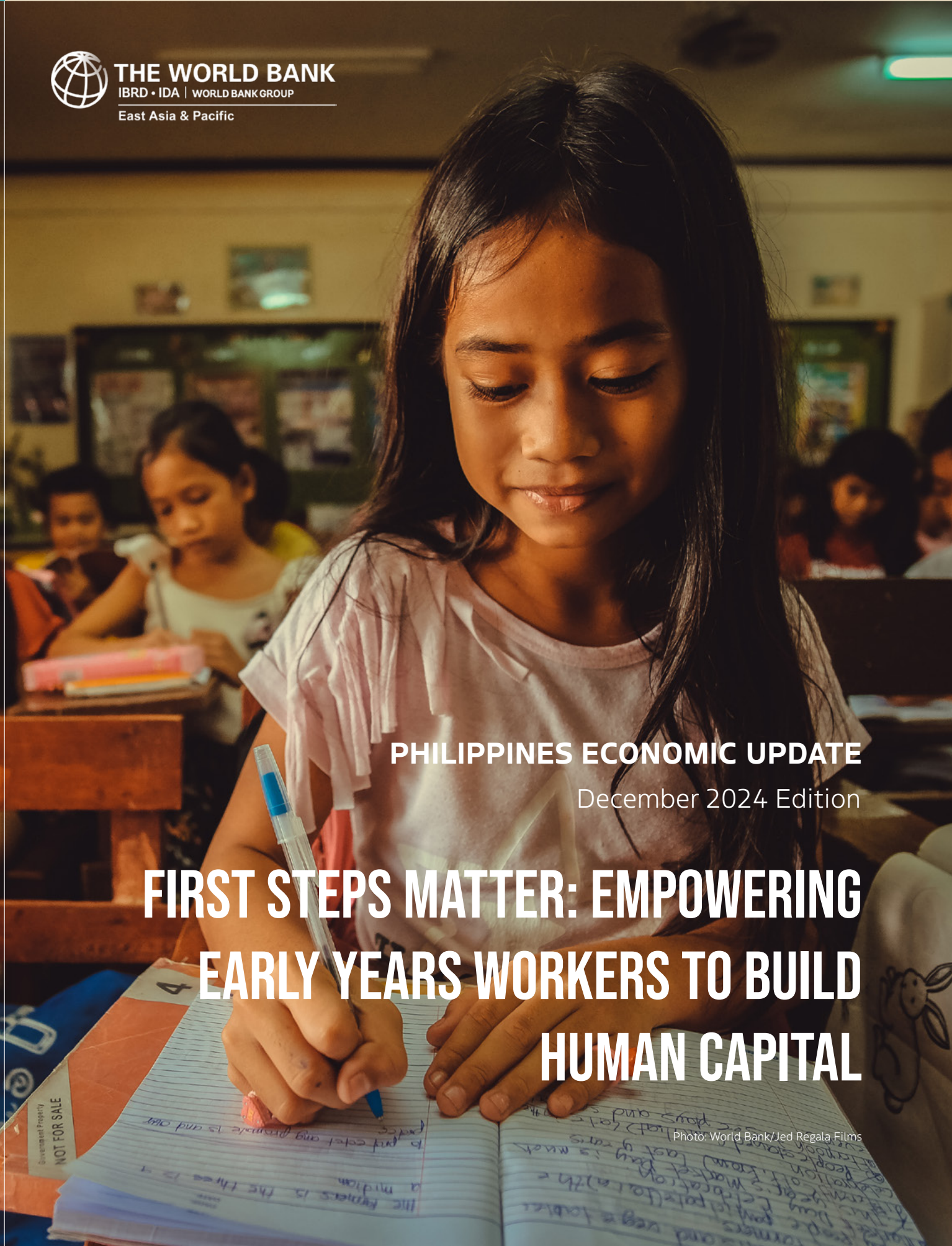




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# PHILIPPINES ECONOMIC UPDATE

December 2024 Edition

# FIRST STEPS MATTER: EMPOWERING EARLY YEARS WORKERS TO BUILD HUMAN CAPITAL

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# PREFACE

The Philippines Economic Update (PEU) summarizes key economic and social developments, important policy changes, and the evolution of external conditions over the past six months. It also presents findings from recent World Bank analyses, situating them in the context of the country's long-term development trends and assessing their implications for the country's medium-term economic outlook. The update covers issues ranging from macroeconomic management and financial-market dynamics to the complex challenges of poverty reduction and social development. It is intended to serve the needs of a wide audience, including policymakers, business leaders, private firms and investors, and analysts and professionals engaged in the social and economic development of the Philippines.

The PEU is a biannual publication of the World Bank's Macroeconomics, Trade and Investment (MTI) Global Practice (GP), prepared in partnership with the Finance, Competitiveness and Innovation (FCI); Poverty and Equity; Health, Education, and Social Protection and Jobs (SPJ) GPs. Lars Christian Moller (Practice Manager for the MTI GP), Gonzalo Varela (Lead Economist and Program Leader), and Jaffar Al Rikabi (Senior Economist) guided the preparation of this edition. The team consisted of Kevin Cruz (Economist and Task Team Leader), Remrick Patagan (Economist), Patrizia Benedicto (Research Analyst), and Ludigil Garces (Consultant) from the MTI GP; Ou Nie (Financial Sector Economist) from the FCI GP; Liliana D. Sousa (Senior Economist), and Sharon Piza (Economist), and Irene Arzadon (Consultant) from the Poverty & Equity GP; and Paula Maria Cerutti (Senior Economist), Ruth Rodriguez (Senior Social Protection Specialist), Monica Melchor (Consultant) from the SPJ GP. Tara Beteille and Toni Joe Lebbos led the drafting of the Special Focus Note on the Role of Local Government Units and Early Years Workers in Early Childhood Development. They were supported by a World Bank team from the People VPU for the Philippines, including Anna Melissa Guerrero, Ali Winoto Subandoro, Janssen Teixeira, Paula Cerutti, Wei Han, Vida Gomez, and Karthika Radhakrishnan. The work was carried out under the guidance of Caryn Bredenkamp, Cristian Aedo, Manuel Salazar, and Lars Christian Moller. The report was edited by Oscar Parlback (Consultant), and the graphic designer was Pol Villanueva (Consultant). Peer reviewers were Dhruv Sharma (Senior Economist), Ekaterine T. Vashakmadze (Senior Economist), and Elizabeth Ninan (Program Leader). Logistics and publication support were provided by Geraldine Asi (Team Assistant). The External Communications Team, consisting of David Llorito (External Affairs Officer), Stephanie Margallo (Program Assistant), and Moira Enerva (Consultant) prepared the media release, dissemination plan, and web-based multimedia presentation.

The team would like to thank Zafer Mustafaoglu (Country Director for Philippines, Malaysia, and Brunei) for his advice and support. The report benefited from the recommendations and feedback of various stakeholders in the World Bank as well as from the government, the business community, labor associations, academic institutions, and civil society. The team is grateful for their contributions and perspectives. The findings, interpretations, and conclusions expressed in the PEU are those of the authors and do not necessarily reflect the views of the World Bank's executive board or any national government. If you wish to be included in the email distribution list for the PEU and related publications, please contact Geraldine Asi ([gasi@worldbank.org](mailto:gasi@worldbank.org)). For questions and comments regarding the content of this publication, please contact Kevin Cruz ([kcruz@worldbank.org](mailto:kcruz@worldbank.org)). Questions from the media should be addressed to David Llorito ([dllorito@worldbank.org](mailto:dllorito@worldbank.org)). For more information about the World Bank and its activities in the Philippines, please visit [www.worldbank.org/ph](http://www.worldbank.org/ph).



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# ABBREVIATIONS AND ACRONYMS

<b>4Ps</b>	Pantawid Pamilyang Pilipino Program	<b>DSWD</b>	Department of Social Welfare and Development
<b>ACPC</b>	Agricultural Credit Policy Council	<b>ECCD</b>	early childhood care and development
<b>AEs</b>	advanced economies	<b>ECD</b>	early childhood development
<b>AIP</b>	annual investment programs	<b>ECE</b>	early child education
<b>AKAP</b>	Ayuda sa Kapos ang Kita Program	<b>EDCOM 2</b>	Second Congressional Commission on Education
<b>ASEAN</b>	Association of Southeast Asian Nations	<b>EFD</b>	External finance dependence
<b>ASPBI</b>	Annual Survey of Philippine Business and Industry	<b>EMDEs</b>	emerging market and developing economies
<b>bbf</b>	barrel	<b>FA</b>	Financial Account
<b>BHW</b>	Barangay health workers	<b>FDI</b>	foreign direct investment
<b>BIR</b>	Bureau of Internal Revenue	<b>FDSWs</b>	family development session workers
<b>BNAPs</b>	Barangay Nutrition Action Plans	<b>FIES</b>	Family Income and Expenditure Survey
<b>BNS</b>	Barangay nutrition scholars	<b>G2B</b>	Government-to-Business
<b>BOP</b>	balance-of-payments	<b>G2C</b>	Government-to-Citizen
<b>BSP</b>	Bangko Sentral ng Pilipinas	<b>G2G</b>	Government-to-Government
<b>BTr</b>	Bureau of the Treasury	<b>GDP</b>	gross domestic product
<b>CA</b>	current account	<b>GIR</b>	gross international reserves
<b>CDC</b>	child development center	<b>GNI</b>	gross national income
<b>CDPs</b>	comprehensive development plans	<b>GOCCs</b>	Government-owned and controlled corporation
<b>CDT</b>	child development teacher	<b>HCI</b>	Human Capital Index
<b>CDWs</b>	child development workers	<b>HCR</b>	Human Capital Review
<b>CHED</b>	Commission on Higher Education	<b>HCSC</b>	Household Convergence Scorecard
<b>CHT</b>	community health team	<b>HRH</b>	human resource for health
<b>CHWs</b>	community health workers	<b>HUCs</b>	highly urbanized cities
<b>CWC</b>	Council for the Welfare of Children	<b>ICT</b>	Information and Communication Technology
<b>DBM</b>	Department of Budget and Management	<b>ISP</b>	internet service provider
<b>DCC</b>	daycare center	<b>IT-BPO</b>	Information technology - business process outsourcing
<b>DCWs</b>	daycare workers	<b>ITED</b>	infant and toddler early education
<b>DepEd</b>	Department of Education	<b>IYCF</b>	infant and young child feeding
<b>DID</b>	Difference in differences	<b>LDIP</b>	local development investment programs
<b>DILG</b>	Department of the Interior and Local Government	<b>LEP</b>	local expenditure programs
<b>DOH</b>	Department of Health	<b>LFPR</b>	labor force participation rate



