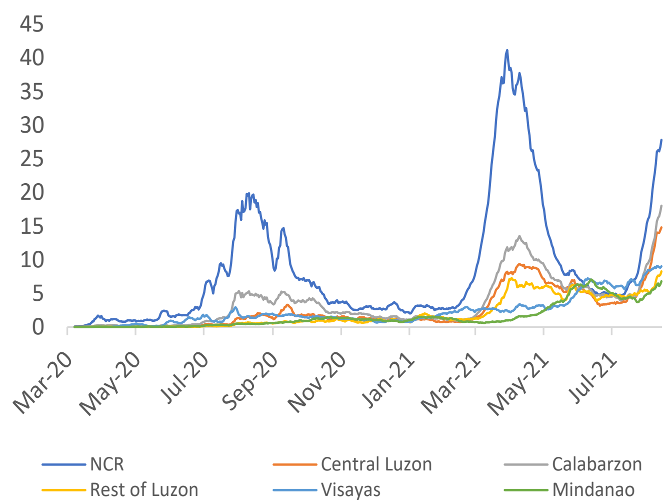
[1] NCR-Plus refers to the National Capital Region (NCR) and the surrounding provinces of Bulacan, Rizal, Cavite, and Laguna.

Figure 1.3
COVID-19 infections

A. Daily new COVID-19 cases
(Seven-day moving average until August 20, 2021)



B. Daily new COVID-19 cases per 100,000 people by region
(Seven-day moving average until August 20, 2021)



COVID-19 = coronavirus disease 2019; NCR = National Capital Region; Calabarzon = Cavite, Laguna, Batangas, Rizal, and Quezon
Source: CEIC Data (2021b)

Household consumption fell by 7.9 percent under the strain of pandemic restrictions, job losses, a dip in foreign remittances, and overall consumer pessimism. The decline can be traced primarily to a sharp drop in spending for nonessentials as well as services that bore the brunt of containment measures, such as transportation (-33.5%), restaurants and hotels (-43.1%), and recreation and culture (-44.1%). Demand similarly declined for other discretionary items, such as alcohol and tobacco (-25.6%), clothing and footwear (-16.4%), and household furnishings and equipment (-12.9%) (Figure 1.4). Spending on education fell (-11.7%) with the shift to remote learning and lower enrollment for schoolyear (SY) 2020–2021.[2] Meanwhile, spending held steady for essentials, such as food and nonalcoholic beverages (5.0%), housing and utilities (5.8%), and communication (6.1%). Consumption spending grew marginally in H1 2021 (0.9%) as spending for transport and recreational services remained weak, even as demand for other discretionary items strengthened.

Business restrictions and heightened uncertainty pulled down private investment by 34.4 percent, its worst performance since the 1984–1985 economic crisis. The decline was driven by lower outlays for durable equipment (-29.7%)—particularly transport equipment (-34.4%)—as well as by a slump in construction spending (-30.3%), as construction projects were disrupted (Figure 1.4). Investment spending grew by 20.2 percent in H1 2020, but growth in fixed investment (6.1%) was secondary to the large reduction in inventory disposals in driving the turnaround.

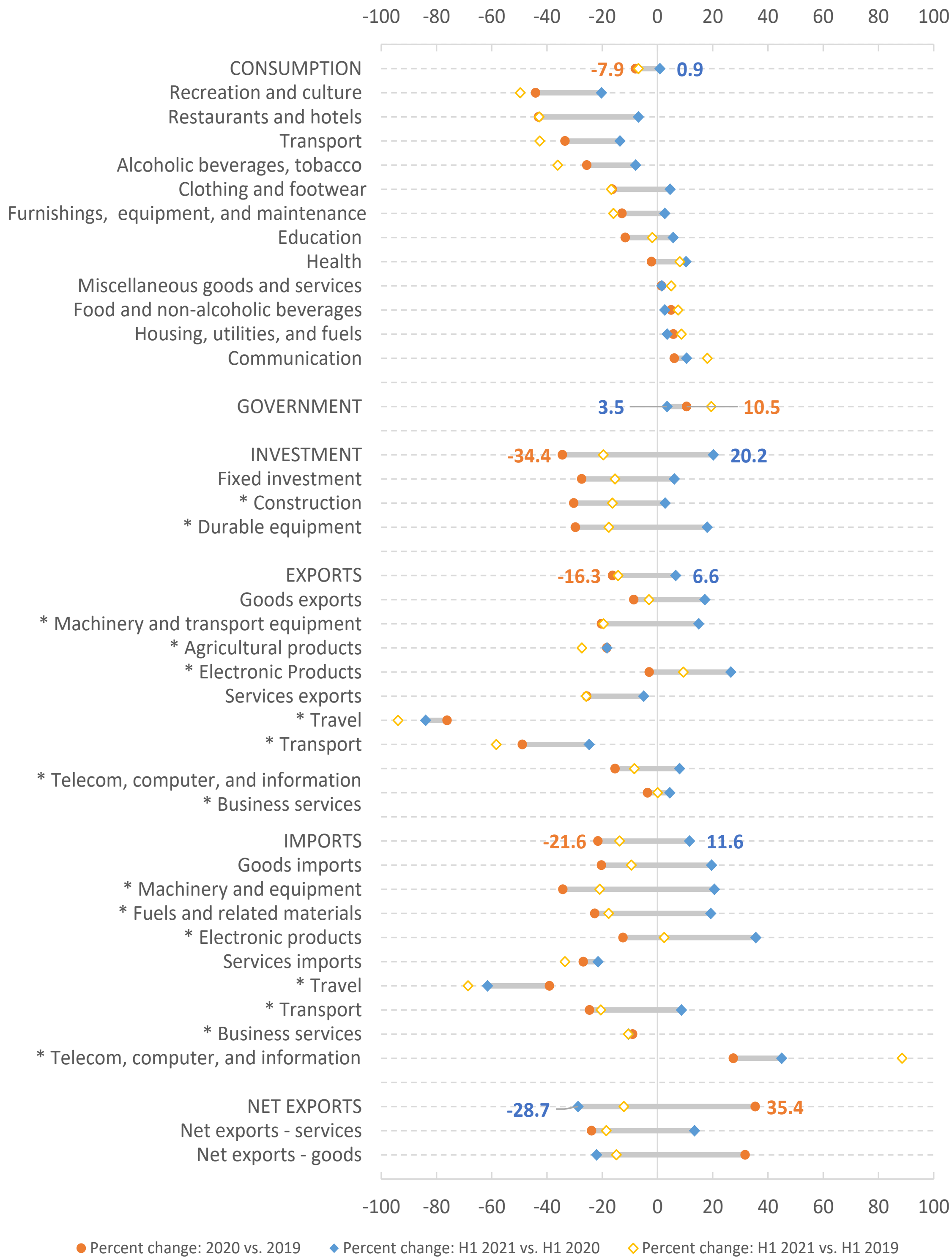
Imports and exports fell due to the collapse of external and domestic demand, supply disruptions, and travel restrictions. Imports of goods declined mainly on lower shipments of fuel (-22.5%) and capital goods (-32.2%) (Figure 1.4). Goods imports decreased at a much faster rate than goods exports (-20.3% vs. -8.6%), significantly diminishing the goods trade gap as a result. This improvement offset the relatively smaller deterioration of the positive net exports in services, which shrank as travel exports suffered a larger decline compared to travel imports (-76.1% vs. -39.1%).[3] Overall, a larger drop in imports (21.5%) compared to exports (16.3%) narrowed the trade gap and resulted in net exports contributing positively to GDP growth (4 percentage points). These developments largely reversed with the rebound of trade in the first half of 2021. Imports grew faster than exports (11.6% vs. 6.6%) in H1 2021, causing net exports to grow more negative and subtract from GDP growth (-2.3 percentage points). The positive net exports in services grew as the gap in travel exports narrowed and net exports of business services increased.[4] This was offset by the widening of the goods trade gap due to the broad recovery of goods imports, led by higher imports of fuel and capital goods.

[2] Based on data as of November 11, 2020, enrollment in basic education (Kindergarten to Grade 12) in SY 2020–2021 was 9.8 percent lower (2.7 million fewer students) compared to that in the previous school year (Briones 2020).

[3] An increase in imports of telecommunications and computer and information services (up by 27.5%), coupled with lower exports of the same service (down by 15.4%), was also a significant factor in diminishing the positive net exports in services.

[4] In H1 2021, annual growth in business services exports and imports were 4.5 percent and -10.5 percent, respectively.

Figure 1.4
Growth in expenditure sectors



H1 = first half
Source: Authors' computations using PSA (2021c)

Government spending increased by 10.5 percent, tempering the contraction in domestic private demand (Figure 1.4). It grew by 21.8 percent in the second quarter (Q2) of 2020, driven by the implementation of various emergency relief and health measures under Republic Act (RA) 11469 or the *Bayanihan* to Heal as One Act (also known as Bayanihan 1) amid the strictest community quarantines across the country.[5] Public spending slowed down in the second half of 2020 (5.4%) due to various factors, including base effects from the catch-up spending in the second half of 2019, lower spending on outlays that were discontinued to fund Bayanihan 1, and delays in the implementation of government programs, including those under RA 11494 or the Bayanihan to Recover as One Act (also known as Bayanihan 2) (DBM 2021b). Government spending slowed further in H1 2021 (3.5%) partly due to base effects. Outlays for various infrastructure projects, which were disrupted during the strict lockdowns in H1 2020, accounted for much of the spending growth (DBM 2021c).

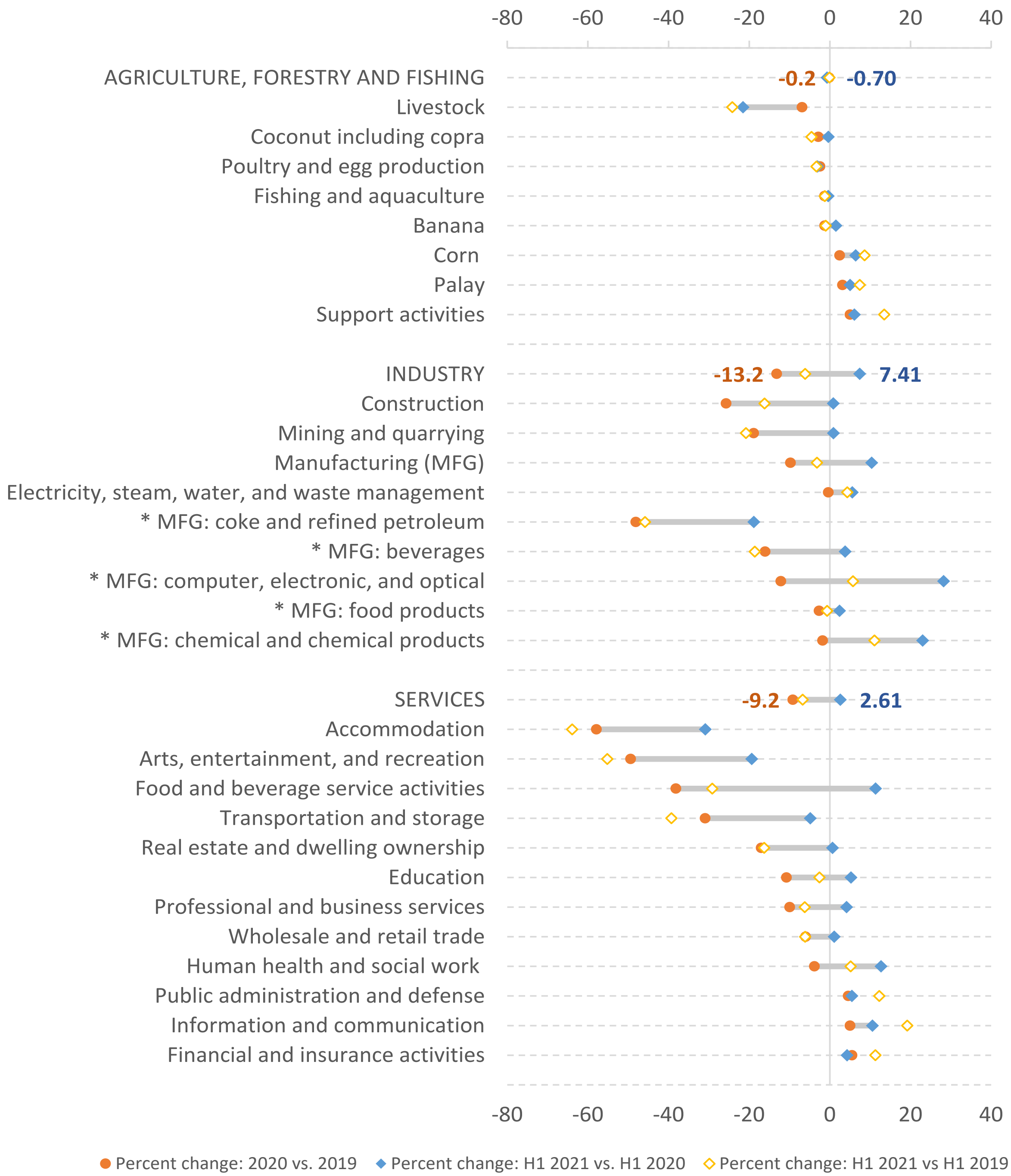
On the production side, services output fell by 9.2 percent as sectors dependent on mobility and physical contact slumped (Figure 1.5). Contractions in transport and storage (-30.9%), wholesale and retail trade (-6.0%), accommodation and food services (-45.4%), and entertainment and recreation (-49.4%) together contributed over 70 percent of the decline.[6] Real estate output tumbled (-17.0%) as property demand fell, while education output shrank (10.8%) with in-person classes banned and fewer students enrolling for SY 2020–2021, especially in private schools. Some services subsectors withstood the downturn. Information and communication services grew by 5 percent, buoyed by the widespread shift to online platforms for work, education, and commerce. Financial and insurance services output grew 5.5 percent on the performance of banks (up 12.3%), which benefited from the *Bangko Sentral ng Pilipinas*' (BSP) expansionary measures. In H1 2021, services grew by a modest 2.6 percent as the retail and wholesale trade and food services sectors expanded from the year prior, while the contraction in transportation and recreational services moderated.

Industrial output suffered a 13.2-percent drop, driven by contractions in construction and manufacturing (Figure 1.5). Activity had been temporarily suspended in these subsectors during the initial ECQs. Only producers of essential items, such as medicines, medical supplies and equipment, and basic food, were allowed to operate under the lockdowns. However, more industries were allowed to run at full capacity in the shift to the less stringent general community quarantine (GCQ) in June and succeeding months. Refinery output nearly halved (-48.1%) on the shutdown of the country's two

[5] This is relative to low spending (i.e., a low base) in Q2 2019 due to the delayed approval of the national budget for that year.

[6] The same sectors account for about a quarter of GDP in 2019.

Figure 1.5
Growth in production sectors



H1 = first half; MFG = manufacturing
Source: Authors' computations using PSA (2021c)

oil refineries,[7] contributing close to a quarter of the total drop in manufacturing value added. Industrial output grew by 7.4 percent in H1 2021 on the back of a rebound in manufacturing, particularly in the production of food, chemicals, and computer and electronics.

Agricultural output dipped by 0.19 percent following a mixed performance within the sector (Figure 1.5)**.** Growth was concentrated in selected crops and agricultural support sectors, while fisheries, animal production, and forestry output declined. Livestock output fell 6.9 percent due primarily to the continuing African Swine Fever outbreak, which affected 25 out of 81 provinces by December 2020 (DA 2020). Livestock output contracted further in H1 2021 (-21.5%) as the disease spread to 46 provinces by May 2021, prompting the President to declare a one-year state of calamity (Proclamation 1143). The growth of agricultural output for H1 2021 thus dipped by 0.7 percent.

External surplus increases on weak domestic demand

A narrower trade deficit in 2020 swung the current account to a surplus of USD 12.98 billion from the deficits of the previous four years (Figure 1.6, Panel A)**.** In particular, the reversal owed to the trade-in-goods deficit shrinking by 35.4 percent as merchandise imports declined on weaker investment and consumption demand. The services trade balance, meanwhile, held steady (up 0.3%). Temporary improvements in the trade balance dwarfed the relatively smaller declines in net receipts of primary income (-17.4%) and secondary income (-2.0%), including a dip in overseas workers' remittances (-0.19%) (Figure 1.6, Panel B).

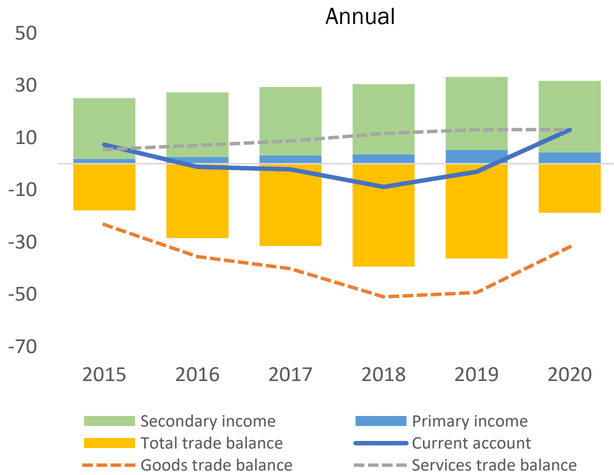
The financial account surplus declined by 42.6 percent to USD 4.6 billion as the portfolio investment account reversed to net outflows (Figure 1.6, Panel C)**.** Net outflows from domestic equities and net acquisition of foreign portfolio assets outpaced higher net inflows to domestic debt securities, particularly government securities. In addition, net inflows of direct investment declined as domestic economic conditions deteriorated. Net portfolio outflows and lower direct investment were partially mitigated by an increase in other investments, driven by a large increase in the government's foreign borrowing in response to the pandemic.

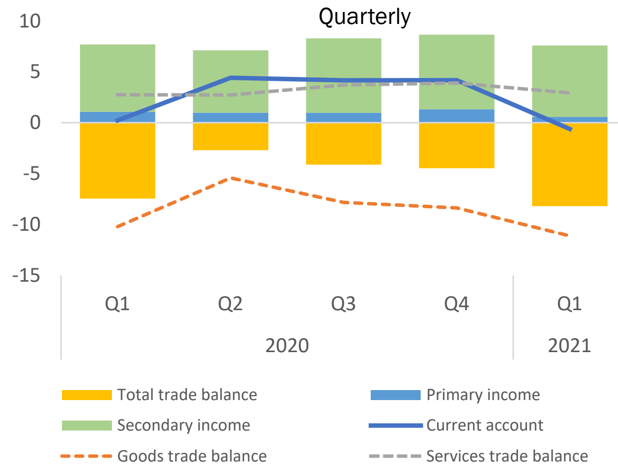
Overall, weak domestic demand propped up the country's external position in 2020, supporting currency appreciation and reserve accumulation. The balance-of-payments (BOP) surplus rose to USD 16 billion, over twice its level in 2019 (Figure 1.7). Increased foreign currency inflows helped strengthen the peso, appreciating by 5.3 percent against the US dollar (USD) to PHP 48.06/USD in December 2020 from PHP 50.77/USD in December 2019 (Figure 1.8, Panel A).

[7] The two refineries are Petron Corporation's 180,000-barrels-per-day (bpd) Bataan refinery and Pilipinas Shell Corporation's 110,000 bpd Batangas refinery. Both firms announced the temporary shutdown of their refineries in May 2020 due to low fuel demand amid the pandemic (DOE 2020). In August 2020, Shell announced the permanent shutdown of its Batangas facility and the latter's conversion into an import terminal, citing economically unviable refining margins (Pilipinas Shell 2020). Petron's Bataan facility meanwhile resumed operations in October 2020. The latter shut down again in February 2021 and reopened in June 2021 (Lectura 2021).

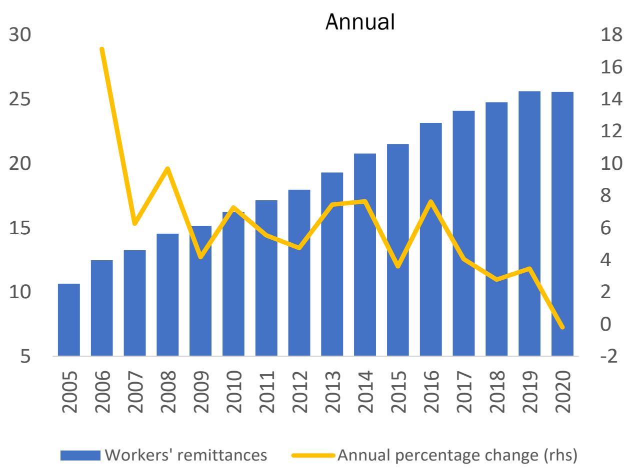
Figure 1.6
Current account, workers' remittances, and financial account

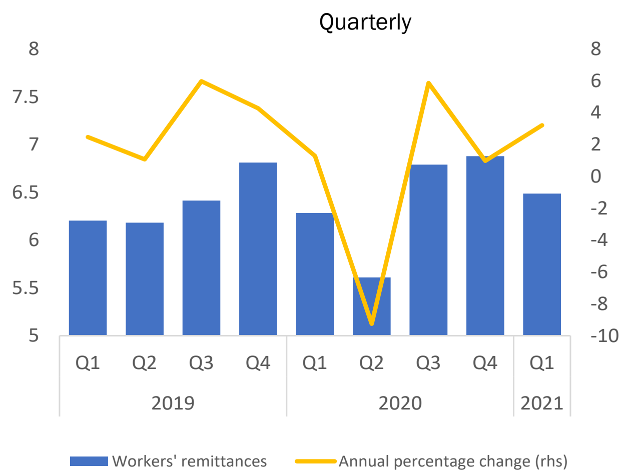
A. Current account (billions of USD)



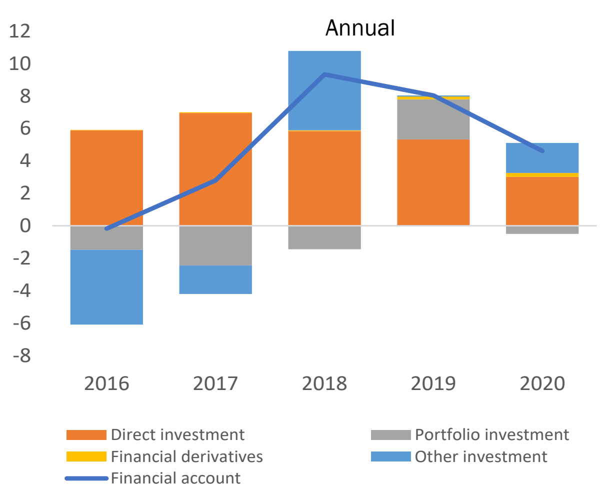


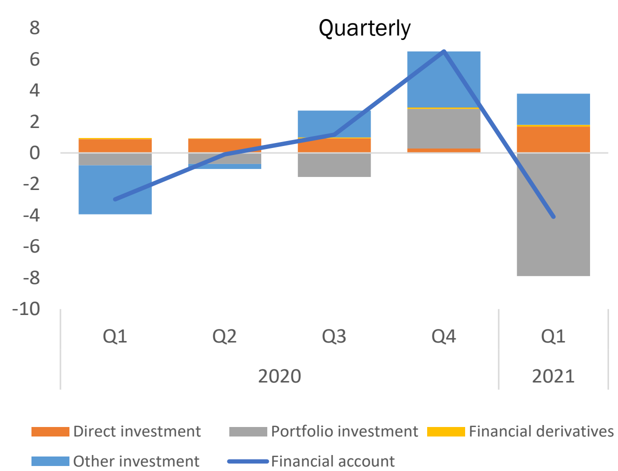
B. Workers' remittances (billions of USD)





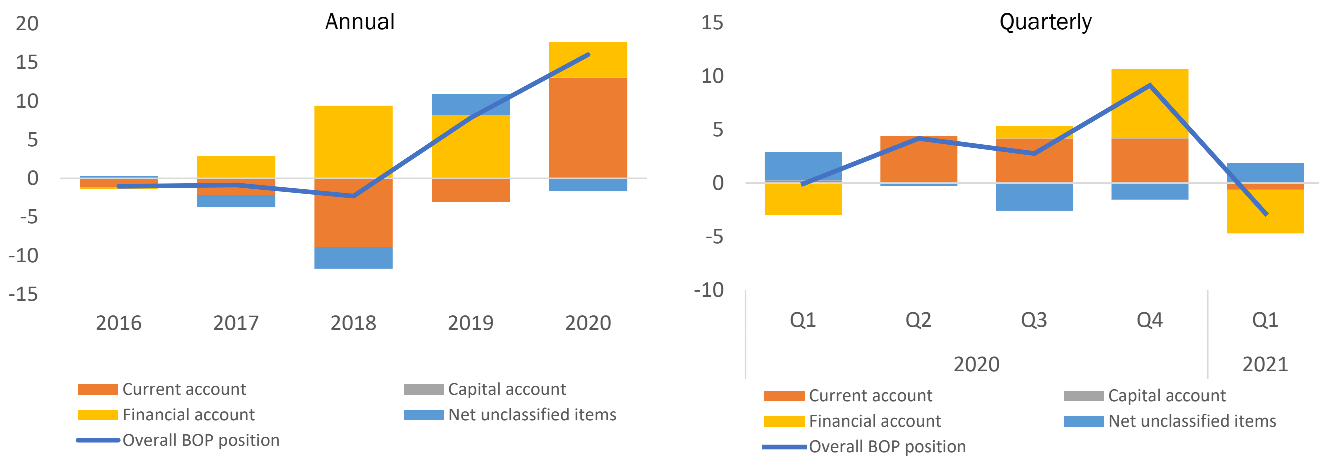
C. Financial account (billions of USD)





USD = US dollar; Q = quarter; rhs = right-hand side
Source: BSP (2021d)

Figure 1.7
Balance of payments (billions of USD)



USD = US dollar; Q = quarter; BOP = balance of payments
Source: BSP (2021d)

Meanwhile, the country's gross international reserves increased substantially from USD 87.8 billion in end-2019 to USD 110.1 billion in December 2020 (Figure 1.8, Panel B). The increase owed to the BSP's operations in the foreign exchange market and income from foreign investments, the government's foreign currency deposits in the BSP, and a positive revaluation of the BSP's gold and foreign currency holdings (BSP 2021a).

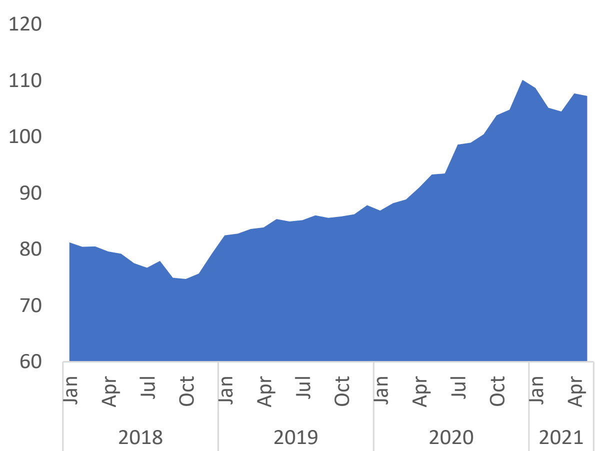
Net capital outflows and a rebound in imports drove the BOP to a USD 2.8-billion deficit in the first quarter of 2021. A USD 4.1-billion financial account deficit developed as net outflows of portfolio investment increased, mainly on higher outward investment in foreign debt securities, as well as repayment by the national government and local corporates of maturing securities. Meanwhile, the current account reversed to a USD 614-million deficit as merchandise imports strengthened on stronger domestic demand amid the economy's gradual reopening. Between December 2020 and March 2021, gross international reserves correspondingly dipped to USD 104.5 billion, and the peso depreciated slightly to PHP 48.6/USD (from PHP 48.06/USD yearend 2020).

Inflation upticks driven by supply-side events

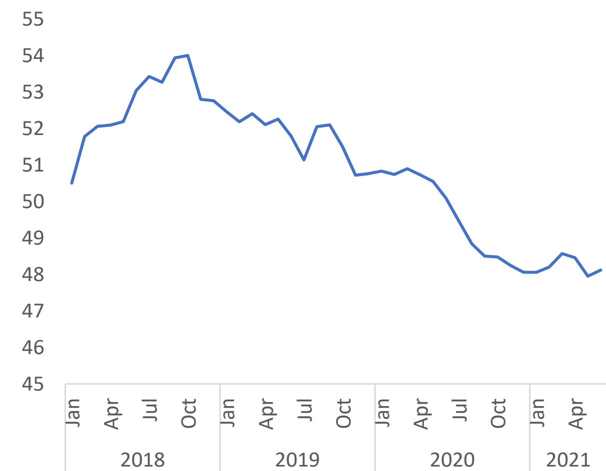
Headline inflation averaged 2.6 percent in 2020, as lower prices of oil, electricity, and rice, combined with subdued domestic demand, restrained the overall index. Widespread restrictions and the ensuing downturns sent world oil prices tumbling in the first half of 2020, remaining below the 2019 levels for the rest of the year. Domestic electricity prices in 2020 were also down from the previous year, largely due to lower

Figure 1.8
Gross international reserves and peso-US dollar exchange rate

A. Gross international reserves (billions of USD)



B. Peso-US dollar exchange rate (PHP per USD)



USD = US dollar; PHP = Philippine peso
Source: BSP (2021e, 2021f)

power demand.[8] Meanwhile, the downward trend in rice prices triggered by the 2019 Rice Tariffication Law continued, albeit with signs of tapering off after Q1 2020. The average annual increase in the CPI sub-indices for transport fuel and lubricants, electricity, and rice were -11.1 percent, -6.9 percent, and -2.5 percent, respectively.

Supply-side factors drove upticks in inflation beginning in the middle of the year. After decelerating from 2.9 percent to 2.1 percent between January and May 2020 on lower electricity and fuel prices, inflation ticked up to 2.5 percent in June and 2.7 percent in July due to higher road transport fares.[9] Higher road transport fares—which persisted through to December—stemmed from restrictions to public transport operations as commuters increasingly returned to work.[10] Slower food inflation nudged the headline inflation down in August (2.4%) and September (2.3%). Thereafter, inflation climbed from 2.5 percent to 3.5 percent between October and December owing to upward pressure from food prices. Vegetable inflation accelerated following agricultural damage brought by a spate of typhoons in Q4 2020,

[8] Prices in the Wholesale Electricity Spot Market were reportedly down by 54.8 percent in 2020 compared to 2019. The decline was due to the marked fall in power consumption in Luzon and Visayas following government-imposed pandemic restrictions, combined with adequate power supply (Nethercott 2021).

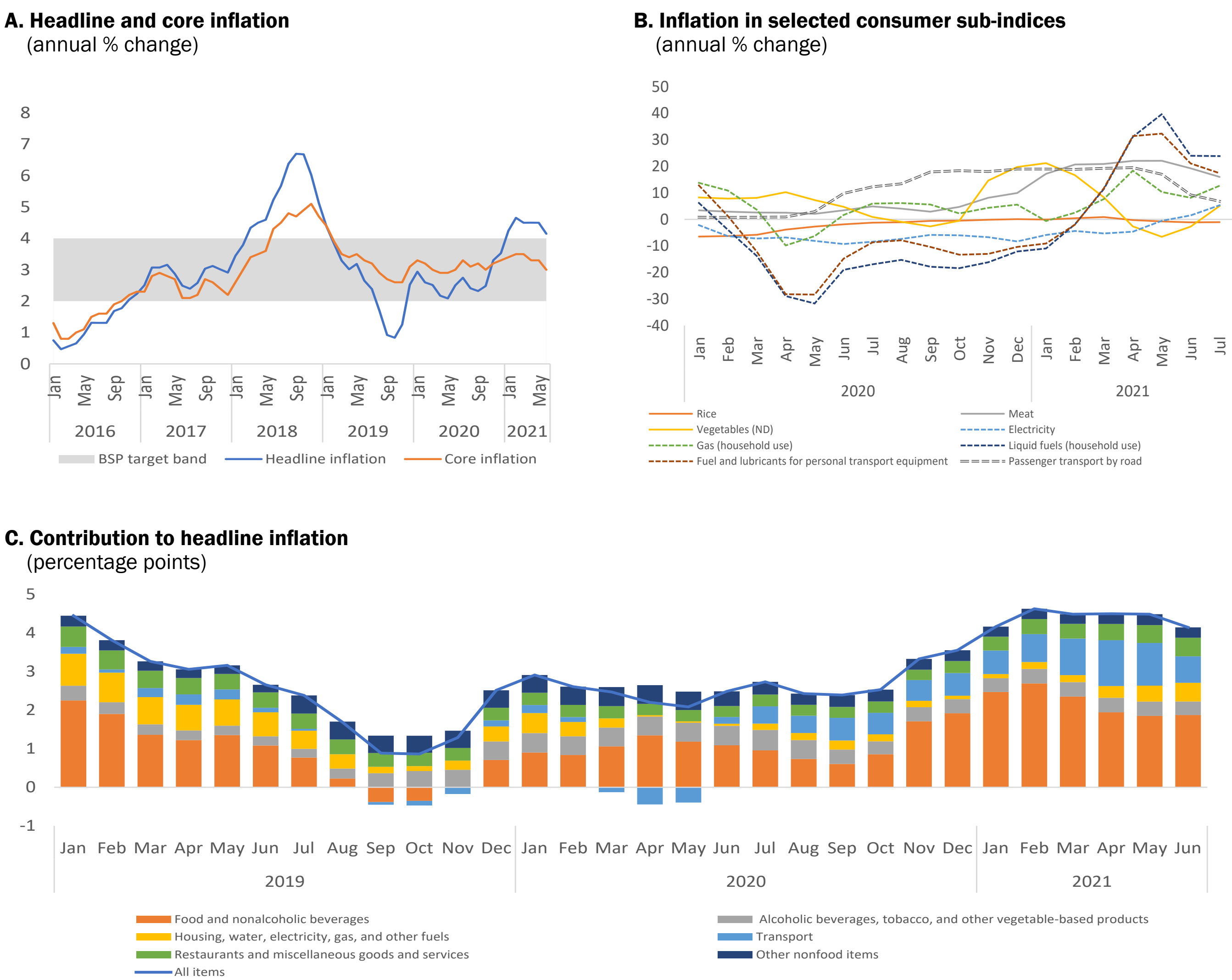
[9] The upward pressure originated from tricycle fares. In its monthly inflation press conferences from June to December 2020, PSA reported the following annual increases in its tricycle fare price index: 26 percent in June, 33.6 percent in July, 37.4 percent in August, 45.3 percent in September, 45.8 percent in October, 45.9 percent in November, and 47.2 percent in December.

[10] In NCR, jeepneys were banned from operating in areas during ECQ and modified ECQ. A limited number of jeepneys were allowed to operate at reduced capacity starting July 2020.

while meat inflation edged up on tighter pork supply due to the African Swine Fever (see the Agriculture section of Chapter 2 [Policy Updates] for details of the ASF's effects).

Continued upward pressure from food and transport services and a rebound in fuel prices pushed inflation beyond target in the first half of 2021 (Figure 1.9). Inflation averaged 4.4 percent during the period, peaking at 4.6 percent in February and slowing down to 4.1 percent in June. Higher vegetable prices persisted in Q1 but faded in Q2 as supply normalized, while meat prices continued to climb in Q1 and remained elevated thereafter. To address rising pork prices, the government issued executive orders in May 2021, temporarily reducing pork tariff rates (Executive Order [EO] 134) and increasing the pork import

Figure 1.9
Inflation dynamics



Source: PSA (2021d)

quota (EO 135).[11] Transport services inflation started to edge down in May, but a recovery in fuel prices beginning March kept overall transport inflation high. Inflation in housing and utilities also picked up on higher prices of electricity and household fuels.

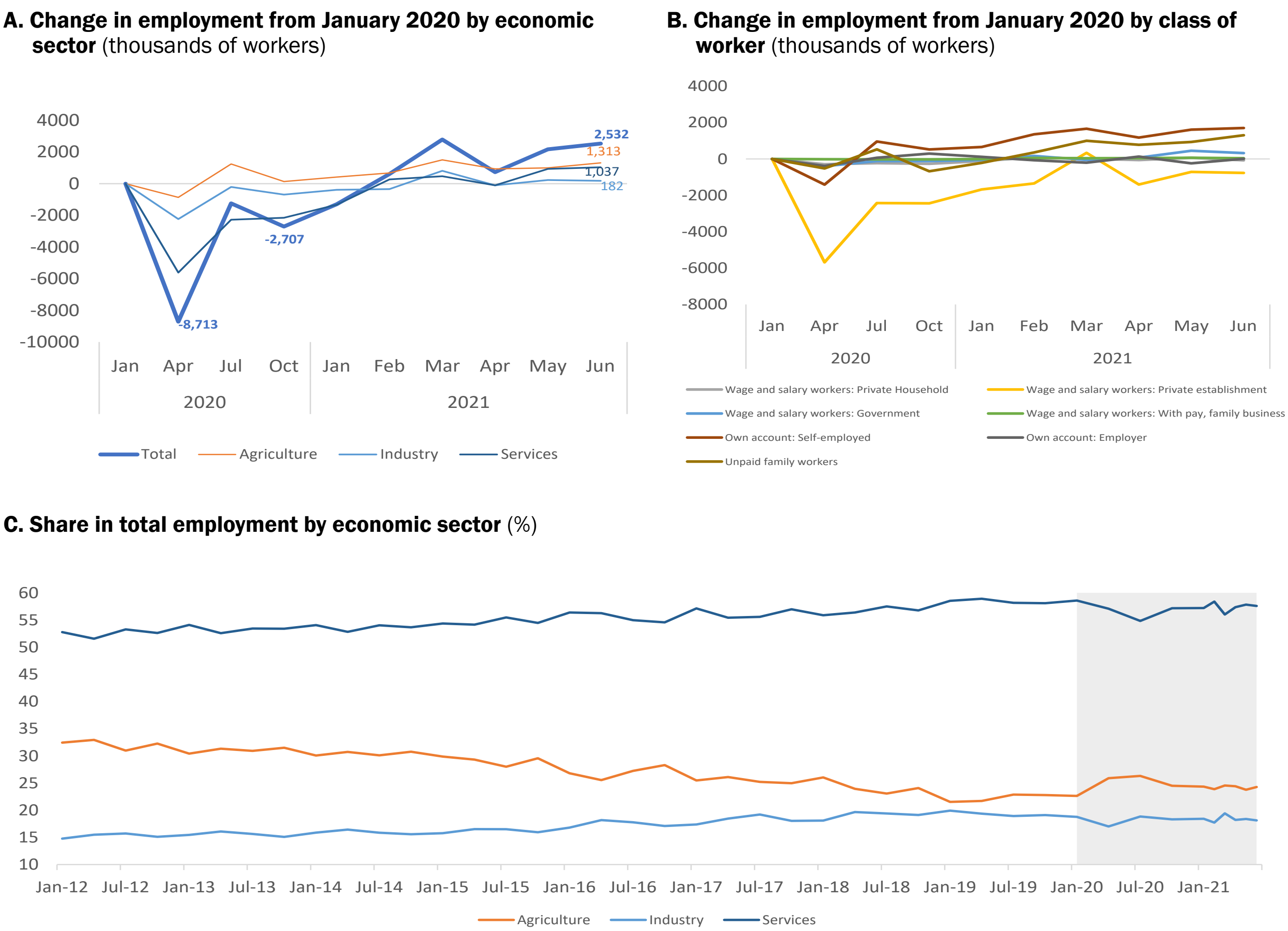
Widespread job losses

Pandemic containment measures and the ensuing downturn resulted in a massive loss of employment, particularly in services and industry. The economy shed 8.7 million jobs between January and April 2020 (Figure 1.10, Panel A). Two-thirds of the job losses (5.9 million) originated from just five sectors: wholesale and retail trade, construction, manufacturing, transportation and storage, and accommodation and food services. Most of the jobs displaced were wage and salary jobs in private establishments (Figure 1.10, Panel B). The partial reopening of the economy spurred employment to regain some ground by October 2020. However, total employment then was still 6.4 percent lower (equivalent to 2.7 million fewer jobs) than in January 2020, owing mainly to lower employment in accommodation and food services (-33.3%), transportation and storage (-16.9%), and manufacturing (-16.7%). As authorities allowed the agriculture sector to operate fully early in the pandemic, it was spared from large employment losses and perhaps even absorbed displaced nonagricultural workers. This resilience, alongside a large decline in nonagricultural employment, has temporarily nudged agriculture's share in total employment upward. (Figure 1.10, Panel C).

Unemployment and underemployment soared in Q2 2020 and remained above pre-pandemic levels despite moderating in the second half of the year. The unemployment rate rose to a historic high of 17.6 percent (7.2 million) in April 2020 as the strictest quarantine level prevailed in large parts of the country (Figure 1.11, Panel A). Similarly, the underemployment rate increased to 18.9 percent (6.4 million) in April 2020, compared to 13.7 percent (2.3 million) in the year prior. The increase was driven by visibly underemployed workers, particularly those who reported not working at all during the Labor Force Survey's reference week. Jobless and underemployment numbers improved in the second half of the year as businesses reopened. In October 2020, the underemployment eased to 14.4 percent, slightly higher than its October 2019 reading (12.8 percent). Meanwhile, the unemployment rate halved to 8.7 percent, but was still twice as high as in the year prior (4.6 percent), reflecting the incomplete revival of employment.

[11] On May 11, 2021, President Duterte issued EO 133, raising the minimum access volume on pork imports from 54,210 metric tons (MT) to 254,210 MT. Importers can avail 70 percent of the additional 200 MT of pork imports from July to October 2021, and the remaining 30 percent in November 2021 to January 2022. The President also signed EO 134 on May 15, 2021, setting in-quota and out-quota tariff rates for pork imports to 10 percent and 20 percent, respectively, for the first three months, and increasing to 15 percent and 25 percent, respectively, for the succeeding nine months. EO 134 superseded EO 128 issued just one month earlier (April 7, 2021). EO 128 set pork import tariff rates 5 percentage points lower in comparison to EO 134. Under RA 10863 or the Customs Modernization and Tariff Act, the President has the power to adjust import duties in the interest of general welfare, upon the recommendation of the National Economic and Development Authority, and when Congress is not in session. Congress was on a scheduled suspension of session from March 27 to May 16, 2021.

Figure 1.10
Employment situation



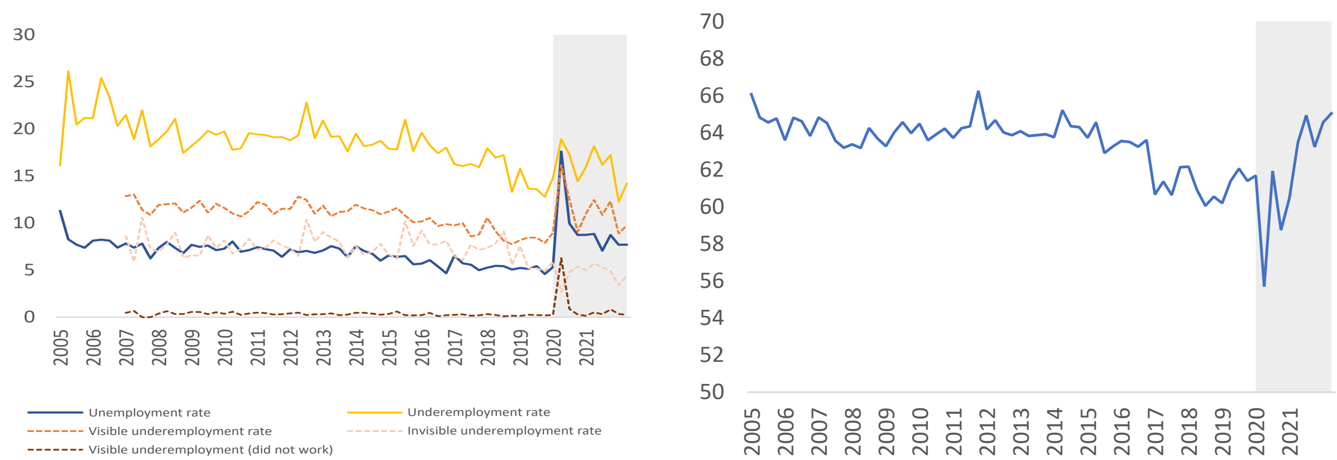
Source: Authors' computations using CEIC Data (2021i)

Stringent restrictions caused a steep drop in labor force participation in Q2 2020. The labor force participation rate fell from 61.7 percent in January 2020 to 55.7 percent in April 2020 (Figure 1.11, Panel B), as strict lockdown policies in force at the time inhibited labor supply. The rebound in employment pulled labor force participation to 61.9 percent in July 2020, but the latter slid again to 58.7 percent in October 2020 due to employed and unemployed workers dropping out of the workforce. Prolonged low participation or continued decline possibly indicates worker discouragement. Gains in employment drove the participation rate to rise above 60 percent in H1 2021, indicating improving labor market conditions.

Elevated joblessness persisted in the first half of 2021 amid a patchy jobs recovery. Total employment in June 2021 surpassed its level in January 2020 by 6 percent as the economy managed to net 2.5 million

Figure 1.11
Unemployment, underemployment, and labor force participation

A. Unemployment and underemployment (%) **B. Labor force participation** (%)



Note: Series frequencies are quarterly prior to January 2021 and monthly thereafter.
Source: CEIC Data (2021i)

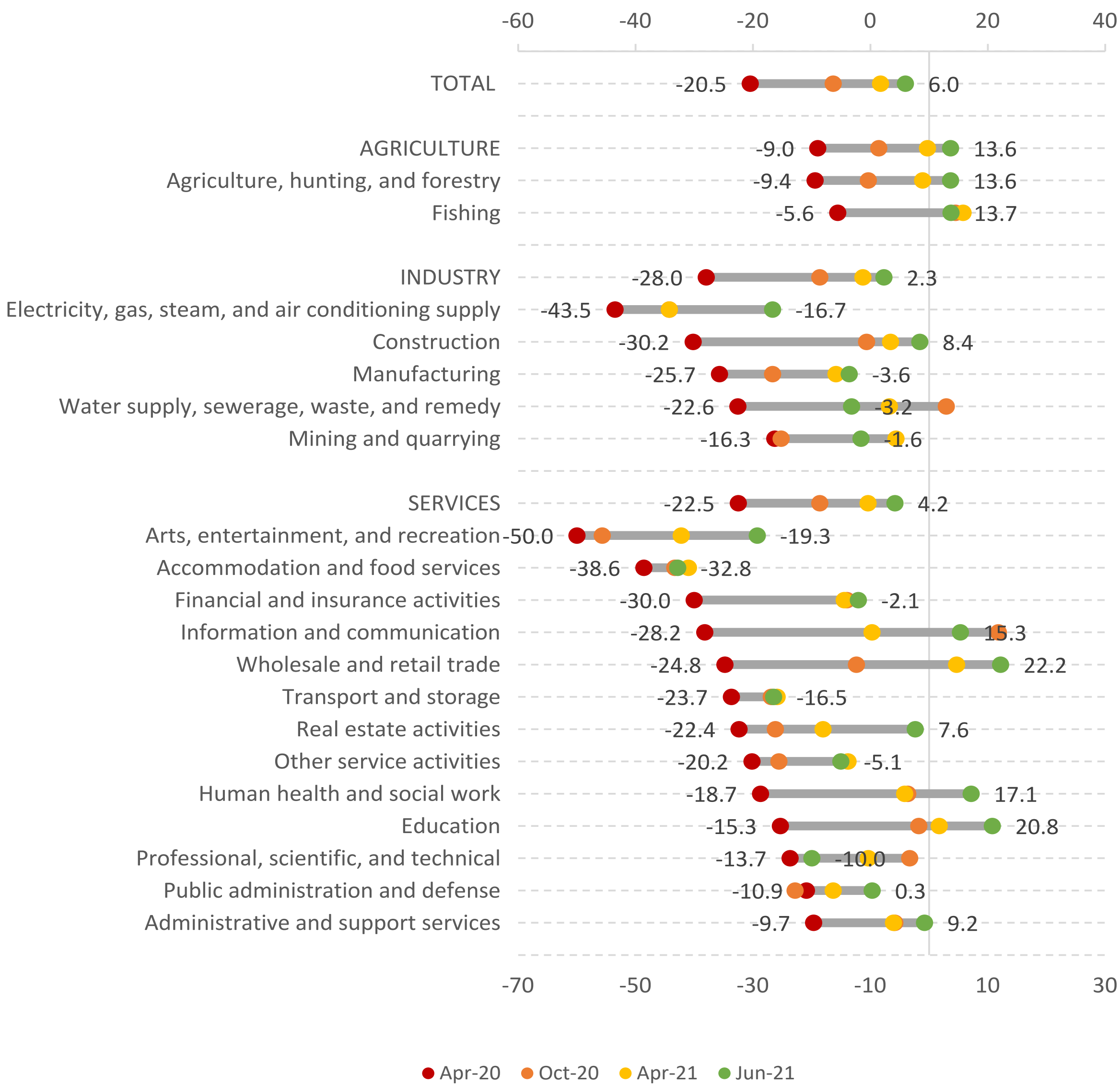
jobs in the intervening period. However, the unemployment rate remained high—averaging 8.1 percent in H1 2021—as labor demand remained weak in certain sectors and certain worker types. About half of the net employment gains after January 2020 occurred in agriculture, as industrial and services sectors faced uneven jobs recoveries (Figure 12). In particular, jobs in manufacturing and the worst-hit services—recreation, accommodation and food, and transport and storage—remain below pre-pandemic levels. By class of worker, most of the jobs netted were self-employment jobs as the recovery of wage and salary employment languished (Figure 10, Panel B). This pattern suggests that some of the job gains were possibly driven by a shift among nonagricultural and wage-and-salary workers toward agriculture or self-employment.

Larger fiscal deficit and public debt

The fiscal deficit widened to 7.6 percent of GDP in 2020 as government spending increased amid a steep decline in revenues. Full-year revenues fell by 10.4 percent driven by lower tax receipts (-12.9%), while government expenditure increased by 9.5 percent, boosted by additional appropriations to fund pandemic response (Figure 1.13). Relative to the size of the economy, revenues remained flat at around 16 percent of GDP, while expenditures rose to 23.6 percent of GDP from 19.5 percent in 2019. The government's spending performance involved a sharp increase in operating expenses and transfers to local governments, as authorities redrew the 2020 budget[12] and passed new spending to support emergency relief and health

[12] As well as the continuing 2019 budget.

