

Chapter 15

Ensuring Sound Macroeconomic Policy

A macroeconomic environment that encourages new investors to come in, existing businesses to expand, and local economies to grow is a step closer to attaining higher and sustainable economic growth. Government has a responsibility of providing this enabling environment through its dual role as Enabler and Regulator.

This chapter discusses the strategies that will be pushed by the region in the medium term to ensure the maintenance of a sound, stable, and supportive macroeconomic environment.

Assessment and Challenges

Exports of the region will likely remain weak given the subdued growth of its major trading partners. As discussed in Chapter 2, the last two years saw exports of the region slowing down as global trade continued to be weak and many of the region's trading partners such as China remained plagued by problems. The weak export market has likewise affected the region's imports as many of its export products are dependent on imported materials.

Growing trend towards inward-looking policies could slow down growth in some key sectors of the regional economy. Exports and the IT-BPM industry are two of the region's sectors that are feared to be likely to be affected by the inward-looking and protectionist policies of countries. In the case of exports, it can lead to difficulty in expanding access to markets. The US' protectionist agenda has also raised concern on its effect on the IT-BPM industry especially in Cebu since many of the leading players are American companies. A pull-out of these companies can

mean the loss of substantial jobs including those that are indirectly connected to the sector. From 1,200 workers when the IT-BPM industry of Cebu first started in 2000, direct employment has grown to 120,000 in 2015, a matter of 15 years.

There persist barriers to full-throttle take off and growth of the micro, small and medium enterprises (MSME). These barriers relate to ease of doing business and access to funding and technical assistance. Despite accomplishments in streamlining procedures, shortening turnaround time, and cutting down on the number of signatures and requirements, MSMEs continue to report difficulties in doing business especially at the local level. Evidently, some local government units were not able to sustain the gains, lost momentum, and backtracked on their achievements due to factors such as loss of interest and lack of support following a change in political leadership.

Access to funding and technical assistance is also hampered by inability and/or unwillingness of MSMEs to comply with all documentation requirements of government assistance programs. A major part of the problem is inability to prepare

project proposals and unwillingness to be transparent about their operations. Further, prospective micro-entrepreneurs are not eligible for assistance because they are not organized or do not belong to cooperatives. (see Chapter 9)

Region’s competitiveness is impeded by inadequate infrastructure. Being a region composed of island provinces, connectivity is critical not only in terms of transportation but also in communication, information technology, and power supply. The lack of ICT infrastructure and systems, and internet capability, for one, are hindering business transactions.

Further fiscal decentralization is constrained by absorptive capacities of local government units and regional line agencies. Local government units and line agencies struggled to fully utilize resources for some priority programs downloaded to the sub-national level, such as those funded under the Bottom-Up Budgeting (BUB). Among the factors that affected utilization of budgetary resources were weaknesses in project design and preparation, procurement difficulties, lack of staff as well as capability of existing personnel especially at the local level to prepare and implement projects, and capacity constraints. Many local government units and agencies in the

region are still implementing projects that were identified and approved for funding two years ago. Likewise, very little of the recent budgetary releases have been programmed for implementation resulting to very low disbursement rates.

Most local government units remain dependent on the internal revenue allotment (IRA). To be effective partners in nation building, local government units (LGUs) have been given powers by the Local Government Code to generate local income to fund basic social services. However, after more than 25 years of fiscal decentralization, locally sourced income still constitute a very small portion of the total income of most LGUs in Central Visayas. The bulk of their income comes from national government transfers via the IRA. In the region’s provinces, the average net share of local income to total income is a low 14 percent. Only in the highly urbanized cities of Cebu, Lapulapu, and Mandaue is the share of local revenues more than 60 percent of total income. In the municipalities, dependence on IRA is much higher, reaching as much as 96 percent. An exception is Oslob in Cebu and Valencia in Negros Oriental which had low IRA dependencies in 2015 of 46 percent and 45 percent, respectively (see Table 15.1).

