Development Finance Assessment Snapshot

Philippines

Financing the future with an integrated national financing framework

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Philippines: Financing the future with an integrated national financing framework

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Executive summary

Across the Philippines and the region of the Association of South East Asian Nations (ASEAN) as a whole, ambitions are high for sustainable development in the era of the Sustainable Development Goals (SDGs). Realizing these ambitions will require mobilizing the right scale and mix of financing, incorporating all resources—public and private, domestic and international. This paper forms part of a project to assess the financing challenges and opportunities that ASEAN countries face, and the policies and institutional frameworks that governments can use to address them in implementing the SDGs. It is one of ten country studies undertaken alongside an ASEAN regional report, to facilitate dialogue at the country and regional level about financing the SDGs.

In 2014, the Philippines carried out a Development Finance and Aid Assessment (DFAA), which provided a comprehensive review of the development financing landscape (for the period 2000–2013) and offered recommendations and proposals to strengthen the use, effectiveness and complementarity of various types of resources. Building on this evidence and findings from a range of other studies and reports, this paper provides an updated view of the Philippines' sustainable development context and of its financing landscape. It examines how government policies and institutional structures are set up to respond to key challenges and opportunities through the lens of the Integrated National Financing Framework (INFF).

The Philippines has made impressive progress over recent years across all dimensions of sustainable development, though challenges remain. Although poverty has decreased from 26.3 percent in 2009 to 21.6 percent in 2015, over 20 million people still live below the poverty line. Inequalities remain in both income and geography, and there is a need to improve provision of quality employment opportunities to ensure inclusive growth. There has been mixed progress in both health and education, notwithstanding significant gains made in both sectors including the expansion of universal health coverage.

Domestic resources dominate the country’s financing landscape. Domestic public financing and domestic private investment each account for over a third of all resources. While government revenue has increased in volume since 2000, driving the trend in overall domestic public resources, it remains low in per capita terms (US$500 in 2015) and in comparison to other ASEAN countries. It accounts for 17.2 percent of gross domestic product (GDP) in 2015, the third-lowest level in the region. Domestic private investment although significant has remained constant as a proportion of GDP since 2010, and could be further leveraged. Recent trends in business practice around corporate social value (CSV) and inclusivity point to the potential of local private actors to contribute to national and sustainable development goals, provided that the enabling environment is strengthened.

International financing accounts for 30 percent of all resources, with remittances alone contributing 17 percent of the total and consistently dominating all other international financing flows to the Philippines (Figure A). In 2015, remittances accounted for 8.8 percent of GDP compared to Official Development Assistance (ODA) and Foreign Direct Investment (FDI), which were 0.4 percent and 1.9 percent of GDP respectively. The paper explores ways of directing their potential towards longer-term investment needs and local sustainable development projects. The relatively low level of international commercial
investment to date further underlines the need to strengthen the enabling environment to mobilize additional capital from private sources, and maximize impact for priority development outcomes.

**Figure 1: Financial flow chart of the Philippines**

![Financial flow chart of the Philippines](chart.png)

Source: Development Initiatives calculations based on multiple sources.

An INFF can support government in taking a holistic approach to managing and mobilizing all types of financing—domestic, international, public and private—for sustainable development results. It has six building blocks which together provide a structure and prompt for governments to assess their financing framework as a whole, and to guide thinking about reforms to implement a strategic, holistic, results-driven approach to financing their development objectives. In the Philippines specifically, this approach can help government to mobilize additional financing for development, including from the private sector, and to more effectively channel both scarce resources such as ODA and remittances, which though substantial in volume are not being maximized in terms of development impact.

Many of the elements of an INFF are already present in the Philippines. The development planning process is led from the highest level of government, with systems in place to facilitate coordination and collaboration across priority sectors and cross-cutting themes. *Ambisyon Natin 2040* provides the country’s first long-term development vision. The Department of Finance has an overarching financing strategy for government projects, and multiple policies direct the use of state resources. The Philippine Development Plan (PDP) is anchored to the long-term vision and accompanied by a strong overarching monitoring framework used to track progress. The PDP Results Matrix (PDP-RM) links annual targets across priority areas to longer-term outcomes and PDP goals, as well as to the SDGs through the inclusion of relevant SDG indicators.

There is scope to strengthen the building blocks, in particular financing beyond the state. The PDP refers to different sources of finance needed to achieve objectives in given sectors, but it omits investment gap
estimates that non-state actors, including development partners, could fill. Priority areas of intervention identified in the PDP, such as those which directly relate to the SDG principle of leaving no one behind, lack a top-level financing strategy responsive to resourcing based on financing type and investment needs. The absence of a strategy for private sector development hinders investment and potential contributions from the sector. Additionally, while dialogue platforms exist, concerns have been raised on the quality and effectiveness of such dialogue.

The paper makes five recommendations to strengthen these aspects of the Philippines’ INFF and provides a detailed roadmap of next steps to guide implementation. These include: establishing a long-term holistic financing strategy to strengthen government’s overarching approach to managing and mobilizing all resources; developing financing policies to leverage the untapped potential of private finance and better coordinate development cooperation; including financing targets and indicators in the PDP-RM so that government’s efforts to mobilize additional financing may be monitored, as well as the impact of such financing on identified development outcomes; enhancing mechanisms for multi-stakeholder dialogue to strengthen the role of non-state actors in sustainable development; and moving forward into the next phase of the DFA to look at integrated financing solutions.
1. Introduction

Across the Philippines and the ASEAN region as a whole, ambitions for the sustainable development progress that can be achieved in the SDG era are high. Realizing these ambitions will require mobilizing the right scale and mix of financing, incorporating all resources—public and private, domestic and international. This paper forms part of a project to assess the financing challenges and opportunities that ASEAN countries face, and the policies and institutional frameworks that governments can use to address them in implementing the SDGs. It is one of ten country studies undertaken alongside an ASEAN regional report, to facilitate dialogue at the country and regional level about financing the SDGs.

In recent years, the Philippines has made impressive progress on aspects of all dimensions of sustainable development—maintaining GDP growth on average above 6 percent, reducing poverty from 26.3 percent in 2009 to 21.6 percent in 2015, and achieving all environment-related targets within the Millennium Development Goals (MDGs). However, in order to achieve ambitious targets set out in both national development plans and the SDGs, more needs to be done, including on tackling the “stark inequality in development.” Establishing a long-term holistic approach to financing can support government in ensuring that national development priorities, including those around inequality-reducing transformation, can be adequately resourced so that no one is left behind.

In its 2016 Voluntary National Review (VNR) the Philippines summarized three key lessons learned from the MDG era: the importance of good governance and commitment from all stakeholders (including government, the private sector, civil society and development partners); the need for a clear implementation plan, including institutional arrangements, communication and advocacy strategies, and a financing plan; and the need for an appropriate data-monitoring system in order to strengthen accountability and to provide disaggregated and timely data for the effective design of programmes and policies.

Applying the INFF lens to existing processes and systems can support the government in ensuring that these lessons are incorporated in the institutional set-ups and plans that will guide the country’s development path in the SDG era.

There have been a number of international agreements related to development financing and to putting the SDGs into action. These include the Global Partnership for Effective Development Cooperation (GPEDC), UNCTAD 14; UNDP’s Strategy on South–South and triangular cooperation to achieve the SDGs in G77 member states, and the G77 and China Draft Resolution on development cooperation with middle-income countries. This paper relates particularly to agreements on Financing for Development and to the Addis Ababa Action Agenda. The latter states that “cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, will be at the heart

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1 2017–2022 PDP, ch. 4 (p. 46)
2 Philippines 2016 VNR
of our efforts.\(^3\) The Inter-Agency Task Force on Financing for Development notes in its 2017 report that integrated national financing frameworks, which take into consideration all financing sources and policies, can provide coherence across strategies and plans designed to implement the SDGs.\(^4\) An INFF is a framework of policies and institutional structures designed to take a holistic approach to managing and mobilizing all types of financing—domestic, international, public, private—for sustainable development results. It has six building blocks which work together to align a government’s financing strategy across all resources—public and private, domestic and international—for achieving sustainable development results. These frameworks provide a structure and prompt for governments to assess their financing frameworks as a whole, and guide thinking about reforms required to strengthen them to implement a strategic, holistic, results-driven approach to financing their development objectives.

Using the concept of an INFF, the Development Finance Assessment\(^5\) approach\(^6\) that this paper follows can help countries identify areas for strengthening their management of financing for the SDGs with integrated financing solutions. A DFA helps a government to understand and adapt its policies, institutions and strategies for the financing challenges the country will face in realizing results across the economic, environmental and social dimensions of sustainable development. It supports government to establish and strengthen an INFF, assessing two main questions:

1. What are the main financing challenges and opportunities for achieving sustainable development objectives?
2. How can government strengthen an integrated national financing framework that will address these challenges and opportunities?

The approach aggregates a wide range of existing assessments from government, international agencies and other partners that analyse specific aspects of this sustainable development, financing and policy and institutional context. It adds value by collating these analyses, taking a big-picture perspective across them all and applying the lens of an integrated national financing framework to assess the priorities for government across financing as a whole. In doing so the paper establishes an analytical baseline for an INFF and provides recommendations on how to strengthen the policies and institutional structures that government uses to manage financing strategies. It presents a roadmap outlining steps that government and its partners can take to strengthen the INFF or to leverage new flows, including follow-up discussions and analysis that may be developed in a later phase.


\(^5\) UNDP’s Bangkok Regional Hub has been developing the Development Finance Assessment (DFA) and Integrated Financing Solutions to respond to growing demand from countries to establish evidence and analysis, and introduce policy and institutional reforms for managing the increasing complexity of domestic and international sources of finance for development. The DFA and Integrated Financing Solutions supports governments to use the concept of the INFF to help strengthen policies and actions for mobilizing different types of finance for economic, environmental and social results into a single, coherent framework. See more at: http://www.asia-pacific.undp.org/content/rbap/en/home/ourwork/democratic-governance-and-peacebuilding/ap-def.html

\(^6\) More on the DFA approach can be found at: http://www.asia-pacific.undp.org/content/dam/rbap/docs/meetTheSDGs/Achieving%20the%20Sustainable%20Development%20Goals%20in%20the%20Era%20of%20the%20AAAA%20-%20DFAs%20as%20a%20tool%20for%20Linking%20Finance%20with%20Results.pdf
Chapters 2 and 3 provide an overview of the Philippines’ development context and financing landscape to identify key priorities and key financing challenges across different types of resources—domestic, international, public and private. The analysis builds on the findings of the DFAA undertaken in 2014, as well as other studies and reports from international organizations. Against this backdrop, Chapter 4 then considers the extent to which INFF elements are already in place in government’s policies and processes to address the identified challenges and opportunities, and highlights the main gaps. Chapter 5 takes a more in-depth look at the untapped potential of the private sector in financing development outcomes and how this could be increasingly leveraged, both from individuals (diaspora) and businesses. Chapter 6 focuses on the SDG principle of ‘leave no one behind’ (LNOB), by providing a brief overview of how this is mainstreamed in government’s development plans and programmes and by looking at financing to two key sectors related to LNOB—health and housing. Finally, the paper sets out initial recommendations in order to strengthen individual elements of the Philippines’ INFF, and set the stage for further work on more specific integrated financing solutions (Chapter 7).
2. Context

2.1 Sustainable development

Table 1, from the 2016 Human Development Report (HDR) Briefing Note for the Philippines, provides a snapshot of the country’s progress in different dimensions of sustainable development, compared to other countries. Overall, it shows that the Philippines performed better according to some environmental and economic measures, while it was in the middle third of countries with regard to most social measures. In fact, since his campaign, President Duterte’s focus has been on social inclusion, ensuring that the macroeconomic gains made over the 2011–2016 period are shared in the real economy and by Filipinos beyond Metro Manila and neighbouring regions.