Figure 1.12
Percent change in employment from January 2020 by economic sector and subsector

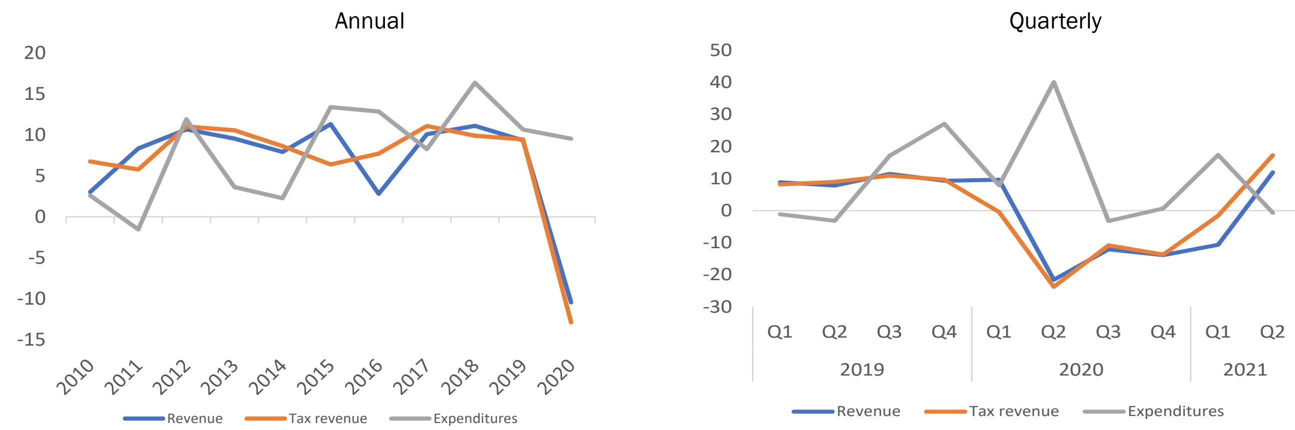


Source: CEIC Data (2021i)

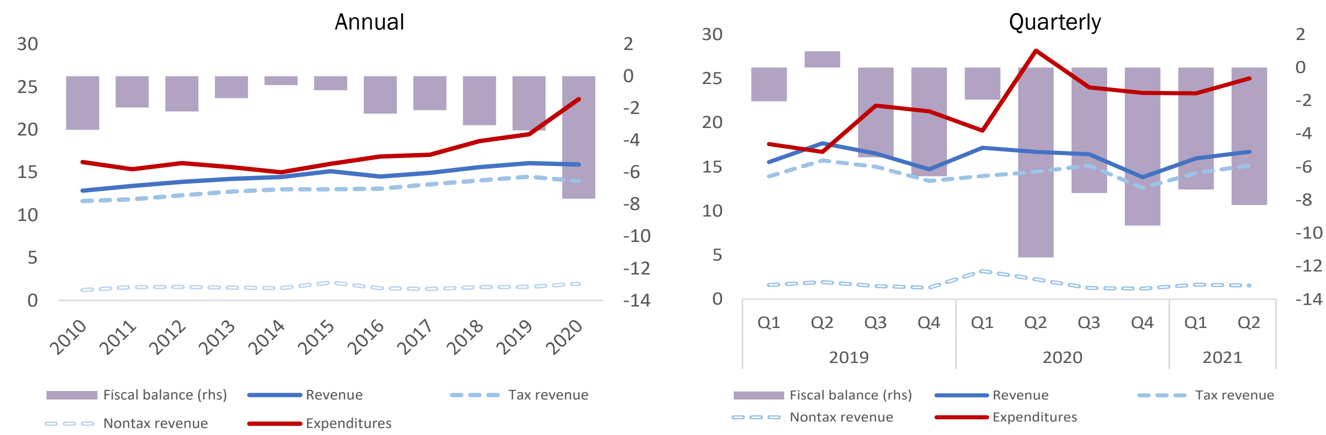
interventions (Bayanihan 1 and Bayanihan 2) (Figure 1.14). Notably, the budget reallocations came at the cost of spending for infrastructure and other capital outlays, which slid to 3.8 percent of GDP from 4.5 percent in 2019. In H1 2021, revenues and spending grew by 0.1 percent and 6.96 percent, respectively, from the same period in 2020, while the budget deficit grew to 7.9 percent of GDP.

Figure 1.13
Revenue, expenditure, and fiscal balance

A. Revenue and expenditure growth (annual % change)



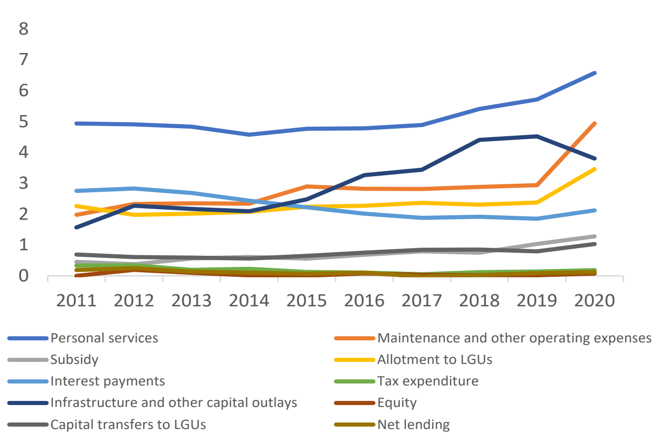
B. Revenue, expenditure, and fiscal balance (% of GDP)



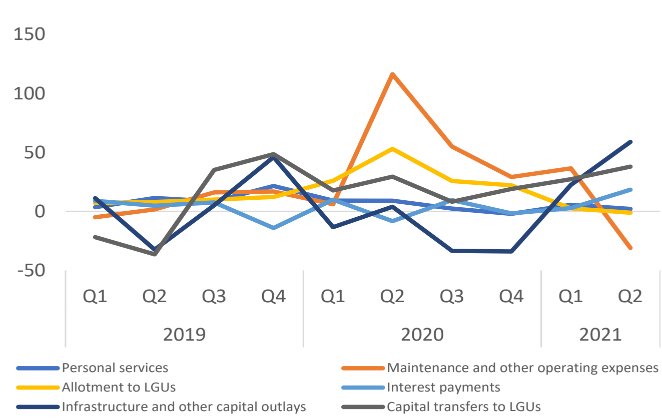
GDP = gross domestic product; Q = quarter; rhs = right-hand side
Source: Authors' computations using data from CEIC Data (2021k)

Figure 1.14
Government expenditure

A. Government expenditure classes (% of GDP)



B. Growth in government expenditure classes (annual % change)

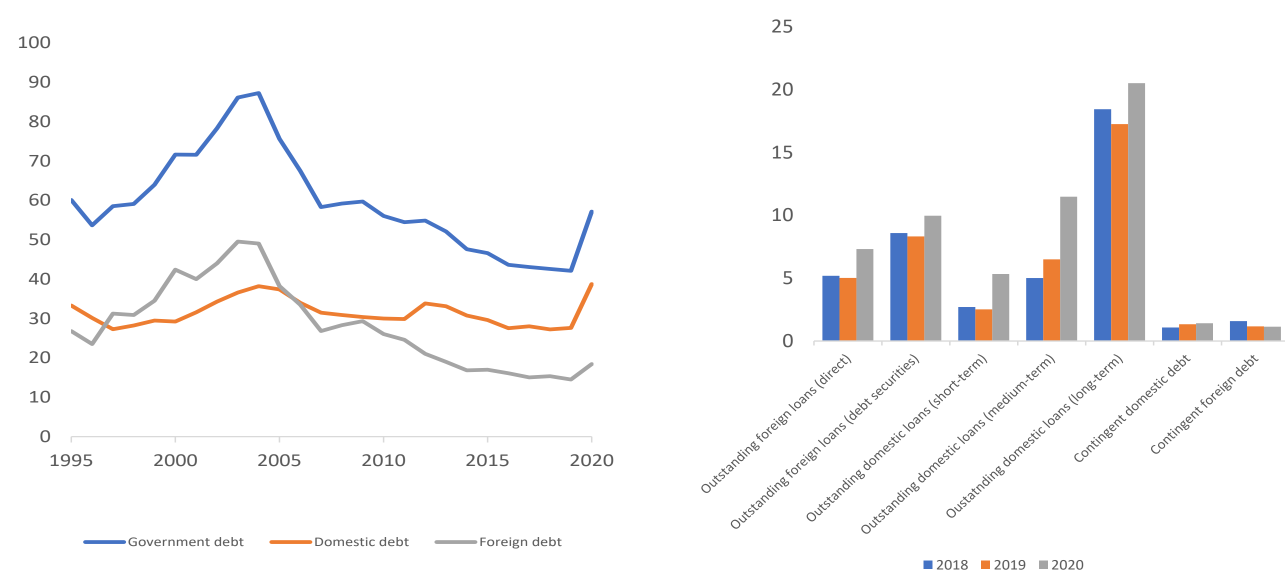


GDP = gross domestic product; LGUs = local government units
Source: Authors' computations using data from CEIC Data (2021l)

Figure 1.15
Government debt

A. Government debt-to-GDP ratio (%)

B. Government debt composition (% of GDP)



GDP = gross domestic product
Source: Authors' computations using data from CEIC Data (2021c)

Government borrowing significantly increased to finance the wider deficit, pushing up the debt-to-GDP ratio to 57.1 percent. This is a steep jump from 2019 (42.1%) and the highest level since 2009 (59.7%) (Figure 1.15). The expansion in the debt stock is driven by higher domestic borrowing, particularly issuances of medium-term securities.

Macroeconomic policy responses softened the blow of the pandemic

The BSP pursued a range of policy measures to ease liquidity and financial conditions and support the national government's financing needs. The central bank carried out various interventions to boost liquidity.[13] Most prominently, it reduced the overnight reverse repurchase (RRP) rate between February and November 2020 by a cumulative 200 basis points (bps), bringing the policy rate to a historic low of 2 percent. The BSP likewise lowered the reserve requirement ratio (RRR) for universal and commercial banks by 200 bps in April, and for thrift, rural, and cooperative banks by 100 bps in

[13] Other liquidity support measures included (1) purchasing government securities in the secondary market via a daily one-hour buying window since March 2020 to reassure market participants of demand for Treasury holdings; (2) temporarily suspending term deposit facility auctions for certain tenors; (3) reducing RRP operations to rechannel funds to the interbank loan and government securities market; and (4) ensuring the availability of the overnight lending facility; and (4) temporarily reducing the term spread on rediscounting loans vis-à-vis the overnight lending rate to zero (Glindro et al. 2020).

July.[14] Throughout 2020, the BSP offered different regulatory relief measures to relax the pandemic's financial burden on banks and borrowers[15] and adopted incentives to encourage banks to lend to micro, small, and medium enterprises (MSMEs).[16] The BSP also took unconventional steps to support the government's pandemic financing needs. It remitted PHP 20 billion in dividends to the government in March 2020. In addition, it extended zero-interest funds to the government for the first time to finance the latter's appropriations.[17] To date, the BSP has granted the government's request for four provisional advances: PHP 300 billion in March 2020 (settled in September 2020), and advances worth PHP 540 billion each in October 2020 (settled in December 2020), January 2021 (settled in June 2021), and July 2021.

Congress passed two emergency spending packages to support the government's public health and social protection response to the pandemic. The first package, Bayanihan 1, was signed in late March 2020 and authorized the President to reallocate funds from the 2019 and 2020 budget for pandemic response.[18] Over PHP 380 billion (2.2% of GDP) was allotted for measures, such as cash aid to 18 million low-income households, assistance to displaced local and overseas Filipino workers, support for the healthcare sector's COVID-19 response, assistance to local government units (LGUs) for their pandemic response, and support to agriculture and education. The second package, Bayanihan 2, was signed in September 2020[19] and provided PHP 165.5 billion (0.9% of GDP), consisting of PHP 140 billion in new spending for various sectors and PHP 25.5 billion in standby funding to be tapped contingent on fund availability. The supplemental spending included capital infusion to government financial institutions (GFIs) to support lending for affected households and enterprises, support for agriculture and education, assistance to displaced workers, and aid to the transport and tourism sectors. The standby fund provided for additional infusions to GFIs and funds for virus testing and purchase of COVID-19 medicines and vaccines. Bayanihan 2 was extended to June 2021 from the original expiration date of December 2020 due to slow fund disbursement. By end-June 2021, on-budget allotments for Bayanihan 2 had grown to PHP 214 billion (1.2% of GDP).[20] (See Chapter 2 [Policy Updates] for more details of the pandemic response in the different sectors through Bayanihan 1 and Bayanihan 2.)

Congress also passed the administration's corporate tax and incentives reform package. RA 11534 or the Corporate Recovery and Tax Incentives for Enterprises

[14] The RRR cuts reduced the reserve requirement to 14 percent for universal and commercial banks, 3 percent for thrift banks, and 2 percent for rural and cooperative banks.

[15] Some of the temporary relief measures made available to banks include staggering loan loss provisions for a maximum of five years, delaying the classification of past-due loans as such until the end of 2021, and relaxing different accounting and reporting requirements. The BSP also imposed an annual interest rate ceiling of 24 percent on all credit card transactions effective November 3, 2020.

[16] These include recognizing loans granted to MSMEs as counting toward bank reserve requirements, reducing the credit risk weight of loans granted to MSMEs to 50 percent, and assigning a zero-percent risk weight on loans guaranteed by the Agricultural Guarantee Fund Pool and the Agricultural Credit Policy Council.

[17] As allowed in Section 89 of the BSP Charter

[18] The law did not appropriate a specific amount for pandemic response.

[19] Bayanihan 2 granted the President the same budgetary powers as Bayanihan 1.

[20] Bayanihan 2 (Section 11) allowed the funding of other measures to address the COVID-19 pandemic apart from those enumerated in Section 10 of the law.

(CREATE) Act was signed into law on March 26, 2021. CREATE's centerpiece is the reduction of the corporate income tax from 30 percent to 25 percent for domestic and foreign corporations and further to 20 percent for domestic corporations with lower net taxable income and assets. The law also provides other tax relief measures, such as a temporary income tax reduction for nonprofit educational institutions and hospitals, and temporary VAT exemptions on the sale and import of medical supplies.

Macroeconomic outlook

The global and regional environment: Divergent recovery

Expectations for growth and inflation have changed across countries since the publication of the *PIDS 2019–2020 Economic Policy Monitor* (PIDS 2020). However, an uneven recovery is still expected globally, with variations due to differences in virus containment measures and outcomes, speed of vaccination rollout, ability of the domestic workforce to adapt to the pandemic environment, efficacy of government responses, ability to benefit from global trade recovery, and pre-pandemic trends and systems, among others. The following are the changes in outlook for relevant country groups based mostly on projections from the International Monetary Fund (IMF)'s *World Economic Outlook* (WEO) database:[21]

- In ***Advanced Economies***, the growth forecast for 2021 has been upgraded to 5.6 percent (from 3.9% predicted in 2020), largely due to a faster-than-expected turnaround of the US economy (Table 1.1a). The latter is now anticipated to grow by 7 percent rather than 3.1 percent, owing to the legislation of a substantial fiscal stimulus package—the USD 1.9-trillion American Rescue Plan signed in March 2021—which is expected to boost spending on the country's social safety net in the second half of the year. The US House and Senate have also advanced their versions of an infrastructure bill that indicates future spending of at least USD 1 trillion, contributing to high expected growth of 4.4 percent in 2022. Inflation was forecast to accelerate to 2.4 percent in 2021 for advanced economies, then soften to 2.1 percent in 2022.
- In ***Emerging and Developing Asia***, the two largest economies, China and India, were projected to grow by 8.1 percent and 9.5 percent, respectively, in 2021, with the pace expected to soften to 5.7 and 8.5 percent in 2022. Improved external demand and public investment drove growth expectations for China during the time projections were made. There were also strong expectations for a turnaround in India, which experienced a sharp output drop in 2020.
- In the ***ASEAN***, Viet Nam like China—both of which were able to control the spread of the COVID-19 virus and grow in 2020—was similarly foreseen to bounce back to its pre-pandemic growth rate of around 6.6 percent on

[21] Latest GDP growth forecasts for 2021 and 2022 were obtained from the July update of WEO 2021 for all country groups (IMF 2021e). Previous GDP growth and inflation forecasts for 2021 were obtained from the October issue of WEO 2020 (IMF 2021c). Latest inflation forecasts for 2021 and 2022 from the July issue were available only for advanced economies and emerging market and developing economies. Other forecasts in Table 1.1a were obtained from the April issue of WEO 2021 (IMF 2021d).

average by 2021 (Table 1.1b).[22] The economies of Malaysia, the Philippines, and Indonesia were expected to expand by just 5.7 percent, 4.9 percent, and 4.3 percent on average, respectively, in 2021 (after contracting in 2020), then grow at a faster pace thereafter. Growth prospects were dimmest for Thailand, where tourism accounts for more than a tenth of the economy. The Thai economy is expected to grow by just 2.4 percent on average in 2021, after shrinking by 6.1 percent previously, and expand by 5.2 percent in 2022. Because of their large GDP contractions in 2020, Thailand and the Philippines are projected to remain below their pre-pandemic output levels until 2022 (World Bank 2021a).

While many countries seemingly recovered at the start of 2021, the rapid spread of the more contagious Delta COVID-19 variant by midyear resulted in downward adjustments in output growth expectations globally. This was true even in China, where a resurgence of cases threatened industrial expansion. The official manufacturing purchasing managers' index (PMI) for China declined for the fourth straight month this year, from 51.9 in March to 50.4 in July.[23] A similar index focused on small, private, and export-oriented Chinese manufacturers also weakened to 50.3 in July. In Asia, ASEAN economies may be particularly vulnerable to downgrades in growth forecasts, especially as public health restrictions have been reimposed in some areas, including the Philippines, inevitably dragging down economic activity.

Domestic factors shaping Philippine outlook

High-frequency domestic indicators indicate some recovery of economic activity in the Philippines. However, there are still signs of financial tightening and macro weakening on the horizon. The following provides summaries of the important factors shaping the country's growth path.

- ***Community Mobility:*** Google mobility data, which tracks behavior based on cellphone location, shows that only face-to-face shopping for essentials recovered after severe lockdowns in the earlier part of 2020 and after the reimposition of mobility restrictions in key areas from April to mid-May 2021 (see Boxes 1.1a and 1.1b).[24] In contrast, consumers and workers have mostly kept away from retail and recreation establishments, transit stations, and workplaces, especially in populous areas of the country under extended quarantines. Failure to regain pre-crisis mobility, particularly for retail and recreation, could be attributed to the closure of malls and shopping centers in many areas (whether fully or partly, temporarily or permanently),[25] lengthy stay-at-home orders for a large portion of the population (children and the elderly over 65 years old under many quarantine classifications), and scarcity of transportation facilities.

[22] Latest forecasts are averages of forecasts obtained from the April 2021 issue of the Asian Development Bank's *Asian Development Outlook* (ADB 2021), the July 2021 update of WEO (IMF 2021e), and the June 2021 issue of the World Bank's *Global Economic Prospects* (World Bank 2021b).

[23] The manufacturing PMI is based on a survey of purchasing managers in the industrial sector. A reading above 50 indicates an expansion (relative to the previous period), while a reading below 50 presages a contraction.

[24] While they are not a perfect proxy for economic activity, such data are useful in capturing changes in behavior of participants in the economy.

[25] Malls remain limited to non-leisure activities even under GCQ, while dining establishments can only operate up to 50-percent capacity (or higher, depending on physical distancing protocols) for their dine-in services.

Table 1.1a
World outlook in the short to medium term

	2016	2017	2018	2019	2020	2021f	2022f	2026f
Output (annual % change)								
World	3.3	3.8	3.6	2.8	-3.3	6.0 (5.2)	4.9	3.3
Advanced economies	1.8	2.5	2.3	1.6	-4.7	5.6 (3.9)	4.4	1.5
US	1.7	2.3	3.0	2.2	-3.5	7.0 (3.1)	4.9	1.6
Euro area	1.9	2.6	1.9	1.3	-6.6	4.6 (5.2)	4.3	1.3
Japan	0.8	1.7	0.6	0.3	-4.8	2.8 (2.3)	3.0	0.5
EMDE	4.5	4.8	4.5	3.6	-2.2	6.3 (6.0)	5.2	4.4
EMDA	6.8	6.6	6.4	5.3	-1.0	7.5 (8.0)	6.4	5.4
China	6.9	6.9	6.7	5.8	2.3	8.1 (8.2)	5.7	4.9
India	8.3	6.8	6.5	4.0	-8.0	9.5 (8.8)	8.5	6.5
ASEAN-5				4.8	-3.4	4.3 (6.2)	6.3	
Consumer prices (annual % change)								
Advanced economies	0.7	1.7	2.0	1.4	0.7	2.4 (1.6)	2.1	1.9
EMDEs	4.3	4.4	4.9	5.1	5.1	5.4 (4.7)	4.7	3.8
EMDA	2.8	2.4	2.7	3.3	3.1	2.3 (2.9)	2.7	2.7
Interest rates (%)								
Real 6-month LIBOR				0.5	-0.5	-1.5 (-1.6)	-1.4	
World real long-term interest rate				-0.2	-0.3	-0.8 (-1.2)	-0.7	
Other indicators								
Current account (% of GDP): EMDEs				0.1	0.6	0.5 (-0.4)	0.2	
Total external debt (% of GDP): EMDEs				30.5	32.6	31.5 (30.8)	30.9	
Debt service (% of GDP): EMDEs				11.0	11.4	11.0 (10.8)	10.8	
World trade volume (annual % change)				0.9	-8.5	8.4 (8.3)	6.5	
World prices (USD, annual % change)								
Oil				-10.2	-32.7	41.7 (12.0)	-6.3	
Nonfuel primary commodities				0.8	6.7	16.1 (5.1)	-1.9	

EMDE = emerging and developing economies; EMDA = emerging and developing Asia; ASEAN-5 = Indonesia, Malaysia, Philippines, Thailand, and Viet Nam; LIBOR = London interbank offered rate; GDP = gross domestic product; US = United States; USD = United States dollar

Note: Current GDP growth forecasts for 2021 and 2022 were obtained from the July 2021 update of the *World Economic Outlook* (WEO) for all country groups. Previous GDP growth and inflation forecasts for 2021 (figures in parentheses) were obtained from the October 2020 issue of WEO. Current inflation forecasts for 2021 and 2022 from the July issue were available only for advanced economies and emerging market and developing economies. Other forecasts were obtained from the April issue of WEO 2021.

Source: IMF (2021d, 2021e)

Table 1.1b
Output projections for major ASEAN developing economies

	2016	2017	2018	2019	2020	2021f	2022f	2023f	2026f
Output (annual % change)									
Indonesia	5.0	5.1	5.2	5.0	-2.1	**4.3**	**5.3**		
ADO (Apr 2021)						4.5 (5.3)	5.0		
GEP (Jun 2021)						4.4(4.8)	5.0	5.1	
WEO (Jul 2021)						3.9 (6.1)	5.9		5.2
Malaysia	4.5	5.8	4.8	4.3	-5.6	**5.7**	**5.3**		
ADO (Apr 2021)						6.0 (6.5)	5.7		
GEP (Jun 2021)						6.0 (6.9)	4.2	4.4	
WEO (Jul 2021)						4.7 (7.8)	6.0		5.0
Philippines	7.1	6.9	6.3	6.1	-9.6	**4.9**	**6.1**		
ADO (Apr 2021)						4.5 (6.5)	5.5		
GEP (Jun 2021)						4.7 (6.2)	5.9	6.0	
WEO (Jul 2021)						5.4 (7.4)	7.0		6.5
Thailand	3.4	4.2	4.2	2.3	-6.1	**2.4**	**5.2**		
ADO (Apr 2021)						3.0 (4.5)	4.5		
GEP (Jun 2021)						2.2 (4.1)	5.1	4.3	
WEO (Jul 2021)						2.1 (4.0)	6.1		3.6
Viet Nam	6.2	6.8	7.1	7.0	2.9	**6.6**	**6.9**		
ADO (Apr 2021)						6.7 (6.3)	7.0		
GEP (Jun 2021)						6.6 (6.8)	6.5	6.5	
WEO (Apr 2021)						6.5 (6.7)	7.2		6.6

ASEAN = Association of Southeast Asian Nations; ADO = *Asian Development Outlook*; GEP = *Global Economic Prospects;* WEO = *World Economic Outlook*
Notes:
(1) Top-line forecasts for the ASEAN-5 countries are averages of projections from the April 2021 issue of the Asian Development Bank (ADB)'s ADO; the June 2021 issue of the World Bank (WB) 's GEP; and the July 2021 update of the IMF's WEO.
(2) Figures in parentheses are correspondingly from the September 2020 issue of the ADO, the June 2020 issue of the GEP, and the October 2020 issue of the WEO.
(3) Forecasts for 2026 are from the April 2021 issue of WEO.
Sources: CEIC (2021h); ADB (2021); IMF (2021d, 2021e); WB (2021b)

The outcomes likely reflect the evolution of (and adaptation to) online working arrangements and the success of various online-based delivery solutions for different types of consumer spending (e.g., through mobile apps for food, groceries, and department store shopping) in metropolitan areas. However, it also suggests less desired forces behind observed social distancing, such as greater consumer restraint stemming from income losses or sustained fear. Extended quarantines due to a more contagious COVID-19 Delta variant—especially a return of the nation's capital to a more stringent ECQ in August—only serves to worsen negative, fear-based consumption trends.

Financial Conditions: A strong monetary policy response allowed financial conditions to quickly recover after sharply deteriorating at the onset of the pandemic crisis in March 2020, but the financial environment has already begun to worsen with the resurgence of a more infectious COVID-19 variant. A sharp tightening of the Philippine financial conditions index (FCI) in March 2020 due to the pandemic and stringent public health restrictions quickly reversed in succeeding months and further (and greatly) loosened by November 2020 (Box 1.2a).[26] Yet, the FCI headed downward again in July 2021 and will likely worsen in August, with Metro Manila back to tighter quarantines. This suggests continued economic weakness.

Surveys of senior bank loan officers conducted in June 2021, after a two-month return of pandemic restrictions during the summer, support this finding. Many bank officers cited stricter standards than usual for enterprise loans, particularly for MSMEs, with well over a third of officers reporting a credit tightening, as well as for consumer loans, specifically housing and vehicle loans, though not for credit card loans (Boxes 1.2b and 1.2c). The same set of surveys indicated a generally weak credit demand, and more so in smaller enterprises and for all types of household loans, reflecting the frailty of aggregate demand in the country.

[26] The monthly FCI based on Debuque-Gonzales (2020) summarizes information from 48 financial indicators from various financial markets in the Philippines. It considers not only interest rates/spreads and asset values but also credit quantities and liquidity, and levels of financial stress/risk. See Appendix for the methodology.

- ***Economic Activity:*** The Philippine FCI was designed to capture credit-related channels of monetary policy by directly incorporating the effects of loan quantities. Despite a strong monetary response, such credit indicators were observed to have dragged down the index during the COVID-19 crisis. While a negative shock to the equity market represented the initial and worst impact of the pandemic and associated lockdowns, bank lending conditions soon worsened considerably.[27] Total loans weakened during the pandemic, and lending began to decline by the start of 2021 (Box 1.3a). Consumer loans generally declined by Q1 2021, notably for big-ticket items, such as cars. Lending to some production sectors held up, however, and seems to be picking up based on July 2021 data, such as for information and communication (which grew by 14% annually), transport and storage (6.5%), real estate (5.6%), and construction (4.7%).

  PMIs similarly signal a decline in production, with all indexes, even those for manufacturing, at below 50 by August 2021 (Box 1.3b). This trend portends slower output, including of exports. The PMIs were close to a revival by the end of 2020 in the case of manufacturing and by Q1 2021 in the case of services and retail and wholesale trade, after dropping sharply in March 2020 due to Luzon-wide lockdowns. Recovery was more tenuous for the latter two sectors, which consistently fell with more stringent public health restrictions.

[27] Bond market and even stock market conditions had been improving after the lockdowns and a series of aggressive monetary measures.

- ***Business and Consumer Confidence:*** The latest business and consumer expectations surveys released by BSP for Q2 2021 mirror the increased pessimism in the country due to the persistence of the pandemic, as both surveys overlapped with a brief return of the country's capital to more stringent community quarantines in April and May 2021 (Boxes 1.4a and 1.4b). As might be expected, business confidence about the current quarter was lowest in high-social-contact sectors and related sectors (i.e., services and retail and wholesale trade). The mood was most upbeat in construction, which stood to benefit from the government's fiscal stimulus measures. Consumer confidence, however, was at an all-time low, with the current-quarter outlook being net negative across different geographic areas and socioeconomic classes, though the poor tended to be the most pessimistic among the different sectors. With the reimposition of an ECQ in NCR in August, bleak near-term expectations of businesses and consumers can be expected to extend to the third quarter of the year.

- ***Policy Responses:*** The BSP has held the key policy rate at 2 percent over six policy meetings through August 2021 (Box 1.5) despite inflation breaching the target since January. The decisions are underpinned by expectations that inflation will follow a manageable path and a view that the current policy setting is appropriate to support the economic recovery amid uncertainties brought by the pandemic. The Bank's latest forecast (August 12, 2021) sees inflation reaching 4.1 percent in 2021 due to higher oil prices, the peso depreciation, and delayed arrivals of imported pork before settling at 3.1 percent in 2022 and 2023. Meanwhile, its latest outlook for the economy seems to have worsened, seeing a high risk of a "protracted" pandemic due to a new wave of infections and the Delta variant's arrival, with recovery prospects hanging on the pace of vaccination. Thus, the Bank is widely expected to maintain its accommodative stance for the rest of the year.

  On the fiscal side, the government is running on a PHP 4.506-trillion budget for 2021, 9.9 percent higher in nominal terms than the 2020 program. About a quarter of the increase from the 2020 budget accrued to infrastructure, specifically to transport, communications, water, and flood control. Meanwhile, spending for health and for social security, welfare, and employment also increased relative to the 2020 program but was smaller than the actual 2020 spending due to the absence of large social relief programs (Table 1.2). A third emergency relief bill (House Bill 9411 or Bayanihan 3) worth PHP 401 billion (2.2% of 2020 GDP) passed the House of Representatives in June 2021, containing measures, such as PHP 2,000 in cash aid to all Filipinos (PHP 216 billion), assistance to displaced workers (PHP 25 billion), and small business wage subsidies (PHP 20 billion). (For more information about the allocation of Bayanihan 3 funds, see the Poverty and Social Protection section in Chapter 2.)

However, the country's economic managers have so far signaled reservation toward another spending package, citing the need to manage the country's fiscal deficit as well as the availability of unspent funds from Bayanihan 2 (which lapsed on June 30, 2021) and the continuing 2020 national budget (effective until end-December 2021).[28] Fiscal authorities instead expect the stimulus to come from the rebound of public infrastructure spending,[29] the implementation of tax relief measures under CREATE,[30] and the passage of economic liberalization measures in Congress.[31] For 2022, the administration proposes a budget of PHP 5.023 trillion, 11.5 percent higher than the current program.

- ***Public Health Response:*** The country has seen waves of COVID-19 infections since its first confirmed case on January 30, 2020 (Figure 1.3, Box 1.6). Peaks in daily cases were observed in the third quarter of 2020 (6,725 cases on August 10), the second quarter of 2021 (15,298 cases on April 2), and the third quarter of 2021 (27,887 cases on September 9).

The last period reflects the emergence of the contagious Delta variant. The steep ascent of infections precipitated a fourth round of ECQ in the NCR, lasting from August 6 to 20. The country's capital has remained under GCQ, with revised guidelines and localized lockdowns, as of time of writing.

The government hopes to ramp up its vaccination and testing schedule in response to these adverse COVID-19 developments. The country's vaccine rollout has already been significantly accelerated.A daily average of about 426,653 jabs was recorded in August, up from the April figure of 38,404. Testing rates have likewise picked up, from an average of 7,697 in the second quarter of 2020 to 50,567 in the same period of 2021.

Only about 14 percent of the total population has been fully vaccinated to date,[32] still far below the official target to vaccinate 70 percent. However, over half of the eligible population in NCR has already been fully vaccinated. An additional supply of 60 million vaccine doses is also expected to arrive around September and October this year, according to the National Task Force Against COVID-19. This would allow the government to vaccinate the country's general population beyond the priority sectors.[33]

[28] The national government has been missing spending targets during the pandemic. For the first half of 2021, disbursements fell below programmed spending by PHP 233.4 billion, or about 9.6 percent (DBM 2021c). The shortfall is PHP 184 billion or 8.4 percent if one excludes interest payments.

[29] The 2021 public infrastructure budget amounts to PHP 1.074 trillion or 6 percent of 2020 GDP.

[30] The foregone revenues due to CREATE are estimated at PHP 133.2 billion in 2021 (0.7% of 2020 GDP) and PHP 117.6 billion in 2022 (0.7% of 2020 GDP) (Laforga 2020).

[31] These measures include the amendments to the Retail Trade Liberalization Act (RA 8762), Public Service Act (Commonwealth Act 146 of 1936), and Foreign Investments Act (RA 7042).

[32] On vaccine hesitancy, Social Weather Stations (2021) conducted a nationwide survey from April 28 to May 2, 2021. Thirty-two percent held that they were willing to be vaccinated, 35 percent expressed unsureness, while 33 percent stated that they were not willing. Fifty-one percent was also found to be confident in the government's evaluation of COVID-19 vaccines.

[33] First on the government's priority list are frontline health workers, senior citizens, persons with comorbidities, frontline personnel in essential sectors (including uniformed personnel), and the poor.

Table 1.2
Government expenditure by sector, 2020 and 2021

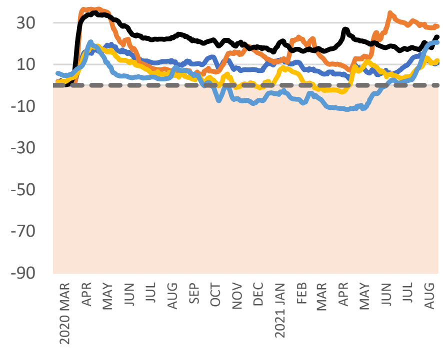
	Expenditure (billion PHP)			2021 Program vs. 2020 Actual (% difference)	Share in Total (%)	
	2020 Program	2020 Actual	2021 Program		2020 Actual	2021 Program
Economic services	1,200.0	1,128.5	1,323.1	17.2	26.2	29.4
Agriculture and agrarian reform	147.3	179.7	143.4	-20.2	4.2	3.2
Natural resources and environment	27.9	20.9	25.2	20.7	0.5	0.6
Trade and industry	12.5	18.0	10.5	-41.7	0.4	0.2
Tourism	6.2	4.1	5.8	42.2	0.1	0.1
Power and energy	7.2	16.0	15.2	-5.5	0.4	0.3
Water resources development and flood control	76.3	61.5	91.7	49.1	1.4	2.0
Communications, roads, and other transport	631.6	536.7	720.2	34.2	12.5	16.0
Other economic services	40.9	42.1	41.4	-1.6	1.0	0.9
Subsidy to local government units	250.1	249.4	269.8	8.2	5.8	6.0
Social services	1,495.0	1,754.3	1,668.0	-4.9	40.7	37.0
Education, culture, and manpower development	729.1	679.0	779.3	14.8	15.8	17.3
Health	185.5	254.3	221.1	-13.0	5.9	4.9
Social security, welfare, and employment	304.6	544.2	374.3	-31.2	12.6	8.3
Housing and community development	8.4	10.6	5.0	-52.4	0.2	0.1
Land distribution	0.1	-	0.1	-	0.0	0.0
Other social services	3.0	2.5	3.0	20.1	0.1	0.1
Subsidy to local government units	264.4	263.6	285.2	8.2	6.1	6.3
Defense	197.4	179.1	206.8	15.5	4.2	4.6
Domestic security	197.4	179.1	206.8	15.5	4.2	4.6
General public services	746.7	844.6	747.8	-11.5	19.6	16.6
General administration	196.7	285.1	166.6	-41.6	6.6	3.7
Public order and safety	309.0	283.7	317.8	12.0	6.6	7.1
Other general public services	40.9	76.3	47.5	-37.7	1.8	1.1
Subsidy to local government units	200.1	199.5	215.8	8.2	4.6	4.8
Net lending	10.0	22.1	28.7	29.8	0.5	0.6
Debt service interest payments	451.0	380.4	531.5	39.7	8.8	11.8
Total expenditure	4,100.0	4,309.0	4,506.0	4.6	100.0	100.0
Total expenditure net of debt burden	*3,649.0*	*3,928.6*	*3,974.5*	*1.2*		

PHP = Philippine peso
Source: DBM (2021b, 2021c)

Box 1.1a
Community mobility

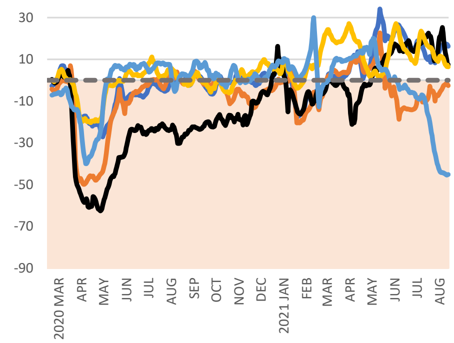
Filipinos have been staying home since Q1 2020.

Residential



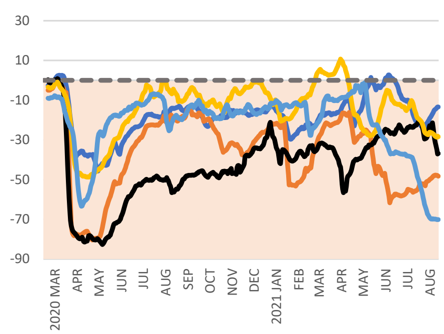
Trips to groceries and pharmacies have recovered in the first half of 2021.

Grocery and pharmacy



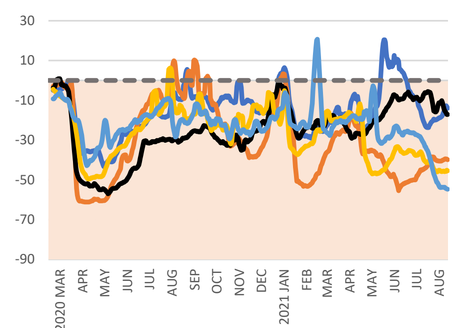
However, consumers continue to stay away from retail and recreation establishments.

Retail and recreation



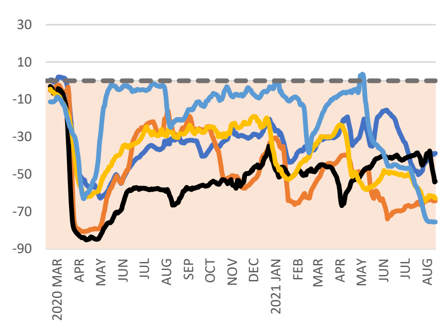
Visits to parks also remain below pre-pandemic levels.

Parks



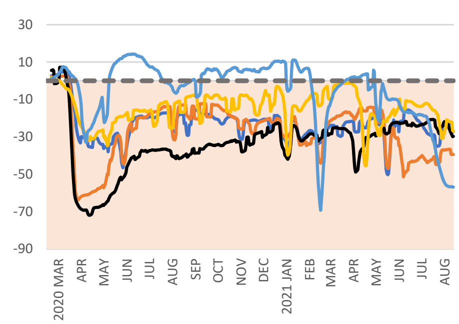
Mobility in transit stations declined the most among all the locations considered.

Transit



Workplace movement has not "normalized," partly due to changes in working arrangements.

Workplaces

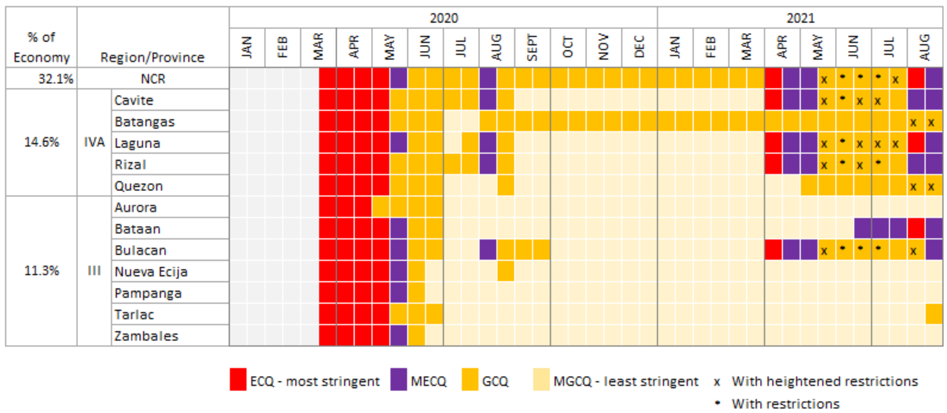


Indonesia Malaysia Philippines Thailand Viet Nam

Note: The data are based on cellphone locations. They consider visits and length of stay compared to the baseline (the median value for the corresponding day of the week) during the five-week period from January 3 to February 6, 2020. The charts cover data from February 15, 2020 to August 13, 2021 only.
Source: Authors' computations (seven-day moving average) using COVID-19 Community Mobility Reports from Google (n.d.)

Box 1.1b
Policy stringency

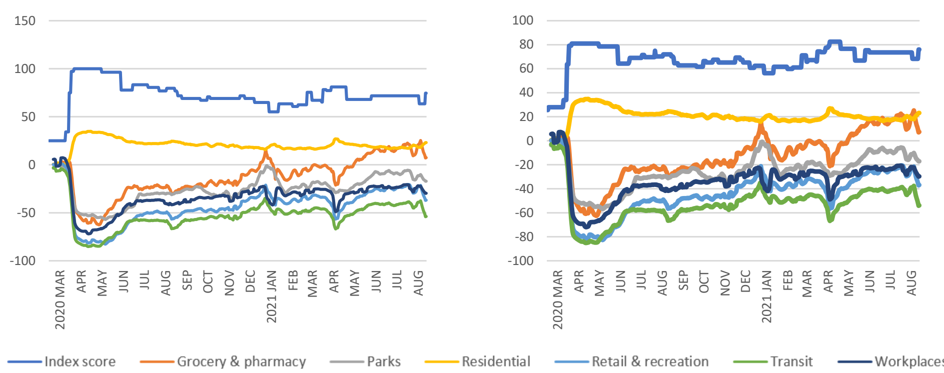
Community quarantine classifications and timeline



As designed, more stringent lockdown styles lead to lower mobility in the Philippines and vice versa.

A similar pattern is observed for other containment measures, such as testing and contact tracing.

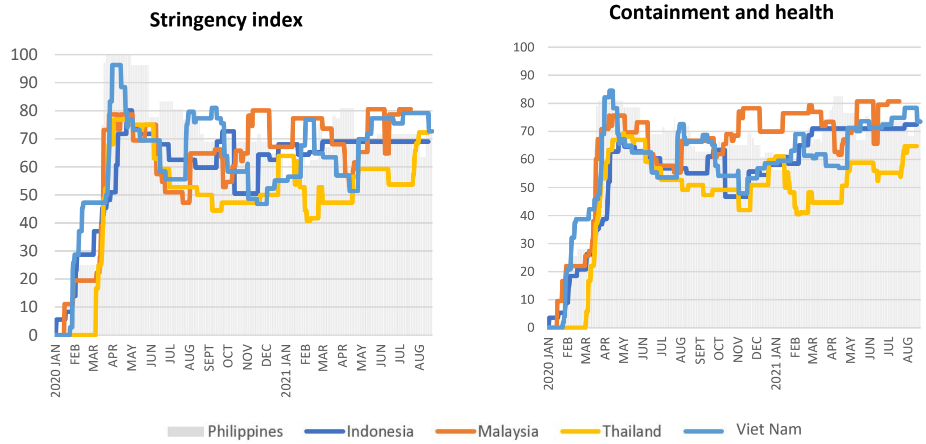
Google mobility and stringency index | **Google mobility and containment health index**



The Philippines and Viet Nam initially had the severest lockdown measures. Malaysia started enforcing stricter policies toward 2021.

ASEAN country scores on testing, contact tracing, and other containment measures moved closely together in early 2020 but diverged toward 2021.

Stringency index | **Containment and health**



NCR = National Capital Region; ECQ = enhanced community quarantine; MECQ = modified enhanced community quarantine; GCQ = general community quarantine; MGCQ = modified general community quarantine; ASEAN = Association of Southeast Asian Nations

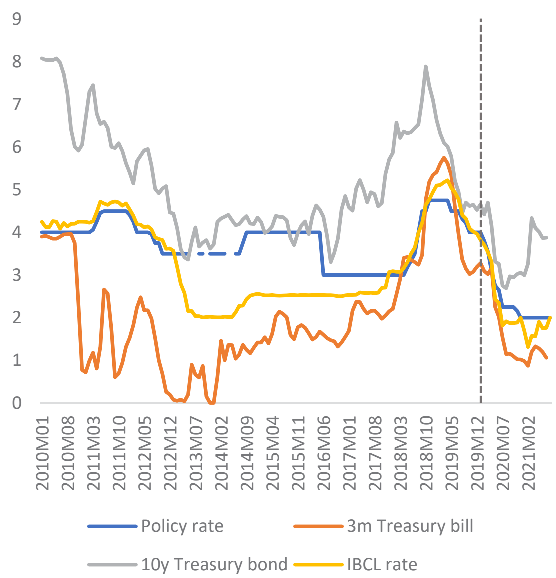
Note: The mobility data are based on cellphone locations. They consider visits and length of stay compared to the baseline (the median value for the corresponding day of the week) during the five-week period from January 3 to February 6, 2020. The charts cover data from February 15, 2020 to August 13, 2021 only. The index for stringency factors in the closing of establishments, restrictions on gatherings, and travel guidelines, among others. The index for containment and health considers these as well as testing policies, contact tracing, vaccination, requirement for facial coverings, and similar variables. The relevant charts cover data for January 1, 2020 to August 2, 2021.

Sources: Ranada (2021); IATF for the Management of Emerging and Infectious Diseases (2021a–2021o); Authors' computations (seven-day moving average) based on COVID-19 Community Mobility Reports from Google (n.d.); Oxford COVID-19 Government Response Tracker (Hale et al. 2021)

Box 1.2a
Financial conditions

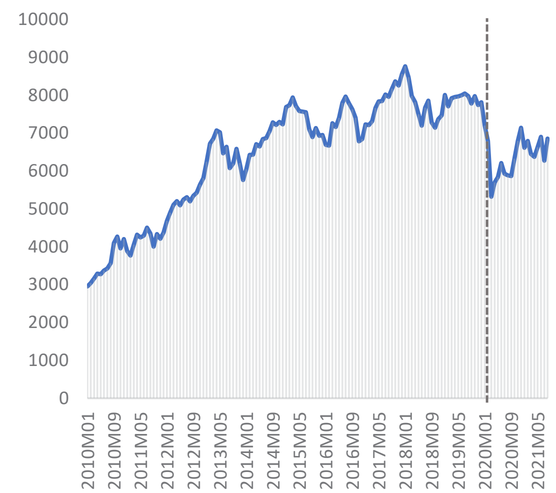
Domestic interest rates rose sharply at the onset of the pandemic then eased after a series of policy rate cuts (down 200 bps in total, to 2%).

Select domestic interest rates



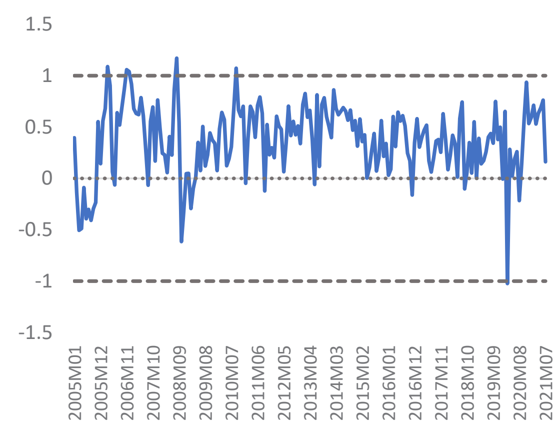
Stock prices fell due to high uncertainty in the economy but began to improve as the landscape stabilized. The market, however, remained weak.

PSEi



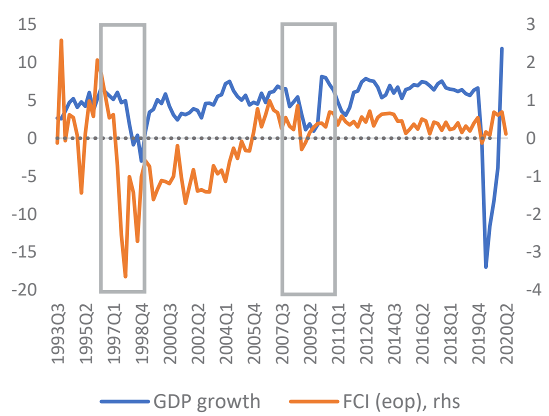
Financial conditions dipped again in mid-2021 with the persistence of the COVID-19 crisis.

Philippine FCI



Improvement of financial conditions reflects the policy measures taken, but a worsening may be imminent.

FCI and GDP growth



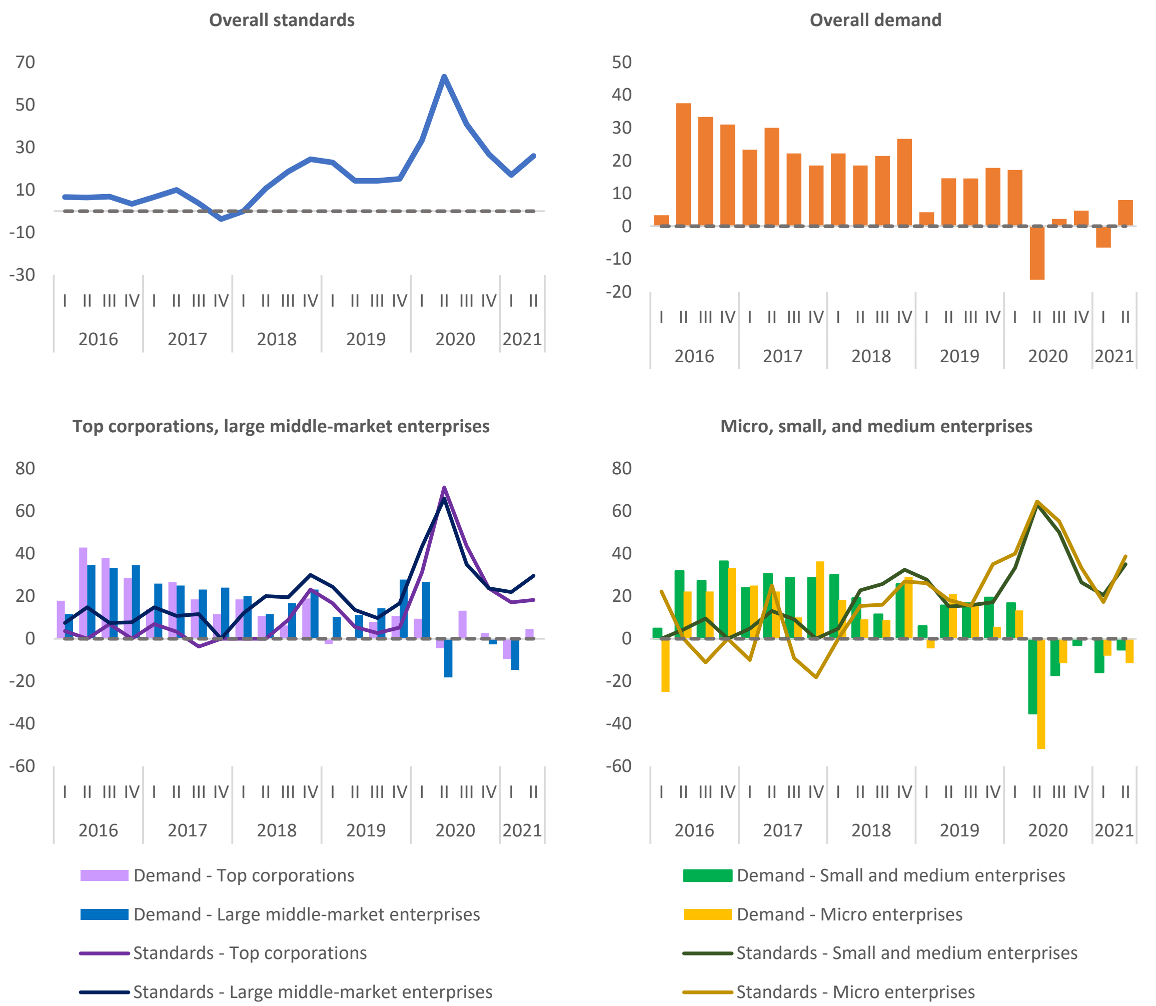
bps = basis points; FCI = financial conditions index; PSEi = Philippine Stock Exchange composite index; GDP = gross domestic product; eop = end of period; rhs = right-hand side

Note: A value of 0 for the FCI means financial conditions are at average levels of liquidity, stress, and risk, consistent with real activity and inflation levels. A value of -1 suggests worse financial conditions than the average historically by 1 standard deviation; the reverse holds for a value of 1.

Sources: BSP (2021g); CEIC Data (2021d, t); PSA (2021c); Debuque-Gonzales (2020)

Box 1.2b
Credit standards and demand for loans or credit lines (enterprises)

Standards applied by banks on credit granted to enterprises were tightened, while demand for loans and credit lines of enterprises fell at the height of the pandemic crisis last year. While overall standards returned to pre-pandemic levels in the first quarter of 2021, they were tightened again in the second quarter, especially for micro, small, and medium enterprises, as uncertainty heightened with COVID-19 persistence and the return of mobility restrictions in key economic areas around April and mid-May. Credit demand has remained weak, particularly for smaller companies, also due to the uncertain evolution of the COVID-19 virus.



