PART I

INTRODUCTION

01 The Long View

Chapter 1

The Long View

The Philippines by 2040: matatag, maginhawa, at panatag na buhay. The country is a prosperous middle-class society where no one is poor. People live long and healthy lives and are smart and innovative. The Philippines is a high-trust society where families thrive in vibrant, culturally diverse, and resilient communities.

AmBisyon Natin 2040

Since embarking on a program of inclusive growth and poverty reduction under the Philippine Development Plan 2011-2016[1], the Philippines has gradually transformed from being the economic laggard in Asia to one of the region's best-performing economies.

Sustaining growth at the rate of 6.3 percent during the previous plan period, the economy is now clearly on a higher growth trajectory. Strong macroeconomic fundamentals have steeled it against disruptions caused by natural calamities and the global business cycle. The larger fiscal space created has enabled government to support the provision of public goods and services, stimulate private ventures, finance social programs to reduce poverty, and widen economic opportunities for the citizenry. These gains, combined with maintaining a low-and-stable inflation environment, have contributed to the significant decline in income poverty during the previous Plan period.[2]

Moreover, the emphasis on good governance and respect for the rule of law has paid off with the unprecedented level of confidence accorded by the international community on the country as a travel and investment destination, and the generally stable political environment that has been conducive to sustained economic growth and peaceful political transitions.

To carry forward the progress that has been achieved toward inclusive growth, it is important to draw lessons from the experience during the previous plan period. The experience underscores the significant role of macroeconomic and political stability in creating the conditions for sustained growth. Yet while necessary, it takes more than growth to be able to lift the poor out of poverty. The various constraints preventing the poor from permanently exiting poverty have to be directly addressed. As these constraints operate differently depending on the spatial and sectoral location of the poor, government development strategies need to consider the differences arising from geographical and sector-specific factors. In particular, given the extent to which natural disasters can reverse gains in development work, development plans must provide for investments in disaster risk management, especially because of the country's vulnerability to various risks associated with natural hazards. Finally, fostering credible and effective institutions that will enforce the rule of law and guarantee stability and predictability in the investment climate is critical, as are transparency and accountability in government transactions, in order to strengthen the public's trust in government as an agent of reform.

[1] All references to the Philippine Development Plan 2011-2016 include its Midterm Update 2014-2016.

[2] See the results of the 2015 Family Income and Expenditure Survey, PSA, November 2016. The declining trend in poverty is corroborated by independent and more frequently-reported estimates using a different methodology based on self-rated poverty. See the results of Fourth Quarter 2016 Social Weather Survey on Self-Rated Poverty, Social Weather Stations (SWS), January 2017.

Towards A National Long-Term Vision

As one of Asia's better-performing economies today, the Philippines is in a more favorable position than it has ever been in the last four decades. No longer weighed down by an unmanageable fiscal deficit and more secure in its political legitimacy, the government can now afford to think about national goals based on a longer time horizon.

It is important to have a long-term perspective because securing the means for improving people's lives, which ought to be the metric for gauging economic progress, is not a one-off event. Many of the problems requiring government action involve a combination of social, economic, and institutional processes that take years to produce the desired results. This endeavor requires sustained effort and persistence.

Moreover, the world is constantly changing. As problems are solved, new ones emerge. The rate at which current knowledge becomes obsolete is also increasing. For example, young people in more advanced countries today are being trained to solve problems that have yet to be identified using technologies that still have to be developed. The prospects can be mind-boggling. How is the Philippines preparing its youth for the future? What kinds of skills are necessary for survival, for advancement, in tomorrow's technology-driven, knowledge-intensive world of work? What kind of industries will exist in the country 10 or 15 years from now? How are Filipino businesses preparing to compete with the rest of the region and the world? What types of skills will be required and where will they come from?