<b>LFS</b>	Labor Force Survey	<b>PMI</b>	Purchasing Managers' Index
<b>LGUs</b>	local government units	<b>PMNP</b>	Philippines Multisectoral Nutrition Project
<b>LMIC</b>	Low and Middle Income Countries	<b>PPAs</b>	programs, projects, and activities
<b>MNAO</b>	Municipal Nutrition Action Officer	<b>PPPs</b>	public-private partnerships
<b>MNAP</b>	Municipal Nutrition Action Plans	<b>ppts</b>	percentage points
<b>NAC</b>	The 4Ps' National Advisory Council	<b>PSA</b>	Philippine Statistics Authority
<b>NCR</b>	National Capital Region	<b>SBC</b>	social behavioral change
<b>NG</b>	National Government	<b>SDG</b>	Sustainable Development Goals
<b>NGAs</b>	national government agencies	<b>SHF</b>	special health fund
<b>NNC</b>	National Nutrition Council	<b>SURE</b>	Survival and Recovery
<b>NTA</b>	National Tax Allotment	<b>SWDI</b>	Social Welfare and Development Indicator
<b>OFWs</b>	overseas Filipino workers	<b>TESDA</b>	Technical Education and Skills Development Authority
<b>OPEC</b>	Organization of the Petroleum Exporting Countries	<b>UMIC</b>	Upper middle income countries
<b>OPT</b>	Operation Timbang	<b>UNICEF</b>	United Nations Children's Fund
<b>PBGs</b>	performance-based grants	<b>US</b>	United States
<b>PCB</b>	Program Convergence Budgeting	<b>VAT</b>	Value-added tax
<b>PDP</b>	Philippine Development Plan	<b>WHO</b>	World Health Organization
<b>PFM</b>	Public financial management	<b>yoy</b>	year-on-year
<b>PHC</b>	primary health care	<b>YTD</b>	year to date
<b>PIDS</b>	Philippine Institute for Development Studies		



# EXECUTIVE SUMMARY

## Recent Economic and Policy Developments

### *Resilient growth despite ongoing challenges*

**The Philippines was one of the fastest-growing economies in EAP, with GDP growth increasing to 5.8 percent in Q1-Q3 2024 (5.6 percent in Q1-Q3 2023).** Services continued to lead growth, particularly financial services, wholesale and retail trade, and business services. Industry growth increased as manufacturing benefited from the slight recovery in goods exports and solid domestic demand. Increased construction activity likewise bolstered industry and investment growth, due to strong public infrastructure spending. However, agriculture contracted due to the impact of extreme weather events, highlighting the sector's vulnerability to climate shocks and longstanding structural challenges resulting in low productivity. On the demand side, faster growth of government spending supported growth, driven by improved program execution. Household consumption growth, while still the main driver of growth, edged down compared to a year ago, due to inflationary pressures in key staple commodities and tight financing conditions.

*Growth was supported by an improvement in domestic conditions*

**Inflation reached the target, facilitating the easing of monetary policy.** Headline inflation averaged 3.2 percent in the first eleven months of 2024, (6.2 percent a year ago), amid lower food and utility prices. However, rice inflation remained elevated at 17.8 percent, disproportionately affecting poor households. To mitigate these pressures, the government reduced rice import tariffs and adjusted social assistance programs. The Bangko Sentral ng Pilipinas (BSP) reduced its policy rate by 50 basis points in 2024 and lowered the reserve requirement ratio for banks. Monetary easing supported liquidity and lowered borrowing costs, aligning with global trends and contributing to improved financial conditions.

**The fiscal deficit fell to 5.1 percent of GDP in the first three quarters of 2024 (5.7 percent in Q1-**

**Q3 2023), as the government kept pace with its ongoing fiscal consolidation agenda.** The lower deficit was driven by increased revenue collection, particularly from non-tax revenues resulting from an increase in mandatory dividend remittances from government owned and controlled corporations. The increase in public spending was driven by an increase in public investment and higher operating expenditures. Public debt remained stable at 61.3 percent of GDP, with a favorable composition of long-term, peso-denominated, and domestically sourced debt, reducing vulnerability to external shocks.

**The current account deficit narrowed to 3.2 percent of GDP in the first half of 2024.** It was supported by a modest recovery in merchandise exports amid stabilizing global growth and external demand for electronics and chemicals. However, services exports slowed due to moderating growth in IT-BPO services and international tourist arrivals. Higher remittances and portfolio investments bolstered the financial account. In addition, net foreign direct investment inched up alongside improving global investor sentiment and easing global financial conditions. Gross international reserves increased to 8.1 months of imports.

*Robust growth led to gains in the job market and poverty reduction*

**Unemployment fell to from 4.5 percent in September 2023 to 3.7 percent in September 2024, driven by the net-creation of 2.2 million jobs.** Strong growth in the services sector drove job creation, generating an additional 2.5 million jobs. Part of the services sector job growth was on the back of productivity-enhancing reallocation of workers away from agriculture. Agriculture declined in September, consistent with structural shifts in the economy over the past decade and weather-related disruptions.

**Economic recovery and strong social protection programs resulted in a substantial reduction in poverty in 2023.** Poverty fell to 15.5 percent in 2023, lower than the post-COVID rate of 18.1 percent in





2021 and the pre-pandemic level of 16.7 percent in 2018. This improvement was supported by the economic recovery since 2021, which led to strong job creation, a recovery in household incomes, and social protection programs that supported vulnerable sectors.

## Outlook and Risks

**The economy is projected to grow at an average of 6.0 percent annually from 2024 to 2026, supported by robust domestic demand, sustained public investment, and a dynamic services sector.** While the baseline growth forecast for 2024 was revised downward to 5.9 percent due to the intensification of climate-related events such as El Nino and La Nina, the medium-term outlook remains strong. The outlook will be anchored on improving conditions for private domestic demand. These include: easing inflation, more accommodative monetary policy, and the government's commitment to sustained public investment. Altogether, these are expected to maintain investment rates at relatively high levels, increasing potential output.

**The balance of risks, however, remains tilted to the downside, led by increased uncertainty surrounding the external environment.** On the external front, there is an increase in uncertainty with respect to trade distortive measures by large economies that may affect global trade and dampen the global outlook. Additional external risks include slower growth in China, and an intensification of conflict and geopolitical tensions that could disrupt trade and commodity markets further. Domestically, persistent inflationary pressures, delays in monetary policy easing and the implementation of investment reforms could weaken private consumption and investment growth.

**Poverty reduction is expected to accelerate, with the poverty rate expected to decline further until 2026.** Poverty incidence (based on the lower-middle-income country poverty line of US\$3.65/day, 2017 PPP) is projected to decrease from 15.5 percent in 2023 to 13.6 percent to 11.3 percent by 2026. This reduction is projected to be supported by robust economic growth, rising real household incomes. Climate-related shocks and inflationary pressures on food prices remain key risks to poverty alleviation.

Addressing vulnerabilities through social protection and disaster risk management will be critical to sustaining progress.

**Addressing gaps in human capital, particularly through early years investment, is vital for sustaining poverty reduction, boosting productivity, and achieving inclusive growth in the Philippines.** Chapter 3 of the report examines the urgent need to unlock the Philippines' demographic dividend and sustain inclusive growth. It underscores the critical role of Local Government Units (LGUs) in enhancing early childhood development by improving the performance of early years workers. Early years workers are essential for building the foundation of a productive and equitable society. By addressing critical needs during the early stages of life, they contribute to long-term economic development and the reduction of poverty, making them key players in achieving sustainable and inclusive growth.

## Special Focus Chapter: First Steps Matter: Empowering early year workers to build human capital

**The Philippines currently faces a significant human capital challenge.** The Philippines' Human Capital Index (HCI)<sup>1</sup> is estimated at 0.52, well below the HCI of neighboring upper-middle income countries, such as Malaysia (0.62), Thailand (0.61), and Indonesia (0.54). It is also lower than lower middle-income peers such as Vietnam (0.69). Despite notable economic progress, the level of HCI indicates that children are not reaching their full potential. This shortfall is particularly evident in early years outcomes, with high rates of stunting, low enrollment in early childhood education, and significant disparities across different regions.

**Early years workers are crucial for delivering essential health, nutrition, and early childhood development services.** However, they face numerous challenges, including shortages, inadequate qualifications, limited training, and low motivation. These challenges are further compounded by systemic issues at the LGU level, such as insufficient funding, coordination failures, and weak public financial management. As a result, up to 26 percentage points in human capital potential could be lost due to LGU-specific factors, including governance and service

<sup>1</sup> The HCI, a key metric for the World Bank Group's analysis of human capital formation is the which measures, the constraints to productivity of the next generation of workers given the prevailing rates of mortality, schooling, and health in 174 countries.

delivery inefficiencies. Addressing these challenges is essential for improving service delivery and outcomes.

**A multifaceted approach is needed to address these challenges, that will require bold policy reforms.** Reforms include building a strong foundation by addressing worker shortages, enhancing capacity, and motivating early years workers through targeted training programs, robust monitoring systems, and improved compensation and incentives. The report also recommends using performance-based grants (PBGs) to encourage LGUs to prioritize early years

services and leveraging mechanisms like Program Convergence Budgeting (PCB) to pool resources across sectors. Additionally, it suggests improving the enabling environment by harmonizing the roles of national and local governments, building local management capacity, enhancing monitoring and evaluation systems, and fostering community-level coordination. These measures intend to create a supportive environment that enables early years workers to perform more effectively and to achieve improved early year outcomes among Filipino children.



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# 1

## RECENT ECONOMIC AND POLICY DEVELOPMENTS



# 1.1 RECENT GLOBAL DEVELOPMENTS: UNEVEN ECONOMIC RECOVERY

*The global economy continued to stabilize in the first nine months of 2024, supported by resilient services trade and a pickup in consumer spending in advanced economies (AEs). Commodity prices eased considerably, contributing to the decline in global inflation. As a result, global financial conditions have eased, alleviating exchange rate pressures in several emerging market and developing economies (EMDEs) (World Bank 2024).*

**Global economic activity steadied buoyed by growth in the services sector.** Global activity firmed in the first nine months of 2024, despite elevated financing costs and heightened geopolitical tensions that weighed on business confidence. Consequently, manufacturing activity in many emerging markets and developing economies (EMDEs), including the Philippines, was buoyed by a rebound in global goods trade (World Bank 2024). Although the labor market cooled, economic activity in the United States (US) remained robust, driven by a pickup in consumer spending on both goods and services. Meanwhile, activity in the euro area was accompanied by a moderation in inflation and rising consumer confidence. The global Purchasing Managers Index (PMI) averaged 52.5 in Q1–Q3 2024, buoyed by new business in the services sector (Figure 1).<sup>2</sup>

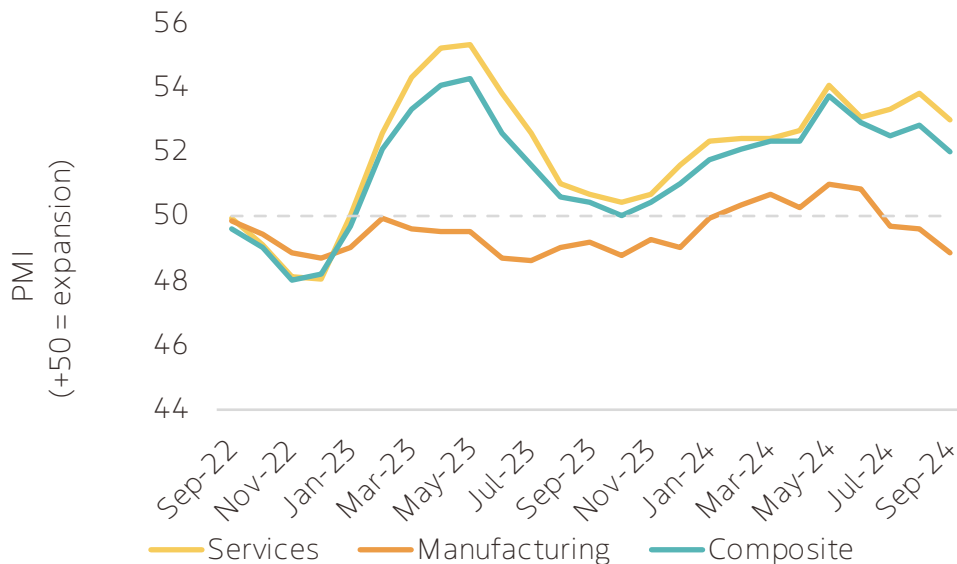
**The recovery in global goods trade remained below pre-pandemic levels, although global services trade continued to stabilize.** Global merchandise trade expanded by an average of 1.5 percent, yoy, in Q1–Q3 2024 (-1.5 percent over the same period in 2023). Goods trade expanded despite elevated in the third quarter shipping costs due to the frontloading of imports into the US in anticipation of potential trade disruptions. As a result, the growth in global industrial production more than doubled in Q1–Q3 2024 compared to a year ago (Figure 2). However, the growth in global goods trade remained below

pre-pandemic average (3.5 percent average growth in 2010 – 2019). Meanwhile, new export services orders continued to expand in Q1–Q3 2024, driven by a sustained recovery in international tourism and strong demand for financial services. As a result, services exports supported growth of several EMDEs, including the Philippines (World Bank 2024).