Table 1: Performance across sustainable development

<table>
<thead>
<tr>
<th></th>
<th>Environmental sustainability (5 indicators)</th>
<th>Environmental sustainability (5 indicators)</th>
<th>Environmental sustainability (4 indicators)</th>
<th>Overall (14 Indicators)</th>
<th>Missing Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Top third</td>
<td>Middle third</td>
<td>Bottom third</td>
<td>Top third</td>
<td>Middle third</td>
</tr>
<tr>
<td>Philippines</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Thailand</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Philippines Briefing Note, 2016 HDR.

SDG index data, which were first issued in 2016 to complement countries’ SDG reporting efforts and voluntary national reviews, further underline the progress that the Philippines is already making on sustainable development targets and highlight where challenges are greatest (Figure 2). These data thus provide a baseline that can support prioritization across the goals at the national level. Of the 17 SDGs, ‘no poverty’ (SDG 1) and ‘climate action’ (SDG 13) are those closest to being achieved. On others the country faces greater challenges, particularly in relation to: stunting prevalence (SDG 2); TB incidence and death rates due to non-communicable diseases (NCDs) (SDG 3); child labour and financial inclusion (SDG 8); Internet use and expenditure on research and development (R&D) (SDG 9); inequality (SDG 10); fisheries and clean waters aspects of the ocean health index (SDG 14); and homicides and perceived corruption (SDG 16).

7 http://www.sdgindex.org/
Economic development

The Philippines is one of six ASEAN countries currently classified as lower middle income, with per capita gross national income (GNI) at $3,580 in 2016. Economic growth has averaged 4.8 percent per year for the period 2000–2010, and 5.9 percent over the period 2010–2015. Although positive, GDP growth was lower than projected in the PDP 2011–2016 for a number of reasons including: Typhoon Yolanda in 2014; poor performance of agriculture due to extreme weather events including tropical cyclones and El Niño-induced drought; slowing down of performance in industry in 2015 possibly due to capacity constraints on major roads, ports, airports and government under-spending.

Regional disparity in growth remains high with per capita Gross Regional Domestic Product (GRDP) in the National Capital Region twice that in Calabarzon (where per capita GRDP is the second highest) and 12 times that in the autonomous region in Muslim Mindanao (the region with the lowest per capita GRDP). In fact, priorities for the country’s economic development have been organized under the ‘inequality-reducing transformation’ pillar of the current national development plan (PDP 2017–2022). Strategic interventions in both the agriculture, forestry and fishing sector and in the industry and services sector that have been identified in the plan are expected to contribute to increased access to economic opportunities for all, including small farmers and fisherfolk, micro, small and medium enterprises (MSMEs) and overseas Filipinos—laying down the foundations for more inclusive growth overall.

Social development

While substantial economic gains were made under the former administration, scope remains to accelerate progress against key social indicators. Poverty is decreasing overall, according to both the national and international poverty lines, however the country fell short of achieving the MDG target of halving the proportion of the population living in extreme poverty. Over a fifth of the population (22

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9 PDP 2017–2022, ch. 2
10 PDP 2017–2022, ch. 4 (p. 46)
11 PDP 2017–2022, chs 8 and 9
phillipines million people) continues to live below the national poverty line (Figure 2.1).\textsuperscript{12}

**Figure 2.1: Poverty levels in the Philippines**

![Graph showing poverty levels in the Philippines](chart)

Source: Development Initiatives based on Philippine Statistics Authority (PSA).

Along with poverty, the provision of quality employment opportunities remains a key challenge to ensure that future growth is more inclusive.\textsuperscript{13} While the unemployment rate reached its lowest level in the past decade in 2016, challenges remain around underemployment,\textsuperscript{14} youth unemployment, low participation of women in the labour market, and inadequate jobs—a major driver behind out-migration of Filipinos.\textsuperscript{15}

Progress on other social development indicators is also mixed. In the area of health, the Philippines has made significant achievements in reducing infant and under-five mortality, reversing the incidence of malaria and increasing TB detection and cure rates, but slow progress on maternal health indicators and combating the spread of HIV/AIDS.\textsuperscript{16} In 2013, the government increased support to the National Health Insurance Programme (NHIP). Accompanied by other favourable legislation, this resulted in expanded service delivery and coverage. However, gaps remain in access to quality health services across the country, which is something that the current PDP aims to address.\textsuperscript{17}

With regard to education, the Philippines has made progress in improving primary school enrolment,\textsuperscript{18} as well as cohort survival rates and completion rates which increased from 69.7 percent and 64.2 percent in 1990 to 87.07 percent and 83.43 percent in 2015,\textsuperscript{19} respectively. Scope remains to address

\textsuperscript{12} The national poverty threshold is based on a food consumption of 2000kcal/day plus non-food essentials, and is thus expenditure based

\textsuperscript{13} Tracking Progress on Development Cooperation Effectiveness in the Philippines, GPEDC Report, 2016 (p. 7)

\textsuperscript{14} According to the ILO, underemployment can refer to time-related underemployment (due to insufficient hours of work) and/or inadequate employment situations (due to other limitations in the labour market that limit the capacities and well-being of workers)

\textsuperscript{15} PDP 2017–2022, ch. 10 (p. 145)

\textsuperscript{16} The Philippines Fifth MDG Progress Report (2014)

\textsuperscript{17} PDP 2017–2022, ch. 10

\textsuperscript{18} August 2016 DepEd data shows that elementary net enrolment rate is 91.05 percent

\textsuperscript{19} Data provided by NEDA Secretariat (NS)
the underperformance of boys relative to girls in all levels of education. The current PDP aims to address remaining disparities within the sector and among regions and to improve quality of education. Existing programmes such as ‘K to 12’ (from kindergarten to grade 12) provide a robust starting point but will require adequate resource allocation to ensure their effective implementation. In addition, the passage of the Green Jobs Act in 2016 points to the need to prepare faculty, facilities and curricula for knowledge and skills requirements for a green economy.20

Gender parity has been achieved in primary education in the Philippines: at the secondary and tertiary levels, there is a higher proportion of women than men; and the country has the highest share of female parliamentary representatives in ASEAN (29.8 percent21). Despite this, the Gender Inequality Index (GII) of the Philippines has remained consistently higher than the global and regional average and data suggest that little or no progress has been made in reducing its level since 2013.22

Demographics will have an important bearing on the achievement of the SDGs. Annual rates of population growth have been slowing down but total levels continue to increase and by 2045 total population is projected to increase by 40 percent over the 2015 level, to over 142 million. The share of the population living in the National Capital Region (NCR) is getting smaller, in line with the objective of the National Spatial Strategy (NSS) which aims to decongest the NCR and direct growth to key centres throughout the country, according to the comparative advantage of cities and municipalities. The NSS will form a network of settlements, linking lagging regions with leading ones, thus addressing spatial and socio-economic inequalities as economically and efficiently as possible.23

Environmental development

The Philippines has made good progress across environment-related indicators, achieving the MDG targets related to the proportion of land covered by forest, protected areas and CO2 emissions per unit of GDP. The country is one of only four ASEAN nations to have reached forest cover targets and CO2 emissions targets, while all ASEAN countries achieved the protected areas target. SDG index data reflect positive trends against all indicators under SDG 13 (climate change), and highlight remaining challenges in the areas covered by SDG 14 (life below the water) and SDG 15 (life on land), including biodiversity and specific aspects of the Ocean Health Index—where progress is projected to be slower.24

The Philippines remains highly vulnerable to extreme weather events and climate variability. The INFORM index ranks it as the country most exposed to natural hazards in the world.25 The PDP 2017–2022 points to various challenges that remain to be addressed in relation to this, from weak enforcement of environment and natural resources laws, to issues around allocation of resources (which currently mostly go towards relief and recovery activities as opposed to adaptation and mitigation) and access to sustainable financing for environment and natural resources management, including climate change.

20 PDP 2017–2022, ch. 10
22 Based on World Bank education gender statistics, UNHDR’s Gender Inequality Index (GII), and UNstats’ SDG data
23 PDP 2017–2022, ch. 3
24 Philippines Country Profile, SDG index, 2016
Especially at the local level, available funding competes with other development priorities and access to additional funding is constrained by a range of factors, including lack of information about financing facilities and fund disbursement procedures and requirements. Additionally, private sector investment has remained largely untapped, due to the lack of a clear mechanism to coordinate private sector and government efforts.\textsuperscript{26}

The 2017–2022 PDP positions ecological integrity and a clean and healthy environment as one of its four cross-cutting strategies to support implementation of priorities across all three pillars of the plan (Figure 3).

2.2 Policy objectives

Anchored on the 2040 vision (\textit{Ambisyon Natin 2040}) and on the President’s 10-point socio-economic agenda,\textsuperscript{27} the Philippines Development Plan (PDP) sets out policy objectives for the medium-term (2017–2022). Targets are organized around three main pillars: enhancing the social fabric, inequality-reducing transformation and increasing growth potential. There are four cross-cutting strategies: ensure peace and security, accelerate strategic infrastructure development, ensure safety and build resilience, and ensure ecological integrity, clean and healthy environment (Figure 2.2).

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{26} PDP 2017–2022, ch. 20
\item \textsuperscript{27} http://business.inquirer.net/222340/president-dutertes-10-point-socioeconomic-agenda
\end{itemize}
\end{footnotesize}
Headline targets for 2022 include:

- reaching Upper Middle Income Country status with per capita income levels of at least $5,000
- reducing overall poverty rates from 21.6 percent to 14 percent and rural poverty from 30 percent to 20 percent
- achieving a high level of human development
- decreasing unemployment from 5.5 percent to 3–5 percent
- establishing a greater trust in government and in society
- increasing resilience of individuals and communities in the face of the country’s vulnerability to natural calamities as well as human-induced disasters
- enhancing Filipinos’ drive for innovation (measured by the Global Innovation Index).

The PDP is accompanied by the National Spatial Strategy (NSS), a core strategy of the National Physical Framework Plan 2016–2045 and which forms the basis for policies on urban development, infrastructure development, disaster mitigation, and environmental resource protection and

28 http://www.neda.gov.ph/2016/12/12/neda-board-committee-on-land-use-to-review-national-spatial-strategy/
conservation. Guiding principles include: integrating lagging and leading areas as well as urban–rural linkages through transportation networks; improving access to social services; identifying the location of major infrastructure projects to maximize their benefits; improving local, national and international connectivity; and promoting sustainable development and resilience. Among the key targets of the NSS are to: enhance connectivity between urban centres and marginalized areas; decongest Metro Manila by promoting scale and agglomeration economies in regional and subregional centres; manage the growth of more environmentally constrained metropolitan centres; and reduce vulnerability by ensuring easy access to disaster-affected areas.

Alongside these nationally developed plans and targets, the 2030 Agenda and the SDGs are being increasingly integrated into the country’s planning and budgeting systems. At the highest level, the vision set out in Ambisyon Natin 2040, which sees the Philippines becoming “a country where all citizens are free from hunger and poverty, have equal opportunities, enabled by fair and just society that is governed with order and unity,” coincides with the vision of the 2030 Agenda and with the ‘leave no one behind’ principle. The 2017–2022 PDP is also directly aligned with the 2030 Agenda and the SDGs, from the recognition of the need to balance all three dimensions of sustainable development to the integration of specific SDG indicators in its monitoring framework (as discussed below in Chapter 4).

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29 PDP 2017–2022, ch. 3
30 http://www.neda.gov.ph/2016/12/12/nda-board-committee-on-land-use-to-review-national-spatial-strategy/
3. Financing landscape: bottlenecks, challenges and opportunities

3.1 Overall financing landscape

Domestic resources dominate the Philippines’ financing landscape, with domestic public (including non-grant government revenue and government borrowing from domestic sources) and domestic private (measured on the basis of fixed capital formation) each accounting for over a third of the overall mix (Figure 3). International private financing (including both commercial flows and remittances) amounted to $37.0 billion in 2015, of which $25.6 billion was remittances—alone accounting for 17 percent of the total mix of resources in 2015, and representing the largest single flow of international resources to the Philippines over the whole period under review (Figure 3.2). International public finance (which includes both ODA and less concessional types of financing) amounted to $7.8 billion, having decreased in aggregate by 18 percent since 2000.

