

## PIDS calls for ‘intelligent’ discourse on federalism

POLICYMAKERS SHOULD SEE merit in examining whether federalism can indeed address the sociopolitical and economic problems that hamper the country’s growth.

This was the message of Dr. Gilberto Llanto, president of state think tank Philippine Institute for Development Studies (PIDS), as he opened the Third Annual Public Policy Conference (APPC). With the theme, “Critical Perspectives on Federalism for Regional Development”, this year’s APPC focused on the major issues surrounding the proposal for the country’s shift to a federal form of government.

Through the said event, Llanto said PIDS endeavors to contribute to an “intelligent policy discourse” on federalism to help the policymakers and the public make an informed decision.

The conference covered key issues on federalism, such as its political feasibility in the Philippines, the form and fiscal design of a federal government, as well as the implications of federalism given the country’s political, economic, social, and historical contexts.



The APPC served as a useful venue for policymakers and public policy researchers to exchange views and participate in “intelligent” discussions on the federalism issue. (Photo by PIDS)

### Editor’s Notes

This DRN issue centers on the highlights of the 15th Development Policy Research Month (DPRM) celebration in September 2017. Since 2003, PIDS has been the lead government agency of this annual nationwide event that aims to promote awareness and appreciation of the vital role of policy research in the formulation of sound development policies and programs.

With federalism being a hot button topic in the country today, with no less than the Philippine president pushing for its adoption, a lot of questions have arisen. How well do we know about it? What do we know about the positive and negative effects if we shift to a federal form of government? What reforms in our current decentralized system

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PIDS President Gilberto Llanto pointed out that the LGUs' unequal resource-generation capacities challenge the success of the government's decentralization scheme. (Photo by PIDS)

### Decentralization 'not fully realized'

According to Llanto, amid the current calls for a shift to a federal form is the frustration of some Filipinos, especially those living in the Visayas and Mindanao, on the concentration of both political and economic powers in Metro Manila. Such concentration of power since the Spanish period has allegedly resulted to the uneven development in the country today.

Despite the passage of the Local Government Code (LGC), however, "genuine decentralization has not been fully realized," he explained. In fact, several PIDS studies, according to Llanto, reveal that local governments continue to face various challenges in their exercise of functions, primarily because of the imbalance in resource-generation capacities between them and the national government.

"Those who support a federalist structure of government maintain that it is the best way to address rooted political and economic problems, especially poverty

and the separatist movement in the countryside," he added.

However, Llanto urged its supporters to clarify the policy discourse on federalism given that "there is not only one model of federalism that countries with a federal structure of government have followed."

"It can be assumed that the federal states that we have today had agreed to adopt a particular federalist structure that would best address their deeply cherished goals, challenges, and experience," he added.

During his presentation, Dr. Paul Hutchcroft, professor on Southeast Asian politics at the Australian National University, supported Llanto's argument and reminded the federalist advocates that there is no one-size-fits-all kind of federalism.

He added that when it comes to deciding on major reforms like federalism, there are no "quick fixes" and that federalism is not something that "once you have put it in place, it will resolve things."

As such, issues between the national and local level will always be around, Hutchcroft explained.

But whether or not federalism pushes through, Hutchcroft said the government needs to strengthen the regions. This, according to him, can bring development not only in the local level but also in the whole country.

He also raised the need to understand the nature of the country's political institutions, especially the bureaucratic institutions and the political party system, saying that "if both are weak, whatever is constructed may end up being unstable."

### "Lots of questions" on federalism

For her part, National Economic and Development Authority (NEDA) Undersecretary Rosemarie Edillon stressed that federalism advocates still have "lots of questions" to address regarding the structure of a federal form of government in the country.

In terms of public management, for instance, Edillon cited her own experience navigating Metro Manila every day, where each political unit is implementing a totally different approach to manage traffic in its locality. Apparently, such setup seems ineffective as "it takes more than two hours to traverse this 14-km distance."

"Obviously, for some services, states would have to acquiesce to some form of central rule," she explained.

According to Edillon, the central structure also applies in funds transfer to the lesser developed states. Under the intended federal form of government in the Philippines, the NEDA official claimed the MIMAROPA region would be the "worst



off” given its population of less than three million, spread over five island provinces. Clearly, the said region cannot rely on its own resources to spur its development.

As such, “there will be a great need for funds transfer from the central pool going especially to the least developed states, such as MIMAROPA,” she added.

MIMAROPA refers to the Philippine administrative region covering the island provinces of Occidental Mindoro, Oriental Mindoro, Marinduque, Romblon, and Palawan.

Edillon also raised concerns with regard to the possible implication of the fiscal independence of the states under a federal form. While some states might offer the “sweetest” incentives to attract investments in their locality, she argued others might take advantage of the function to “impose more regulations, thus increasing the cost of doing business” in the country.

Aside from fiscal and public management issues, she also urged the policymakers to examine whether the country has enough

human capital at the highly technical level of governance that can be deployed to the different states.

Dr. Alfredo Pascual, a member of the PIDS Board of Trustees, also questioned the capability of a federal form of government to usher regional development given the country’s experience in developing state-like political units.

In his closing remarks, Pascual noted that the Philippines already has two existing autonomous regions, which can be considered as states within the Philippines—the Autonomous Region in Muslim Mindanao and the Cordillera Administrative Region.

“We have seen the chart. Where are they? [They are] the least developed among all the regions in the country,” he explained.

Pascual also quizzed the proposals to “chop up the country”, wherein the “current move now is toward consolidation.”

“What we actually need is a stronger centralized capability and, through the

use of technology, to reach all corners of the country,” he explained.

Pascual also clarified that regional economic development is not achieved through political means, such as federalism, but through economic and technological solutions.

He explained the 10-point socioeconomic agenda of the Duterte administration already contains a number of plans that can actually strengthen regional development, such as human capital development and the promotion of agricultural value chain development.

Likewise, he urged the policymakers to strengthen state universities and colleges—the “knowledge hubs” of regions. The said hubs, he said, will support the growth of the existing regions and will be the main beneficiaries of the regional development councils.

Pascual also raised the need for the policymakers to define the brand of federalism that the country will adopt. He also encouraged them to consider other issues on federalism, such as its



Under a federal form of government, regions with smaller populations may be at risk of underdevelopment due to low income generation. (Photo by Franz Lopez/Rappler)





The majority of APPC participants (71%) were not convinced that shifting to federalism translates to sustainable growth and development, the event survey says. (Photo by PIDS)

impacts on business and investments, political structures, national identity, and languages.

### **'An opportunity to restructure government'**

Nonetheless, Pascual said federalism is worth looking into if it can help solve the pestering political problems in the country, such as political dynasties, weak political system, and the indefinite results of its electoral process.