That these forward-looking questions have not been at the center of the national conversation may be partly due to the preoccupation of government in the past with economic stabilization and political instability. Like an impoverished person who is unable to see beyond the next meal, it was as if the nation had to prioritize its survival over thinking farther into the future about where it wants to be. Another reason is the electoral cycle which shortens the time horizon for development planning to coincide with the six-year term of elected officials. Plans and programs are often arbitrarily terminated and replaced to suit the preferences of incumbents to the detriment of continuity.

But if the Philippine government were to articulate a future direction for the nation, how should this be done? Would such a vision for the future be accepted by the people as their own? How will this vision translate to specific policies, strategies, plans, and programs for implementation on the ground?

Following the idea that human development is the process of expanding people's choices, or enabling them to "unfold their capabilities"[3]––so that they live full lives as human beings––it makes sense that the people's aspirations are the starting point of any national vision for development. Government policies, strategies, plans, and programs should be anchored on people's collective vision.

[3] Sen, A. K. Development as Freedom. New York: Knopf

AmBisyon Natin 2040: The Vision, Our Ambition

On October 11, 2016, President Rodrigo R. Duterte signed Executive Order No. 5, s. 2016 approving and adopting the 25-year long-term vision entitled *AmBisyon Natin 2040* as a guide for development planning. According to EO 5, the Philippine Development Plan 2017-2022 (PDP 2017-2022) and the succeeding PDPs until 2040 shall be anchored on *AmBisyon Natin 2040*. In its preamble, EO 5 recognizes the need for a "bold vision and effective development planning" based on a "forward-looking approach that goes beyond a single administration". It also emphasized the centrality of people in development planning and their aspirations as requisite for the design of government interventions to achieve development outcomes.

AmBisyon Natin 2040 is the result of a long-term visioning process that began under the previous administration in 2015. More than 300 citizens participated in focus group discussions (FGDs) and close to 10,000 responded to the national survey designed to gather information about the kind of life Filipinos want for themselves and their children and what they hope the country would be like in 2040. Technical studies were commissioned to identify strategic options for realizing the vision articulated by citizens. The exercise benefitted from the guidance of an advisory committee composed of select representatives from government, academe, civil society, and the private sector.

AmBisyon Natin 2040 represents the collective long-term vision and aspirations of the Filipino people for themselves and for the country in the next 25 years. It is a vision, not a plan. A vision presents a picture of the future, a set of personal life goals as well as ideals for the country; a plan, on the other hand, consists of a set of strategies to achieve the goals. Plans are contingent on various factors and circumstances, just as routes to a given destination can vary depending on weather or road conditions. A vision, like a goal or a destination, remains fixed, at least for the given time horizon. *Ambisyon Natin 2040* provides the anchor for the country's development plans until 2040.

Middle-class aspirations

The Filipinos' vision for the Philippines in 2040 is a prosperous, predominantly middle-class society where there is equality of opportunities and poverty has been eradicated. It will be a society where people live long and healthy lives with a higher life expectancy at birth of 80 years. Longevity will be enhanced by the ability of individuals and communities to withstand natural as well as man-made shocks and disasters. With smarter and more innovative people, the country in 2040 is also envisioned to be a major player in the global knowledge economy, producing innovative products and processes that are used to make high-quality goods and services at competitive prices. The Philippines will be a high trust, more caring, and peaceful society where human security is assured and government enjoys the people's trust because it is clean, efficient, and service-oriented. High trust will also prevail between the private sector and the government, as well as between and among peoples. Overall, a high trust society will facilitate official and business transactions, and smooth interpersonal relations.

On the kind of life they want for themselves, Filipinos want a life that is strongly-rooted, comfortable, and secure: *matatag, maginhawa, at panatag*.