**Commodity prices moderated in the first eleven months of 2024, and global financial conditions have eased.** Energy prices have declined since April 2024 amid ample supply. Brent crude oil prices eased to an average of US\$75.7/bbl in November (down from US\$91.1 in the same period last year), benefitting net oil importers such as the Philippines. Meanwhile, the oversupply in oil became even more pronounced in part due to weaker demand in China and its increase of take up of electric vehicles and trucks powered by liquified natural gas (World Bank 2024). Similarly, natural gas prices in the US and Europe eased in the same period despite the upcoming heating season, amid high inventories and subdued industrial demand. Meanwhile, non-energy commodity prices, including for agriculture, have recorded a slight uptick since August. Nevertheless, both global headline and core inflation continued to decline. Along with a softening American labor market, this prompted the US Federal Reserve to cut the policy rate by 75 basis points since September.

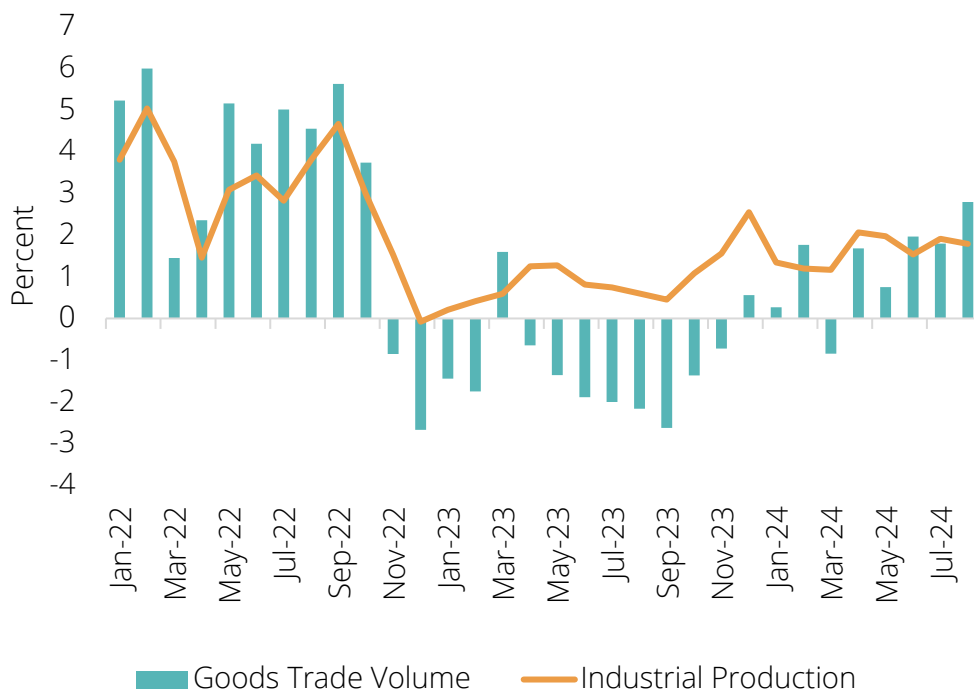
<sup>2</sup> The Purchasing Managers' Index (PMI) is an economic indicator derived from surveys, aiming to provide timely insights into business conditions within the manufacturing, services, and composite output sectors. It includes various sub-indices such as business output, new orders, employment, costs, selling prices, exports, purchasing activity, supplier performance, and backlogs of orders and inventories.

Figure 1. The global composite PMI rose in September, buoyed by the expansion of output in services.



Source: Haver Analytics.

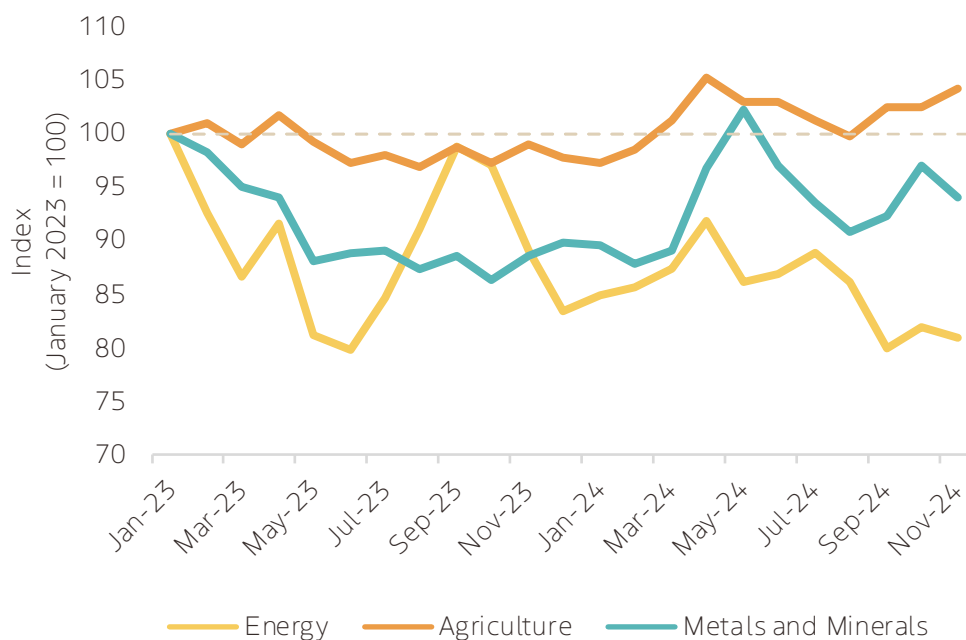
Figure 2. Global industrial production continued to expand.



Source: Haver Analytics.



Figure 3. Commodity prices moderated in the first eleven months of 2024 as energy prices declined.



Source: Haver Analytics.



Photo: Shutterstock/MDVEdwards



## 1.2 OUTPUT AND DEMAND IN THE PHILIPPINES: RESILIENT DESPITE HEADWINDS

*The Philippines remains among the fastest growing economies in the East Asia and Pacific region, underpinned by robust domestic demand. Stronger public consumption growth and investment offset a moderation in private consumption. On the production side, a recovery in construction activity and a modest expansion in manufacturing supported by economic activity. A series of weather disturbances also disrupted supply chains and limited domestic mobility.*

**The Philippines outperformed most of its regional peers as of the third quarter of 2024 due to improved domestic demand conditions.** GDP

growth accelerated from 5.6 percent in Q1-Q3 2023 to 5.8 percent during the same period this year. This year-on-year growth is behind only Viet Nam (6.8 percent) among peers in the ASEAN region. Along with Indonesia and Thailand, the Philippines has seen moderating private consumption. However, the lower growth contribution of private consumption has been more than offset by higher investment and public consumption spending. Monetary policy remained tight in H1 2024 given elevated inflation, but sustained disinflation into Q3 2024 has allowed the Bangko Sentral ng Pilipinas (BSP) to reduce interest rates. External demand remains weak notwithstanding a slight YTD rebound in goods exports, given the fragile recovery in global goods trade.

**On the production side, services remains the main growth engine of the economy.** Steady demand

for trade, financial activities, and business services supported the growth contribution of services in Q1-Q3 2024 (Figure 4). Meanwhile, the contribution to growth of transportation, accommodation and food service activities, and other services have moderated in part due to fading pent-up demand and lower growth in international arrivals. The growth contribution of industry increased as manufacturing benefited from the slight recovery in goods exports and solid domestic demand. Adverse impacts of a series of weather disturbances on crops and disease outbreaks on livestock led to a contraction in agriculture. Weather shocks also exacerbated

structural weaknesses in the broader economy such as underinvestment in infrastructure and support services.<sup>3</sup>

**On the demand side, public consumption and investment picked up the slack in household consumption.** The growth contribution of public

consumption rose from 0.2 ppt in Q1-Q3 2023 to 1.0 ppt in the same period this year (Figure 5). This is due to faster disbursements and, to a lesser extent, preparations for the 2025 mid-term elections. Public investment spending also drove up the growth contribution of construction from 1.3 ppts in the same period in 2023 to 1.7 ppts this year. This more than offset the decline in investment in durable equipment due to still muted external demand. High interest rates also slowed lending for production activities. Household consumption continued to be the primary driver of domestic demand, underpinned by a strong labor market, steady remittance inflows, and resilient consumer lending. However, its contribution to growth declined from 4.1 ppts in 2023 to 3.5 ppts this year due to cost-of-living pressures particularly from still-elevated rice prices. In Q3, household consumption spending accelerated for the first time this year alongside a significant slowdown in inflation.

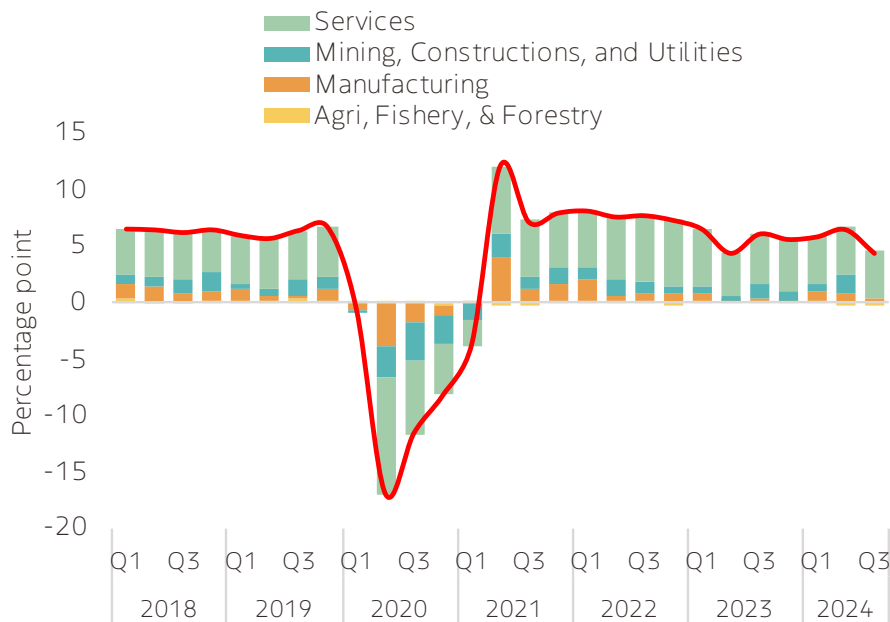
**Exports increased due to a modest improvement in global demand.** The growth contribution of exports rose from 0.8 ppt in Q1-Q3 2023 to 1.1 ppts this year. This was driven by modest growth in goods exports and services exports. The slowdown in services exports is due to moderating growth in information technology-business process outsourcing (IT-BPO)

<sup>3</sup> In recent years, the agriculture sector's contribution to growth has been adversely affected by the increasing frequency and intensity of extreme weather events, posing a growing risk to productivity and resilience. Provinces with heightened agricultural activity are also those exhibiting higher incidence of extreme rainfall, amplifying vulnerability to crop damage and soil erosion. Source: World Bank ETIIC Firms and Climate Adaptation Toolkit, and Philippine Statistics Authority.

services and international tourist arrivals. Goods imports have started to recover largely due to higher imports of raw materials and intermediate goods. For consumer goods, growth was driven by higher import values of refined petroleum products and rice.