Note: For standards, a positive diffusion index indicates "net tightening" of credit standards (i.e., more banks tightening than easing), while a negative index indicates "net easing". For demand, a positive diffusion index indicates a net increase in loan demand (i.e., more banks reporting an increase than a decrease in demand), while a negative reading indicates a net decrease. Data from the latest round of the Senior Bank Loan Officers' Survey were collected from June 2 to July 8, 2021.
Source: BSP (2021i)

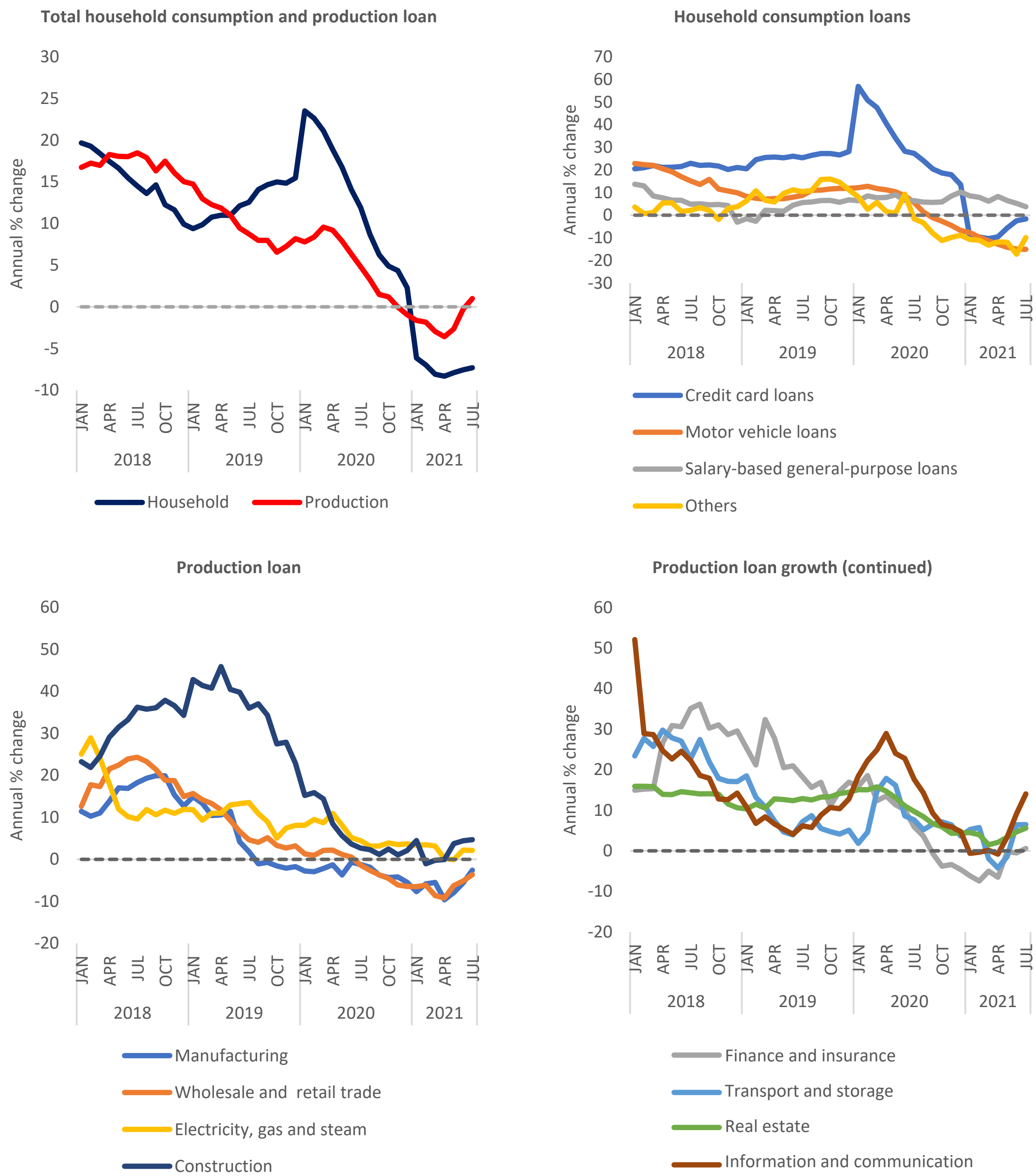
Box 1.2c
Credit standards and demand for loans or credit lines (households)

Banks tightened standards on credit to households, while demand for loans or credit lines by households collapsed during the peak of the pandemic crisis in 2020. Overall standards were already close to pre-COVID-19 levels by the end of 2020, but banks tightened again in 2021, especially as COVID-19 cases began to re-escalate and as mobility restrictions were reimposed. This result was mainly driven by credit standards on housing and vehicle loans, however, as standards have returned to about pre-pandemic levels for credit card and personal loans. Demand has continued to decrease for all types of household loans, indicating the still fragile state of aggregate demand in the country.

Note: For standards, a positive diffusion index indicates “net tightening” of credit standards (i.e., more banks tightening than easing), while a negative index indicates “net easing”. For demand, a positive diffusion index indicates a net increase in loan demand (i.e., more banks reporting an increase than a decrease in demand), while a negative reading indicates a net decrease. Data from the latest round of the Senior Bank Loan Officers’ Survey (Q2 2021) were collected from June 2 to July 8.
Source: BSP (2021i)

Box 1.3a
Loan activity

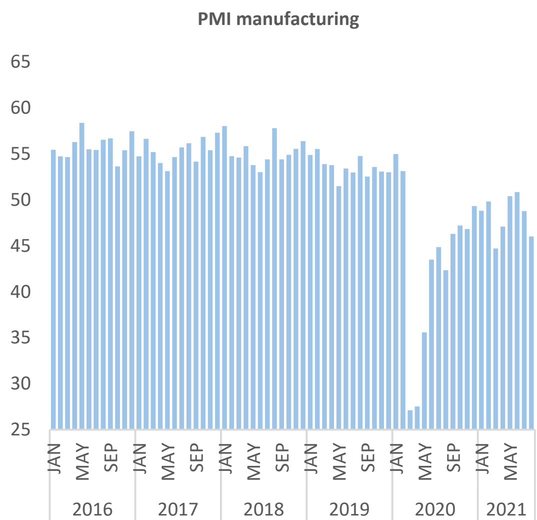
Lending has greatly weakened during the COVID-19 crisis despite the central bank's strong monetary response. Total loans have been contracting on an annual basis by 2021. This trend was seen for most types of household consumer loans, except for salary-based loans, which remained relatively steady throughout the pandemic. Production loans for manufacturing and wholesale and retail trade have been declining steadily. In contrast, lending has seemingly picked up for information and communication, transport and storage, real estate, and construction by the end of Q2 2021.

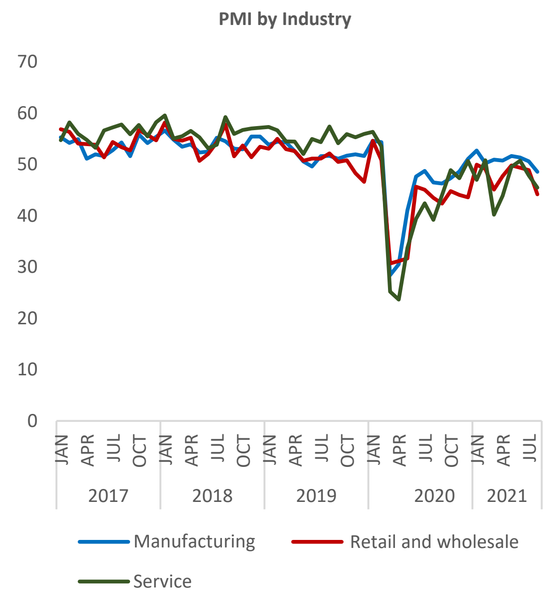


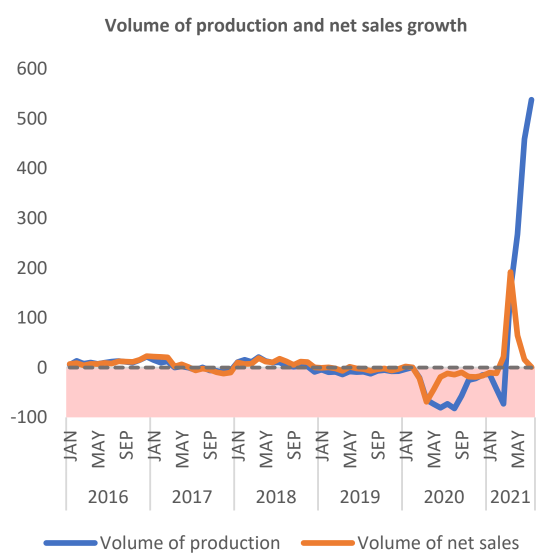
Source: BSP (2021h)

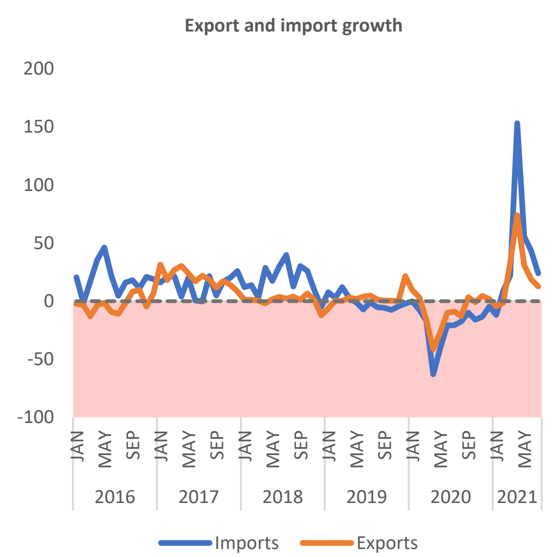
Box 1.3b
Production activity

After freefalling in the worst months of the COVID-19 pandemic last year (from March to May 2020), the Philippines' purchasing managers' indexes (PMIs) for manufacturing and services started to recover and reach close to 50 by Q4 2020. The PMI for retail and wholesale trade approached that mark a bit later, in January of 2021. An index of 50 is pivotal as a reading above this value indicates an expansion, while a reading below it implies a contraction. The indexes hovered briefly near that level in early 2021 but dropped again to 40.2 and 45.1 by March 2021 in the case of services and retail and wholesale trade, respectively, as key areas returned briefly to strict quarantines. They recovered by midyear, but all PMIs, including for manufacturing, had already dropped below 50 by August, indicating another slowdown. If the surveys are correct, this trend would eventually be reflected in the country's production growth, particularly in its export growth.





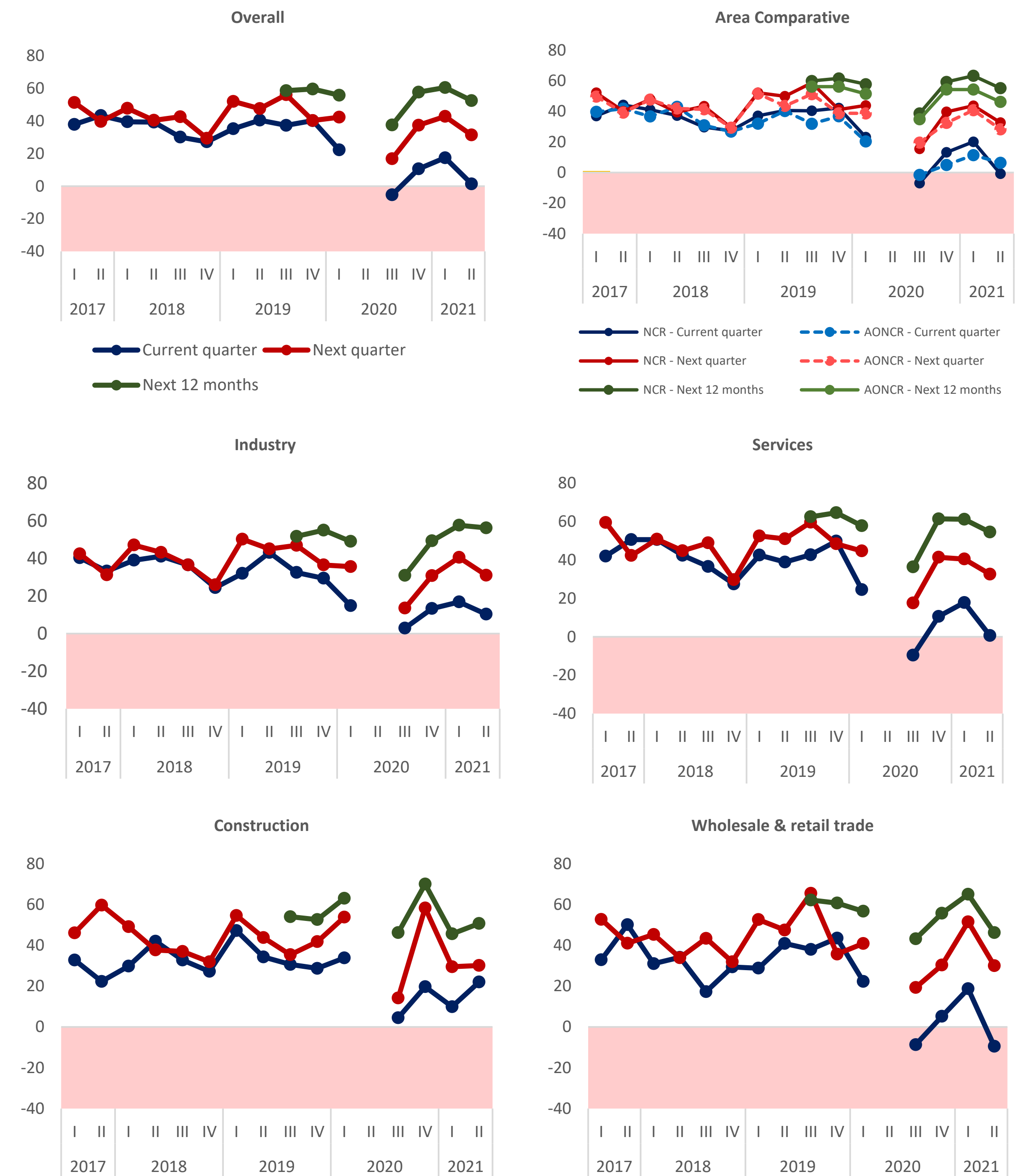




Source: CEIC Data (2021n, 2021o, 2021p, 2021r); PSA (2021a, 2021b)

Box 1.4a
Business expectations survey

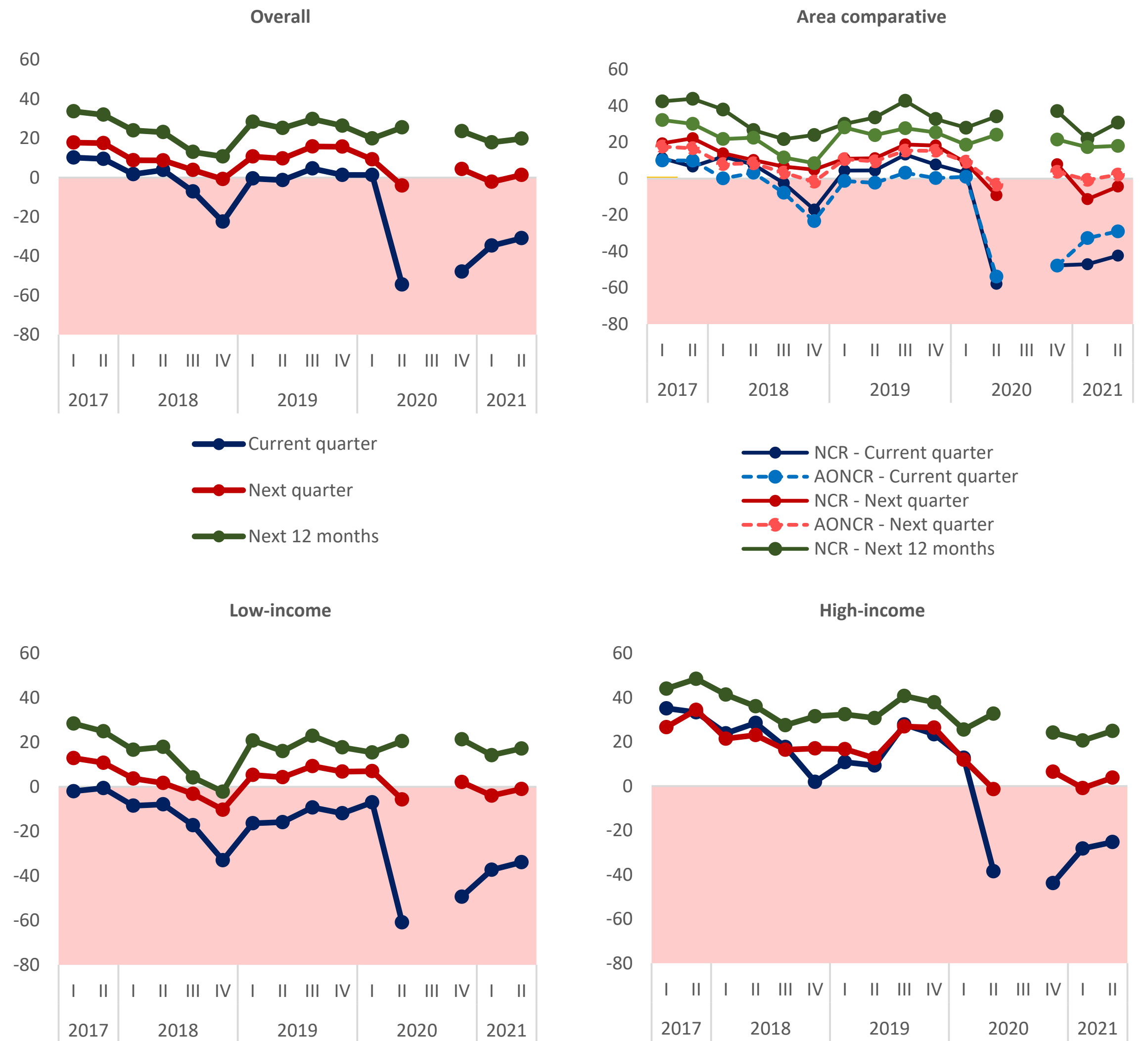
Business confidence deteriorated again based on the latest business expectations survey data (Q1 2021) conducted from April to May 2021, overlapping with a brief return of key economic areas to stricter community quarantines. Current-quarter business outlook had already turned net positive by Q4 2020, reversing the pessimism that prevailed after pandemic-induced lockdowns during the early part of the year (i.e., ECQs from mid-March to end-April 2020 in Metro Manila). Expectations were weakest for wholesale and retail trade, where there were more respondents from the business sector with a current-quarter negative outlook, followed by services. The mood appeared more upbeat in construction, where sentiments were overall positive and improving, and in the industrial sector, where outlook remained optimistic.



Note: A positive (negative) reading indicates that respondents with a positive (negative) outlook outnumbered those with a negative (positive) outlook. The Q2 2021 round of the survey was conducted from April 7 to May 27.
Source: BSP (2021b)

Box 1.4b
Consumer expectations survey

Spending confidence collapsed during the pandemic and remains low based on the latest consumer expectations survey for Q2 2021 conducted in the latter half of April 2021, which overlapped with tighter community quarantine. Current-quarter outlook continues to be net negative for households across the country, with consumers outside of Metro Manila only slightly more optimistic than those in the country's capital. Low-income consumers have generally been most pessimistic overall, and high-income consumers, the most optimistic.

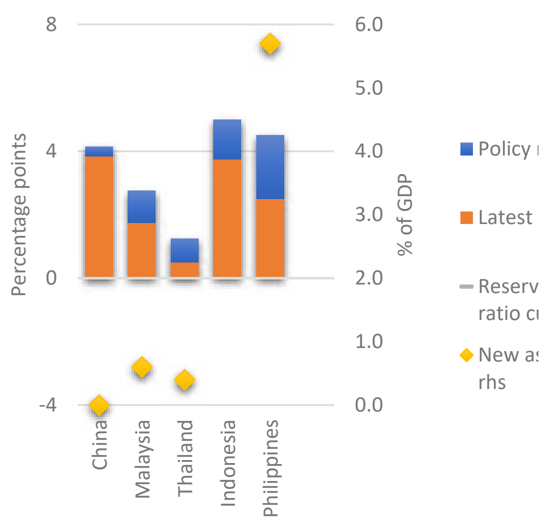


Note: A positive (negative) reading indicates that respondents with a positive (negative) outlook outnumbered those with a negative (positive) outlook. The Q2 2021 round of the survey was conducted from April 21 to May 1.
Source: BSP (2021c)

Box 1.5
Monetary and fiscal policies

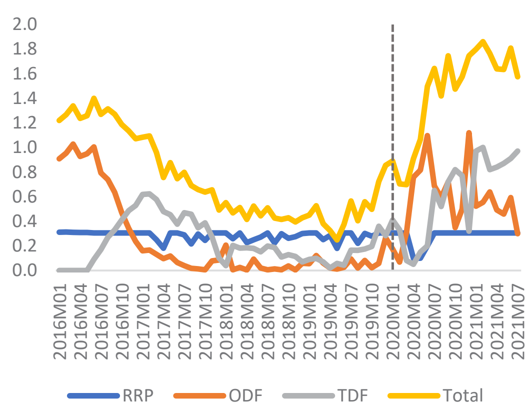
The country's monetary response to the pandemic, which included liquidity support and regulatory forbearance, was strong even compared to Asian neighbors.

Monetary policy support in ASEAN-5 and China



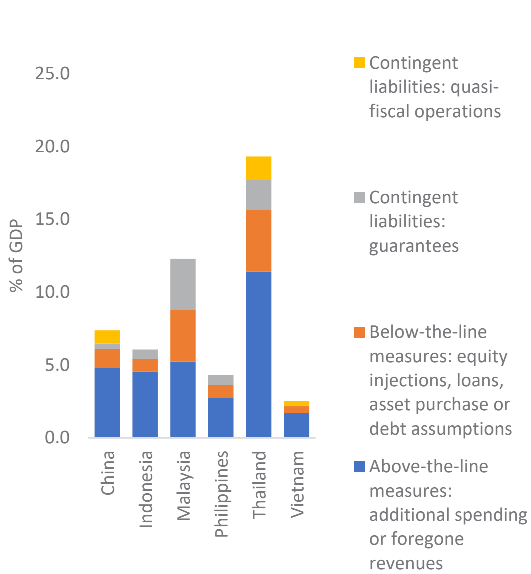
The risk-averse behavior of banks, however, has resulted in an accumulation of funds at the central bank's liquidity management facilities.

BSP facilities (PHP trillions)



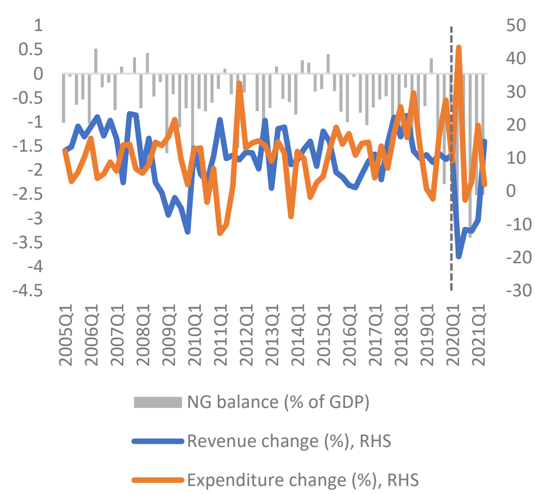
Fiscal authorities chose to exercise fiscal discipline during the pandemic, spending proportionately less than many of their counterparts in the region.

Fiscal policy responses of Asian economies



As anticipated, the country's fiscal deficit drastically widened because of revenue weakness during the COVID-19 crisis coupled with large, surprise pandemic-related spending.

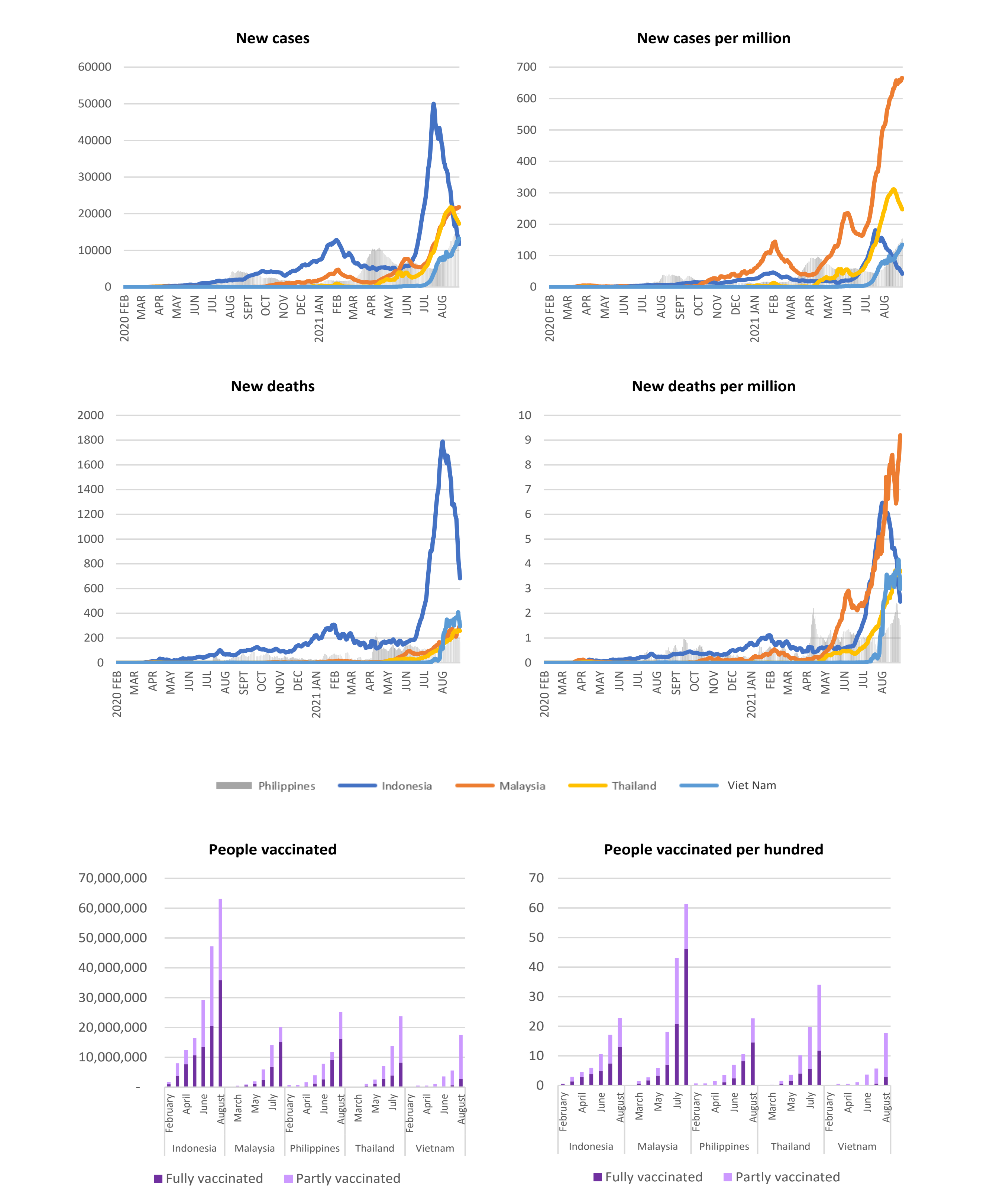
Government spending and fiscal position



GDP= gross domestic product; BSP = *Bangko Sentral ng Pilipinas;* NG = national government; ODF = overnight deposit facility; RRP = reverse repurchase; TDF = term deposit facility; ASEAN = Association of Southeast Asian Nations; PHP = Philippine peso; rhs = right-hand side

Sources: Author's computations using CEIC Data (2021e, 2021f, 2021g) and PSA (2021c); CEIC Data (2021d, 2021e); BSP (2021g); IMF (2021a); World Bank (2021a)

Box 1.6
COVID-19 statistics



Note: The charts cover data until September 3, 2021.
Sources: Our World in Data (Hasell et al. 2020; Matheiu et al. 2021; Ritchie et al. 2020)

Macroeconomic forecasts for the Philippines

Global and domestic indicators all point to slowing economic activity in the Philippines on account of the persistence of the COVID-19 virus, with a resurgence of cases worldwide and outbreaks even in countries running strong vaccination programs. Much of the uncertainty has been fueled recently by the emergence of the Delta variant, characterized by higher rates of transmission and breakthrough infections and constant reports of new variants. The more contagious version had already led to a return of containment measures across many countries, especially in Southeast Asia.

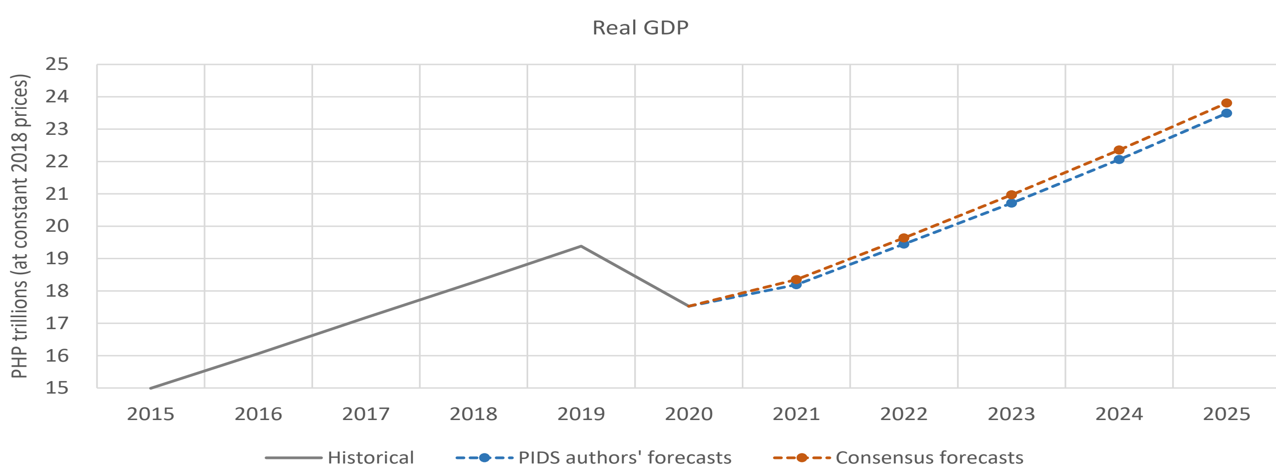
Authors' forecasts

Considering the intermittent tight quarantines in Metro Manila and adjacent areas and the impact these may have on aggregate demand, the Philippine economy the Philippine economy is expected to grow at 5.4 percent in 2021 and by 6.5 percent in 2022 (Table 1.3). There are downside risks to the forecasts, with negative factors potentially offsetting the anticipated boost from election spending. Based on these estimates, output is not expected to return to pre-COVID levels until next year (Figure 1.16).

Projections are based on an econometric model that depends mainly on the predictive power of the Philippine FCI, with intercept adjustments made for supply-side and other shocks.[34] The downgrade in the forecast is supported by high-frequency community mobility indicators, which point to a failure to regain pre-crisis mobility in many areas, and surveys of bank loan officers, who reveal a tightening of financial conditions, characterized by stricter credit standards as well as weak credit demand.

[34] The methodology is summarized in the Annex of Debuque-Gonzales (2020).

Figure 1.16
Post-2020 output path



GDP = gross domestic product; PHP = Philippine peso; PIDS = Philippine Institute for Development Studies
Sources: Authors' computations; *FocusEconomics* (2021); PSA (2021c)

Table 1.3
Forecasts for the Philippines: Output and consumer price trends

	2002–2011	2012–2019	2020	2021f	2022f
GDP (annual % change)	4.9	6.6	-9.6		
International financial institutions				**4.9 (6.7)**	**6.1**
Asian Development Outlook (Apr 2021)				4.5 (6.5)	5.5
Global Economic Prospects (Jun 2021)				4.7 (6.2)	5.9
World Economic Outlook (Jul 2021 update)				5.4 (7.4)	7.0
Private sector					
FocusEconomics (Oct 2021)				**4.6 (7.3)**	**6.8**
Of which:					
Capital Economics				5.0 (13.0)	11.0
Fitch Solutions				4.2 (6.2)	6.9
Kiel Institute				4.2 (7.6)	8.0
Moody's Analytics				4.0 (7.8)	6.4
Oxford Economics				3.3 (9.8)	7.4
Philippine Equity Partners				4.0 (4.5)	7.1
GlobalSource Philippines				3.5 (6.0)	6.5
Government					
DBCC (government assumptions, as of Aug 18, 2021)				4.0 to 5.0 (6.5 to 7.5)	7.0 to 9.0
Authors' forecast				**5.4 (6.0)**	**6.5**
CPI (annual % change)	4.6	2.7	2.6		
International financial institutions				**3.9 (2.8)**	**3.2**
Asian Development Outlook (Apr 2021)				4.1 (2.6)	3.5
IMF Staff Report (Article IV, Aug 2021)				4.2	3.0
World Economic Outlook (Apr 2021)				3.4 (3.0)	3.0
Private sector					
FocusEconomics (Oct 2021)				**4.1 (2.9)**	**3.0**
Of which:					
Capital Economics				3.7 (3.5)	2.0
Fitch Solutions				4.0 (3.0)	3.4
Kiel Institute				4.4 (3.2)	2.7
Moody's Analytics				4.1 (2.4)	3.5
Oxford Economics				4.4 (2.8)	3.1
Philippine Equity Partners				4.1 (3.1)	3.0
GlobalSource Philippines				4.1 (2.9)	3.2
Government					
DBCC (government assumptions, as of August 9, 2021)				2.0 to 4.0 (2.0 to 4.0)	2.0 to 4.0
Authors' forecast				**4.3 (3.0)**	**3.0**

CPI = consumer price index; DBCC = Development Budget Coordination Committee; GDP = gross domestic product; IMF = International Monetary Fund
Note: Previous GDP growth and inflation forecasts for 2021 (figures in parentheses) were obtained from the September 2020 issue of ADO; the June 2020 issue of GEP; October 2020 issue of WEO; and October 2020 issue of *FocusEconomics*.
Sources: ADB (2021); Bernardo and Tang (2021); DBM (2021a); DOF (2021); *FocusEconomics* (2021); IMF (2021d, 2021e); WB (2021b)

Bank lending has generally contracted except in a few growth areas, such as information and communication, while PMIs for manufacturing, retail and wholesale trade, and services have all fallen below 50, presaging a slowdown. Business and consumer confidence are at a historic low and likely to remain muted given health sector weaknesses, with the country's vaccination rollout perceived to be behind schedule and testing/tracing programs still quite limited. Although monetary policy remains accommodative, the possibility of a new fiscal stimulus package appears dim at the moment, based on the latest presentations of fiscal authorities.[35]

Inflation is expected to average at 4.3 percent in 2021 because of continued pressure from supply-side factors, though these should taper off as mobility restrictions are lifted. With aggregate demand expected to be subdued, inflation will remain at the center of the target band in 2022. This forecast incorporates inflation risks from world food and fuel prices and the closing of the import liberalization window for pork by January next year, though there are remaining external-origin inflation risks.

Consensus forecasts

The latest consensus view from the financial sector (*FocusEconomics*, October 2021) is that GDP will expand by 4.6 percent on average in 2021, 6.8 percent in 2022, and 6.6 percent in 2024 (Table 1.4).[36] The large downward adjustment in output forecasts also reflects the perception of "a weak vaccination campaign" and the reintroduction of mobility restrictions. Slow vaccination progress and uncertainty in the run-up to the national elections are seen as the biggest risks to growth.

Economic analysts from the financial sector expect unemployment to remain high at 8.1 percent this year, before tapering to 5.8 percent by 2024, and inflation to average at 4.1 percent and remain in the middle of the inflation target band in succeeding years. They see smaller fiscal deficits than programmed by the government (Table 1.4 versus Table 1.5a), at 8.1 percent in 2021 rather than 9.3 percent, matching the observed spending underperformance during the first half. The same pattern of smaller-than-programmed national deficits is foreseen in succeeding years. The anticipated level of public debt this year, however, is close to that penciled in by the government, at 59.0 percent versus the government's target of 59.1 percent (Table 1.5b). Private-sector expectations of the debt-to-GDP ratio generally fall within the government's medium-term limit of around 60 percent.

Policy rates are forecast to remain at 2 percent this year, following the central bank's assurance that monetary policy will remain supportive of economic growth, and begin to normalize thereafter. Meanwhile, the current account is expected to post another surplus, supported by a revival of remittances as economies reopen, but subsequently return to a deficit position, as investment rebounds (and imports decompress) under a stronger economic revival in 2022. This allows further accumulation of gross international reserves, which are predicted to accumulate to over PHP 136 billion in the medium term, and a continued decline in external debt, to roughly 20 percent during the same period.

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[35] In a budget hearing dated September 8, 2021, Dominguez (2021) stated that "fiscal discipline will save us from this long battle against the pandemic."

[36] *FocusEconomics Consensus Forecast Philippines* is a publication that gathers the views of the different banks, financial institutions, and financial research firms monitoring the Philippine economy

Table 1.4
Consensus forecasts for the Philippines: Key macroeconomic variables

	2016	2017	2018	2019	2020	2021f	2022f	2024f
Real sector								
GDP (annual % change)	7.1	6.9	6.3	6.1	-9.6	**4.6 (7.3)**	**6.8 (6.5)**	**6.6 (6.7)**
Private consumption (annual % change)	7.2	6.0	5.8	5.9	-7.9	**2.2 (6.2)**	**6.2 (6.0)**	**6.6 (5.8)**
Fixed investment (annual % change)	20.9	10.6	12.9	3.9	-27.5	**15.2 (13.2)**	**13.5 (10.0)**	**9.2 (8.4)**
Gov't consumption (annual % change)	9.4	6.5	13.4	9.1	10.5	**6.4 (6.2)**	**5.1 (6.2)**	**5.4 (6.4)**
Unemployment (% active population)	5.5	5.7	5.3	5.1	10.4	**8.1 (7.7)**	**6.8 (6.3)**	**5.8 (5.8)**
Fiscal balance (% of GDP)	-2.3	-2.1	-3.1	-3.4	-7.6	**-8.1 (-6.1)**	**-6.5 (-4.5)**	**-4.4 (-3.1)**
Public debt (% of GDP)	40.2	40.2	39.9	39.6	54.6	**59.0 (52.3)**	**59.9 (51.6)**	**58.2 (50.6)**
Monetary and financial sector								
Inflation (CPI, annual % change, aop)	1.3	2.9	5.2	2.5	2.6	**4.1 (2.9)**	**3.0 (3.0)**	**3.2 (3.1)**
Reverse repurchase rate (%, eop)	3.00	3.00	4.75	4.00	2.00	**1.98 (2.12)**	**2.26 (2.54)**	**3.23 (3.36)**
91-day treasury bill (%, eop)	1.56	2.15	5.32	3.19	1.02	**1.35 (2.31)**	**1.99 (2.72)**	**2.75[a] (3.05)**
Exchange rate (peso per USD, eop)	49.6	50.0	52.5	50.7	48.0	**49.8 (49.4)**	**49.9 (50.1)**	**50.2 (51.0)**
External sector								
Current account balance (% of GDP)	-0.4	-0.7	-2.6	-0.8	3.1	**0.6 (-0.9)**	**-0.5 (-1.2)**	**-0.7 (-1.8)**
International reserves (USD billion)	80.7	81.6	79.2	87.8	110.1	**110.3 (94.3)**	**114.1 (105.1)**	**135.7 (125.0)**
External debt (% of GDP)	23.5	22.3	22.8	22.2	27.2	**25.5 (22.4)**	**23.8 (21.1)**	**20.2 (19.1)**

aop = average of period; eop = end of period; GDP = gross domestic product; USD = United States dollar; CPI = consumer price index
Note: Figures are mean averages of projections of economic forecasters regularly surveyed by *FocusEconomics*. For the Philippines, surveyed institutions include foreign and domestic universal banks, investment banks, financial research and consultancy firms, firms offering forecasting and data analytics services, a research organization, and a stock brokerage. Figures are from the October 2021 issue of Consensus Forecasts: Philippines. Values in parentheses are correspondingly from the October 2020 issue.
[a] Forecast for 2023
Source: *FocusEconomics* (2021)

Table 1.5a
Medium-term fiscal program

Particulars (in PHP billion)	2020	2021	2022	2023	2024
Revenues	2,856.0	2,881.5	3,289.5	3,586.4	3,999.3
% of GDP	15.9%	14.5%	14.9%	14.8%	15.1%
Growth rate	-9.0%	0.9%	14.2%	9.0%	11.5%
Tax revenues	2,504.4	2,714.8	3,125.0	3,419.9	3,830.7
% of GDP	14.0%	13.7%	14.2%	14.1%	14.4%
Disbursements	4,227.4	4,737.1	4,954.6	5,021.4	5,297.8
% of GDP	23.6%	23.9%	22.4%	20.7%	19.9%
Growth rate	11.3%	12.1%	4.6%	1.3%	5.5%
Surplus/(Deficit)	(1,371.4)	(1,855.6)	(1,665.1)	(1,434.9)	(1,298.5)
% of GDP	-7.6%	-9.3%	-7.5%	-5.9%	-4.9%
Others:					
Memo Item: Nominal GDP	17,938.6	19,849.7	22,080.8	24,221.5	26,569.8
Infrastructure program[1] *% of GDP*	869.5 *4.8%*	1,019.1 *5.1%*	1,285.0 *5.8%*	1,276.1 *5.3%*	1,298.5 *-4.9%*

GDP = gross domestic product; PHP = Philippine peso
[1] Indicative and subject to updating. Projections pertain to disbursements from national government infrastructure, infrastructure subsidy/equity to government-owned and controlled corporations, and transfers to local government units intended for infrastructure activities. Includes payables from the current year's budget and prior years' obligations.
Sources: DBM (2021d); Dominguez (2021)

Table 1.5b
Borrowing program

Particulars (in PHP trillion)	2020	2021	2022	2023	2024
Gross financing	2.65	3.07	2.47	2.31	2.37
By source:					
Foreign	0.74	0.58	0.56	0.58	0.58
Domestic	1.91	2.49	1.91	1.73	1.79
Financing mix (Domestic: Foreign)	72:28	81:19	77:23	75:25	75:25
Total NG Debt-to-GDP ratio	54.6%	59.1%	60.8%	60.7%	59.7%

PHP = Philippine peso; NG = national government; GDP = gross domestic product
Source: Dominguez (2021)

Risks and policy challenges

Today's risks fall in the same areas as outlined previously (PIDS 2020), but the policy challenges have intensified. Periodic escalation of daily cases in the Philippines has led to intermittent lockdowns in the country's capital, the most recent ECQ in August 2021 being the fourth one over the last 18 months and traceable to a more infectious variant of the disease. Prolonged pandemic risk, along with other economic risks, has made it harder to chart a clear path out of the COVID-19 crisis.

Pandemic risk

The biggest risk to economic recovery is still a protracted pandemic and the uncertain path of the COVID-19 virus, especially the emergence of more contagious variants that are resistant to the available vaccines. Even countries with speedy and comprehensive vaccination and testing/tracing programs had difficulty preventing outbreaks, with some already greenlighting booster shots for high-risk residents. Such developments may further constrain the global vaccine supply. There is clearly a need for stronger cooperation worldwide on vaccines and related issues, especially to prevent COVID-19 mutations from going uncontrolled in large populations beset by weak public health systems.

At the local level, suppression of the COVID-19 virus had been difficult, with vaccine distribution bottlenecks leading to a slow rollout. The Philippine government initially met procurement delays but eventually ramped up vaccination in August 2021 to about 13.2 million doses in a single month. (see Box 1.6). Yet, with 16.8 percent of the population vaccinated (18.7 million) as of August 15 and just 14.3 percent fully vaccinated (15.8 million) as of September 8, the country would need to redouble its efforts to meet its target of vaccinating 70 percent of the population by yearend.[37] Commercial availability of vaccines with full regulatory approval abroad and locally will hopefully help loosen supply constraints.[38]

Strong vaccination efforts, alongside an efficient testing and tracing mechanism, remain vital components of a robust recovery. Such would allow faster normalization of economic activity and prevent recurrence of tight mobility restrictions that increasingly worsen incomes, heighten precautionary behavior, and ultimately constrict aggregate demand. As noted by researchers earlier in the pandemic (e.g., Alon et al. 2020), blanket lockdowns are less suited to developing economies, which have younger populations and more hand-to-mouth households, apart from having weaker public health infrastructure, less fiscal capacity, and a larger informal sector. From more recent observations of the Philippine

[37] A rough calculation based on current population of about 108 million implies about 60 million Filipinos have yet to be fully vaccinated to achieve the 70-percent target. Assuming majority receives 2 doses and a fraction receives 1 dose (i.e., depending on brand) to be fully vaccinated, the government would have to improve its daily average (which was about 430,000 per day in August) to meet the target by the end of the year. More likely, it will be met by end-2022, during which another round of vaccinations would be needed for those already/currently fully vaccinated. (The Philippine National Deployment and Vaccination Plan for COVID-19 Vaccines earlier disseminated by the Department of Health marked the year-end target at 70 million or 63 percent of the national population. This computation, however, considers 70 percent of the population as the target, in compliance with more recent statements made by the Inter-Agency Task Force vaccine czar Carlito Galvez Jr.).

[38] The US Food and Drug Administration, for instance, recently gave its full approval of the Pfizer-BioNTech vaccine. With only emergency use authorization given to COVID-19 vaccines, private companies and LGUs in the Philippines can procure these vaccines only if they enter into tripartite agreements with the national government and vaccine manufacturers.

economy, such measures have contributed to never-before-seen declines in both household spending and firm investment and an extraordinary decline in services, with some sectors inevitably closing and unlikely to return in the foreseeable future.

Financial sector risk

Prolonged economic pain worsens the balance sheets of both households and firms, dampening their confidence in the economy and preventing any chance of a quick recovery. This highlights an additional risk that confronts Philippine policymakers: the possibility of negative spillovers to the financial system, as the harsh impact of the pandemic reduces cash flows and diminishes savings of economic participants, reducing their capacity to repay their loans, with adverse impacts on banks. Given the heightened risk and uncertainty due to deteriorating loan portfolios and incomplete information on who remains creditworthy, especially if the health crisis persists, banks, in turn, become unwilling to lend, impairing the flow of credit to the real economy.

The BSP moved forcefully to avert financial risk, providing ample liquidity support through policy rate and reserve requirement cuts and regulatory relief. This calmed financial markets and curbed the rise in domestic interest rates at the onset of the COVID-19 crisis. Provisional advances to the national government provided funding support for pandemic relief while also helping stabilize the bond market. However, this chapter has shown that financial conditions remain precarious, with banks maintaining tight credit standards even as credit demand remains weak, especially in the context of households and smaller enterprises.

Bank stress test results, such as those from the 2021 Financial Sector Assessment Program of the IMF, indicate, so far, that banks in the Philippines remain safe under an already severe baseline scenario but could face systemic solvency distress under more severe scenarios. The unexpected strength of loan portfolios (with nonperforming loans [NPLs] not rising as much in adverse scenarios) is mainly attributed to the financial strength of conglomerates that are tightly linked with large banks, stronger risk management practices and related reforms emerging from past financial crises, and active loan restructuring of banks (IMF 2021b).

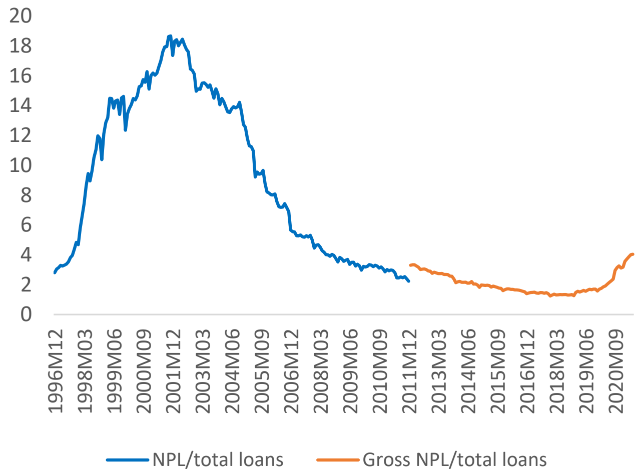
Banks have seemingly been preparing for the worst scenario, based on their actions since the start of the pandemic. They have set aside funds for faulty loans (Figure 1.17, Panel A) and built up their capital buffers beginning mid-2020, as evidenced by a rise in the capital adequacy ratio (CAR) from 15.4 percent on a solo basis (16% if consolidated) in December 2019, to 15.3 percent (15.8%) in March 2020 to 16.8 percent (17.4%) a year later (Figure 1.17, Panel B).[39] The latest CAR far exceeds the minimum standards of both the BSP and the Basel Accord at 10 percent and 8 percent, respectively.

Despite loan restructuring (Figure 1.17, Panel C), banks' NPL ratios still rose from 3 percent of total loans in March 2020 to around 6 percent by June 2021 (Figure 1.17, Panel D), with asset quality expected to further deteriorate due to the lagged impact of the pandemic crisis on

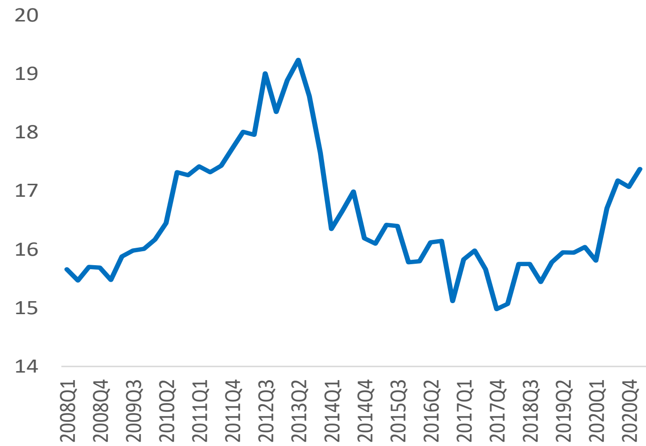
[39] The loan loss provisions refer to allowances made by banks for probable losses, while a bank's CAR is computed as the ratio of its capital against its risk-weighted assets.

Figure 1.17
Loans ratios and capital adequacy ratio

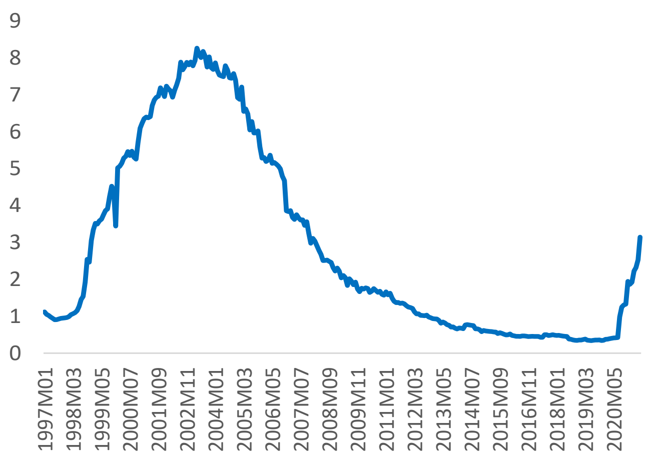
A. Nonperforming loans to total loans ratio



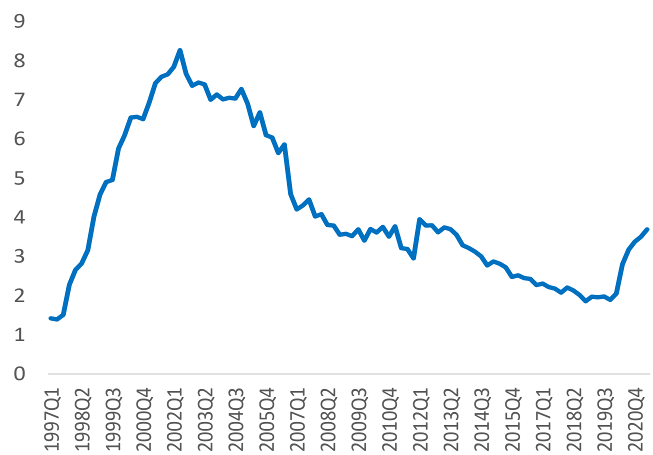
B. Capital adequacy ratio



C. Restructured loans to total loans ratio



D. Loan loss provisions to total loans ratio



NPL = nonperforming loan
Source: CEIC Data (2021a, 2021j, 2021m, 2021s)

the macroeconomy (IMF 2021c).[40] Due to continued uncertainty about the pandemic and its impact on loan quality, banks are expected to remain risk averse, and credit standards and lending will likely remain tight.