The terms "strongly-rooted, comfortable, and secure" used to describe the life envisioned by Filipinos by 2040 reveal middle-class aspirations. They include home ownership, a steady source of income to support family and self, college education for the children, a motor vehicle, stable finances to cover daily needs and contingencies, savings for retirement, and time for vacation and travel. There is also a strong family orientation that underlies the preferences as reflected in the choice of living and working in the same locality, the desire for adequate spaces that allow for activities with family and friends, and the desire for access to convenient and affordable transportation for occasional visits to family and friends, among other reasons. The same value is reflected in the importance attached to education. Nearly every Filipino family considers college education a requisite to a decent job and so aspires to have the children complete a college degree.

The desired lifestyle requires a monthly family income of at least ₱120,000[4] for a family of four valued in 2015 prices in the National Capital Region. Can the vision be realized? What will it take?

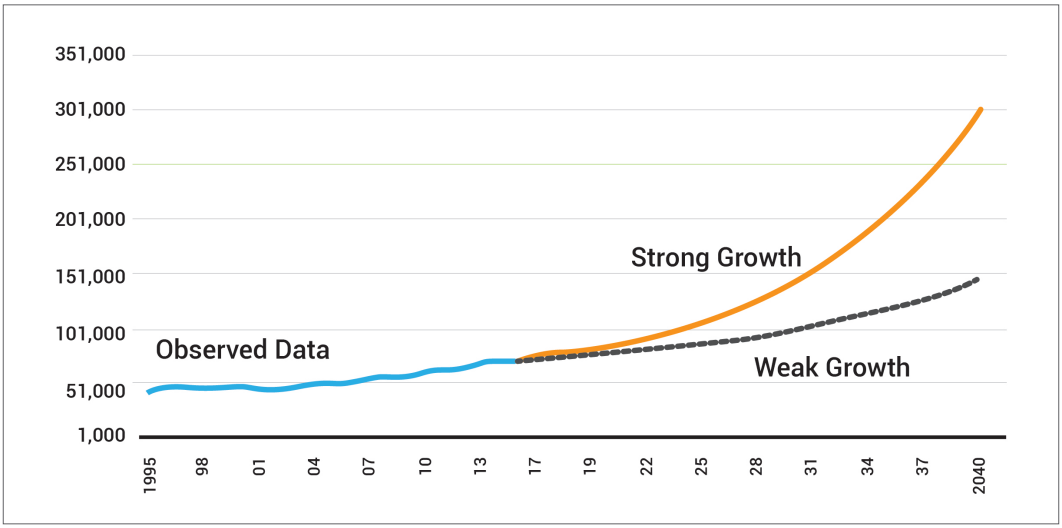
Realizing the Vision

With the right policies, improvements in productivity and efficiency can more than triple the gross national income per capita of the country in 25 years. This will allow the majority of Filipinos to enjoy a middle-class standard of living. Without reforms, however, per capita income can only double over a period of 25 years (*Figure 1.1*)[5].

[4] Other assumptions include: ₱5,000 for monthly maintenance and other operating expenses (MOOE) per vehicle; ₱40,000 for food, utilities and other expenses (₱10,000 per capita monthly food, utilities other expenses x 4 family members); ₱30,000 for monthly housing amortization (₱25,000 monthly amortization for a ₱4 million housing loan for 25 years + ₱5,000 MOOE); ₱10,000 for education expenses of 60,000 per annum x 2 kids / 12 months; ₱25,000 based on 21 percent effective income tax rate; ₱4,000 for entertainment expenses (₱1,000 per capita monthly entertainment expenses x 4); and ₱6,000 for vacation budget (annual vacation budget of ₱18,000 per capita x 4).