Mr. Edmund Tayao, executive director of the Local Government Development Foundation, also encouraged the country to be open to major reforms, or at least make an effort to improve existing policies that are not producing intended results.

Citing the LGC as an example, Tayao urged policymakers to look at whether decentralization, as indicated in the law, is being practiced and if the local government units are "able to do enough

as they see fit". He likewise urged them to conduct a more indepth study on federalism "to completely capture the significance of changing the country's form of government" and to find out what the Philippines actually needs.

While, according to Tayao, the basic features of a federal form of government makes it considerably better than the current one, he argued the question lies on how it could be properly adopted given the country's unique context.

Furthermore, Tayao explained that the government may not get the intended results under decentralization or federalism if the unique conditions in the country are not put into consideration.

However, he appreciated the current federalist proposal as an opportunity to finally restructure government.

"Only by understanding and reframing state and society relations in the country

can there be real and successful reforms. Only by systemic reforms can we put in place a better system of politics and governance for the country," he explained.

### **'7 in 10 participants thumbed down fed'**

At the end of the conference, more than 7 in every 10 participants disagreed that federalism is a necessary condition to ensure the growth of the country, according to a survey initiated by former NEDA Director-General Solita Monsod who was present at the event.

The participants were asked to join the survey on the question, "Given what you know about the Philippine condition and what you have learned about federalism, is federalism a necessary condition for Philippine sustainable growth and development?"

The survey revealed that only 28 out of the 101 participants gave a thumbs up on federalism. Meanwhile, two participants chose to abstain.

"I think we need to hear more persuasive advocates of federalism to turn the numbers," Pascual said.

The APPC serves as the culminating activity of the Development Policy Research Month (DPRM), an annual nationwide celebration led by PIDS every September pursuant to Presidential Proclamation No. 247.

Started in 2015, the APPC aims to convene policy experts and researchers to analyze critical issues relevant to development planning and policymaking. PIDS envisions it to serve as a platform to cultivate a strong culture of research and use of data and evidence among

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# Analysts warn shift to federalism could worsen regional inequality



While countryside CBDs continue to flourish economically, many highly rural localities are still left behind. This clear-cut representation of regional inequality is further threatened by the shift to federalism. (Photo by Joshua Vega/thinklink.org)

A SHIFT TO federalism at this time could worsen regional inequality given the existing highly imbalanced and inequitable political and economic development among regions, provinces, and cities across the country.

During the third Annual Public Policy Conference (APPC) organized by state think tank Philippine Institute for Development Studies (PIDS) on “Critical Perspectives on Federalism for Regional Development”, economists and political analysts maintained that for federalism to succeed, persistent challenges in local governance and political economy issues must first be addressed.

The adoption of a federal form of government is touted by its proponents as a practical solution to persistent problems of poverty, inequality, and instability. It was one of President Rodrigo Duterte’s campaign promises, which has since gained strong support from the House of Representatives.

## ‘Clarify assignment of functions’

For instance, PIDS Senior Research Fellow Rosario Manasan cautioned that federalizing the country without a strong fiscal equalization formula could worsen regional inequality.

She noted that the risk is high given that the initial condition is bad to start with.

Currently, revenues of local government units (LGUs) are concentrated in the National Capital Region, and the Central Luzon and CALABARZON regions. This situation, according to Manasan, requires equalization transfers to other states or regions under a federal system to offset differences in revenue-raising capacity or public service cost.

Nevertheless, the public finance expert acknowledged the potential benefits of deepening decentralization through federalism. According to her, a more



decentralized setup will bring government closer to the people, thereby promoting efficient delivery of public services as lower level governments are more able to respond to local needs and preferences of their constituents.

“It also has the potential to enhance accountability of local politicians as the population gets to participate more in the decisionmaking process,” Manasan added.

Still, Manasan noted that the said potential gains may be achieved with greater fiscal decentralization, with or without a shift to federalism. She also advised the government not to equate decentralization to a federal form of government, citing the case of the federal state of Malaysia as more centralized than the Philippines, which has a unitary system.

In terms of the design of the federal form of government, Manasan urged its proponents to consider the lessons learned from the country’s decentralization experience. Particularly, she noted the importance of clarifying the delineation of expenditure and revenue-raising powers between the different layers of government in the revised Constitution.

“Clarity in the assignment of functions to different levels of government is very important to avoid duplication and strengthen accountability among politicians,” she explained.

Manasan also stressed the importance of giving lower level governments more power to collect taxes as this promotes local accountability. At present, however, local governments only enjoy a low level of revenue autonomy in terms of tax assignment, according to Manasan.

She likewise proposed that “each level of government must have enough own revenues to finance the services they provide.”

During his presentation, Dr. Herwig Mayer, project manager from the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH, warned that the mismatch between the resources and functions can cause “major trouble”, such as insufficiency of funds in the different levels of the government.

Moreover, Manasan cautioned that the shift to federalism will come at a cost. She estimated the additional fiscal burden of adding another layer of bureaucracy to be around PHP 30 billion to PHP 59 billion annually, depending on number of states, size of legislative body at the state government level, and size of second chamber.

Lastly, she noted that the reformation of the party system and the elimination of political dynasties in the country are preconditions to ensure the success of a federal form of government.

### **Fed ‘not ideal’ to regions with political dynasties, conflicts**

Using the framework of “guns, goons, and gold”, Ateneo School of Government Dean Ronald Mendoza highlighted the prospects for a more successful federalism rollout.

By evaluating three of the proposed states—Northern Luzon, Central Visayas, and Bangsamoro—Mendoza identified a range of challenges the country may face by implementing further decentralization reforms.

While some regions acquire some of the elements associated with good

governance, such as a strong middle class and lower internal revenue allotment dependency, he argued other regions continue to suffer from high inequality, low human and economic development, and continued violence, as well as experience the reign of thick dynasties and presence of private armed groups.

Mendoza then cautioned that merging provinces into one state can create a power vacuum whereby leaders of each province would vie for state leadership. According to Mendoza, such rivalry is not harmful per se but may not be ideal especially for regions with provinces where political dynasties and armed conflicts are prevalent.

“In some regions in the country, the persistence of violence and conflict has become intimately linked to illicit trade and shadow economy. Deep political and economic interests conspire to preserve these structures, and plans to dismantle them should be complemented with more effective and inclusive economic development policies that empower citizens,” he stressed.

### **Inter-LGU coordination under fed pushed**

Meanwhile, Urban Regional Planner Arturo Corpuz presented a framework for delineating state boundaries under a federal republic.

According to Corpuz, setting the boundaries of LGUs should be based on the perspective of regional development and cross-border relationships.