Figure 3: Domestic and international finance

Figure 3.1: Sources of finance
Figure 3.2: Financial flow chart of the Philippines

Source: Development Initiatives calculations based on multiple sources.

3.2 Domestic public finance

Overall, domestic public resources—including tax and non-tax government revenue and borrowing from domestic sources—increased from $28.0 billion in 2000 to $54.2 billion in 2015. Government revenue has been driving the trend (Figure 3.3)—increasing from $21.7 billion in 2000 to $50.2 billion in 2015, and with direct and indirect taxes contributing equally to government tax revenues (averaging a 50 percent share each over the period 2000–2014). As a percentage of GDP, government revenue (including tax and non-tax), while fluctuating, has increased from 15.7 percent in 2000 to 17.2 percent in 2015.

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32 No tax breakdown was available for 2015
However, while reforms in tax collection, tax administration, budget policy and expenditure management have created a wider fiscal space to accommodate government spending, revenue levels remain low in absolute terms at less than $500 per person in 2015 and in comparative terms relative to others in the region (Figure 3.4). There could be benefit from further reforms to address outstanding inefficiencies in tax administration (e.g. with regard to corporate income taxation), low compliance and extensive exemptions.

**Figure 3.4: Comparison of government revenue in the region**

Source: Development Initiatives calculations based on multiple sources.

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33 2014 DFAA (p. 16)
34 Llanto, Gilberto M., ‘Development Finance for Filipino 2040’
35 IMF Art IV 2016 (p. 14)
Borrowing from domestic markets has supported government’s financial requirements and has decreased reliance on foreign borrowing, although on the whole, government’s reliance on borrowing, both domestic and foreign, has decreased in recent years (Figure 3.5). Total borrowing as a percentage of GDP has been following a decreasing trend since 2000 and dropped from 9 percent in 2012 to 3 percent in 2014 and 2015.

**Figure 3.5: Government borrowing trends**

![Graph showing government borrowing trends](image)

Source: Development Initiatives calculations based on multiple sources.

Most recently, in July 2016, the Development Budget Coordinating Committee (DBCC) increased the fiscal deficit target to 3 percent of GDP from 2017 onwards. This was mainly driven by the need to accelerate infrastructure development, which is in turn expected to result in increased private investment as, to date, poor infrastructure has been one of the major constraints. As the fiscal envelope is expanded, the recommendations for strengthening expenditure management included in the 2014 DFAA remain relevant—for example the need to address procurement bottlenecks in order to maximize the potential of the increased fiscal space.

### 3.3 International public finance

International public finance—including ODA, other official flows (OOFs) and government borrowing from international sources—accounts for 5 percent of the total mix of resources. ODA, totalling $1.2 billion, is the smallest of the three (Figure 3.6). While ODA has remained relatively constant in volume since 2000, OOFs have increased by 71 percent and foreign government borrowing, although fluctuating throughout the period, has decreased overall from $7.0 billion in 2000 to $4.3 billion in 2015.

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36 Llanto, Gilberto M., ‘Development Finance for Filipino 2040’
37 2016 IMF Art IV
Overall, gross ODA received by the Philippines has decreased as a share of GDP, from 0.8 percent in 2000 to 0.4 percent in 2015. This underlines the need to strategically direct ODA to ensure its impact is maximized even as its relative significance in the overall financing landscape decreases. As suggested in the 2014 DFAA, a strategic use of ODA would be to fund regional and global public goods, including climate change, and to catalyse funding from other sources such as the private sector, for example by supporting capacity building to evaluate and monitor public–private partnership (PPP) projects.\(^{38}\)

The government also envisions an increased role for ODA in infrastructure development, marking a change from the previous administration’s emphasis on private sector financing through PPPs. While government spending is expected to account for the majority of infrastructure funding (66 percent), and PPPs will continue to play some part (18 percent of funding), more emphasis is being placed on ODA loans, which will account for 15 percent of total infrastructure funding.\(^{39}\)

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\(^{38}\) 2014 DFAA

\(^{39}\) http://newsinfo.inquirer.net/910232/duterte-rolls-out-legacy-projects
China’s ODA to the Philippines

Data on ODA collected by the National Economic and Development Authority (NEDA) includes loans and grants received by the country beyond those of Development Assistance Committee (DAC) donors, who report to the OECD. It can thus be used to provide additional insight into ODA contributions to the Philippines by development partners such as China. However, figures include projects that were completed within the reporting year and ongoing projects continuing from previous years, and they also only include ODA channelled through government agencies—thus making it difficult to compare it with OECD data.

Figures 3.7 and 3.8 show aggregate volumes of ODA from China for the period 2007–2015 as a proportion of ODA from all bilateral development partners and as a proportion of ODA from non traditional donors alone (based on comparable data from NEDA). Over the nine-year period, China provided $6.3 billion to the Philippines in ODA loans, and $25 million in grants. These volumes were respectively 13.4 percent and 0.2 percent of all bilateral ODA loans and grants, reflecting China’s significant role in the provision of loans to the Philippines. Compared to other non-DAC development partners, China’s role appears even more pronounced, with its aid to the Philippines accounting respectively for 98.4 percent and 96.5 percent of all non-DAC ODA loans and grants.

Figure 3.7: ODA loans to the Philippines

![Graph showing ODA loans to the Philippines](image)

Figure 3.8: Non-DAC ODA loans to the Philippines

![Graph showing Non-DAC ODA loans to the Philippines](image)

Source: Development Initiatives calculations based on data from NEDA.

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40 Non-DAC development partners for which ODA loans and/or grants were reported by NEDA for 2007–2015 include China, Saudi Arabia, Kuwait, and Turkey
Climate funds

Since 2010, the Philippines has accessed $152 million in climate funding from multilateral climate-specific funds and facilities (Figure 3.9). The Clean Technology Fund (CTF) accounted for the vast majority of this at $138 million, followed by the Global Environment Facility (GEFS) at $7.8 million, the Special Climate Change Fund (SCCF) at $5.0 million (2012 only), and the United Nations Reducing Emissions from Deforestation and Forest Degradation (UNREDD) Programme at $0.5 million (2011 only).

Compared to other ASEAN countries, the amount received by the Philippines is the fourth largest—just under a third of the amount received by Indonesia (which totalled $499 million over the same time period) but above the amounts received by Thailand, Lao PDR, Myanmar and Malaysia.

Figure 3.9: Multi-lateral climate finance from the period 2010-2016

Source: Development Initiatives calculations based on Climate Funds Update (CFU), May 2017 data. Notes: No data for 2015. Data in the chart do not include regional or multi-country projects.

In addition to funding from multilateral funds/facilities, the Philippines has also accessed funding from bilateral funds, including Germany’s International Climate Initiative and Japan’s Fast Start Finance.

Over the past decade, the number of climate funds/facilities has expanded and although to date the Philippines has received funding from only a few, it is eligible to access resources under additional ones too. Key sources include: the Adaptation Fund (AF) for which the country is eligible given that it has signed up to the Kyoto Protocol and is viewed as having a ‘high to extreme’ vulnerability to climate change according to the Climate Change Vulnerability Index; the Forest Carbon Partnership Facility—Readiness Fund, for which the country is eligible as it is a member of both the World Bank’s IBRD and IDA, is located both in a Tropical Area and Sub-Tropical Area, and has had significant deforestation rates; and the Pilot Program on Climate Resilience, which is designed to provide programmatic finance for climate-resilient national development plans to countries that eligible for ODA and with active multilateral development bank country programmes. Additionally, the country is in the process of applying for funding under the Green Climate Fund. Resources from these funds can complement government’s efforts to tackle climate change mitigation and adaptation.

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41 This figure includes funding through climate facilities and funds; it does not represent a comprehensive figure for all climate-related funding that the Philippines receives, as it excludes, for example, climate-related funding that is disbursed by bilateral development partners directly.

42 http://www.climatefundsupdate.org/data/the-funds-v2
3.4 Domestic private finance

Domestic private investment, measured according to fixed capital formation,\(^43\) has more than doubled since 2000, from $18.1 billion to $51.6 billion in 2015 (Figure 3.10). However, volume as a share of GDP has fluctuated over the years and has remained relatively constant since 2010, averaging 17 percent over 2010–2015.

**Figure 3.10: Domestic private investment**

![Graph showing domestic private investment from 2000 to 2015.]

Source: Development Initiatives calculations based on multiple sources.

The 2014 DFAA points to the potential of domestic private finance in contributing to the national development agenda, especially highlighting the role of stable and liquid financial markets, of microfinance and of Corporate Social Responsibility (CSR)—although, as discussed in more detail in Chapter 5, private sector actors are moving away from one-off charity-like CSR activities and toward the integration of corporate social value (CSV) into their core business. A recent report by UNDP highlights that companies adopting inclusive business models are providing sustainable income opportunities as well as more affordable goods and services for people at the base of the pyramid\(^44\)—underscoring the potential of private sector actors in contributing to the inequality-reducing transformation called for in the 2017–2022 PDP. MSMEs in particular, which according to the report register the highest levels of inclusiveness among businesses, could become significant drivers of inclusive growth in the Philippines. Data from Asia SME Finance Monitor show the increasing trend in loans released to MSMEs since 2011 (Figure 3.11), while DTI data show that the almost 900,000 active MSMEs employed 4.8 million people in 2015—with services and trade being the sectors with the highest number of enterprises and largest share of employment (Figure 3.12).

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\(^{43}\) See Annex 1 for more details on methodology

In recent years PPPs have increased the role of the private sector in infrastructure investment. According to data published by the Public–Private Partnership Centre (PPPC), past projects with start dates between 1993 and 2015 had a total cost of $17.1 billion (including both public and private investments). Figures 3.13 and 3.14 show the breakdown of these projects by subsector: the highest number of PPP projects was recorded in the power sector (with 15 projects), while water accounted for the highest total cost, with a single project, the Metropolitan Waterworks and Sewerage System privatization (with contract duration from 1997 to 2022), accounting for $7 billion.

The PPP model is currently being refined to reduce the private sector’s role prior to operation and maintenance with the view of reducing cost to consumers and increasing speed of delivery by making use of available domestic resources and tapping into ODA loans (as mentioned above). It is important that the private sector is consulted in relation to its role in order to ensure that its contribution is
effectively leveraged, and that policy and institutional reform efforts continue in order to strengthen the potential of PPPs in delivering on infrastructure financing needs and to address outstanding efficiency issues, such as project identification and procurement.\textsuperscript{45}

3.5 International private finance

International private finance accounts for almost a quarter of all financing in the Philippines, with remittances exceeding commercial flows and accounting on average for 69 percent of international private finance and 9 percent of GDP over the period 2000–2015 (Figure 3.15).

To date remittances have been mostly directed toward household consumption, education and health, and have also partly contributed to the housing construction boom.\textsuperscript{46} However, given the relative significance that this type of financing plays in the Philippine financing landscape, their potential contribution to development outcomes could be further increased if they were channelled to longer-term investment and local sustainable development initiatives (this is discussed in more detail in Chapter 5).

In addition to more strategically channelling already available resources, the potential of private sector financing toward sustainable development outcomes could be further enhanced by mobilizing additional resources too. FDI levels in the Philippines remain low as compared to other ASEAN-5 countries (Figure 3.16)—with per capita levels at $55.52 (lowest among ASEAN-5s) and FDI as a percentage of GDP equal to 1.9 percent (lowest, along with Indonesia). The 2014 DFAA called for improvements in the policy and regulatory framework as well as in managing political risk to bolster investor confidence and thus attract increased volumes of commercial investments.

\textsuperscript{45} Llanto, Gilberto M., ‘Development Finance for Filipino 2040’

\textsuperscript{46} Ibid.