This makes timely and efficient implementation of the Financial Institutions Strategic Transfer Act (FIST) of 2021, which was patterned after the earlier Special Purpose Vehicle (SPV) Act of 2002 (RA 9182), critical for the country to swing into recovery. Banks' NPLs amounted to nearly a fifth of total loans by 2001 and remained high until the early half of 2002,

[40] The IMF (2021c) notes that loans under regulatory relief measures of the BSP accounted for only about 3 percent of NPLs in end-September 2020, with reputational costs exceeding perceived benefits for listed banks.

but sharply declined with the implementation of the SPV Act, which granted tax exemptions and fee privileges to SPVs that acquire or invest in nonperforming assets.

Like the SPV Act, the FIST Act incentivizes banks and other financial institutions to offload their NPLs and other nonperforming assets to newly formed private asset management companies called FIST corporations. This removes risk from financial institutions' balance sheets and frees up their capital, improving their liquidity and capacity to engage again in lending to facilitate economic recovery. The FIST Act was signed into law in February 2021, with its implementing rules and regulations promulgated a month later.

Global uncertainty and policy risks

The third set of risks relates to uncertainty about the world economy and the implications for domestic policy and other policy-related issues. A US stimulus, for example, is anticipated to have positive effects on world growth through international multipliers but may also set off inflation that could, in turn, influence global interest rates. An uneven world recovery makes domestic policymaking more complex, especially for emerging market and developing economies (EMDEs). The possibility of tighter external financial conditions due to elevated inflation alongside a worsening health crisis potentially threatens EMDEs with "a double hit" that could set back domestic recovery, where weaker growth disturbs debt dynamics and heightens fiscal risks (IMF 2021e).

The BSP has communicated that it will continue to provide policy support to the economy and that it has ample monetary space to do so, lessening the danger of an abrupt financial tightening. As this chapter chronicles, the borrowers' confidence in the country remains low, while risk aversion of lenders remains high, weakening lending activity. The Philippine central bank stated that it would allow current accommodative policy settings "to continue to work their way through the economy to bolster private consumption and investment" (PNA 2021). It added that monetary policy "remains oriented towards supporting ongoing economic recovery amid supply-side pressures and the presence of economic slack as well as the downside risks to domestic demand from the impact of the protracted COVID-19 pandemic" (PNA 2021).

Global food and fuel inflation remain uncertain because of prolonged public health crises and divergent recoveries worldwide, while some domestic sources of inflation continue to present a challenge to Philippine policymakers. The latest inflation results (4.9% year-on-year in August 2021, 4.4% year-to-date) lie at the high end of the BSP's forecast range (set at 4.1 to 4.9%). The risk of a stagflation-like scenario and the policy complexities accompanying such scenarios should decline moving forward as transitory supply-side drivers weaken. Pressure on meat prices, for instance, has eased slightly, though transport costs and prices of some fresh food items have risen with intermittent mobility restrictions. Nonetheless, continued clear central bank communication is needed to manage inflation expectations in such a protean setting. Down the road, clear messaging will also be critical for an orderly unwinding of pandemic-related monetary measures.

The inability to provide fiscal support to a country still in a health and economic crisis poses an additional risk. Comprehensive vaccination and testing/tracing programs must be matched by strong fiscal initiatives to restore confidence in the economy. Following a credible strategy to address pandemic crises in developing countries (e.g., Loayza and Pennings 2020), worsening of the health crisis may be addressed with targeted relief spending to further bolster healthcare capacity and provide support for the vulnerable and affected workers and businesses. This also serves to prevent an amplification of shocks across different sectors, with pandemic shocks more aptly viewed as Keynesian supply shocks that can trigger severe demand shortages (Guerrieri et al. 2020). When mobility restrictions have been lifted in the recovery stage, the government may turn to more traditional stimulus measures to regain its pre-crisis output growth path. To keep debt under control, the spending program may be matched by a credible forward-looking fiscal strategy that reins in future deficits.

Philippine fiscal managers have followed a similar approach but may be pressured to do more if pandemic risks escalate and materialize. Because of prudent fiscal management in the past, there is clearly fiscal space to maneuver a more robust recovery. The country's borrowing rates have declined steadily from 6.3 percent in 2010 to 4.9 percent in 2017 (by 20 basis points yearly on average), inching up slightly to 5.1 percent in 2018 before falling to 4.2 percent in 2020 (Dominguez 2021). Out of six credit raters monitoring the country, one granted an upgrade (Japan Credit Rating Agency), five affirmed its credit ratings during the pandemic, and only one gave a negative outlook (Fitch Ratings). Meanwhile, various debt sustainability analyses suggest that debt dynamics can be manageable even in adverse scenarios (e.g., DBCC 2021; IMF 2021c).[41]

Longer-term risks

Fiscal support is also needed to avert the longer-term risk of economic scarring—i.e., impairment of the country's long-term growth potential—because of a protracted pandemic crisis. These include productivity losses due to business closures, especially of high-potential firms that would have survived after the pandemic; a de-skilling of workers because of prolonged unemployment; and disruptions in education and training, and planned investment (Boissay and Rungcharoenkitkul 2020; Eichengreen 2020; IMF 2020; World Bank 2020). Long-term growth in a post-COVID-19 future, therefore, depends even more on investment in infrastructure and education to build up physical and human capital and create jobs and spur near-term demand.

Public investment in infrastructure provides a short-term boost to the economy through the fiscal multiplier and has long-term supply-side effects by raising the infrastructure capital stock and productive capacity of the economy. However, the latter effect depends on the absorptive capacity and strength of the investment

[41] The IMF (2021c) analysis suggests building up fiscal space after the pandemic beyond an unwinding of COVID-19-related support, given the revenue impact of CREATE (0.74% of 2020 GDP in 2021 and 0.66% in 2022) and the implications of the Supreme Court ruling in 2019 on the Mandanas petition. The latter changed revenue-sharing with LGUs by including national taxes (with some exclusions allowed by law) in the base for determining LGU allotment and has necessitated a devolution of some fiscal responsibilities to LGUs.

process in a country in terms of competency in the selection, implementation/execution, and monitoring of projects (Abiad et al. 2018).[42] With inefficiencies and leakages in investment spending, one would fail to develop the country's infrastructure base as intended. Similar caveats on investment efficiency apply to public spending meant to reinforce the country's human capital, such as through education and worker training.

There is currently catch-up spending in infrastructure, as outlays fell by about a fifth in 2020 after some agencies either discontinued or postponed public works that could no longer be implemented or completed because of the pandemic.[43] National budgets for 2021 and 2022 include PHP 1.1 trillion and a proposed PHP 1.2 trillion, respectively, for the government's Build, Build, Build Program. The share of the education department dipped in the proposed national budget for 2022, but this was mainly because of substantial increases in spending on national agencies dedicated to the health, agriculture, and social sectors spurred by the continuing health and economic crisis. Education still accounted for the largest cut in government spending (15.4%), along with public works (13.7%).

Overall, the risk is a slower long-term growth because of the long-lasting effects of the pandemic on potential output, and also less inclusive growth. If left unaddressed, the country could end up with greater poverty and inequality. As similarly noted by the World Bank (2021a) for developing Asia, a mixture of sickness, food insecurity, job losses, and school closures could erode human capital and precipitate losses in lifetime earnings. Such possibilities further highlight the need for investment in education and worker training to help lessen economic inequality and facilitate a shift away from sectors that may no longer be viable in a post-COVID-19 setting, and also in research and development to increase productivity and speed up growth.

The *PIDS 2019–2020 Economic Policy Monitor* (PIDS 2020) already highlighted some of the important prerequisites for inclusive growth. These include the development of an efficient and ideally digital infrastructure for the delivery of social protection, especially for hard-to-reach sectors; widening of broadband and mobile phone coverage to cover remote areas; addressing the digital divide to help equalize opportunities for education and employment; and widening and deepening financial inclusion across all sectors, including for the elderly.

The final challenge in the longer horizon involves a timely packing away of pandemic-related policy measures, which likewise carry nonnegligible risk. As previously noted (Debuque-Gonzales forthcoming), the monetary-fiscal financing arrangements entered into by the BSP and the national government held huge benefits during the height of the health and economic crisis but must be put back into the policy toolkit when conditions normalize. This is needed to minimize the risk of perceived fiscal dominance and loss of monetary

[42] Absorptive capacity becomes limited in some countries as marginal returns tend to decline with a scaling up of investment due to a smaller number of high-return projects as well as institutional and human and infrastructure capital constraints (Presbitero 2016). Absorptive capacity constraints, which occur when there is a rapid acceleration of public investment, are likely to be more acute in less developed countries.

[43] This followed the provisions of Bayanihan 1. Limited operating capacity of agencies due to community quarantine measures also led to implementation delays of remaining projects.

independence and credibility that could ultimately weaken inflation control.

Even as ample fiscal support is needed for a robust economic recovery, the right amount of fiscal prudence is required to keep the country on a sustainable debt path. Fiscal deficits that have been stretched (and will likely continue to be stretched) by massive health, social, and infrastructure spending and permanent tax cuts will eventually have to be shrunk down. In any fiscal consolidation strategy adopted by the government, it is important to prioritize (inclusive) economic growth as the main channel by which to bring down the debt ratio, rather than inflation or regressive taxation. In the shorter horizon, as national elections near and a change in leadership becomes imminent, continued deft handling of an economy still in crisis by policymakers taking note of these important caveats, not to mention smooth turnover of economic leadership, will be crucial to manage this difficult recovery period.

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Appendix[1]

To compute a high-frequency (monthly) FCI for the Philippines, a technique based on Hatzius et al. (2010) is adopted. This method condenses information from a large dataset to a few summary variables (common factors or principal components). This technique differs from standard principal component analysis by allowing for unbalanced panels (time series with different beginning and ending dates), a useful feature that lengthens data history and broadens data coverage. To ensure that the FCI holds unique information about the future state of the economy, the method is applied to financial shocks obtained by first eliminating cyclical influences from the financial variables.

The following common factor model is applied:

$$v_{it} = \lambda_i' F_t + u_{it}$$

where F_t is a $k \times 1$ vector of unobserved financial factors capturing the common variation among the different financial indicators; and v_{it} is the error term (i.e., the financial shock corresponding to variable i) in a regression of the ith financial variable X_{it} on a vector of macroeconomic variables Y_t comprising output growth and inflation. The error term u_{it} is unrelated to both F_t and Y_t and assumed to be uncorrelated (or weakly correlated) across variables.

With an unbalanced panel, F_t is computed iteratively using least squares estimation.[2] The least squares estimator $\hat{F}_t$ solves the problem: $min_{\lambda_t, F_t} \sum_{i,t} (\hat{v}_{it} - \lambda_i' F_t)^2$. The $\hat{F}_t$ computed from a one-factor model represents the FCI adopted in this chapter.

Prior to estimation, all financial variables (49 in total comprising yields, spreads, asset prices, credit quantities, liquidity measures, and financial stress and risk indicators) are transformed as needed (such as for stationarity) and normalized (demeaned and divided by their standard deviations) to make sure measurement units and data fluctuations do not unduly influence the extracted common factors. They are then regressed against current and two lagged values of log changes in prices (as measured by CPI) and economic output (as proxied by an industrial production index) to obtain the corresponding financial shock.

[1] This appendix draws heavily from Debuque-Gonzales (2020).

[2] This is performed using MATLAB codes from Debuque-Gonzales and Gochoco-Bautista (2017).

CHAPTER 2

Policy Updates

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Poverty reduction and social protection

The Philippines continues to suffer from the wide-reaching effects of the coronavirus disease 2019 (COVID-19) pandemic. The pandemic has significantly pushed back the significant decrease in poverty the country has been experiencing in recent years (Table 2.1). In 2018, the poverty rate in the Philippines was 16.7 percent. However, because of the pandemic and the multiple restrictions enacted, the Asian Development Bank (ADB) estimates that poverty jolted up to 20 percent in 2020, equivalent to at least 22 million poor Filipinos (de Guzman 2021). The National Economic and Development Authority (NEDA) estimates a range of 15.5 to 17.5 percent poverty rate for 2021 and remains optimistic that a target of 14 percent for 2022 is still achievable (Rivas 2021).

The past year also saw a 9.6-percent contraction in the gross domestic product (GDP), noting specifically a 7.9-percent contraction in household consumption, based on the National Accounts of the Philippines (PSA 2021e). This meant a decline in consumer spending during the pandemic. Inflation has also steadily grown beyond the target range, sitting at 4.1 percent as of June 2021. Some of the key contributors to inflation are meat (19.2%) and transportation (9.6%), which implies significant adverse effects on people's access to basic commodities and services.

Aside from poverty, hunger also continues to be a prevalent issue amid the pandemic. Second quarter estimates of involuntary hunger, as noted by a Social Weather Stations (SWS) survey, show that 13.6 percent of respondents have experienced hunger, of which 2.1 percent experienced severe hunger (SWS 2021). This peaked in the third quarter of 2020, wherein 30.7 percent of respondents felt involuntary hunger (Figure 2.1).

The next section discusses recent programs and policies of the government to reduce poverty in the country and relevant pieces of legislation being lobbied in the House of Representatives and the Senate.

Bayanihan 1, 2, and 3

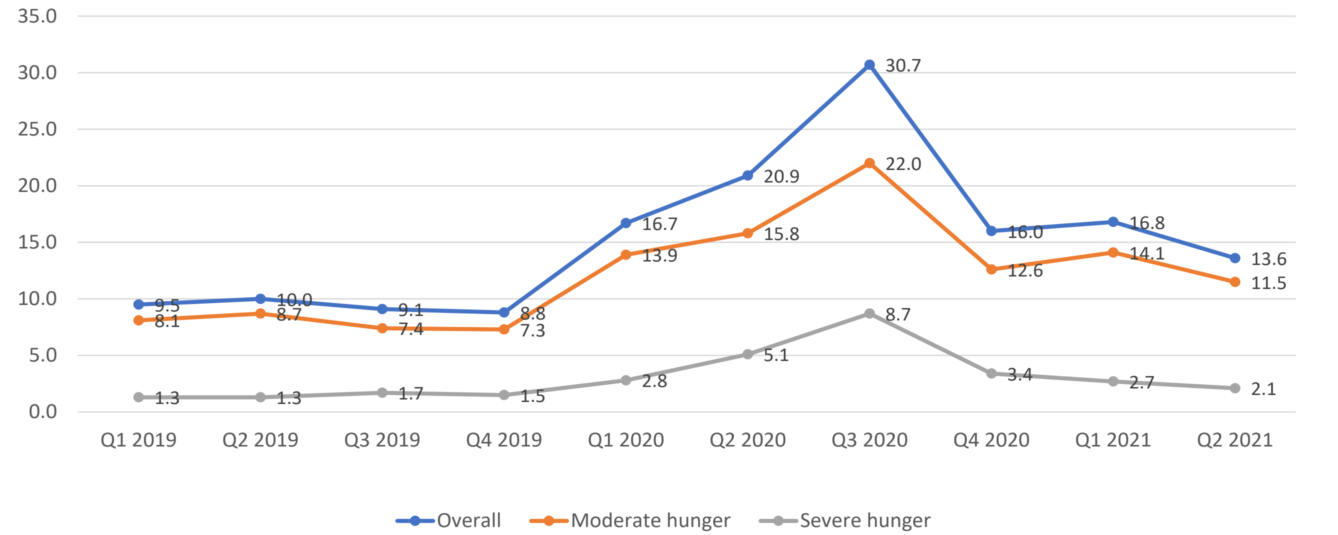
Among the key programs of the national government in 2020 to address the effects of the COVID-19 pandemic was Republic Act (RA) 11469 or the *Bayanihan* to Heal as One Act, also known as Bayanihan 1. When it expired on June 24, 2020, RA 11464 or the Bayanihan to Recover

Table 2.1
Poverty and subsistence incidence (%) among population by year

Indicator	2006	2009	2012	2015	2018	2020 (ADB Estimates)	2021 (NEDA Estimates)	2022 (NEDA Target)
Poverty incidence	26.6	26.3	25.2	23.5	16.7	20.0	15.5–17.5	14.0
Subsistence incidence	12.0	10.9	10.4	9.1	5.2	-	5.0–7.0	5.0

ADB = Asian Development Bank; NEDA = National Economic and Development Authority
Sources: PSA (2006, 2009, 2012, 2015a, 2018); de Guzman (2021); NEDA (2021)

Figure 2.1
Hunger incidence by quarter



Q = Quarter
Source: SWS (2021) survey

as One Act (Bayanihan 2) was enacted to continue the government's COVID-19 response. Signed into law on September 11, 2020, it initially lapsed on December 31, 2020, but was extended until June 30, 2021, through RA 11519. Bayanihan 2's main features include:

- An emergency subsidy of PHP 5,000 to PHP 8,000 for low-income households affected by the lockdown or recently returned Overseas Filipino Workers (OFWs)
- Unemployment assistance amounting to those mentioned above for displaced workers due to COVID-19
- Financial relief to agrarian reform beneficiaries
- Subsidies and allowances to qualified students in public and private schools
- Cash assistance for teaching and nonteaching personnel
- Provision of special risk allowances for frontline health workers
- Targeted aid and loans for the tourism, transport, and agricultural sectors and micro, small, and medium enterprises (MSMEs).

However, the implementation of the law has not been smooth, as issues were raised regarding the slow disbursement and underspending (de Leon 2021). According to the Department of Health (DOH), it only received PHP 9 billion for the special risk allowances five days before the law's expiration (Lopez 2021). The Department of Education (DepEd) likewise stated that it only used up 86 percent of its PHP 150 million budget as of June 15, despite classes ending in July. This was attributed to procurement and bidding issues, especially in remote areas (Adonis 2021). The allowances and subsidies allotted for public and private students have also not been fully released (Bernardo 2021). Public utility vehicle (PUV) drivers and operators are yet to receive full compensation, as the Land Transportation Franchising and Regulatory Board (LTFRB) released only PHP 1.5 billion out of its PHP 5.6 billion allocation as of end of June 2021. When the law expired on June 30, 2021, the presidential spokesperson stated that about PHP 9 billion worth of Bayanihan 2 funds were unspent and returned to the National Treasury (Talabong 2021). Efforts to extend the law were unsuccessful as Congress was already on break, and a special session was not called to extend its deadline (Corrales 2021).

Continuing from Bayanihan 2, Congress passed House Bill (HB) 9411 or the Bayanihan to Arise as One Act. Bayanihan 3 is a three-pronged legislation that includes social amelioration for Filipinos (*Kalinga*), livelihood interventions (*Kabuhayan*), and food security and health interventions (*Kalusugan*). The measure contains the following provisions that directly address the growing issue of poverty in the country amid the pandemic:

- *Ayuda* to all Filipinos*:* The Department of Social Welfare and Development (DSWD) shall implement a COVID assistance program that provides a PHP 1,000 subsidy a month for all Filipinos after the implementation of the Act, and another PHP 1,000 to be given within three months after.
- Ayuda for Quarantine-Affected Households: The DSWD shall implement a one-time cash subsidy ranging from PHP 5,000 to PHP 8,000 for every household in areas affected by the enhanced community quarantine (ECQ) or any equivalent level of restriction. The number of household members and the length of quarantine shall serve as the basis for the subsidy amount.
- Assistance to Individuals in Crisis: The DSWD shall be appropriated PHP 12 billion to procure food packs and provide emergency assistance to affected households. Standby funds of PHP 18 billion are to be allotted for the succeeding phases of the program.
- Small Business Wage Subsidy: The Department of Finance (DOF), Social Security System (SSS), and Bureau of Internal Revenue (BIR) shall assist MSMEs affected by the pandemic by giving them a wage subsidy of PHP 5,000 to PHP 8,000 per qualified employees. Under Bayanihan 3, this program shall receive an additional PHP 8 billion, with another PHP 12 billion on standby for its latter phases.
- The Department of Labor and Employment (DOLE) has several programs to provide temporary employment to displaced workers, OFWs, and freelancers. These include the *Tulong Panghanapbuhay sa Ating* Displaced/Disadvantaged Workers (TUPAD), COVID-19 Adjustment Measures Program (CAMP), and *Abot Kamay ang Pagtulong* (AKAP) Program. To enhance these efforts, PHP 10 billion shall be appropriated to DOLE for their continued implementation, with a total of PHP 15 billion on standby for the latter phases of these programs.

Bayanihan 3, which amounts to PHP 401 billion worth of programs (see Table 2.2), passed the third reading in the House of Representatives on June 1, 2021. Despite this, views on the bill are mixed. The *Bangko Sentral ng Pilipinas* (BSP) governor did not see its need and argued that the programs laid out in the bill can be added to the 2022 budget (CNN Philippines 2021a). Nevertheless,

Table 2.2
Allocation of Bayanihan 3 funds by phase

Program	Amount (in billion pesos)			
	Phase 1	Phase 2	Phase 3	Total
Ayuda to all Filipinos (DSWD)	108	108	-	216
Emergency assistance to affected households	12	12	6	30
AICS (DSWD)	12	12	6	30
Wage subsidies (SBWS-DOF, SSS, BIR)	8	8	4	20
Assitance to displaced/disadvantaged workers (TUPAD, CAMP, AKAP-DOLE)	10	10	5	25
National nutrition	-	6	-	6
Assistance to agri-fishery sector	-	15	15	30
Assistance to cooperatives	-	1	1	2
Medical asssistance to indigents (DOH)	3	3	3	9
Local government support fund	-	3	-	3
RT-PCR for seafarers and OFWs (DOTr)	0.5	-	-	0.5
Pension and gratuity fund	20	20	14.6	54.6
Support to basic education (DepEd)	4	-	-	4
Support to higher education	0.5	-	-	0.5
Total	**166**	**186**	**48.6**	**401**

DSWD = Department of Social Welfare and Development; AICS = Assistance to Individuals in Crisis Situation; SBWS = Small Business Wage Subsidy Program; DOF = Department of Finance; SSS = Social Security System; BIR = Bureau of Internal Revenue; TUPAD = *Tulong Panghanapbuhay sa Ating* Disadvantaged/Displaced Workers; CAMP = COVID-19 Adjustment Measures Program; AKAP = *Abot Kamay ang Pagtulong*; DOLE = Department of Labor and Employment; DOH = Department of Health; RT-PCR = reverse transcription-polymerase chain reaction; OFWs = Overseas Filipino Workers; DOTr = Department of Transportation; DepEd = Department of Education;
Source: House Bill 9411

the senate majority leader indicated that the Senate might be open to passing Bayanihan 3, given the looming threat of the Delta variant in the Philippines (Fernandez 2021). However, formal talks about the bill were put on hold due to the imposition of the ECQ in Metro Manila in August (Senate of the Philippines 2021) due to the increasing surge of COVID-19 cases posed by the more transmissible Delta variant and other contentious issues, such as the partly intact budget of Bayanihan 2 and the proposed payment of pension arrears for retired military and uniformed personnel, in the version approved by the House of Representatives (ABS-CBN News 2021).

Proposed legislation for learners with disability

A recent initiative with important poverty reduction implications is Senate Bill (SB) 1907 or the Proposed Instituting Services for Learners with Disabilities in Support of Inclusive Education Act. A weakness of the existing Special

Education Program (SPED) is its limited capacity to serve distant and remote learners (Ajoc 2019). If SB 1907 becomes a law, local government units (LGUs) shall be mandated to establish at least one inclusive learning resource center (ILRC) that can cater to learners with special needs. It also contains provisions that will enable poor children with disabilities to access individualized education.

Moreover, all existing SPED centers would be converted into ILRCs. Early iterations of the bill called for the creation of ILRCs or equivalent facilities at the provincial level. The revised provision, however, suggested that ILRCs be created in cities and municipalities to make them more accessible to the poor, especially those in rural areas. Furthermore, the services to be delivered through these facilities, such as linguistic solutions, speech-language pathology, physical and occupational therapy, rehabilitative and medical services, and transportation subsidy, shall be provided for free.

The Child Find System is another pro-poor provision that aims to find all learners with disabilities, including those in remote areas. It is important that this provision and the others discussed earlier remain in the final version.

The bill passed the third reading in the Senate on May 31, 2021.

Increasing social pension

The House of Representatives has made headway in improving social protection for the elderly through the approval of HB 9459 on August 2, 2021 (Ku 2021). This legislation seeks to double the monthly social pension of indigent senior citizens, from PHP 500 to PHP 1,000. The current monthly stipend only amounts to less than half of the poverty threshold and is not indexed for inflation. The monthly pension is also to be reviewed by the DSWD and other relevant agencies and adjusted every two years to consider the prevailing economic conditions. It also removes the "frail, sickly, or with disability" category in the definition of an indigent senior citizen-beneficiary.

HB 9459 amends the Senior Citizens Act (RA 7435) and the Expanded Senior Citizens Act of 2010 (RA 9994). Its passage will help senior citizens meet their daily needs, especially food and medicines.

Institutionalizing the Study Now, Pay Later program

Both houses of Congress are undertaking a review of proposed legislation to institutionalize a Study Now, Pay Later program for school-age children who are not in school due to financial constraints. Under the proposed bills, namely SB 2135, HB 9769, HB 9647, and HB 9305, parents and students will have the opportunity to access loans from the Development Bank of the Philippines (DBP) or the Land Bank of the Philippines (LBP) for tuition and other school fees. The program will also provide loan interest rate subsidies for availing students. The loan can be repaid within one year from the loan release, or in the case of tertiary education, until the student has secured a job. This proposal presents significant opportunities to make education more inclusive. It also addresses intergenerational poverty and inequality among Filipinos by helping poor students gain access to economic opportunities in the long run through education.

Gender

The Philippines has once again achieved gender parity in 2021. Based on the *Global Gender Gap Report 2021* released by the World Economic Forum (2021), it ranked 17th out of 156 participating countries, a notch down from its previous spot in 2020. Gender gaps remain in economic opportunities due to disparities in labor force participation and wage gaps and in political empowerment because of women's low participation in the parliament and ministerial positions.

The pandemic presented several challenges to both men and women. Women, however, experienced greater challenges due to the age-old conflict of market and nonmarket work and long-standing issues on gendered inequalities in economic opportunities. The pandemic resulted in job losses and lockdowns that contributed to other attendant problems. Domestic violence against women and children, for instance, had been reported to increase during the lockdowns (CNN Philippines 2020). In addition, women are more at risk of adverse psychological outcomes during the pandemic (Tee et al. 2020). SB 2088 or the Gender Responsive and Inclusive Pandemic Management Act of 2021 is a good response to address the gendered impacts of crises. The bill provides for women's participation in leadership, decisionmaking, and policymaking positions at all levels of response and recovery systems. It assigns the Philippine Commission on Women to be a permanent member of response and recovery bodies and ensures the 40-percent membership of women at all levels of development councils. It also seeks to address gender-based violence (GVB) by considering GVB preparedness and response systems as essential services in emergency situations and providing funds to ensure the continuity of said systems.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Several bills were likewise filed in both houses of Congress to provide stronger protection against rape and sexual exploitation and abuse, such as HB 7836, SB 1258, and SB 1853, which seek to raise the age of statutory rape from 12 to 16 and broaden the definition of rape. To strengthen the implementation of RA 9262 or the Anti-Violence against Women and Children Act of 2004, SB 2143 calls for the establishment of a central database of all temporary protection orders and permanent protection orders to facilitate their enforcement.

There were also bills proposed for the welfare of children. For example, SB 1985 seeks to institutionalize the Parent Effectiveness Service Program in every city and municipality to help parents and parent substitutes provide quality early childhood and adolescent care. Meanwhile, SB 1933 seeks to facilitate domestic adoption through an administrative process in the DSWD, and HB 8998 aims to simplify adoption proceedings.

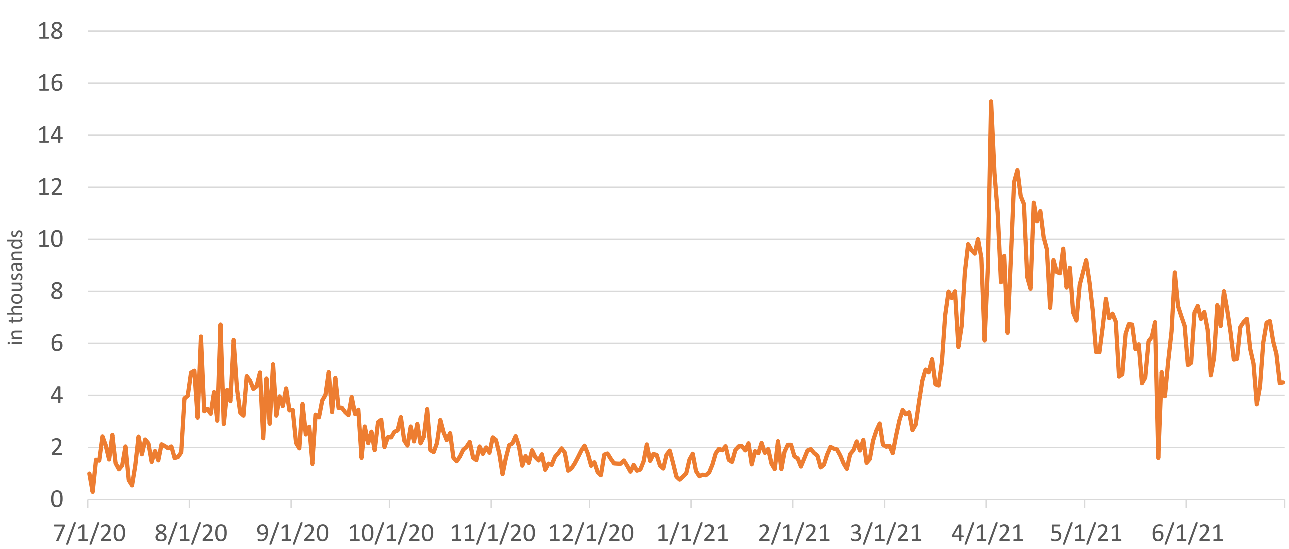
The Office of the Vice President (2020) also initiated training programs, such as the Workshop for Aspiring Women Entrepreneurs and the Sustainable Livelihood and Training Program under the *Angat Buhay* Women, to help women entrepreneurs expand their markets.

Health

From July 2020 to June 2021, the Philippines recorded 1.4 million confirmed COVID-19 cases and 24,000 deaths (Our World in Data n.d.). Community quarantine or lockdown remained the mainstay of public health response to control the spread of the virus. After the country emerged from a three-month strict lockdown (i.e., ECQ) in June 2020, provinces and cities from all parts of the country continued to implement cyclical lockdowns with varying degrees of stringency to control resurgence. For example, stricter lockdowns were again implemented in August 2020 and March 2021 in Metro Manila and nearby provinces, the epidemic's epicenter, to put the brakes on resurging cases. The highest number of cases was recorded in early April of 2021 (Figure 2.2).

Critical laws were passed to address the COVID-19 pandemic. RA 11494 or Bayanihan 2 was enacted in September 2020. It was a follow-up of the Bayanihan to Health as One Act or Bayanihan 1 (RA 11469) signed on March 24, 2020. While Bayanihan 2 was primarily designed

Figure 2.2
Daily new confirmed COVID-19 cases, July 2020–June 2021



COVID-19 = coronavirus disease 2019
Source: Our World in Data (n.d.)

to provide comprehensive economic relief to different sectors, it contained critical health provisions to strengthen the capacity of the health systems to address the protracting pandemic. Some health provisions from Bayanihan 1 were continued and re-affirmed in Bayanihan 2, such as (1) augmenting the healthcare workforce, (2) providing resources for isolation and quarantine facilities for COVID-19 patients, (3) allocating funds for big data analytics for COVID data, (4) expanding diagnostic and testing capacity, and (5) realigning resources from different government agencies for the pandemic response. The 2021 national budget also included COVID-19 response-related appropriations, while part of the budget for COVID-19 vaccine procurement was sourced from Bayanihan 2.

In addition, Bayanihan 2 reinforced the role of LGUs in responding to the pandemic. LGUs were authorized to realign their local funds, including, but not limited to, Development Fund, Gender and Development Fund, *Sangguniang Kabataan* Fund, and other unutilized funds, for pandemic response. LGUs could use up to 10 percent of their budget for COVID-19 response expenses. In December 2021, RA 11519 was signed, which extended the availability of funds appropriated through Bayanihan 2.

Moreover, the DOH issued almost 1,500 operational guidelines and administrative orders to guide LGUs and national government agencies (NGAs) in their COVID-19 response. The most critical of these policies was the National Deployment and Vaccination Plan (NDVP), which provided strategic policy direction on the selection, access, and deployment of the COVID-19 vaccine and the COVID-19 immunization program. The plan also identified the priority population for COVID-19 based on risk profile (Table 2.3).

The national government passed additional laws to complement the NDVP. In early December 2021, the President signed Executive Order (EO) 121, which allowed the Food and Drug Administration (FDA) to issue Emergency Use Authorization (EUA) to vaccine manufacturers. With an EUA, vaccine manufacturers are not liable for injuries as the national government assumes responsibility for the use of vaccines covered under the EUA. RA 11525 of the COVID Vaccination Program Act was also passed into law. It included funding for the mass vaccination program and creating a PHP 500-million COVID-19 National Vaccine Indemnity Fund to be administered by the Philippine Health Insurance Corporation (PhilHealth).

To achieve the vaccination target of 50 to 60 percent of the population by 2021 (Aning 2021), the health system capacity must reach unprecedented levels with huge investment requirements. The vaccination program must be complemented with critical reforms in the health system to improve disease surveillance, supply chain and logistics management, and health human resource capacity, including innovative ways of engaging with the private sector. As of July 10, 2021, around 12 million doses of COVID-19 vaccines have already been deployed, and about 3 percent of the population have been fully vaccinated (Our World in Data n.d.).

The government had taken steps to prevent future emerging infectious diseases. The implementing rules and regulations for RA 11332 or Mandatory Reporting of Notifiable Diseases and Health Events

Table 2.3
Prioritization criteria for COVID-19 vaccination

Priority Eligible A	Priority Eligible B	Priority Eligible C
A1. Workers in frontline health services	B1. Teachers, social workers	C. Rest of the Filipino population not otherwise included in the above groups
A2. Senior citizens	B2. Other government workers	
A3. Persons with comorbidities	B3. Other essential workers	
A4. Frontline personnel in essential sectors, including uniformed personnel	B4. Socio-demographic groups at significantly higher risk other than senior citizens and poor population based on the NHTS-PR	
A5. Indigent population	B5. Overseas Filipino workers	
	B6. Other remaining workforce	

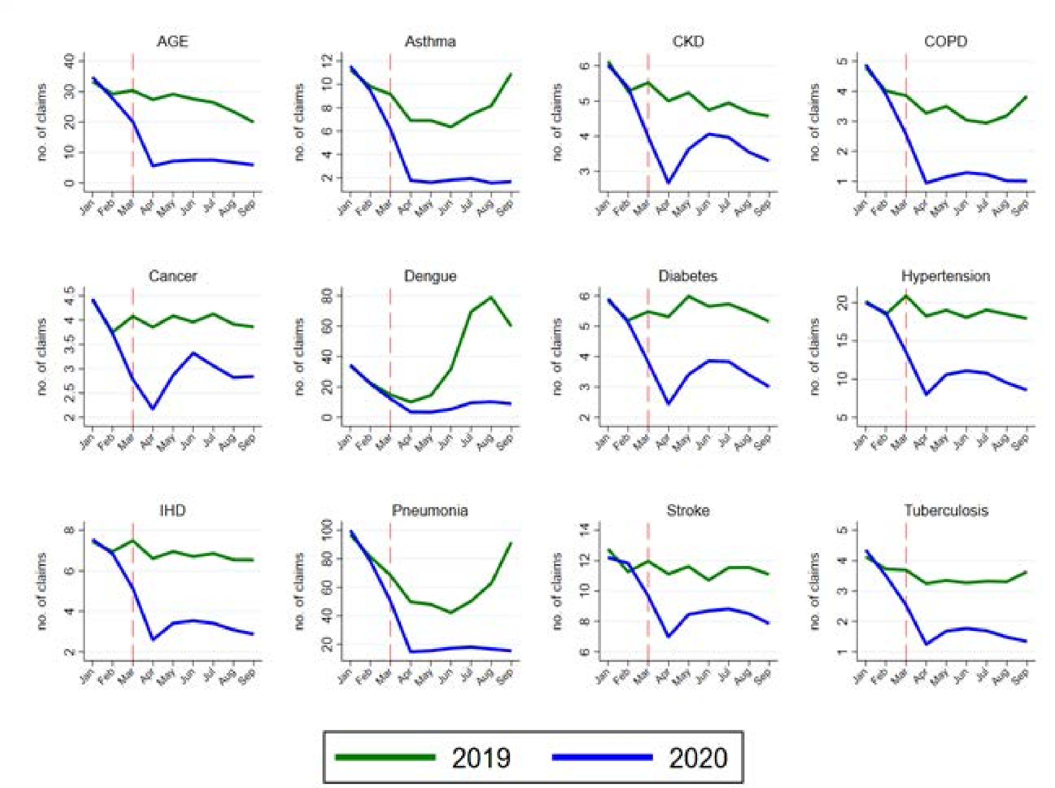
COVID19 = coronavirus disease 2019; NHTS-PR = National Household Targeting System for Poverty Reduction
Source: Department of Health (2021a)

of Public Health Concern Act have been revised and updated to ensure that the public is protected from public health threats through efficient and effective disease surveillance of notifiable diseases.

Meanwhile, a looming public health crisis is also emerging. Several reports noted a decline in the use of essential healthcare services. Non-COVID-19 patients were reportedly foregoing care or reducing clinic visits because of fear of getting infected, mobility restrictions, or the limited resources in health facilities. Some hospitals have deliberately reduced healthcare services. Figure 2.3 shows the sharp decline in PhilHealth claims for high-burden conditions in 2020, even during the less strict lockdown in the third and fourth quarters of 2020.

The government had taken appropriate steps to ensure a holistic public health response during the pandemic. For instance, the DOH released an adaptive plan for tuberculosis control through Administrative Order (AO) 2020-0056. The Bayanihan 2 reinforced the continuous delivery of essential services, such as the Expanded Program for Immunization for children. The DOH and the University of the Philippines Manila had developed policy guidelines to facilitate the use of telemedicine and teleconsultation to ensure access to healthcare providers even without physical interaction (Joint Memorandum Circular [JMC] 2020-0001). However, the reach of telemedicine remains limited, especially among the vulnerable segments of the population. The eHealth Systems and Services Bill (SB 1618) filed in 2017 should be supported by Congress. This legislation will provide a regulatory framework and strengthen the institutionalization of telemedicine across the Philippines.

Figure 2.3
Decline in PhilHealth claims



PhilHealth = Philippine Health Insurance Corporation; AGE = acute gastroenteritis; CKD = chronic kidney disease; COPD = chronic obstructive pulmonary disease; IHD = ischemic heart disease
Source: PhilHealth (2020)

Education

The pandemic forced the education sector to shift to remote learning with little time to prepare. The government's response to meet the challenge of sustaining education amid this crisis is described below.

Basic education

Alternative Learning System (ALS). RA 11510 or the Alternative Learning System Act was signed on December 23, 2020. It institutionalizes ALS as a means of providing out-of-school children in special cases (those not in formal education due to economic, geographic, political, cultural, or social barriers) and adults (including indigenous peoples) with opportunities to improve their knowledge and skills for employment or higher education.[1] Unlike formal classroom-based education, ALS sessions are conducted outside of classrooms, either in community-based centers, libraries, or at home (DepEd n.d.).

[1] Before this law, the implementation of ALS was mostly ad hoc. In a country where the continuity of programs across administrations is not guaranteed (World Bank 2016), RA 11510 is a step in the right direction to solve this perennial problem.

The law mandates the creation of the Bureau of Alternative Education to serve as the focal office of DepEd in the implementation of ALS. It also stipulates the establishment of quality assurance and support systems and the conduct of regular learner assessment activities. The DepEd is tasked to conduct Accreditation and Equivalency (A&E) Assessments and Certifications that will allow ALS completers and A&E passers to qualify for regular junior or senior high school, technical-vocational education and training (TVET) programs, and higher education. Lastly, to provide equitable access for all learners, including marginalized groups and underserved areas, it prohibits collecting fees for ALS programs and mandates the DepEd or LGUs to provide at least one ALS Community Learning Center per municipality.

RA 11510 provides an opportunity to strengthen the implementation of ALS consistent with the recommendations of Albert et al. (2016) and Agbon and Mina (2017). The annual review and assessment of the implementation and impact of ALS as stated in the law are also advantageous in monitoring the program status and identifying areas for improvement.

Basic Education Learning Continuity Plan. The DepEd issued the Basic Education Learning Continuity Plan (BE-LCP) in May 2020 through Department Order (DO) 12 to ensure that learning opportunities are sustained and safely provided to students through different delivery modes. The BE-LCP stipulated four modes: (1) face-to-face lessons in areas where risks are low, provided health protocols are adhered to; (2) modular, online, and TV and radio distance learning modes; (3) blended learning that combines face-to-face and distance learning modes; and (4) homeschooling where the schooling is facilitated by qualified parents, guardians, or tutors.

To augment the BE-LCP, the department issued four orders in the same year. DO 18 establishes the guidelines for the funding, printing, and delivery of learning resources by DepEd in implementing the BE-LCP. DO 19 lists adaptive strategies for resource mobilization to carry out the BE-LCP for school year 2020-2021.

Meanwhile, DO 31 provides the interim guidelines for assessment and grading public elementary and secondary schools nationwide, considering the implementation of the BE-LCP. Private schools, TVET institutions, higher education institutions (HEIs), and local schools and colleges are also encouraged to implement the guidelines. The issuance emphasizes the importance of adopting assessment and grading practices that supports student development and responds to various contexts, especially during the pandemic.[2] This shows its recognition of the pressures that learners face during the pandemic. However, the interpretation of a reasonable workload for the students depends on the teachers, which may result in different experiences across learners. While the guidelines stipulate the monitoring of BE-LCP's implementation by the school heads and division offices, there are no

[2] Summative assessment in the form of written works and performance tasks shall be used to evaluate student learning. Quizzes and long/unit tests shall still be administered while performance tasks will include activities, such as skill demonstrations, group work and presentations, reports, and research works. The guideline also reminds teachers to be flexible in preparing assessments and to "set realistic expectations and use their professional judgment to find a good balance between what is effective and what is feasible to accomplish" (DO 31, p. 10).

available documents from DepEd showing the experience of teachers and students in conducting the learning assessments.

Finally, DO 32 provides guidelines on the engagement of Learning Support Aides (LSA) to reinforce the implementation of the BE-LCP. It was issued following the authorization given to DepEd in RA 11494, Section 4 (aaaa), to “hire teacher-assistants for the production or reproduction of modular learning materials for K-12”. The hiring of LSAs will be based on the additional staff needed to adequately implement the Learner Continuity Plan (LCP) developed by the schools based on the profile of students and community situation. The LSAs may assist in the production or reproduction of learning modules and other instructional materials, distribution and retrieval of activity and remediation worksheets, and monitoring of learner’s accomplishment of tasks. They may also guide the learners and their parents or guardians in the protocols of the LCP and distance learning modalities. The minimum education required is senior high school graduate or at least two years of college.

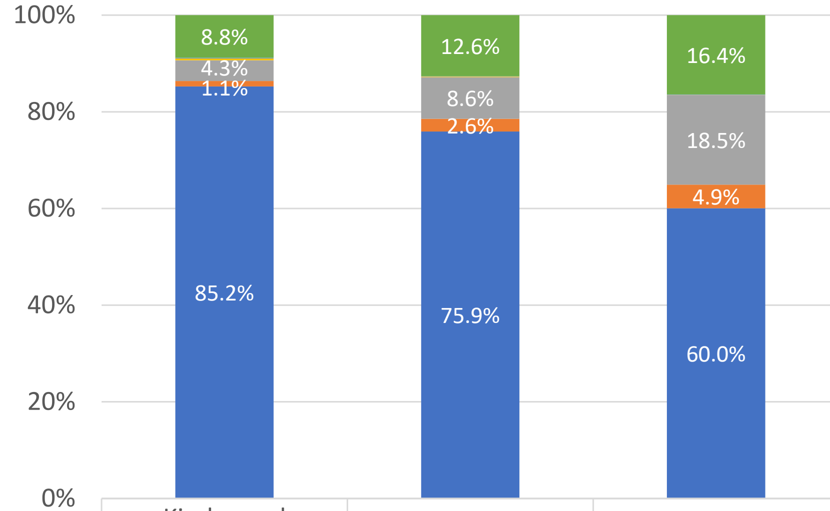
The authorization to hire LSAs through the Bayanihan 2 law is a laudable move to assist teachers, learners, and parents cope with the new demands and challenges of the shift to remote learning.

The distribution of enrollment by modality shown in Figure 2.4 reveals that printed modules dominate as a mode of delivery for basic education, indicating the additional demand for producing, distributing, and retrieving the printed modules. Most learners in elementary and junior and senior high school for school year (SY) 2020–2021 use printed modules. They comprise 85, 76, and 60 percent of the total enrollees, respectively. Those who use the blended learning mode or attend online classes are well below 20 percent. Less than five percent use television/radio-directed learning and homeschooling. This should inform the policy of emphasizing online delivery at this time. While online learning infrastructures are being set up, the government needs to find better ways to complement the learning delivered via printed modules. For example, there is a need to promote greater interaction among teachers, learners, and parents. This may be done using cellular phones and tapping LSAs to conduct clustered home visits. Assisting learners, which is also one of the tasks of LSAs, is crucial for households where home support for students is deficient because their parents/guardians have low educational backgrounds[3] or need to work. Unfortunately, there is no available data on the number, distribution, and tasks assigned to LSAs that could provide a better view of how they are tapped for remote learning.

Bayanihan 2. Another law passed in 2020 to address the socioeconomic effects of the pandemic was RA 11494 or Bayanihan 2. This law had specific provisions affecting all levels of the education system. A total of PHP 4.35 billion was given to basic education that DepEd allocated as follows: (1) laptops for teachers (PHP 2.4 billion); (2) internet connection load (PHP 1.2 billion); (3) DepEd TV and radio (PHP 300 million); (4) learning modules (PHP 150 million);

[3] The Education section of the policy updates for the Economic Policy Monitor 2019–2020 (PIDS 2020) highlights that the average percentage of households with heads having above secondary education is only 26 percent, which is only 6 percent of the poorest households and 69 percent of the richest ones.

Figure 2.4
Distribution of learners (%) by learning delivery modality and education level, SY 2020–2021



	Kinder and Elementary	Junior High School	Senior High School
Blended	1,292,751	1,054,212	531,179
Homeschool	19,608	5,525	2,183
TV/Radio	55,134	11,836	1,715
Online	629,927	716,047	600,073
Modular (Digital)	165,073	220,266	158,191
Modular (Print)	12,488,311	6,331,505	1,943,495

SY = school year
Source of basic data: Department of Education (2021)

and (5) basic education subsidies and allowances (PHP 300 million).

However, the allocation miscalculated the distribution of enrollment by learning modality. It assumed that learning would be largely online, with 83 percent of the budget given for online access (55% for laptops and 28% for internet connectivity), leaving a meager amount for learning modules. TV and radio got even twice the budget for learning modules despite being the least popular mode. Nevertheless, it is also possible that cost dimensions may have influenced the allocation as laptops are more expensive than learning modules.

Technical and vocational education and training

Industry boards. An important way to achieve more demand-driven TVET is to encourage private sector participation. In 2021, TESDA released Circular 17 or the guidelines for the pilot implementation of the establishment of national and local industry boards. The boards shall be composed of employers, labor, learning institutions, and government representatives. Among their functions include providing labor market information to TESDA and inputs to the development of the area-based skill map; conducting industry consultations and analysis and forecasting of skills needs; reviewing competency standards, competency-based curriculum, assessment tools, and assessment fees; conducting capability-building interventions for trainers and assessors; providing inputs to learning contents; promoting enterprise-based programs and skills competition; conducting enterprise-based assessment and certification; and providing advice on financing schemes for TVET

This is a step in the right direction to encourage private sector participation in TVET, as recommended by many analysts (e.g., Orbeta and Esguerra 2016; ADB 2021; Orbeta and Corpuz 2021). The functions of the industry boards cover a wide range of activities where private sector inputs can help shape TVET into an industry-driven program. What remains to be done is to make the industry boards a venue for learning how to encourage private sector participation in an industry-led TVET and determine its impact on the sector's performance.

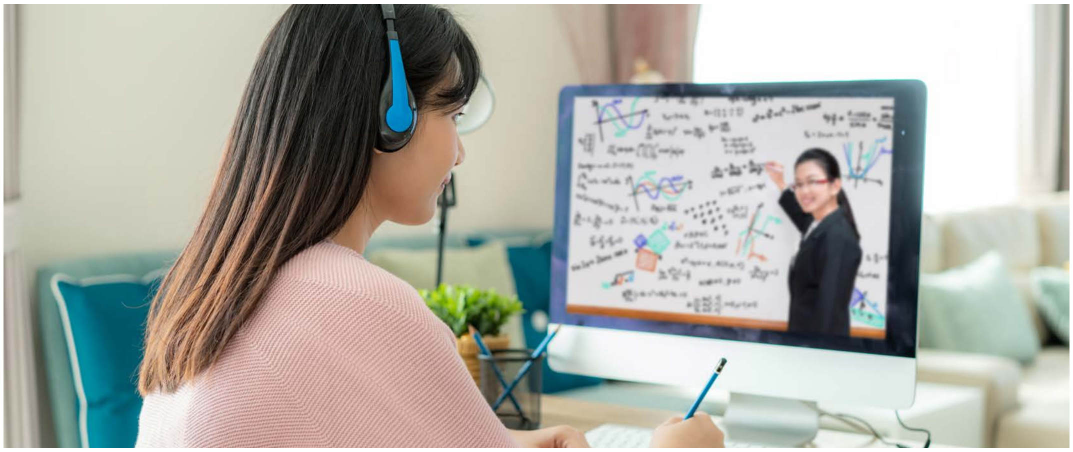
Pandemic response. TESDA developed Operational Plan "TESDA *Abot Lahat*–TVET towards the New Normal" to guide policies and programs and provide continuous service during the new normal. Phase I (March–June 2020) includes programs to reduce possible transmission of the disease, ensuring safety and security. Phase II (July–December 2020) includes programs and activities during the modified community quarantine as the country transition to the new normal. Phase III (January 2021 onward) consists of policies, projects, and programs under the new normal. (TESDA 2020d).

Likewise, TESDA released Circular 78 or the guidelines for implementing TESDA scholarship programs during the new normal. The guidelines aim to provide safety nets and activation measures for sectors affected by the COVID-19 crisis, provide flexible and innovative delivery of services while strictly adhering to health protocols, and advocate a shift from face-to-face learning to flexible learning delivery arrangements either through blended or purely online learning, distance learning, or a combination of any. TESDA also provided additional allowances to scholarship beneficiaries to cover the cost of internet connection and personal protective equipment.

Circular 80 was also issued to provide guidelines on registering, implementing, and monitoring enterprise-based training programs during the pandemic. Guidelines on arrangements for assessment were explained in Circular 12. Considering the demand for contact tracers, TESDA also developed competency standards for Contact Tracing Level II to standardize the training of contact tracers employed during the pandemic.

The pandemic highlighted issues in remote learning for TVET. A focus group discussion with TVET providers showed that while the theoretical aspect can be delivered online, this is not feasible for the hands-on component (Orbeta and Corpus 2021). The same study found that 80 percent of the trainees still need printed modules due to poor internet connection and lack of access devices. This has prompted training programs like YouthWorks PH[4] to procure

[4] YouthWorks PH is a five-year (2018–2023) project implemented by the Philippine Business for Education (PBEd) in partnership with the Unites States Agency for International Development to provide work-based training to marginalized youth.



and lend access devices and provide allowances to pay for internet connection. The provision of subsidies for internet connection has been made in TESDA scholarship programs. This highlights that the design of remote learning programs needs to consider the level of access of the target clients.

Data on the distribution of enrollment in TESDA programs by modality of learning delivery would have shed better light on the challenges faced in delivering TVET during the pandemic. Unfortunately, this is not yet available.

Budget support from Bayanihan 2. TESDA was allocated PHP 1 billion for the Training for Work Scholarship Program and the Special Training for Employment Program. This fund was distributed as follows: PHP 300 million for agriculture and agri-business; PHP 300 million for construction; PHP 200 million for manufacturing; PHP 100 million for health, wellness, and related programs; and PHP 100 million for other sectors (Gotinga 2020).

Putting more resources into TVET scholarships programs is always helpful if these are used effectively to attract the suitable trainers needed by firms. Orbeta et al. (2021) highlighted the challenges that trainers face, including the lack of allowance while they are attending the training and the lack of information about the programs being offered. While TESDA already provides a training allowance, as mentioned earlier, there is a need to assess if this is sufficient. Also, the methods used in disseminating the programs need to be revisited, given the characteristics of the target trainees. The responsiveness of the training programs to industry needs must also be regularly assessed.