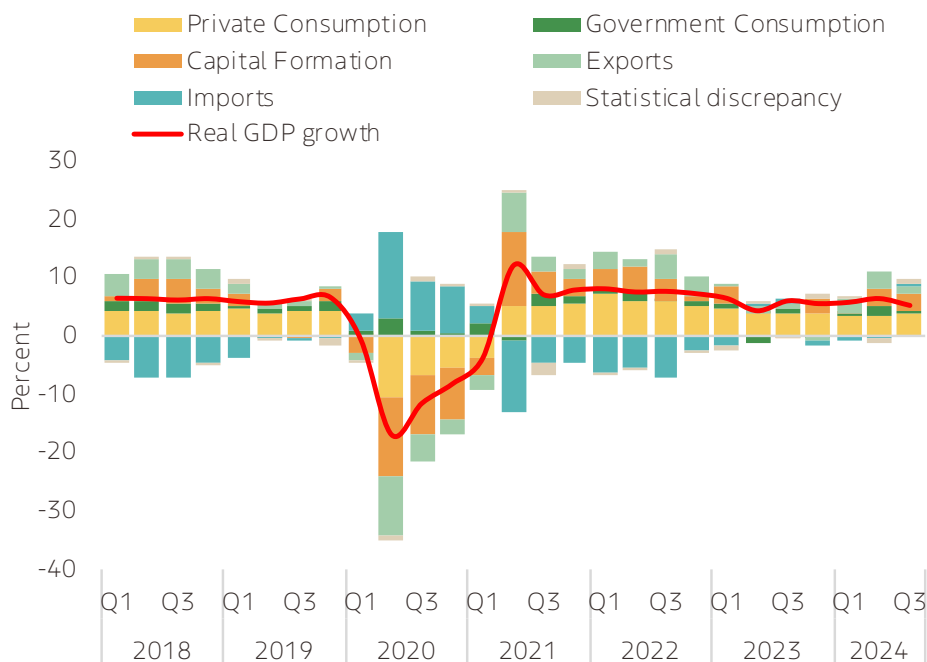
Imports of rice increased in both volume and value following reduced domestic production due to drought conditions in H1 2024 and the spike in international prices caused by Indian export restrictions in August 2023.

**Figure 4. A recovery in manufacturing and construction has increased the contribution of industry to output growth.**



Source: Philippine Statistics Authority (PSA).

**Figure 5. Healthy domestic demand continued to drive the expansion of the economy.**



Source: PSA.



## 1.3 INFLATION AND MONETARY POLICY: SLOWDOWN IN INFLATION AND MONETARY EASING

*Inflation returned to the BSP's target range as food and utilities price increases softened. However, the price of rice remains elevated, disproportionately impacting poor households. The BSP reduced its key policy rate in August and October as inflation declined and remained on a target-consistent path.*

**Moderating food inflation and lower electricity rates led to lower headline inflation in the first ten months of 2024 (Figure 6).** Headline inflation averaged 3.2 percent between January and November 2024, much lower than an average of 6.2 percent over the same period in 2023 and within the BSP's 2–4 percent target range. Despite the slowdown, inflation remained higher than in Indonesia (2.4 percent), Malaysia (1.8 percent), and Thailand (0.3 percent). Except for rice, inflation for most food items declined due to a stable supply and more favorable base effects. While the price of fish, sugar, and vegetables declined, meat and milk recorded small price upticks. Meanwhile, utilities inflation slowed as the decline in coal prices resulted in lower electricity rates.<sup>4</sup> In addition, easing global crude oil prices weighed on fuel prices, contributing to lower headline inflation. Core inflation, which excludes volatile food and energy items, fell to 3.0 percent in the first ten months of 2024, lower than 6.8 percent over the same period in 2023. The slowdown in core inflation indicates waning underlying price pressures.

**However, rice inflation soared, disproportionately affecting the poorest Filipinos.** Rice price inflation rose from 7.0 percent, on average, during the first ten months of 2023 to 17.8 percent in the same period in 2024. Export restrictions abroad, coupled with lower domestic production due to El Niño contributed to rice price increases.<sup>5</sup> Poor households are especially vulnerable to the high price of rice, as rice constitutes

17.9 percent of the consumption basket of households in the bottom 30 percent of the income distribution. As a result, average inflation for these households remained higher than the headline inflation at 4.3 percent. In response, the government reduced import tariffs on rice from 35 percent to 15 percent in July.<sup>6</sup> To ensure the affordability of food, the government also plans to adjust the value of cash grants in the Pantawid Pamilyang Pilipino Program (4Ps) to account for inflation.

**The BSP started its monetary easing cycle in August (Figure 7), as inflation eases and is on a target-consistent path.** The BSP cut its key policy rate by 25 bps on August 15, which was followed by another rate reduction of 25 bps on October 16. The BSP cited the improving inflation outlook due to the government's non-monetary interventions to combat upward price pressures as a reason for loosening its monetary stance. Moreover, the BSP noted that inflation is following a target-consistent path and inflation expectations remain well-anchored. The BSP's decision also reflected monetary easing by the US Federal Reserve. In addition to cutting rates, the BSP also reduced banks' reserve requirement ratio by 250 bps to 7 percent in September. This move aims to reduce distortions in the financial system, lower intermediation costs, and improve the pricing of financial services by decreasing the portion of deposits that banks cannot lend out.

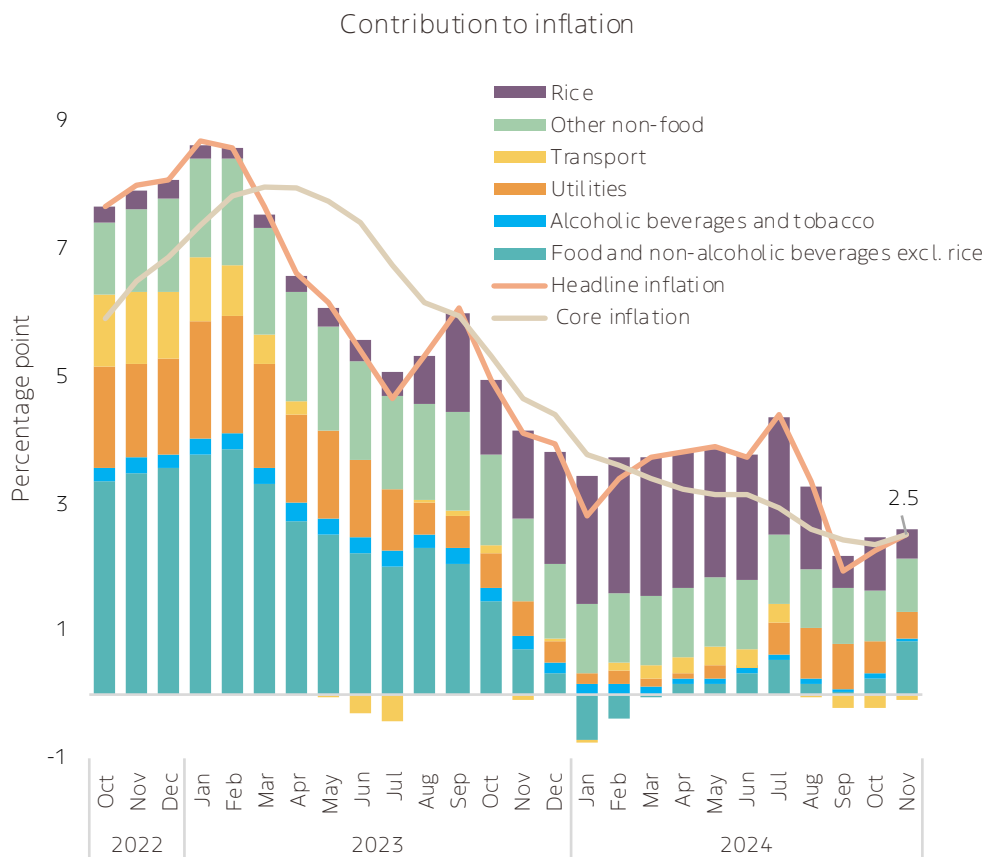
<sup>4</sup> The price of coal averaged \$136.18/mt between January and October 2024, lower than \$180.47/mt recorded in the same period in 2023.

<sup>5</sup> Global rice prices increased in the first ten months of 2024, particularly the Vietnamese 5% variety, which comprises most of the country's rice imports. The price of this variety climbed by 13 percent during this period to US\$568.43/mt. Likewise, other rice varieties from Thailand increased by 12 percent.

<sup>6</sup> President Ferdinand Marcos signed Executive Order No. 62 on June 20, 2024. The order lowered import tariffs on rice from 35 percent to 15 percent until 2029.



**Figure 6. Slower food and utilities inflation led to a decline in headline inflation in the first nine months of 2024**



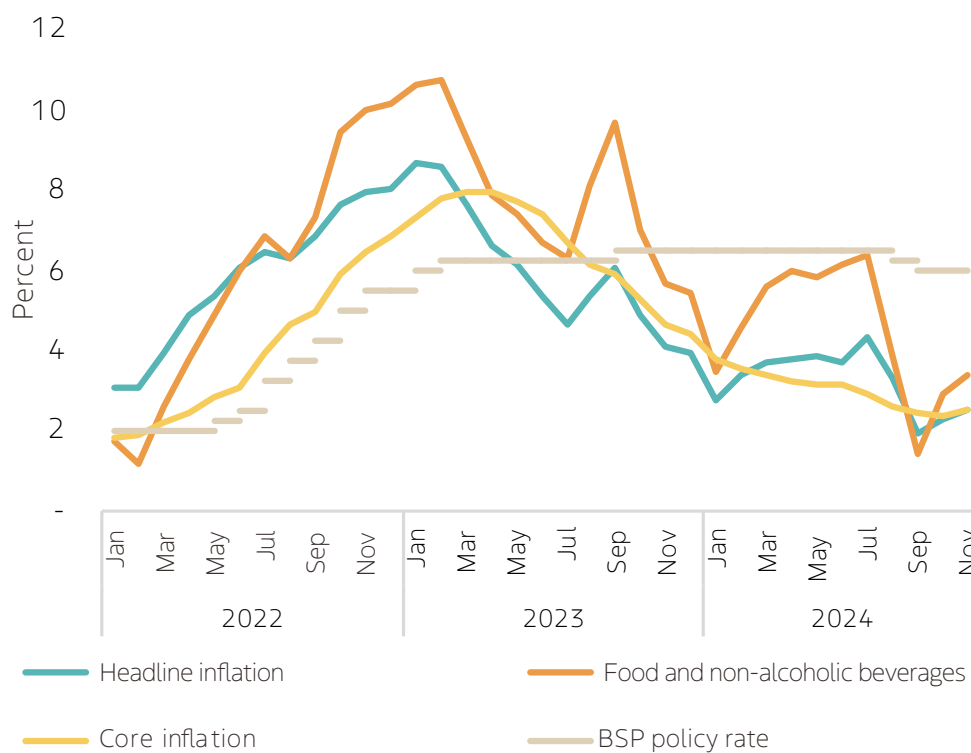
Source: PSA.