[5] Clarete, Ramon. Economic Growth and Poverty Reduction in the Philippines. Unpublished manuscript

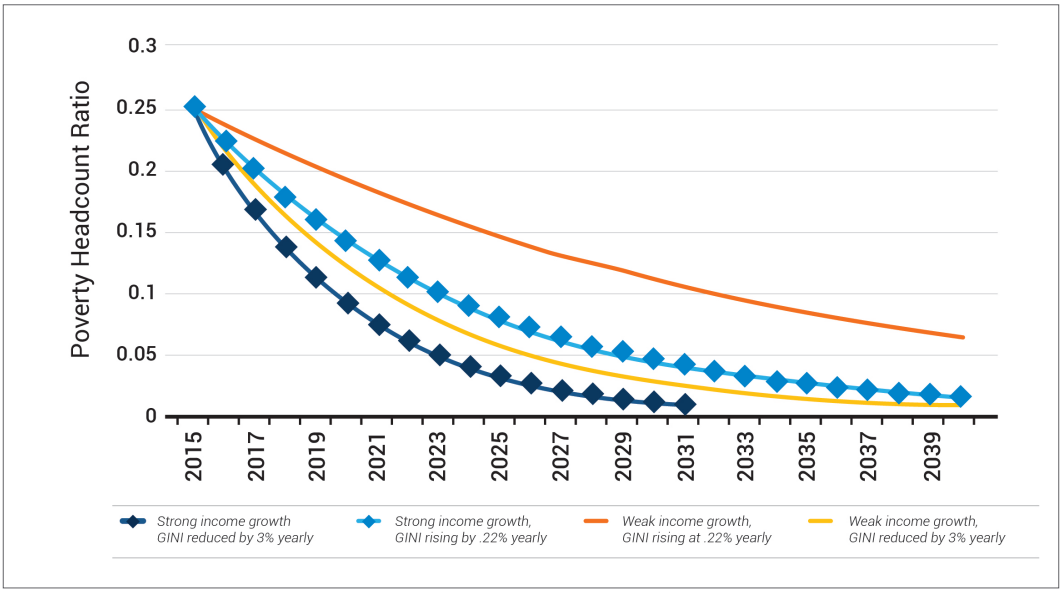
Figure 1.1 Observed and Simulated Growth Scenarios of Philippine Per Capita Gross Domestic Product, 1995-2040 (in ₱)



Source: R.Clarete, Economic Growth and Poverty Reduction in the Philippines, unpublished manuscript.

Poverty can also be eradicated by 2040, or sooner, with the right policies and programs (**Figure 1.2**). The speed with which this can be accomplished will depend both on the robustness of economic growth as well as on how it is distributed across income groups. If income grows only weakly and income disparity rises, poverty reduction will take longer. However, strong economic growth accompanied by reductions in inequality – aided by zero unmet need for modern family planning services – will drastically reduce poverty and virtually eradicate it before 2040. Economic growth must thus be sustained and inclusive.

Figure 1.2 Scenarios of Eradicating Poverty in the Philippines



Source: R.Clarete, Economic Growth and Poverty Reduction in the Philippines, unpublished manuscript.

To make the people's aspirations a reality, government must use the various policy instruments in its arsenal to accomplish the following: (a) investment in human capital so that Filipinos are equipped to learn and adapt to new technology and the changing profile of society; (b) investment in high-quality infrastructure to make the cost of moving people, goods, and services competitive; (c) sound urban development that takes advantage of scale and agglomeration economies to make the cities more competitive and livable; and (d) adequate and inclusive finance to enable households to build up savings and to provide capital for MSMEs and households considering the desire of many to run their own businesses.

In particular, fiscal policy should support a strategic spending program aimed at addressing capacity constraints by investing in infrastructure and encouraging innovation. Monetary and financial policy should continue to support growth through the maintenance of low and stable inflation and financial inclusion. For its part, regulatory policy should promote competition, reduce the set-up costs for new entrants, especially small players, and ensure consumer protection. Finally, social policy needs to expand beyond the current range of services to include social protection for uncovered sectors and disaster risk mitigation, among others, and access to quality healthcare.

Four areas for strategic action over the next 25 years will help realize the national vision.