Higher education

Flexible learning. The Commission on Higher Education (CHED) implemented flexible learning in both public and private HEIs. Through Memorandum Order 4, it encouraged HEIs to maximize the use of technology to support learning and teaching and review all curricular offerings to make the necessary adjustments to determine alternative options in the design that can be delivered to the students through various modalities.

Complementing this policy is Memorandum Order 9 that presented the guidelines on allocating financial assistance to state universities and colleges (SUCs) for the development of smart campuses. This policy prioritizes the development of internet connectivity, campus area networks, and information and management systems. HEIs are tasked to exercise judgment in deploying available resources for flexible learning and alternative modes of delivery.

As of this writing, there is no official data yet on the distribution of enrollment by modality in higher education. According to the Social Weather Stations (SWS), 65 percent of students are online distance learners, while 27 percent are modular (printed) distance learners (SWS 2021).

Limited face-to-face activities. Although flexible learning is an appropriate and flexible approach during the pandemic, there are instances when face-to-face learning is necessary. As such, CHED and DOH issued JMC 2021-001 to guide the gradual reopening of HEI campuses for limited face-to-face classes during the pandemic. The circular stipulates that HEIs must put mitigating measures in place and comply with health and safety protocols. Programs that require practical experience to complete the curriculum, such as speech-language pathology, respiratory therapy, dentistry, and pharmacy, can hold limited face-to-face activities. Such a scheme in the medical field can be used as a model for nonmedical courses that require practical training and supervision of experts, such as architecture, hotel and restaurant management, fine arts, and engineering. Knowledge and skills transfer is inadequate using a digital platform alone. The use of limited face-to-face classes should also be considered for nonmedical courses.

Platform for higher education materials. CHED also launched PHL CHED Connect (https://phlconnect.ched.gov.ph/), a platform for sharing higher education course materials. As of August 30, 2021, the site had 1,562 materials in portable document format and 353 video files contributed by 18 HEIs. However, usage statistics that may show the facility's usefulness to students and teachers are not available on the website. Monitoring its utilization can be easily done using the portal's access logs and counting the number of file downloads.

Budget support from Bayanihan 2. The higher education component of Bayanihan 2 totaled PHP 3.3 billion. This amount was intended to assist SUCs in developing smart campuses through investments in information and communications technology (ICT) infrastructure and acquisition of learning management systems and equipment for flexible learning modalities (PHP 3 billion). The rest (PHP 300 million) were programmed as education subsidies for students' online learning expenses (CHED 2021). Memorandum Order 9 provided the guidelines for this allocation.

The provision of assistance for online learning is laudable as it recognizes the additional expense that students incur under the new setup. Meanwhile, the investment in smart campus development for SUCs can help meet the long-term objective to provide flexible learning. However, based on SWS data, only 65 percent of college students can do online learning, and since this is the national average, those from private HEIs are likely to have a higher access rate than those from SUCs (SWS 2021). In addition, the 27 percent of college students who are on modular learning will have little benefit from smart campus investments.

Labor and employment

This sector continued to reel from the impacts of the COVID-19 pandemic. Some modest uptick in employment were attained in January and April 2021—about 0.2 million and 1.5 million additional jobs, respectively—compared with the same months in the previous year. In contrast, there had been year-on-year declines in employment in the last three quarters of 2020. Unemployment remained above its prepandemic level, rising to around 7–10 percent between July 2020 and April 2021 from around 4–5 percent only in 2019 (PSA 2021b, 2021c, 2021d).

Bayanihan 2 (RA 11494) provided several socioeconomic reliefs to reduce the impact of COVID-19 on Filipino households. Some of these social safety nets were implemented through DOLE's financial assistance and employment facilitation programs for displaced workers. For example, DOLE-AKAP (DO 220) provided a one-time PHP 10,000 grant to OFWs, including regular and undocumented workers, who have experienced job displacement on-site or repatriated to the Philippines. Similarly, the COVID-19 Adjustment Measures Program (DO 218) provided a one-time PHP 5,000 grant to displaced local workers in the formal sector as well as employment facilitation services through job matching, referral and placement services, and provision of employment coaching and labor market information. Finally, the *Tulong Panghanapbuhay sa Ating* Disadvantaged/ Displaced Workers (DO 219) provided emergency wage employment of up to 16 days (for four hours a day) to workers in the informal sector.

The pandemic highlighted the need for unemployment insurance to cover potential income loss from job displacement and support workers during their job search. Several bills (e.g., HB 7028, SB 1847) were filed in Congress to institute a national unemployment insurance system. In these proposed bills, monthly contributions are capped at PHP 1,395 per worker for unemployment insurance benefits amounting to 80 percent of an employee's basic monthly pay or a maximum of PHP 100,000 for three months. The proposed bill also seeks to provide additional unemployment benefits, including training allowance and employment facilitation assistance, to aid workers in their job search.

Moreover, the pandemic underscored the important roles of various frontline occupations during national emergencies. In particular, healthcare workers play critical functions in maintaining the country's health system. To ensure a sufficient domestic supply of health professionals, the Philippine Overseas Employment Administration issued Governing Board Resolution 17 in 2020 that imposes an annual deployment ceiling of 5,000 new-hire health personnel by occupation starting 2021. This policy may affect the nurses more than other healthcare professionals. Since 2008, more than 10,000 new-hire Filipino nurses have been deployed each year. The policy may be counterproductive given the large foreign-domestic wage differential of nurses. The higher salaries of healthcare workers overseas benefit their families and communities. Further, there appears to be a sufficient supply of health-trained workers in the country. In 2015, more than half of the 730,000 health-trained workers were employed in occupations other than as health professionals and associate professionals (Table 2.4).

Lastly, several policies to protect the welfare of workers were issued in 2020. The Labor Education Act or RA 11551 mandates the integration of labor education as part of elective courses in TVET programs and higher education. Labor education includes teaching "labor rights and other skills relating to negotiation, fostering smooth interpersonal relations in the workplace, and mechanisms for redress of grievances and other concerns" (RA 11551, Section 3). DOLE, on the other hand, issued DO 216 and 217 in 2020, which provide rules and regulations governing the recruitment and placement of industry and domestic workers, respectively. Under these new guidelines, recruiters are prohibited from charging fees to workers. They may, however, charge service fees to employers based on the contract of service. In addition, pre-employment requirements of domestic workers will be borne by the employer or the recruiter. The employer will also pay for the transportation of the recruited domestic worker to the place of employment. Aside from complying with the Labor Code, recruiters are required to post a PHP 100,000 surety bond on which valid and legal claims against them may be charged.

Table 2.4
Health-educated prime-age population share and average basic wage by occupation

	Population Share (%)	Daily Basic Pay	
		Mean	S.E.
Health professionals	43.2	797	14
Health associate professionals	4.4	659	19
Nonhealth occupations	32.2	760	21
Managers	7.4	1054	111
Professionals, others NEC	2.8	844	57
Technicians and associate professionals, others NEC	3.5	748	51
Clerical support workers	9.1	677	21
Service and sales workers	6.8	732	39
Skilled agricultural, forestry and fishery workers	0.6	–	–
Craft and related trades workers	0.4	756	268
Plant and machine operators and assemblers	0.6	462	59
Elementary occupations	1.0	425	85
Not gainfully employed	20.3	–	–

SE = Standard error; NEC = not elsewhere classified;
Note: Population shares are based on the 2015 Census of Population and cover persons aged 25–64 years with a bachelor's degree in a health-related field. The data on the daily basic pay by occupation are from the pooled 2018 quarterly Labor Force Surveys; "–" means not available.
Sources: PSA (2016, 2019)

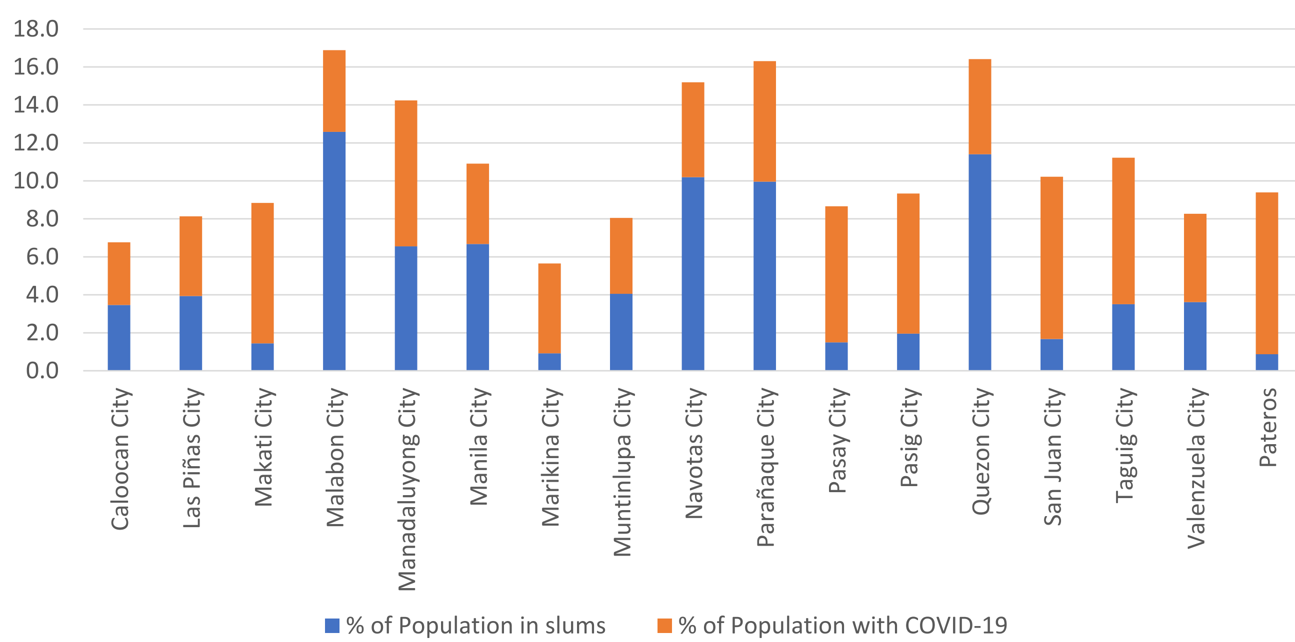
Housing

The COVID-19 pandemic has accentuated the urbanization and housing problem in the country. As families are compelled to stay indoors to curb the pandemic, the home became the center of economic, social, and political activities. Yet, while it is a safe haven for households living in secure and comfortable places, millions of families live in slums settlements that are highly congested and lacking in basic urban services.

The proliferation of informal settlements has been a phenomenon associated with big cities and expanding urbanization. As reported by Padojinog and Yap (2020), the National Housing Authority (NHA) estimates that about 1.5 million Filipinos, or 15 percent of the total urban population, live in informal settlements. Meanwhile, the private sector estimates that 15.1 million housing units will be needed by 2022, more than one-third (39%) of which are for families that cannot afford housing. The same authors noted that, in the past years, the housing supply was mainly responsive to the needs of the mid- and high-end markets, resulting in housing shortages of 5.7 million units in 2018 that affect the low-income segment (Padajinog and Yap 2020).

In Metro Manila, where the largest concentration of informal settlements is recorded, the COVID-19 cases have been high, especially in cities with many residents living in informal settlements (Figure 2.5). Congested areas with limited access to public parks increase the risk of community transmission.

Figure 2.5
Slum population and extent of COVID-19 cases in the National Capital Region



COVID 19 = coronavirus disease 2019
Note: Population in slums refers to households living in houses and lots rent-free and without the owner's consent.
Sources of data: PSA (2015b); DOH (2021c)

DHSUD housing roadmap

With the intensified call for a better normal post-pandemic, it is important to look into the housing roadmap prepared by the Department of Human Settlements and Urban Development (DHSUD) and consider how this roadmap plans to address the housing problem, especially for the marginalized sector.

The DHSUD was created in July 2018 through RA 11201; the formation of its structures started in February 2019. The initial year was spent reorganizing two preceding agencies—the Housing and Urban Development Coordinating Council (HUDCC) and the Housing and Land Use Regulatory Board (HLURB)—and creating regional operations. By January 2020, DHSUD was fully operational.

Among its initial accomplishments was the crafting of the *2040 National Housing and Urban Development Sector Plan*, the sector's roadmap for the future of the country's housing and urban development.

Studies have identified several urban development and human settlement issues that have made land and housing unaffordable to many. These issues relate to problems in urban planning, the lack of coordination between NGAs and LGUs, the unrealistic assumptions about the housing needs and financing capacities of households, especially those in the low-income sector, and a dysfunctional legal system specifically on real estate activities (Llanto and Orbeta 2001; Ballesteros 2009; World Bank 2017).

Table 2.5 shows how these long-standing problems in housing are to be addressed by the programs and policies in the sector plan, while the succeeding sections examine the proposed reforms.

An important policy direction under the sector roadmap is the reformulation of the Comprehensive Land Use Plans (CLUPs). Out of 1,634 LGUs, only 508 have updated CLUPs and have mainstreamed climate change and disaster risk reduction measures into their plans (del Rosario 2020). Under the housing roadmap, LGUs are mandated to submit updated CLUPS that are aligned with the provincial and regional land use plans. Moreover, the ridge-to-reef concept or integrated ecosystems management approach has to be adopted in reformulating the updated CLUPs. This approach enables the development of safe, sustainable, and resilient human settlements while maximizing the potential of natural resources.

The ridge-to-reef concept is a multisectoral plan that will involve collaboration among LGUs, investors, and other stakeholders, including marginalized groups (e.g., IPs, fisherfolks, PWDs, women, etc).

In addition, the DHSUD is institutionalizing programs for the development of livable cities or municipalities through the BALAI BERDE financing program and support for the smart city concept. It has also partnered with the ADB to address the housing and urban development investment requirements of LGUs.

To address delays in land acquisition, licensing, and clearances in the LGUs and different government agencies, which can partly be attributed to illicit activities in the real estate industry, DHSUD issued a joint memorandum agreement among concerned agencies on anti-illegal real estate practices. Another relevant reform under the housing roadmap is the creation of programs on public rental housing, particularly subsidies and rental vouchers for underprivileged families. In the past, government policies and programs were biased toward homeownership. Recognizing rental housing as a viable option, especially for the low-income sector, will have a significant impact in addressing informal settlements.

The expansion of housing microfinance is another step in the right direction. Microfinance is an alternative means to enable low-income families, including those in the informal sector, to access formal housing loans. The expansion will also lead to greater participation of private sector

Table 2.5
Mapping of key housing problems vis-à-vis the programs and policies of the DHSUD housing roadmap

Key Housing Issues/Concerns	Key Programs/Policies of DHSUD Housing Roadmap
Weak urban planning; unclear rules among government agencies on land use; lack of concern on development of sustainable communities	• Reformulation of LGUs' CLUPs; mandatory updating of CLUPs • Adoption of the ridge-to-reef concept in the formulation of CLUPs • Development of smart cities • BALAI BERDE financing program for green projects • Strengthening of public-private partnerships in housing and urban development
Slow process in land acquisition, licensing, and agency/ LGU clearances, among others	• Issuance of a joint memorandum circular to stakeholder agencies to address illicit activities in the real estate sector
Lack of affordable socialized housing options	• Funding support for public rental housing and rental housing subsidy for the homeless and underprivileged • BALAI Rental Housing Program • *Balik Probinsya* program to reduce congestion in Metro Manila and highly urbanized cities
Limited access of low-income and informal workers to affordable housing finance	• Expanded housing microfinance and rollout of an Inclusive Green Housing Microfinance Program • Financing program for Filipino senior citizens • Comprehensive Local Integration Program
Weak coordination among government agencies and between government and the private sector	• Creation of NHSUDCC and RHSUDCC • Creation of the National Human Settlements Board of 10 key agencies (a superbody) to set the policy direction for human settlements • Capacity-building program for HOAs to maximize their role in communities and complement the efforts of LGUs in the provision of vital and basic services • Strengthening of the regulatory function of DHSUD over HOAs based on RA 9904 or the Magna Carta for HOAs • Strengthening of partnerships with nongovernment organizations and housing developers
Housing subsidies not well targeted	• Establishment of a data gathering and monitoring system by the RHSUDCC • Improvement of the beneficiary selection process, especially for households affected by government projects • Allocation of housing subsidies for the development of low-cost rental housing

LGUs = local government units; CLUAPs = Comprehensive Land Use Plans; BALAI BERDE = Building Adequate, Livable, Affordable and Inclusive Filipino Communities, Building Eligible Resilient Dwelling for Everyone; NHSUDCC = National Human Settlements and Urban Development Coordinating Council; RHSUDCC = Regional Human Settlements and Urban Development Coordinating Council; DHSUD = Department of Housing Settlements and Urban Development; HOAs = homeowners associations
Source: Authors' summary of key programs and policies of DHSUD (2021)

developers in the supply of affordable green housing units, the establishment of an apex financing facility for green housing microfinance, and capacity building to boost the housing microfinance expansion in the Philippines.

Other innovative lending programs supported under the housing roadmap are the National Home Mortgage Finance Corporation (NHMFC) Reverse Mortgage Program and the Comprehensive Local Integration Program (CLIP). The reverse mortgage program is for Filipino senior citizens.[5] With the increasing aging population in the country, reverse mortgage financing can support the financial needs of underserved seniors.

Meanwhile, CLIP is for former members of the Communist Party of the Philippines-New People's Army-National Democratic Front (CPP-NPA-NDF). It is a flagship program of the Duterte administration that seeks to reintegrate former communist insurgents into mainstream society. The program, which the NHA is implementing, consists of financial benefits, such as emergency financing, reintegration assistance, firearm remuneration, and livelihood assistance. It also includes education, livelihood and employment, medical, psychosocial, and legal assistance, and housing support.

To address weak coordination and synergy among national and local agencies, LGUs, and the private sector, the DHSUD organized coordinating councils and committees at the national level (NHSUDCC) and regional levels (RHSUDCC) in all 16 regions of the country. The NHSUDCC serves as a strategic platform for coordination and collaboration between and among the operating groups of DHSUD and key shelter agencies (KSAs). In contrast, the RHSUDCC promotes synergy and synchronization of efforts at the grassroots to ensure that all housing programs are aligned and moving toward the goal of "Building Adequate, Livable, Affordable and Inclusive Filipino Communities". This regional committee is envisioned to serve as a medium for proactive collaboration between the DHSUD and other key shelter agencies, namely, the Home Development


https://dhsud.gov.ph/

[5] Reverse mortgage is a type of loan wherein a homeowner senior citizen can borrow money against the value of his or her home, receiving funds in the form of a fixed monthly payment, a line of credit or both. No monthly payment of the mortgage is required until the borrower dies, moves away permanently, or sells the home. It allows senior citizens to convert a portion of their home equity into cash to pay for their medical and health care expenses, cost of travels or vacations, financial obligations or other existing loans. It can also provide additional capital for their planned or existing business, and other ventures.

Mutual Fund or *Pag-IBIG* Fund, the NHA, the Social Housing Finance Corporation, the National Home Mortgage Finance Corporation, and the Human Settlements Adjudication Commission. Members of the RHSUDCC are also mandated to partner with LGUs and the private sector in creating and implementing regional housing plans and targets and in the execution of housing and urban development programs, projects, and activities.

The housing roadmap also emphasizes the importance of data in effective decisionmaking. In this regard, the RHSUDCC is tasked with data gathering and analysis to expedite DHSUD's planning and policymaking, program coordination, and performance monitoring. Efforts are also underway to establish a monitoring and evaluation system for housing to improve the beneficiary selection process. These actions are important developments that may resolve the issues of subsidies being given to noneligible beneficiaries, illegal occupancies, and delays in clearing land for government projects.

Overall, the programs and policies under the housing roadmap are good responses to the long-standing problems in housing. The roadmap has laid down a holistic direction and framework that looks at housing not merely as a poverty issue but as part of an urban development concern. However, more efforts are needed to control the speculative increases in land prices by improving taxation and clarifying policies on land use conversion. There is also a need to increase private sector investment in the rental housing market to provide more options for low-income earners. Better management of public rental housing is also essential.

Agriculture

Agriculture has weathered the 2020 pandemic-induced contraction relatively better than industry and services. In 2020, gross agricultural value added (in 2018 prices) fell by 0.2 percent. In contrast, the economy-wide GDP fell by 9.6 percent, owing to a 9.2-percent decline in services GDP and an even steeper 13.2 percent drop in industry GDP (PSA 2020).

The pandemic obscured the erstwhile fierce debate on rice tariffication, a reform implemented in 2019 under RA 11203. Despite widespread calls for its repeal, the government has held firm on keeping the law intact while tightening up some trade measures by issuing two policies:

- In October 2020, the Department of Agriculture (DA) issued AO 34, which suspended the issuance of sanitary and phytosanitary import clearance to farmers' cooperatives and associations (FCAs), including irrigators' associations. It was issued partly to alleviate the depressed price of *palay* and prevent traders from using FCAs as a front to import rice and evade taxes.
- In May 2021, Malacañang issued EO 135, series of 2021, which temporarily reduced the most favored nation rate of 40 to 50 percent applied to countries outside of the Association of Southeast Asian Nations (ASEAN) to the agreed ASEAN rate of 35 percent. This is a policy shift to slightly open up trade and diversify the sources of rice supply and increase resiliency to unexpected trade restrictions imposed by rice-exporting countries.

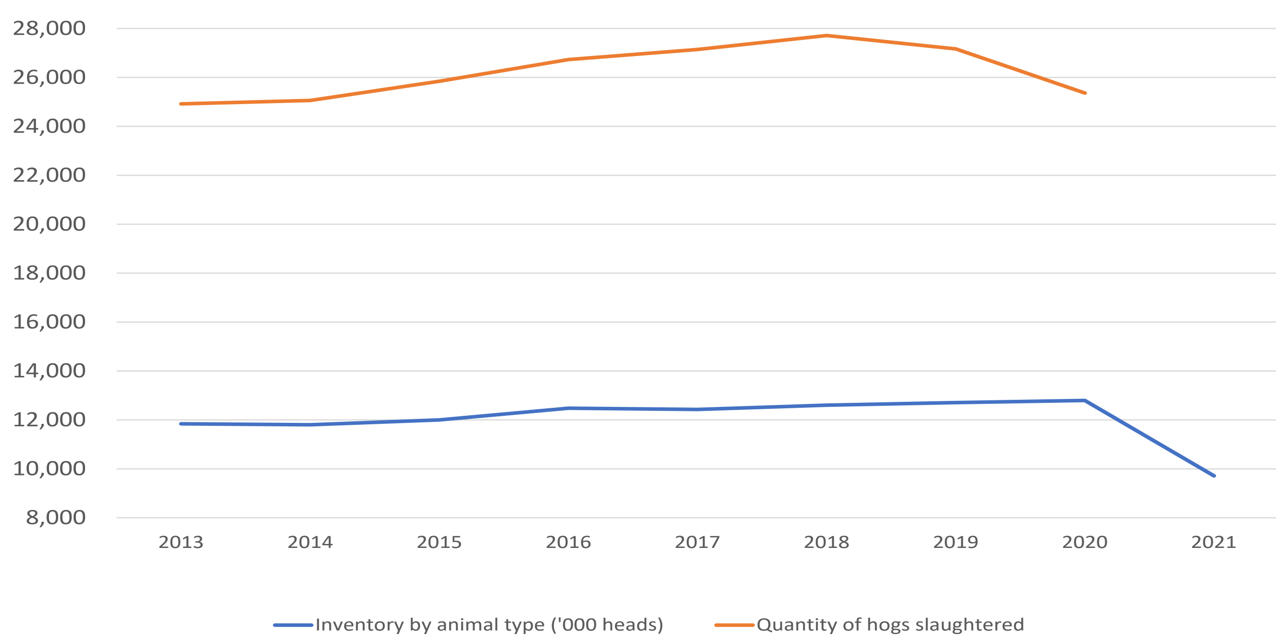
But even if agriculture was the earliest to recover from the COVID-19-related lockdowns, it has had to contend with another crisis falling narrowly but with great severity on one subsector—swine. The parallel epizootic of the African Swine Fever (ASF) ravaged the industry. Swine inventories collapsed by 24 percent in 2020, while the number of heads slaughtered contracted by 6 percent (Figure 2.6).

As a result, pork prices soared to unprecedented heights, hitting PHP 400 per kilogram (kg) (for belly meat) by January 2021, up from PHP 260 per kg in June 2020. As of April 2021, year-on-year inflation was 4.1 percent, of which 1.2 percentage points (nearly one-third) was contributed by meat alone (NEDA 2021).

The government quickly responded by imposing a price ceiling on the retail price of pork under the Price Act. Upon the request of DA, EO 124, series of 2021, was issued in February, which imposed a 60-day mandated price ceiling on pork at PHP 270 per kg for leg meat and PHP 300 per kg for belly meat and dressed chicken at PHP 160 per kg. Enforcement, however, was insufficient as pork belly was still being sold above the mandated prices (DA 2021).

In a free market, imports would typically address domestic supply scarcity. However, the value chain of pork is, by no means, a free market as pork imports are slapped a 50-percent tariff above the minimum access volume (MAV), or the "out-quota tariff"; within the MAV, a lower tariff of 30 percent is applied, or the "in-quota tariff". As such, no quota system is used, although the issuance of consent to import is tightly controlled by the DA ostensibly

Figure 2.6
Swine inventory and quantity slaughtered, number of heads, 2013–2021



Source: PSA (2021a)


https://www.pna.gov.ph/photos/47182

to safeguard the border from unsafe and environmentally harmful products. Imports were initially unable to respond rapidly to head off the price spike.

As prices remained largely unchecked, again upon the urging of DA and with support of NEDA, EO 128 was issued, which temporarily reduced in-quota tariffs to 5 percent (from 30%) and out-quota tariffs to 15 percent (from 40%). The reduction would hold for 3 months, rising to 10 and 20 percent, respectively, for months 4 to 12, and returning to the status quo after 12 months. Furthermore, the MAV for 2021 was increased by 200,000 tons (from the status quo of 54,210 tons).

Imports quickly responded to the policy adjustment: pork imports more than tripled in April–June 2021 versus the same period in 2020 (176,354 tons versus 56,702 tons). However, prices remain elevated as of June 30, 2021; pork belly continued to fetch a price of PHP 370 per kg. Imports' impact on domestic price is expected to take time given delays in issuing purchase orders, physical transport, customs and border clearance, and retail distribution, among other factors.

In addition, the House of Representatives responded by filing HB 9256 or the Affordable Pork Act of 2021. This bill proposes the creation of a Swine Competitiveness Enhancement Fund (SCEF) that shall consist of all tariff revenues related to pork imports. The fund shall be disbursed to local hog raisers in pork-producing areas to provide the following:

- ASF prevention programs, including vaccination and *Bantay* ASF Barangay program;
- subsidies for transportation and freight cost of pork;
- integrated national swine production initiatives for recovery and expansion;
- credit assistance in the form of affordable loans from the Agricultural Credit Policy Council, LBP, and DBP; and
- insurance program from the Philippine Crop Insurance Corporation (PCIC) for culled hogs.

HB 9256 also authorizes the President to allow the importation of pork to bolster available supply in the market under a state of calamity or emergency. The government can import pork directly or purchase pork from local hog raisers at a higher price, then sell these to the market at more affordable prices. This temporary measure facilitates market competition with other pork importers, which keeps prices affordable for consumers. Hog raisers also stand to benefit from this policy by being able to sell their hogs at higher prices and as beneficiaries of the SCEF.

Development agenda for agriculture

Even as policies were still in crisis mode, the DA continued to implement its long-term reform agenda for the sector. In 2021, it rolled out the "One DA Agenda", which is a holistic approach in transforming the agriculture and fishery sector through consolidation, modernization, industrialization, and professionalization. There are 18 key strategies under the One DA Agenda (see Box 1), and several innovative programs are being pursued.

- **Farm and fisheries clustering and consolidation (F2C2) Program (AO 27, series of 2020).** The strategy of clustering and consolidation has been adopted worldwide, such as the New Village Movement of the Republic of Korea, Kosei Undo of Japan, Federal Land Development Authority and Federal Land Consolidation and Rehabilitation Authority in Malaysia, and similar movements in Thailand, China, and Viet Nam. However, no comprehensive and holistic program has been adopted at the national level. Under the F2C2 Program, "Bayanihan Agri Clusters" are formed to encourage small farmers and fishers to adopt clustering and consolidation of production, processing, and marketing activities as community business enterprises.

  Corollary to F2C2 is the promotion of collective action through cooperative development. Government interventions are integrated and delivered to organized FCAs to reduce production costs and achieve economies of scale. This thrust is consistent with the policy of developing farmer and fisherfolk enterprises under the *Sagip-Saka* Act. The DA undertakes online registration of such enterprises using the Farmer and Fisherfolk Enterprises Development Information System.

- **Province-led agriculture and fisheries extension system.** To address the perennial issue of fragmentation of extension service under the Local Government Code, provinces are identified as extension hubs for synchronizing agricultural plans and programs, with the DA undertaking co-planning, co-investment, and co-monitoring. Meanwhile, city/municipal offices continue to deliver frontline services to farmers.

- **Agri-Industrial Business Corridors-Integrated Agribusiness Development Program (ABC-IADP).** IADP refers to sustainable and equitable commercial operations linking low-income communities and smallholder farmers/fisherfolk to the entire value chain to lift them out of poverty and stimulate overall rural development (DA AO 17, series of 2021). It is a flagship program of DA aimed at promoting food security, providing opportunities for smallholder producers, and driving the transformation of traditional farming toward a globally competitive agribusiness. ABC, meanwhile, is a tool for promoting sustainable agricultural development through value chains along existing infrastructure corridors based on transformative public-private partnerships. Territorial spatial planning involves agro-cluster farms, logistics, shared facilities, agri-economic zones, and business incubators. To some extent, ABC addresses the provisions related to Strategic Agriculture and Fisheries Development Zones found in RA 8435 or the Agriculture and Fisheries Modernization Act.

Establishing an agricultural pension fund

Lastly, a proposal on providing additional safety nets to farmers and fisherfolk was presented in Congress through SB 2335 or the Agricultural Pension Fund Act. This bill aims to establish and offer additional retirement benefits for agricultural workers. It was previously presented in the House of Representatives in 2019, but reviews have been pending since 2017 (de la Cruz 2019). SB 2355 can address retirement risks in the agriculture sector, as income remains inconsistent and low compared with other economic sectors. If passed, it will be implemented by PCIC.

Box 2.1
Eighteen key strategies under the One DA Agenda

1. Bayanihan agri clusters (BACs)
2. Collective action/cooperatives development
3. Province-led agriculture and fisheries extension system (PAFES)
4. Mobilization and empowerment of partners
5. Diversification
6. Credit support
7. Technology innovation, including digital agriculture
8. Farm mechanization and infrastructure investments
9. Climate change adaptation and mitigation measures
10. Food safety and regulations
11. Agri-industrial business corridors
12. Global trade, export development, and promotion
13. Postharvest processing, logistics, and marketing support
14. Agricultural career system
15. Education and training: agribusiness management
16. Youth and women engagement
17. Ease of doing business and transparent procurement
18. Strategic communications

Source: DA (2021b)

Environment and natural resources

The government carried out several measures to assist the sector in coping with the negative impacts of the pandemic while addressing long-standing issues, such as climate change and waste management.

Disaster risk management and climate change adaptation

In 2020, Malacañang issued Proclamation 1021, which extended the Philippines' state of calamity due to COVID-19 to September 12, 2021. This allowed LGUs to access untapped funds and realign appropriations for health response and social relief. Such allocations include the 30-percent Quick Response Fund (QRF), the National Disaster Risk Reduction and Management Fund/Calamity Fund, and the Special Purpose Funds, among others, boosting resources for pandemic response but possibly thinning those for calamities that may come during the last quarter of the year.

Also, a memorandum from the executive secretary, which addressed the implementation of emergency response and recovery measures under RA 11494 or Bayanihan 2, was issued on October 23, 2020. It included a provision authorizing local chief executives to use up to 10 percent of their current budget to cover expenditures arising from their COVID-19 response, effectively waiving the 70-percent limit on predisaster initiatives. Memorandum Order 50 also approved the 2020 Investment Priorities Plan in line with the policies stated under RA 11469 and RA 11494, greenlighting activities related to pandemic response, including health waste treatment and disposal.

EO 119 was also issued. It requires the establishment of a backup center outside the national capital region (NCR) to ensure government business continuity and national security in case of a catastrophic calamity like the "Big One".[6] This policy provides for the establishment of a National Government Administrative Center (NGAC) at New Clark City in Capas, Tarlac, to serve as an integrated government center outside NCR and a recovery center and backup administrative hub in case of a disaster. All departments, bureaus, offices, and agencies under the executive branch were directed to establish satellite or field offices at the NGAC and develop business continuity and financial plans.

Meanwhile, EO 120 mandates the creation of a Build Back Better Task Force for postdisaster rehabilitation and recovery efforts. Its functions include coordinating and monitoring postdisaster recovery and rehabilitation efforts of the national government in typhoon-affected areas and supplying and mobilizing basic needs and services. The Armed Forces of the Philippines, Philippine Coast Guard, and other uniformed personnel are directed to provide logistical and technical assistance support. EO 137 was also issued to accelerate and harmonize aid and humanitarian operations during disasters and emergencies. It institutionalized the Aid and Humanitarian Operations Nationwide program, which serves as a platform for delivering social amelioration services, such as livelihood assistance, relief provision, educational support, medical and burial

[6] Refers to a potentially destructive earthquake caused by the West and East Valley Fault System.

assistance, financial aid, and infrastructure support for preparedness and rehabilitation.

In April 2021, the Philippines committed to reduce its projected greenhouse gas (GHG) emissions by 75 percent by 2030 under the Paris Agreement. Of the target, 2.71 percent is unconditional, while 72.29 percent is conditional on assistance from the international community. This commitment, which is referenced against a projected business-as-usual cumulative economywide emission of 3,340.3 million metric tons of carbon dioxide equivalent,[7] represents the country's nationally determined contribution for GHG emission mitigation from agriculture, wastes, industry, transport, and energy.

The increasing frequency and intensity of weather events and climate change also led to pronouncements by key government agencies to beef up adaptation measures. Among these agencies is the DA, which recognized the need for a separate disaster risk reduction and management (DRRM) structure with its own budget appropriation. It issued AO 6 in 2020, which provides for the creation of an interim disaster risk reduction and management service (DRRMS), a dedicated body for all DRRM-related concerns in the agriculture and fisheries sector to safeguard food security and protect livelihoods. For replication in the DA regional field offices, the DRRMS is intended explicitly for disaster risk reduction planning and coordination, disaster risk reduction and climate information, and rehabilitation and recovery support.

There were also bills filed in the Senate that targeted disaster risk reduction and climate change adaptation measures. SB 1912 or the Climate-resilient Agriculture Act proposed the use of crop climate calendars and better access to localized climate information through DA and its attached agency, the Agricultural Training Institute, and the Philippine Atmospheric, Geophysical and Astronomical Services Administration, and promote climate-sensitive decisionmaking based on the recommendations of Domingo et al. (2020).

Meanwhile, SB 1917 or the National Coastal Greenbelt Program proposed the designation of coastal greenbelts to be reforested with appropriate mangrove and beach forest species. Abandoned fishponds and delinquent fishpond lease agreements will be reverted to mangrove forests, and illegal structures will be removed. This complements soft infrastructure investments on disaster preparedness like mangroves and beach forests and meter protection zones in coastal communities along the Eastern Pacific Seaboard where typhoons make the most landfalls. The Climate Change Commission will be responsible for formulating a National Coastal Greenbelt Action Plan.

In addition, SB 1345 proposed the creation of an Office of Flood Research and Policy within the National Disaster Risk Reduction and Management Council to look at mitigation options against flooding and disaster impacts and serve as a fund-granting unit.

Other bills filed in the Senate include SB 1507 (online information center), SB 1504 (credit protection to borrowers during calamities), SB 1429 (tax benefits to donations provided during a state of calamity), and SB 1560 (free freight services for transporting relief goods).

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[7] The Philippines submitted its nationally determined contribution in accordance with Decision 1/CP.21 of the Conference of Parties of the United Nations Framework Convention on Climate Change.

Water resource and waste management

In line with the state's policy to protect the quality of the country's fresh, brackish, and marine waters, the Department of Environment and Natural Resources (DENR) issued AO 19 2021, updating the water quality guidelines and general effluent standards.

On waste disposal, the Revised Implementing Rules and Regulations (RIRR) of Presidential Decree 856 or the Code of Sanitation was signed on May 27, 2021. The RIRR stipulated the provisions to be followed by entities involved in sewage collection and disposal, excreta disposal, and drainage, and also stressed to LGUs to provide and maintain drainage systems. The Environmental Management Bureau (EMB), an attached agency of DENR, also issued Memorandum Circular (MC) 25 in 2020 or the guidelines on the total pollution load estimates for freshwater bodies in relation to their assimilative capacities. The circular aims to determine pollutant contributions from point and nonpoint sources to assess the assimilative capacity of freshwater bodies and come up with appropriate strategies for water quality management.

In the same year, EMB also issued MC 28 to clarify the details on the renewal and revocation of accreditation of pollution control officers (PCOs) and MC 29 to provide guidelines for the conduct of online training for PCOs and managing heads.

RA 11494 called for proper segregation and disposal of wastes to prevent the further spread of COVID-19 and other diseases. The pandemic saw a surge in hazardous wastes in hospitals, health centers, and residential and commercial areas. Related to this, SB 1789 or the Waste-to-Energy (WTE) Act was filed to allow the use of incineration technology, given its prohibition in the Clean Air Act. The bill offers a national regulatory framework for tapping existing technologies compliant with relevant laws and regulations.[8] It also mandates the inclusion of the Department of Energy (DOE) in the National Solid Waste Management Commission, whose functions are also expanded to include the formulation of a WTE strategy in the National Solid Waste Management Framework and the review and monitoring of guidelines, standards, criteria, and maintenance of facilities.[9]


https://www.facebook.com/QCTFSolidWaste

In addition, SB 1636 or the Informal Economy Registration and National Database Act was filed. This bill aims to develop an accurate profile of informal

[8] PD 1586 (Environmental Impact System), RA 6969 (Toxic Substances and Hazardous and Nuclear Waste Act), RA 7638 (Department of Energy Act of 1992), RA 8749, RA 9003, RA 9136 (Electric Power Industry Reform Act), RA 9275 (Philippine Clean Water Act), RA 9367 (Biofuels Act of 2006), RA 9513 (Renewable Energy Act), RA 11223 (Universal Health Care Act), and World Health Organization Guidelines on Air Quality.

[9] This includes current and potential uses of WTE facilities, inventory and location of facilities, general feedstock characterization, status and projection of feedstock.

economy workers (e.g., waste pickers, small-scale miners, quarry workers) to improve interventions, particularly during a national crisis like the ongoing pandemic and other disasters.

Also proposed in Congress was SB 1940 or the Water Resources and Management Authority Act to create a primary agency for the national management and development of the country's water resources. Its functions will be informed by an Integrated Water Resources Management Framework and a National Water Resources Management Master Plan. The latter will build upon the Master Plan Study on Water Resources Management, the Philippine Water Supply and Sanitation Master Plan, and other complementary plans. Its regulatory roles also cover reviewing all water rates or charges, which may help rationalize water fees across the country.

Other bills proposed were SB 1351 (rainwater harvesting facility) and SB 1302 (gray water treatment and reuse act). The latter requires every building with a minimum floor area of 1,000 meters to install gray water systems.[10] The treated water will be used for toilets, urinals, and irrigation, a feature already present in some large commercial establishments. This proposal can mitigate sustained water shortages in the future.

Forest management and mining

Through AO 15 issued in 2020, DENR authorized economic zones to manage large-scale dredging operators, albeit with additional documentary requirements from DENR, Mines and Geosciences Bureau (MGB), Department of Public Works and Highways (DPWH), provincial governments, and chartered economic zone authorities.[11] This is to ensure that dredging processes have undergone the necessary environmental assessments. Monitoring will be headed by an interagency committee, financed via a fund pool from five percent of the market value of materials extracted by dredging operators.

In addition, DENR, through AO 10 released in the same year, transferred the supervision of the Palawan Wildlife Rescue from the Biodiversity Management Bureau to the National Resources Development Corporation. The former will retain its regulatory functions over wildlife species, but the latter will be tasked to generate revenues and maintain fiscal sustainability.

The department also provided additional guidelines for tree-cutting and earth-balling applications for road and infrastructure projects through AO 6 issued in 2020. Augmented requirements include the inclusion of the final and approved infrastructure development plan in the annual investment program of LGUs, application for tree-cutting and earth-balling permits, certified true copy of clearance/resolution from the Protected Area and Management Board (PAMB), and clearance from the Palawan Council for Sustainable Development and the Philippine Coconut Authority as may be applicable.

Also issued was AO 9 on the management of canceled or terminated, expiring, and expired tenurial instruments,

[10] Wastewater from bathroom sinks, showers, bath tubs, washing machines, and floor drains but not containing fecal content.

[11] These include the permit to operate, notice of award, notice to proceed, dredging clearance for flood control dredging and desilting activities, memorandum of agreement with the DENR regional office, due accreditation as trader, and environmental compliance certificate.

to be categorized as either for renewal or nonrenewal after evaluation. Since the instruments mostly cover forest and mineral lands, an Asset Management Team (AMT) shall be formed at every Provincial Environment and Natural Resources Office and MGB Regional Office while the PAMB will be in charge of rehabilitating special use agreements in protected areas. The AMT is responsible for the takeover and area assessment, formulation of plans, and recommendations for future land use. Suggestions for future use must reflect consultation with various stakeholders in the area, such as LGUs, nongovernment organizations, other government offices, academe, and the private sector. Areas with Certificates of Ancestral Domain Titles are exempted from the inventory and assessment of the AMT.

The department also issued AO 18 to promote tree plantation development and liberalize the harvesting and transport of planted trees and tree derivatives. This policy can help accelerate the establishment of tree plantations in private lands and production forest lands to meet national requirements. It covers private lands and public lands with existing tenure or management arrangements. For those with tenure or management arrangements in production forest lands, a five-percent inventory shall be conducted before harvesting, and a certification of logs and tree derivatives to be transported outside the tenured area is required. No certification is needed for those used within tenured and managed areas.

Bills were also filed in the Senate to protect vulnerable communities, including indigenous peoples and coastal settlements or areas. SB 1920 or the Integrated Coastal Management (ICM) Act aims to develop a National ICM program in coordination with DENR and the LGUs to manage local coastal resources. It also promotes mechanisms to support ICM education under the Department of Education, an ICM Training Program under the DENR and the Department of the Interior and Local Government (DILG) through the Local Government Academy, and ICM planning under NEDA.

Meanwhile, SB 1805 highlights the role of indigenous peoples (IPs) and their knowledge and traditional practices in environmental conservation. One of its provisions is creating a national registry of Indigenous Community Conserved Territories and Areas (ICCAs), akin to designated protected and environmentally critical areas. The identification of ICCAs will be up to the IPs and indigenous cultural communities. The Biodiversity Management Bureau will handle the ICCA registry and related documents. The ICCAs will inform the formulation of national, regional, and local policies and plans, with specific prohibitions against heavy industries, extractive industries, infrastructure projects, golf course, mineral exploration and quarrying, logging by nonmembers, mutilation of culturally significant artifacts, waste dumping and pollution, and illegal occupation.

Lastly, EO 130 was issued on April 14, 2021, lifting the 2012 moratorium on new mineral agreements to stimulate economic growth and support the government’s infrastructure projects. While the moratorium’s lifting may lead to economic gains, caution is required from DENR and other regulatory agencies to ensure ecological integrity and protect affected communities.

Trade and industry

The government implemented several measures to ease the impact of the community quarantine on local businesses. Under RA 11469 or Bayanihan 1, a 30-day grace period for residential and commercial rent payments due within the ECQ period took into effect (Department of Trade and Industry [DTI] 2020a),[12] and the filing and payment of taxes with the Bureau of Internal Revenue (BIR) was also extended. Likewise, under RA 11494 or Bayanihan 2, the deadline for payment of taxes and other fees collected by LGUs was extended to December 2020 (PNA 2020).

The government also provided greater access to finance via loan assistance and grants for businesses, especially micro, small, and medium enterprises (MSMEs) affected by the pandemic. One example is the COVID-19 Assistance to Restart Enterprises, a loan assistance program offered by the Small Business Corporation and the DTI. Under this program, enterprises with less than PHP 3 million in assets can borrow from PHP 10,000 to PHP 200,000, while those with less than PHP 10 million in assets can borrow up to PHP 500,000 without collateral (Ramos and Canivel 2020). Government banks also offered financing assistance, such as the Interim Rehabilitation Support to Cushion Unfavorably-affected Enterprises by COVID-19 (I-RESCUE). Launched by the Land Bank of the Philippines, I-RESCUE offers additional funds and loan restructuring with more flexible terms to MSMEs, cooperatives, and microfinance institutions (Villapando 2020). The Development Bank

[12] The DTI, under Memorandum Circular 20-12, also stated that during the grace period, there will be no interest, penalties, fees, and other charges to be imposed on renters, and no evictions will take place (DTI 2020a).

of the Philippines (DBP) also extended its Rehabilitation Support Program on Severe Events (RESPONSE) to public and private institutions affected by the pandemic. RESPONSE offers funding assistance to LGUs, state universities and colleges, MSMEs, corporations, cooperatives, associations, schools, financial institutions, and other public and private institutions (DBP 2020).

Meanwhile, the DTI and the Board of Investments (BOI) encouraged and offered fiscal and nonfiscal support to manufacturers of products to fight COVID-19. This prompted several companies[13] to repurpose their manufacturing facilities to respond to the high local demand but low supply for COVID-19 essentials, such as medical-grade personal protective equipment (PPE), face masks, and alcohol disinfectants (DTI 2020b; Inquirer.net 2020). Likewise, the government lifted any restrictions affecting the export and local distribution of these essential products. Grants and tax incentives were also offered to companies that produce PPE, medical equipment, and medicines that the DOH considers critical to COVID-19 response. Tax incentives are also made available for entities donating PPE to national and local governments and hospitals. Moreover, foreign investors donating PPE to their workers in the Philippines are no longer required to get clearance from the Food and Drugs Administration (Inquirer.net 2020). As of August 2020, the repurposing scheme generated investments of USD 35 million and created over 7,000 jobs (DTI 2020b).

In June 2021, the House of Representatives passed HB 9411 or Bayanihan 3, but it is yet to advance in the Senate. In the proposed bill, the government will allocate a total of PHP 401 billion to be disbursed in three phases: Phase 1: PHP 165.9 billion; Phase 2: PHP 186 billion; and Phase 3: PHP 48.6 billion. (See the main features of this bill on p.48–49)

CREATE Act

RA 11534, or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act,[14] was enacted in March 2021. This law, which is the second package of the Comprehensive Tax Reform Program, aims to improve the equity and efficiency of the corporate tax system by lowering the rate, widening the tax base, and reducing tax distortions and leakages. It also aims to create a more equitable and responsive tax incentive system that is performance-based, targeted, time-bound, and transparent.

A major provision of the CREATE Act is the reduction of the corporate income tax (CIT) from 30 percent to 25 percent for the general corporate taxpayers and 20 percent for other corporate taxpayers, subject to certain qualifications, effective July 1, 2020. Qualified enterprises are also entitled to an income tax holiday (ITH) for 4–7 years, followed by a 5 percent special CIT or enhanced deductions for 10 years (if an export enterprise) or enhanced deductions for 5 years (if a domestic market enterprise).

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[13] These include companies from the Confederation of Wearable Exporters of the Philippines and its affiliate and the newly formed Coalition of Philippine Manufacturers of Personal Protective Equipment whose members are composed of PPE, garments, electronics and food packaging manufacturers (MedTecs, Reliance, Luen Thai, EMS, and Tacca). Liquor companies, such as Destileria Limtuaco and Ginebra San Miguel Inc. of San Miguel Corporation, manufactured ethyl alcohol. Hyundai also used a portion of its local factories to produce masks. (DTI 2020b; Inquirer.net 2020).

[14] CREATE was initially proposed as the Corporate Income Tax and Incentives Reform Act (CITIRA). Aside from the change in the title, there were also amendments in the provisions of the CITIRA bill.

Industrial strategy initiatives

To attract foreign investments in the country, the government launched a promotional campaign dubbed "Make It Happen in the Philippines" (Crismundo 2020; DTI 2020c). Developed by the BOI in partnership with the United Kingdom government's Investment Promotion Programme, the campaign was initially introduced to investors from Australia and New Zealand in October 2020. The five priority sectors for investments under this program are electronics, automotive, aerospace, copper, and information technology-business process management (IT-BPM). So far, the government has successfully dialogued with companies from long-time economic partners, such as Australia, New Zealand, Hong Kong, South Korea, Taiwan, and Europe, in early 2021 (BOI 2021a, 2021b). Some specific investments being eyed are electric vehicles and parts and semiconductors from South Korea and electronics and IT-BPM investments from Europe (BOI 2021c, 2021d).

In January 2021, DTI launched the E-Commerce Philippines 2022 Roadmap. One important goal of the roadmap is to make e-commerce in the Philippines '*MADALI*', which, in Filipino, means easy, fast, and convenient. The acronym also stands for improved Market Access, Digitalization, and Logistics Integration (Lopez 2021). The roadmap consists of 20 strategies and 22 action agenda aimed at increasing the contribution of e-commerce to economic growth, producing more digitally skilled workers, encouraging more e-commerce enterprises, and empowering online consumers. Specifically, it targets to increase e-commerce contribution to GDP to 5.5 percent and create one million e-commerce enterprises by 2022.

Likewise, DTI launched the Artificial Intelligence (AI) Roadmap in May 2021. A key technology in the Fourth Industrial Revolution (FIRe), AI is beneficial for business, education, healthcare, and transportation, among many others. The COVID-19 pandemic highlighted the importance of AI, particularly in contact tracing, health monitoring, and knowledge management. For businesses, AI has been helpful in supply chain management during the pandemic. The roadmap identified four key dimensions for AI readiness: (1) digitization and infrastructure, (2) research and development (R&D), (3) workforce development, and (4) regulation. With the AI roadmap, the government and private sector aim to position the country as an AI center for excellence in the region, providing value data analytics and AI services to the region and the world (Crismundo 2021a). One key strategy in the roadmap is the establishment of the National Center for AI Research, a private sector-led hub for AI research.

The government also launched several upskilling and reskilling support programs, such as the Pivot Embrace Technology of the DTI, Project Smarter Philippines through Data Analytics, R&D, Training and Adoption of the Department of Science and Technology (DOST), and the digitaljobsPH Program of the Department of Information and Communications Technology (Pacheco 2021).

Meanwhile, DOST has been supporting the adoption of Industry 4.0 technologies of MSMEs through several programs, such as the Small Enterprise Technology Upgrading Program (SETUP) 4.0, Advanced

Mechatronics, Robotics, and Industrial Automation Laboratory (AMERIAL) project, and the Science for Change Program (S4CP). SETUP 4.0 provides funds to MSMEs for the purchase of equipment for innovation and training, while the AMERIAL supports the conduct of R&D activities related to mechatronics, robotics, and automation for SETUP beneficiaries.

The S4CP entails investments in science and technology education, training, and services to foster the country's industrial competitiveness, among other things. It consists of four subprograms: niche centers in the regions for R&D, R&D leadership program, collaborative R&D to leverage the Philippine economy, and business innovation through science and technology for industry.

On the legislative front, amendments are being proposed in the Retail Trade Liberalization Act, the Foreign Investments Act, and the Public Service Act to further liberalize and open up more sectors to foreign investments (Pacheco 2021).[15] One of the bills pending in the Senate is SB 1591 or the Internet Transactions Act, which aims to protect online consumers and merchants through regulation of commercial transactions on the internet and the creation of an e-commerce bureau that will regulate online trade and function as a virtual one-stop-shop for consumer concerns (Cervantes 2020). Likewise, the Science for Change Program bills (SB 1303 and HB 4581) were filed to further support the use of R&D in every facet of the economy.

