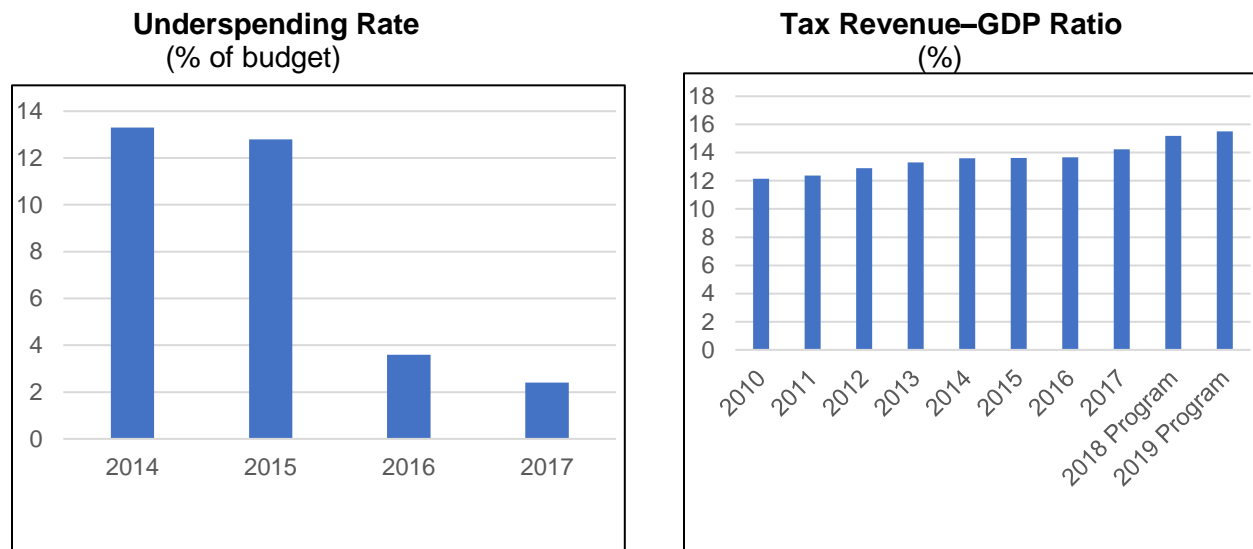


## SECTOR ASSESSMENT (SUMMARY): PUBLIC SECTOR MANAGEMENT

### A. Sector Performance, Problems, and Opportunities

1. **Fiscal performance.** Gross domestic product (GDP) in the Philippines expanded by 6.4% on average in 2010–2017, accelerating from 4.5% in 2000–2009 and 3.0% in the 1990s. In April 2018, Standard and Poor’s upgraded the country’s credit rating outlook to *positive* from *stable*; the Philippines currently holds a *BBB* rating from Standard and Poor’s. The Tax Reform for Acceleration and Inclusion law, which took effect in January 2018, provided additional tax revenues and fiscal resources for higher fiscal spending. The tax revenue–GDP ratio increased from 14.2% in the first half of 2017 to 15.2% in the first half of 2018 and is targeted to reach 15.5% by 2019 (Figure 1). Tax collections rose by 17.4% year-over-year in the first half of 2018. The fiscal deficit of \$3.57 billion (₱193.02 billion) in the first half of 2018 was 27% lower than programmed, and is equivalent to 2.3% of GDP in the first half of 2018, lower than the 3.0% deficit ceiling programmed for the full year (Figure 2). External debt–GDP declined to 22.5% in June 2018, while national government debt declined to 42.5% of GDP in June 2018 (Figure 3). Gross international reserves of \$75.2 billion as of September 2018 provide 6.8 months of cover for imports of goods, services, and income payments.

