

## Policy and ethical implications of the water-food-energy nexus\*

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BEFORE I BEGIN my brief presentation, I would like to greet this prestigious body a successful conference and to say congratulations on its 82<sup>nd</sup> General Membership Assembly. I also would like to thank Dr. Filemon Uriarte, Jr., National Research Council of the Philippines (NRCP) president, and Dr. Leslie Bauzon for asking me to share with you a few thoughts on the socioeconomic and ethical implications of the water-food-energy nexus.

I wish to give some insights on the policy and ethical implications of the water-food-energy (WFE, for short) nexus. My presentation is divided into five parts: (a) WFE nexus, (b) importance of a nexus approach to WFE, (c) WFE in the Philippines, (d) policy and ethical implications of nexus thinking, and (e) a few ideas on moving forward with the concept. My main objective is to show the importance of adopting a nexus framework in discussing policies affecting WFE resources.



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### Editor's Notes

In our first issue for the year, we give emphasis to the critical importance of an integrated approach in analyzing problems and finding solutions. In the literature, this approach comes in various terms but its roots can be traced to the so-called 'systems thinking'. Simply put, it advances the idea of seeing the 'big picture' and not just its individual parts and recognizing their interconnectedness.

Recently, there has been a strong revival to promote the concept through the 'nexus thinking' approach and make it the guiding model in planning and problem solving, even in policy formulation. No less than the country's leading collegial body of scientists and researchers—the National Research Council of the Philippines—acknowledges the value of nexus thinking, advocating it during the council's recent Scientific Conference and 82<sup>nd</sup> General Assembly. It was further emphasized by PIDS President Gilberto Llanto in the opening ceremonies where he discussed in his keynote presentation the relevance of adopting a nexus

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A recent paper by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) [2013] drew attention to the recent perception of resource scarcity, particularly bearing on WFE that is driven by several factors. The authors of that report call this the “new resource realism” (Figure 1):

- The first aspect of the new resource realism is the lack of undeveloped resource zones and preserves. There is a global race for critical materials in the Arctic, the deep seas, and other resource frontiers. The race for what is left is described by a prominent security expert named Michael Klare as a “new stage in humanity’s persistent hunt for critical materials”.

There seems to be an insatiable desire for raw materials to feed rapidly growing economies. Meanwhile, countries such as Japan have started to speak in favor of a low-carbon society, minimization of carbon dioxide emissions by all sectors of the economy, a shift from a mass consumption to a society with simpler needs, and better environmental management (Ministry of the Environment 2007).

- The second aspect covers the technical, social, and environmental challenges of exploiting new resources in remote and marginal areas.
- The third aspect is the unprecedented demand for more natural resources, arising from the rapid economic growth in China, India, and other countries, and up to an estimated 3 billion middle-class consumers expected to emerge in the next two decades.
- The fourth aspect is interconnectedness of price volatilities. From 2007 to 2008, food prices rose sharply with dire

**Figure 1. Recent perception of resource scarcity**

#### New resource realism

1. Lack of undeveloped resource zones and preserves
2. Technical, social, and environmental challenges on the exploitation of new resources in remote and marginal areas
3. Unprecedented demand for more and new natural resources
4. Interconnectedness of price volatilities
5. Broadening of actors in governing resources beyond governments

*Sustainability of these crucial resources and their efficient utilization have become global, as well as, local concerns among many countries.*

Source: UNESCAP (2013)

consequences. The oil price hike in 2008 had similar effects. The World Bank (2011) states that in the second half of 2010, rising food prices drove 44 million people into poverty. The tension between rising food prices on the one hand, and the global shift to production of biofuels on the other hand, demonstrate the interconnectedness of the food and energy sectors.

- The fifth aspect concerns the broadening of stakeholders, beyond traditional governments, concerned with the efficient management of scarce resources. The private sector, civil society, and other stakeholders have all tried to influence public policy, especially policies concerning WFE and other critical resources.

On the demand side, the principal issue is that the security of WFE has not been achieved locally and globally. In the global scene, 0.9 billion are without adequate access to water for their basic needs and for many more, the water is not safe for drinking; 2.6 billion are estimated to lack access to basic sanitation; close to 1 billion are undernourished while at least

1.5 billion do not have access to modern forms of energy (Hoff 2011).

In the water sector, there is a need to improve management of water supply and sanitation. In 2013, the Asian Development Bank (ADB) warned the Philippines of a looming water crisis. The Philippines together with Viet Nam ranked the lowest among countries in the Association of Southeast Asian Nations in terms of urban water security in the National Water Security Index. It also ranked second to the bottom in terms of water security. Food security is a top policy issue in the Philippines as the economy struggles to improve agricultural productivity and farm incomes. Meanwhile, current discussion on the energy outlook for the country in the immediate term indicates the need for additional generating capacity, better demand management, and astute energy policies.

WFE are tightly interconnected and are all affected by external factors, including rising demand due to high population growth, rapid urbanization, consumerism in newly affluent societies, and volatility



of oil and commodity prices. Hoff (2011) estimates that by 2050, there will be a 70 percent increase in the demand for food and a 40-percent increase in the demand for energy. By 2030, people will face a 40 percent water-supply shortage (Hoff 2011).

Because of rapid economic growth, increasing population, environmental pressures and depletion of natural resources, and issues of affordability and accessibility by the majority of the population, it has become necessary to treat WFE as a complex and interlinked ecosystem that has to be managed in a coordinated and integrated manner—in short, a nexus thinking and approach (Figure 2).

Current discourse points to the impacts of risks related to failure to manage WFE in a responsible and integrated manner. The World Economic Forum (2011) identifies the impacts of risks related to inefficient management of the WFE nexus. They include significantly reduced agricultural yields, increased social costs linked to negative impacts on agriculture, severe food and water shortages and food price spikes, threats to energy

security, commodity price volatility as shortages ripple through global markets, increased resource prices, lost investment opportunities, and social and political unrest.

Insecurity in WFE impacts on economic growth and social stability (UNESCAP 2013). Insecurity in WFE affects economic growth, which underscores availability of those resources, and social stability, which implies accessibility by the less privileged members of society. This indicates the importance of a nexus thinking as opposed to a ‘silo’ thinking in managing WFE.