International trade and economic relations[16]

The country continuously participates in bilateral, regional, and multilateral trade and economic cooperation. In November 2020, the Regional Comprehensive Economic Partnership (RCEP) Agreement was signed by 15 countries composed of the ASEAN member-states, Australia, China, Japan, Korea, and New Zealand. The Philippines targets to complete the ratification of RCEP by 2021. With the agreement being modern, comprehensive, and high quality, its implementation will expand and deepen the country's economic engagements. The RCEP also complements

[15] HB 59 and SB 1840 call for amendments to the Retail Trade Liberalization Act while HB 300 and SB 1156 propose amendments to the Foreign Investments Act. HB 78 and SB 2094, meanwhile, seek to amend the Public Service Act.

[16] The discussion in this section is based largely on information shared by the Bureau of International Trade Relations of DTI.

the ongoing initiatives and reforms to make the Philippines a regional hub for manufacturing and investments.

Other developments in 2020 include the country's ratification of the ASEAN-Hong Kong, China Free Trade Agreement and the ASEAN-Hong Kong, China Investment Agreement and the signing of the ASEAN Trade in Services Agreement.

Meanwhile, the Philippines-Korea Free Trade Agreement negotiations and the proposed Philippines-India Preferential Trade Agreement are in progress. The country likewise maintains its interest in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, given its potential to expand and diversify the country's trade relations and engagement with nontraditional partners.

Bilateral dialogues with economies through the Joint Economic Commission (JEC),[17] a mechanism to enhance bilateral economic relations with significant trading partners on areas or sectors of cooperation in trade and investment, also continue. In 2020, DTI convened JECs with Russia, Hungary, Switzerland, and for the first time, Germany. In early 2021, the department signed a memorandum of understanding (MOU) to establish a JEC with Chile—the country's first formal trade and investment mechanism with a South American country.

The Philippines continues to enjoy greater market access provided by the Generalized System of Preferences (GSP) in the European Union (EU), United States (US), and UK. In 2020, the Philippines reached a record high EU GSP+ utilization of 75 percent, an increase from 72 percent in 2019. Meanwhile, 74 percent of eligible Philippine exports (USD 1.6 billion) to the US used the GSP in 2020. The Philippines ranked fifth-highest user of US GSP next to Thailand, Indonesia, Brazil, and Cambodia in 2020. Furthermore, the country is included in the UK GSP Enhancement Framework, giving the country the same privileges available under the EU GSP+.

The country also participated in regional and multilateral efforts against COVID-19. In the ASEAN, frameworks and plans of action initiated include an MOU on the implementation of nontariff measures on essential goods under the Hanoi Plan of Action on Strengthening ASEAN Economic Cooperation and Supply Chain Connectivity in Response to the Covid-19 Pandemic. Signed in November 2020, the MOU seeks to facilitate the flow of essential goods, covering 152 tariff lines of medicines, medical supplies, and equipment.

Meanwhile, as a member of the Asia-Pacific Economic Cooperation, the Philippines supported a Ministers Responsible for Trade (MRT) statement encouraging member economies to ensure the continued flow of trade and investment, especially goods and services that are essential to COVID-19 response and minimize disruptions to the global value chains (Department of Foreign Affairs 2020). The MRT statement also called for the implementation of measures to enhance the resilience of healthcare systems and provide support to economic sectors' and workers' recovery, among others.

[17] Partner economies use different titles for JEC. Variations include Joint Economic Committee, Joint Economic Conference, Joint Economic and Trade Committee, Joint Committee, Joint Commission on Trade and Economic Cooperation, Trade and Investment Framework Agreement, Trade and Investment Working Group, Joint Working Group, Joint Trade Committee, and Joint Commission on Economic and Commercial Cooperation.

Services

The services industry has been the driver of economic growth and the backbone of other industries in the Philippines. However, it has been severely affected by the COVID-19 pandemic, particularly the retail trade, transportation, and tourism-related services. A shift toward digital-based services has enabled businesses to thrive. Thus to strengthen the digital economy, the *Updated Philippine Development Plan 2017–2022* highlighted strategies and legislative agenda, such as improving the ICT services, furthering economic liberalization, and enhancing the e-commerce industry (NEDA 2021).

Fostering ICT services

In March 2021, EO 127 was issued by the Office of the President. This order is intended to catalyze the advancement of ICT services and increase the accessibility of internet services nationwide. It allows enfranchised telecommunications entities, value-added service providers, internet service providers, and broadcast service providers to access satellite systems directly to provide fixed or mobile and domestic or international internet services subject to the National Telecommunications Commission (NTC) regulations. They are also authorized to have direct dealings with satellite systems providers.

Meanwhile, a proposed Open Access in Data Transmission Act (HB 8910, SB 911, and SB 45) aims to create a level playing field in the data transmission industry by establishing a regulatory framework that promotes fair and open competition at all layers of the network, mandated interconnection, infrastructure sharing, transparent and equitable spectrum management, and a technology-neutral framework, among other things. Additional powers of the NTC are also defined in the bill.

Economic liberalization

Economic bills seeking to amend the Public Service Act, the Retail Trade Liberalization, and the Foreign Investment Act previously identified as key legislative reforms have remained pending in Congress. HB 59 and SB 1840 call for amendments to the Retail Trade Liberalization Act, while SB 1156 proposes amendments to the Foreign Investments Act. SB 2094, meanwhile, seeks to amend the Public Service Act. Thus, in pursuing economic liberalization and economic growth amid the COVID-19 pandemic, the President certified these bills as urgent on April 12, 2021 (OPS 2021).

The proposed amendment to the Public Service Act (Commonwealth Act 146) delimits the definition of a public utility and explicitly defines and distinguishes it from public services, allowing greater foreign equity participation in the latter. Only electricity distribution and transmission services and water pipeline distribution and maintenance of sewerage pipeline systems are considered a public utility and subject to foreign ownership restrictions under the Philippine Constitution. However, NEDA may recommend a public service be considered a public utility if it satisfies certain conditions.

Another bill on economic liberalization seeks to amend the Retail Trade Liberalization Act (RA 8762) by lowering the barrier to entry of foreign investments in the retail sector. Under the bill, the minimum paid-up capital for foreign retail investors will be reduced from USD 2.5 million

to USD 300,000. It also seeks to remove the USD 250,000 paid-up capital per store for enterprises engaged in high-end or luxury products.

Meanwhile, the proposed amendments to the Foreign Investment Act (RA 7042) aim to reduce the minimum employment requirement from 50 to 15 direct local hires for domestic small and medium enterprises (SMEs) established by foreign investors with paid-in capital of at least USD 100,000. For greater clarity, the proposed amendments also exclude the practice of professions from the coverage of the foreign investment negative list.

Advancing e-commerce

To boost e-commerce growth, generate digitally skilled Filipinos, promote e-commerce entrepreneurship, and empower online consumers, DTI formulated the E-commerce Roadmap 2022 (DTI 2021). The plan adopted a strategic framework to increase domestic and international sales through better structure, speed, and security of e-commerce or S (structure) + S (speed) + S (security) = S (sales). It also recognizes the importance of digital payments and logistics as support systems for e-commerce.

The roadmap includes creating an e-commerce bureau, formalizing public-private sector partnerships, and developing a knowledge management system for the government and businesses to use. The government will also continue to improve ICT services, logistics infrastructure, digital transactions, business-to-business (B2B) transactions, upskilling and reskilling of workers, and complaints resolution. Taking a whole-of-government approach, DTI and other government agencies will also facilitate digital transformation for MSMEs, promote e-commerce investments, collaborate in cross-border digital trade, and intensify communication campaigns (DTI 2021a).

By 2022, the target goals under the roadmap include e-commerce having 5.5 percent (PHP 1.2 trillion) GDP contribution from 3.4 percent (PHP 599 billion) in 2020, 1 million e-commerce enterprises from 500,000 in 2020, an increase in gross merchandise value of PHP 788 billion from PHP 375 billion in 2020, and an increase in hiring rate of digitally skilled workers. The roadmap also envisions that by 2022, the Philippines will be among the top 50 countries in the United Nations Conference on Trade and Development Business-to-Consumer (B2C) Index from 89th out of 152 countries in 2020. Moreover, the roadmap shall empower online consumers by having a higher complaints resolution rate (i.e., consumer complaints resolution rate, crime solution efficiency rate, and crime clearance efficiency rate) by 2022 than in previous years (DTI 2021a).

Likewise, a proposed Internet Transactions Act (SB 1591, HB 7805) recognizes the potential growth of the digital economy by securing trust between merchants and consumers. If approved, this shall strengthen consumers' rights and data privacy protection, innovation, fair competition, secured online transactions, intellectual property rights protection, e-commerce platform efficiency and transparency, and product compliance. Except for customer-to-customer transactions, this act will cover B2B and B2C e-commerce transactions, including online retail, online travel services, online media providers, ride-hailing, and digital financial services.

The bill also proposes the creation of an e-commerce bureau that will oversee the registration of merchants or related entities engaged in online trade and craft programs and initiatives to develop e-commerce in the country. In addition, the bureau shall identify regulatory gaps and recommend legal actions to improve the regulatory environment for e-commerce. It will also promptly address consumer complaints related to online transactions and coordinate with other institutions or government agencies on e-commerce related issues. It will also monitor internet transactions, provide e-commerce data, conduct studies, and ensure equal treatment of online and offline commerce activities and enterprises.

Under the proposed bill, consumers shall have access to the list and information of registered online businesses. Enterprises, entities, and cooperatives registered with DTI, Securities and Exchange Commission, and Cooperative Development Authority are allowed to engage in e-commerce activities as well as foreign corporations licensed to conduct business in the Philippines and nonresident foreign individuals or entities listed in the registry of online business. The proposal also includes a code of conduct and specifies responsibilities that online businesses are exhorted to follow. Even platform mediators and nonresidents of the Philippines engaging in e-commerce activities shall have legal liabilities and obligations, including issuing of e-invoices and e-receipts. Penalties shall also be imposed on persons or entities involved in unauthorized or noncompliant e-commerce activities.

Science, technology, and innovation

Science, technology, and innovation (STI) policies, defined as government interventions in the economy to support scientific discoveries and develop technological solutions (Chaminade and Lundvall 2019), are transitioning from a focus on predominantly scientific objectives to closer integration with broader socioeconomic and environmental goals articulated in the country's development plans and long-term aspirations (NEDA 2015; NEDA 2016).

Furthermore, with the establishment of the National Innovation Council (NIC) under the Philippine Innovation Act of 2020, more whole-of-government mechanisms, including the conduct of multistakeholder dialogues, formulation of the National Innovation Agenda and Strategy Document, and interfaced implementation of sectoral policies, are expected. However, approved budgets of different agencies for 2020 and 2021, including the NIC budget, have been realigned for the coronavirus disease 2019 (COVID-19) pandemic responses.

STI has many economic benefits, such as increased productivity, reduced costs, and increased efficiency (Dadios et al. 2018). However, developing countries continue to regard STI as unaffordable luxuries. The Philippines, for instance, has been spending only between 0.1 and 0.2 percent of its GDP on R&D from 2002 to 2015. In contrast, the United Nations Educational, Scientific and Cultural Organization puts the average spending on R&D across countries at around 2.3 percent as of 2018.

The persisting challenges in building the country's innovation ecosystem (Albert et al. 2018; Quimba and Calizo 2018), especially poor spending on R&D and the lack of requisite STI human capital (Albert et al. 2020), have reduced the country's capacities to face systemic shocks, such as those brought by the COVID-19 pandemic. The pandemic has also accentuated the need for STI to address both the health and the economic impacts of COVID-19. For example, digital mobile technologies have provided near real-time data on the spread of the virus and supported social distancing. In addition, drone technologies have been used for such applications as aerial disinfection, contactless transportation of medical supplies, and consumer goods deliveries. Finally, advanced biomedical technologies and artificial intelligence (AI) have sped up the development of testing, vaccines, and treatments to fight off the virus.

However, even if the Philippines and other developing countries plan to leapfrog by spending much more on STI, dividends to such investments need not result in innovation given the lack of requisite complementary factors, such as human capital, management, organizational issues infrastructure (Cirera and Maloney 2017). Government agencies that are part of the innovation ecosystem are thus starting to harness the very limited resources made available for STI. Therefore, it is no wonder that the country is one of the economies to have registered the most significant progress in their Global Innovation Index ranking over time: going from 100th in 2014 to 50th as of 2020. Among lower-middle-income economies, the Philippines ranks 4th, with above-average performance in business sophistication, knowledge, and technology outputs.

Supported by legislative measures, such as (i) the Philippine Innovation Act of 2020, (ii) the Innovative Startup Act enacted in April 2019, and (iii) the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act passed into law in March 2021, government agencies have fostered wider opportunities for innovation, guaranteeing intellectual property rights to innovators, stimulating entrepreneurship. These measures have also provided direct funding support and fiscal incentives for priority sectors. In addition, government agencies are developing policies to strengthen the link within the industry and between the industry and academia to engage in capacity building.

For the past 10 years, the Department of Science and Technology (DOST) has funded a total of 2,546 projects worth more than PHP 17 billion through its Grants-In-Aid Program. These R&D projects include space technology, material science, AI, nanotechnology, creative industries, disaster mitigation, genomics, ICT, infrastructure development, and institution development. The country has also increased its spending on space technology, especially with the establishment of the Philippine Space Agency through the Philippine Space Act (RA 11363). In March 2021, the International Space Station successfully released into orbit Maya-2, the Philippines' second cube designed and built by Filipino scientists and engineers with funding support from the DOST. Two other Filipino-made cube satellites, Maya-3 and Maya-4, are also targeted to be launched within 2021.

The DTI has also been working to enable industries to adopt the frontier technologies of FIRe through several initiatives. For example, its Securing Manufacturing Revitalization and Transformation program aims to push businesses toward higher-value activities in the global value chain. DTI has also been working to enhance manufacturing innovation and develop the human resource capabilities of MSMEs through the SME Academy and create an Industry 4.0 pilot factory. In addition, DTI has also developed Industry 4.0 roadmaps, including a National AI Roadmap, to support the country's goal of becoming an AI center in the region (DTI 2021). Meanwhile, TESDA and the Philippine Trade Training Center are collaborating on developing skills frameworks for various sectors in the country. The agencies are also partnering with SkillsFuture Singapore to find ways to upskill and reskill the country's workforce (Aldaba 2020).

On the other hand, the Department of Information and Communications Technology (DICT) has not only been active in addressing ICT infrastructure gaps that have resulted in digital divides between urban and rural areas (Albert et al. 2021) but also working toward increasing digital skills and competencies, especially in the public sector. Aside from the training and certification activities of its ICT Academy, DICT is also developing massive open online courses. Likewise, it has started offering master's degree scholarships for government chief information officers in 2021 and targeting ICT training for vulnerable groups (such as persons with disabilities). In addition, DICT aims to establish at least one Digital Transformation Center in every region. Further, given the importance of data, research and policy frameworks, it is piloting a baseline survey for the information technology-business process management industry, developing the Philippine ICT skills framework, and conducting several impact assessments. Likewise, it plans to do a digital literacy baseline survey.

While the country's experience with FIRe is likely to be very different from advanced economies (Dadios et al. 2018; Kim et al. 2019), it should still be able to maximize the benefits from emerging technologies. However, policies must first be in place to address several issues, including legacy ICT infrastructure, capability gaps of start-ups and MSMEs, management competencies in public and private sectors, digital divides, and gaps in future skills.

Infrastructure

The transport sector operated at reduced capacities to ensure the health and safety of passengers amid the pandemic. Policy interventions were carried out to ensure travel efficiency while protecting the public from COVID-19. Several programs were also implemented to assist affected transport workers. For the ICT sector, the focus was how to fast-track the provision of ICT services to support the increased use of online services and the shift to online learning and alternative work arrangements.

Road and rail transport sector

Efficiency, safety, and social amelioration amid the pandemic continued to be an immediate concern in the sector. Service contracting for public utility vehicles (PUV) was used to provide public transportation services and help drivers and PUV operators who suffered financial losses due to mobility restrictions. RA 1494 or Bayanihan 2 supported service contracting. Among its provisions was a directive for the Department of Transportation (DOTr) "to coordinate with transport service providers, transport cooperatives and LGUs to negotiate partially subsidized service contracting of PUVs as a form of temporary livelihood to workers displaced by restrictions and reduced capacity of public transportation, and other forms of arrangement to ensure that livelihood in the transport sector is preserved" (Section 4 [fff]). Thereafter, DOTr issued DO 17 on September 26, 2020, mandating the Land Transportation Franchising and Regulatory Board (LTFRB) to implement the service contracting program. The LTFRB then issued the implementing guidelines through MC 59 and MC 79 on October 8 and November 25, 2020, respectively.

Under the PUV service contracting program, an initial subsidy of PHP 4,000 is paid to the driver upon signing the service contract. The payout is based on kilometers traveled rather than the number of passengers served. The driver receives a weekly payout if the threshold kilometer run is attained.[18]

Moreover, a variable monthly payout per transport service operator is given if the actual kilometer run of all the operator's units on a particular route exceeds the threshold kilometer run.[19] The variable payout should be distributed between the operator, who gets 60 percent, and the drivers, who get 40 percent, divided among all the drivers under the operator on the route.

Traditional public utility jeepneys (PUJs) are also covered but with fewer incentives. An initial subsidy of PHP 4,000 per driver is also provided. The payout is weekly and based on the actual daily kilometer run multiplied by PHP 11 per kilometer. There is no variable payout for traditional PUJs.

The implementation of this scheme was reportedly unsatisfactory. On May 2, 2021, the Move As One coalition, a transportation advocacy group, claimed that the government engaged only up to 9,000 transport workers out of the 60,000 target.

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[18] For modern PUJs, the driver gets a fixed payout of PHP 800, and for public utility bus (PUB), PHP 1,200 per day. The threshold kilometer run depends on the route and is aligned with a prescribed service plan. If the threshold is not met, the payout becomes PHP 11 per actual kilometer run for modernized PUJ and PHP 23.10 per actual kilometer run for PUB.

[19] The variable monthly payout is computed as follows: PHP 11 multiplied by excess kilometer run of all units on the route for modernized PUJ and PHP 23.10 multiplied by excess kilometer run of all units on the route for PUB.

The group added that the government only paid up to PHP 46.1 million, or 0.82 percent of the PHP 5.58 billion allocated to the program under Bayanihan 2 (Marzan 2021). This claim surfaced when the Bayanihan 2 funds were at risk of expiring and being reverted to the treasury. There were calls to extend the law due to alleged underspending on the PUV service contracting program and other programs covered by the law. However, Congress missed passing a law extending the validity of Bayanihan 2 after June 30, 2021. LTFRB thus temporarily suspended the program. In response to the alleged underspending, it claimed that it had distributed PHP 1.5 billion worth of subsidies in the form of initial payouts to 19,000 drivers and PHP 25,000 and PHP 20,000 worth of onboarding incentives for 8,347 drivers (Inquirer.net 2021).

Meanwhile, to improve travel efficiency in expressways and protect the public from COVID-19, DOTr issued DO 12 in 2020, directing the Toll Regulatory Board (TRB) to require tollway operators to have 100-percent electronic toll collection lanes. The initial deadline for compliance was set for November 4, then moved to December 1, 2020. At first, the implementation caused traffic jams due to technical glitches and unfamiliarity with the procedures, so the policy was temporarily suspended. On January 12, 2021, TRB announced that the transition to 100-percent compliance was extended until further notice (Rey 2021). An amendment of the policy was issued on January 29, 2021, through DOTr DO 3, which no longer required 100-percent electronic toll collection and instead compelled the continuation of cash lanes and the apprehension of vehicles with no radio frequency identification stickers.

In the rail transport sector, the rules on capacity restrictions during the pandemic depended on the community quarantine status set by the Inter-Agency Task Force for the Management of Emerging and Infectious Diseases (IATF). While on ECQ and modified ECQ, the operation of the Philippine National Railways, LRT-1, LRT-2, and MRT-3 lines was suspended. It was resumed under the less restrictive general community quarantine (GCQ) and modified GCQ. During the reimposition of

ECQ in Metro Manila and the provinces of Bulacan, Cavite, Laguna, and Rizal from March 29 to April 4, 2021, due to the rising cases of COVID-19, all rail lines were allowed to operate at 20- to 30-percent passenger capacity (DOTr 2021b).

To ensure adherence to health and safety standards in the rail facilities, DOTr issued the manual "Unified Health and Safety Protocol of Railway Lines for COVID-19". The manual provides comprehensive health and safety guidelines for passengers and personnel in rail stations and workers in depot premises and construction sites (DOTr 2021c).

Air and maritime transport sector

While crucial for public health, the community quarantines imposed by the government to contain the transmission of COVID-19 have had severe implications on the productivity of the air and maritime transport sectors. Stringent travel restrictions under any community quarantine classification limit population movement and goods within and outside the country. This effectively reduces passenger and cargo traffic for airlines and maritime vessels, affecting the profitability of businesses.

Depending on the quarantine classification, transport authorities limit the allowable passengers to both air and maritime transport vessels to a certain number or percentage of full capacity. For instance, the ECQ—the strictest of all community quarantine classifications—would warrant only about 1,500 international bound passengers for the main airport of the country and 50-percent capacity for maritime vessels. In addition, only persons allowed under the Omnibus Guidelines of IATF shall be permitted to travel, and they must comply with the restrictions and requirements of the receiving LGUs (DOTr 2021).

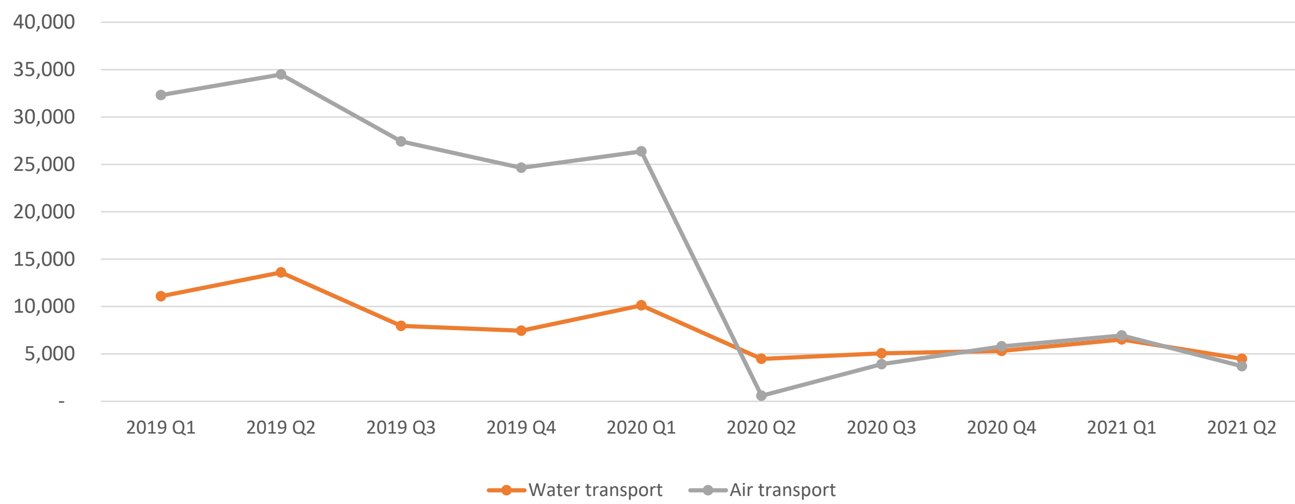
The decline in the performance of the air and maritime transport sector is evident in the latest data from the Philippine Statistics Authority. Figure 2.7 shows that the contribution of these sectors to the economy had declined significantly starting the second quarter of 2020 and had been meager compared with pre-pandemic levels. As reflected in their financial statements, major airlines and shipping companies had also been incurring losses (Table 2.6).

As many businesses in the transport sector struggle to survive the COVID-19 pandemic, the DOTr implemented DO 18 in October 2020 to comply with RA 11494 or Bayanihan 2. Through this policy, several interventions in the form of waived fees and charges specific to the air and maritime transport sector were implemented by the department through its attached agencies.

For air transport, CAAP carried out an assistance program worth PHP 300,000,000 for affected businesses in the form of subsidized air navigation charges, landing and takeoff fees, and parking fees. The Manila International Airport Authority also provided PHP 478,384,000 support by subsidizing air navigation charges, landing and takeoff fees, including rental holiday to concessionaires. Lastly, the Mactan-Cebu International Airport Authority implemented programs amounting to PHP 26,700,000 by subsidizing air navigation charges, landing and takeoff fees, and parking fees.

Meanwhile, for maritime transport, the Philippine Ports Authority provided subsidies for dockage, lay-up fees, and testing expenses for returning Filipino

Figure 2.7
Gross value added in transportation and storage, 2018 constant prices (in PHP millions)



PHP = Philippine peso; Q = quarter
Note: "-" means less than 5,000 (in PHP millions)
Source: Philippine Statistics Authority (2021)

seafarers. In addition, the Cebu Ports Authority undertook programs amounting to PHP 36,630,000 for critically affected businesses in the maritime transport sector through berthing and anchorage fee subsidies. The funding requirements of these interventions were to be charged against the appropriated budget for RA 11469.

Additionally, a pending bill in the House of Representatives, HB 9324 or the Air Carriers Relief Act seeks to support the air transport sector by extending loan payments and providing interest-free loans, loan guarantees, and regulatory reliefs to domestic air carriers. The following are the main features of the bill:

- Banks and other nonbank financial institutions under the supervision of the Securities Exchange Commission and BSP will extend the term or offer restructuring of existing commercial loans for domestic air carriers for three years. A loan may be extended for two years subject to the interest rate set by BSP.
- The Development Bank of the Philippines will offer affected domestic air carriers an interest-free loan with a maximum amount of PHP 2 billion per domestic air carrier, for a minimum of 5 years and a maximum of 10 years.
- The Philippine Guarantee Corporation will provide an expanded guarantee program for domestic air carriers in the form of increased maximum loan guarantee coverage per borrower, including a guarantee program for issuing corporate bonds.
- The national government will carry out nontax and nonduty fees of domestic air carriers, including navigational and airport charges of regulatory agencies, for three years from the law's effectivity.
- The Department of Budget and Management will absorb the existing liability of domestic air carriers related

Table 2.6
Income statements of select airlines and shipping companies as of December 31, 2020

Item	Cebu Pacific		Philippine Airlines		2GO Group Inc.		Chelsea Logistics and Infrastructure Holdings Corp.	
	2019	2020	2019	2020	2019	2020	2019	2020
Gross revenue	84,806,810,363	22,617,967,165	154,536,731	55,263,966	21,409,914	17,408,695	7,220,216,042	4,678,919,363
Gross expense	72,185,792,856	43,387,226,292	151,663,611	81,840,504	21,362,412	18,569,597	6,585,390,948	7,101,481,733
Income/(loss) before tax	10,284,405,549	-22,895,531,825	-11,199,874	-65,870,123	-329,155	-1,823,541	-972,499,902	-2,901,548,558
Net income/(loss) after tax	9,122,952,680	-22,236,441,976	-9,702,716	-73,083,760	-418,964	-1,842,739	-831,761,000	-3,310,949,604
Net income/(loss) attributable to parent	9,122,952,680	-22,236,441,976	-10,310,901	-71,809,963	-890,352	-1,842,670	-831,761,000	-3,310,949,604
Earnings/(loss) per share (basic)	15.22	-37.14	-0.89	-6.18	-0.17	-0.75	-0.46	1.82
Earnings/(loss) per share (diluted)	–	–	-0.8	-6.18	-0.17	-0.75	-0.46	1.82

Note: "–" means not available
Source: PSE Edge (2021)

to refund of eligible unused passenger tickets that are remaining outstanding as of the Act's effectivity date. The government shall use the acquired refunded tickets for official travels of government personnel, with priority given to DOH, Department of National Defense, Armed Forces of the Philippines, and Philippine National Police.

- DOF will issue a temporary relief from payment of excise taxes on purchased fuel of domestic air carriers for two years from the effectivity of the Act.
- Airport authorities will subject arriving and departing passengers to COVID-19 rapid testing under the control and supervision of DOH personnel. The funding for the proposed bill amounts to PHP 40 billion, with PHP 10 billion allotted to DBP for interest-free loans, PHP 10 billion to the Philippine Genome Center for special guarantee fund, and PHP 10 billion each for regulatory fees and rapid testing.

ICT sector

The new policies in this sector focused on addressing the continuing need to fast-track the provision of ICT infrastructure and services. Telecommunications towers are no longer considered for exclusive use by the telecommunications company that owns them pursuant to the DICT's 2019 Rules on the Accelerated Rollout of Common Towers in the Philippines and Department Circular 8 issued in 2020 on the sharing and construction of telecommunications tower infrastructure.

Nevertheless, there is a need to fast-track the implementation of these policies to level the playing field among telecommunications companies and accelerate the expansion of internet services. One big problem is red tape in securing the necessary permits, licenses, clearances, certificates, and other requirements in the construction of shared passive telecommunications tower infrastructure (PTTI). Thus, the Anti-Red Tape Authority (ARTA), DPWH, DILG, DICT, DHSUD, DOTr, Civil Aviation Authority of the Philippines (CAAP), DOH, and Food and Drug Administration (FDA) issued JMC 1 on July 23, 2020, to streamline the requirements and reduce procedural delays in securing the necessary permits, licenses, clearances, certificates, and other requirements in the construction of shared PTTI.[20]

However, the enactment of Bayanihan 2 temporarily suspended the requirements to secure permits and clearances for the construction of telecommunications and internet infrastructure. To clarify various interpretations on the anti-red tape policy under JMC 1 and harmonize it with the Bayanihan 2 provision on the suspension of requirements, the signatory agencies issued an amended policy on June 11, 2021, which clarified that the 2020 JMC shall apply to applications filed before the effectivity of Bayanihan 2 (ARTA 2021).

Another ICT policy that aimed to accelerate the expansion of internet services is DPWH DO 29, issued on March 23, 2021, allowing telecommunications companies to occupy portions of the government's right

[20] The JMC removed the following prerequisites for the construction of PTTIs: (a) *Sangguniang Panlungsod/Bayan* Resolution; (b) *Sangguniang Barangay* Resolution/*Barangay* Council Resolution; (c) Environmental Compliance Certificate or Certificate of Non-Coverage if the proposed site of construction is outside an environmentally critical area; (d) Radiation Safety Evaluation Report from the FDA; (e) Certified True Copy of NTC Provisional Authority or Certificate of Public Convenience and Necessity or Certificate of Registration to Provide Telecommunication Services; and (f) Height Clearance Permit for PTTIs below 50 meters that are located outside of CAAP critical areas. Moreover, it emphasized that the processing up to approval of permits should be done within seven days as mandated by RA 11032 or the Ease of Doing Business and Efficient Government Service Delivery Act of 2018.

of way for three years to accelerate the rollout of ICT infrastructure and meet the increased need for internet connectivity during the pandemic (DPWH 2021).

Moreover, EO 127 was issued on March 10, 2021. As an amendment to EO 467 issued in 1998, which permitted enfranchised telecommunications entities and broadcast service providers direct access to satellite systems, EO 127 liberalizes access to satellite technology by expanding the permission to value-added service providers and internet service providers. The implementing rules and regulations of the new policy were issued on September 28, 2021.

Energy

As the pandemic lingered in the second half of 2020, RA 11494 or Bayanihan 2 continued and expanded the response and recovery programs until December 2020. The electric power sector, particularly agencies providing electric utilities, was directed to implement a minimum 30-day grace period and staggered payment of utilities with dues falling within the period of the ECQ or modified ECQ without incurring interests, penalties, and other charges.[21] These terms also applied to payments in the entire power value chain, including generation companies, transmission utility, and distribution utilities.

DOE also issued circular 04-0008 in 2020 to provide guidelines to LGUs in using the funds under the Energy Regulation (ER) 1-94 program for projects related to the management of the COVID-19 pandemic in their communities.[22] As of July 2021, PHP 8.1 billion had been disbursed to host LGUs to purchase relief goods, medical supplies, and testing kits, and set up testing labs. Some LGUs also used the fund to set up isolation centers for COVID-19 patients (Crismundo 2021b).[23]

In support of the vaccination program rollout, DOE issued an advisory in March 2021 to all generation companies to ensure reliable and stable power supply for COVID-19 vaccine cold storage facilities and administration sites (DOE 2021b). In May 2021, a similar advisory to electric cooperatives throughout the country was also issued by the National Electrification Administration through Memorandum 2021-018 (NEA 2021).

Other initiatives

The other policies in 2020 were in support of the government's agenda of energy efficiency and clean energy and accelerating infrastructure development projects in the energy sector. Moreover, the pursuit of cleaner, more reliable, and sustainable energy sources will be a continuing policy following the Philippines' nationally

[21] The law states that after the grace period, consumers may settle unpaid electric bills "on a staggered basis payable in not less than three monthly installments, subject to the procedural requirements of the concerned regulatory agencies in the imposition of such installment plan without interests, penalties, and other charges" (Section 4[vv], RA 11494).

[22] The ER 1-94 program is a policy under the DOE Act of 1992 and Electric Power Industry Reform Act of 2001 (EPIRA Law) which states that LGUs that host energy resource developers or power producers will receive shares generated by these facilities, and such funds will be applied to projects related to electrification, development and livelihood, reforestation, watershed management, health and/or environment enhancement. Financial benefit to host LGUs/communities amounts to one-centavo per kilowatt-hour (PHP 0.01/kWh) of the Electricity Sales of Generation Facilities and/or energy resource development projects. https://www.doe.gov.ph/financial-benefits-host-communities-under-er-1-94-amended (accessed on September 3, 2021).

[23] PHP 3.5 billion downloaded directly to LGUs from April 2020 to July 2021, and PHP 4.6 billion transferred to LGUs through DOE from September 2019 to July 2021.

determined contribution (NDC) to the United Nations Framework Convention on Climate Change.[24] The country commits to a 75-percent reduction of greenhouse gas emissions from 2020 to 2030 in the agriculture, waste, industry, transport, and energy sectors (UNFCCC 2021).[25]

Moreover, an update of the *National Renewable Energy Program (NREP) 2020–2040* is expected to be released in 2021 (DOE 2021a). It proposes a target of at least 35-percent share of renewable energy in the power generation mix by 2030 and above 50 percent by 2040. By 2040, the NREP also envisions renewable energy installations of around 34,000-megawatt capacity. The government also envisions a clean energy scenario that incorporates the government's energy efficiency and renewable energy targets through the NREP and the energy frameworks of the ASEAN and the Asia-Pacific Economic Cooperation.

One of the components of NREP is the Renewable Energy Program for the Agri-Fishery Sector, which will be jointly formulated and implemented by DA and DOE. As stated in JMC 02-011 issued in 2021, the program aims to promote renewable energy as an alternative energy source in the agriculture and fisheries sectors to enhance productivity, sustainability, and environmental protection.

In keeping with the whole-of-government approach, DILG and DOE issued JMC 1 in 2020 to guide LGUs in implementing energy projects. It aims to

[24] Nationally determined contribution (NDC) is a "self-determined set of long-term strategies to reduce greenhouse gas emissions" (Algo 2021). The NDC is considered the 'heart' of the 2015 Paris Agreement as it communicates the actions that countries are willing to undertake to achieve the goal of limiting global average temperature to 1.5 degrees Celcius above pre-industrial levels. https://climate.gov.ph/our-programs/nationally-determined-contributions (accessed on August 6, 2021)..

[25] Of the 75-percent target, 2.71 percent is unconditional (i.e., measures will be undertaken using nationally mobilized resources) and 72.29 percent is conditional (i.e., measures require support or using the means of implementation under the Paris Agreement).

integrate the national policies on energy planning, safety practices, efficiency, conservation, and resiliency into the local development plans. It also prescribes the creation of an energy sector committee in local development councils.

In addition, DOE Circular 05-0011 in 2021 provides the guidelines for endorsing energy efficiency projects to the Board of Investments (BOI) for fiscal incentives. Qualified projects include installations of new facilities or establishments, retrofit projects, pioneering projects, or modification of existing facilities, with at least PHP 10 million investment cost and a minimum of 15-percent project boundary (energy savings generated by the project). They are entitled to an income tax holiday (ITH) corresponding to their annual energy savings. Depending on the project, a maximum of 100-percent ITH on income directly attributable to the generated energy savings, or 50 percent of the cost of installed energy efficiency equipment or system, may be availed. Meanwhile, projects whose annual energy savings is lower than the minimum requirement (15%) will not receive the incentive, but their registration will not be canceled.

Energy efficiency is likewise promoted through the Philippine Energy Labeling Program. The guidelines for importers, manufacturers, distributors, and dealers of electrical appliances and other electrical products to comply with the DOE-prescribed energy labels were released by the department through Circular 06-0015 in 2020. With energy labeling, the program aims to encourage consumers to use energy-efficient products and technologies.

In 2021, the DOE also established partnerships with the private sector to develop the roadmap for offshore wind, explore the use of hydrogen as a fuel for power generation, and update the national oil contingency plan. It also publicly released the proposed guidelines on the establishment and operation of electric vehicle charging stations for comments (Rivera 2021). It is also exploring the use of solar power for charging stations.

With increasing concerns over power outages in the second quarter, the Energy Regulatory Commission created a task force to probe the powerplant outages and the ensuing high prices in the electricity spot market (Yang and Villegas 2021).

On the legislative front, SB 1382, or the Electric Vehicles and Charging Stations Act, was approved on final reading (Yumol 2021). The bill sets the national policy and regulatory framework that will support the development of the electric vehicle industry and the charging infrastructure, including the provision of incentives and industry standards.

Meanwhile, SB 1789 or the Waste-to-Energy (WTE) Act awaits second reading. The proposed law states the policy on integrating WTE technologies into ecological solid waste management and using WTE facilities to generate usable heat, electricity, or fuel. However, the bill faces opposition from environmental and health groups as one of its provisions states that incineration will be allowed in WTE facilities (subject to additional conditions). Advocacy groups maintain that lifting the ban on garbage incineration will harm public health and the environment and invalidate the purpose and accomplishments of the Clean Air Act of 1999 (Gomez 2021).

Fiscal policy

The GDP shrank by 9.5 percent year-on-year in 2020 as the COVID-19 pandemic took its toll on the Philippine economy. With the national government still managing the health crisis while reopening the economy safely for recovery, the overall focus of fiscal policy has been to ensure that those who are worst affected are reached through social safety nets and healthcare. Thus, both the national and local governments redirected resources to respond to the economic consequences of the pandemic. On top of this, local governments are preparing for a major shift in policy owing to the Mandanas ruling of the Supreme Court that entitles them to more resources but with increased devolved responsibilities.[26]

National government

Since 1995, social services has been receiving the largest share of the national government expenditures[27] (Figure 2.8). Economic services rank second in terms of the share of national government expenditures, though with a more fluctuating trend.[28] However, despite the economic disruption caused by the COVID-19 pandemic, capital outlay and infrastructure expenditures picked up in 2020 from its 2017 dip. Based on policy pronouncements, infrastructure spending is expected to be one of the tools to recover from the pandemic. However, on top of other social protection priorities, financing of this stimulus still needs to be figured out, prompting policymakers to monitor debt servicing, which had drastically dropped since 2005.

Expenditures

COVID-19 response. As of June 2021, the Philippine government had released PHP 598.75 billion for COVID-19 response (Table 2.7). RA 11469 or Bayanihan 1 was the government's initial fiscal policy response to address the harmful effects of the pandemic on the public's health and income. The funds for Bayanihan 1 were repurposed budgetary items mainly from pooled savings from discontinued appropriations from fiscal years (FY) 2019 and 2020. The regular agency fund from the continuing appropriations of FY 2019 and the general appropriations of FY 2020, together with some special purpose funds from the General Appropriations Act 2020, were used. RA 11494 or Bayanihan 2 was enacted to continue the government's COVID-19 response following the expiration of Bayanihan 1 in June 2020.

By March 3, 2021, the national government had released PHP 387.17 billion from Bayanihan 1 funds, PHP 360.42 billion of which had been obligated (93.09% obligation rate), while PHP 342.40 billion had been disbursed (95% disbursement rate). The largest amount released was for

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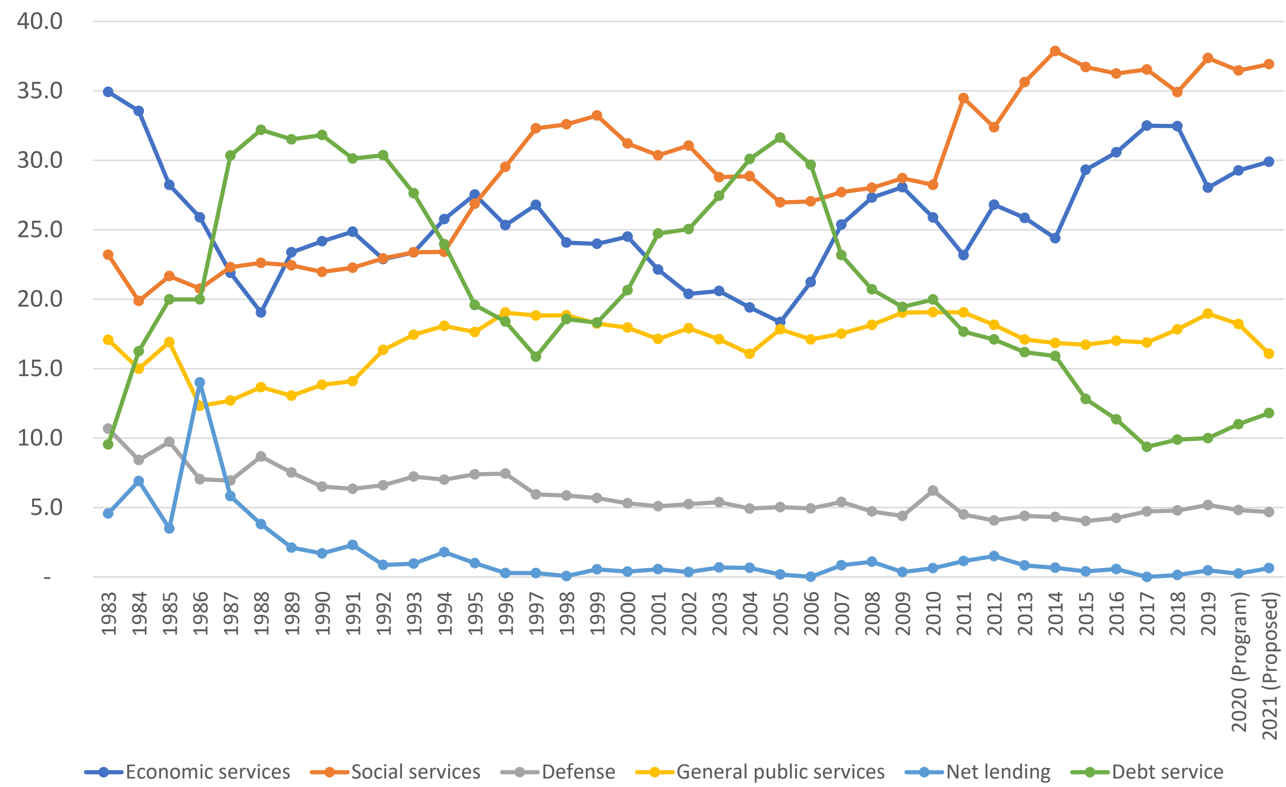
[26] In 2018, the Supreme Court ruled in favor of the Mandanas-Garcia petition, effectively expanding the tax base for computing the internal revenue allotment by replacing internal revenues with national taxes. Called the Mandanas ruling, it effectively increased intergovernmental fiscal transfers, also called national tax allotments, as a result of the G.R. 199802 ruling dated July 03, 2018.

[27] This pertains to the productive part of the national government expenditures, excluding debt servicing. Social services include spending on (1) education, culture and manpower development; (2) health; (3) social security and labor welfare; (4) land distribution, housing, and community development; (5) other social services; and (6) subsidy to local governments.

[28] Economic expenditures include (1) agriculture, agrarian reform and natural resources; (2) trade and industry; (3) tourism; (4) power and energy; (5) water resource development and flood control; (6) communications, roads, and other transportation; (7) other economic services; and (8) subsidy to local government units.

Figure 2.8
Sectoral distribution of national government expenditures, 1983–2021



Source of basic data: DBM (various years), Author's computations

Table 2.7
Summary of COVID-19 budget utilization reports as of June 25, 2021

	Amount Released	Amount Obligated	Obligation Rate	Amount Disbursed	Disbursement Rate
Bayanihan 1	PHP 387.17 billion	PHP 360.42 billion	93.09%	PHP 342.40 billion	95.00%
Bayanihan 2	PHP 205.12 billion	PHP 187.84 billion	91.58%	PHP 141.45 billion	75.30%
Others					
COVID-19 P/A/Ps upon expiration of Bayanihan 1	PHP 6.46 billion	PHP 4.23 billion	65.43%	PHP 3.58 billion	84.82%
Total	PHP 598.75 billion	PHP 552.49 billion	92.97%	PHP 345.99 billion	62.62%

COVID -19 = coronavirus disease 2019; P/A/Ps = program/activity/project; PHP = Philippine peso
Source: DBM (2021)

DSWD, amounting to PHP 212.44 billion, the majority of which was set aside for the Social Amelioration Program. Qualified households were given subsidies ranging from PHP 5,000 to PHP 8,000.

Meanwhile, the Small Business Wage Subsidy—a joint undertaking of DOF, Social Security System, and Bureau of Internal Revenue providing wage subsidy to qualified workers of small businesses—received the next largest amount at PHP 51 billion. This was followed by DOH with PHP 48.23 billion for the immediate and continued response to emerging diseases, especially COVID-19. This amount also included the PHP 1.91 billion budget to procure reverse transcription-polymerase chain reaction or RT-PCR detection kits.

In addition to Bayanihan 1 and 2 funds, another PHP 6.46 billion was released from the 2020 budget. Out of this amount, PHP 2.93 billion was allocated for the joint QRF of the Department of National Defense at PHP 356.15 million, DPWH at PHP 2.57 billion, and DSWD at PHP 2.94 million.[29] In addition, the Philippine COVID-19 Emergency Response Project also received a large portion of the budget at PHP 2.69 billion. The rest of the funds were for the salaries and benefits of deployed human resources for health personnel (PHP 749 million) and the procurement of equipment for the Philippine Army of the Armed Forces (PHP 86 million).

Bayanihan 2 had a total allotment of PHP 205.12 billion. A large part of it—amounting to PHP 55.79 billion—was placed under special appropriations as budgetary support for government-owned and controlled corporations. Likewise, in recognition of the pressing need to stabilize the economy, the country's government financial institutions (GFIs), such as the Development Bank of the Philippines, the Landbank of the Philippines, and the PhilGuarantee, received the highest allotment of this budgetary support. They received a combined PHP 47 billion allocation to help cover the loans and interest payments of beneficiaries gravely affected by the pandemic.

The largest amount released under Bayanihan 2 was for DOH at PHP 38.98 billion, mainly for COVID-19 laboratory testing services, advance procurement of COVID-19 vaccines, and hiring and welfare of health personnel. DA got the next largest share with PHP 23.29 billion to implement various projects under Bayanihan 2's agriculture stimulus package, which included farm-to-market road projects to ensure the country's food security and economic recovery.

Meanwhile, the DOLE received the third-highest budget for national government projects at PHP 21.4 billion to implement the emergency repatriation program for the safe and timely return of distressed OFWs.

As of June 25, 2021, PHP 187.84 billion of the PHP 205.12 billion had been obligated, and PHP 141.45 billion had been disbursed. Following its expiry on June 30, 2021, an extension of Bayanihan 2 was considered. However, HB 9411 or Bayanihan 3 remains pending in Congress. This bill includes a COVID-19 stimulus package worth PHP 401 billion (CNN Philippines 2021b) (Table 2.2).

[29] The QRF refers to the built-in budgetary allocations of agencies for assisting areas stricken by major catastrophes.

Revenues

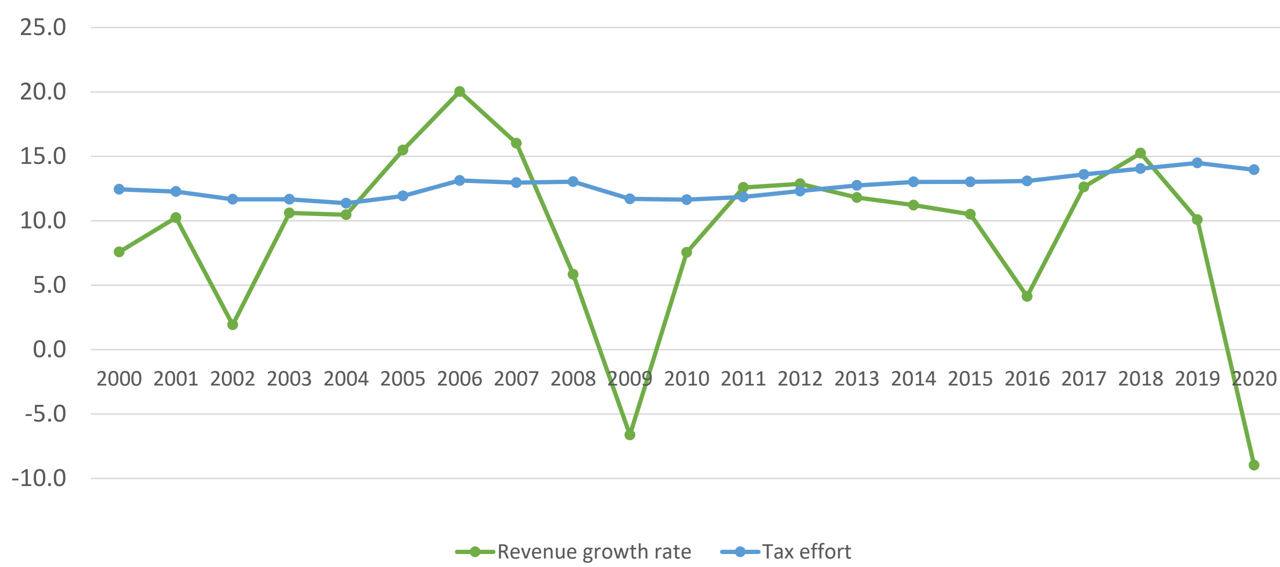
In 2018, the Tax Reform for Acceleration and Inclusion 1 law (RA 10963)—the first of the five components of the comprehensive tax reform efforts of the government—promised increased revenues to finance the massive infrastructure undertaking of the administration. As a result, tax effort almost breached the 15-percent mark in 2019. However, when the COVID-19 pandemic hit in 2020, the annual revenues of the national government shrunk by 9 percent, with tax revenues also declining by 11 percent (Figure 2.9).

The Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act (RA 11534) was passed into law on March 26, 2021, and deemed immediately in effect on April 11, 2021. This second package of the Comprehensive Tax Reform Program reduces corporate income tax rates from 30 to 25 percent, in general, and to 20 percent for other corporate taxpayers, subject to certain qualifications (BIR 2021).

The DOF-estimated revenue impact of the CREATE law is 72 percent higher than previous estimates of PHP 145.4 billion in combined foregone revenues in 2021 and 2022 (Laforga 2020). This is mainly due to the provision for an outright reduction of corporate income tax for local small businesses from 30 percent to 20 percent starting July 2020 in the Senate version of the bill.[30] Despite this projected impact, the overall revenue is still expected to increase by one percent to PHP 2.88 trillion in 2021 from the target of PHP 2.85 trillion in 2020. Still, the impact of the drawn-out COVID-19 pandemic on 2021 national revenues has yet to be seen.

[30] Small businesses are those with less than PHP 100 million total assets and up to PHP 5 million total net income.

Figure 2.9
Revenue growth and tax effort, 2000–2020



Source of basic data: BSP (various years)

Being deliberated in Congress is the Real Property Valuation and Assessment Act, also known as the Tax Reform Package 3 (HB 4664; SB 246, 519, and 894), which aims to increase the decades-long trend of low revenue effort by LGUs. Despite the efforts of oversight NGAs to encourage LGUs to increase their revenues, their income had come mostly from external sources, particularly their internal revenue allotment (IRA), which is an intergovernmental fiscal transfer (Figure 2.10).