Photo: Shutterstock/Jill Gules



Figure 7. The BSP reduced the key policy rate in August amid an improved inflation outlook.



Sources: Bangko Sentral ng Pilipinas (BSP); PSA





# 1.4 EXTERNAL SECTOR: STRONGER EXPORTS AND WEAKER PESO

*The current-account (CA) deficit narrowed as the merchandise trade balance increased due to higher electronics exports in the first half of 2024. Meanwhile, net financial inflows rose amid higher foreign interest in domestic debt securities. The Philippine peso has weakened in the first ten months of 2024.*

**The CA deficit narrowed from 4.1 percent of GDP in 2023H1 to 3.2 percent in 2024H1, driven by higher merchandise exports.** Merchandise exports have benefited from stabilizing global activity, expanding by 5.4 percent in H1 2024 due to solid growth in exports of legacy electronics, coconut oil, and chemicals. By contrast, merchandise imports contracted by 0.5 percent due to lower prices of coal and coke, as well as tepid private domestic demand for imported capital goods amid subdued investment demand as borrowing costs remained high.<sup>7</sup> The merchandise trade deficit declined by 1.8 ppt of GDP in the same time period (Figure 8). However, net services trade receipts moderated by 0.8 ppt of GDP driven by the doubling of spending of Filipino tourists abroad, and slower growth in receipts from inbound tourism and IT-BPO exports. Meanwhile, net receipts in the primary and secondary income accounts grew due to higher income from residents' investments abroad (8.7 percent, yoy) and sustained growth in remittances (3 percent, yoy), respectively.

**Higher foreign portfolio investments fueled the rise in net inflows in the financial account (FA) from 3.0 percent of GDP in 2023H1 to 4.7 percent in 2024H1.** The portfolio investment account reversed to a net inflow (2.1 percent of GDP in 2024H1), driven by a tripling of foreign demand for debt securities offered by private corporations and the national government. In addition, net foreign direct investment (FDI) inched up by 0.3 ppt of GDP (2 percent of GDP in 2024H1) amid improving global investor sentiment and easing global

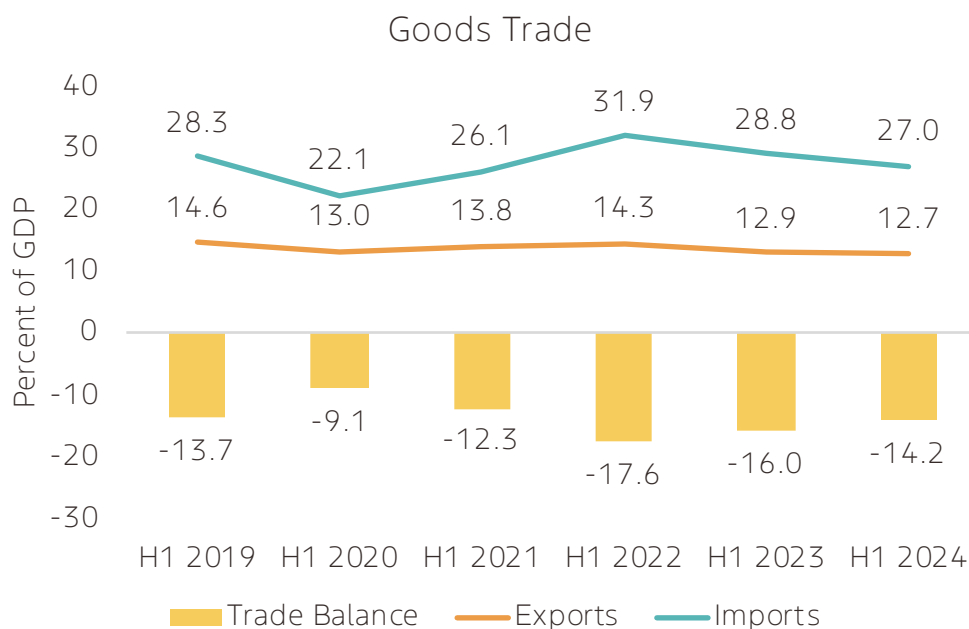
financial conditions. FDI inflows continue to consist of mainly investments in manufacturing, real estate, and construction. Meanwhile, other investments recorded lower net inflows (1.7 percent of GDP in 2024H1) due to lower withdrawals of currency and deposits abroad by private corporations, as well as by slower external borrowing by the national government. Despite the lower CA deficit and higher net FA inflows, the balance-of-payment (BOP) surplus declined from 1.1 percent of GDP in 2023H1 to 0.7 percent in 2024H1, as the BSP recorded a smaller amount of net unclassified items (Figure 9).

## **The Philippine peso weakened since early 2024.**

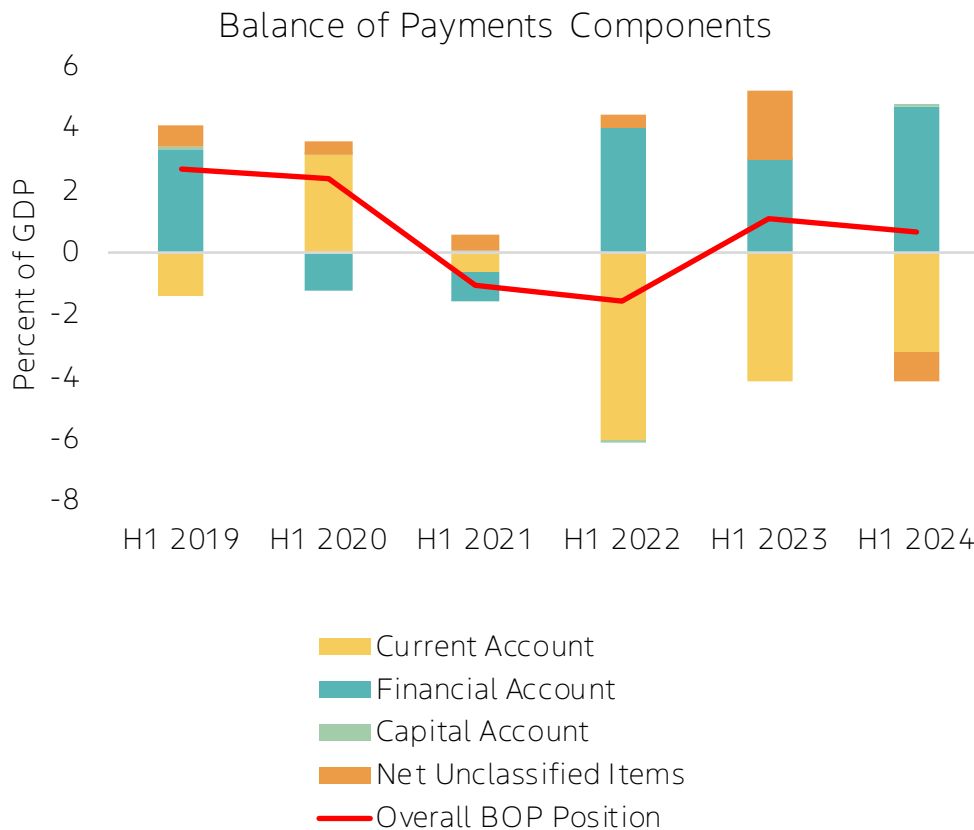
The peso initially depreciated against the US dollar in the first half of 2024 due to fears of prolonged monetary policy tightening in the US, tracking the currency movements of its regional peers such as the Indonesian rupiah, Thai baht, Malaysian ringgit, and Vietnamese dong (Figure 10). Since July, the peso partially recovered as the US Federal Reserve reduced the federal funds rate in September. The US rate cut resulted in wider interest differentials relative to emerging economies, making assets in these economies more attractive to international investors. Between January and October, the peso depreciated by 7.5 percent in real effective terms against a basket of currencies from its major trading partners due to higher domestic inflation.<sup>8</sup> Meanwhile, gross international reserves (GIR) rose by 8.8 percent during the same period, rising to US\$112 billion as of October. The GIR remained adequate at 8.1 months' worth of imports of goods and payments of services and primary income.

<sup>7</sup> These capital goods include telecommunication equipment, electrical machinery, aircraft, and ships and boats.

<sup>8</sup> The basket includes the currencies of the following trading partners: Australia, the European Union (euro area), US, Japan, Hong Kong, Taiwan, Thailand, Indonesia, Malaysia, Singapore, South Korea, China, Saudi Arabia, and the United Arab Emirates.

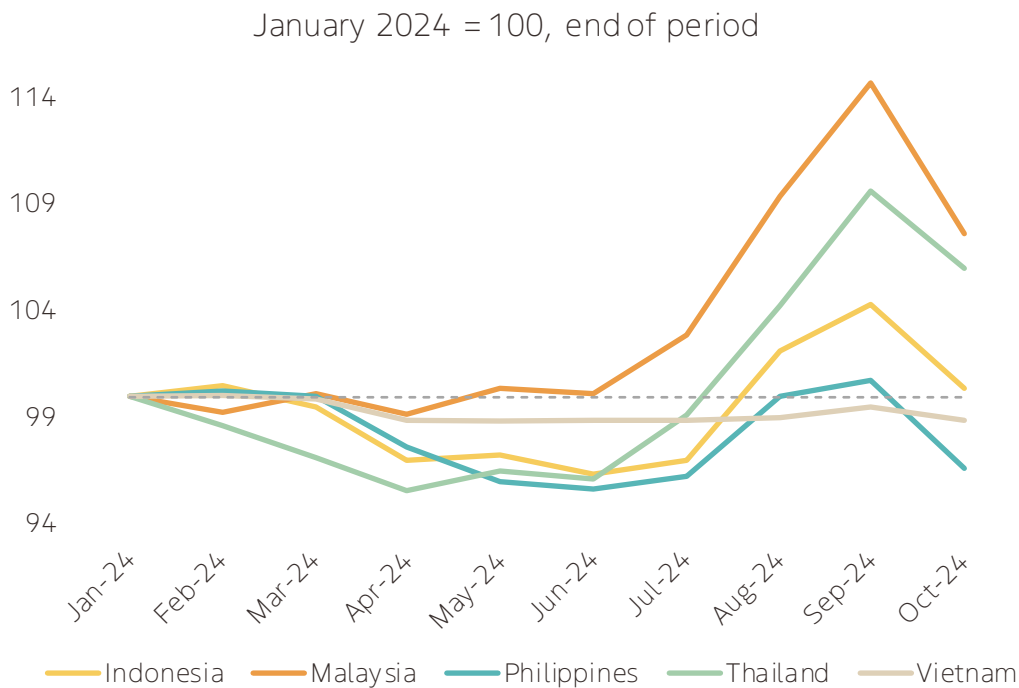
**Figure 8. Merchandise exports have increased, driven by higher electronics shipments.**

Source: BSP.

**Figure 9. The CA deficit narrowed while net financial inflows rose in 2024H1.**

Source: BSP.

**Figure 10. The peso and currencies of regional peers strengthened as the US Federal Reserve initiated monetary easing.**



Sources: Haver Analytics; various central banks.