Toward building a **prosperous, predominantly middle-class society where no one is poor**, create the conditions for the growth of enterprises that generate high-quality jobs and produce high-quality goods and services at competitive prices. Give priority to enterprises in sectors that produce goods and services that meet AmBisyon (i.e., for which there is a domestic market) and those that are able to participate in global trade. Nine priority sectors with the greatest potential to contribute to realizing AmBisyon have been identified:

- Housing and urban development
- Manufacturing (food processing, housing-related goods and services, transport)
- Connectivity (roads, ports, airports, bridges, communication)
- Education services
- Financial services
- Health services
- Tourism-related services
- Agricultural development
- Countryside development

Toward promoting **a long and healthy life**, a range of programs starting with quality and affordable universal health care and social protection is required.

- Reduction of infant mortality rate through quality maternal health and child care
- Reproductive health and family planning programs
- Eradication of malnutrition
- Programs and facilities to encourage development of healthy lifestyles
- Efficiently-managed natural resources and environment

Toward becoming **smarter and more innovative**, people need to expand their skill set in order to adapt to rapidly changing technology and work requirements.

- Education system should equip citizens with knowledge and skills necessary to occupy high-productivity jobs, while remaining adaptable to changing needs of the economy. The K to 12 program provides a foundation for a smarter society, and it should continue.
- Strong intellectual property rights framework to encourage Filipinos to generate innovative products and ideas
- A mature research and development (R&D) program

Toward building a **high-trust society**, government must be people-centered, effective, and accountable.

- Public goods and services should be efficiently delivered by a professional bureaucracy, including at the local level
- Promote competition and inclusiveness in the political system through major political and electoral reform
- Pursue the peace agenda that accompanies a long-term development agenda for areas threatened by armed conflict
- Create social and cultural awareness and develop in every Filipino a deep appreciation of the Filipino nation.

To sustain the Vision over the next 25 years, it is necessary to build a broad constituency behind the reforms needed to attain it. An effective communications strategy is critical to disseminate the Vision to all stakeholders. The Vision also needs to be translated into specific goals, measurable targets, and intermediate milestones while allowing for flexibility in strategies. Preferences and needs may change over time so the Vision will need revisiting and review. The strategies needed to achieve the targets will then be the subject of four PDPs until 2040.

The Philippine Development Plan 2017-2022

The PDP 2017-2022 that takes off from the Administration's 0-10 Point Socioeconomic Agenda is the first medium-term plan anchored on Ambisyon Natin 2040 following EO 5, s. 2016. The current Plan aims to lay a stronger foundation for inclusive growth, a high-trust society, and a globally-competitive economy toward realizing the vision by 2040.

Under the current plan, the target is to reduce poverty incidence from 21.6 percent in 2015 to 14.0 percent by 2022. This is equivalent to lifting about 6 million people out of poverty. Specifically, poverty in agriculture and in lagging regions with high poverty incidence and inequality will be targeted. Individuals and communities will also be made more resilient by reducing their exposure to risks, mitigating the impact of risks, and accelerating recovery when the risk materializes. Moreover, innovation will be encouraged as the country sets its eyes on graduating to a knowledge economy in order to accelerate growth in the future.

The strategies to achieve the targets cited above are grouped under three pillars: Malasakit or enhancing the social fabric, Pagbabago or reducing inequality, and Patuloy na Pag-unlad or increasing growth potential. Chapter 4 discusses the strategic framework of PDP 2017-2022.

This document is organized into seven parts. Part I provides the overall context for the Plan. Part II is about enhancing the social fabric to build the foundations for a high-trust society. Part III stresses the importance of reducing inequalities in economic development opportunities. Part IV focuses on increasing potential growth. Part V calls for a supportive economic environment that will enable the economy to sustain growth, and Part VI is about foundations for inclusive and sustainable development. Finally, Part VII describes the institutional arrangements for implementation and monitoring––making sure that what is planned is implemented and that timely adjustments are done. As the PDP 2017-2022 is the first concrete step towards the realization of AmBisyon Natin 2040, the government needs to make sure that it contributes to achieving the collective aspirations of its citizens.