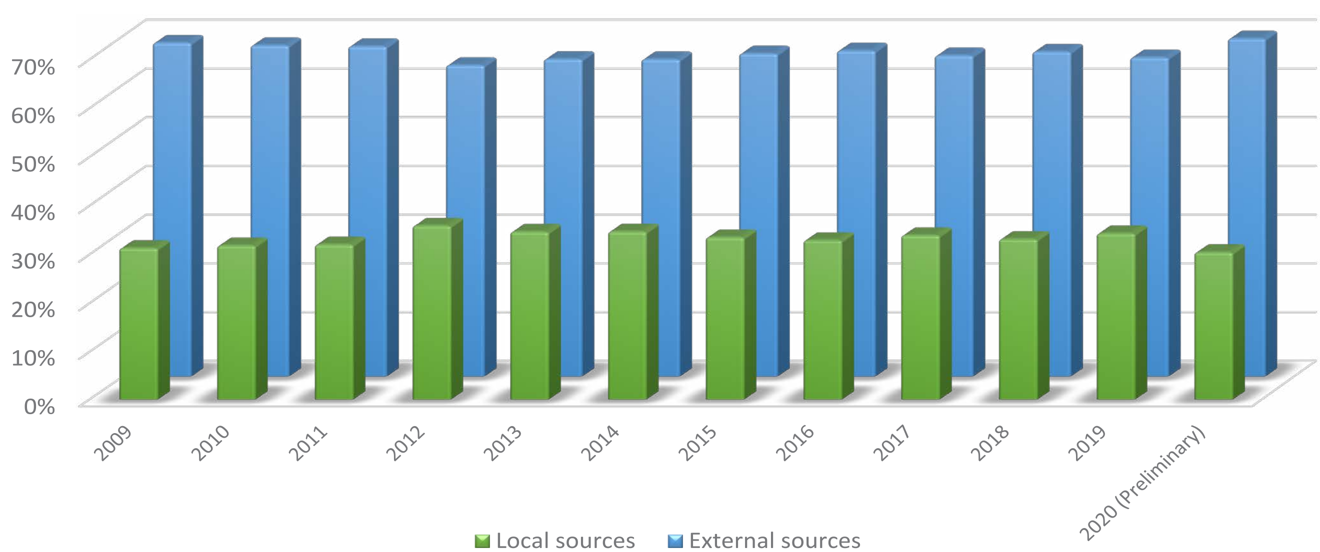
The passage of this law will provide LGUs with more revenues to finance their increased responsibilities when the Mandanas ruling is implemented in 2022. However, this anticipated increase in LGU revenues can also disincentivize LGUs to raise their own revenues, making them more dependent on intergovernmental transfers.

Local governments

LGUs have two major policy concerns: COVID-19 management and strengthened devolution with the Mandanas ruling implementation. The estimated increased transfers to LGUs in 2022 are projected at PHP 1.1 trillion, roughly about 27 percent of the PHP 4.1 trillion 2020 national budget (DBM-DILG JMC 01). This will give LGUs more resources but increased responsibilities while creating a huge dent in the national government's fiscal space, particularly in mitigating the impact of COVID-19 and managing the country's economic recovery.

With increased resources and responsibilities, LGUs should aim for strategic investments, including those across LGUs, through strengthened development planning and utilizing resources for

Figure 2.10
Distribution of local and external sources of LGU income (2009–2020)



LGU = local government unit
Source: DOF-BLGF (various years)

immediate impact on the local economy. Decades of poor planning and insufficient investments in development projects should be turned around to maximize the benefits of increased autonomy (Sicat et al. 2020).

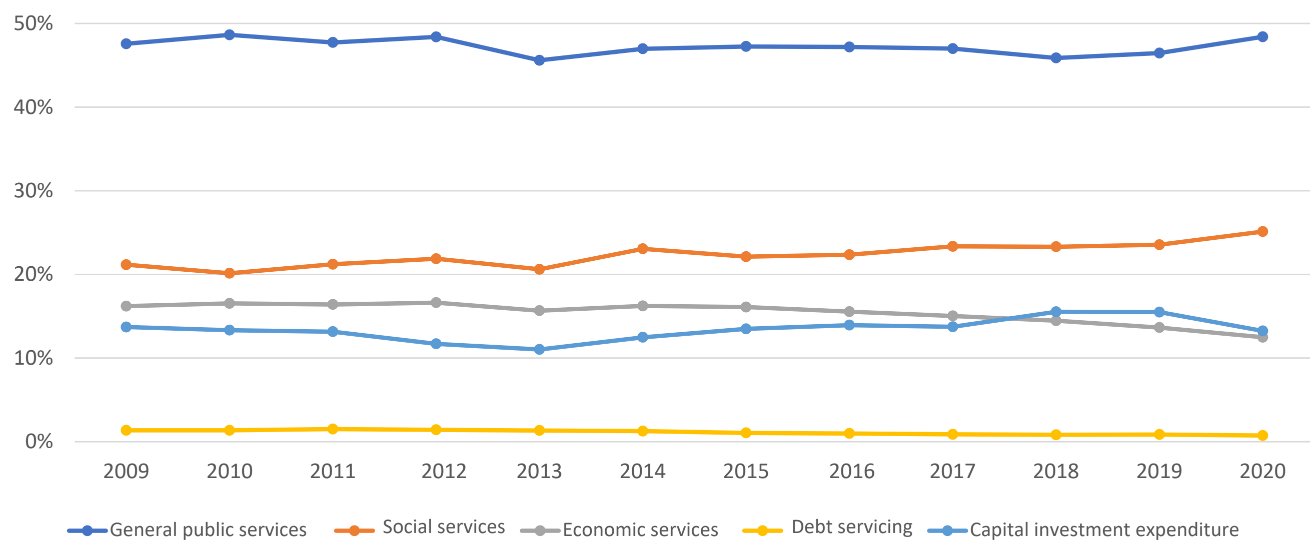
EO 138, issued on June 1, 2021, offers guidelines on full devolution of certain functions of the executive branch to local governments, covering "all LGUs, departments, agencies, and instrumentalities of the Executive Branch whose functions are in line with the devolved functions of the LGUs" (Section 3). It also directs all department secretaries and agency heads to conduct a functional and organizational review to identify which functions are best devolved to the lower government and which parts shall remain to the national government. Section 5 of the EO also requires each department to prepare one devolution transition plan, which includes the "definition of standards for the delivery of devolved services; strategy for the capacity development of the LGUs; a framework for monitoring and performance assessment of the LGUs; and an organizational effectiveness proposal to strengthen the department/agency in assuming 'steering functions' as part of the devolution efforts".

A Committee on Devolution (ComDev) composed of the secretaries of DBM, DILG, NEDA, DOF, and the presidents of the Leagues of LGUs as members will be created to ensure a smooth transition. The ComDev shall propose to Congress a Growth Equity Fund for the marginalized and lower-class LGUs. DILG shall also provide capacity development interventions to ensure that LGUs are able to utilize their resources efficiently. The identified services shall be fully devolved to LGUs by the end of FY 2024. It is hoped that this would help NGAs to effectively assume steering functions during the devolution (EO 138, Section 5).

Continuing COVID-19 pandemic response

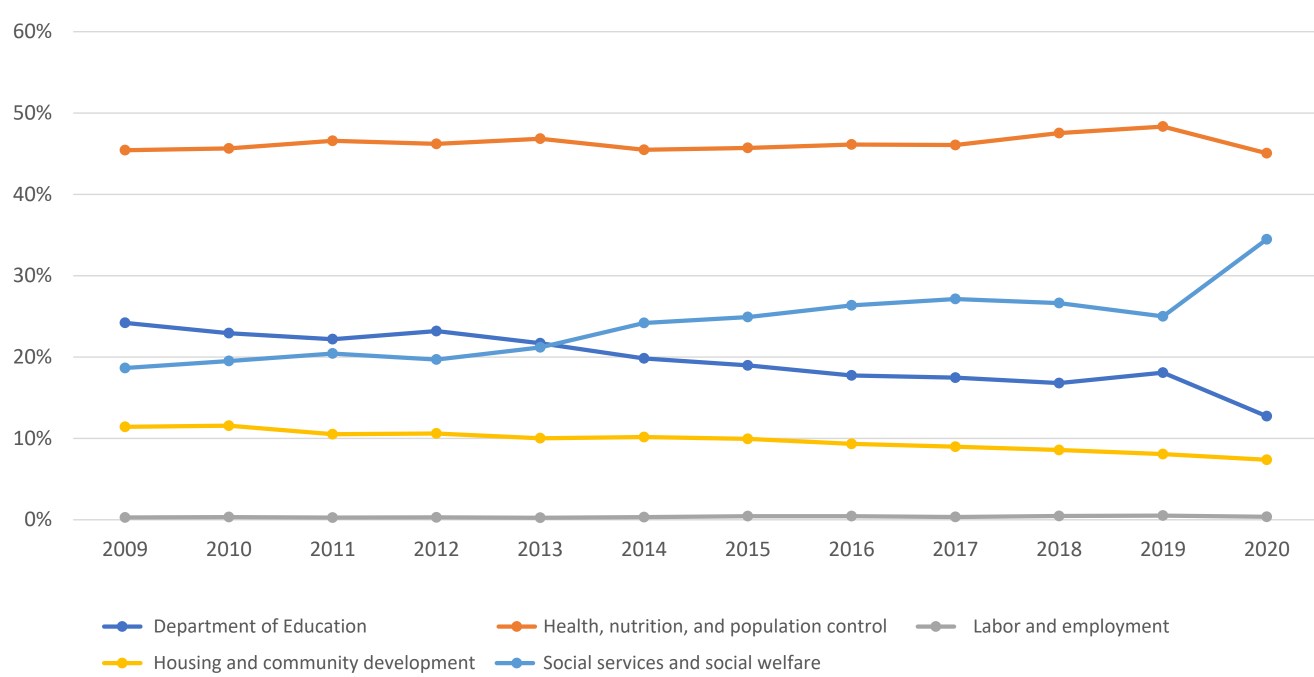
Local governments have been on the frontlines in the fight against COVID-19, providing healthcare services and carrying out local and national social welfare programs. Thus, DBM-DILG JMC 01 gave LGUs additional funds equivalent to a month of their respective IRA and were authorized to use their local development fund for their COVID-19 response. This increased the share of social service expenditures at the expense of economic and capital outlays (Figure 2.11). Among the social services, the share of social welfare surged while the rest of the sectors, such as education, labor, housing and community development, and health, dipped (Figure 2.12). This shows that LGUs prioritized social welfare programs, such as cash or in-kind safety net transfers, in 2020 but left health spending to the national government.

Figure 2.11
Distribution of LGU expenditures by sector, 2009–2020



LGU = local government unit
Source: Author's calculations using data from DOF-BLGF (various years)

Figure 2.12
Distribution of social sector expenditures, 2009–2020



Source: Author's calculations using data from DOF-BLGF (various years)

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CHAPTER 3

Reset and Rebuild for a Better Philippines in the Post-pandemic World

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Introduction

Given the huge uncertainty on how and when the coronavirus disease 2019 (COVID-19) pandemic will end, the question of whether there will be a post-pandemic world has arisen. The rapid mutation of the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)—the virus that causes COVID-19—and the emergence of variants of concern have acutely increased the challenge of ending the pandemic.

The likelihood that COVID-19 will be eradicated in a generation is very small, if not nil. The only infectious disease that has been eliminated in the history of humankind is smallpox. The World Health Organization (WHO) declared it in 1980 as completely eradicated, thanks to a combination of widespread immunization and global surveillance for years (WHO n.d.). Meanwhile, the 1918 flu pandemic ended in the middle of 1920 when much of the world had achieved herd immunity through natural infection (Waxman 2020). Given these historical records, governments were hoping that herd immunity could be achieved through unavoidable natural infection and deliberately scaled-up vaccination across the globe. But when the highly transmissible Delta variant came, the scientists' view on herd immunity changed. Herd immunity has become mathematically impossible at the high end of the Delta variant's range of basic reproduction number, or R_0, estimated as between 5 and 9 (meaning, one infected person can infect 5 to 9 persons). Nevertheless, as vaccination rates rise, infection surges will become more manageable (Yong 2021).

Thus, based on current knowledge, the post-pandemic world in the medium term can be assumed as a future where the virus is under control through a combination of vaccination, treatment, prevention, good public policies, and knowing how to live with the virus. In the medium to long term, it is a future where herd immunity is achieved, public health systems manage an endemic disease, and governments get better at rapidly detecting local transmissions and definitively containing outbreaks.

In this context, there is a need to reset and rebuild for a better Philippines in the post-pandemic world. As the succeeding discussions show, this involves picking constructive actions in the global debate on resetting capitalism, making businesses more ethical through stakeholder capitalism, pursuing green and inclusive recovery, and maintaining a robust and healthy workforce.

Post-pandemic scenarios and the need for a capitalism reset

Equipped with the assessment that the pandemic will eventually end, policymakers can begin to think ahead and assess scenarios of possible futures. Various authors have explored possible post-COVID-19 scenarios and some of the results are discussed below. One important common implication of the scenario-building exercises is the need to accelerate sustainable development and reset ways of life and the practice of capitalism.

Post-pandemic scenarios

Talebian and Kemp-Benedict (2020) of the Stockholm Environment Institute described five alternative post-pandemic scenarios generated through scenario-building exercises by experts from different fields and conducted through surveys and online workshops. The scenario-building looked as far as 2050 and considered socioeconomic issues, uncertainties, and change factors as future driving forces.

- "Responsible globalization" – an interconnected world where valuing society, sustainable development, and protection of human life are shared principles of the global community;
- "Chaotic globalization" – a world in which inequalities increase significantly, and tumultuous interconnections, opportunism, and growing rivalry undermine global collaboration;
- "World of walls" – a fractured world in which there is an upsurge in nationalist values, conflicts grow substantially, and international institutions lose their legitimacy;
- "Cold peace" – a highly polarized world splintered into two opposing blocs—each remains politically stable and grows economically, but global collaborative efforts collapse, and trade networks are disrupted; and
- "Adaptive mosaic" – a localized world focused on sustainability where countries collaborate across borders but emphasize resilience and self-sufficiency and reduce their dependence on global markets and supply chains.

Pelfini (2021) adopted the sociological viewpoint and posited that there can be three post-pandemic scenarios based on the capacity of people to learn when faced with extreme danger and of societies to be resilient when faced with unprecedented traumatic situations where everyone shares structural weaknesses.

- "Particularist retreat" – Business as usual; promotes taking refuge in the nation-state, disregards the global interrelatedness of COVID-19 issues, and ignores existing interdependencies;
- "Adaptation scenario" – the state, the market, and civil society communicate and adjust to complexities without completely abandoning settled practices. States invest in public health, markets deepen cooperation but with full intellectual property protection, and civil society promotes responsible consumption and sustainable development; and
- "Collective learning scenario" – here is global governance on topics, such as public goods provision, risk reduction, and catastrophe prevention. The state prioritizes public policies on caring and reducing inequalities; markets prioritize localization of production and consumption; and civil society supports a network of "prosumers".

In another scenario building, which emphasizes an unequal world where achieving sustainable development goals may be more feasible for some countries than for others, business as usual is also predicted to happen if the civil society is weak and critical voices and social demands are not consolidated. Morea (2020, p.5–6) gathered insights from the debates about possible post-pandemic scenarios, analyzed the Latin American context, and synthesized the discourse into three futures, namely:

- "Business as usual" – most pessimistic view; there will be no major changes and policies for recovery will be based on the tried and tested consumerism-based rescue of the capitalist system;
- "Paradigm shift" – associated with a chaotic situation where COVID-19 causes the global economic order to fall apart and puts the environmental

and climate crisis at the center of the need for recovery; the paradigm shift is based on a total rethinking of natural resource management, animal-based food production, supply chains, and the environment in general; and

- "Managed transition" – a gradual process of change in sustainable consumption, reduction of the economy in scale, circular economy, green economy, and blue economy.

Morea (2020) also posited that if critical voices and social demands are consolidated post-pandemic and depending on the intensity of the call for reforms, the two alternatives to business as usual could happen.

Resetting capitalism

The scenarios above highlight important factors that will affect the post-pandemic recovery and the pursuit of sustainable development: the quality of globalization and cooperation in the world, the level of polarization and localization among countries, the tendency to lean toward business as usual, the roles of adaptation and learning by social structures, and the viability of paradigm shifts and managed transition in an unequal world. In all the scenarios except business as usual, resetting (i.e., restarting but with changes relative to the base setup) is a common theme.

Moreover, in the scenario-building exercises, a subtle criticism of capitalism runs undercurrent in the assessments of globalization, international order, markets, sustainable development, and inequality. Pondering about the future after the pandemic has compelled thinkers to explore the current flaws of the capitalist system and how these can be fixed to ensure a more sustainable life on this planet.

The World Economic Forum (WEF) recommended the so-called "Great Reset". WEF founder Klaus Schwab argued that "we need a 'Great Reset' of capitalism" given that the long-term consequences of COVID-19 will exacerbate the ongoing climate and social crises (Schwab 2020a). The Great Reset has three main components or priorities: to steer the market toward fairer outcomes, to ensure that investments advance shared goals, such as equality and sustainability, and to harness the innovations of the Fourth Industrial Revolution (FIRe) to support the public good, especially by addressing health and social challenges. The first component covers reforms in tax and regulatory and fiscal policies and may include, depending on the country, "changes to wealth taxes, the withdrawal of fossil-fuel subsidies, and new rules governing intellectual property, trade, and competition". Examples of the second component are building "green" urban infrastructure and incentivizing businesses to improve their performance on environmental, social, and governance (ESG) metrics. Illustrations of the third component are the high level of collaboration between businesses and the scientific community to deliver COVID-19 diagnostics, therapeutics, and vaccines. In the Davos Agenda 2021, the WEF reiterated the Great Reset agenda and called for "a new form of capitalism, one that puts people and planet first" (WEF 2021).

As part of the Great Reset collection of ideas, Sompo Holdings (2020) presented an idea on redesigning capitalism by incorporating social sustainability and people's well-being. Because capitalism is really about meeting people's demands, the new capitalism should therefore create demand for goods and services that contribute to attaining the Sustainable Development Goals (SDGs) and society should reward companies meeting this "good demand" and fulfilling ESG metrics. Moreover, economic returns for such company actions should be highlighted by capital markets and one way this can be done is by factoring in forecasts for long-term profits due to SDG and ESG pursuits (Sompo Holdings 2020). As Schwab (2020b) pointed out, companies need not stop seeking profits for shareholders. They just need to pursue this using a longer-term perspective, say a decade or a generation, and in line with an organizational mission.

The response to the COVID-19 pandemic has so far shown that the private sector collaborating with governments and the scientific community can accomplish much in a short time by focusing less on profits and market power and more on shared goals of survival and resilience. This is apparent in the rapid development and manufacturing of vaccines against SARS-CoV-2. The global collaborative effort and the time it took to develop the vaccines have been unprecedented. A typical vaccine development timeline can take more than 10 years from research to approval and distribution, but the January 2020 publication of the genetic sequence of the virus triggered global cooperation for the development of candidate vaccines (Richardson et al. 2020). Academic institutions and the vaccine development industry responded to the call, primarily by the WHO, that data ownership rights be relaxed and all relevant data be made openly accessible (see, for example, the COVID-19 vaccine tracker of the WHO (2021a). By December 2020, some of the vaccines have passed clinical trials and started to be rolled out.

Right now, there are calls to push the open data policy further by totally foregoing intellectual property rights or patents, a long-held instrument of monopoly power seen necessary to incentivize inventions and innovations for the manufacture of COVID-19 vaccines. The debate on this is still ongoing and the industry is resisting. But as of June 16, 2021, the campaign for time-limited intellectual property relief on the vaccines has been backed by more than 100 countries (*Nature* 2021).

It is not only by relaxing the hold on intellectual property as a profit-generating instrument that breakthroughs on COVID therapeutics were achieved. The widespread public enthusiasm and strong sense of public duty and concern to participate in clinical trials also contributed to the fast-tracking of vaccine development (Richardson et al. 2020). Surviving this pandemic and reaching a future where the disease is under control requires the help of everyone.

Making business more ethical through stakeholder capitalism

Due to the harsh impact of lockdowns and quarantines, the COVID-19 crisis created a strong impetus for reform, especially in countries like the United States (US), as it came after the Global Financial Crisis (GFC) of 2008–2009 that already revealed some of the weaknesses of the existing capitalist system. The debate focused on which market model would deliver long-lasting and widespread prosperity—shareholder capitalism, where the interests of only one stakeholder (the stock owner) dominate, or stakeholder capitalism, where the interests of all stakeholders matter.

The debate has not been purely academic, as shareholder capitalism has gained momentum even before the pandemic. In August 2019, the US Business Roundtable released a new "Statement on the Purpose of a Corporation" that declared "a fundamental commitment to all stakeholders" and listed specific commitments to customers, employees, suppliers, and relevant communities, in addition to long-term value for corporate shareholders.

The same year, the *Financial Times* (2019), an influential advocate of economic liberalism, surprisingly launched a campaign to reset capitalism by promoting a broader sense of corporate purpose, with business and markets ideally set "within a wider social context, and a legal and political framework". In January 2020, the WEF updated the Davos Manifesto to state more clearly the purpose of a company, which is "to engage all its stakeholders in shared and sustained value creation". In the third month of the COVID-19 pandemic, Klaus Schwab argued that countries had greater reason to strive to improve coordination (e.g., in tax, regulatory, and fiscal policy), upgrade trade arrangements, and create the conditions for a "stakeholder economy" (Schwab 2020a). Another noteworthy development under the WEF umbrella has been the release of a set of measures called Stakeholder Capitalism Metrics (SCM) (see Box 3.1). Over 60 global industry leaders, including in developing Asia, have reportedly already committed to using this new set of measures to assess long-term value creation for stakeholders.

In contrast to these mainly voluntary efforts, moves to establish stakeholder governance in Europe have seemingly gravitated toward building a solid legal framework. The European Union has also shifted its focus from the pursuit of short-term profits for shareholders outside of the usual bastions (e.g., Germany and the Nordic countries) to what the European Commission terms "sustainable corporate governance" where the interests of other stakeholders, including the environment and society, are considered.

There has been, so far, no strong movement pushing for stakeholder governance, particularly in developing Asia. An interesting question would thus be whether countries in the region, including the Philippines, should take steps in that direction.

Box 3.1
Measuring stakeholder capitalism

To promote a more unified approach to reporting on ESG practices among businesses, the World Economic Forum in 2019 recommended a key set of indicators that revolved around the four key pillars of governance, planet, people, and prosperity. They include 21 indicators classified as core metrics (or information already being disclosed by firms) and an additional 34 considered as expanded metrics (i.e., more specific information not yet being widely reported).

Pillar	Theme	Core Metric (with sample features)	Expanded Metric (with sample features)
GOVERNANCE	**Governing purpose**	**Setting purpose** – company's purpose; should include the creation of value for all stakeholders	**Purpose-led management** – incorporation of purpose in strategies, policies, and goals
	Quality of governing body	**Governance body composition** – competencies in economic, environment-related, and social (EES) topics; stakeholder representation	**Progress against strategic milestones** – EES milestones achieved in the previous year and targeted for the next; expected contribution to long-term value
	Stakeholder engagement	**Material issues impacting stakeholders** – identification of material topics and engagement of stakeholders	**Remuneration** – performance criteria in remuneration policies (concerning executives' EES objectives)
	Ethical behavior	**Anti-corruption** – percentage of governing body members, employees, and partners with training on anti-corruption	**Alignment of strategy and policies to lobbying** – significant issues included in the company's participation in public policy development and lobbying
	Risk and opportunity oversight	**Integrating risk and opportunity into the business process** – considers EES factors	**EES topics in capital allocation framework**
PLANET	**Climate change**	**Greenhouse gas (GHG) emissions** – report in metric tons of carbon dioxide equivalent GHG Protocol Scope 1 and Scope 3 emissions, upstream and downstream (GHG Protocol Scope 3) emissions **TCFD implementation** – with regard to Task Force on Climate-related Financial Disclosures recommendations	**Paris-aligned GHG emissions targets** **Impact of GHG emissions**
	Nature loss	**Land use and ecological sensitivity** – number and area of sites owned, leased, or managed in or adjacent to protected areas and/or key biodiversity areas	**Land use and ecological sensitivity** – report for operations and full chain **Impact of land use and conversion** – valued impact
	Freshwater availability	**Water consumption and withdrawal in water-stressed areas** – megaliters of water withdrawn, consumed; percentage in regions with high or extremely high baseline water stress	**Impact of freshwater consumption and withdrawal** – valued impact
	Air pollution	-	**Air pollution** – proportion of emissions that occur in or adjacent to urban/densely populated areas **Impact of air pollution** – valued impact
	Water pollution	-	**Nutrients** – metric tons of nitrogen, phosphorus, and potassium in fertilizer consumed **Impact of water pollution –** valued impact
	Solid waste	-	**Single-use plastics** – estimated metric tons; most significant applications of such plastics Impact of solid waste disposal – measured effect on society
	Resource availability	-	**Resource circularity** – most appropriate metrics for the whole company

Box 3.1 (continued)

Pillar	Theme	Core Metric (with sample features)	Expanded Metric (with sample features)
PEOPLE 	**Dignity and equality**	**Diversity and inclusion (%)** – breakdown of employees by background (category, age group, gender, etc.) **Pay equality (%)** – ratio of basic salary and remuneration for each employee category **Wage level (%)** – ratio of standard entry-level wage by gender compared to minimum wage; ratio of annual total compensation of the chief executive officer (CEO) to the median of all other employees **Risk for incidents of child, forced or compulsory labor** – explanation of operations and suppliers	**Pay gap (%, number)** – mean pay gap of basic salary and remuneration of full-time relevant employees based on background; ratio of annual total compensation of highest-paid individual to median of others **Discrimination and harassment incidents (number) and the total amount of monetary losses ($)** – including actions taken and relevant legal proceedings **Freedom of association and collective bargaining at risk (%)** **Human rights review, grievance impact and modern slavery (number, %)** – number and percentage of operations subject to human rights reviews **Living wage (%)** – current wages against the local living wage for employees and contractors
	Health and well-being	**Health and safety (%)** – report on work-related injuries, including resulting fatalities; employee access to medical and healthcare services	**Monetized impact of work-related incidents on organization (number, $)** – number or type of occupation incidents multiplied by direct costs for employees, employers per incident **Employee well-being (number, %)** – number of fatalities and injuries from work-related ill-health; main types of work-related ill-health
	Skills for the future	**Training provided (number, $)** – average hours of training given to employees; expenditure	**Number of unfilled skilled positions (number, %)** – number; percentage of unfilled positions for which the company will hire and train unskilled candidates **Monetized impacts of training** – Increased earning capacity as a result of training intervention (%, $)
PROSPERITY 	**Employment and wealth generation**	**Absolute number and rate of employment** – number, rate of new hires by background; number, rate of turnovers by background **Economic contribution** – economic value generated and distributed; financial assistance received from the government **Financial investment contribution** – total capital expenditures minus depreciation; share buybacks plus dividend payments	**Infrastructure investments and services supported** – qualitative disclosure on the extent of development of infrastructure supported, impacts on communities and local economies, and kind of investments (commercial, in-kind, or pro bono) **Significant indirect economic impacts**
	Innovation of better products and services	**Total research and development (R&D) expenses**	**Social value generated (%)** – percentage of revenue from products and services designed to deliver specific social benefits or to address specific sustainability challenges **Vitality index** – percentage of gross revenue from product lines divided by total sales, noting how the company innovates to address sustainability
	Community and social vitality	**Total tax paid**	**Total Social Investment ($)** **Additional tax remitted** **Total tax paid by the country for significant locations**

Source: World Economic Forum (2020a, p. 23–24, 28–30, 33–35, 38–39)

The big debate—shareholder versus stakeholder capitalism

The prevailing and competing economic systems include shareholder capitalism, which is the predominant model in many Western market economies, such as the US; state capitalism, which is dominant in some emerging market countries like China and Viet Nam; and stakeholder capitalism, which has been increasingly proposed after the GFC and when envisioning a post-pandemic future (Schwab and Vanham 2021a).

Shareholder capitalism rests on the argument for "shareholder primacy" put forward by Milton Friedman.[1] In a famous *New York Times* essay, Friedman (1970) strongly argued that a corporate executive acting on a perceived "social responsibility" (e.g., keeping prices down to help prevent inflation, spending to reduce pollution beyond the amount mandated or the value the company can afford, and hiring the "hard-core" unemployed instead of better-qualified workers) and, as a result, reducing returns to stockholders was tantamount to spending other people's money. This principle has predominated in free-market economies for many years since then, in terms of economic, business, and legal thinking.

State capitalism is a more recent concept. In this system, the state holds a strong presence in distributing resources and economic opportunities and can intervene in virtually all industries. This model is also called "political capitalism" and has purportedly been designed to achieve high growth, mainly through free-market reforms, to support the political legitimacy of authoritarian governments (Milanovic 2019).

For many countries, including the Philippines, shareholder and stakeholder capitalism are the only viable and desirable options. Shifting to the latter, however, means foregoing the advantages of the former.

Meanwhile, **stakeholder capitalism** refers to an economic system where firms act in the interests of their shareholders as well as their customers, suppliers, employees, local communities, and other participants that may be affected by company decisions. While not a new model, it has regained popularity in the last few years. In its latest (and grandest) version (Schwab and Vanham 2021a), it has been constructed to meet society's goals of progress and well-being of "people and the planet" and has been offered as a sounder and more sustainable alternative for economies, especially in a post-pandemic world.

For many countries, including the Philippines, shareholder and stakeholder capitalism are the only viable and desirable options. Shifting to the latter, however, means foregoing the advantages of the former.

Perhaps the strongest argument for shareholder capitalism is its simplicity. There is only one variable to be maximized, which is business profit, and there is an easily measured and readily observed metric, which is shareholder value. Another argument often raised to support shareholder capitalism relates to the structure of incentives, as argued in the agency theory of Jensen and Meckling (1976).

[1] The argument, however, goes further back to 1932, when the issue of shareholder versus stakeholder governance was debated by legal scholars Adolfe Berle and Merrick Dodd in the *Harvard Law Review*.

To ensure that agents (directors and managers) will maximize profits, the idea is to align their interests with the principal (the shareholders), for instance, by closely linking executive pay to the stock price of the corporation.

Criticisms of shareholder-primacy theory have emerged over the years, however.[2] Edmans (2020), for example, highlights three important assumptions without which the theory would not work: (1) that the corporation has no comparative advantage in making socially responsible actions; (2) that governments are well-functioning; and (3) that there is no uncertainty regarding returns to investment. There are instances when companies may have an edge, such as in pollution control, especially by the big polluters; gun crime prevention, such as by gun retailers' refusal to sell certain items (see Hart and Zingales 2017); and medicine distribution, say to far-flung areas, by companies with good logistic networks.[3] Regulations are also imperfect and taxes difficult to set, not to mention that both are challenging to implement. High uncertainty about returns also potentially leads corporations to underinvest in their stakeholders, and stakeholders themselves may be reluctant to "invest" in the firm (e.g., employees through their "sweat equity" or long-term suppliers and creditors through their commitments) if they are not fully insured against risk (i.e., if they have incomplete contracts).

But is stakeholder capitalism better? Supporters of stakeholder capitalism cite the need for an economic system that balances the interests of all participants in the economy and society, where companies optimize for more than just short-term profits and governments ensure equal opportunity and a level playing field (Schwab and Vanham 2021b). McKinsey & Company (2020), a leading global management consultancy firm, has been making a case for stakeholder capitalism, saying that serving all stakeholders is "an ethical good" that can also be a source of competitive advantage. In some economies, at least, it is believed that corporations committing solely to maximizing shareholder value may risk losing a critical consumer base of socially conscious customers (Rajan 2020a).

[2] Legal arguments have also been raised against shareholder capitalism. Zamagni (2020), for example, argues, that a firm is not merely a nexus of contracts among individuals but a legal entity by itself and therefore shareholders are not the owners of the firm (but rather the firm owns itself). Thus, corporate managers are the employees/agents of the firm, not the shareholders, and their duty is to maximize the firm's objective function, which includes the interests of both the shareholders and other stakeholders. Similarly, Blair (2020) contends that corporate directors are fiduciaries for the corporation and not agents of shareholders.

[3] The first two examples represent cases of "non-separable activities," when profit and damage are tightly linked because of technological reasons.

However, delivering value to *all* may be impossible, and the corporation may end up pleasing no one. A company's stated objectives should help guide its choices, but if all stakeholders are considered essential, then effectively none are (Rajan 2020b). Another critical decision would be on which socially responsible action to spend corporate money on. Even if the firm decided to adopt a stakeholder approach based on more democratic foundations (e.g., through shareholder voting as recommended by Hart and Zingales 2017 to maximize shareholder welfare rather than shareholder value), reconciling the social responsibility preferences and values of shareholders would be extremely difficult (Matsusaka 2020).[4]

A survey of economic experts conducted under the Chicago Booth Initiative on Global Markets in late 2019 reflects the various theoretical and empirical arguments related to shareholder versus stakeholder capitalism (IGM 2019). Over a third of the experts, especially those based in the US, agree that having companies run to maximize shareholder value alone generates bad outcomes for workers and communities. Well over a third (nearly half in Europe) agrees that companies can be managed better to create greater value for stakeholders—such as workers, suppliers, customers, and community members—without hurting shareholders.

As to public opinion and trust, there has evidently been mistrust in capitalism globally. In the Edelman Trust Barometer 2020, which is based on a sample of over 32,000 respondents surveyed across different countries between mid-October and mid-November 2019, 56 percent of respondents believe that capitalism as it exists today "does more harm than good". An overwhelming majority (87%) said stakeholders and not shareholders are the most important to long-term company success, while 73 percent said companies could take actions that simultaneously increase profits and improve conditions in communities where they operate (Edelman 2020). In a newer Edelman Trust Barometer survey conducted during the COVID-19 pandemic (between mid-October and mid-November 2020) with around 31,000 respondents globally, the interesting finding is how business is expected to fill the void left by the government. Sixty-eight percent said CEOs should step in when the government fails to fix society's problems; 66 percent said they should take the lead on change rather than wait for the government to impose change; and 65 percent said they should hold themselves accountable to the public and not just to corporate boards and shareholders. Many also expect consumers and employees to have a seat at the table, with 68 percent and 62 percent, respectively, believing these two groups have the power to impose change on corporations (Edelman 2021).

How relevant is the debate for Asia?

Focusing on Asia, prominent results from the Edelman Trust Barometer 2020 are the vast majorities, particularly in the region's developing economies, where most respondents believe capitalism in its current

[4] Arrow's impossibility theorem has long shown that no voting system can produce a community-wide ranking of preferences while also satisfying a set of desirable conditions for fair voting, including nondictatorship, Pareto efficiency, and independence of irrelevant alternatives (Arrow 1951).

form was harmful—namely, Thailand (75%), India (74%), Malaysia (68%), Indonesia (66%), China (63%), and Singapore (54%).[5] The mistrust appears lower in Hong Kong (45%), South Korea (46%), and especially Japan (35%).

Reevaluating East Asian capitalism in the context of the COVID-19 pandemic and the region's economic history, Lee (2020) proposes a rebalancing between shareholder and stakeholder capitalism. He believed that inclusively restoring growth would entail a hybrid capitalism but retaining elements of East Asian capitalism.

The more relevant issues in other parts of developing Asia after the Asian Financial Crisis (AFC) had been weak corporate governance and ownership and financing structures of firms in the region, resulting in mismanagement of resources through poor investment and risky funding decisions (e.g., Johnson et al. 2000; Saldaña 2000). Reviewing the region's corporate structures, Claessens et al. (2000a, 2000b) found that prior to the crisis, listed Asian firms typically had high leverage and concentration, were typically affiliated with business groups, and often operated in multiple industries. Claessens et al. (2000a) found extensive family control in more than half of the sample of corporations, with the evidence gathered indicating a concentration of wealth among a few families in the region, especially in Southeast Asia (Figure 3.1).[6] Carney and Child (2013) updated the Claessens et al. study and found this expectation to be true over a decade later. Ownership arrangements tended to persist in the absence of major political changes. Family ownership remained dominant across periods in developing Asia, with the prevalence of family control even rising substantially in a few countries (Figure 3. 2).[7]

With ownership, control, and management closely integrated and thus interests of controlling shareholders and managers firmly aligned, it is the minority shareholder who is most at risk in this arrangement. Corporate governance reforms pursued after the AFC had been designed precisely to address this weakness, although they apparently had minimal effect on the corporate landscape.

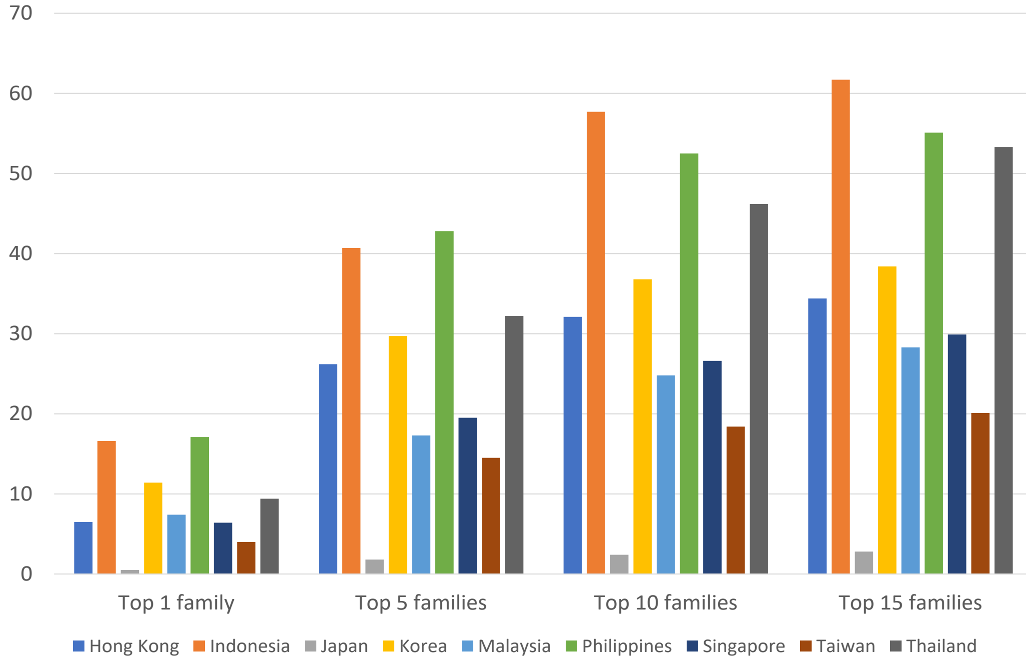
Corporate control in the hands of a few families may create incentives to deter the development of legal and other institutional frameworks for corporate governance, particularly those meant to safeguard the small and unconnected shareholders, who form a separate set of stakeholders. More broadly, Claessens et al. (2000a) reason that wealth concentration may have pernicious effects on how economic activity is conducted—for example, concerning market entry and competition, availability and access to financing, awarding of contracts, state regulation, and other relevant economic policies and transactions. It may also impede the evolution of legal systems and set up barriers to future policy reform, shaping the "rules of the game" in economies in the region.

[5] The Philippines was not included in the sample of countries of the Edelman Trust Barometer.

[6] Japan, which has minimal family control, stands out in this regard. In contrast, the top 15 families in Indonesia, the Philippines, and Thailand capture over half of the total value of listed corporate assets.

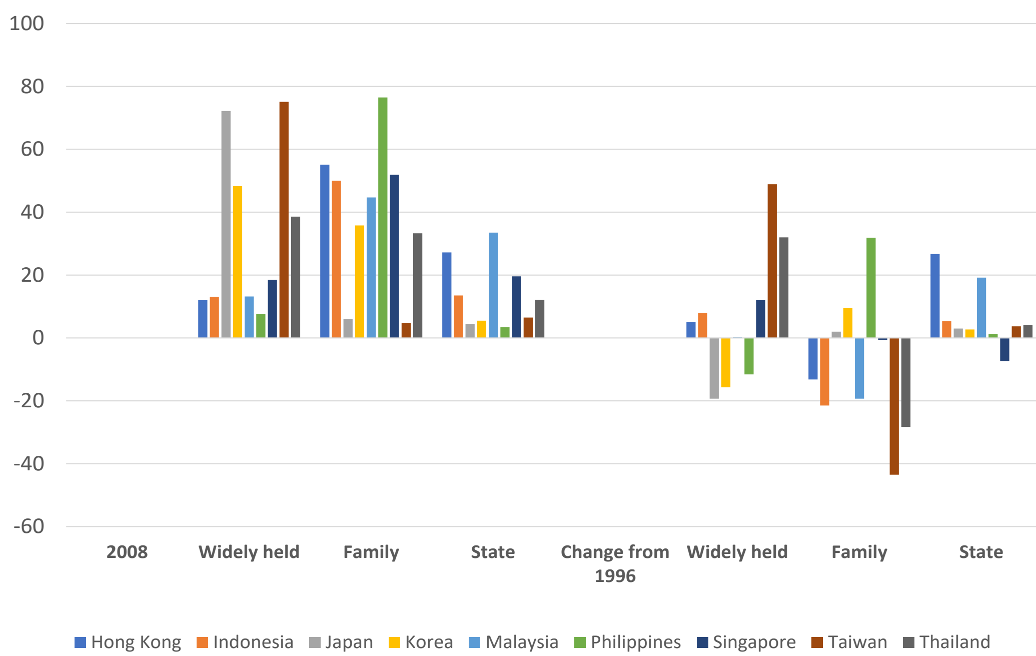
[7] Figure 3.2 displays the percentage of firms that are widely held, controlled by families, or controlled by the state in the leftmost panel, and the percentage-point change from the 1996 levels in the rightmost panel. Ultimate control is defined at a cutoff level of 20 percent of voting rights (the more conservative level). Figures based on a 10-percent cutoff are also computed by Claessens et al. (2000a) and Carney and Child (2013).

Figure 3.1
Concentration of family control of Asian corporations in the 1990s



Note: cutoff = 20%
Source: Claessens et al. (2000a)

Figure 3.2
Changes in control of publicly traded Asian corporations



Note: cutoff = 20% voting rights
Source: Carney and Child (2013)

Time for a reset?

The rising concentration of incomes (and therefore wealth) could reduce aggregate demand and undermine growth, as the wealthy spend a lesser proportion of their income than the rest of society; dampen investment and growth by fueling instability (economic, financial, and also political); and lead to policies that hurt growth, for instance, by heightening protectionist pressures or by limiting the provision of public goods that aim to boost productivity and benefit the poor.

Dabla-Norris et al. (2015) build on earlier work which found that income inequality negatively affected growth and its sustainability (Berg and Ostry 2011; Ostry et al. 2014) and find that income distribution directly matters for growth. An increase in the income share of the rich (top 20%) is associated with a decline in the growth of gross domestic product (GDP) over the medium term. This indicates a lack of the tendency for benefits to trickle down. Conversely, an increase in the income share of the poor (bottom 20%) and the middle class are associated with higher GDP growth. High-income inequality also slows down the pace of poverty reduction in response to economic growth and increases the vulnerability of a greater share of the population to poverty when subjected to periodic shocks (Ravallion 2004). Kanbur et al. (2014) similarly argued that inequality matters even if it is not a direct concern because the impact of growth on poverty depends on the level of inequality.

Such discussions matter in the context of the debate on capitalism as it exists today, especially with the prolonged COVID-19 pandemic in the background, which has created a great deal of uncertainty. In light of persistent wealth concentration in developing Asia and its negative implications, there is certainly room for improvement by voluntarily adopting some of the higher goals of stakeholder capitalism. These include more widespread prosperity, greater investment in and protection of a corporation's stakeholders, especially the vulnerable, and long-term perspective on firm value that considers and addresses, to the extent possible, the hidden impacts of the conduct of business activities on the rest of society.

To maintain the efficiency of the economic system, such improvements may be achieved through continual nudges (e.g., by government and civil society) and voluntary compliance rather than rigid regulation of corporate decisionmaking. In addition, having achievable and measurable aims rather than grand goals that are impossible to meet would be more helpful in furthering the cause of inclusive and sustainable growth.[8]

Market-oriented solutions to encourage socially desired behavior in business (e.g., Fama 2020) hold promise with improvements in corporate governance and the institutional environment. Nevertheless, continuous efforts to improve the legal and other frameworks meant to address market failures and other important social issues—which policymakers should acknowledge, understand in depth, and carefully resolve—are imperatives. Ideally, the aim is to create "good rules of the game" (as coined by Wolf 2020) on important policy areas, such as competition, the environment, labor, education, consumer protection, and taxation.

Pursuing "good capitalism" in the Philippines

The Philippines can move toward "good capitalism", which tries to capture the best features of the different economic systems. From the private sector, this would entail a longer perspective on business growth or "prosperity", one that thinks of long-run sustainability, with renewed corporate purpose naturally promoting greater consideration of the interests of "people and the planet". From the government, this requires improvements in the rules of the game and leveling the playing field, with the intent to find a better balance between efficiency and equity, and in today's economy, which is vulnerable to catastrophes and pandemics, between incentives for innovation and the need for social protection.

The COVID-19 pandemic displayed how Philippine businesses had been able (and willing) to set aside self-interest to help their employees and society in time of need. At the height of the health crisis, large manufacturing firms redirected their factories to produce disinfectants to help fight the spread of the pandemic, and malls suspended the rents of their tenants. At the same time, various companies donated personal protective equipment, disinfectants, healthcare equipment, and food supplies to government agencies, public and private hospitals, and local government units (LGUs). Private firms also signed deals with the government to purchase COVID-19 vaccines for their employees and as a donation to the government.

In November 2020, the Philippine Business Group, comprising over 20 business associations, signed a "Covenant for Shared Prosperity". Commitments included nondiscrimination in employment, assurance of quality products and services for customers, fair and ethical treatment of suppliers and funders, active involvement in communities where they operate, protection and preservation of the environment, and delivery of "reasonable and just returns to and fair treatment of" controlling and noncontrolling shareholders.

Companies will remain under pressure to pay less attention to profits and more to their workers, suppliers, customers, and relevant communities, even as the pandemic eases, especially in the light of recent corporate governance reforms. The stakeholder

[8] For instance, improvements can be achieved through simple tweaks, such as considering important long-term stakeholders rather than all stakeholders and maximizing firm value rather than shareholder value, as suggested by Rajan (2020a). Other options include allowing shareholders to choose (vote for) their social cause in maximizing shareholder welfare for better legitimacy, as suggested by Hart and Zingales (2017) and creating broadly representative and diverse boards that are sensitive to a corporation's impact on others and the political repercussions and risks, as recommended by Coffee (2020).

concept was already present in the first Philippine Corporate Governance Code in 2002 but was removed in the 2009 version.[9] It was restored in 2014 with strong support from a retail shareholders' group formed in the aftermath of the AFC (SEC 2014).[10] The 2014 amendment (Memorandum Circular 9) defined corporate governance as "the framework of rules, systems, and processes in the corporation that governs the performance of the Board of Directors and Management of their respective duties and responsibilities to stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which it operates" (Article 1). The stakeholder is frequently referred to in the succeeding corporate governance codes for publicly listed companies, public companies, and registered issuers. Corporations are also asked to ensure that sustainability issues are disclosed.[11]

However, the country's legal, regulatory, and corporate governance frameworks are quite far from instituting stakeholder capitalism. The SEC follows the "comply or explain" principle in implementing the corporate governance codes. Corporations are required to publicly disclose noncompliance with the codes, and the regulator simply assesses the "reasonableness" of the explanation (SEC 2015). Practitioners in the field also state that it is still the "doctrine of maximization of shareholders' value" that defines what is effectively considered "good corporate governance" (Villanueva 2017). Even under the recently Revised Corporation Code of 2019, which recognizes and differentiates corporations "vested with public interests",[12] it is argued that directors or trustees and corporate officers still owe fiduciary duties of diligence and loyalty only to the corporation and its stockholders, although Supreme Court jurisprudence regarding such duties may purportedly be invoked in some cases (Villanueva 2021). It is early days, but one can surely expect more debates revolving around the accountability of corporate executives to emerge.

Market-oriented solutions, as discussed earlier, may help provide external pressure for corporations to "do good", but old issues, such as concentrated ownership and underdevelopment of the country's capital markets, continue to weaken potential sources of external control that can help

[9] Corporate governance was initially defined as "a system whereby shareholders, creditors and other stakeholders of a corporation ensure that management enhances the value of the corporation as it competes in an increasingly global marketplace" (SEC Memorandum Circular 2, Series of 2002).

[10] Apart from more traditional business associations representing managers, accountants, and auditors, the institutional framework for corporate governance in the Philippines receives support from the Shareholders' Association of the Philippines, which protects and promotes the interests of shareholders, particularly minority shareholders; the Good Governance Advocates and Practitioners of the Philippines from publicly listed corporations, the public sector, and relevant organizations; and the Institute of Corporate Directors, a society of fellows comprising actively serving corporate directors (SEC 2015).

[11] Principle 10 in the the Code of Corporate Governance for Publicly Listed Companies (SEC Memorandum Circular 19, series of 2016) and the Code of Corporate Governance for Public Companies and Registered Users (SEC Memorandum Circular 24, series of 2019). In 2019, SEC issued the Sustainability Reporting Guidelines for Publicly Listed Companies (SEC Memorandum Circular 4, series of 2019).

[12] Corporations "vested with public interests", for instance, must have independent directors constituting 20 percent of the board; submit to their shareholders or members and the SEC an annual report of the total compensation of their directors or trustees; and, in addition to the standard requirements (i.e., audited financial statements and the general information sheet), a director or trustee compensation report and a director or trustee appraisal of performance report and the standards or criteria for assessment used. Such companies include publicly listed companies, public companies (with assets of at least PHP 50 million and having 200 or more shareholders, each holding at least 100 shares of any class of shares), registered issuers (with securities registered at the SEC), and all corporate financial intermediaries.

align corporate decisions and social good (Wong 2009; Saldaña 2000). Moreover, as in some Asian markets, there is mistrust of corporate social responsibility (CSR) activity in the Philippines, judging from the heated debates surrounding a proposed CSR bill. Unless corporate governance and the institutional environment are strengthened and investor education is improved (e.g., to encourage long-term thinking) and widened, both CSR and socially responsible investing may be slow to develop. It also remains to be seen if Philippine corporations will adopt universal and comparable disclosures and measures, such as those prescribed by the WEF (see Box 3.1), and whether future investors and consumers in the country will learn to value stakeholder-oriented corporate performance differently.

There are, of course, other ways of pursuing more inclusive and sustainable growth. Poblador (2017) argues for creating value for all groups that contribute to the process of value creation (a firm's workers, customers, suppliers, and community) and not just for the owners of the business. Analytically, this is similar to Rajan's (2020a) recommendation to maximize firm value by maximizing the value of long-term investors, including long-term stakeholders. To achieve this domestically, Poblador (2017) encourages developing and implementing inclusive business models (IBMs) to provide low-income communities with access to economic opportunities while making businesses more viable and sustainable. Some examples given are the farmer entrepreneurship program of a large food corporation (Jollibee Foods Corporation), the skills training program of a domestic subsidiary of a multinational company in the business process outsourcing industry (Accenture Philippines), and the crop growers program of a leading agricultural exporter (Kennemer Foods International). The Department of Trade and Industry has been supporting the growth of IBMs as a base for sustained inclusive growth, where the aim has been to pull smaller enterprises into the value chain of larger businesses as suppliers, distributors, retailers, employees, or customers (Briones 2016).

Social enterprises, designed to generate positive social or environment-related outcomes, have also been recognized as models for achieving inclusive and sustainable growth, given numerous success stories in the area (Ballesteros and Llanto 2017). Although typically small initially, they can be scaled up with the proper support and successfully linked to bigger inclusive businesses. They can also use blended finance to access private sector capital or avail of multilateral funding opportunities. With the right enabling environment, they are believed to have a strong potential to create financially sustainable, market-based approaches to achieve national and sustainable development goals (Ito and Shahnaz 2019).

Broad takeaways and recommendations

With the COVID-19 pandemic continuing to expose inequities worldwide, the shareholder versus stakeholder capitalism debate will also continue to rage. A more ethical capitalism will remain as the holy grail of domestic policymakers.

Success in this area will depend on the willingness of companies to renew their corporate purpose in a post-pandemic environment. Their determination will be signaled by their willingness to adopt universally recognized stakeholder metrics that are already available, which help summarize what is needed for a more equitable and sustainable economy.

However, regulators must also be sensitive to each firm's capacity to adopt these measures.

Corporate governance reforms and other efforts to encourage and broaden market participation and widen corporate ownership should continue, which will not only help even out the spread of wealth in the country but also strengthen the internal and external sources of discipline for companies, especially the very large ones. Shareholder activism supporting ESG goals is emerging as an important force in other markets and may be an effective force locally under the right environment.

Further strengthening of the country's competition framework is also vital in pursuing good capitalism by creating an equal environment for different businesses in similar industries. While large headway has been made in this area, continued study of how outcomes can be improved is needed. Research on reforms should also continue in the areas of labor, education, and taxation.