\textsuperscript{47} 2014 DFAA
Figure 3.16: FDI levels across ASEAN-5

Source: Development Initiatives calculations based on multiple sources.

There is thus scope to further tap into the potential of private finance in the Philippines. The INFF approach to financing for development can support government in identifying complementary roles for different types of resources, mobilizing additional resources and ensuring that already existing resources are put to their most effective use. Chapter 4 expands on this by assessing the policies and institutional arrangements that affect government’s overall financing strategy in relation to national development objectives and the SDGs.
4. The building blocks of an integrated national financing framework

“The attainment of national development goals requires the efficient, responsive, and just allocation of resources by eliminating duplication or overlapping of common functions, maximizing research utilization with minimum disruption to operations, coordinating efforts more closely, sharing information, and consistently working in a collaborative manner”

President Duterte’s Executive Order No. 1 (2016)

Chapter 2 notes the progress made by the Philippines across all aspects of sustainable development dimensions, including increasing economic growth rates, poverty reduction, and environmental-related gains such as the achievement of MDG targets on forest cover and CO$_2$ emissions. It also highlights remaining challenges, including inequalities—in income and geography, infrastructure gaps, provision of quality employment opportunities, and continued climate change vulnerabilities.

Against this backdrop, Chapter 3 highlights the challenges and opportunities arising from the evolution of the Philippines’ financing landscape in recent years. Government revenues though increasing remain relatively low. Reliance on borrowing has been decreasing, although recent changes in government’s approach to infrastructure development may result in increases in foreign borrowing which need to be strategically considered. Domestic private investment has remained constant as a proportion of GDP since 2010. ODA represents a minimal part of the overall resource mix (0.8 percent in 2015), although its catalytic potential could be further leveraged. Remittances, which dominate among international financing flows, continue to be used mainly for consumption although there is potential to channel them to longer-term investments and local sustainable development projects. Finally, international commercial investment has doubled in volume between 2000 and 2015 but scope remains to leverage additional amounts.

The INFF can be a valuable tool in ensuring that these financing challenges and opportunities are respectively addressed and leveraged towards sustainable development results, in line with the ambitious targets and goals of the PDP and the long-term vision set out in Ambisyon Natin 2040. This chapter explores what elements of an INFF are already present in the Philippines and where the main gaps lie, in order to support government’s efforts to manage and mobilize all resources—domestic, international, public, private—in a coherent, strategic and results-focused way.
4.1 Assessment of existing framework

Figure 4 is an adaptation of the general INFF diagram, and is used to illustrate the current status of INFF building blocks in the Philippines.

**Figure 4: Building blocks of the Philippines’ INFF**

<table>
<thead>
<tr>
<th>Building Block</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BB1 Leadership and institutional coherence</strong></td>
<td>NEDA (NEDA Board chaired by President); Department of Finance (DOF); Cabinet clusters; Inter-agency committees (DBCC and ICC); Philippine Chamber of Commerce and Industry; CSO networks</td>
</tr>
<tr>
<td><strong>BB2 Vision</strong></td>
<td>AmBisyon Natin 2040; Philippine Development Plan (PDP) 2017-2022</td>
</tr>
<tr>
<td><strong>BB3 Financing strategy</strong></td>
<td>Revised framework in financing national government projects (2013)</td>
</tr>
</tbody>
</table>
| **BB4 Financing policies** | - Public Investment Programme (NEDA)  
- MTEF (DBM)  
- Budget Priorities Framework (DBM)  
- PPPs framework (PPP Centre/NEDA)  
- Diaspora Investment Programme (COF) |
| **BB5 Monitoring and evaluation** | PDP Results Matrix; NEDA Socio-Economic Report; ODA Portfolio Reviews |
| **BB6 Accountability and dialogue** | Philippines Development Forum; NEDA consultations; NCC; Open Government Partnership; Regional Development Councils. |

Notes: NEDA: National Economic and Development Authority; DBCC: Development Budget Coordination Committee; ICC: Investment Coordination Committee; CSO: civil society organization; DBM: Department of Budget and Management; PPP: public–private partnership; CFO: Commission on Filipinos Overseas; NCC: National Competitiveness Council.

Building Block 1: Leadership and institutional coherence

Leadership in relation to the overall development process as well as the advancement of national development goals stipulated in the PDP lies at the highest level of government in the Philippines—the Office of the President. Six Cabinet Clusters facilitate coordination and collaboration across priority sectors and cross-cutting themes. They cover: human development and poverty reduction; security, justice and peace; climate change adaptation and mitigation and disaster risk reduction; economic development; infrastructure; and participatory governance—the latter being responsible for fostering citizen participation in governmental processes, including at the local and grassroots level. There is no specific cluster on financing.

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48 For a more in-depth description of the each INFF building block as well as the diagram which Figure 18 is adapted from, see: UNDP, APDEF, 2016, Achieving the Sustainable Development Goals in the Era of the Addis Ababa Action Agenda: Progress on establishing integrated national financing frameworks in the Asia-Pacific region

49 EO No. 1 of 2016 ‘Reengineering the Office of the President Towards Greater Responsiveness to the Attainment of Development Goals’

The President also chairs the Board of NEDA. The high-level composition of the NEDA Board, which includes all Cabinet members and the Central Bank Governor, facilitates a multisectoral and comprehensive approach to planning. Seven Cabinet-level inter-agency committees assist the NEDA Board in executing its functions—two of these, the DBCC and the Investment Coordination Committee (ICC) are particularly relevant to financing aspects of development planning. The DBCC is responsible for recommending levels and allocation of government spending (both current and capital) as well as setting the ceiling for spending on economic and social development, national defence, and government debt service. The ICC’s functions include monitoring and evaluating the fiscal, monetary, and BOP impacts of major national projects and advising the President on domestic and foreign borrowing programmes. Together, the DBCC and ICC ensure that outputs delivered by programmes and activities included in the budget link to desired development outcomes identified in the PDP.

More broadly, NEDA has the mandate to: coordinate the formulation, implementation and monitoring of national development plans; coordinate the roles of development partners in contributing to the PDP; and develop the Public Investment Programme (PIP), which accompanies the PDP and includes priority programmes and projects to be implemented by national government, government-owned and controlled enterprises and government financial institutions in pursuit of objectives in the PDP and the PDP-RM. While programmes and projects included in the PIP may be financed in partnership with the private sector or through ODA, specific funding gaps that could be filled by non-state actors are not articulated in it.

The Department of Finance (DOF) is mandated to manage the financial resources of the government and among other things, is tasked to “steer fiscal programs toward an investment-friendly environment” to enhance private investment. Beyond government, the development process is enriched by contributions of the Philippine Chamber of Commerce and Industry, which is the recognized voice of business in processes involving government and international organizations, as well as multiple CSO networks.

Thus the potential role of both private sector and development partners in financing priority projects is recognized. However, there is no single body or a formalized system for coordination of agencies/committees with the mandate to consider and manage the mobilization and use of all types of financing—domestic, international, public, private—in relation to their potential contributions to development outcomes.

Building Block 2: Vision for results

A clear vision for results is the foundation of an INFF, on which financing plans and targets can be built. The Philippines’ long-term vision articulated in Ambisyon Natin 2040 is the first of its kind for the country. Prior to it, the development planning process relied on six-year, term-based national development plans, which were not anchored on a longer-term development plan or vision.

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52 2014 DFAA (p. 10)
53 http://www.dof.gov.ph/index.php/about/who-we-are/
The 2040 vision\textsuperscript{54} is the result of a highly consultative and participatory process which began in 2015, guided by an Advisory Committee composed of representatives from government, the private sector, academia and civil society, led by NEDA. The process started with 42 focus group discussions, which NEDA conducted in 10 different regions across Luzon, Visayas and Mindanao. The focus groups were especially targeted at poor and marginalized groups to ensure that their voices were heard in the process—including fishermen, farmers, the urban poor, disaster survivors, Overseas Filipino Worker families, indigenous people, students, formal workers, government workers, out-of-school youth and persons with disability. The results of the focus group discussions then formed the basis for the design of a survey that was shared across the country and to which approximately 10,000 people responded. Alongside identifying the aspirations of the Filipino people, NEDA, with the support of the Asian Development Bank, sought to also explore the means of implementations to achieve them, through undertaking thematic studies with the aim of ascertaining the constraints and possibilities of attaining the goal.\textsuperscript{55}

When \textit{Ambisyon Natin 2040} was officially adopted in October 2016, the alignment of all development plans to it was also legislated (EO No. 5 of 2016\textsuperscript{56}). The current PDP, which covers the period 2017–2022 and which was also the result of a series of consultations with a range of stakeholders, is the first medium-term development plan that will contribute to the achievement of the long-term vision. The PDP is not further articulated into annual plans or strategies; however, the RM which will accompany the PDP and which is currently being finalized, will include yearly targets as well as SDG-related indicators and will thus guide annual implementation of activities and projects as well as inform progress on the SDGs. Additionally, the annual Budget Priorities Framework also supports the link between priorities identified in the PDP and programmes and activities implemented on a yearly basis.

Neither \textit{Ambisyon 2040} nor the PDP are costed in detail, though the PDP refers to the envisaged role of different actors, including development partners and the private sector, in specific sectors (see below on Building Block 3). While costing development plans necessarily relies on a series of assumptions, estimates can enable assessments of the financing implications of identified priorities, including their affordability and the identification of financing gaps that may need to be filled by non-state actors, thus serving as a key element to guide resource mobilization efforts by government.

\textbf{Building Block 3: Financing strategy}

The need for a financing plan is recognized as one of the four main elements necessary to implement the SDGs at the national level and helps determine the priorities and roles for mobilizing resources across all types of financing.\textsuperscript{57} Although a comprehensive long-term resource mobilization strategy that

\textsuperscript{54} The long-term vision formulated in \textit{Ambisyon Natin 2040} is two-faceted; it includes both a vision of Filipinos for self and one for the country—see: http://2040.neda.gov.ph/wp-content/uploads/2016/04/Realizing-the-Vision.pdf (slides 2 and 12 respectively)

\textsuperscript{55} FAQs: ‘How did NEDA come up with Ambisyon Natin 2040? What was the process behind it?’ and ‘Were all stakeholders involved in the visioning process?’ (accessed here: http://2040.neda.gov.ph/faqs/); http://2040.neda.gov.ph/2016/04/05/hello-world/

\textsuperscript{56} http://2040.neda.gov.ph/wp-content/uploads/2016/10/EO-No.05_Ambisyon-Natin-2040.pdf

\textsuperscript{57} https://sustainabledevelopment.un.org/content/documents/21391Philippines.pdf (slide 10). The other three elements are an implementation plan, institutional mechanism and monitoring plan
looks beyond public finance is yet to be developed, foundations for one exist in available guidelines, plans and publications.

The Revised Framework in Financing National Government Projects sets out the rationale and process for optimizing the role of ODA alongside government’s broader access to foreign capital markets and cheaper domestic financing. It provides a framework for harmonizing domestic and external public finance with PDP, PIP and DBCC targets, and for institutionalizing coordination among government agencies and between government and development partners as it relates to financing national government projects.58

The 2017–2022 PDP refers to different sources of financing needed to achieve objectives in given sectors. Examples include: PPPs for housing; innovative mechanisms and more private sector investments for financing for science, technology and innovation; an “optimal mix of government financing, ODA, and private capital” for infrastructure; climate and DRRM financing to meet environmental targets.

The 2014 DFAA and subsequent publications based on it59 propose specialized roles for different types of finance based on their comparative advantages. Examples include: using ODA for regional public goods and as a catalyst for attracting private capital; maintaining the focus of PPPs on infrastructure financing; expanding the use of remittances to include long-term investments of the state; and leveraging the potential of FDI for job creation, especially in manufacturing and agriculture sectors.