As FAO (2014, p. 10) puts it: “A nexus approach helps us to better understand the complex and dynamic interrelationships between WFE so that we can use and manage our limited resources sustainably. It forces us to think of the impacts a decision in one sector can have not only on that sector but on others.” It helps policymakers to “design, appraise and prioritize response options that are viable across different sectors”.

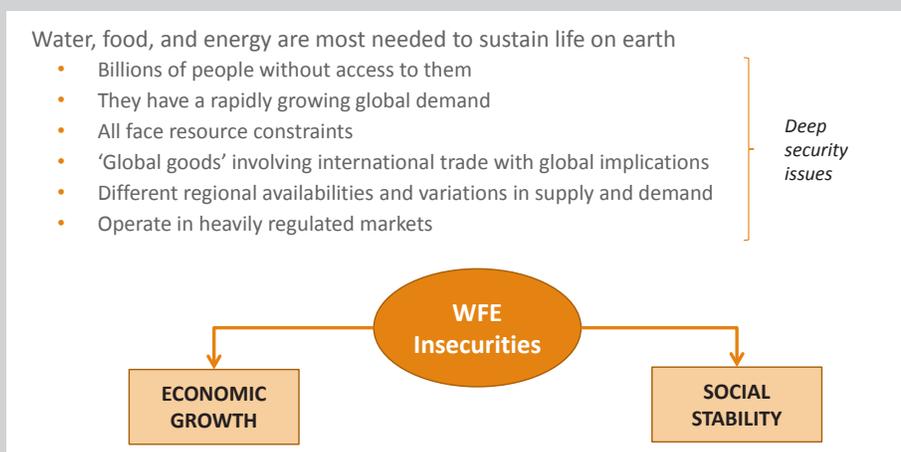
Has nexus thinking taken root in the Philippines? What do we know of it?

It seems that in general, silo thinking still prevails among many government agencies. They mind mainly their respective turfs and do not necessarily talk to each other when considering policies or regulations affecting the sectors that they oversee. A sector-based approach with risks of fragmented management and lack of policy coordination is a barrier to nexus thinking.

It is noted that these days, it is fashionable for some government agencies to speak of a convergence policy at the grassroots level. By this, they mean that they try to harmonize and coordinate their policies and interventions especially in public service delivery. But perhaps, it is safe to say that the nexus approach as explained in this piece has not yet been fully adopted in Philippine policy space, which points to a challenge to the science, research, and policy communities to take serious action about it.

Nevertheless, the seed of a nexus thinking has been sown, so to speak. A conference on February 6, 2014, “Shell Powering Progress Together”, covered presentations and discussions on a range of issues on WFE and their interdependency. In April 2013, two cities in the Philippines, namely, Naga City and Sta. Rosa City, became participants of a project funded by the German Federal Ministry for Economic Cooperation (BMZ) called “Integrated Resource Management in Asian Cities: the Urban Nexus” to develop and implement a nexus-compliant integrated resource management approach. This involves water supply and sanitation system, energy supply and energy efficiency, and land use and food security.<sup>1</sup>

**Figure 2. Why a WFE nexus approach?**



Source: UNESCAP (2013)

<sup>1</sup> <http://www.rappler.com/brandrap/51112-shell-powering-progress-together-a-global-forum>; [http://www.water-energy-food.org/en/practice/view\\_1382/the-urban-nexus-in-asian-cities.html](http://www.water-energy-food.org/en/practice/view_1382/the-urban-nexus-in-asian-cities.html) (accessed 3 March 2015).



**Figure 3. Angat Dam: a multipurpose dam**

1. Supplies about 90 percent of the water needs of Metro Manila thru the Metropolitan Waterworks and Sewerage System (MWSS)
2. Irrigating 28,000 hectares of farmland in Bulacan and Pampanga through the Angat-Maasim River Irrigation System (AMRIS) – NIA
3. Power generation
4. Flood control



Source: MWSS (2012); Faustino-Eslava (2013)

To illustrate the emerging application of a nexus thinking in the country, take the case of Angat Dam, a multipurpose dam (Figure 3). The objective of allocating water in Angat Dam efficiently and equitably to competing uses, namely, food and energy, points to the importance of an integrated, nexus approach to policymaking and implementation. Efficient allocation of water is important because it maximizes the welfare that society obtains from available water resources (Tsur and Dinar 1997). In this particular case, those regulating or involved in the management of WFE coordinate and follow a hierarchy of priorities and options in managing water stored in Angat Dam. Water use and management are overseen by the National Water Resources Board and local government units. Energy is under the watch of the Department of Energy and the regulator is the Energy Regulatory Commission. The Department of Agriculture and the National Food Authority are in-charge of ensuring that the dam satisfies the irrigation needs of the country in the interest of food security. Efficient allocation calls for a balance among municipal use (households' drinking water), energy generation, and irrigation of small farmers' fields.

The Philippine Water Code (Presidential Decree 1067) provides policies on competing water use. Priorities may be altered on grounds of greater beneficial use, multipurpose use, and other similar grounds, subject to payment of compensation in proper cases (Article 23 of the code). Water rights may be leased or transferred in whole or in part (Article 19).

In sum, a silo thinking among government agencies seems to be more pervasive than a coordinated, nexus thinking on a range of issues. There could be very few exceptions such as the case of the management of Angat Dam. Silo thinking comes from a lack of understanding and appreciation of the interconnectedness and interplay between WFE, and a policy coordination failure. The lack of local studies investigating WFE nexus as a policy framework for making decisions contributes to the lack of appreciation by policymakers or regulating agencies.

Turning to the policy and ethical implications of a nexus approach to WFE, it is first important to stress that scarce natural resources form part of a complex and interconnected ecosystem,

and that “the use of one resource affects the systems of other resources, and that it is necessary to look into these systems in an integrated manner” (UNESCAP 2013; FAO 2014).

Nobody lives in a vacuum. Sojourns in isolated hermitages are a thing of the past and in today's global village, interdependencies impact human consciousness. It is important to remember that while each resource user has specific rights and responsibilities, decisionmaking powers affecting WFE may not be shared across such users. Instead, those powers could be concentrated in a national (central) government, or in a local government where a few vested groups have access. Private firms with control over certain resources (geothermal or mining concessions, for example) may choose to ignore impacts of their extraction activities on neighboring communities or indigenous peoples. Policies have distributional consequences and the most affected of ill-thought-out policies are generally the low-income communities, mostly poor people, the disadvantaged, and indigenous peoples.