**Figure 1: Fiscal Performance**

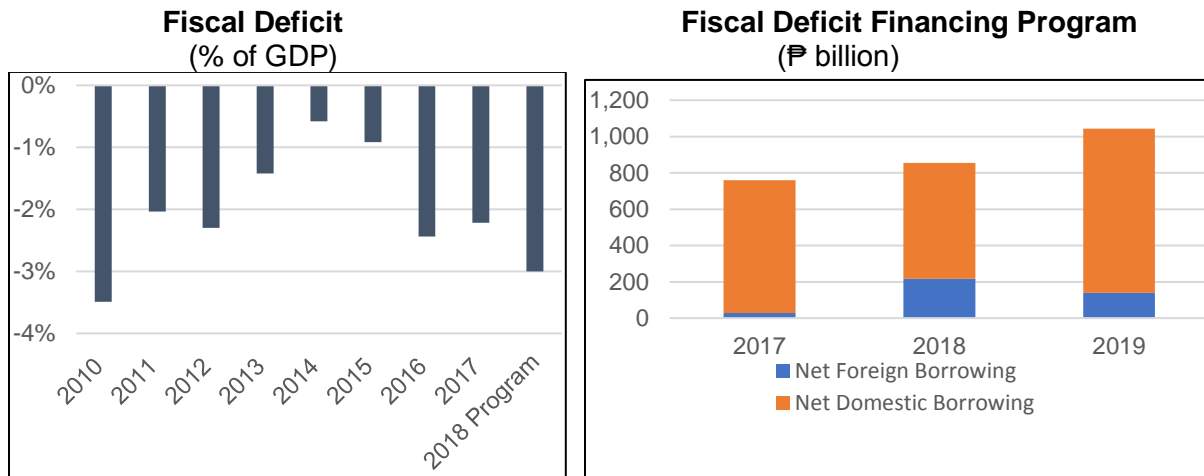


GDP = gross domestic product

Source: Department of Budget and Management, Bureau of Treasury.

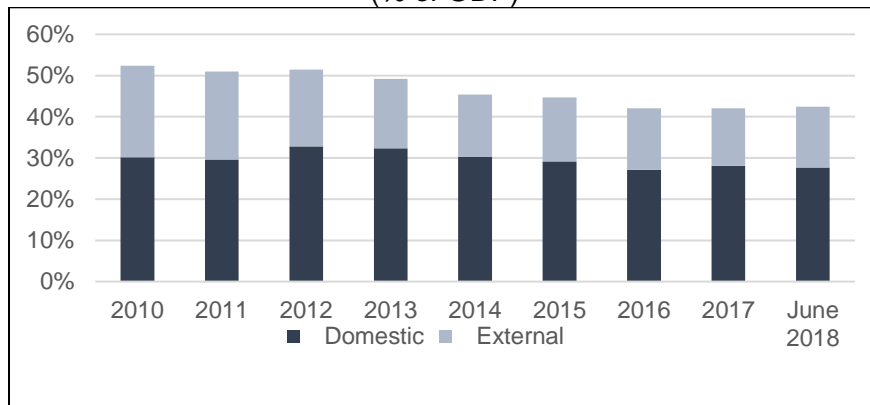
2. The improved fiscal performance has enabled the government to increase public expenditure to support sustained high growth. Government spending more than doubled from \$28.2 billion (₱1,522.4 billion) in 2010 to \$62.4 billion (₱3,370.0 billion) in 2018, and the government expenditure is expected to further increase to \$71.0 billion (₱3,832.6 billion) in 2019 (Figure 4). The share of capital outlays in total government expenditure also rose from about 18% in 2010–2015 to 26% in 2019 because of the government’s progressive investment in infrastructure.