These documents are robust starting points for government to strengthen its top-level, overarching approach toward all resources, including clearer articulation of private sector involvement. Forward-looking guidance for different types of resources—public, private, domestic, international—can support effective prioritization of their use and maximization of their impact vis-à-vis government’s national development plans. In addition, and especially given the recent emphasis on internally generated finance through the expanded fiscal space, a long-term holistic strategy for resource mobilization would also provide the necessary framework within which structural reforms to enhance DRM could be anchored. Further, it would also address the need—highlighted in multiple publications60—to better coordinate the role of development cooperation in the context of national goals and targets.

However, before a resource mobilization strategy can be fully developed, priority interventions identified in the PDP, and further articulated in the PDP-RM, need costing (to the extent possible). This will enable the establishment of targets for mobilizing different types of resources and efforts monitored against them.

**Building Block 4: Financing policies for specific flows**

In the Philippines, a number of government agencies and inter-agency committees share responsibility for setting operational-level financing policies. These include the Department of Finance (DOF), the Department of Budget and Management (DBM), DBCC, NEDA and the Commission on Filipinos Overseas (CFO).

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59 Llanto, Gilberto, ‘Development Finance for Filipino 2040’

60 2014 DFAA; Llanto, Gilberto, ‘Development Finance for Filipino 2040’; GPEDC Report 2016 (p. 16)
The DOF formulates overall fiscal and tax policies and manages public debt. The DBM is responsible for government spending policies, including setting the medium-term expenditure framework, which in turn provides the basis on which the annual budget priorities framework is developed. The DBCC—whose members include DBM, NEDA, DOF, and the Central Bank—recommends annual levels of government expenditure and the ceiling for government spending on economic and social development, national defence, and debt service. These policies predominantly focus on domestic public resources.

In addition, NEDA prepares the PIP, which accompanies the PDP and contains a list of priority projects to be financed by national government funds in partnership with the private sector or through ODA. As mentioned above, no detail is currently provided on the funding gaps that non-state actors could contribute to fill; however, the PIP could guide the identification of such gaps, as well as the articulation of the complementary role that non-state actors could play in both financing and implementing the identified programmes—especially in relation to major infrastructure projects, through the three-year rolling infrastructure programme (TRIP).

The CFO—under the Office of the President—manages a series of projects for channelling diaspora resources to national and local development needs, including the Diaspora Investment Programme which seeks to enhance and promote different financing instruments and investment services for the diaspora. However, to date the vast majority of remittances continues to be channelled to household needs and consumption, with only 4.4 percent to investment. Scope remains to strengthen the policy and institutional framework for maximizing the impact that remittances can have in contributing to achieving national and sustainable development targets.

Thus a number of financing policies exist to guide the mobilization and use of state and non-state resources. The main gap lies in the lack of a specific policy for facilitating commercial investment in the context of identified development priorities. Commercial capital not only contributes to economic growth, job creation and innovation, but also has an important impact on society and the environment. And while the private sector is by nature driven by market forces, government can have a powerful influence over the extent and way that commercial capital is invested. In addition to entering into direct partnership with the private sector, for example through PPPs, government can influence the business environment and set incentives to direct investments to particular sectors or geographical areas, which can in turn contribute toward identified development outcomes.

Within the ASEAN region, other countries have set financing policies aimed at facilitating private sector development. For example, Myanmar’s new Investment Law (2016) brings together previously separate legislation on domestic and foreign investment, thus providing a more coordinated framework which also includes links to the SDGs and identifies a number of priority sectors. Cambodia’s Industrial Development Strategy 2015 aims to stimulate high levels of sustainable and inclusive growth, particularly

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63 Bangko Sentral ng Pilipinas, 2017, Migration, Investment and Financial Services in the Philippines, presentation by PiaBernadette Roman Tayag, Director, Inclusive Finance Advocacy Office and Concurrent Head, Financial Consumer Protection Department
in manufacturing and rural development, by bringing together a number of reforms that affect private sector development under a single policy. Thailand’s economic model puts economic goals alongside leaving no one behind and inequality-related targets, including tax incentives for investors in the 20 poorest regions of the country. These strategies and approaches may provide valuable insight for the Philippines context and assist the country in strengthening private sector contributions to achieving national development targets and goals.

Notably though, financing policies for different types of resources would benefit from the existence of an overall costed vision and plan for national development as well as an overarching resource mobilization strategy, which would serve as starting point and coordination mechanism for their development.

Building Block 5: Monitoring and evaluation

The PDP-RM represents the overarching monitoring framework used to track progress and evaluate interventions against identified development objectives. Its hierarchical structure and results orientation allows the linking of annual targets across different priority areas to longer-term outcomes and PDP goals—thus providing a holistic picture of where progress is occurring and informing prioritization of activities in order to achieve the desired results (Table 2).

**Table 2: PDP results matrices hierarchy of indicators and targets**

<table>
<thead>
<tr>
<th>Objectives/ Results</th>
<th>Socio-economic Agenda</th>
<th>Indicator</th>
<th>Baseline</th>
<th>Annual Plan Targets</th>
<th>End-of-Plan Target</th>
<th>Means of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Year</td>
<td>Value Y1 Y2 Y3 Y4 Y5 Y6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Based on NEDA templates for PDP Results Matrices

The RM for the current 2017–2022 PDP is, at the time of writing, being finalized. In addition to elements already included in previous versions, it will also contain relevant SDG indicators—thus making the connection between national development objectives and the SDGs explicit and measurable. However, what is still missing from the framework is a system of targets and indicators to monitor government’s efforts in mobilizing necessary resources and the outputs and results that such resources contribute to.

Building on the existing RM structure and approach, a possibility would be to develop and include financing-related indicators at four levels:

1. At the input level, government efforts to mobilize resources would be monitored through for example the frequency and quality of public–private dialogue or the impact of various government policies on the business environment.
2. At the output level, the scale of resources mobilized would be monitored, for example volumes of private investment against identified funding gaps in the PDP.
3. At the outcome level, the outcomes generated by these investments would be monitored, for example job creation.
4. At the impact level, the contribution of those outcomes would be monitored against PDP objectives and goals, for example the contribution of job creation to poverty reduction or reduction in inequality.⁶⁴

Existing processes for monitoring specific types of financing could support the setting up and initial implementation of such a system, as they already collect some of the data and information which would be required—especially in relation to second- and third-level indicators suggested above. For example: NEDA’s ODA Portfolio Reviews include data on volumes of ODA loans and grants; the Central Bank’s system for collecting data on remittances provides monthly updates on volumes by country of origin; and NEDA’s Socio-Economic Reports include data and analysis on progress in relation to key socio-economic indicators, such as GDP growth, job creation and access to social services.

The inclusion of financing-related indicators in the PDP-RM would provide the basis on which more specific monitoring, evaluation and learning systems could be developed for each type of financing—encouraging a more results-oriented approach to their mobilization and use.

**Building Block 6: Accountability and dialogue**

In recent years, the Philippines has become an example among ASEAN countries for its commitment and action in relation to open government principles, including transparency and accountability.

There are multiple examples of transparency portals that have been established in order to allow citizens to hold government to account in relation to public spending in specific sectors. The infrastructure transparency portal, ‘Build Build Build’, for example, contains a wide range of real-time information on high-impact infrastructure projects which citizens can access online—including implementing agency, budgeted cost, start date, estimated close date, implementation status and funding source (e.g. ODA or PPPs).⁶⁵

The ‘Check My School’ initiative—implemented thanks to constructive engagement between the Affiliated Network for Social Accountability in East Asia and the Pacific (ANSA–EAP) and the Department of Education (DepEd)—allows citizens and communities to participate directly in the governance of public schools. The aim is to continuously improve the quality of education through improved tracking of spending at the school level. A network of volunteers—including community members and local NGOs—verifies data released by DepEd against the reality on the ground, identifies any issues and monitors their resolution, through a combination of site visits and use of ICT.⁶⁶

More broadly, Open Data Philippines—which was set up in 2014 under an Open Government Partnership (OGP) initiative—allows the general public to access over 3,000 data files from different national government agencies. While individual agencies have launched separate open data portals

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⁶⁴ Based on suggested approach in: AP-DEF, UNDP, Building Integrated National Financing Frameworks: A compendium of country experiences, 2017 (p. 28)
⁶⁵ http://www.build.gov.ph/
and programmes over the years. Open Data Philippines aims to bring together all government data in one single portal and to make it accessible, searchable and understandable so as to facilitate use by the general public.

The establishment of such portals is an important step in enhancing government accountability in relation to spending. However, there is scope to further strengthen dialogue platforms—especially at the national level—to ensure effective engagement with non-state actors in designing, financing and implementing national development priorities. The 2016 GPEDC monitoring round noted that the quality of inclusive partnerships in the Philippines could be further deepened by formalizing spaces for coordination, consultation and clearer identification of the potential for CSOs and the private sector to, jointly with government and development partners, contribute to the SDGs distinctively. With specific reference to financing, effective dialogue mechanisms between government and other actors is key in order to ensure that different sources of finance are used in a coordinated, complementary manner and that any constraints are addressed to maximize their impact in relation to desired outcomes.

NEDA leads government’s dialogue and coordination with development partners. There is no overarching development cooperation strategy so this is mostly done on a bilateral basis, when development partners and government engage on priorities for their particular country strategies, as well as during annual ODA review processes which are undertaken to inform NEDA’s ODA Portfolio Review reports.

With regard to private sector and civil society engagement, concerns have been raised around the quality and consistency of dialogue. Although overarching platforms and processes exist (e.g. the National Competitiveness Council (NCC), OGP processes and initiatives, bottom-up approach to budgeting), the private sector has deemed that sustaining quality of dialogue is a challenge. Additionally, these platforms do not necessarily focus on financing issues, pointing to the need to review their objectives and functions in order to enable them to serve relevant purposes in relation to financing for development efforts. A key issue to consider is their ability to cross administrations—as continuity of policies and priorities is a critical concern for private sector actors.

Additional issues related specifically to civil society participation include the scarce resources of the sector which limit its capacity to meaningfully engage in multi-stakeholder dialogues. The diversity of CSOs in the country also makes it difficult to coordinate broad, civil-society-wide dialogue.

Effective dialogue can build consensus, ensure ownership toward common objectives, and enhance transparency and mutual trust. Currently, there are no formal mechanisms for tracking the contributions of business or civil society toward development outcomes. Consolidating reporting

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67 For example DBM’s Transparency Seal programme, DILG’s Full Disclosure Policy Portal (FDPP), and PSA’s Open Statistics Portal
68 https://www.gov.ph/data/about-0
69 Philippines GPEDC Monitoring Profile, October 2016
70 In 2013 CSO engagement in budget preparation was expanded and DBM created a CSO Desk to monitor CSO participation in budget preparation (https://www.adb.org/sites/default/files/publication/30174/csb-phi.pdf)
71 2016 GPEDC Report (p. 23)
72 2016 GPEDC Report (pp. 20–21)
73 See Chapter 5 for related ongoing initiatives.
on the contributions that business and civil society are already making toward national development objectives and the SDGs—for example by expanding the nature of targets and indicators included in the PDP-RM—would facilitate government’s planning and coordination and provide an evidence base on which to build constructive dialogue.

The Philippine Development Forum represents a good starting point for effective interaction among different actors including on financing issues—as it brings together a broad range of stakeholders including government, development partners, the private sector and civil society. However, its structure and objectives would need to be reviewed and strengthened in order to enable it to become the mechanism for consistent and constructive multi-stakeholder dialogue (e.g. through more regular meetings, specific consideration of financing for development issues as well as strengthening technical capacity of the different working groups in order to ensure convergence of development partners’ efforts with nationally identified priorities). Additionally, Regional Development Councils which are multi-stakeholder by design can provide a good venue for convening partners at the subnational level.

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74 This was suggested in the 2014 DFAA
The Open Government Partnership in the Philippines

Founded in 2011, the Open Government Partnership (OGP) is a multilateral initiative that aims to secure concrete commitments from governments to promote transparency, empower citizens and fight corruption. The Philippines is one of the eight founding members of the OGP and one of only two ASEAN countries to be part of the OGP (the other being Indonesia).