“No matter where the boundaries are, whether under a unitary or a federal republic, there will always be a need for efficient interstate or inter-LGU coordination,” he explained.

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# Federalism to promote government accountability, peace in Mindanao



Mindanao Development Authority Secretary Datu Abul Khayr Alonto seeks unity among Mindanaoans to pursue federalism. According to Alonto, federalism is key to achieve peace in Mindanao. (Photo by IHH Insani Yardim/flickr.com)

FEDERALISM CAN SERVE as a tool to promote accountability in the government and regional autonomy in the Philippines.

This was one of the key messages from the four press conferences conducted in key cities in the Philippines as part of the series of activities in line with the celebration of the 15th Development Policy Research Month. The press conferences organized by the Philippine Institute for Development Studies (PIDS), in partnership with the Philippine Information Agency (PIA), were held in Metro Manila and in the cities of Zamboanga, Cebu, and Baguio.

According to Regional Director Dionisio Ledres of the National Economic and Development Authority (NEDA) Central Visayas, the shift can lead to the empowerment of local government units, which is beneficial for them to make their own decisions and allocate financial resources in areas where they feel these are most needed.

## Mindanao ‘ready for federalism’

For his part, Secretary Datu Abul Khayr Alonto of the Mindanao Development Authority (MinDA) encouraged the Duterte administration to pass the proposal to “spare the country from fragmentation”, and called for the abolition

of the unitary system that has already “created the great divide between our communities and our people”.

“Having witnessed and endured the turbulent years of strife in Mindanao along with my fellow brothers and sisters, I have come to realize that the only way to permanently put the regime of fragmentation and violence in Mindanao to rest is to pursue initiatives that will transcend beyond any affiliation or interest,” he said.

Alonto said Mindanaoans favor federalism over decentralization because “anything delegated can be withdrawn but anything shared cannot be dismantled.”

“Mindanao is ready for federalism and we can do it, we will do it,” Alonto declared.

The MinDA chief also said that the shift to federalism will be a great opportunity to highlight the Bangsamoro agenda.

“As the chairperson of MinDA and as a Bangsamoro, I can assure you that we are not going to stop until we get everyone on board in this undertaking. Every person, every voice, every opinion merits great importance in establishing a state that values unity and empathy over divisiveness and indifference,” Alonto explained.

## Autonomy before federalism

Meanwhile, the Cordillera Administrative Region (CAR) is calling



on the government to also prioritize their autonomy, which would promote the region's uniqueness where majority are indigenous peoples, according to NEDA-CAR Assistant Regional Director Jade Aquino.

"Federalism is there, but regional autonomy as our regional advocacy is also there," Aquino explained.

She likewise noted that under federalism, there is a possibility that CAR will be part of a region that includes provinces from other northern regions, whereas, in an

autonomous government, there is more chance of preserving the region's cultural identity because it will not be combined with other provinces.

At present, political leaders of CAR are hoping for the ratification of House Bill No. 5343, an act establishing the Autonomous Region of the Cordillera.

Aquino admitted, however, that the level of awareness among the people in the region is still low, with many still undecided on the issue.

According to Atty. Fritz Torqueza, a member of the speakers bureau on federalism of the Department of the Interior and Local Government-CAR, the agency has been conducting various awareness campaigns on federalism and autonomy in the region, saying that with the region's "very unique situation", they are "advocating autonomy first before federalism".

By December, Torqueza said the plan is to increase the awareness on federalism of people in the region by 43 percent.

**GBDC, RTT**



## Duterte administration considering a semipresidential system

THE DUTERTE ADMINISTRATION is considering a semipresidential system of government and not a unicameral legislature.

This was according to Jonathan Malaya, executive director of the Partido Demokratiko Pilipino-Lakas ng Bayan (PDP-Laban) during the Mindanao leg of the federalism research forum of state think tank Philippine Institute for Development Studies (PIDS).

On the theme "Federalism as Policy Option for a Decentralized Inclusive Development: A Critical Inquiry", the said forum was led by PIDS, in collaboration with the Mindanao Development

Authority and Ateneo de Zamboanga University. It served as the first policy forum lined up for the 15th Development Policy Research Month, an annual celebration led by PIDS every September to promote the importance of evidence-based policy research in program planning and policymaking.

### **Proposed system to have prex, prime minister**

Malaya explained this type of a "hybrid parliamentary system" will have a president and a prime minister.

He added "the president will be the head of state while the prime minister will

head the government," with the former handling foreign affairs and national defense and the latter in charge of the day-to-day affairs of the government.

Under the PDP-Laban proposal, the president will be elected nationally with a term limit of five years while the prime minister will be nominated with the consent of the federal assembly whose members are appointed by the president. The latter may also be removed anytime with the vote of "no confidence" from the assembly, he explained.

Meanwhile, three senators will be elected by each region, who will serve for five years. According to Malaya, the Senate





A federal form of government will benefit the regions that are too small to subsume more expenditure and revenue-raising functions through the creation of bigger subnational units, says Romulo Miral Jr., director-general of the Congressional Policy and Budget Research Department. (Photo by PIDS)

cannot initiate laws, which will instead be lodged to the federal assembly. He also added there will only be one reading of bills instead of three, which is the current practice in both lower and upper houses.

### **‘Avoid mistakes, pitfalls in older feds’**

Meanwhile, Atty. Kenneth Beldua, who represented Zamboanga City Maria Isabelle Climaco, encouraged the federalist proponents, including the PDP-Laban, to probe deeper into the proposed change in government system to “avoid the mistakes and pitfalls in older federations”.

Beldua urged the present administration to ensure that the people are satisfied with the division of responsibilities that will be included in the amendment of the Constitution. He also cautioned against

building a federalist country that alienates certain states or leaves them behind.

“In borrowing concept and ideas from federal countries, we would like to understand the guiding principles so that we can properly adopt them and even adapt them to local conditions to meet our specific needs,” he pointed out.

Citing some practices in the sharing of taxing powers in federal states, PIDS Senior Research Fellow Rosario Manasan explained how the said adoption of such principles, especially in terms of fiscal policies, can be done.

For instance, Manasan pointed out that customs, corporate, and excise taxes are assigned most of the time to the federal or national government. However, in some federations, these may be under

the concurrent jurisdiction of federal and state governments.

For personal income tax (PIT), she said the PIT may be more directly attributed to the location of residence. But in the case of Austria and India, the PIT has been exclusively under the national government. On the other hand, sales or consumption taxes are shared by both federal and state governments, she added.

Furthermore, Manasan raised the possibility that some local government units may not be ready for the shift to federalism especially in terms of development and financial stability.