Photo: Shutterstock/ Wara1982



## 1.5 FISCAL SECTOR: OUTPERFORMING TARGETS

*Increased revenue collection amid higher dividend remittances from government-owned and controlled corporations (GOCCs) narrowed the fiscal deficit in the first three quarters of 2024. Meanwhile, the national government debt increased to 61.3 percent of GDP by end-September 2024.*

### **The fiscal deficit narrowed in the first three quarters of 2024 as revenues surged (Figure 11).**

Revenues remained above the government's quarterly program at 17.5 percent of GDP in Q1–Q3 2024, led by the sharp increase in non-tax revenues (Table 1). Public spending totaled 22.6 percent of GDP in the same period (above planned expenditure) on the back of higher capital outlays. The fiscal deficit narrowed from 5.7 percent of GDP in Q1–Q3 2023 to below the government's target at 5.1 percent of GDP in the same period in 2024. Concurrently, national government debt increased to 61.3 percent of GDP by end-September 2024 as the government attained 89.5 percent of the full-year borrowing program and slowing growth for Q3 2024 (Figure 12). The country's debt metrics remained sustainable, as most of public debt was long-term (79.9 percent), peso-denominated (68.2 percent), and from domestic sources (68.8 percent).

**Public revenues increased driven by the growth of non-tax revenues from dividend remittances from GOCCs.** Public revenues rose by 1.0 ppt of GDP in Q1–Q3 2024, of which 0.8 ppt of GDP was from non-tax revenues. Dividends and other non-tax revenues rose as the Department of Finance increased the mandatory dividend remittances of GOCCs in April 2024.<sup>9</sup> Meanwhile, tax revenues increased by 0.2 ppt of GDP in Q1–Q3 2024, driven by the expansion in value-added tax (VAT) collections. VAT increased by 0.5 ppt of GDP consistent with still robust growth in private consumption. Higher VAT collections more than offset the slight decline in excise tax collections, which have fallen short of the government's target. The underperformance of excise taxes was driven in part by illicit trade in tobacco products, eroding the revenue base. However, tax revenues from international trade and transactions shrunk by 0.2 ppt of GDP, consistent with softer import growth in the first half of the year.

### **Public spending accelerated mainly due to higher interest payments and capital outlays.**

Disbursements increased from 22.1 percent of GDP in Q1–Q3 2023 to 22.6 percent of GDP in the same period in 2024. Current expenditures rose by 0.3 ppt of GDP, driving the increase in disbursements. Interest payments rose due to additional issuances of government securities and fluctuating foreign exchange rates. In addition, maintenance spending increased owing to the expansion in coverage of social protection programs and increased spending on health programs. Furthermore, the expenses of the Commission of Elections increased in preparation for the upcoming national and local elections in 2025. The increase in maintenance spending offset the reduction in personnel services expenditures, which were tempered by ongoing fiscal consolidation. Meanwhile, capital outlays increased by 0.3 ppt of GDP due to higher infrastructure spending related to the implementation and completion of various road infrastructure programs.



Photo: Shutterstock/Simon Roughneen

<sup>9</sup> The Department of Finance increased the mandatory dividend remittances of GOCCs to the national government from 50 percent of their annual net earnings (as stipulated in Republic Act No. 7656) to 75 percent in April 2024.

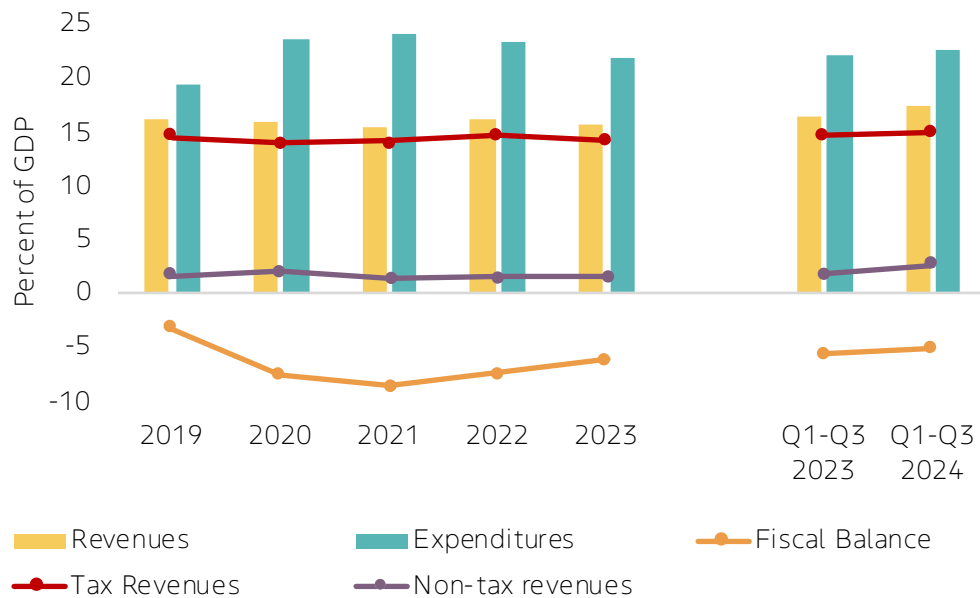


**Table 1. Fiscal performance, Q1–Q3 2023 and 2024**

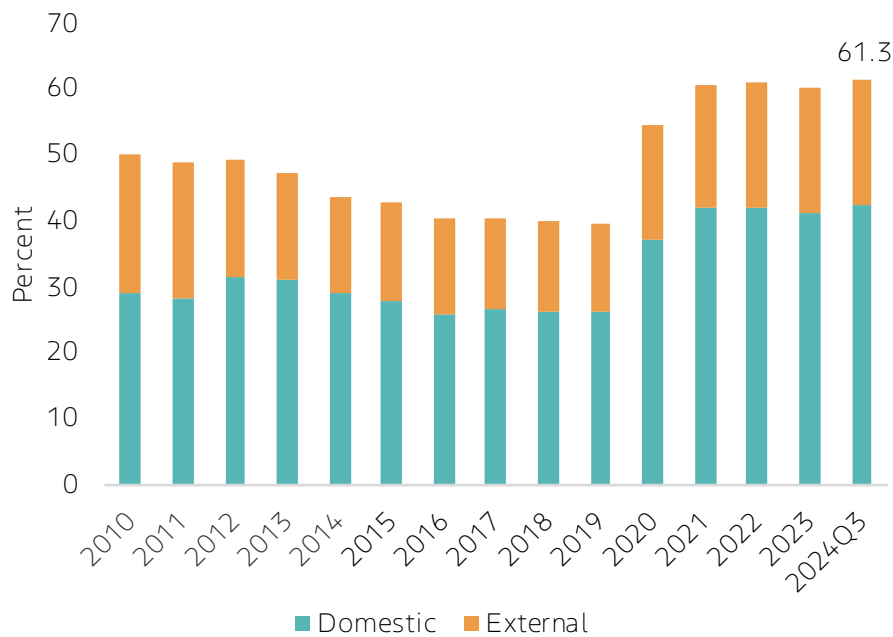
FISCAL INDICATORS	Q1-Q3				
	2023		2024		
	Actual	Program	Actual	Difference	Percent
<b>REVENUES</b>	<b>16.4</b>	<b>16.7</b>	<b>17.5</b>	<b>1.0</b>	<b>6.2</b>
<b>Tax Revenues</b>	14.7	15.0	14.9	<b>0.2</b>	<b>1.3</b>
Bureau of Internal Revenue	10.8	11.2	11.1	0.3	3.2
Bureau of Customs	3.8	3.7	3.7	-0.2	-4.2
<b>Non-Tax Revenues</b>	1.7	1.7	2.6	<b>0.8</b>	<b>49.1</b>
<b>EXPENDITURES</b>	<b>22.1</b>	<b>2.4</b>	<b>22.6</b>	<b>0.5</b>	<b>2.2</b>
<b>Current Operating Expenditures</b>	16.1	16.5	16.4	<b>0.3</b>	<b>1.8</b>
Personnel Services	5.8	5.5	5.5	-0.3	-4.4
Maintenance and Other Operating Exp.	3.7	3.9	4.0	0.3	9.2
Subsidy	0.8	0.8	0.6	-0.2	-29.8
Allotment to LGUs	3.1	3.1	3.0	0.0	-1.4
Interest Payments	2.7	3.1	3.1	0.4	16.0
Tax Expenditures	0.1	0.0	0.2	0.1	53.4
<b>Capital Outlays</b>	<b>5.9</b>	<b>5.9</b>	<b>6.2</b>	<b>0.3</b>	<b>4.8</b>
Infrastructure and Other Capital Outlays	5.0	4.7	5.2	0.2	4.9
Capital Transfers to LGUs	0.0	1.0	0.0	0.0	220.5
Equity	0.9	0.2	1.0	0.0	3.0
<b>SURPLUS/(DEFICIT)</b>	<b>-5.7</b>	<b>-5.7</b>	<b>-5.1</b>	<b>0.6</b>	<b>-9.7</b>

Sources: Bureau of Treasury (BTR); Department of Budget and Management (DBM).



**Figure 11. Higher public revenues narrowed the fiscal deficit.**

Source: BTr.

**Figure 12. Public debt marginally decreased as the fiscal deficit narrowed.**

Source: BTr.



# 1.6 EMPLOYMENT AND POVERTY: PROGRESS AMID PERSISTENT CHALLENGES

*Significant job creation and improvements in female labor force participation highlight the country's healthy labor market. Meanwhile, latest poverty estimates reveal a significant reduction in poverty and inequality from 2021 to 2023 that coincided with the economic recovery and improved household incomes.*

## **Employment continued to improve, with more Filipinos securing jobs compared to a year ago.**

The economy generated an additional 2.2 million jobs in September 2024 compared to a year ago, bringing total employment to 49.9 million Filipinos despite softer GDP growth in Q3 2024. Increased job creation led to a decline in the unemployment rate to 3.7 percent in September 2024 (4.5 percent in September 2023), reflecting healthy activity in the services sector (Figure 13). Youth unemployment similarly declined from 13.1 to 10.1 percent from September 2023 to 2024. Moreover, the country continues to make gains in terms of the female labor force participation rate (LFPR). The female LFPR increased to 55.7 percent in September 2024 from 53.4 a year ago (Figure 14). This places the FLPR above the target range of 51.5–53.5 percent target range laid out in the Philippine Development Plan (PDP) 2023–2028.

## **Robust growth in the services sector fueled job creation, while agricultural employment declined.**

The number of employees in the services sector grew by 2.5 million from September 2023 to September 2024, more than three times the amount of services jobs created a year ago. Strong job creation in the sector reflects the pattern of structural change experienced in the labor market over the past decade and growth of the economy.<sup>10</sup> The number of people employed in the agriculture and fishery sector continued to decline, falling by 0.3 million people over the same period. This reflects both structural changes in the labor market and the impact of weather-related disturbances. Employment in industry posted a modest increase of around 50,000, as manufacturing generated an additional 200,000 jobs in September 2024, but was offset by job losses in the construction and utilities industries.

## **Despite continued improvements in the Philippine labor market, significant challenges persist.**

High underemployment, the prevalence of low-quality informal employment, and a relatively stagnant youth LFPR threaten sustained advancements in the labor market. Underemployment remains high, accounting for over 1 in 10 workers in September 2024. Vulnerable forms of employment are prevalent, with the proportion of workers who are self-employed or working in family-operated farms or businesses increasing from 35.3 percent in September 2023 to 36.1 percent in September 2024. Meanwhile, labor force participation among vulnerable groups has shown uneven progress, as the youth LFPR increased only slightly to 33.9 percent in September 2024 from 33.1 percent in September 2023. Addressing these issues is critical for sustained long-term poverty reduction.

## **In a positive sign of economic recovery, the Philippines has made notable strides in reducing poverty following the COVID-19 pandemic.**

As of 2023, an estimated 17.5 million Filipinos, or 15.5 percent of the country's population, were living in poverty (Figure 15). Among them, approximately 4.8 million people, or 4.3 percent of the population, could not afford the basic food basket. This marks a significant recovery from the economic impact of the COVID-19 pandemic, during which more than 2.2 million people fell into poverty, raising the poverty rate from 16.7 percent in 2018 to 18.1 percent in 2021. The combination of the economic recovery, continuous social protection programs, and the creation of 4.4 million jobs between 2021 and 2023 helped drive poverty reduction during the period.