It is also important to remind ourselves of trade-offs in policy decisions and the need to devise compensatory mechanisms for aggrieved or losing parties in the interest of equity and fair play. Designing the right incentives to motivate the right behavior among various stakeholders (for example, politicians), finding a common ground, and weighing the societal benefits and costs of policies are challenges for the science, research, and policy communities. A better understanding of the WFE ecosystem through research and studies by the science and research community will lead to better power sharing, and more efficient and equitable collaboration and co-management in

that ecosystem, for instance, a regime of tradable rights and permits (e.g., license to extract) between local communities and other resource users.

Policy decisions governing use, management, and conservation of resources have distributional consequences, and thus, they have deep ethical implications. This implies the need for ethical standards in public policies and actions and a framework for making ethical decisions. But what ethical standards could inform a decision-making framework? The literature on the subject is vast and complex but at least five different sources of ethical standards present themselves for evaluating policy options or courses of actions. These are (a) the utilitarian approach, (b) the rights approach, (c) the justice approach, (d) the common good approach, and (e) the virtue approach.<sup>2</sup>

A quick way to get an idea of those ethical standards is through the following questions applied to WFE:

- Which WFE policy option will produce the most good and do the least harm? (utilitarian approach)
- Which WFE policy option best respects the rights of all who have a stake? (rights approach)
- Which WFE policy option treats people equally or proportionately? (justice approach)
- Which WFE policy option best serves the community as a whole, not just some members? (common good approach)
- Which WFE policy option leads us to act as the sort of persons we want to be? (virtue approach)

<sup>2</sup> A Framework for Thinking Ethically (<http://www.scu.edu/ethics/practicing/decision/framework.html>, accessed on 10 March 2015)



PIDS President, Dr. Gilberto Llanto (second from left) with (from left) Dr. Filemon Uriarte, NRCP president, Dr. Bindu Lohani, ADB vice-president for Knowledge Management and Sustainable Development, and Dr. Isidro Sia, NRCP vice president. Drs. Llanto and Lohani were keynote speakers during the opening ceremonies of the NRCP Annual Scientific Conference 2015 held on March 11, 2015, at the Philippine International Convention Center, Pasay City. (Photo courtesy of NRCP)

Perhaps, if these ethical standards have been assiduously applied to the case of Chico Dam, the outcomes of the decision to construct them would have turned out differently. The NRCP reports:

“The dams are also sources of water for farming, drinking and commercial purposes. In the past, the construction of dams such as in the Chico and Agus River resulted to death, displacement of indigenous peoples inhabiting the areas, and destruction of their socio-cultural roots. Violence and death were the consequences of the resistance of the communities affected by dam construction due to absence of consultation and unjust disregard of the peoples’ ancestral domain claims.”<sup>3</sup>

The NRCP concludes: “these evils in the past are avoidable by employing ethical

<sup>3</sup> From the Background and Rationale for the NRCP’s 82nd General Membership Assembly and Scientific Conference

standards in our public policies and actions.”

In closing, I recommend the following courses of action to our policymakers:

- Consider adopting nexus thinking in managing WFE.
- Conduct interdisciplinary empirical studies on the WFE nexus.
- Support the research and science community with substantial research budgets.
- Review the current structure, roles, and functions of regulatory agencies overseeing WFE in the light of a nexus approach.
- Educate local communities on nexus thinking.
- Educate policymakers on the policy and ethical implications of the WFE nexus.
- Encourage public-private sector-civil society partnerships to deal with WFE as an interlinked system and to be constantly aware of policies’ distributional consequences.

# AEC 2015 — Next steps for the ASEAN and the Philippines

Jenny D. Balboa and Ganeshan Wignaraja\*

IN 2007, THE 10-MEMBER Association of Southeast Asian Nations (ASEAN) bloc adopted the goal of creating an integrated economic region—termed the ASEAN Economic Community (AEC)—by December 2015. However, concerns have been expressed that the regional integration project's 2015 deadline will be missed due to an overly ambitious timeline and too many ill-thought-out initiatives. With the AEC deadline looming, this article critically assesses the progress that has been made, charts some of the main challenges, and suggests the next steps for the AEC.

The article also provides an insight on AEC's implications on the Philippines, what the AEC means for the country, and how it can fully benefit from regional integration. With a population of 99 million, the Philippines is the biggest country in the ASEAN, next to Indonesia, in terms of population. The AEC provides huge benefits for the Philippines in terms of market access to the emerging economies of the ASEAN and employment opportunities for its large and growing workforce.

## What's the progress so far?

The AEC project's integrated ASEAN economic region was built on four pillars of integration: (i) a single market and production base, (ii) a competitive

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Infrastructure investment needs in the ASEAN for the next two decades are massive, requiring USD 60 billion each year until 2022. The energy and transport sectors make up 63 percent of the infrastructure needs. For Indonesia, Malaysia, the Philippines, and Thailand alone, a total investment of USD 523 billion in power and transport infrastructure is needed until 2020. (Photo by: Boris Rumenov Balabanov / World Bank Photo Collection)

economic region, (iii) equitable economic development, and (iv) integration with the global economy. The AEC Blueprint (ASEAN Secretariat 2008), signed by the ASEAN leaders on 20 November 2007 during the 13th ASEAN Summit, serves as its road map. The AEC Scorecard was formulated to track the progress of the members in implementing the plans for the AEC.

Notable progress has been made on the AEC's first pillar, which is fundamental to developing a single market and a production base in goods. Tariffs have been substantially reduced, with more than 70 percent of intraregional trade in the ASEAN enjoying zero tariffs, and less than 5 percent of goods trade being subjected to tariffs of more than 10 percent. These developments

will encourage intra-ASEAN trade in manufacturing and agricultural goods. Although progress has been made with the signing of mutual recognition arrangements in seven professions, implementation of the trade in services agreement is much slower. In part, this is linked to the activities of powerful national service lobbies.