**Figure 2: Fiscal Deficit and Deficit Financing Program**



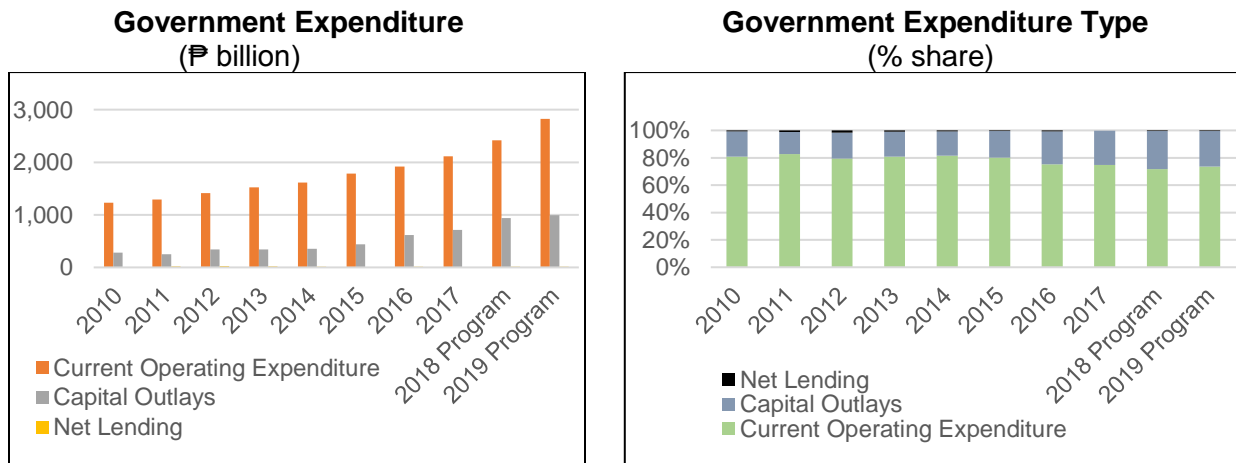
GDP = gross domestic product  
 Source: Department of Budget and Management, Bureau of Treasury.

**Figure 3: National Government Debt (% of GDP)**



GDP = gross domestic product  
 Source: Bureau of Treasury.

**Figure 4: Government Expenditure**



Source: Department of Budget and Management.

3. **Fiscal impact of Marawi crisis.** The decline in economic activity in Marawi city will result in forgone tax revenues. The impact on the city's expenditure program is likely minimal since Marawi city relies mainly on external sources of revenue to fund its public expenditure programs.<sup>1</sup> However, the national fiscal impact is expected to be noticeable because the national government is bearing most of the reconstruction and rehabilitation costs, estimated at around \$1.6 billion.<sup>2</sup> These comprise (i) \$882.24 million for programs, projects, and activities (PPAs) for rehabilitation and recovery of Marawi and other affected localities; (ii) \$321.50 million for recovery and rehabilitation of the most-affected areas; (iii) \$374.77 million for the compensation bill; and (iv) \$23.36 million for livelihood assistance programs (Table 1).<sup>3</sup>

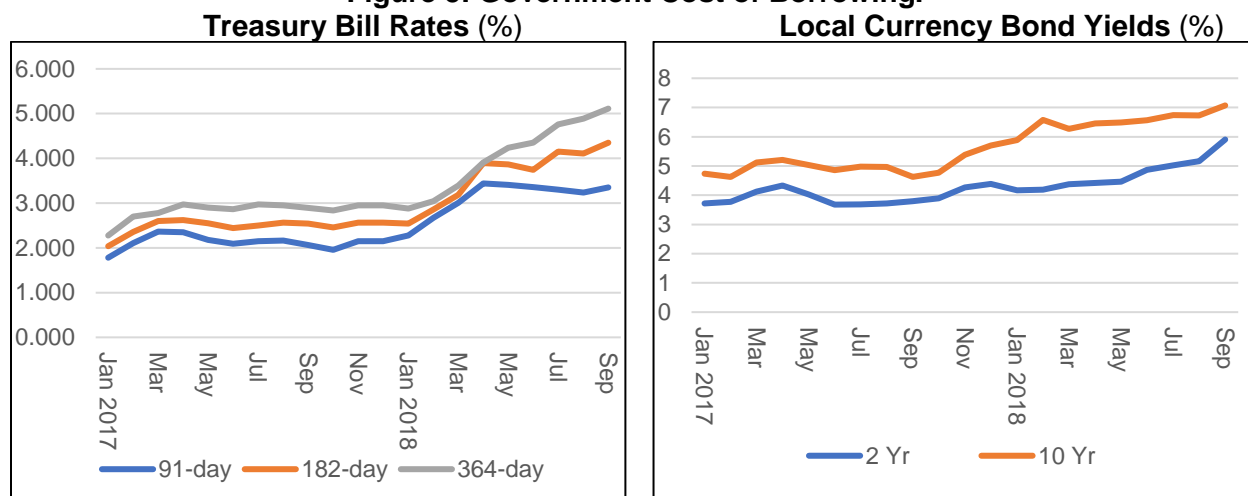
**Table 1: Financing Requirement for Marawi Rehabilitation and Recovery Efforts**  
(\$ million)