To address the risks of greater disparities under a more decentralized form of government, Manasan said policymakers must design a feasible intergovernmental transfer, which could be in the form of tax shares, unconditional block grants, or specific purpose conditional grants to assist poorer states or regions.

She said this can also be through equalization arrangements, which are administered by the federal or national government to help poorer states, similar to the current practice in Germany, Canada, and Switzerland.

### **Limited taxing, revenue powers of local governments**

However, Romulo Miral Jr., director-general of the Congressional Policy and Budget Research Department, clarified that the objective of equalization transfer systems is not to provide uniform services or even produce economic growth but to ensure that all individuals, regardless of their place of residence, are entitled to a prescribed standard of government service.

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# ASEAN membership ‘moderately beneficial’ to PH business sector

THE PHILIPPINE BUSINESS sector has the lowest appreciation of the benefits that come with the country’s membership in the Association of Southeast Asian Nations (ASEAN).

This was according to Dr. Sheila Siar, research information director at the Philippine Institute for Development Studies (PIDS), who presented the Philippine results of the study “What does the ASEAN mean to ASEAN peoples?” during the Public Symposium on Building ASEAN Socio-cultural Community held in Davao City.

The symposium was organized by the Philippine Institute for Development Studies (PIDS) and Jakarta-based Economic Research Institute for ASEAN and East Asia (ERIA), in partnership with the Mindanao Development Authority (MinDA) and the ASEAN Society.

According to Siar, the ERIA-funded study showed that Filipino respondents from the business sector agreed that the country’s membership in ASEAN is important in increasing access to international markets, travel, and jobs, as well as in maintaining peace and stability.

The said sector, however, perceived the impacts of these benefits as only moderate, she revealed.

## Lack of appreciation attributed to trade, corruption issues

This response, Siar pointed out, can be attributed to trade, investment, and

regulation issues that continue to hamper the growth of the business sector.

For instance, Dr. Erlinda Medalla and Melalyn Mantaring, PIDS senior research fellow and project development officer, respectively, uncovered in their study the negative effects of nontariff barriers on Philippine trade activities with other ASEAN countries.

Corruption also remains a major issue in the ASEAN region, according to Lydia Ruddy, ERIA Director of Communications.

“The fact that corruption is the most pressing problem overall suggests that the respondents see corruption—and related governance problems—as a critical bottleneck to production efficiency, investment attractiveness, competitiveness, and possibly even development,” Ruddy explained.

## Moderate awareness of ASEAN noted

Moreover, the business sector reported moderate awareness of ASEAN, which was also the case in other respondent groups, such as the government, academe, and civil society, according to Siar.

In general, all of them registered moderate awareness of ASEAN and moderate identification as ASEAN citizens.

Siar explained this can be partly due to the low media coverage of ASEAN.

According to Dr. Alexander Chandra, associate fellow of the Habibie Center in Jakarta, the media generally only focuses on domestic or negative news.

“ASEAN news is [considered] not controversial, hence ‘not sexy’ for media coverage,” said Chandra.

Meanwhile, Dr. Ponciano Intal Jr., ERIA senior economist, stressed the importance of local and traditional leaders in boosting awareness and sense of community in the ASEAN region.

“Perhaps, the sultanates of Mindanao, Brunei, Malaysia, and Indonesia can take the lead in creating certain agreements that support regional ASEAN community building,” Intal proposed.

For her part, Elaine Tan, ASEAN Foundation executive director, underscored the need to engage the youth in ASEAN’s activities as they comprise the biggest chunk of the region’s population.

Siar agreed with Tan, adding that “maximizing schools as avenues for instilling awareness and appreciation of ASEAN among the youth is important because they are our future leaders.”

Other recommendations include holding cultural heritage activities emphasizing unity in diversity and increased use of mass media and social media. **CPSD**





# ASEAN praised for instigating success in the region



The ASEAN's success in providing a competitive playing field for the bloc's small and medium enterprises must be complemented with a regulatory environment that promotes smoother investment flows and lower cost of doing business. (Photo of SMEs trade fair by DTI-CITEM)

THE ASSOCIATION OF Southeast Asian Nations (ASEAN) has significantly helped its member-states achieved economic progress, a Vietnamese senior economic official said.

At the Public Symposium on Economic Integration and Nation Building held in Manila recently, Dr. Vo Tri Thanh, former vice-president and a senior expert of the Central Institute for Economic Management of Viet Nam, praised ASEAN for pushing its member-states to

aim for sustainability, inclusiveness, and innovation.

The symposium is one of the commemorative outreach activities organized by state think tank Philippine Institute for Development Studies (PIDS) and the Jakarta-based Economic Research Institute for ASEAN and East Asia (ERIA) to celebrate ASEAN's 50th anniversary this year. It aims to enhance the engagement of stakeholders of ASEAN on economic issues to promote

better understanding of the ASEAN economic integration.

## 'Meaningful playing field'

According to Vo, the regional bloc has served as a "meaningful playing field" for Southeast Asian countries to explore their comparative advantages, participate in the global market, and advance domestic reforms.





“In the case of Viet Nam, for instance, ASEAN has allowed us to see the best performers in the region, like Singapore, Thailand, and Malaysia, and align our economic targets based on their performance,” Vo explained.

He likewise revealed that this year alone, Viet Nam expects 20,000 new private enterprises through the intervention of ASEAN.

Viet Nam became part of ASEAN in 1995, prior to its membership in other regional organizations, such as the Asia-Pacific Economic Cooperation in 1998 and the World Trade Organization in 2007.

“That time, we did not have a deep understanding of the relevance of international integration, economic integration, and free trade agreements,” Vo said. Viet Nam, however, later on realized the need for a good neighbor to advance peace and stability.

“Before, when we look at Thailand or the Philippines, we thought they were not our friends but our enemies as they were enjoying the support of the United States army to fight against Viet Nam. Now, we have a region with, more or less, peace and stability, which is the foundation of everything,” he explained.

#### **ASEAN SMEs as ‘vehicle for inclusive growth’**

In the case of the Philippines, Dr. Gilberto Llanto, PIDS president, said the ASEAN has helped the country advance economic reforms and liberalism, especially among small and medium enterprises (SMEs).

“SMEs are crucial because they are at the core of our respective economies in terms of share of total establishments and share of total employment, and even in terms of share of gross domestic product,” according to Llanto.

A 2014 ERIA report even revealed that ASEAN SMEs accounted for at least 95 percent of all registered businesses in the region, except in Myanmar, where they made up more than 88 percent of the enterprises. In the Philippines alone, 99.6 percent of all registered enterprises were SMEs in 2014.

As such, the Philippine Development Plan tagged SMEs as the country’s vehicle for inclusive growth.