Slow yet steady progress has been seen in realizing the goals of liberalizing investment and capital flows. The signing of the ASEAN Comprehensive Investment Agreement in 2012 was an important step in building a better business environment for the private sector in the region. Moreover, to enhance trade facilitation, the National Single Window (NSW) program is currently being implemented in the

ASEAN-6 countries (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand). The remaining members are catching up, with Viet Nam and Cambodia having set up their respective NSW customs interface. Initiatives to connect the NSWs to the ASEAN regional portal are also under way and will contribute significantly to reducing trade costs in the future.

Modest achievements are visible in the second and third pillars of the AEC. Among the highlights are the adoption of the ASEAN Intellectual Property Rights Action Plan 2011–2015 to strengthen intellectual property institutions in the region; the adoption of the Master Plan on ASEAN Connectivity to enhance the region's transport connectivity and energy security; and the implementation of the ASEAN Strategic Action Plan for Small and Medium-Sized Enterprise (SME) Development, which aims to give guidance on the flagship projects and other SME initiatives in the region to facilitate inclusive growth.

Meanwhile, the implementation of the fourth pillar has progressed well over the past decade. ASEAN has emerged as the hub of free trade agreement (FTA) activity in Asia and plays a leadership role in negotiating trade rules for connecting Asia. FTAs have been concluded with ASEAN's six dialogue partners: Australia, the People's Republic of China, India, Japan, the Republic of Korea, and New Zealand. Moreover, negotiations for the Regional Comprehensive Economic Partnership (RCEP), covering ASEAN and its dialogue partners, were launched in 2012. If signed and implemented, RCEP will become the world's biggest trade bloc, with comprehensive trade rules covering 40 percent of world trade, and will provide significant economic gains to members (Wignaraja 2014).

### What are the challenges?

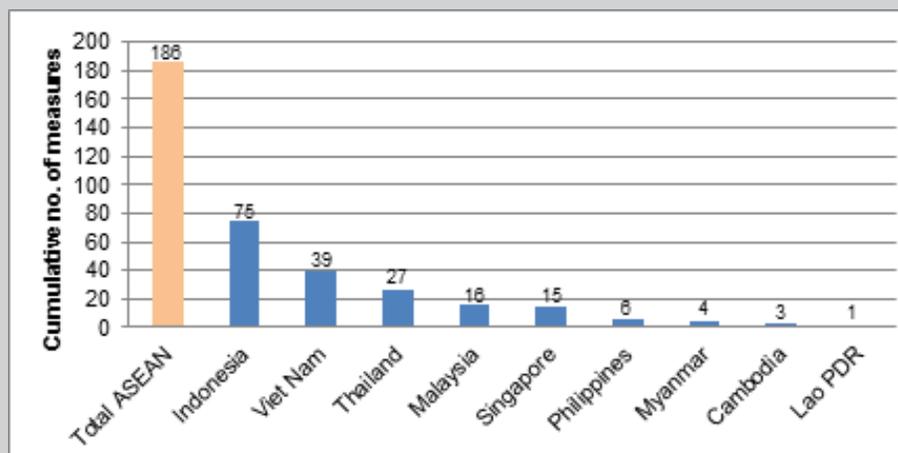
While ASEAN has largely attained the goals of the first pillar of the AEC, there are still remaining issues to be addressed. According to the Global Trade Alert database, nontariff measures (NTMs) have been rising in the biggest ASEAN economies since the global financial crisis. From 2009 to 2013, a total of 186 NTMs were implemented. Most of them were applied by the bigger economies: 75 by Indonesia, 39 by Viet Nam, 27 by Thailand, 16 by Malaysia, and 15 by Singapore (Figure 1).

Services trade is also limited due to restrictions in most member-economies, with the exception of Singapore. Based on the World Bank's Services Trade Restrictions Database, the middle-income economies in the ASEAN—Indonesia, Malaysia, the Philippines, and Thailand—have “virtually closed” to “completely closed” policy regimes in mode 4 (professional services). Overall, the services trade regimes in middle-

income ASEAN range from “restrictive” to “virtually closed” (Table 1). One difficult outstanding issue is the legal protection of migrant workers. While the ASEAN adopted the Declaration on the Protection and Promotion of the Rights of Migrant Workers in 2007, the debate between sending and receiving countries continues as sending member-states push for a legally binding regional agreement, while receiving countries call for nonlegally binding guidelines. There are also unresolved issues about the definition and contents of the agreement, which have resulted in a deadlock. Currently, existing bilateral and regional instruments to regulate services trade are too weak. Developing a strong regulatory framework remains to be one of the biggest challenges for trade in services in the ASEAN.

Many of the remaining challenges to realizing the AEC goals are tied to ASEAN's ability to harness cooperation and commitment, and address the development divide among its members. The ASEAN is home to some of the

**Figure 1. Nontariff protectionist measures implemented in the ASEAN, 2009–2013**



ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic.  
Source: Global Trade Alert database (<http://www.globaltradealert.org/>, accessed October 2014).

**Table 1. ASEAN services trade restrictiveness**

Country	Overall	Mode 1	Mode 3	Mode 4
<b>Cambodia</b>	24	43	19	75
<b>Indonesia</b>	50	11	56	70
<b>Malaysia</b>	46	32	47	90
<b>Philippines</b>	54	28	58	80
<b>Thailand</b>	48	66	44	100
<b>Viet Nam</b>	42	23	38	60

ASEAN = Association of Southeast Asian Nations

Notes: Mode 1 = financial services, mode 3 = all subsectors, mode 4 = professional services.

0 = completely open, 25 = virtually open with minor restrictions, 50 = major restrictions, 75 = virtually closed with limited opportunities to enter and operate, 100 = completely closed.

Source: Services Trade Restrictions Database (<http://iresearch.worldbank.org/servicetrade/aboutData.htm>, accessed 28 November 2014).

richest (Brunei Darussalam and Singapore) and poorest (Cambodia, Lao People's Democratic Republic, and Myanmar) economies in Asia. Strategies that will narrow the income gap and allow spillovers from richer, more technologically advanced members to least developed countries need to be strengthened and sustained. An important step is to develop modern, high-quality infrastructure that will enhance connectivity within the region. This will create vast opportunities for connecting markets and improving the physical mobility of people, goods, and knowledge within the region. Infrastructure investment needs in ASEAN for the next two decades are massive, requiring USD 60 billion each year until 2022. The energy and transport sectors make up 63 percent of the infrastructure needs (KPMG International 2014). For Indonesia, Malaysia, the Philippines, and Thailand alone, a total investment of USD 523 billion in power and transport infrastructure is needed until 2020 (Goldman and Sachs 2013). Close coordination and cofinancing with ASEAN governments, the private sector, and development banks are important to meet ASEAN's infrastructure financing needs.