| Item                  | Amount            | Funded by General Appropriations Act |                | Financing Gap     |
|-----------------------|-------------------|--------------------------------------|----------------|-------------------|
|                       |                   | 2018                                 | 2019           |                   |
| BMCRRP                | \$882.24          | \$186.92                             | \$65.42        | \$629.90          |
| MAAs                  | \$321.50          | (...)                                | (...)          | \$321.50          |
| Compensation bill     | \$374.77          | (...)                                | (...)          | \$374.77          |
| Livelihood assistance | \$23.36           | (...)                                | (...)          | \$23.36           |
| <b>Total</b>          | <b>\$1,601.87</b> | <b>\$186.92</b>                      | <b>\$65.42</b> | <b>\$1,349.53</b> |

BMCRRP = Bangon Marawi Comprehensive Rehabilitation and Recovery Program, MAA = most-affected area.

Source: Department of Finance.

**Figure 5: Government Cost of Borrowing.**



Source: Bangko Sentral ng Pilipinas

Source: Bloomberg

4. The fiscal impact of the Marawi crisis was exacerbated by the rising cost of government funds (Figure 5). In line with the Bangko Sentral ng Pilipinas tightening monetary policy in 2018, the 91-day treasury bill rates increased from 1.780% in January 2017 to 3.349% in September 2018. Likewise, the 182-day treasury bill rates increased from 2.037% to 4.350% and 364-day treasury bill rates increased 2.276% to 5.112% on the same period.

<sup>1</sup> Marawi city ranks last in terms of taxes on business income among the 33 cities in Mindanao. Its taxes on business revenue amounted to only ₱0.5 million, or 0.01% of business tax revenue among cities in Mindanao in 2016.

<sup>2</sup> Department of Finance estimates as of September 2018.

<sup>3</sup> Task Force Bangon Marawi. 2017. *Bangon Marawi Comprehensive Rehabilitation and Recovery Program: Preliminary Report*. Manila.

Likewise, the local currency bond yields also edged up from 3.7% in January 2017 to 5.9% in September 2018 for 2-year government bonds, and from 4.7% to 7.1% for 10-year government bonds during the same period.

5. **Sector planning.** The Department of Budget and Management, the Department of Finance, and the Commission on Audit are mandated to promote fiscal responsibility and good governance through greater transparency and accountability in the management of government funds. For the PPAs for Marawi city and other affected areas, the implementing agencies will include concerned national government agencies, ARMM regional government or agencies, local government units, development partners, and the private sector. The planning, programming, and implementation of the rehabilitation, recovery, and reconstruction process will follow the existing government policies, procedures, and organizational structure.

6. **Basic laws and regulations.** Executive Order No. 55 was signed on 6 September 2011 directing the integration and automation of government financial management systems. The financial management systems pertain to three key oversight agencies—the Department of Finance, Department of Budget and Management, and Commission on Audit. The government established an institutional framework for rehabilitation and reconstruction of Marawi city and other affected areas. On 28 June 2017, President Rodrigo R. Duterte signed Administrative Order No. 3 (AO 3) which created an interagency task force—the Task Force Bangon Marawi (TFBM)—which is mandated by AO 3 to (i) provide for the immediate needs of displaced and/or adversely affected families, (ii) develop the Bangon Marawi Comprehensive Rehabilitation and Recovery Program (BMCRPP), and (iii) facilitate and oversee the implementation of the PPAs in the BMCRPP. On 20 November 2017, the TFBM issued Memorandum Circular No. 4 which tasked the National Economic and Development Authority with leading the formulation of the BMCRPP through the newly created TFBM Support Group on the Comprehensive Rehabilitation and Recovery Planning.