Llanto likewise encouraged member-states not to retreat to protectionism, and instead appreciate SMEs as a good vehicle for economic integration within the ASEAN. He highlighted the *ASEAN Strategic Action Plan for SME Development 2016–2025*, which aims to enhance the competitiveness and flexibility of SMEs in moving toward a single market and production base in ASEAN.

“There should be convergence and catch-up and one way to catch up would be to promote SMEs,” he explained.

However, Llanto revealed that ASEAN SMEs continue to suffer from several issues that hamper their growth, such as lack of access to relevant technologies and information, limited marketing skills and management capacity, high business costs, inability to comply with standards, and limited attention to innovation. He explained these are also the reasons

behind the inability of the SMEs to participate in global value chains.

Llanto urged the member-states to improve the regulatory environment in the region, as well as to harmonize the rules and to push for the translation of ASEAN-wide plans to national policies.

“There is also a need to review and even revoke regulations that constrict investment flows and increase the cost of doing business,” Llanto explained, citing the guillotine project in Viet Nam, which chops down regulations that are unnecessary and that constrain businesses and investments.

#### **BIMP-EAGA as a ‘building block’ for ASEAN**

Meanwhile, Dr. Janet Lopez, executive director of the Mindanao Development Authority, urged ASEAN to maximize the potentials of the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) as a building block toward achieving ASEAN economic integration.

BIMP-EAGA is one of the subregional cooperation initiatives currently found within Southeast Asia, along with the Indonesia-Malaysia-Thailand Growth Triangle and the Greater Mekong Subregion. According to the Mindanao official, the said subregion hosts a big number of SMEs and is positioning itself to become the agribusiness and food hub of ASEAN.

In the Philippines, BIMP-EAGA’s focus area is Mindanao, which supplies more than half of the country’s food requirement.



Lopoz urged the ASEAN to appreciate BIMP-EAGA as a practical test bed for economic integration given its countries' proximity to one another, cultural affinity, and historical trade practices.

She added this will likewise ensure that the benefits of ASEAN integration will be inclusive and will accrue not only to the big players but also to the focus areas of the BIMP-EAGA, which are considered the least developed in their respective countries.

Lopoz explained that BIMP-EAGA is currently setting up food production zones in different regional corridors, such as in Mindanao, Sabah, Sarawak, and Sulawesi, Indonesia. These production zones will later on be linked through the

EAGA intermodal transport linkages to lower production cost.

"We have to start the connectivity within the subregional groupings within ASEAN and interlink it to the rest of ASEAN, which is more practical," Lopoz added.

Such establishment of connectivity within the subregional groupings already started with the Davao-General Santos-Bitung, Indonesia roll on/roll off shipping service, which serves as one of the flagship ASEAN connectivity projects within BIMP-EAGA.

"In the past, products in Mindanao will have to go up to Manila to go to Jakarta to the areas of the market. By paving this direct connection with our neighbor within BIMP-EAGA, it cuts the cost of

transport of our producers and traders by as much as 67 percent depending on the commodity," Lopoz explained.

"Imagine the cost saved because of the improved integration and connectivity within the subregion," she added,

This, according to Lopoz, addresses one of the critical development constraints that limit SMEs' participation in the global value chain, which is the inadequacy of infrastructure and logistics in ASEAN.

Aside from facilitation and connectivity, the public symposium also covered issues on liberalization and good governance, ASEAN and East Asia integration, as well as the roles of the Regional Comprehensive Economic Partnership. **RGV**



The ASEAN has enabled Mindanao enterprises to seamlessly transact with the Brunei-Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) and actively participate in the global value chain, says MinDA Executive Director Janet Lopoz. (Photo by PIDS)



# Target poverty, rising extremism in the region, analysts urge ASEAN

THE 10 MEMBER-STATES of the Association of Southeast Asian Nations (ASEAN) need to have stronger socio-cultural ties to accelerate economic growth, social progress, and cultural development in the region.

At the Public Symposium on Building ASEAN Socio-Cultural Community and Nation Building held last August in Davao City, representatives from the government, private sector, civil society, and academe agreed that the ASEAN must prioritize the difficult and long-term socio-cultural issues confronting the region, such as the perennial problems of poverty and inequality, poor disaster management, inadequate protection of the environment, and the rising extremism, as part of ASEAN's community-building efforts.

The symposium was organized by the Philippine Institute for Development Studies and Jakarta-based Economic Research Institute for ASEAN and East Asia (ERIA), in partnership with the Mindanao Development Authority (MinDA) and the ASEAN Society. In support of the 50th anniversary celebration of ASEAN, the symposium aimed to increase understanding of the ASEAN Community Vision and how the ASEAN member-states complement each other in terms of promoting socio-cultural development.

The ASEAN Socio-Cultural Community (ASCC) is one of the three pillars of the ASEAN Community Vision. The ASCC, which is considered the least developed and most neglected pillar, focuses on nurturing the human, cultural, and natural resources. The other two are the ASEAN Political-Security Community and the ASEAN Economic Community.

## Agenda on poverty, human development pushed

Emphasizing the importance of ASCC in ASEAN development, former Philippine President and Pampanga Second District Representative Gloria Macapagal-Arroyo, in her keynote speech, stressed the need for ASEAN member-states to cooperate in the social sphere.

"It is not enough that we have economic integration. It is not even enough that we have security cooperation. The ASEAN Community must be built on a social agenda focused on poverty eradication and human development," she emphasized.

Arroyo, who also served as secretary of social welfare in government, has been a strong advocate of the ASCC. It was under her term as president when the Philippines proposed the inclusion of the ASCC in the ASEAN Community framework.

According to Arroyo, the ASCC was grounded on the idea that "Southeast Asia must be bonded together as a partnership of caring societies."



While the recent siege in Marawi has little effect on Mindanao's overall economy, the flow of goods and services to and from neighboring economies was hampered by the extremist events. (Photo by Alexander Lopez/davaotoday.com)





Prof. Hidetoshi Nishimura, president of ERIA, lauded ASEAN's decision to include the ASCC as a major pillar of the ASEAN Community.

Nishimura noted ASEAN's emphasis on upholding cultural diversity and social harmony, which are at the core of the ASCC. He added this "was insightful and clearly different from the integration process of the European Union".

"Mindful of the diversities among its member-states, ASEAN discovered the consensus-building approach [which] today is called the 'ASEAN Way'. Despite their diverse cultures, languages, religions, and political systems, ASEAN has built peace and stability as a region and as a community in the past five decades," Nishimura said.