### What's next?

The AEC project has been crucial for moving the ASEAN from its beginnings as a political grouping in 1967 to becoming one of the most dynamic regional economic blocs in the developing world. The solidarity and enthusiasm shown by the ASEAN members in meeting the AEC goals are notable. Visible progress has been achieved in implementing the first pillar (particularly in reducing tariffs for goods trade and implementing single windows for better trade facilitation) and the fourth pillar (in signing regional FTAs for improved trade rules). However, it seems likely that the December 2015 deadline for realizing all four pillars of the AEC will be missed. The AEC project will remain a work in progress for the foreseeable future.

Rather than playing a blame game as to why the deadline will not be met, it will be useful to do three things during Malaysia's chairmanship of ASEAN this 2015. First, the ASEAN members should undertake a quick but honest stocktaking exercise of achievements under the AEC project and a short report should be published by the ASEAN Secretariat. Second, the ASEAN members should focus on a few

important next steps for the AEC project and get them done in a reasonable time frame, say by 2020. In this vein, reducing restrictions on trade in services and monitoring NTMs are priorities under the first pillar. Financing and implementing a few key infrastructure projects to reduce development gaps between richer and poorer ASEAN economies is important under the third pillar. Third, ASEAN members should give serious consideration to increasing the capacity of the ASEAN Secretariat. A reasonable increase in the ASEAN Secretariat's budget and technical skills seems warranted to support effective implementation of the AEC agenda. While the AEC project may take longer than originally envisaged, it will not remain impossible with sustained cooperation and commitment among the ASEAN economies.

### What does AEC mean for the Philippines?

The Philippine government has always advocated regional cooperation and integration. In 2007, it strongly supported the move to establish the AEC and has unwaveringly supported initiatives to realize this goal.

Involvement in regional economic integration initiatives has helped lock in trade liberalization reforms in the country. Its commitment in implementing the ASEAN Free Trade Area (AFTA) helped improve the country's trade relationship with the ASEAN, thereby bringing the country economically and politically closer to its neighbors. Table 2 shows the share of the Philippines' trade partners to Philippine trade before and after AFTA was implemented in 1992. Before AFTA, the ASEAN was a minor trade partner of the Philippines, with shares of 3–6 percent of total Philippine trade. After AFTA was implemented, the trade share of the



ASEAN more than doubled, reaching 13 percent of total Philippine trade as of 2013. Moreover, closer trade with the ASEAN not only helped expand market opportunities for the Philippines but also helped reduce the country's economic vulnerability by diversifying its trade partners.

With its relatively large services sector (57% of GDP and 53% of total employment in 2012), and a young population of skilled, English-speaking human resource, the Philippines could be one of the biggest beneficiaries when restrictions on services trade are eliminated in the ASEAN. Deeper trade integration under the AEC is projected to create 3.1 million more jobs for the Philippines (ADB-ILO 2014). Liberalizing the services sector could also potentially serve as a catalyst for improving the efficiency and competitiveness of the industry sector through exposure to best practices in the ASEAN and world-class service standards.

Under the AEC, it is projected that the demand for Filipino high-skilled employment can rise by as much as 60 percent, while the demand for medium-skilled and low-skilled work can increase by 60 and 25 percent, respectively (ADB-ILO 2014). In this regard, policies toward enhancing skills of workers should be promoted. To meet the growing demand in a more open and competitive economic environment, quality of education and training systems for professional and skilled workers should be improved and matched with the needs of the labor market.

Attracting investments that will create more jobs for the services sector is also very important. Related to this, there is an urgent need to build more quality transportation infrastructure in the country. Poorly maintained railways and

**Table 2. Share of Philippine trade (%)**

Partner	1972	1982	1992	2002	2013
China	0	2	1	7	11
EU27	16	13	15	14	11
India	0	0	0	1	2
Japan	32	20	20	11	7
Korea, Rep.	1	2	4	5	5
UK	3	3	3	2	2
US	32	26	26	18	11
ASEAN	3	6	6	13	13

Source: Author's calculation based on World Integrated Trade Solutions (WITS)

roads, airports and seaports in dire need of renovation and rehabilitation, especially in Metro Manila, have severely hampered the mobility of people and affected their productivity, as well as dampened the attractiveness of the Philippines as destination of foreign direct investment.

Auspiciously, economic and political reforms are now taking place in the country to address the multiple barriers to growth and development. It is important that these reforms are seriously pursued and sustained to help the country unleash its full potential and benefit from the opportunities provided by the AEC. Initiatives to realize the AEC should also be continuously supported such as legislative reforms to integrate the AEC goals in domestic laws, and involving the participation of local governments to create a larger constituency that will support and sustain the reforms.

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# PIDS continues to be one of the world's best think tanks

THE PHILIPPINE INSTITUTE FOR DEVELOPMENT STUDIES (PIDS) continues to be recognized as one of the world's best think tanks for its outstanding public policy research, analysis, engagement, and impact.

In the *2014 Global Go To Think Tanks Report* and Policy Advice of the Think Tanks and Civil Societies Program (TTCSP) at the University of Pennsylvania, PIDS was recognized in three categories. PIDS remained the top social policy think tank in Southeast Asia and 37th among the top 50 in the world. It was also ranked 69th among the top 80 international development think tanks, one notch higher than its ranking in 2013. Meanwhile, the Institute is now part of the 55 top education policy think tanks in the world at 33rd place.

Other think tanks in Southeast Asia that made it to the list under these categories were Thailand Development Research Institute (TDRI), Singapore Institute of International Affairs (SIIA), Institute of Southeast Asian Studies (ISEAS) which is also in Singapore, and Malaysia's Centre for Public Policy Studies (CPPS) and Third World Network. TDRI ranked 20th among the education policy think tanks and 66th in the international development think tanks category; SIIA and Third World Network ranked 70th and 72nd, respectively, among the international development think tanks; while ISEAS ranked 41st among the social policy think tanks.