Many of the Philippines’ recent successes with regard to the implementation of open government principles have been guided by OGP National Action Plans, the third of which covers the period 2015–2017 and is nearing the end of its implementation period. Over the years, the OGP initiative has helped transform the Philippines from the ‘Sick Man of Asia’, in a time characterized by government corruption that the country’s leaders either tolerated or actively participated in, to one of the leading economies in the region. A number of notable achievements were made under the second plan: an Open Data Portal that now holds over 3,000 data files from different national government agencies; improved fiscal transparency following a 98 percent compliance rate to the Transparency Seal, which mandates government offices to post key budget and financial documents on their respective official websites; and a positive pilot phase of the Citizen Participatory Audit (CPA), whereby citizen representatives sit at the same table, and are given the same powers and responsibilities as the state auditors. Three CPA pilots were done, each trialling different levels of citizen engagement. Under the current plan (2015–2017), citizens have the ability to influence the tools used during data-gathering activities, and write the audit report along with state officials to effectively communicate their own recommendations.

The overall scope of the ongoing (third) OGP plan is to continue the increase in public integrity by expanding transparency in government expenditures and in the revenues of extractive industries. From the five OGP Grand Challenges, the plan tackles four: Improving Public Services, Increasing Public Integrity, More Effectively Managing Public Resources, and Increasing Corporate Accountability. The latter features a private-sector-led Integrity Initiative, which institutionalizes corporate accountability via common ethical standards in the public and private sector. This is one of 12 main objectives of the plan, each of which institutionally draws in different combinations of governmental and private bodies responsible for its implementation. Other objectives include: furthering the engagement of civil society in public audit through the CPA; improving the ease of doing business; strengthening community participation in local planning and budgeting; and passing the Freedom of Information Order, which was historically achieved following President Duterte’s signing of the legislation in November 2016.

In terms of institutional set-up for implementing OGP initiatives in the Philippines, initially these were simply a subset of activities already identified under the Governance Cabinet Cluster Action Plan. Starting with the third plan, however, priority interventions have been ‘co-created’ by all members of the PH-OGP Steering Committee, which is composed of representatives of national government, local government, civil society and the business sector. This has resulted in wider ownership of the plan, including joint commitments on identified issues and corresponding actions.

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76 https://www.opengovpartnership.org/about/about-ogp
5. Private sector development

Private capital plays a significant role in the Philippine financing landscape; however, its potential to contribute toward financing national development priorities and the SDGs could be further leveraged. Analysis in Chapter 3 illustrates that domestic commercial investment accounts for over a third of all financing in the country and also highlights the potential of both MSMEs and PPPs in contributing to inclusive growth and infrastructure development respectively—both areas directly linked to SDGs 8 and 9. The financing landscape analysis also identifies remittances as the largest single source of international finance to the country—over double the volume of FDI and international private borrowing combined, in 2015.

Chapter 3 also points to the scope that exists to leverage further amounts of private capital (especially FDI) into the country and to more strategically channel existing flows (such as remittances and domestic private investment). This chapter considers both these opportunities by applying the INFF lens to existing plans and processes that govern private sector action in the Philippines and suggesting ways of strengthening them in order to maximize the impact that private capital could have on sustainable development outcomes in future.

5.1 How is the role of the private sector articulated in existing government development plans and processes?

It is clear from the PDP that the government’s vision for development includes a role for the private sector. As mentioned in Chapter 4 above, the PDP recognizes and points to the need to involve private actors in the financing of development priorities identified in specific sectors. Examples include PPPs in the housing sector, innovative financing mechanisms in the agriculture sector as well as for science, technology and innovation, and an “optimal mix of government financing, official development assistance, and private capital” for infrastructure investments. However the PDP and the investment plans that accompany it (including the PIP) stop short of providing details on how such financing from private actors will be mobilized, including what government interventions may be used to directly or indirectly stimulate further private sector investment. The diaspora also features in the PDP but mostly in relation to the initiatives that overseas Filipinos will benefit from as a result of implementation of PDP activities— for example higher participation in governance initiatives and simplified access to specific government services—rather than in relation to its role within the development financing landscape.

Thus the potential contributions of private sector actors in financing development outcomes is not fully articulated. In part this is due to the lack of an overarching financing strategy, which would allow for coordination of more focused financing policies, including private sector development strategies, and policies to expand the use of remittances beyond household consumption (as discussed in Chapter 4).

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78 PDP 2017–2022 (ch. 19, p. 300)
In part this is also due to the need to strengthen collaboration and dialogue among actors (as is the case for commercial investment) or to strengthen coordination among relevant agencies involved in the mobilization and use of such financing to channel it to more strategic uses (as is the case for diaspora resources).

### 5.2 How can the potential of private capital be increasingly leveraged for sustainable development?

**Commercial investments**

On the one hand, enhanced dialogue and collaboration between government and the business sector, as suggested in Chapter 4 above, would allow for constructive engagement on the challenges being encountered by private actors/corporations already contributing to development outcomes in the country and on solutions that would facilitate their role and expand that of others. On the other hand, improved transparency on what contributions businesses make toward national development objectives and the SDGs would allow government to more effectively plan and prioritize interventions for facilitating their increased role.

Multiple examples exist in the Philippines to illustrate the type of initiatives that businesses are already engaging in with regard to sustainable development and which, with enhanced dialogue and collaboration with government, could be expanded.

The Energy Development Corporation (EDC) for example considers CSV-related initiatives as part of its core business model, which can strengthen the company's sustainability and are thus not one-off interventions mostly focused on marketing. Of all EDC employees, 87 percent are hired locally thus contributing to job creation objectives across the country. The company is carbon positive, with its carbon footprint of 806,117 CO2e representing 30 percent of the carbon absorption EDC has facilitated through forests and plantations over the past four decades—thus contributing to green growth and environment-related objectives. Additionally, EDC has two main programmes that can be specifically related to sustainable development. There is an EDC umbrella programme for its CSR projects that promote health and well-being of host communities, provide quality basic and alternative education, teach livelihoods and involve communities to protect and preserve the environment—all interventions that benefit the communities and the company equally as EDC relies on a local workforce and natural resources. EDC also has a flagship reforestation programme, under which 96 threatened species of tree have been rescued and almost 9,000 hectares of denuded land restored. These are initiatives that have positive long-term impacts across all sustainable development dimensions—social, economic and environmental—and that could be implemented by businesses across the board—albeit to different degrees depending on available resources and synergies with business models. As mentioned already in the 2014 DFAA, increased coordination between government and private actors would enable the expansion of such initiatives through strengthening of the enabling environment.

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The move beyond one-off CRS initiatives by businesses in the Philippines and the incorporation of development/social outcomes in their core business models are also reflected in the work on sustainability reports by Philippine Business for the Environment (PBE)\(^80\) as well as that on inclusive business models by UNDP, the Istanbul International Centre for Private Sector in Development and Business Call to Action.\(^81\)

With regard to transparency vis-à-vis the contributions that business makes to the SDGs, Global Reporting Initiative (GRI)\(^82\) metrics can be a good starting point in order to enhance this. A number of companies already use the GRI standard for their sustainability reporting and disclosure in the Philippines, thus allowing for public accountability in relation to their commitment and action toward achieving the SDGs. Additionally, a recent initiative by UNDP and PBE has sought to map private sector contributions to SDG indicators, and may provide the baseline for more regular monitoring going forward.

**Remittances**

Given their relative scale and current role in the national financial landscape, remittances have the potential of becoming an even more significant source of development financing if coordination across relevant actors responsible for mobilizing and using diaspora resources is strengthened\(^83\) and these are increasingly channelled to strategic uses. While currently remittances mostly contribute to consumption purposes and to the response in the aftermath of natural disasters,\(^84\) they also contribute to local development projects—a role that could be expanded in order to increase their sustainable development impact. Additionally, and in order to further leverage the long-term impact potential of remittances, mechanisms for directing them toward long-term investments should be explored.

There are a number of projects for leveraging the potential of remittances toward local development projects in the Philippines, though these represent a small proportion of overall remittances. Through LINKAPIL for example overseas Filipinos can channel resources to specific projects identified by local government units and local NGOs. LINKAPIL was established in 1989 by the Commission of Filipinos Overseas (CFO) and focuses on small-scale projects at the local level, including reactive projects in the aftermath of natural calamities—thus mostly encouraging a philanthropic use of remittances. In 2014, total donations through LINKAPIL amounted to PHP240.5 million—equivalent to approximately 0.02 percent of total remittance inflows.\(^85\)

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\(^80\) For example, PBE supported the Bank of the Philippine Islands (BPI) in producing its 2014 sustainability report in which strategies by the Bank to foster financial inclusion, invest in sustainable development, empower people and society and use resources efficiently, among others, are set out and linked to its overall focus areas and goals


\(^82\) GRI is an international independent organization that helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others


\(^84\) The 2014 DFAA points to the surge in cash remittances to the Philippines following Typhoon Haiyan in 2013

The Overseas Filipinos Diaspora Remittances for Development (OFRED) Project, instead, focuses on the use of diaspora funds to contribute to longer-term sustainable development outcomes such as job creation. OFRED leverages remittances through the use of other types of financing, including from local government/province, the private sector (cooperative bank) and philanthropy (Western Union Foundation). The funding is then channelled to MSMEs which are given small loans to sustain and/or grow their business.\(^{86}\) The OFRED model illustrates how remittances can be effectively mobilized to contribute to sustainable development outcomes through a multi-stakeholder approach. Exploring how this model could be rolled out to additional regions and locations across the country could complement public initiatives in related PDP priority areas.

In addition to these projects, the Philippines could explore ways of leveraging remittances to more directly support national and sustainable development goals based on the experience of other countries. Israel and India, for example, are the two most successful issuers of diaspora bonds although their approach has been different. The government of Israel established the Development Corporation for Israel (DCI) to issue diaspora bonds; while India relied on the government-owned State Bank of India (SBI). Israel views DCI’s diaspora bonds as catalyst for economic development and growth, while India has turned to SBI to raise funding from the Indian diaspora in times of weakness in the balance of payments. Israel offered a large menu of options for investors while India’s was more fixed. Research suggests that to instil higher confidence and to overcome potential hostility by the diaspora, proceeds from diaspora bonds could be earmarked for specific projects aligned with diaspora interests, such as infrastructure or medical facilities. Additionally, and especially if there is a desire to tap into US markets, registering with the Securities and Exchange Commission (SEC)—which Israel did—may be beneficial as it could signal higher levels of trustworthiness in the instruments.\(^{87}\)

Beyond diaspora bonds, other mechanisms can also be used to mobilize long-term investment use of remittances. Potentially relevant alternatives for the Philippines include:\(^{88}\)

1) foreign exchange deposit accounts—such as Turkey’s Super Foreign Exchange Accounts, which offered longer-term and higher-interest rates to Turkish expatriates to encourage them to hold their savings in the country

2) government assistance, including credit provision and incentives—such as Brazil’s Mutual Fund for Investment in Emerging Enterprises which aimed to channel part of regularly transmitted remittances to productive uses, or Morocco’s use of subsidized credit by its state-owned bank (Groupe Bancaire Populaire) for encouraging remittances to be used for real estate and entrepreneurial investments in the country

3) inclusion of the diaspora in PPPs for infrastructure—such as India’s $500 billion national infrastructure project which leveraged the knowledge and financing resources of overseas Indians through PPPs.\(^{89}\)

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88 UNCTAD, 2011, Maximizing the development impact of remittances
6. Leaving no one behind

Leave no one behind (LNOB) is a fundamental imperative of the 2030 Agenda and the SDGs, reflecting the need to ensure that all people, including the poor and most vulnerable, can share in the benefits of growth. The principle cuts across all aspects of sustainable development and cannot be simplified or considered within a single sector. This chapter explores how government plans and processes relate to the objectives of leaving no one behind and provides examples of financing in two sectors particularly relevant to ensuring that no one is left behind—health and housing.