### Protecting migrant workers' rights

In 2007, during the Philippines' ASEAN chairpersonship, the summit adopted the theme, "One caring and sharing community", to highlight the importance of the socio-cultural dimension of ASEAN integration. It was also then that the Philippines pushed for the Cebu Declaration on the Protection and Promotion of the Rights of Migrant Workers. The said declaration directs the member-states to develop effective mechanisms to safeguard migrant workers, including an ASEAN instrument to protect and promote their rights.

However this initiative, according to Arroyo, was met with resistance given the conflicting interests between the migrant sending and receiving economies in the ASEAN.

For years, there was no legally binding instrument or treaty to implement the commitment. Finally in November 2017,

at the recently concluded chairmanship of the 2017 summit led by the Philippines, the ASEAN leaders signed the Consensus on the Protection and Promotion of the Rights of Migrant Workers.

### ASEAN urged to unite against extremism

In terms of the rising extremism in the region, Philippine Center for Islam and Democracy President Amina Rasul-Bernardo urged the ASEAN to be united in promoting peace and cooperation, especially in the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) to achieve long-term development in the ASEAN region

At present, the member-states face different kinds of conflict, ranging from territorial to armed conflicts, with marginalized communities as the most affected.

"They [marginalized] are the poorest and they are the least served communities. Given that kind of situation—the growth of ISIS and the growth of extremist networks—peace in our communities not just in BIMP-EAGA but in the entire ASEAN is now at risk," Bernardo said.

ISIS stands for Islamic State of Iraq and Syria, a militant group allegedly gaining foothold in the Philippines.

Relating this to the situation in Mindanao, she pointed out that in its initial years, there was a "high level of investor confidence" in the area because the "peace process had succeeded."

However, with the recent turn of events, the subregion has become a "neighborhood that is now the playground of extremist and terrorist groups," Bernardo explained, adding that

it cannot "go on with current investment priorities, disregarding completely that Mindanao, and some parts of Indonesia and Malaysia [have] now become the arena for ISIS-related activities".

"Generally, businesses do not seem to think that extremism affects them, when in fact, it does. If your communication towers blow up, then yes, you are affected. If you can no longer use trucks to send your grain to market, yes, you are affected," Bernardo explained.

Bernardo urged ASEAN to consider peace as a primordial concern when discussing about economic development, because "if we have peace, then we have investments, we have business growth," she said.

Meanwhile, she advised those in the religious sector to "come together because in many of these areas, religion is used as a flag," adding that while "it may not be the cause of conflict, it is certainly a very attractive flag to rally troops."

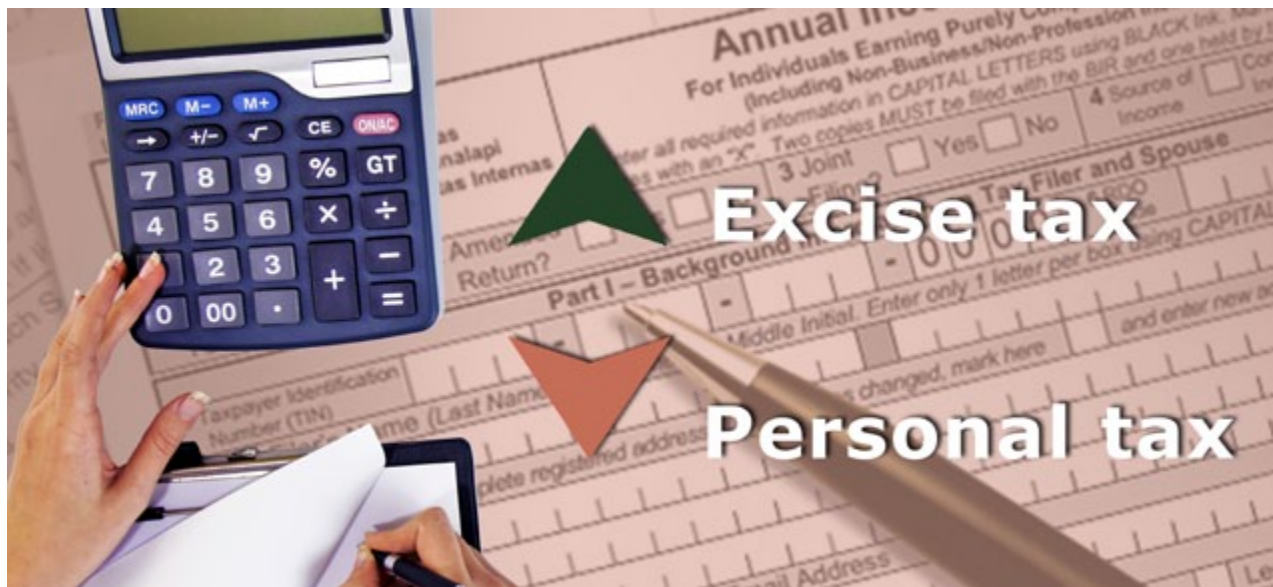
As for the academe, it plays a big role in terms of making the ASEAN people understand trends and background of such events.

According to Bernardo, the youth should also be vigilant as they can be targeted by extremist movements. Furthermore, stakeholders have to make sure that the social media is not being used by extremists for their own interests.

"You need to bring these sectors together if we are to come up with a realistic way to prevent violent extremism. We need these groups to come together in BIMP-EAGA, especially because the bulk of the Muslims in this region are in our area," Bernardo said.



# Government should approve new tax measure in whole to be effective



While the impending tax reform act will lower the personal income tax of regular wage earners, prices of commodities and other services will increase due to higher excise tax.

THE GOVERNMENT SHOULD pass the new tax reform bill as a package, according to a senior research fellow of the Philippine Institute for Development Studies (PIDS). This is not to say, however, that some of the components of the package should not be reviewed further.

Dr. Rosario Manasan, an expert in public finance, explained that approving and implementing the Tax Reform for Acceleration and Inclusion (TRAIN) in a package increases the likelihood that it will bring in more revenues for the government.

The TRAIN bill is part of the Department of Finance's (DOF) Comprehensive Tax Reform Program that recommends the lowering of personal income tax (PIT) but increases excise taxes on fuel,

new cars, and sugar products to offset possible losses.

The House of Representatives has already approved its version of the TRAIN last June 2017. Meanwhile, the Senate Committee on Ways and Means has already endorsed Senate Bill No. 1592, its version of TRAIN last September.

"I think the good thing about the proposed tax reform of the DOF is that it comes in a package. Way back in 1977, we already had a comprehensive tax reform program and comprehensive studies were done about it. But when it was brought to the Congress, it was passed in piecemeal, which resulted in the passing of measures with negative impacts on revenues. The other measures which could have brought positive effects on revenues were not

approved because they are not popular," Manasan pointed out.