The Go To Think Tanks Index is a comprehensive ranking of the world's



In the *2014 Global Go To Think Tanks Report*, PIDS is now part of the premier education policy think tanks in the world, ranking 33rd among the top 50. The Institute's strong research on education issues has yielded significant policy recommendations on enhancing school participation, increasing the education budget, improving the quality of education, and other needed reforms. (Photo from the World Bank Photo Collection)

top think tanks and has been described as the premier database and measure of world think tanks. It aims to increase the profile, performance, and impact of think tanks, and to create a transnational and interdisciplinary network of centers of public policy excellence.

Think tanks are public-policy research analysis and engagement organizations that generate policy-oriented research, analysis, and advice on domestic and international issues, thereby enabling policymakers and the public to make informed decisions about public policy. For its latest rankings, 6,618 think tanks from 182 countries were invited or nominated to participate in the process.

PIDS President Gilberto Llanto makes a plea for more resources and support to research institutes in the country. "Despite having only a handful of researchers compared to other better-endowed research institutes in the region and in the Philippines, the PIDS has consistently made significant contribution and influence on Philippine development policy through its active and close collaboration with government agencies, academic and research institutions, and international organizations. Our research outputs are widely disseminated through its publications (both print and online), conferences, and seminars conducted on a nationwide scale," he said.

⇒ p. 13



# Offer “excess” classrooms for K to 12 use

AMID THE APPREHENSION of some sectors and leaders over the viability of the K to 12, state think tank Philippine Institute for Development Studies (PIDS) released a timely policy note offering possible solutions to some of the challenges cited by the reform program’s critics.

Dr. Rosario G. Manasan, a PIDS senior research fellow, recommends that higher education institutions (HEIs) offer their ‘excess capacity’, referring to the available classrooms and the teachers who will be underutilized when HEIs receive no enrollees in school year (SY) 2016/2017.

Manasan stated this recommendation in her policy note titled “K to 12 reform: Implications of adding Grades 11 and 12 on the higher education subsector”, which assesses the effect of the demands of the K to 12 program on the supply capacities of secondary schools and HEIs.

The Senior High School Absorptive Capacity Study, conducted by the Asian Development Bank (ADB), found that to accommodate all the students who are expected to enter public senior high school (SHS), the Department of Education (DepED) must be able to build 27,000 new classrooms by SY 2016/2017, and 23,812 additional classrooms by SY 2017/2018. DepED would also need to hire more teachers 46,000 by 2016 and 38,700 by the following school year.

These exact demands have caused critics to be wary that the program will



Dr. Rosario G. Manasan of PIDS recommends that the ‘excess capacity’ in the higher education institutions (HEIs) be made available to the senior high school program to tap the available classrooms and teachers who will be underutilized when HEIs receive no enrollees in SY 2016/2017. (File photo from Wikimedia Commons)

only create newer problems, as well as exacerbate the same old and unaddressed issues such as inadequate infrastructure, underpaid teacher salaries, and underfunded school materials.

But the government has remained steadfast that the reform program is long overdue, and that the K to 12 shift is essential to increasing the competitiveness of the Philippine education system.

Manasan’s recommendations are an addition to the government’s response

through the education cluster and coordinating agencies, including the Commission on Higher Education and the Department of Labor and Employment, to explore comprehensive and supplementary action, including schools applying to open secondary high schools.

Though Manasan admits there are logistical concerns, such as uneven geographic distribution of available spaces, she still considers the scenario a ‘win-win’ situation.

“If all the available places in HEIs arising from the missing cohorts were made available to the SHS program, the total classroom requirement for the SHS program in public schools would drop by 57 percent from 26,955 with pure DepED provision to 11,572 in SY 2016/2017.”

Furthermore, HEIs and the DepED can use the opportunity to gauge the real demand for SHS facilities and adjust the infrastructure budget, and HEIs will not have to retrench faculty members during the transition period.

To make these possible, the country’s leaders need to create a policy environment that will make it easy for the HEIs to cooperate, and consider mechanisms and programs like education service contracting, concession arrangements, and credit windows for classroom construction. **MHB**



# National Greening Program promising, but more is needed

A RECENT STUDY by state think tank PIDS found some promise in the government's National Greening Program but suggests there is still room for improvement in areas of information management, monitoring, and fund management.

A policy note titled “The National Greening Program: Hope for our balding forests” written by Dr. Danilo Israel and Maria Diyina Gem Arbo, PIDS senior research fellow and research analyst, respectively, discusses the performance of the NGP, ways to improve its implementation mechanisms, and the newly commenced impact assessment project being conducted by PIDS.

Launched in 2011 with a goal of 1.5 million seedlings planted in 1.5 hectares over a period of six years, the NGP is an attempt by the government to include objectives beyond restoring forest areas, such as reducing poverty; promoting food security, environmental stability, and biodiversity conservation; and enhancing climate change mitigation and adaptation.

“The NGP has provided some measure of hope for the recovery of our already balding forests, an objective that previous national reforestation programs have miserably failed to achieve,” say the authors.

Despite the achievements of the program, there are plenty of areas for improvement, such as data and information gathering and analysis; monitoring and inspection of tree survival; access to funds and

increased personnel; and reporting and auditing practices.

The rate of deforestation in the Philippines over the past century is a thing of notoriety. The Philippines is one of the 17 mega diversity countries. Conservation International ranks the country fourth on the most threatened forest hotspot. Annually, from 2000 to 2005, the country lost 1.98 percent or 157,400 hectares of forests—one of the highest rates of deforestation in the world.

Deforestation is fundamentally caused by human demand. There are laws in place, but the lack of implementation makes it difficult to properly regulate logging,

mining, and land conversion to areas of agriculture or settlement.

While it can be argued that social progress is worth the cost, the rate at which deforestation occurs is unsustainable. Without inclusive programs, habitats, biodiversity, and the entire ecosystem remain in peril. Deforestation also leads to spikes of carbon dioxide content in the atmosphere, contributing to global warming.

It is clear that the NGP is not enough to reintroduce trees into deforested land. A comprehensive reforestation program is what the NGP hopes to achieve.