6.1 Government’s approach to LNOB

Growth in the Philippines in recent years has been strong and significant gains have been made in poverty reduction and other key social indicators (including gender equality), as illustrated in Chapter 2. However, over a fifth of the population continues to live under the poverty line and inequality remains a key challenge for achieving sustainable development objectives and targets in future. Against this backdrop, the government has been placing substantial emphasis on inclusive growth and the need to further reduce poverty and inequality in its development plans and processes.

The long-term vision included in Ambisyon 2040 envisions a country where no one is poor, facilitated by economic growth that is broad-based and that can result in more equal income distribution. One of the three pillars on which the 2017–2022 PDP is based is inequality-reducing transformation and one of the headline targets of the plan is for growth to be “more inclusive as manifested by a lower poverty incidence in the rural areas, from 30 percent in 2015 to 20 percent in 2022”. At the more operational level, programmes such the NHIP, K-12 and Conditional Cash Transfer (CCT) are very much in line with the LNOB principle as they seek to expand access to basic services for all.

Additionally, a key focus of the current administration is on participatory governance—and although there is scope for strengthening dialogue platforms as highlighted in Chapter 4, the consultative processes by which both Ambisyon 2040 and the PDP were developed on the one hand, and initiatives such as Citizens Participatory Audit on the other, point to government’s efforts to ensure that everyone’s voice is heard in designing, implementing and monitoring development programmes and projects.

The Cabinet Cluster on Human Development and Poverty Reduction is mandated to improve the quality of life of the Filipino people through a broad-based approach to service delivery. Functions include capacity and opportunity building among the poor and marginalized, increasing social protection and the engagement of communities in their development, promoting equal gender opportunities in public policies and programmes, and ensuring effective coordination of national government programmes at the local level.

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90 NEDA, Ambisyon Natin 2040: A Long-Term Vision for the Philippines
91 PDP 2017–2022, ch. 4 (p. 48)
The Social Development Committee (SDC)—one of the inter-agency committees of the NEDA Board—also participates in leading and coordinating LNOB-related interventions by government. This includes advising the President on social development matters—including education, human resources, health and nutrition, population and family planning, housing, human settlements and the delivery of other social services; coordinating social development activities; and recommending policies and programmes on social development consistent with national development objectives and priorities.\(^{93}\)

The 2017–2022 PDP identified the SDC as the coordinating body for priority interventions related to accelerating human capital development (PDP ch. 10), reducing vulnerability of individuals and families (PDP ch. 11), building safe and secure communities (PDP ch. 12), and reaching the demographic dividend (PDP ch. 13).\(^{94}\)

Thus government’s consideration of LNOB objectives is clear in its plans and processes and relevant elements of INFF building blocks exist to drive implementation forward—especially around vision, accountability and leadership. However, no explicit link is made across them, and there is no overarching approach that mainstreams leaving no one behind in development plans and processes. Scope remains to further strengthen government’s commitment in this area by making links between identified development priorities, institutional set-ups and the objectives of leaving no one behind more explicit—for example by including it as one of the cross-cutting PDP strategies.

Additionally, and with specific reference to INFF elements, there is scope to strengthen those related to financing. Integrating LNOB-related priorities within more overarching financing policies, such as those being recommended under Building Blocks 3 and 4 of the overarching INFF in Chapter 4, would ensure that adequate resources are mobilized and allocated to implement government’s vision and approach in relation to broad-based poverty reduction and inclusive growth and development.

The examples below show how different areas related to LNOB can be funded—including health through government resources and housing through a combination of different sources. Although not yet linked to specific financing policies that guide the mobilization and use of different types of finance toward LNOB-related interventions, the examples offer useful insight for other countries in the region.

## 6.2 Financing LNOB

### Universal health coverage

The Philippines provides a successful example of how earmarking domestic revenue generated from a ‘sin tax’ can be used to expand health coverage. Since 2010, three strategic thrusts have been guiding the country’s approach to universal health care:

1. financial risk protection through expansion in NHIP enrolment and benefit delivery
2. improved access to quality hospitals and health care facilities

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\(^{94}\) 2017–2022 PDP, ch. 21
3. attainment of health-related MDGs.\textsuperscript{95}

While the majority of health care spending is still out-of-pocket (55.8 percent\textsuperscript{96}), the introduction of the sin tax increased the government budget for health care and helped improve provision. Within two years of passing the sin tax law the health budget increased from $1.25 billion to almost $2 billion.\textsuperscript{97} The 2016 Department of Health (DOH) budget was over double its 2013 allocations, with sin tax revenue comprising 57 percent of the total (PHP69.4 billion of the PHP122.63 billion allocation).\textsuperscript{98}

Fifteen percent of revenue from the sin tax is allocated towards programmes to help tobacco farmers and workers find livelihood alternatives, while 85 percent goes toward health expenditures. Of this, 80 percent is used to fund universal health care, including government subsidization of the PhilHealth insurance premium of indigent and senior citizens, and the remaining 20 percent to DOH programmes such as medical assistance, health facilities enhancement and human resources deployment.\textsuperscript{99}

Housing

Unlike the example above which focuses on the use of government revenue for expansion of services related to LNOB, the legislative agenda that supports financing of housing highlights the role of non-state resources. The 1987 Constitution states that “the State shall, by law, and for the common good, undertake, in cooperation with the private sector, a continuing program of urban land reform and housing which will make available at affordable cost, decent housing and basic services to underprivileged and homeless citizens in urban centers and resettlement areas”\textsuperscript{100}—thus underlining the longstanding recognition of the need to encourage private sector participation in the provision of affordable housing. The Comprehensive and Integrated Shelter Finance Act (CISFA) II aims to increase the budget for the socialized housing programme of the government and to provide housing security for informally settled families. In the 2017 budget, allocations for housing and community development remain below 1 percent of the total.\textsuperscript{101}

The current PDP recognizes housing as a significant sector given that it represents one of the aspirations of most Filipinos as included in the long-term vision self-articulated in Ambisyon 2040. As part of building socio-economic resilience, the PDP highlights the importance of building and expanding people’s access to safe and secure shelter in well-planned communities and points to the role of the private sector in contributing to achieve this. For example, a proposed policy on an income-based subsidy scheme that will bridge the gap between housing costs and varying income levels of families is included in chapter 12 of the PDP (under this scheme, those with lower income will receive a higher subsidy). The National Resettlement Policy Framework will accommodate this scheme, and key shelter agencies will secure

\textsuperscript{95} http://www.doh.gov.ph/sites/default/files/basic-page/aquino-health-agenda-universal-health-care.pdf
\textsuperscript{96} 2014 Philippine National Health Account (PNHA)
\textsuperscript{97} http://www.who.int/features/2015/ncd-philippines/en/
\textsuperscript{99} Ibid.
\textsuperscript{100} As cited in 2017–2022 PDP, ch. 12 (p. 181)
\textsuperscript{101} http://www.dbm.gov.ph/?page_id=16451
additional financing from the private sector through PPPs, where the government’s share will be in the form of government-owned lands under a sale, usufruct, or long-term lease arrangement.\(^{102}\)

Beyond planned public–private schemes in the PDP, the multi-sectoral financing approach to housing became particularly evident after the onset of Typhoon Yolanda. A number of post-disaster projects relied on collaboration among local government, private sector actors including banks, development partners, NGOs and foundations. For example, the Post-Yolanda Support for Safer Homes and Settlements Project was implemented by UN-Habitat, in collaboration with the Social Housing Finance Corporation, United Architects of the Philippines, Banco de Oro Foundation, Banco de Oro Bank, and the Hilti Foundation. The Yolanda Response Project was implemented by UNDP, with funds from the European Union and the Korean International Cooperation Agency and in partnership with local government units. The Resilient Recovery Programme was implemented by the Catholic Organization for Relief and Development Aid (Cordaid) in collaboration with Caritas Germany, Build Change and KVCC (a local architecture firm).\(^{103}\)

Notably in order to monitor the flow of funds for reconstruction efforts, including housing, an online platform was established: the e-Management Platform for Accountability and Transparency Hub for Yolanda (eMPATHY). Continued efforts are needed to make use of this platform effectively and to ensure that the impact of financing is being maximized.

\(^{102}\) 2017–2022 PDP, ch. 12 (p. 190)

\(^{103}\) For more details on these and other projects related to shelter provision for disaster-affected and displaced families see: UNDP, 2017, Compendium of Permanent Housing Interventions in Post-Yolanda Rehabilitation in Easter Visayas, Philippines
7. Conclusion

7.1 Recommendations, including areas for further work (integrated financing solutions)

While important elements of the INFF already exist in the Philippines, there is scope to strengthen how government develops and implements policy across all types of financing—especially in relation to Building Blocks 3 (financing strategy), 4 (financing policies), 5 (monitoring and evaluation) and 6 (accountability and dialogue). The five recommendations below provide some initial guidance in relation to these and also relate to the gaps identified in Chapters 5 and 6 on private sector development and leaving no one behind. They are further articulated in a roadmap of next steps in Section 7.2.

1. Establish a long-term holistic financing strategy to direct resource mobilization efforts by government and to maximize impact of all resources—public and private—toward sustainable development outcomes

Implementing ambitious national and sustainable development goals will require a combination of resources from a range of public and private actors. In the SDG era, a key challenge governments face is the need to mobilize the necessary volumes and right type of investments while ensuring complementarity across them.

A financing strategy that takes the estimated cost of implementing the country’s long-term vision and develops estimates and targets for the types of investments needed can provide the overarching framework within which specific financing policies to mobilize resources can be developed and operationalized. In relation to private sector financing specifically, this could guide the development of more specific strategies to facilitate or stimulate investment in strategic sectors or locations—which are key for the achievement of national development targets and for leaving no one behind but for which funding gaps are identified.

Foundations for such a strategy already exist, including elements related to public finance (in both the revised framework for financing national government projects and the PIP) and the recognition within the PDP of the potential role of different actors in contributing to specific development priorities. By building on these elements, it is recommended that a comprehensive, long-term resource mobilization strategy is developed.

Such a strategy could be integrated into existing development plans through cost estimates and funding-gaps analyses, or developed as a separate document that would accompany them. Institutional responsibilities would be identified in order to ensure that there is clarity about roles and functions. An overarching coordination mechanism that oversees the planning, mobilization and use of resources, including and beyond government finance, in a holistic and integrated manner would be established, for example by instituting a Financing for Development Cabinet Cluster.
It is this strategy that would then provide the basis for consistent, more focused policies on specific flows, such as development cooperation, remittances and private investments.

2. Develop financing policies for leveraging the untapped potential of private finance and for better coordinating development cooperation

As illustrated in Chapter 4, a number of policies exist to guide the use of public resources but there is scope to strengthen operational-level guidance for mobilization and use of other types of financing. Financing policies for specific flows can be used to translate their envisaged role and contributions to sustainable development outcomes from a longer-term financing strategy into shorter-term targets such as annual and medium-term ones that may be included in the PDP-RM (see Recommendation 3 below).

Specific policies that would be beneficial to the Philippines context include the following.

- Given the significant role that remittances play in the overall financing landscape and given the potential that exists in order to expand this even further (as described in Chapter 5), an overarching financing policy to direct the mobilization of remittances toward more sustainable development outcomes, including long-term investment should be considered. This could use the existing Diaspora Investment Programme as starting point but would need to expand it and strengthen the relevant institutional set up for effective design, oversight and implementation of initiatives.

- In line with recommendations already made in the 2014 DFAA as well as the 2016 GPEDC Report, the potential of a strategy to strengthen coordination and maximize impact of development assistance should be explored.

- A private sector development strategy could be considered to further stimulate private financing in the country and to complement public efforts toward achieving PDP objectives. For example, such a policy could: guide the role of private capital in PPPs beyond those indicated in the PIP and how the potential of this type of financing could continue to be leveraged; identify key sectors for collaboration between public and private actors such as renewable energy, water management, disaster risk reduction and climate change, and guide identified interventions; prioritize government action to remove existing restrictions and incentivize investments in strategic sectors and/or location. Examples provided in Chapter 4 under Building Block 4 could provide useful starting points and insight from other countries’ approaches.