Table 15.1 Top 10 Cities and Municipalities in Generating Locally Sourced Revenues: Central Visayas

RANK	CITY/MUNICIPALITY	PROVINCE	DEPENDENCE ON LOCAL INCOME
1	Cebu City	Cebu	64%
2	Lapu-Lapu City	Cebu	62%
3	Mandaue City	Cebu	60%
4	Valencia	Negros Oriental	55%
5	Oslob	Cebu	54%
6	Loboc	Bohol	48%
7	Tagbilaran City	Bohol	47%
8	Panglao	Bohol	47%
9	Dumaguete City	Negros Oriental	45%
10	Toledo City	Cebu	45%

Source: Bureau of Local Government Finance (BLGF)

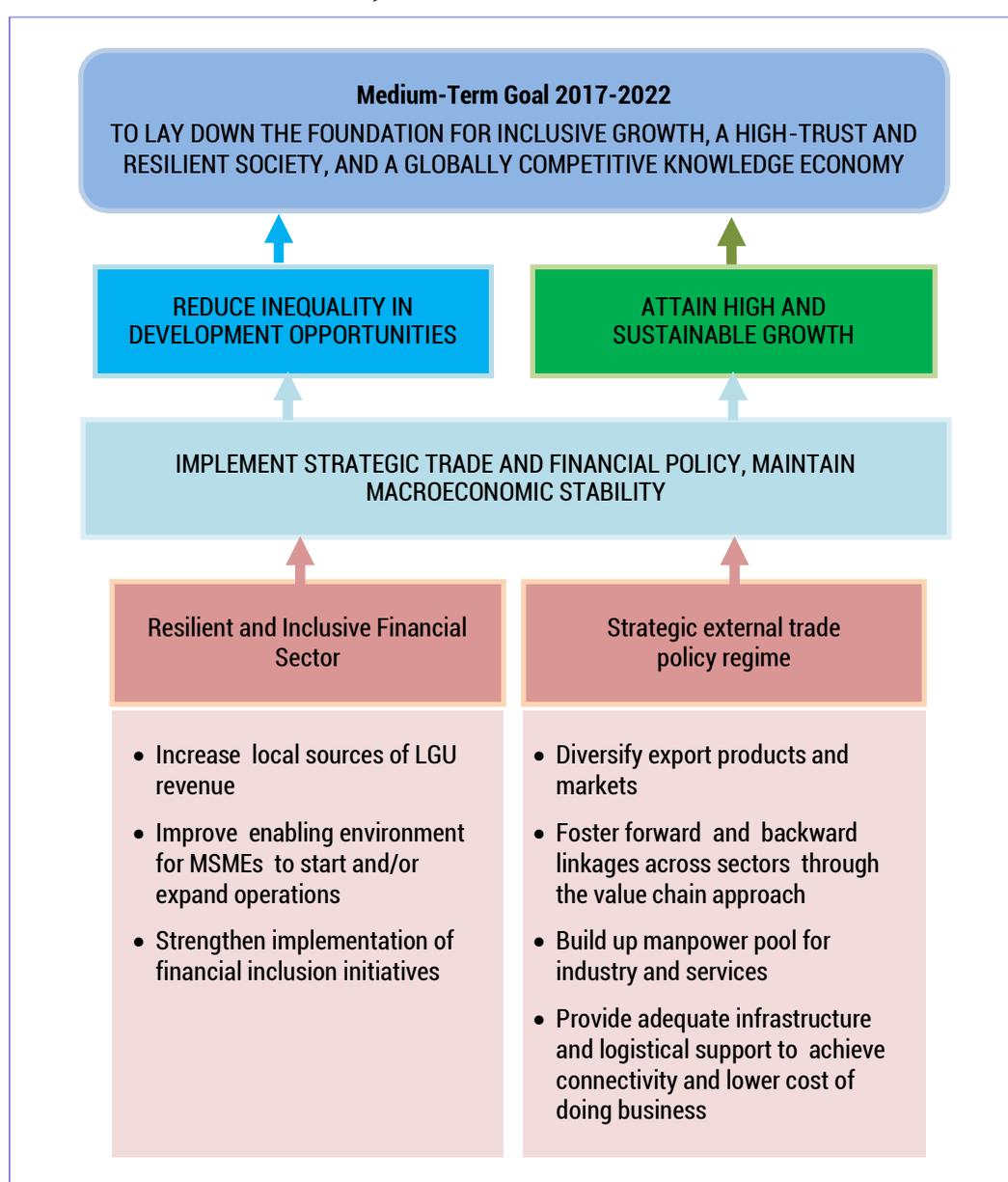
Strategic Framework

A strategic trade and financial policy along with macroeconomic stability will support the goals of reducing inequality and increasing potential economic growth. Two outcomes are expected: a resilient and inclusive financial sector, and a strategic external trade policy regime.

Strategies

The strategies fall under the two major pillars of reducing inequality in development opportunities, and increasing growth potential.