To improve and enhance the NGP's performance, the authors of the study emphasize addressing the challenges that slow its progress.

Firstly, substantive data must be gathered and provided to fully come up with a substantive picture of the program's progress.

The available data—exceeding planting sites and actual target per hectare by 14 percent by the end of 2013, and yet missing the yearly seedling target per year—are not enough to determine whether or not the NGP is on the way to achieve its objectives.

Secondly, monitoring and inspection of trees have to be enforced to monitor, ensure, and increase the rate of survival, which currently sits at 61 percent. The goal is 85 percent.



A lady plants a mangrove sapling in a reforestation area in Cagayan de Oro, Philippines. (File photo by: Andy Maluche via Flickr Creative Commons)



The Commission on Audit (COA) criticized the Department of Environment and Natural Resources report on the NGP for not having an inspection or monitoring system for the survival rate of the seedlings. The program focused its evaluation too much on quantity instead of quality, according to the COA report.

That same year, a study, also by Israel, claimed that participants on the ground viewed the program's performance positively. It increased livelihood opportunities and improved environmental condition. But delays in availability of mobilization fund and limited personnel have held back NGP performance, making it only partially effective and efficient.

The framework for the impact assessment of the NGP contains four components—economic, social, environmental, and institutional. All of which will be evaluated as the program continues, hopefully to provide a more in-depth picture for studies to improve implementation mechanisms for the NGP and for future reforestation programs. **MHB**



**Water-food-energy nexus... from p. 5**

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**Think tanks... from p. 10**

PIDS is a state-funded think tank devoted to independent research and innovative policy solutions. Since its establishment in 1977, it has been engaged in conducting long-term, evidence-based research that serves as inputs in crafting socioeconomic policies for the country. PIDS has completed almost 1,000 studies covering a wide range of issues that encompass macroeconomic, agricultural, trade and industrial policies, health economics, education, environment, natural resource management, urban development and social services, and governance.

Established in 1989, the TTCSP aims to acknowledge the important contributions and emerging global trends of think tanks worldwide. Often referred to as the think tanks' think tank, the program maintains a database and network of more than 6,600 think tanks in 182 countries.

“In a world filled with tweets and sound bites that are often superficial and politically charged,” said James McGann, director of the TTCSP, “it is critical to know where to turn for sound policy proposals that address our complex policy issues. This independent Index is designed to help identify and recognize the leading centers of excellence in public policy research around the world.” **GGM**





## Research Digests

Policy Notes 2015-01

### **Feeding Severely Wasted Children in School: Examining Processes in DepED's School Feeding Program**

by Jose Ramon G. Albert, Ana Maria L. Tabunda, and Imelda Angeles-Agdeppa

The main objectives of the Department of Education's School-Based Feeding Program (SBFP) are the rehabilitation of severely wasted children to normal nutrition status and the improvement of classroom attendance of these children, as well as that of their health and nutrition status and behavior. This *Policy Note* presents the findings of the process evaluation of the SBFP. The results can provide inputs to improving current and future implementation of the SBFP, which was expanded in SY 2014–2015 to include all severely wasted children enrolled in public elementary schools. The *Note* finds that while the program has been managed well, there are implementation issues that need to be addressed, and policies that may require adjustments.

Policy Notes 2015-03

### **Challenges in the Economic Participation of Women as Entrepreneurs**

by Lucita Lazo

This *Policy Note* discusses the challenges faced by women entrepreneurs. To achieve inclusive growth in the Asia-Pacific region, it is critical to increase the economic opportunities of women in the Asia-Pacific Economic Cooperation (APEC) economies. The significant number of women entrepreneurs reflects the huge potential of women to make substantial contributions to the national economy. For this to be realized, they need to be supported through appropriate and timely interventions toward growing and scaling up their business.

Policy Notes 2015-07

### **Port Congestion and Underutilization in the Greater Capital Region: Unpacking the Issues**

by Epictetus E. Patalinghug et al.

The heavy traffic congestion along the roads within the Port of Manila, the largest seaport in the Philippines, and in Metro Manila led the City of Manila to impose a truck ban in February 2014. With the reduced operating hours of container trucks plying the city streets, this resulted in delays in the delivery of goods, accumulation of containers at the port, among others. This *Policy Note* presents the key findings of a study that investigated the causes behind the congestion in the Port of Manila and the underutilization of Batangas and Subic Ports. The study looked into the factors that affect the decision of shippers, freight forwarders, logistics services providers, and truckers on their choice of port and their satisfaction ratings of their chosen port. The *Note* ends with some short-, medium-, and long-term measures to address the congestion and underutilization issues.

Discussion Paper 2015-02

### **Diagnostic Report on the Bus Transport Sector**

by Sonny N. Domingo, Roehlano M. Briones, and Debbie Gundaya

The bus transport sector evolved from a highly regulated and concentrated market with a handful of players in the 1970s to a more liberalized albeit still regulated market with hundreds of small operators. The current market operates under a complicated regime where regulation and enforcement is shared by several agencies. Market inefficiencies manifest in too many operators and buses, and indiscipline in the road adding to traffic congestion problems in the metro. The fragmented nature of

both the sector's regulatory and supply side impedes synchronization among stakeholders and incurs huge costs to industry operators and the riding public.

Discussion Paper 2015-04

### **Competition Reform in the Philippine Rice Sector**

by Roehlano M. Briones and Beulah dela Peña

The rice sector is regulated by the National Food Authority, with imports under a statutory monopoly. Consistent with previous studies done on the rice supply chain, a rapid appraisal finds that the domestic paddy and rice supply chain is highly competitive. Entry into import business is, however, severely curtailed. Welfare analysis indicates that in 2013, if quantitative restrictions were eliminated and rice imports were allowed to freely enter the country, rice imports would have increased tenfold, bringing down the retail price of rice to PHP 19.80/kg from PHP 33.08/kg. This paper recommends tariffication, i.e., liberalized importation policy with moderate tariffs.