Further analysis that builds on these recommendations and other relevant findings from this paper, would facilitate the design and identification of more specific content for these policies. This could be done as a follow-up exercise to this paper as part of the integrated financing solutions phase (see Recommendation 5 below).

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104 Both the 2014 DFAA and ‘Development Finance for Filipino 2040’ have highlighted the potential benefits of PPPs and the need to continue to leverage their potential for sustainable development outcomes
For all these policies, and similarly to what has been stated above in relation to the long-term financing strategy, institutional responsibilities need to be considered in order to ensure that these policies are effectively implemented as tools for mobilization and use of resources according to their comparative advantage.

3. **Include financing targets and indicators in the PDP-RM and ensure necessary data systems are in place to allow timely and consistent monitoring**

A comprehensive monitoring, evaluation and learning framework is an essential element of a results-focused financing strategy. Being able to track the volume of various types of investments—domestic, international, public, private; what these are being spent on; the outcomes they produce; and how these outcomes contribute to national development goals—can inform more effective approaches to the use of finance. It can also support government in identifying where the comparative advantage of a particular finance type lies and where therefore efforts to mobilize it should be focused.

The current PDP-RM represents a strong starting point for developing such a framework, given its hierarchical and results-oriented structure. It is recommended that financing-related targets and indicators are included so that government’s efforts to mobilize resources can be linked to the outcomes and results that such resources contribute to, and learning on specific policies and interventions can be integrated on a regular basis for maximization of impact.

In addition to establishing the framework, it is also necessary that consideration is given to the data systems available to provide the necessary information to monitor progress in a timely and consistent manner. Under the leadership of planning and statistical agencies, the Philippines has demonstrated good practices in mapping SDG indicators for national monitoring. This experience could provide insight into how existing data systems could be harmonized in order to minimize the reporting burden across different agencies and across national and subnational levels of government, while at the same time ensuring that the necessary data and information are made available for timely and consistent monitoring.

4. **Enhance mechanisms for multi-stakeholder dialogue in order to strengthen the role of non-state actors in sustainable development**

Strong, systematic dialogue between government and key stakeholders—including development partners, the private sector and civil society—is a key ingredient for stimulating investment and action that contributes toward nationally identified sustainable development objectives. Without strong dialogue it is difficult for government to develop realistic objectives about the contributions that other actors can make, or to build an informed view of existing constraints and opportunities.

The Philippine Development Forum could provide an effective basis for such dialogue as a mechanism for bringing together all relevant stakeholders. It is recommended that its potential is reconsidered in order to ensure effective participation and regular dialogue among stakeholders.
at the national level. Additionally, Regional Development Councils which are multi-stakeholder by design can provide a good venue for convening partners at the subnational level, including for discussions around localization of SDGs and related financing challenges and opportunities. In addition, and in order to focus dialogue on specific topics that may be relevant to different actors, it is also recommended that further work is undertaken in order to ensure that more focused fora are also strengthened, especially in their ability to cross administrations and provide a stable mechanism for continuous, constructive two-way communication (as opposed to more top-down, ad-hoc reactive dialogue).

Such fora would not only enhance coordination but would also provide the platform for increasing trust between civil society, government and business, which is essential to mobilize financing beyond the state and also aligned with one of the three pillars of the PDP (*Malasakit*).

5. **Move forward into the next phase of the DFA process, to look at integrated financing solutions**

Following a DFA and the establishment of a baseline for the building blocks of an INFF, the Integrated Financing Solutions phase allows governments and other stakeholders to conduct more in-depth analysis around specific financing topics and priority areas linked to the INFF and to implement the recommendations resulting from phase 1 (Figure 5). \(^{106}\)

**Figure 5: Objectives of Development Finance Assessment (phase1) and Integrated Financing Solutions (phase2)**

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<th>Phase 1 Development Finance Assessment</th>
<th>Phase 2 Integrated Financing Solution</th>
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<tr>
<td>• Establish a baseline for the building blocks of an INFF</td>
<td>• Conduct more in-depth analysis around specific financing topics and priority areas, linked to the INFF</td>
</tr>
<tr>
<td>• Map the financing landscape covering all types of finance</td>
<td>• Implement financing solutions around specific finance flows or instruments, linked to an INFF</td>
</tr>
<tr>
<td>• Assess government’s existing financing strategies, policies and institutional structures</td>
<td>• Undertake policy and institutional reforms to strengthen an INFF</td>
</tr>
<tr>
<td>• Propose a roadmap for implementation for establishing an INFF, including areas where Integrated Financing Solutions can support DFA follow-up</td>
<td>• Develop capacity building strategies for strengthening Institutions Involved in the INFF including promoting transparency and accountability</td>
</tr>
</tbody>
</table>

Source: APDEF, UNDP, Development Finance Assessment and Integrated Financing Solutions: Achieving the Sustainable Development Goals in the Era of the Addis Ababa Action Agenda (p. 3)

The oversight team from the 2014 DFAA exercise and particularly NEDA and other key stakeholders could consider commissioning a phase 2 to follow on from the findings of this paper and to examine workable policy solutions in the areas discussed above. Additionally, and given the role and impact of local governments in achieving development targets in the Philippines, it is

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\(^{106}\) For more information please see UNDP's online toolkit on Financing Solutions for Sustainable Development at: [http://www.undp.org/content/sdfinance/en/home.html](http://www.undp.org/content/sdfinance/en/home.html)
recommended that this second phase is also used to consider local-level financing issues and solutions (including in relation to resource allocation and performance monitoring), building on experiences of other countries with similarly devolved governance systems.

Integrated financing solutions can be grouped into five main areas:

- **Generate resources** Generate or leverage ODA, South–South cooperation, international climate finance, vertical funds, impact investment and bonds.

- **Realign resources** Prioritize and sequence investments, minimize negative expenditures, integrate and prioritize social and environmental expenditures such as through gender-responsive budgeting, climate-related budget reforms and SDG-related budget reforms.

- **Avoid future expenditures** Amend or eliminate counterproductive policies or expenditures; financing solutions include taxes on fuel, tobacco, and renewable natural capital.

- **Deliver better** Favour a more equitable distribution of resources, prevent inefficiencies such as by strengthening public-procurement risk mitigation, utilizing solutions such as enterprise challenge funds, climate credit mechanisms and biodiversity offsets.

- **Strengthen transparency & accountability** Integrate Sustainable Development into Financial Management Information Systems, strengthen parliamentary oversight of the budget and other financial flows and engage with civil society.
## 7.2 Roadmap for next steps

<table>
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<tr>
<th>Recommendations</th>
<th>Next steps</th>
<th>Integrated financing solutions areas</th>
</tr>
</thead>
</table>
| **1. Establish a long-term holistic financing strategy to direct resource mobilization efforts and to maximize impact of all resources—public and private** | • Consultation between NEDA, DOF, DBM and other relevant government agencies and inter-agency committees on the value of developing such a strategy.  
• Commission phase 2 of a development finance assessment under the guidance of NEDA, DOF and other key government agencies in order to assess and present options on how to structure a holistic resources mobilization strategy to meet the objectives of the PDP and the SDGs—including at the subnational level; and provide initial analysis to inform such a strategy | • Generate resources  
• Realign resources                                                                                                                    |
| **2. Develop financing policies for leveraging the untapped potential of private finance and for better coordinating development cooperation** | • Following consideration of the recommendation above, consult with relevant agencies and actors involved in planning for or mobilizing remittances, development cooperation and private capital on how to more effectively leverage their potential in future.  
  ◦ For remittances, this should include an additional step—i.e. reviewing existing work on specific instruments used to channel remittances to long-term investment and considering if/how these could be applied in the Philippines.  
  ◦ For private finance, consultations should cover the role of the private sector in public investment projects, main challenges and options for overcoming them (with the view of freeing resources, such as concessional ODA, for purposes that the private sector is less likely to be able to contribute toward)  
  Led by NEDA, DOF, DBCC and other relevant government agencies and inter-agency committees. | • Realign resources  
• Deliver better                                                                                                                        |
| **3. Include financing targets and indicators in the PDP-RM and ensure necessary data systems are in place to allow timely and consistent monitoring** | • Based on estimates of costs and types of investments identified in the financing strategy and policies, undertake further work to identify annual and medium-term funding targets for specific financing flows (e.g. commercial investments, development cooperation and remittances) for inclusion in the PDP-RM.  
• In consultation with relevant stakeholders, develop input, output, outcome and impact indicators to monitor mobilization and use of such funding against selected targets.  
• Review existing data systems and identify overlaps and gaps vis-à-vis the data requirements of selected indicators and consider if/how these could be integrated to maximize effective use of monitoring.  
  Led by NEDA and PSA in consultation with local government, private sector and development partners. | • Deliver better                                                                                                                         |
| **4. Enhance mechanisms for multi-stakeholder dialogue in order to strengthen the role of non-state actors in sustainable development** | • Consultations between government, private sector umbrella organizations (e.g. Makati Business Club), development partners and civil society representatives on how the PDF could be strengthened as a national-level multi-stakeholder dialogue platform and Regional Development Councils as subnational platforms, and whether and how more focused platforms would benefit each party.  
• Review lessons learned from the experiences of other countries that have successfully set up multi-stakeholder dialogue platforms, including public–private fora, coordinated development partners’ consultation mechanisms, and civil society fora.  
  Led by NEDA in consultation with development partners, representatives of the private sector and civil society. | • Strengthen transparency & accountability  
• Realign resources                                                                                                                        |
Annex 1: Methodology

Financing flows data

Analysis of financing flows has been undertaken from the country perspective, thus national data sources were preferred over international datasets, where adequate coverage and metadata was provided. Across the ten country papers and regional report included in the project, all financing data and analysis is in constant 2015 US dollars unless otherwise specified. Data from national sources reported in national currencies were converted into constant US dollars using exchange rates and GDP-based deflators following normal practice.

Domestic public finance

Domestic public finance refers to government resources that originate domestically. It covers government revenue (excluding any grants received, to avoid double counting with international resources) and government borrowing from domestic sources (i.e. domestic financing). Both series were sourced from national budget documents where available, with data from IMF Article IV Reports used to fill gaps, where needed.

Domestic private finance

Domestic private finance refers to investment by the domestic private sector in the country. Few countries produce data on domestic commercial investments directly so Gross Fixed Capital Formation (GFCF) data are used as a proxy. For the Philippines specifically, ‘GFCF private’ data from the World Bank were used and FDI deducted in order to obtain a figure for domestic private investment alone. Gross fixed capital formation data exclude certain types of investments such as land sales and purchases and all kinds of financial assets, and do not make any deductions for depreciation of fixed assets. These estimates should therefore be treated as estimates of the general trends and scale of this financing.

International public finance

International public finance includes ODA, OOF and government borrowing from international sources. ODA is sourced from OECD DAC data. OOFs data are sourced from OECD DAC Table 2B for all countries as comprehensive data on this type of finance are not readily available from national sources. Government borrowing refers to lending from bilateral and multilateral institutions and private entities received or guaranteed by the State. For consistency across country papers and to ensure that overlaps with ODA loans and OOFs could be accounted for, data for this flow were also sourced from international datasets for all countries.

International private finance

International private finance includes FDI, portfolio equity, private borrowing from international sources and remittances. FDI data are based on national sources for all countries. Portfolio equity and
remittances were based on national sources for countries with enough coverage, or World Bank data otherwise. Portfolio equity data based on national sources were sourced from the liabilities line of portfolio investments (equity component) in BOP tables. Private borrowing from international sources refers to commercial debt (both long- and short-term) and is based on international data from the World Bank International Debt Statistics for all countries; this was done for consistency across the country papers and due to patchy coverage and availability of data on this type of finance in national sources.