## **B. Government's Sector Strategy**

7. **Medium-term strategy.** Under the Philippine Development Plan, 2017–2022, the government instituted an aggressive reform agenda to promote effective and honest governance to create an enabling environment for citizens and the private sector. Under the Budget Modernization Bill, the government is shifting from obligations-based budgeting to 1-year cash-based budgeting beginning in January 2019 to improve budget performance among line agencies. The Good Governance and Anti-Corruption Cabinet Cluster oversaw a comprehensive and integrated governance and anticorruption action plan which, among others, improved public financial management systems, increased capacity for results-based budgeting, and provided an improved policy and regulatory environment for private sector development. The budget deficit is expected to be kept below 3.2% of GDP in 2019 and to 3.0% of the GDP deficit ceiling through 2021. The proposed 2019 budget is higher by 13.2% than the 2018 budget. Planned disbursements will be equivalent to 19.7% of GDP compared to the target of 19.2% of GDP in 2018.

8. **Fiscal strategy for Bangon Marawi Comprehensive Rehabilitation and Recovery Program implementation.** The majority of the PPAs will be funded through the 2018 General Appropriations Act. The government made available a total of \$252.34 million from the General Appropriations Act, comprising \$186.92 million (₱10.00 billion) in 2018 and \$65.42 million (₱3.50 billion) in 2019, in the National Disaster Risk Reduction and Management Fund (or Calamity

Fund) (Table 2).<sup>4</sup> However, there is still a financing gap of \$1.35 billion or 84.25% of total financing requirement to be provided by development partners and donors (Table 1).<sup>5</sup> The costs may still increase when the PPAs are firmed up.

**Table 2: Disaster Risk Reduction and Climate Change Expenditure, 2017–2019**  
(₱ billion)

| Item   | 2017 | 2018 | 2019 |
|--|------|------|------|
| National Disaster Risk Reduction and Climate Change Expenditure  | 15.7 | 19.6 | 20.0 |
| Of which   |      |      |      |
| Aid, relief, and rehabilitation services   | 4.9  | 5.1  | 4.3  |
| Repair and reconstruction of permanent structures, and capital expenditures for predisaster operations, rehabilitation, and other related activities | 9.3  | 4.5  | 12.2 |
| Rehabilitation and reconstruction  | 1.5  | 0    | 0    |
| Marawi Recovery, Reconstruction, and Rehabilitation Program  | 0    | 10.0 | 3.5  |

Source: Department of Budget and Management.

### C. ADB Sector Experience and Assistance Program

9. **Experience from Typhoon Yolanda rehabilitation and construction.** After Typhoon Yolanda, ADB provided emergency assistance to the government for completing reconstruction, particularly involving infrastructure, livelihood, housing, and social services. ADB's Emergency Assistance for Relief and Recovery from Yolanda (\$500 million), providing budgetary support, was fully disbursed as of April 2015.<sup>6</sup> The Kalahi-CIDDS National Community-Driven Development Project (\$372.1 million)<sup>7</sup> and the JFPR Emergency Assistance and Early Recovery for Poor Municipalities<sup>8</sup> (\$20 million) aimed at helping restore infrastructure, livelihood, and health care services were nearly 100% completed as of October

10. **Other ADB assistance programs.** ADB is also supporting efforts to strengthen financial planning for post-disaster response at both the national and subnational level. It is working on developing a city government disaster insurance pool for the Philippines, building on the findings and achievements of earlier technical assistance. The pool will offer cover against the two primary natural hazards in the Philippines—tropical cyclones and earthquakes. Cities will go through the pool to purchase subsovereign parametric cover, supplementing mandatory indemnity insurance of public assets through the national insurer, the Government Service Insurance System.

<sup>4</sup> In response to natural and human-made calamities, the government established the National Disaster Risk Reduction and Management Fund (or Calamity Fund) for aid, relief, and rehabilitation services to communities and areas affected by human-made and natural disasters.

<sup>5</sup> As of September 2018, development partners had committed around \$441.25 million in terms of loans and grants.

<sup>6</sup> ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan Republic of The Philippines: Emergency Assistance for Relief and Recovery from Typhoon Yolanda.* Manila (Loan 3080-PHI).

<sup>7</sup> ADB. 2013. *Report and Recommendation of the President to the Board of Directors: KALAHI-CIDSS National Community-Driven Development Project.* Manila. (Loan 3100-PHI).

<sup>8</sup> ADB. 2013. *Grant Assistance Report: Philippines: Emergency Assistance and Early Recovery for Poor Municipalities Affected by Typhoon Yolanda.* Manila (Grant 9175).