Based on the proposed tax reform, the PIT of regular wage earners will be lowered from the current 32 percent to 25 percent, making those earning below PHP 250,000.00 annually exempted from paying taxes.

## Filipino workers 'heavily taxed'

Manasan said that through the new tax reform, the government hopes to generate more revenues to finance its "build, build, build" program.

"I think the main goal of government in passing the new tax reform is to increase government revenues but the DOF wants to do it in a way that is fair,



efficient, and easier to collect taxes,” she noted.

TRAIN, she said, will also fix “bracket creep” in PIT as well as resolve issues on overtaxing wage income earners.

Since 1997, the government has been imposing a 30-percent tax rate to those earning PHP 500,000. Although the peso has already devaluated, the PIT has never been adjusted, Manasan revealed.

“Compared to other countries, our workers and households are more heavily taxed,” she explained.

#### No benefits for the poor from PIT reduction

However, the proposed increase in excise tax on petroleum will also have a domino effect on the prices of commodities and other services, Manasan stressed.

“Petroleum is an input in almost everything. In case of a fuel hike, there will be an increase in the cost of fares, electricity, and other products down the line,” Manasan said.

She added “both rich and poor will get affected” albeit in different degrees.

In the case of the middle class and the rich, they can mitigate the higher taxes on the goods and services by the reduction in the PIT, Manasan explained.

In contrast, poor families will not benefit from the reduction of the PIT as they are not paying any PIT even under the present system. However, they are bound to be adversely affected by the proposed increase in the excise tax and expansion of the coverage of the VAT, she added.

Nonetheless, a good feature of the DOF’s tax reform proposal, according

to Manasan, is the highly targeted cash transfers that will be distributed to the poorest families in the country to address the abovementioned problem.

“Specifically, 40 percent of the increment on excise tax from petroleum will be used for targeted cash transfers. Target beneficiaries will be identified using the National Household Targeting System of the Department of Social Welfare and Development, the same tool used by the *Pantawid Pamilyang Pilipino* Program,” Manasan explained.

However, the two chambers of Congress have yet to decide whether to provide the targeted unconditional cash transfer for three years under Senate Bill 1408, or one year only under House Bill 5636.

“My own recommendation is three years to give time for the transfer to have some impact on growth and benefit the poor,” Manasan added. **RTT**






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## BIRTH OF A THINK TANK

### The Founding of PIDS

*By Gerardo P. Sicat*

The Philippine Institute for Development Studies (PIDS), founded in 1977, has gained international recognition for useful research on development issues relevant to the nation's socioeconomic needs. In this memoir prepared for the 40th anniversary celebration of the Institute's birth, Dr. Gerardo P. Sicat--the founding father of PIDS--recounts the unique circumstances, philosophy, and other factors that led to the establishment of the research institute.

Download here: <https://tinyurl.com/birthofathinktank>







### *PIDS calls... from p. 4*

the country's national and local decisionmakers in policymaking and program planning. Through the different topics highlighted in every DPRM celebration, this event also aims to raise the public's literacy of important socioeconomic issues. **RGV, GBDC**



### *Analysts warn... from p. 6*

Corpuz enumerated some parameters of regional development that should be taken into account in forming a regional state, such as the presence of commercial districts and the dominance of certain regions.

He emphasized that each territory must have a metro center capable of supporting a purpose-built commercial business district (CBD) with a minimum population of 700,000. Such district, according to Corpuz, drives efficiency and competitiveness while serving as primary gateways to other regions.

"The larger and more complex they are, the stronger and more diverse the region is in terms of scale and level of services, economic base, and employment opportunities," he explained.

He likewise noted that clustered CBDs should be kept within the same state to enhance scale and agglomeration of economies. As such, the Philippine federal government setup should have fewer states, according to Corpuz.

"If we assume that Muslim autonomy, the dominance of Metro Manila, and the vintage geopolitical factors are equity issues that need to be considered, then five or six federal states have to be in place," he explained. **GMM, GBDC**

### *Duterte administration... from p. 9*

He also said that one of the weaknesses of decentralization in the country is the failure of the national government to commensurately decentralize control over public finances and/or revenue-raising powers to subnational levels.

"Planning and administration were decentralized to the regions, but budgeting decisions remained largely with the central offices of national government agencies," he explained.

According to Miral, the Philippines has the highest number and the smallest sizes of first-tier subnational government in East Asia.

"The provinces and cities, which are currently the first-tier subnational governments, are too small to absorb many of the expenditure functions and revenue raising powers of the

national government. Thus, the proposal for a federal form of government, which provides the creation of bigger subnational, such as regional government, makes sense", he posited.

Explaining further, Miral said assigning national government's expenditure functions and revenue-raising powers to regional states could break up and reduce the size of the common resource pool, referring to collected taxes nationwide, including proceeds from government borrowings that are used to finance government services.

"At the regional level, the size of the common resource pool as well as the number of claimants will be smaller, rendering the incidence of costs of and benefits from government spending more visible, thus, promoting greater vigilance and accountability", he concluded. **RTT**

### *Target poverty... from p. 15*

#### **United steps amid disputes urged**

In her closing remarks, PIDS Senior Research Fellow Erlinda Medalla, who represented PIDS President Gilberto Llanto, stressed the importance of instilling in the minds of ASEAN peoples the relevance of the association and regional integration in their lives.

"This is where the role of strengthening the socio-cultural aspect of integration comes in. In a region where 10 diverse cultures come together to form a community, the people must understand the beginnings and journey of ASEAN."

Meanwhile, Secretary Datu Abul Khayr Alonto, chair of MinDA, called on ASEAN members to build stronger ties to move forward in "united steps in the midst of disputes and differences".

Alonto also urged ASEAN peoples to take pride in the fact that they belong to a "culturally diverse yet united ASEAN". He expressed his hope that the people in the region can work together gradually, creating an ASEAN consciousness that recognizes "Southeast Asian neighbors as more than just trading partners and political allies, but as partners for change and development". **GGM, RTT, GBDC**





## Research Digests

PIDS Book 2017-02

### **Building Inclusive Economies, Building a Better World: A Look at the APEC 2015 Priority Areas (Volume II)**

by *Philippine Institute for Development Studies and Philippine APEC Study Center Network*

The second volume of the APEC 2015 book focuses on fostering small and medium enterprises' (SMEs) participation in the regional and global economy, and building sustainable and resilient communities, particularly mainstreaming of SMEs, social enterprises and employment, women's participation in the economy, food security, SMEs' resilience to natural disasters, and social protection.