Figure 15.1 Strategic Framework to Sustain a Sound, Stable and Supportive Macroeconomic Environment, 2017-2022



Resilient and Inclusive Financial Sector

Increase local sources of LGU revenue. LGUs need to maximize their revenue raising powers granted to them by the Local Government Code (LGC). Among the measures available to LGUs to increase their income from local sources are: a) updating of Schedule of Market Values (SMV); b) conduct of general revision of property assessments and classification; c) intensification of collection of real property tax; d) updating of revenue code; e) improvement of own-revenue collections; and f) adoption of modern technology (computerization) to facilitate monitoring and evaluation.

Revenues from real property tax (RPT) alone if fully enforced and properly administered can be a stable source of income to sustain an LGU's delivery of basic services such as health and education. Under the LGC, the RPT is to be based on a schedule of market values that is fair, current, and updated. Provinces and cities are required to update their SMVs and to revise property assessments every three years.

The national government should continuously monitor and provide technical assistance to LGUs to improve local revenue collection and resource management as well as accountability and transparency. Among the measures to be implemented are: (a) conduct of more capability building trainings, (b) harmonization of public financial management (PFM) tools at the local levels, (c) implementation of standardized reporting tools and metrics, and (d) enjoining LGUs to comply with LGC requirement concerning local revenue base. Focus should be given to rural areas and local governments with high poverty incidence. Civil society's participation will also be strengthened; after all, community development is a function of the whole community.

Improve enabling environment for MSMEs to start and/or expand operations. These include: a) ease of business registration; b) access to funding and technical assistance; c) access to

market; and d) increasing their productivity, competitiveness, creativeness, and innovation (*see Chapters 9 and 14*).

Microfinance assistance will be expanded to include: business plan preparation; plugging in individual entrepreneurs to cooperatives; and organizing MSMEs into accreditable groups that can access to funds.

Informal economy players will also be encouraged to register into the formal economy through advocacy on the benefits of such. In addition, the simplification of reporting especially tax requirements and documentation will be vigorously pursued.

Strengthen the implementation of financial inclusion initiatives in the region. These include various economic and financial literacy activities that will encourage more Filipinos in the regions to participate in economic governance.

Strategic External Trade Policy Regime

Diversify export products and markets. To mitigate the impact of protectionist tendencies of trading countries, Central Visayas will intensify the diversification of export products and markets. For the IT-BPM industry, the region targets scaling up to non-voice and higher value services such as KPO service which shall account for an increasing share of the region's outsourcing industry. Since many of the players in the KPO field are Europeans, this will be an opportunity for the region to partner with other countries in Europe and expand its presence in the higher paying KPO industry. Central Visayas can have an advantage in KPO in the country because of its scientific and technical-educated human resource coming from Visayas and Mindanao.

The region will also build eligibility for Halal-branding of region-made products in order to access to the ASEAN market.

Foster forward and back linkages across sectors through the value chain approach.

Exporters from the region will be assisted to connect with multinational corporations and suppliers through business matching, trade fairs, and networking initiatives. MSMEs will also be supported to take part in the ASEAN and Northeast Asian SME production networks and global value chains as either supplier or service provider (*see Chapter 9*).

Build-up manpower pool for industry and services.

The academe-industry-government linkage will be utilized to develop human resources for industry and services. Continued training for the skills needed for higher value services will be prioritized in order for the region to diversify exports.

Provide adequate infrastructure and logistical support to achieve connectivity and lower the cost of delivery.

The region will build on the progress of the public-private partnership (PPP) initiatives in funding infrastructure projects. PPP funding arrangements will be facilitated for the following priority infrastructure projects of the region: ports, airports, highways, electricity grid, telecommunications, water supply, and social infrastructure (*see Chapter 19*).

Legislative Agenda

Table 15.2 outlines the legislative action needed to strengthen the effectiveness of the strategies.

Table 15.2 Legislative Agenda to Sustain a Sound, Stable and Supportive Macroeconomic Environment, 2017-2022

LEGISLATIVE AGENDA	RATIONALE
Fiscal Sector	
Amendment of the Local Government Code (LGC) of 1991	Review the fiscal provisions of the 1991 LGC to consider amendments on tax assignments and revenue mandates
Review of Current Regulations	Review current regulations on utilization of national transfers, local fiscal incentives, subnational borrowing for their relevance
LGU Income Classification Bill	Bill to authorize the Secretary of Finance to set income brackets and to regularly reclassify local governments every 3 years
External Trade Sector	
Proposed Streamlining of Export and Import Procedures	To facilitate/ expedite export and import of goods and services