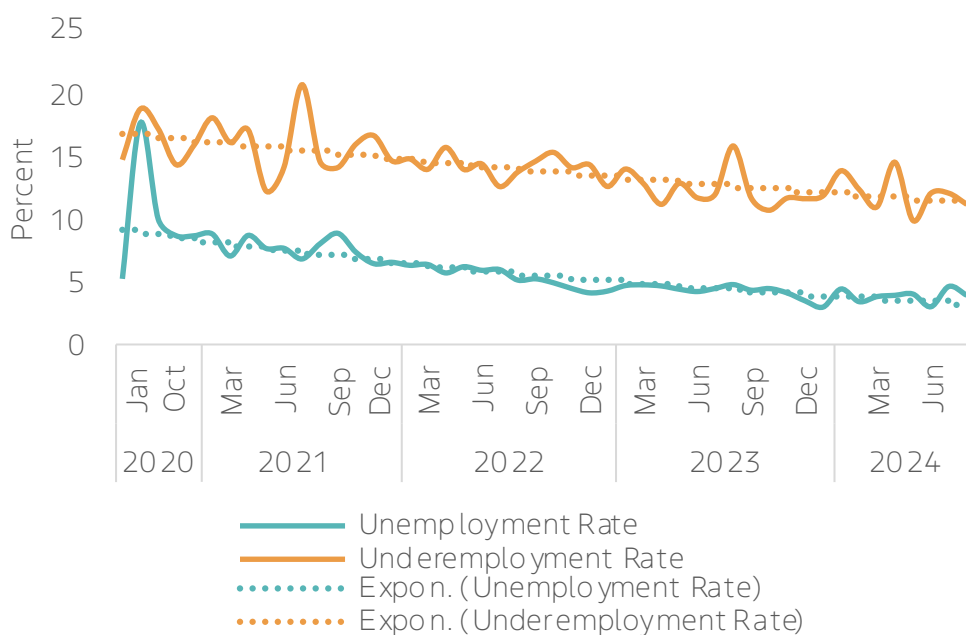
## **Despite widespread poverty reduction, some disaster prone regions, have experienced increases**

<sup>10</sup> The Philippines is among the middle-income countries which have the highest contribution of services to growth.

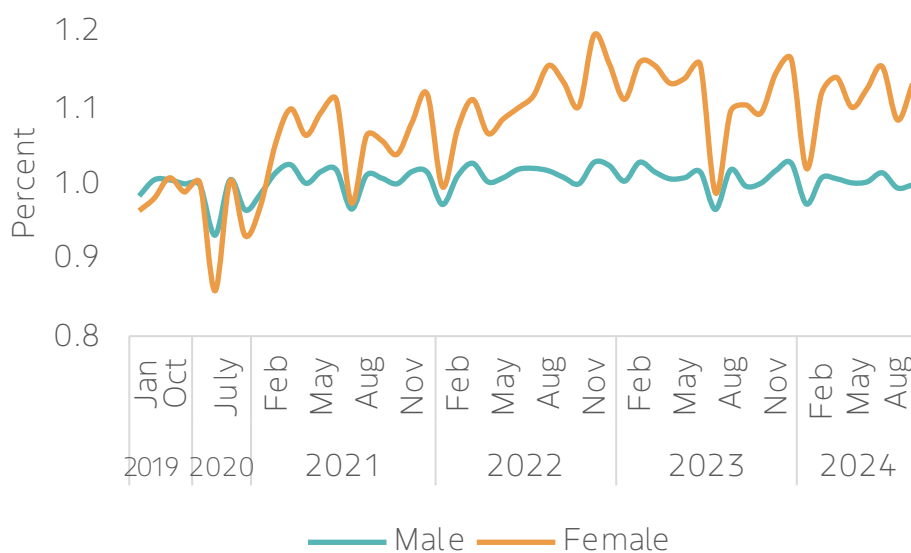
**in poverty.** Despite a reduction in inequality in 2023, with the Gini index dropping below 40 for the first time on record (Figure 16), the Philippines remains one of the most unequal countries in the region. In some areas, particularly those affected by extreme weather events, poverty rates increased between 2021 and 2023. President Ferdinand Marcos Jr.

has committed to enhancing disaster preparedness and improving flood control infrastructure in the Philippines. President Marcos also emphasized the need to strengthen both national and local disaster risk reduction and response efforts, acknowledging the country's high vulnerability to climate change impacts. <sup>11</sup>

**Figure 13. While unemployment continues to decline, the downward trend of underemployment has been more volatile.**



**Figure 14. Female labor force participation continues to trend slightly upward.**



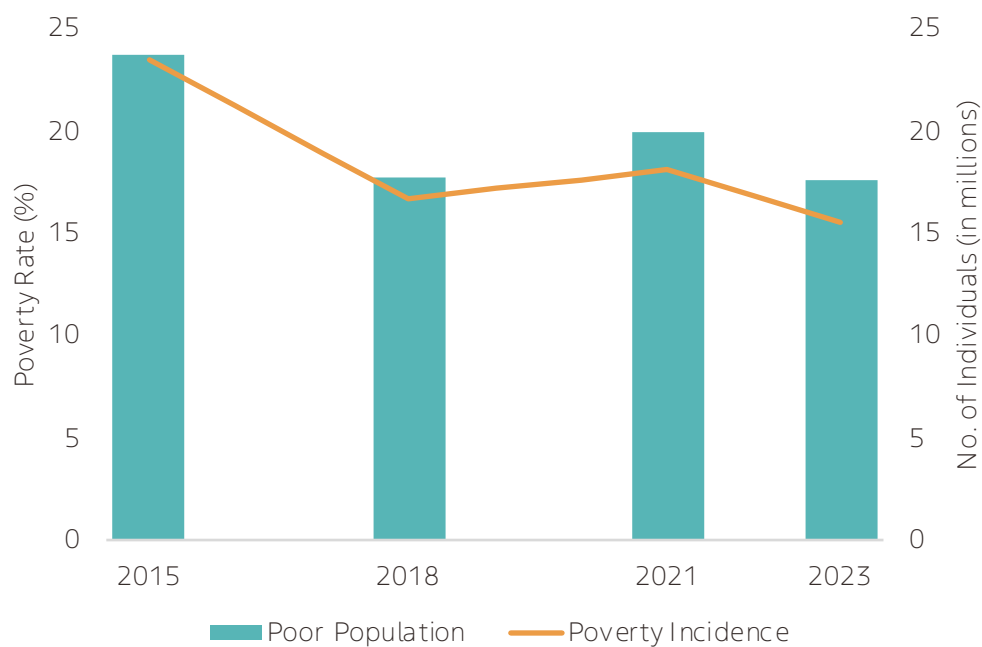
Sources: PSA, Labor Force Survey (LFS) (various rounds).

Note: The LFS has been conducted monthly since February 2021 to produce more timely data. Data show a normalized LFPR (January 2020=1).

<sup>11</sup> The Philippines is among the most disaster-prone countries in the world, and climate change is expected to intensify these risks, particularly for the most vulnerable populations. An estimated 83 percent of the population is exposed to or at high risk from extreme weather and slow-onset climate events.

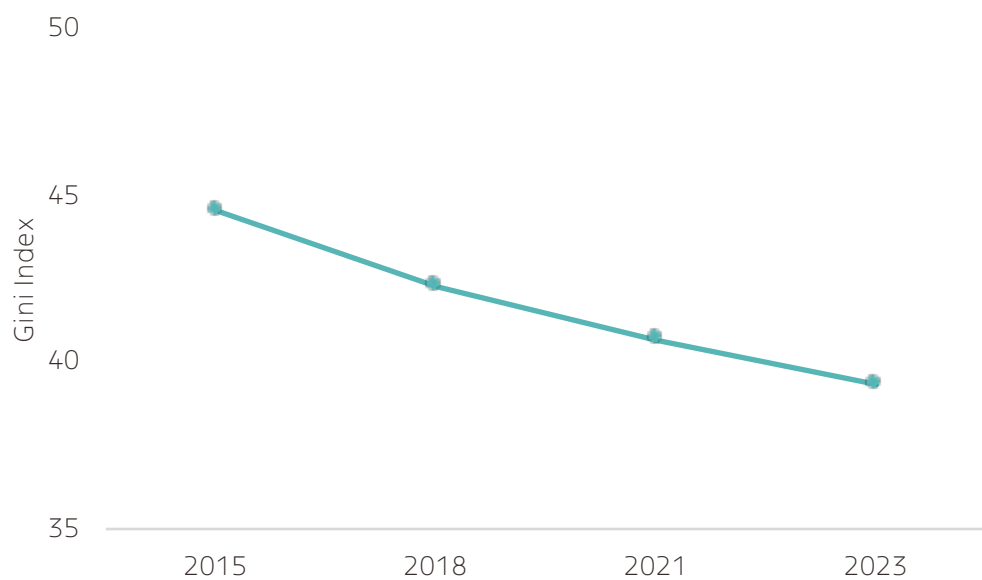


**Figure 15. The poverty rate declined in 2023...**



Source: Family Income and Expenditure Survey (FIES), 2015-2023

**Figure 16. ...and inequality is at an all-time low.**



Source: Family Income and Expenditure Survey (FIES), 2015-2023



# 2

## OUTLOOK AND RISKS





## 2.1 GROWTH OUTLOOK

### Global Outlook<sup>12</sup>

*This section summarizes the global outlook and its impact on the Philippines' medium-term growth prospects through different channels such as trade, inflation, and macroeconomic policy. Global growth is expected to remain stable between 2024 and 2026, albeit under rising policy uncertainty surrounding global trade prospects. The reduction in commodity prices over the forecast horizon is expected to support global disinflation and facilitate the easing of monetary policy.*

**Global growth is projected to stabilize between 2024 and 2026, supported by less restrictive financial conditions, lower headline inflation, and improved consumer spending.** In AEs, growth is projected to remain at 1.5 percent in 2024, before inching up to 1.8 percent by 2026. This improvement will be driven by the normalization of monetary policy, improved consumer spending amid lower inflation, and faster investment and export growth. While global trade volumes are projected to increase over the medium-term, trade growth will remain subdued compared to its pre-pandemic level. Meanwhile, growth in EMDEs is projected to slow over the forecast horizon, driven by lower growth prospects for China. Growth in China is projected to slow as consumption moderates, impacted by a soft labor market, subdued consumer confidence, and impact of declining property prices on wealth. Excluding China, growth in EMDEs is expected to pick up due to improvements in domestic demand.

**Although global trade growth is projected to rebound over the forecast horizon, rising policy uncertainty poses risks that could dampen the trade momentum.** Global trade is projected to increase between 2024 and 2026, reflecting a pickup in goods trade buoyed by increased

global demand. This improvement will coincide with faster growth in the euro area and EMDEs (excluding China). Meanwhile, services trade growth is projected to gradually return to its pre-pandemic pace, spurred in part by the ongoing recovery in international tourism, which is on track to exceed pre-pandemic levels beginning in 2024. Despite the improvement, there is substantial uncertainty with respect to trade distortive measures introduced by large economies that may affect global trade. As a result, global trade growth is expected to remain subdued, with both global growth and trade activities remaining below pre-pandemic levels in 2024–2026.