Implementing a green and inclusive recovery

The COVID-19 pandemic has devastated the global economy, with the decline in world output in 2020 estimated by the International Monetary Fund (IMF) at 3.2 percent (IMF 2021a). To put this output decline in perspective, note that the world GDP in 2019 is USD 84.97 trillion in constant 2010 USD (World Bank n.d.), and a 3.2-percent drop in 2020 roughly translates to a loss of USD 2.72 trillion. To recover from the economic losses, it has been argued that recovery should be "green", especially since the early responses by governments to the pandemic have so far missed the opportunity to accelerate action on climate and environmental concerns (UNEP 2021).

What is green recovery?

There is no single description of "green recovery", but the various characterizations by academics and international organizations point to accelerating climate action, tackling environmental crises, and building resilience while creating jobs and addressing health and socioeconomic inequities. For example, Yale University experts explain that green recovery means bringing economies out of recession "through [a] redesign to reduce our greenhouse gas emissions, create jobs, increase the resilience of infrastructure and communities, and prioritize equity" (Yale University 2021). For the United Nations Environment Programme (UNEP), green recovery means enabling countries to build back better through "green investments driving economic growth, short-term job creation, and significant environmental and social benefits" (UNEP 2021). The Asian Development Bank (ADB), on the other hand, sees green recovery as both policies and investments that bring positive impacts on the environment as well as health and socioeconomic benefits. Moreover, green recovery consists of initiatives that intend to cut COVID-19-related risks, avert future pandemics, quickly create jobs, sustain livelihoods, assist businesses, and promote health and general well-being (ADB n.d.). The inclusiveness of green recovery is evidenced by the pursuit of job creation, good health and well-being, and inequity reduction.

The terms "green economy" and "blue economy" arise in discussions of green recovery. The UNEP defines a green economy as one that "results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities" and that "is low carbon, resource efficient, and socially inclusive" (UNEP 2011, p.2). The World Bank defines blue economy as "sustainable use of ocean resources for economic growth, improved livelihoods and jobs, and ocean ecosystem health" (World Bank 2017). When the green economy was discussed in the Rio+20 Summit in 2012, the Pacific Island developing states emphasized that a green economy is basically a blue economy for them. Such is true for many coastal areas of the Philippines. In a sense, the blue economy is part of the green economy. In the discussions that follow, the green economy concepts are jointly applicable to blue and green ecosystems.

Impacts of COVID-19 on the sustainable development agenda

The pandemic continues to ravage economies while some countries are already slowly reopening and loosening restrictions. However, the world should recover not only from economic losses brought by the pandemic but also from setbacks in achieving the SDGs. Sachs et al. (2020) noted that the pandemic primarily had a highly negative impact on SDG 3 (good health and well-being) due to the higher disease incidence and mortality from COVID-19 and the damaging consequences of isolation on mental health. It also had highly negative impacts on SDG 1 (no poverty), SDG 10 (reduced inequalities), SDG 2 (zero hunger), and SDG 8 (decent work and economic growth) because of job losses, decline in incomes, transportation challenges in the food supply chain, reduction in trade, business closures, and overall economic decline.

All the 17 SDGs can be affected by how the national environment is being cared for. For instance, the SDGs on health, food, energy, and water and sanitation, which are important for meeting the SDGs on poverty and inequalities, are affected by the natural resources used in production processes in the economy. The SDGs on life on land, life below water, climate action, and sustainable cities and communities are directly affected by people's interaction with the natural environment. Thus, a green recovery will have direct and indirect contributions to the achievement of the SDGs.

The link between environmental degradation and diseases

Tackling environmental issues should be part of green recovery because of the link between environmental degradation and the emergence of diseases. The WHO reported that almost all recent pandemics originated in wildlife and pointed to evidence that increasing human pressure on the natural environment may drive disease emergence (WHO 2020a). The global health organization reported that it has not yet found the zoonotic or animal source of the SARS-CoV-2 virus and the route of introduction to humans. Nevertheless, all hypotheses remain on the table, including an earlier theory that bats are the likely reservoir of the virus (WHO 2021b). Even though there is no conclusive evidence yet on how the wildlife-to-human transmission of SARS-CoV-2 took place, there are illustrations that this jump happens. For instance, the recent WHO alert on the Marburg virus disease emergence in Guinea (reported on August 9, 2021) demonstrates the risk of wildlife-to-human transmission of diseases (WHO 2021c). There was also evidence that SARS-CoV-2 could live on in multiple animal species, including cats, dogs, and farmed mink. In Denmark, for example, it appeared that human workers in fur farms were passing the virus to the minks (Maron 2020). There is no evidence yet of "sustained" transmission of SARS-CoV-2 from humans to animals and then back to humans, but it is claimed that this is probable (Brilliant et al. 2021).

Rapid land use conversion due to urbanization drives human incursions into wildlife habitat. Deforestation leads to biodiversity loss and forces animals to migrate to new habitats and sometimes closer to people, while illegal wildlife trade directly opens channels for human-animal species interactions. All these facilitate more frequent interactions and increase the probability of disease-causing viruses to be transmitted from host animals to humans.

There is also specific evidence that climate change and human development activities are driving disease emergence. Examples are provided in Singh et al. (2021), which noted that for zoonotic diseases (or diseases that are transmitted between animals and humans), such as COVID-19, a country's land area, human population density, and size of forests, are associated with diversification of pathogens (or disease-causing agents like viruses and bacteria). Rodó et al. (2021) also argued that climate change facilitates the so-called zoonotic spillovers of diseases or the jump of disease-causing viruses from animals to humans. Preventing another pandemic therefore needs forecasting models that incorporate climate change effects alongside human behavior.

Urgent cooperation on climate change is in order, as reported by the Intergovernmental Panel on Climate Change (IPCC), a United Nations body tasked to assess the science related to climate change. Its sixth assessment cycle report, titled *Climate change 2021: The physical science basis,* was released on August 7, 2021, contributed by Working Group I.[13] Published in the middle of the pandemic, this report cannot be more timely. It highlights the urgency of climate action, given numerous evidence that the world is already living through climate change and that the changes already set in motion are rapid and intensifying. It warns that the chances of crossing the 1.5°C global warming threshold over the next 20 years are higher and limiting warming to 1.5°C or even 2°C will no longer be possible unless the world immediately and drastically cut GHG emissions. The so-called "carbon budget" that will afford the world a 50:50 chance to stay below the 1.5°C threshold is 500 billion tons of carbon emissions, which at the rate industrial emissions are going would be equivalent to only 15 years of emissions (IPCC 2021).

The inclusion of human development in the explanatory factors for pathogen diversity confirms that human-influenced climate change also affects the emergence of infectious diseases. Green policies will be necessary to control the spread of COVID-19 while striving to live with its endemicity and to prevent another pandemic while building a better normal that can be sustained in the medium to long term.

Imperatives for governments, businesses, and consumers

The discussion below elucidates what actions government policymakers, businesses, and consumers can take and the perspectives or principles they can use to frame their efforts in pursuing green and inclusive recovery.

Requirements from policymakers

Governments should look at the specific needs of their respective economies when charting a pathway to recovery. But there are general principles that can guide governments when crafting policies for a green recovery. The WHO listed general prescriptions with comprehensive actionable items for a healthy and green recovery through a declaration called "WHO Manifesto for a Healthy Recovery from COVID-19: Prescriptions and Actionables for a Healthy and Green Recovery". These are: protect and preserve nature, which is the source of human health; invest in essential services, from water and sanitation to clean energy in healthcare facilities; ensure a quick and healthy energy transition; promote healthy, sustainable food systems; build healthy, liveable cities; and stop using taxpayers' money to fund pollution. In the manifesto, the WHO argued that "attempting to save money by neglecting environmental protection, emergency preparedness, health systems, and social safety nets, has proven to be a false economy—and the bill is now being paid many times over" (WHO 2020b, p.1).

Governments should also pursue policies and actions that can provide incentives for businesses to undertake green recovery investments and for consumers to adopt green practices, as well as guidance on what to stop doing or what to avoid. Recommendations along this line by the Climate Action Tracker, an independent scientific analysis project by the consortium of the Climate Analytics and the New Climate Institute and their collaborators, are made in the sectors of energy and electricity supply, land-based transport

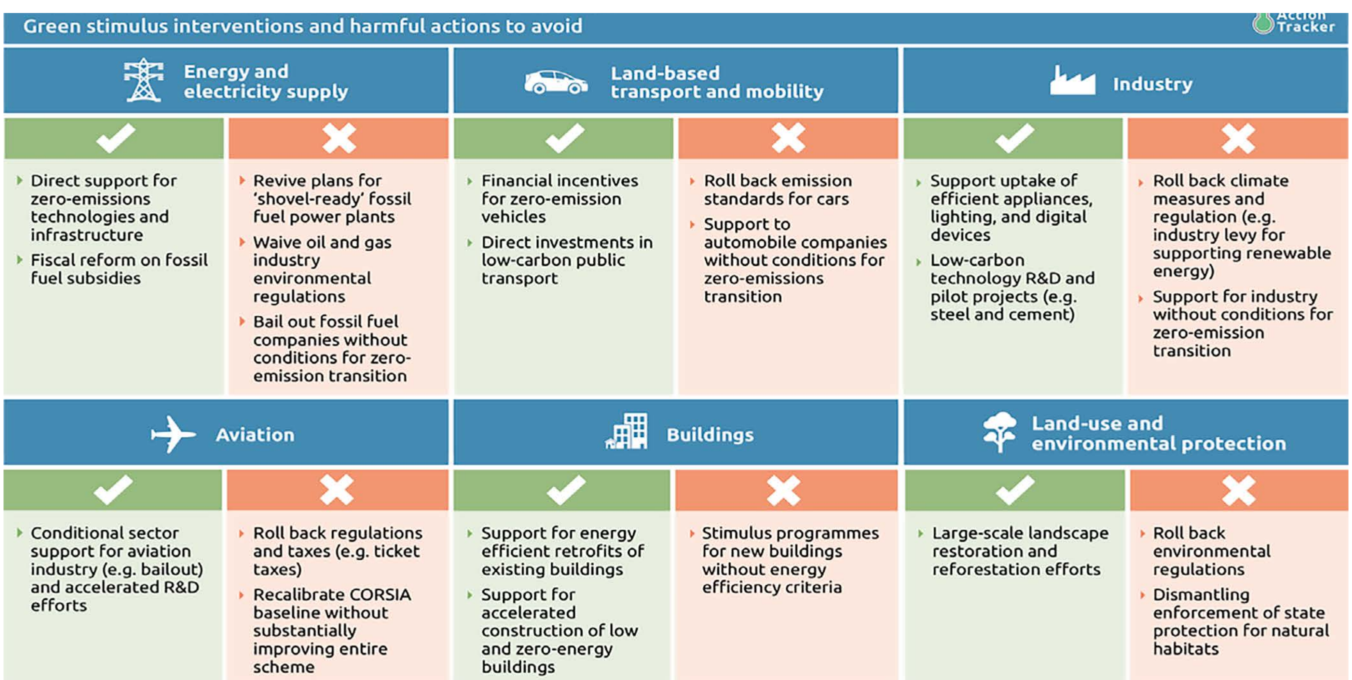
[13] The fifth assessment cycle of the IPCC produced reports published in 2013–2014. The reports by other working groups will be released before the end of 2022.

mobility, industry, aviation, buildings, and land-use and environmental protection (Climate Action Tracker 2020). Figure 3.3 summarizes the green stimulus interventions they recommend and the harmful actions they caution the world against.

An example of a government entity implementing green stimulus interventions in response to the COVID-19 pandemic is the Milan city government's move to reduce street space for cars to allocate space for cycling and walking. An illustration of correcting government interventions is the criticism, under the "do no harm" principle, against the US proposal of an unconditional (without distinct climate safeguards) rescue package for automakers as this may result in locking in the uptake of carbon-emitting vehicles and inadequate infrastructure (Climate Action Tracker 2020).

Identifying growth opportunities and corresponding financing is also needed. To help governments in Southeast Asia in their green recovery initiatives, the ADB identified five green growth opportunities: productive and regenerative agriculture; sustainable urban development and transport models; clean energy transitions; circular economy models; and healthy and productive oceans (ADB 2021a). Moreover, the ADB and the Green Climate Fund (GCF) supported the ASEAN Catalytic Green Finance Facility (ACGF) for Green Recovery Program as an additional financing option for Southeast Asian countries. The ACGF Green

Figure 3.3
Climate Action Tracker's summary of the do's and don'ts of green economic recovery



Source: Climate Action Tracker (2020)

Recovery Program aims to support at least 20 high-impact low-emission subprojects (ADB 2021a and GCF 2021).

Needed green actions from businesses

To ensure greener participation in the post-pandemic recovery, businesses should reduce their carbon footprint (or even aim for net-zero carbon footprint), urge their customers and require their suppliers to do the same, and put themselves in a supply chain that deliberately reduces carbon footprint. This more proactive pathway is different from the usual CSR activities that are sometimes just paid lip service by businesses.

Pursuing green recovery means more than practicing CSR, which has been a subject of criticism recently. For example, Nobel laureate William Nordhaus claims that the literature on CSR and even the treatment of such by corporations are a tangle of confusions. The blurry approaches are due to corporations finding it difficult to present themselves as socially responsible while satisfying their shareholders' desire for profits. Nordhaus (2021) opines that sharpening the focus should involve having a green view that emphasizes spillovers or externalities. In the earlier days, these include air pollution, harmful wastes, and GHG emissions; nowadays, they encompass the infection externalities of the COVID-19 pandemic. In the usual business schools and academic writing on corporate responsibility, the activities that may qualify as CSR are endless and many firms can easily excel in any of them. However, Nordhaus offers a more fruitful approach—to focus on corporate irresponsibility, such as greed (including the prevalence of overpaid executives), pollution, lobbying for special tax breaks, regulatory demolition, and defrauding the public about the company's products.

This focus on corporate irresponsibility calls to mind taxation and fines or penalties as mechanisms for aligning business with green objectives. But as the Climate Action Tracker's summary of do's and don'ts in the previous section shows, both carrots and sticks are important in pursuing green recovery. Stimulus packages and recovery assistance for businesses during and after the pandemic have been considerably discussed in policy circles.

Businesses can pursue green actions by themselves or as conditions for recovery assistance from the government. To illustrate, Endo and Sinogba (2020) of ADB articulated possible actions by the private sector given the stimulus packages or support from governments. Businesses can adopt green measures in their continuity plans by employing eco-friendly processes that can help save costs and protect health. Small and medium enterprises can adopt green technologies that minimize pollution, waste, and energy use through financial support and capacity building from the government. Civil society and the academe can also support by giving training on environmental management standards and practices. Companies availing of stimulus support from the government must also publicly disclose their environmental performance and improve on it by investing in activities that have resource efficiency benefits. They can also adjust their risk appetite by accessing financing for innovative and cost-effective solutions that lower companies' environmental impacts. Lastly, as regulators enforcing key environmental policies and nonregulatory pressure groups like industry associations and civil society organizations are not likely to go away, companies will do better to be motivated to improve their products or processes in compliance with green frameworks.

In particular, adopting circular economy practices is one important green strategy for businesses because this creates additional value and results in efficiency gains. Using the manufacturing industry as an example, the United Nations Industrial Development Organization (UNIDO) distinguishes a circular economy from the linear process of manufacturing. The latter takes raw materials from the environment, produces something, and then disposes the waste into the environment. In contrast, the former designs durability, reuse and recyclability into products and creates additional value as resources are used repeatedly, products are remanufactured, and waste is recycled back into a raw material or used as a source of energy. Circular economy practices generate increased income, reduce resource dependency, minimize waste, and reduce environmental footprint (UNIDO 2017).

Public-private partnerships (PPPs) are also where green investment opportunities for businesses and public sector partners abound. Climate-smart infrastructure is particularly promising for PPPs. These are infrastructure solutions that mitigate climate change, facilitate adaptation to the impacts of climate change, or increase resilience to natural disasters. Examples of climate change mitigation projects are energy efficiency projects and GHG emissions reduction technology adoption. Climate change adaptation projects include design-build-operate projects that anticipate climate uncertainties, such as hydropower projects that consider extreme water flows or shortages. Resilience-building infrastructure includes projects that help prepare for disasters, such as beach mangrove forest restoration, flood spillways, canals, and sea walls.

Desired consumer behavior

The pandemic and the mobility restrictions highlighted essentials versus nonessentials and led to a realization that citizens need to be responsible consumers by avoiding waste, reducing pollution, cutting unnecessary consumption, and adopting sustainable lifestyles. The lockdowns proved that consumers could change their habits and behavior toward greener outcomes. The challenge now is making such changes more permanent and motivating consumers to stick to their role in the circular economy.

The past general trend on consumption shows that the global population is finding this hard to do. Chancel and Piketty (2015) noted that income or consumption level is the main driver of total carbon dioxide (CO_2) emissions among households and individuals. Citing the work of Chakravaty et al. (2009) in 17 countries, Chancel and Piketty noted a household CO_2 emissions-income elasticity range of 0.6 to 1, meaning, a household spending (or earning) 10 percent more than its neighbor emits 6–10 percent more CO_2.

Along this line, Nobel laureates Banerjee and Duflo (2019) argued that in the absence of changes toward more sustainable consumption, any future economic growth would mean more CO_2 emissions and large direct impacts on climate change, as energy use increases with the rise in consumption. They also pointed out the inequity of it all as encapsulated in the so-called "50:10 rule": 50 percent of the global CO_2 emissions are due to the highest polluters comprising 10 percent of the world's population, while the 50 percent who pollute the least are responsible for only 10 percent of the emissions. In the end, their radical conclusion is that consumption, in general, will need to fall because mitigation strategies alone, such as through better technologies, may not work.

Keeping the population healthy is also a must. This should involve government interventions and people maintaining good consumption habits and increasing capacity for self-help and mutual help. Collectively, this will prepare countries and communities for future pandemics and reduce their vulnerabilities to the health impacts of the current climate crisis.

Green recovery is inclusive recovery

Green recovery from the COVID-19 pandemic is inclusive recovery. It is more than climate activists' or advocacy groups' focus. There are concrete returns to health, job creation, income, and general socioeconomic well-being, especially for those left behind.

For example, as the country manages the COVID-19 pandemic and tries to live with the virus, water and sanitation investments will have far-reaching equity implications because inadequate access among the poor exacerbates the spread of the virus. Rodó et al. (2021) raised that fomite transmission is a crucial pathway to consider because viral viability and persistence on surfaces would be enhanced if there is limited access to water and sanitation.

Because climate change impacts poor people disproportionately, recovery principles anchored on addressing climate change will ultimately benefit the poor. The IPCC underscored that, "At 1.5°C global warming, heavy precipitation and associated flooding are projected to intensify and be more frequent in most regions in Africa and Asia (high confidence), North America (medium to high confidence), and Europe (medium confidence)" (IPCC 2021, p.32). This predicted more intense and more frequent heavy rainfall and flooding in Africa and Asia do not bode well for inclusivity as most of the world's poor live in these regions. Thus, the poor must be at the center of climate actions.

Another example pertains to the importance of regenerative agriculture. It is inclusive because it has many links to the livelihood and incomes of poor households as opposed to industrial farming. It contributes to food security and also builds local economies, boosts local resilience, and discourages migration. It also protects soil and water bodies (with good consequences for ecosystems) and sequesters CO_2 emissions cheaply. Proposals in the US to redirect agriculture subsidies toward regenerative agriculture have been called "paying the farmers to cut carbon footprint" (see, for example, Newburger 2021).

Green projects create jobs and, in some sectors that are transitioning to climate-friendly production, they create more jobs than they displace during the transition. For example, Garret-Peltier (2017) provided evidence that clean energy will create more jobs in the energy sector. On average, a million US dollars spent on fossil fuels makes about 2.65 full-time equivalent (FTE) jobs. However, the same amount creates 7.49 FTE jobs in renewable energy and 7.72 FTE jobs in energy efficiency.

Therefore, shifting USD 1 million spending from fossil fuels to clean energy can create a net increase of around five jobs. Rapid job creation is also another opportunity offered by green efforts. The International Energy Agency estimates that the energy efficiency sector can add 2.5 million new jobs per year as part of the green recovery from the pandemic (OECD 2020).

Addressing climate change in the recovery efforts will also lead to more inclusion for women, given that climate change impacts exacerbate gender inequalities. The Food and Agriculture Organization (FAO) argued that climate change has gender-differentiated impacts. For example, there is greater incidence of mortality among women during natural disasters and heavier female burden on caregiving when diseases spread (FAO n.d.).

With the business slowdown during the pandemic, women have experienced relatively higher job losses as they were concentrated in the hard-hit sectors, and many women-owned businesses have reported a significant decline in revenues (ADB 2021b). Given that women own many micro, small, and medium enterprises (MSMEs), supporting MSMEs to adapt to the post-pandemic better normal, where there would be a higher demand for green and sustainable products, would be a gender-responsive and inclusive strategy.

Shaping the Philippines' sustainable recovery through green initiatives

Given recent trends, the Economist Intelligence Unit (EIU) expects that the global GDP will bounce back to its pre-pandemic level by end-2021. However, the pace of recovery will vary across countries, and some will still be unable to return to their pre-pandemic level by that time (EIU 2021). For the Philippines, the IMF expects that the pre-pandemic output level will be recovered in 2023, and medium-term economic growth will return to the pre-pandemic rate of 6.5 percent by 2024 (IMF 2021b). The National Economic and Development Authority, on the other hand, expects that recovery to the pre-pandemic level will be "sometime at the end of 2022, if not early 2023" (La Forga 2021).

To support Philippine recovery through green initiatives, the following are recommended:

- *Make space for "greening" in the stimulus packages.* Short-term stimulus packages for MSMEs have a swift turnaround and can quickly create jobs. These can be expanded from more than wage subsidies to cover support for accelerated adoption of sustainable solutions and technologies, such as cleaner production processes, pollution prevention systems, water and energy reduction techniques, recyclable or biodegradable packaging solutions, solid and liquid waste management initiatives, and efficiency-enhancing digital technologies. With the expansion of economic activities supported by stimulus packages, the economy will regain old jobs lost and absorb newly created ones. This will also give MSMEs the push to capture the value-added from green growth opportunities in the medium to long term. Moreover, to ensure a significant contribution to the sustainable development of the large strategic industries that will be targeted in rescue packages, the support to these industries can have either additional conditions to adopt green practices and build resilience or get additional rewards for their green and resilience-building initiatives, or both. The likely continuation of the infrastructure program (Build, Build, Build) in the next administration will create more jobs and provide an opportunity for green recovery. In particular, a pipeline of needed climate-smart infrastructure projects can already be created, and strategies for tapping climate financing and public-private partnerships must be planned and implemented.

- *Identify and invest in green growth opportunities.* The five green growth opportunities identified by the ADB as most relevant to the Southeast Asian region and can benefit from the ASEAN Catalytic Green Finance Facility (Green Climate Fund 2021) also look promising for the Philippines (see p.154 for the list). Waste management is a huge challenge, and investing in it is another growth area. The COVID-19 pandemic created additional strains to the already inadequate waste management systems. Infectious wastes are improperly mixed due to the weak practice or absence of segregation at source and the lack of healthcare waste management treatment services. Solid and liquid waste management initiatives are disrupted due to the financial challenges of dealing with the pandemic and the competing demands for public funds. However, more investments in waste management are needed. Another growth opportunity is conservation activities in green and blue ecosystems. For the Philippines, recent data suggest that current conservation activities are somewhat inadequate if juxtaposed with the targets. The summary of Sachs et al. (2020) on the progress of the Philippines with the SDGs shows that pre-pandemic, the overall trend for SDG 14 (life below water) is stagnating while that for SDG 15 (life on land) is decreasing. Reversing these trends needs to be undertaken because doing nothing will create additional problems, including food insecurity and the emergence of new diseases. The Philippines can also support the calls for an Association of Southeast Asian Nations (ASEAN) "green new deal" as this could pave the way for the creation of numerous jobs and sustainable economic growth. The green new deal initiative by South Korea announced in June 2020, under which legislation will be passed to implement a carbon tax, stop financing for coal plants, promote investment in renewable energy, and establish a workers' training center for transitioning to green jobs, has been lauded as a first for East Asia and also brought forth a call for the ASEAN to step up and pursue a green new deal of its own (Yeoh 2021).

Addressing climate change in the recovery efforts will also lead to more inclusion for women, given that climate change impacts exacerbate gender inequalities.

- *Participate more vigorously in the debates on "global commons" and climate actions.* Global commons refer to "areas or natural resources that are not subject to the national jurisdiction of a particular state but are shared by other states, if not the international community as a whole" (Schrijver 2016, p.1, citing Buck 1998). Our global commons have been understood as including our shared space, air, electromagnetic frequency spectrum, high seas, the deep seabed, and the polar ice caps. SARS-CoV-2 is interpreted as a shared responsibility in the global commons in the same way that pollution or climate change is (see, for example, Teo 2021). Thus, calls for democratizing access to intellectual property rights to COVID-19 vaccines as a global common good is attracting high-level attention. Opposing views, however, argue that waiving intellectual property rights would not be useful and would instead compromise global vaccination efforts and drive prices up. This is because allowing just any manufacturer to produce the vaccines would increase the demand for the raw materials that may cause a shortage, which may drive prices up and impede production (McMurry-Heath 2021). Nevertheless, India and South Africa sponsored a proposal at the World Trade Organization for a time-limited waiver of intellectual property rights to vaccines, and the US Biden administration's expression of support is one of many that are required (Krishtel and Malpani 2021). The Philippines should join the global debates on this concern to assess what would be in the best interests of developing countries like itself. Moreover, as the country continues to manage the virus, the government should also push for mechanisms to scale up the production and reduce the prices of COVID-19 testing, surveillance, prevention, and treatment technologies. Another important global debate is accelerating climate action during the pandemic. Crunching data from the Climate Action Tracker, *The Economist* (2021) noted that the world's 20 biggest polluters account for four-fifths of global emissions, and about half of them have Nationally Determined Contributions (NDCs) that provide for growth in emissions in the next decade. This is an important context because the Philippines is one of the most vulnerable countries to climate change. The Philippines is the fourth country most affected by extreme weather events due to climate change from 2000 to 2019, according to the Global Climate Risk Index 2021 (Eckstein 2021). Yet, it emitted only an average of 1.98 metric tons of CO_2 equivalent per capita in 2020, which is way below the global average of 4 metric tons per capita (Climate Change Commission 2021). The 75-percent GHG emissions reduction and avoidance in the Philippines' NDC have been touted ambitious and somewhat overpromising. Nevertheless, while delivering its compliance, the Philippines must add its voice to those calling for more efforts from countries that are large contributors to GHG emissions.

- *Understand the tradeoffs and find alternatives.* Resetting the economy post-pandemic and building resilience require viewing climate targets as complementary to socioeconomic development targets. However, tradeoffs are on the horizon. To illustrate, the IMF recommends that carbon taxes be used in Asia and the Pacific, including the Philippines, considering that these are rarely used in the region. If well designed, they can effectively reduce or prevent GHG emissions while providing necessary fiscal resources for climate change adaptation. For the Philippines, a carbon tax of USD 75 per ton of CO_2 emissions could reduce emissions by as much as 30 percent of the business-as-usual CO_2 emissions in 2030, and at the same time, generate fiscal revenues of more than one percent of GDP. The IMF also argued that having a carbon tax is important given the imposition of carbon border adjustments by the European Union and prospective application by other advanced economies (see Box 3.2 explaining what carbon border adjustments are). Countries that impose their carbon taxes could reduce the border adjustments, and they get to keep the revenues for their domestic use (IMF 2021c). Imposing a carbon tax in the Philippines at this time may risk increasing further the price of electricity and erode the competitiveness of the country. In addition, it might drive away investments to countries with no carbon taxes, a phenomenon called "carbon leakage".[14] An alternative for the Philippines is to push in the international arena the use of advanced economies' revenues from carbon tax border adjustments to fund climate change mitigation and adaptation activities in developing countries like the Philippines.
- *Wean the country away from fossil fuels*. The Department of Energy (DOE) has already issued a moratorium on greenfield coal-fired power plants (DOE 2020a) and announced a greater share (55.8%) of renewables in the generation mix by 2040 (Yang 2021). Potential trade-offs are in terms of sufficiency of baseload generation and reliability and quality of supply, given that the Philippine power system does not yet have a smart grid. Nevertheless, it helps that the DOE opened geothermal energy to 100-percent foreign ownership (DOE 2020b), given that geothermal generation is a recognized technology for baseload capacity. On the intermittency of renewables, the most common approach is battery storage, but there are still technological limitations on hourly capacity. It is therefore opportune to consider granting incentives for research and development (R&D) on battery storage development. Policy proposals like the Science for Change bill, which aims to increase the public R&D expenditure starting at PHP 10 billion for 2022 and then to increase it annually in the next five years until it reaches 2 percent of the national budget[15] (Luci-Atienza 2021), should be supported. Battery storage for energy should also be included in the R&D pipeline.

[14] Carbon leakage happens when businesses in a country with higher production costs due to climate policies transfer their production to other countries which have looser climate policies (see Box 3.2 for details).

[15] The benchmark on R&D expenditure for a developing country is 1 percent of GDP, based on the assessment of the United Nations Educational, Scientific and Cultural Organization. It cannot be reckoned yet if the proposed increase will pass this benchmark.

Box 3.2
Carbon border adjustments: What it is and how it is supposed to work

Carbon border adjustments can be traced to the idea of carbon tax, or a "common (global) environmental tax on emissions" as Stiglitz (2006) puts it. An unintended consequence of carbon taxation is if it is not applied by all trading partners or if the taxes for similar tradeable products are uneven, the firms facing the tax in one country may shift production to other countries where carbon pricing is low or nonexistent, thereby leading to a net increase in emissions globally, a situation called "carbon leakage". Border adjustments on carbon tax are supposed to address this by imposing charges at the border, that is, by imposing taxes on imports and rebates on exports at levels that account for the differences in carbon pricing across trading partners.

On July 14, 2021, the European Commission adopted the Carbon Border Adjustment Mechanism and announced that it will be enforced by 2023 (European Commission 2021). The US has also announced that it is considering carbon border adjustments "to encourage climate action globally while protecting domestic manufacturing" (Natter et al. 2021). Canada also announced that it is holding consultations on carbon border adjustments (Department of Finance-Canada 2021).

Four options have been offered, at least in the US, for spending the revenues to be earned from the mechanism:

- to reduce other taxes or the revenue deficit;
- to give rebates to domestic firms most affected by carbon taxes;
- to fund the domestic development of low emissions technology; and
- to help developing countries reduce their GHG emissions and adapt to climate change

To demonstrate that the border adjustment is indeed for combating climate change rather than for domestic industry protection, Hillman (2013) advised that the US should contribute a significant share of the revenues to the fourth option.

Source: Climate Action Tracker (2020)

The feasibility of green recovery depends on the timing of the actions; thus, the urgency to act as early as possible cannot be overemphasized. The emergence of highly transmissible mutations has made it difficult to anchor the reopening of the Philippine economy on herd immunity. Based on current knowledge, it is more practical to view vaccinations and transmission prevention as instruments for decisionmakers to find an acceptable balance between new infections and the socioeconomic costs of targeted shutdowns and restricting the mobility of people. Sachs and his colleagues posited in late 2020 that such balance as a guide for reopening is a point in the SARS-Cov-2's reproduction rate known as R_0, particularly when R_0 falls to 0.75 (Sachs et al. 2020).[16] However, data and science interpretation in the Philippines may churn out a different number. Whatever that number is for Philippine decisionmakers, the argument is to aim for a reopening and to restart the recovery as early as possible, and to seize opportunities to have green measures in the

[16] Sachs et al. (2020) cited this based on the work of Dorn et al. (2020), which is based on data from Germany.

recovery strategies, policies, and programs, as discussed in the previous recommendations.

Developing a robust and healthy workforce

A country's workforce is essential to the economy because it drives productivity and growth. Along with that, workers serve as the financial foundation of the country's social protection system. Hence, it is in the interest of the government and the private sector to provide support mechanisms that will address perennial problems that limit workers' full potential. An ideal working condition is one where workers are paid fairly, able to choose work that best suits their skills, have access to learning opportunities, and can tap into social protection programs in times of need. In reality, however, this remains an aspiration for many workers.

In recent years, work opportunities have expanded due to increased globalization resulting from improved technology and reduced cost of international travel. Since economies are interrelated now more than ever, workers have also become more susceptible to macroeconomic shocks. The COVID-19 pandemic is a perfect example of this. It has prompted governments worldwide to embark on unprecedented large-scale experiments, particularly regarding work and school arrangements, to minimize exposure and cope with the pandemic. Workers have since been suffering the consequences of lockdowns, travel restrictions, limited operation of public transport and businesses, and remote work. Moreover, the pandemic revealed many issues and challenges with the current design of social protection systems around the world.

COVID-19 as a threat to workers' health

The COVID-19 pandemic has a tremendous impact on the health of workers. Aside from problems like unemployment, job uncertainty, job displacement, and financial strain, workers also face threats to their health as they continue to perform their functions under non-normal conditions. Expectedly, health workers face the highest risk of exposure due to the nature of their jobs. Studies show that COVID-19 outbreaks are likewise observed among industries that require physical proximity, such as retail and trade (Koh 2020; Lewandowski 2020), food production (Peters 2020), construction (Baker et al. 2020; Lewandowski 2020; Araya 2021), and transportation (Koh 2020; Lan et al. 2020; Sierpinski et al. 2020). Companies have widely used remote work to prevent and control the transmission of COVID-19 in the workplace. This policy, however, cannot be uniformly adopted by all industries, placing some workers at risk of infection when using public transportation to go to their workplace (Anand et al. 2020). In contrast, workers doing remote work experience higher levels of stress due to longer working hours and blurred boundaries between paid work and caring responsibilities (Waizenegger et al. 2020). Meanwhile, as economies contract, businesses struggle to remain afloat. Workers, on the other hand, experience financial insecurity, which in the literature is a common reason for *presenteeism* or attending work while ill.

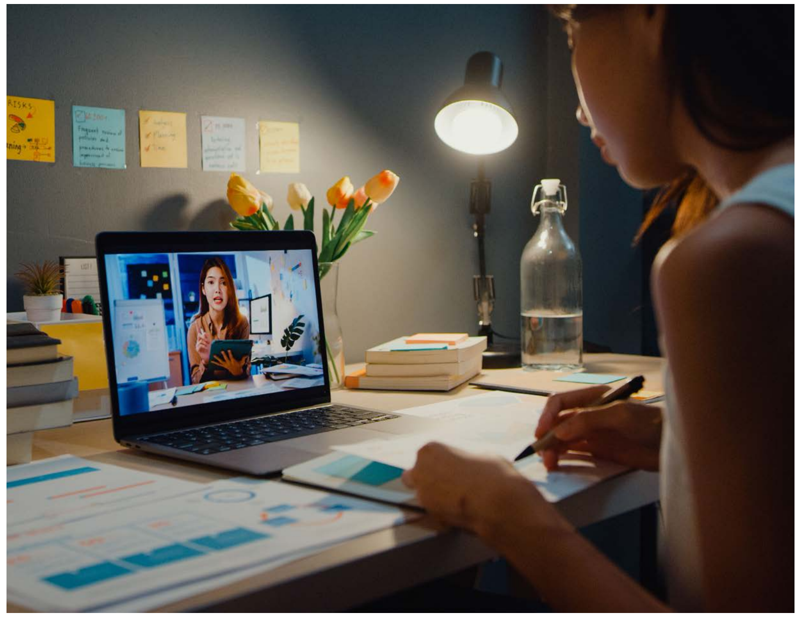
This behavior was already prevalent during the pre-pandemic period (see, for example, Chiu et al. 2017). Webster et al. (2019) showed that workers often continue to report for work despite experiencing infectious diseases, raising public health concerns, especially in the context of the COVID-19 pandemic. Relatedly, studies show that low-income workers are at higher risk of exposure to the SARS-CoV-2 virus (Anand et al. 2020; Lan et al. 2020; Lee and Kim 2020).

As the world battles the virus, workers will be increasingly exposed to health risks and uncertainties. This reinforces the value of social protection. Having programs and policies in place can protect workers from unforeseen events. Social protection could be in the form of (1) labor market policies that aims to improve the efficiency of labor market operation; (2) social insurance programs that mitigate the impact of risks caused by unemployment, accident, disability, diseases, old age, and natural disasters; (3) social assistance programs that seek to support the most vulnerable groups; (4) micro and area-based programs for communities, or targeted programs for vulnerable communities; and (5) child protection programs that ensure the health and development of the future workforce (ADB 2003). Governments must ensure that all workers can access these support mechanisms during a crisis.

Pre-pandemic trends

Workers worldwide were already facing various challenges caused by increased globalization and technology-induced changes even before the pandemic. Technological progress caused by FIRe has resulted in jobless growth that is more pronounced in advanced economies (Brynjolfsson and McAfee 2011). Skills have become more vital in an increasingly digital world, inducing workers to invest more in education in response to the growing demand for jobs requiring cognitive tasks (Katz and Murphy 1992; Acemoglu 2002; Autor and Dorn 2013). Although the shift to automation and digitalization has increased the demand for high-skilled workers (Katz and Autor 1999), it has also diminished the need for low-skilled workers doing routine jobs (Jaimovich and Siu 2012). Low- and middle-skilled workers who typically do not have the time or financial capability to invest in themselves are at the losing end.

The impact of the technological revolution is well-documented in the literature. Goos and Manning (2007) observed worker polarization in Britain, wherein employment in high-returns cognitive work has been increasing while middle-income routine jobs have been hallowing out. Increasing automation in the US has likewise led to the stagnation of productivity and the slow creation of new jobs (Acemoglu and Restrepo 2019). Another study (Acemoglu and Restrepo 2018), using US data from 1990 to 2007, found that the increased utilization of industrial robots has negatively affected manufacturing employment and wages. Similarly, the demand for routine and manual jobs has decreased in developing countries (Maloney and Molina 2016). A report (ADB 2018) isolated the impact of technological progress in Asia, where it was found to cause 66 percent of employment between 2005 and 2015. It appears that the higher the participation of developing countries in global value chains and the higher the degree of routinization of tasks, the greater the decline in medium-skilled workers (Dao et al. 2017). Overall, rapid technological changes, increased automation, and digitalization gave rise to job polarization, wage inequalities, and displacement of workers doing manual and routine jobs (Goos et al. 2014; Autor 2015).



How the pandemic accelerated some trends

The COVID-19 hastened the adoption of technologies, further exacerbating existing inequalities. While countries were initiating policies to reskill and upskill their workforce in preparation for the full-scale impact of the FIRe, the pandemic caught the world off-guard with the massive disruptions it caused. To cope with the restrictions, many businesses worldwide turned to automation and digitalization, which triggered the displacement of more workers. In Asia and the Pacific alone, around 1.9 billion workers lost their jobs (ILO 2020). Industries that were much affected by the pandemic are accommodation and food services, manufacturing, wholesale and retail trade, and real estate and business activities. These industries were hit badly because they relied on physical proximity (Petropoulos 2021). Disruptions in global value chains were also experienced in the manufacturing sector, specifically in automobiles and textiles, clothing, leather, and footwear industries (ILO 2020).

The COVID-19 pandemic effectively accelerated many trends that were already unfolding in advanced economies before its arrival.

- *Businesses are adopting e-commerce.* Many companies have embraced e-commerce, making brick-and-mortar stores obsolete. With this trend, the demand for workers in retail and services has decreased while the need for workers in delivery and technology services has increased (Arora et al. 2020). As new business models emerge during the COVID-19 pandemic, new opportunities are also being presented to workers.
- *Displaced workers are transitioning to different jobs, revealing the importance of upskilling and reskilling efforts*. Old skills are becoming irrelevant in an increasingly digital world. Hence, the value of upskilling and reskilling becomes much more evident, especially with the COVID-19 crisis. Low- and middle-skill workers are at risk of falling into poverty if they cannot transition to different jobs. In the Philippines, an estimated 171,000 workers were displaced during the initial year of the COVID-19 pandemic (Bertulfo 2020).
- *The gig economy is rising.* Some displaced workers have transitioned to

short-term work or the gig economy.[17] However, this sector is unregulated and usually not covered by social protection systems. This further exposes workers to uncertainties and risks. A report (ILO 2018) shows that around 1.3 billion workers were in the informal sector in Asia and the Pacific before the pandemic. In the US, approximately 20 percent of the workforce in 2016 was involved in freelance work (McKinsey & Company 2016).

- *Many companies are using the work-from-home setup.* The stay-at-home mandate has urged many companies to use work-from-home arrangements. However, not all jobs can be done remotely. Dingel and Neiman (2020) show that jobs suitable for work-from-home setup are those that are related to (1) educational services; (2) professional, scientific, and technical services; (3) management; (4) finance and insurance; and (5) information. In contrast, activities that require physical proximity and thus cannot be done at home are those in (1) transportation and warehousing; (2) construction; (3) retail trade; (4) agriculture, forestry, fishing, and hunting; and (5) accommodation and food services. Remote work has its drawbacks primarily because it blurs the boundaries of work and life (Sinclair et al. 2020). Teleworkers are faced with challenges related to reduced productivity despite spending more hours at work (Lautsch et al. 2009). Work-from-home setup also unveils issues with skills and access. Aum et al. (2020) noted that low-skilled workers face a higher risk of infection as they have a lower chance of working from home. An OECD (2021) study explained that workers with low educational attainment have a lower chance of working remotely as the work-from-home setup requires skills in numeracy and literacy. Workers from high-income regions, on the other hand, are more likely to stay indoors, given their access to high-speed internet (Chiou and Tucker 2020).

[17] Refers to short-term work arrangement of independent workers, with no worker-employer relationship.

It is well-recognized that macroeconomic shocks present different opportunities for different types of workers, which further aggravates previous income gaps (Bapuji et al. 2020). With the disruptions caused by the COVID-19 pandemic, it is expected that inequalities will worsen as the world eases back to the new normal, similar to the experience with the 2008 AFC (Wisman 2013).

There is a need to rethink workforce development efforts and redesign current social protection systems to adapt to the changing world. The increasing use of technology to combat the COVID-19 pandemic has also induced many changes in the way the labor market operates and how the workers behave. As companies embrace automation and digitalization, workers also experimented on new work arrangements like flexible working hours and location and flexible employment relationships, such as temporary, contractual, or short-term engagements/gig economy. Arora et al. (2020) noted that worker transitions that result from macroeconomic shocks, such as the COVID-19 pandemic usually impact women, younger and less-educated workers, members of ethnic minorities, and immigrants. However, the current design of social protection programs around the world is unable to protect many workers, especially with the growing employment in the informal sector and the gig economy. Furthermore, the COVID-19 pandemic exposed many health threats to workers, highlighting the need to rethink the adequacy of health support programs. Hence, there is a need to overhaul the existing design of social protection systems to adapt to the changing world of work and ensure that workers from all sectors are protected against unforeseen risks and vulnerabilities.

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Lessons for the Philippines

The experience with the COVID-19 pandemic showed the world how a single shock could agitate the labor market and place workers in great uncertainty. Without proper safeguards from such catastrophes, years of economic growth and progress can easily be reversed. As the world strives to regain balance from the impact of the COVID-19, countries must realize the value of preparation as macroeconomic shocks are more likely to recur in the future. The following are some lessons that the Philippines should consider to protect its workforce and be better prepared for future shocks.

- *Invest heavily in reskilling and upskilling programs.* Significant reallocation of jobs will most likely occur as the world embraces technology (Park and Inocencio 2020). Thus, the government must invest in skills development programs and have supporting labor policies to enable the workforce to navigate the changing world of work. The skills crucial for the future include problem-solving, self-management, working with people, and technology use and development (WEF 2020b).
- *Revamp the social protection system to cover the growing employment in*

the gig economy and strengthen health support programs. The increased use of digital technology has pushed workers to embrace the concept of flexibility, particularly in terms of work location, working hours, and employment status. As more workers join the gig economy and some have multiple jobs at a time, there is also an increasing need to update social protection programs to reflect recent changes in the labor market and worker behavior. Additionally, the experience with the COVID-19 pandemic underscores the value of having adequate support mechanisms to maintain the health and safety of the workforce. Thus, the government should revisit existing health support mechanisms and expand their coverage to protect as many workers as possible.

- *Improve digital readiness and address the digital divide.* The level of digital readiness of a country determines how well its economy can benefit from the efficiencies that technology brings. During the COVID-19 pandemic, numerous government offices and businesses managed to function despite the lockdowns due to remote working made possible by technology. More investments in the country's information and communications technology infrastructure are needed to facilitate the digital transformation. The government must also set up the necessary policies to ensure that technology is accessible to all, which can be facilitated by allowing more competition among service providers.
- *Invest in the future workforce.* Lastly, government interventions must focus both on the current workers and the workers of the future. It is essential to future-proof the country's education sector by improving teachers' digital competencies, incorporating digital skills in student curriculums, and providing the necessary materials to both students and teachers.

Conclusion

Based on current knowledge, the probability to achieve herd immunity from SARS-CoV-2 has become smaller, given the emergence of the highly transmissible variant of the virus, the Delta variant, and the continuing mutations. Widespread vaccination is nevertheless the primary policy instrument for suppressing the spread of the virus. Suppression is now the more realistic goal rather than a "COVID-zero" policy or virus elimination that was effectively deployed in a few countries before the seriousness of virus mutation into highly transmissible variants came to light. There is no global consensus yet on the benchmark for this, but Denmark has recently decided to reopen its economy and declared that it got the virus under control at a reproduction rate of 0.7 and with a vaccination rate of 73 percent for the total population and 96 percent for those 65 years old and older (Agence France-Presse 2021).[18]

The Philippines can realistically pursue virus suppression as a policy goal. Widespread vaccination plus policies to suppress the spread of the virus, such as mandating better ventilation, shifting risky physical activities outdoors, masking, physical distancing, rapid and more affordable testing, better contact tracing, effective and more affordable treatment, and various forms of social support (including assistance that will allow infected people to isolate themselves), are the best strategies for working our way toward a post-pandemic world. Based on scientific consensus, the pandemic will eventually end and the virus will be endemic in certain populations or areas rather than affecting the whole world. However, it is not certain when exactly this will happen.

Policymakers can begin to think ahead and assess scenarios of possible futures. Various authors have explored possible post-pandemic scenarios, and some of the results are reviewed in this chapter. Similarly, the government can convene multidisciplinary and interdisciplinary experts to do foresight analysis and think of alternative futures for the Philippines, given current knowledge and assessment of pathways of important factors affecting the country's post-pandemic recovery. Planned strategies by the Philippine government can be stress-tested against the scenarios it can formulate and those for the global environment that various experts are continuously updating.

In the immediate term, the Philippines should use available tools to monitor suppression success indicators at the level of LGUs. The Philippines already has the tools for monitoring basic indicators, such as basic reproduction number (R_0), testing positivity rate, contact-tracing ratio, health system capacity, and vaccination rates. Tracking and reporting these must be consistently done by the LGUs. Predicting new infections and assessing the risks of outbreaks can be improved if the national government can support the LGUs in these measures.

Meanwhile, preparations should already be underway in handling the medium- to long-term challenges in a post-pandemic environment. Preparations should include the management of health-related factors and the economic and social consequences of the pandemic. Moreover, opportunities for recovery in stakeholder capitalism, green

[18] Strict hygiene measures, isolation of infected people, requiring vaccine passport or negative RT-PCR test for entrants into Denmark, and masking at airports are still part of the suite of policies.

new deals, and workforce development should be identified and seized. As this paper has shown, analyzing those opportunities generates policy insights.

In making businesses more ethical through stakeholder capitalism, there are broad takeaways for the Philippines. One is that success in stakeholder capitalism will depend on the willingness of companies to renew their corporate purpose in a post-pandemic environment and the determination to adopt universally recognized ESG metrics. Another takeaway is that corporate governance reforms and other efforts on broadening market participation and widening corporate ownership should continue. This will help reduce inequality and strengthen discipline in company activities, including the pursuit of ESG goals. A third takeaway is that pursuing good capitalism requires further strengthening the country's competition framework and creating an equal environment for different businesses in similar industries.

In implementing green and inclusive recovery, the Philippines can make space for "greening" in the stimulus packages, such as in the short-term stimulus for MSMEs where assistance can be expanded from more than wage subsidies to also cover support for accelerated adoption of sustainable solutions and technologies. In the rescue packages for large strategic industries, the support can either impose conditions to adopt green practices or offer rewards for their green and resilience-building initiatives, or both. The infrastructure program can also be turned into an opportunity for green recovery by creating a pipeline of needed climate-smart infrastructure projects and tapping climate financing and public-private partnerships for these. The Philippines must also identify and invest in green growth areas, such as productive and regenerative agriculture, sustainable urban development and transport, clean energy transition, circular economy, and healthy and productive oceans. Investment opportunities must also be seized in areas where addressing the problem is a huge challenge, such as in waste management and ecosystem conservation activities. Calls for an ASEAN "green new deal" must be supported by the Philippines to expand the opportunities for job creation and sustainable economic growth.

The Philippines must also participate more vigorously in the debates on "global commons" and climate actions. For instance, it can add its voice to calls to treat the intellectual property rights to COVID-19 vaccines as a global common good and grant a time-limited waiver of such rights so that production can be scaled up quickly and the vaccines could be made more affordable and widely accessible, especially to low-income countries. On accelerating climate action, while the Philippines delivers its compliance, it must join calls for more efforts from countries that are large emitters of carbon. There are greening policies that involve tradeoffs and Philippine decisionmakers must find alternatives in the face of such tradeoffs. To illustrate, although there are proposals for the Philippines to adopt carbon taxation, it may not be affordable at this time, given that the country has high electricity prices. Alternatively, the Philippines could support in the international arena the use of potential revenues from carbon tax border adjustments for funding some of the developing countries' climate change mitigation and adaptation efforts. Another illustration is in the strategy of increasing the share of renewable energy in the Philippine power generation mix as the intermittency of renewables impacts baseload capacity and supply reliability. To help in the medium- to long-term energy transition, R&D incentives for battery storage can be granted. The proposed Science for Change bill, which aims to significantly increase R&D spending, provides an opportunity to push for this.

Given the pre-pandemic trends and the experience of the labor sector during the COVID-19 pandemic, there are important lessons for the Philippines in developing a robust and healthy workforce. The country needs to invest heavily in reskilling and upskilling programs, especially in skills crucial for the future, namely, problem-solving, self-management, working with people, and technology use and development. The social protection system also needs to be revamped to cover the growing employment in the gig economy and to strengthen the health support programs. The Philippines must also improve digital readiness and address the digital divide through government policies and public and private investments. The workers of the future must also be included in government interventions, which can be through such strategies as improving teachers' digital competencies, incorporating digital skills in student curriculums, and providing needed materials to both students and teachers.

Lastly, the Filipino people—individually and collectively—should start resetting and rebuilding while recovering from the pandemic. The current restrictions and controls offer chances to reset as early as possible. The lockdowns and travel restrictions are not simply meant to restrict people's mobility. They are intended to give time for the country to ramp up testing and contact tracing and bring down their costs, fix the health system and its capacities, and rethink and redesign travel modes for a more sustainable way of traveling and for a healthier environment. For the public, these are opportunities to restructure work, learning, spiritual practice, and leisure environments before the outbreak of the next highly transmissible variant or before the next pandemic. The economic cost of the lockdowns that disproportionately affects low-income and marginalized groups and the worsening inequality are points for reflection on the need to reduce inequities. The experiences in virtual work and learning environments offer insights for addressing issues in work-from-home, work-from-anywhere, and remote learning arrangements. Everyone should seize these opportunities to relearn and adapt to a better and new normal.

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This issue of the *Economic Policy Monitor* (EPM) focuses on resetting and rebuilding from the COVID-19 pandemic to create a better Philippines in the post-pandemic world. It discusses possible actions to foster a better post-pandemic environment, such as resetting capitalism, making businesses more ethical through stakeholder capitalism, pursuing green and inclusive recovery, and maintaining a robust and healthy workforce. It also assesses the country's macroeconomic performance in 2020, when the COVID-19 was declared a pandemic, and examines its prospects in 2021 and 2022 against the evolving global and domestic backdrop. Further, this EPM provides policy updates on poverty reduction and social protection; gender; health; education; labor and employment; housing; agriculture; environment and natural resources; trade and industry; services; science, technology, and innovation; infrastructure; energy; and fiscal policy.

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