Discussion Paper 2015-06

### **Does Innovation Mediate Good Firm Performance?**

by Gilberto M. Llanto and Fatima del Prado

Private firms invest in physical capital and human resource but they are also advised to invest in innovations to be more productive and profitable. It is important for firms to know whether investment in innovations is investment well-spent. Empirical results provided an affirmative response to the question raised in this paper: "Does innovation mediate good firm performance?" Product and process innovations lead to increase in sales and profits and improve labor productivity. The paper also



showed that firm size, age, and foreign equity are important factors leading firms to innovate.

Discussion Paper 2015-07

**Review of Design and Implementation of the Agricultural Insurance Programs of the Philippine Crop Insurance Corporation**

by *Celia M. Reyes et al.*

There are certain risk management tools that aid in lessening the farmers' financial burden when losses related to such natural disasters are incurred. One of them is the crop or agricultural insurance. In the Philippines, the Philippine Crop Insurance Corporation (PCIC) is the government organization that implements rice, corn, high-value commercial crop, livestock, noncrop agricultural asset, fishery, and term insurance programs. The question thus arises regarding the effectiveness and sustainability of the said programs. The purpose of this study is to review the design and implementation of the PCIC's insurance programs.

Discussion Paper 2015-10

**Development Finance and Aid in the Philippines: Policy, Institutional Arrangements and Flows**

by *Gilberto M. Llanto, Adoracion M. Navarro, and Ma. Kristina P. Ortiz*

The Philippines' recent economic performance has been remarkable amid the lingering slowdown in the global economy and the devastation brought about by recent natural disasters. However, the economy faces problems of high poverty incidence and income inequality. The main challenge is how to sustain rapid and inclusive growth. It is important for the government's inclusive growth strategy and development agenda to be supported by responsive development finance. This Development Finance and Aid Assessment prepared for the National Economic and Development Authority (NEDA) takes stock of current

development finance in the Philippines. It provides a comprehensive survey of development finance and aid scenario in the Philippines in the next 5 to 10 years. It offers policy recommendations and proposals for enhancements on development financing in the country.

Discussion Paper 2015-13

**Establishing the Linkages of Human Resource Development with Inclusive Growth**

by *Tereso S. Tullao, Jr., Christopher James Cabuay, and Daniel Hofleña*

This paper aims to establish the linkages of enhancing human capital and human resource development in an economy in attaining inclusive growth. Various studies suggest that education, training, and human resource development in general raise the productivity of workers through the transmission of knowledge, skills, and competencies, which then increase the earnings capacity of an individual. Because of the link between education and earning capacity, improving education will lead to inclusive growth as educated individuals enhance their employment opportunities, improve their income, and pursue entrepreneurial options. The state of education in the Philippines as well as in the Asia-Pacific Economic Cooperation economies was analyzed in terms of quality, relevance, access and equity, and efficiency and effectiveness. Lastly, this study enumerates several actionable recommendations to help the region develop its human resources and ultimately attain inclusive growth through cooperation among the economies in bridging the development and human resource gaps in the Asia-Pacific region.

Discussion Paper 2015-16

**People-to-People Tourism in APEC: Facilitating Cross-Border Entry and Exit, with Special Focus on ASEAN**

by *Oscar F. Picazo, Soraya Ututalum, and Nina Ashley O. dela Cruz*

This paper discusses the promotion of person-to-person (PTP) tourism in the member-countries of the Asia-Pacific Economic Cooperation (APEC), focusing on the 10 countries of the Association of Southeast Asian Nations (ASEAN). The paper situates PTP tourism in the context of intra-ASEAN and APEC tourism, discusses the rationale for increasing PTP tourism, and the current obstacles of doing this. It reviews recent international practices in promoting PTP tourism through entry and exit facilitation, identifying general as well as specific programs and policies in a number of innovating countries. The paper ends with recommendations to facilitate PTP tourism in ASEAN and APEC.

Discussion Paper 2015-21

**Deepening Regional Cooperation for Disaster Recovery and Reconstruction: A Proposal for Proactive Approach to Risk Financing**

by *Cathy G. Vidar and Erlinda M. Medalla*

It is quite common that individual governments bear most of the cost of disasters, especially in emerging economies where the private sector and the capital markets are not fully developed. The available resources within governments are mostly insufficient to address the cost of response, rehabilitation, and reconstruction, which could result in adverse impacts on the overall fiscal and macroeconomic condition of the particular economy. The paper proposes to expand the prevailing regional cooperation within APEC toward improving access to finance for disaster recovery and reconstruction and taking a more proactive approach to risk financing. Regional cooperation is seen as a mechanism to promote the development of financial systems and products to effectively reduce the fiscal burden arising from disasters, as can be gleaned by looking at the experiences of other economies in this regard. **DRN**

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

approach in formulating policies that affect water, food, and energy resources.

But what are the chances of this approach permeating the policy environment? This is not an easy question to answer. For one thing, adopting a nexus thinking approach requires, first and foremost, a change of mindset and orientation. Secondly, the policy environment is a web of different actors with vested interests, each seeking to influence the policymaking process. The change can be initiated from below as well as from above. But an overarching policy statement or initiative from the national government could be a big push.

There have been efforts in the past to adopt an integrated approach in program

planning and policymaking by promoting the convergence concept. In 1999, the National Convergence Initiative (NCI) was created through the joint efforts of the Departments of Agriculture, Agrarian Reform, and Environment and Natural Resources. But with the myriad of problems confronting the country's water, food, and energy sectors for many years now, it is clear that this initiative was futile.

In 2010, a move to revitalize the convergence approach was put forward by the same departments by launching the Enhanced Convergence Initiative for Sustainable Rural Development. The *Philippine Development Plan 2011–2016* also emphasized "convergence of service delivery, maximized synergies, and active and strategic participation of stakeholders" as a key strategy to promote inclusive growth. Hopefully, these initiatives are not

just lip service. And let us hope that they will survive the change of administration. Sustainability of efforts is essential.

This issue also features an article contributed by former PIDS staff, Jenny Balboa, and director for research of Asian Development Bank Institute, Ganeshan Wignaraja. They offer insights on how the Philippines can take advantage of the ASEAN integration, highlighting the need to further liberalize the services sector where the Philippines has a competitive advantage and attract more investments by improving the quality of infrastructure services. Articles about the National Greening Program, the K to 12, and the recognition given to the Institute as one of the world's best think tanks in the recent *2014 Global Go To Think Tanks Report* complete this quarter's *Development Research News*.

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