PIDS Book 2017-03

### **Risks, Shocks, Building Resilience (Proceedings of the Second Annual Public Policy Conference 2016)**

by *Philippine Institute for Development Studies and Bangko Sentral ng Pilipinas*

In view of the country's increasing vulnerability and exposure to risks and shocks, the Philippine Institute for Development Studies dedicated the Second Annual Public Policy Conference (APPC) to the discussion of building resilient systems in the Philippines under the theme, "Risks, Shocks, Building Resilience". Specifically tackling policy issues affecting the macroeconomic, agriculture, urban environment, and health sectors, this conference proceedings present the evidence-based policy research studies discussed during the APPC. The Institute hopes that the recommendations raised in this publication may inspire further discussions and actions on building resilience that can lead to an economic growth that is both sustainable and inclusive.

PN 2017-14

### **Estimating Filipinos' Vulnerability to Poverty**

by *Christian D. Mina and Celia M. Reyes*

Natural disasters, together with other shocks, have contributed to the vulnerability of both poor and nonpoor Filipino households to poverty. While the government needs sufficient information to formulate appropriate interventions for these vulnerable households, the country's official poverty statistics have not paid much attention to measuring the Filipinos' vulnerability to poverty. Find out which regions in the Philippines are most vulnerable to poverty and how to address the high poverty rates across the country.

PN 2017-15

### **Understanding the Principles Underlying the Philippine Competition Law**

by *Erlinda M. Medalla*

This *Policy Note* revisits the principles of the Philippine Competition Act as a breakthrough legislation intended to promote free and fair competition in economic activities in the country. It advances the idea of fair play, which means that the competition policy should prevent firms from obtaining inequitable market power by excluding others from entering the market. Look into the underlying principles of the law as well as some policy recommendations to further competition in the Philippine market.

PN 2017-16

### **Preventing Childhood Stunting: Why and How?**

by *Alejandro N. Herrin*

According to the Food and Nutrition Research Institute, childhood stunting affects one-third of under-five Filipino children annually. Unfortunately, the Philippines has shown little progress in reducing its prevalence in the last 20 years. Find out how the identified factors such as

mothers' nutrition and health status during pregnancy influence birth outcomes in this *Policy Note*. Recommendations to address child stunting in the Philippines are also provided.

DP 2017-27

### **Assessment of the 2017 Tax Reform for Acceleration and Inclusion**

by *Rosario G. Manasan*

The Duterte administration is pursuing a simpler, more efficient, and more equitable tax system to support its economic growth strategy. The Comprehensive Tax Reform Program (House Bill 4774 and Senate Bill 1408) and the Tax Reform for Acceleration and Inclusion or TRAIN (House Bill 5636) seek to reform the structure of the personal income tax, value-added tax, and excise tax on petroleum products and automobiles, while improving the progressivity of the tax system. A portion of the additional revenues generated will be earmarked for investments in education, infrastructure, and health to stimulate long-term growth. Read about the implications of these bills on the distribution of tax burden across income groups, economic incentives in affected sectors, national government revenues, and likely impact on tax compliance.

DP 2017-29

### **Federalism: Prospects for the Philippines**

by *Romulo E.M. Miral Jr.*

Critical to the success of decentralization and fiscal federalism efforts is a strong middle-level government, which is absent in the current setup. The establishment of regional governments, their powers and functions, and their relation to the national government and local governments is the most crucial element in the shift from a unitary to a federal form of government. Know the potential benefits of federalism to the Philippines within the context of two major development constraints, namely, weak economic growth and poverty through this paper.



**Editor's ... from p. 1**

are necessary to advance the development of our regions? Do we really need to shift to federalism to decentralize the power Metro Manila has and alleviate the perennial problems of poverty and inequality in the countryside?

Thus, the Institute deemed it timely to dedicate this year's DPRM celebration to an "intelligent" discourse on federalism. In consultation with the DPRM interagency steering committee, the overall theme of the 15th DPRM was coined as "Strengthening Decentralization for Regional Development" or "*Pagpapatibay ng Desentralisasyon Tungo sa Kaunlarang Panrehiyon*" to emphasize the need for indepth reflections and evidence-based analyses not just on the proposed shift to a federal form of government but also on decentralization reforms in general.

Indeed, federalism would be a major change in our system of government if it pushes through. It is just imperative that policymakers and the public at large understand how it might affect us. Critical at this point is to gather different views and do a

lot of probing and comprehensive researches about the issue to arrive at well-informed and sound policy recommendations for our policymakers. The banner article on the highlights of the Third Annual Public Policy Conference on "Critical Perspectives on Federalism for Regional Development" held in Manila summarizes the main points shared by the country's leading public policy experts on the pros and cons of federalism and its implications for the Philippines. One of the key points emphasized by Prof. Paul Hutchcroft, who has studied the Philippine political economy for decades, is worth reflecting. According to Hutchcroft, whether or not federalism pushes through, the government needs to strengthen the regions, as this will bring development in the local level and the whole country.

As with past DPRM celebrations, the Institute also conducted activities in key cities of the country to gather the voices of local stakeholders. One of these events, the Third Mindanao Policy Research Forum on "Federalism as Policy Option for a Decentralized Inclusive Development: A

Critical Inquiry" held in Zamboanga, provided a venue for Mindanaoans to explain why they favor a federal form of government. The highlights of that event are also discussed in this issue.

Also featured here are the activities spearheaded by the Institute together with its partners in support of the 50th year of the formation of the Association of Southeast Asian Nations (ASEAN) and the Philippines' chairship of the ASEAN Summit this year. The two public symposia focused on the challenges confronting the formation of a full-fledged ASEAN Economic Community and ASEAN Socio-Cultural Community (ASCC). The ASCC symposium was held in Davao City while the Marawi siege was in full swing, drawing calls from civil society leaders for ASEAN member-states to unite against violent extremism.

Completing this issue is an article discussing the advantages and disadvantages of adopting the Tax Reform for Acceleration and Inclusion bill, particularly its implications for the poor.

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**DEVELOPMENT RESEARCH NEWS**

Vol. XXXV No. 3

Jul – Sep 2017

ISSN 0115-9097

ISSN 2508-0857 (electronic)

**DEVELOPMENT RESEARCH NEWS** is a quarterly publication of the PHILIPPINE INSTITUTE FOR DEVELOPMENT STUDIES (PIDS). It highlights the findings and recommendations of PIDS research projects and important policy issues discussed during PIDS seminars. PIDS is a nonstock, nonprofit government research institution engaged in long-term, policy-oriented

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Entered as third class mail at the Quezon City Central Post Office under Business Mail Permit No. 3C-14-02-217. Valid until December 31, 2017. Annual subscription rates are: PHP 200.00 for local subscribers and USD 20.00 for foreign subscribers. All rates are inclusive of mailing and handling costs. Prices may change without prior notice.