**A projected reduction in global commodity prices over the forecast horizon could support global disinflation, supporting monetary policy normalization.** Global inflation is expected to continue its downward trajectory, as commodity prices are set to decline through 2026. The expectation of global disinflation is projected to lead to further easing of monetary policy in AEs. Easing financial conditions in AEs would help facilitate the normalization of monetary policy in EMDEs. However, monetary policy normalization is likely to proceed at a measured pace, as policymakers remain committed to price stability and as the decline in core inflation slows.

<sup>12</sup> This section draws from the June 2024 edition of the World Bank's Global Economic Prospects (World Bank, 2024d), and was updated to reflect the latest views on the global economic outlook.



## Country Outlook

*This section provides an overview of the medium-term economic outlook, detailing projections for economic growth and the anticipated trends in key macroeconomic variables such as the current account balance, inflation, and fiscal policy. Growth is projected to improve over the forecast period, buoyed by improving conditions for private domestic demand due to lower inflation, easing financial conditions, and recent reforms that will liberalize investment activity.*

**Medium-term economic growth is projected to average 6.0 percent, year-on-year, in 2024–2026, supported by robust domestic demand, sustained public investment, and a strong services sector (Table 2).** The medium-term outlook remains unchanged from the October 2024 East Asia and Pacific Economic Update. However, the growth forecast for 2024 has been revised downward from 6.0 percent to 5.9 percent. The downward adjustment for 2024 reflects the impact of climate events that led to softer than expected growth in domestic activity, particularly in Q3 2024. In particular, the country was subject to several typhoons that resulted in significant damages to personal property, public and private infrastructure, and agriculture production. While these effects of El Niño, La Niña, and recent typhoons were disruptive in the short-term, they are unlikely to dampen the medium-term growth prospects due to improving conditions that will support domestic demand and improve the country’s resilience.

**The positive outlook depends on continuing disinflation, more accommodative monetary policy, and the commitment to public investment.** The baseline forecast is anchored on stronger domestic demand over the forecast horizon, supported by low and stable inflation, an improving job market that will bolster household incomes, and easing financial conditions. The government plans to sustain public investment above 5.0 percent of GDP to support medium-term growth and enhance productivity. Export growth is projected to firm up over the forecast horizon, albeit at a softer pace than pre-pandemic levels. Services exports are set to drive export growth, alongside the full recovery in global tourism demand and steady growth in IT-BPO services. While the forecast projects a pickup in global goods demand, the recovery in merchandise export growth will be dampened by the uncertainty introduced by potential

trade distortive measures that may impact global trade.

**On the expenditure side, private consumption is expected to remain the main source of growth and is projected to expand at an average of 5.4 percent between 2024 and 2026.** Private consumption growth is projected to slow to 5.0 percent in 2024, as inflation for key staple commodities such as rice remains elevated and exacerbated by still tight financial conditions. However, it is projected to accelerate to an average of 5.6 percent in 2025–2026, due to steady remittance inflows, low and stable inflation, and strong labor market conditions. In addition, the continued expansion of credit amid declining interest rates, will bolster private consumption growth. Meanwhile, government consumption growth is expected to slow to an average of 6.4 percent, year-on-year, between 2024 and 2026, in line with the government’s medium-term fiscal consolidation agenda.

**Investment growth is expected to strengthen, buoyed by lower real interest rates, a commitment to public investment and the implementation of reforms that liberalized investment.** Fixed investment growth is projected to decline in 2024, before increasing in 2025–2026. The government’s commitment to public investment, despite fiscal consolidation, will support investment growth over the medium term. The execution of public-private partnership (PPPs) projects will also support investment spending.<sup>13</sup> While private investment growth is projected to remain weak in 2024, amid tight monetary policy and subdued global trade and investment activity, it will likely gain steam in 2025 and 2026 as borrowing costs fall (Box 1). Moreover, investment growth is expected to benefit from the implementation of pro-investment reforms aimed at liberalizing foreign participation in key sectors.<sup>14</sup>

<sup>13</sup> As of October 2024, the PPP center had a pipeline of 169 projects worth PHP 3.2 trillion, up from 117 projects worth PHP 2.5 trillion in February 2024.

<sup>14</sup> The implementation of key reforms, such as the adoption of amendments to the Public Services Act, implementation rules and regulations of the Renewable Energy Act, the Retail Trade Liberalization Act, and the Foreign Investment Act, is expected to encourage private investment in key sectors and strengthen the Philippines as an investment destination.



**Table 2. Economic indicators for the baseline projections**

	2021	2022	2023	2024F	2025F	2026F
<b>GDP growth, at constant market prices</b>	<b>5.7</b>	<b>7.6</b>	<b>5.5</b>	<b>5.9</b>	<b>6.1</b>	<b>6.0</b>
Private consumption	3.1	6.0	4.1	3.7	4.1	4.1
Government consumption	1.1	0.8	0.1	1.0	0.9	0.8
Fixed capital formation	3.9	3.0	1.4	1.7	1.8	1.8
Exports, goods and services	2.2	3.0	0.4	1.1	1.2	1.3
Imports, goods and services	-4.5	-5.2	-0.4	-1.7	-2.0	-1.9
<b>GDP growth, at constant market prices</b>	<b>5.7</b>	<b>7.6</b>	<b>5.5</b>	<b>5.9</b>	<b>6.1</b>	<b>6.0</b>
Agriculture	0.0	0.0	0.1	-0.1	0.1	0.1
Industry	2.5	2.0	1.1	1.6	1.7	1.7
Services	3.3	5.6	4.4	4.4	4.3	4.2
<b>Headline inflation</b>	<b>3.9</b>	<b>5.8</b>	<b>6.0</b>	<b>3.2</b>	<b>3.1</b>	<b>3.0</b>
<b>National government balance (% of GDP)</b>	<b>-8.6</b>	<b>-7.3</b>	<b>-6.2</b>	<b>-5.5</b>	<b>-5.3</b>	<b>-4.8</b>
<b>National government debt (% of GDP)</b>	<b>60.4</b>	<b>60.9</b>	<b>60.1</b>	<b>60.3</b>	<b>59.8</b>	<b>59.4</b>
<b>Current account balance (% of GDP)</b>	<b>-1.5</b>	<b>-4.5</b>	<b>-2.6</b>	<b>-1.9</b>	<b>-1.7</b>	<b>-1.4</b>

Sources: PSA, BTr, and World Bank staff projections

Note: Components of growth are expressed in terms of their contribution to growth.



Photo: Shutterstock/Michael Alabado

# BOX 1. THE IMPACT OF POLICY RATE CUTS ON PHILIPPINE FIRMS

*This Box examines how Philippine firms' investment and leverage respond to policy rate changes, finding that lower rates boost investment and leverage, with firms having higher leverage or operating in low external finance-dependent sectors responding more significantly to rate cuts.*

**The global shift by central banks toward looser monetary policy has heightened expectations of increased investment.** But the extent to which firms' investment decisions respond to policy rate changes — and the role leverage plays — remains an open question. Understanding the direction and strength of these connections is crucial for policymaking, particularly in an emerging market like the Philippines, where financing constraints may make borrowing costs a major factor in shaping investment outcomes. This box addresses these questions empirically, relying on data for 389 publicly listed firms in the Philippines across non-financial economic sectors, from 2006 to 2023 Philippine Stock Exchange.

**First, the analysis examines the relationship between firm investment and leverage and the Bangko Sentral Pilipinas (BSP) policy rate, with the following firm-level regression:**

$$Y_{i,t} = \alpha_i + \beta R_t + \gamma Z_{i,t-1} + \theta \text{Macro}_{t-1} + \epsilon_{i,t}$$

where  $Y_{i,t}$  denotes the investment or leverage of firm  $i$  in year  $t$ .  $\text{Macro}_{t-1}$  controls for macroeconomic trend, e.g. real GDP growth and  $Z_{i,t-1}$  are lagged firm-level controls, e.g. size and profitability. We also include the firm-level fixed effects, that control for all time-invariant firm characteristics and cluster the standard errors at firm-year level.

Average Effect ( $\beta$ ) of Policy Rate on Firm Outcomes

	(1)	(2)
	Asset Growth	Leverage
Policy rate	-0.627** (0.304)	-0.495** (0.234)
Observations	2532	2556

Standard errors in parentheses

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

**On average, firm investment and leverage increase as the policy rate declines.** As lower policy rates decrease borrowing costs, firms tend to boost their investment. In addition, the analysis finds a negative correlation between the policy rate and firm leverage. In terms of magnitude, a 100-basis point reduction in the policy rate is associated with an increase in asset growth for the average firm by 0.6pp from an average asset growth rate of 5.5%, and with an increase in leverage for the average firm by 0.5pp from an average leverage ratio of 52%<sup>15</sup>.

**The analysis also focuses on the role of leverage in the monetary policy transmission to firm investment.** Leverage is commonly used as a measure of financial constraint<sup>16</sup> and plays an important role in a firm's investment decision. The following equation estimates how leverage matters for firm investment, focusing on the interaction of firm leverage and the policy rate.

<sup>15</sup> The results are robust to adding controls, including log of net income, return on assets, and return on equity.

<sup>16</sup> See the discussion by Farre-Mensa and Ljungqvist (2016).

$$\text{Asset Growth}_{i,t} = \alpha_i + \alpha_t + \delta \text{Leverage}_{i,t-1} \times R_t + \gamma Z_{i,t-1} \times R_t + \epsilon_{i,t}$$

where we control for both time and firm fixed effects to capture macroeconomic trends and time-invariant firm characteristics, respectively. As usual, we cluster the standard errors at firm-year level.

**Firms with higher leverage tend to invest more when the policy rate decrease.** The average firm increases investment when the policy rate decreases, but a firm with higher leverage increases investment more than a firm with lower leverage. A firm with relatively higher leverage by 1pp, will on average increase its investment by 0.06pp more when facing a 100 basis point reduction in the policy rate.<sup>17</sup>

DID Effect ( $\delta$ ) of Policy Rate on Firm Outcomes

	(1)
	Asset Growth
Policy rate $\times$ Leverage	-0.059*** (0.011)
Observations	2504

Standard errors in parentheses

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

**The effects of rate cuts on firms' leverage exhibit heterogeneity across sectors.** A critical question arises: are firms operating in sectors more reliant on external financing more or less sensitive to changes in policy rates? On the one hand, firms in more external finance dependent sectors face greater cost increases when borrowing costs rise, which may make these firms more responsive to rate changes. Conversely, if these firms' business model depends on external financing, their demand for borrowing could be relatively price inelastic. To assess which mechanism prevails, the analysis estimates the equation outlined below.

$$\text{Leverage}_{i,t} = \alpha_i + \alpha_t + \rho \text{EFD}_s \times R_t + \gamma Z_{i,t-1} \times R_t + \epsilon_{i,t}$$

where  $\text{EFD}_s$  denotes the sector level external finance dependence (EFD) measure, defined as the median leverage ratio of each sector during 2006 – 2009.<sup>18</sup>

DID Effect ( $\rho$ ) of Policy Rate on Firm Outcomes

	(1)
	Leverage
Policy rate $\times$ EFD	0.032** (0.014)
Observations	1858

Standard errors in parentheses

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

**The leverage of firms in a highly EFD sector responds less to policy rate changes.** The average firm increases its leverage in response to a policy rate cut, but a firm in high EFD sector increases its leverage by less than a firm in low EFD sector. For example, a firm in a sector of relatively lower external finance dependence (e.g. retail trade) will on average increase its leverage by 0.5pp when facing a 100-basis point reduction in the policy rate, while a firm of relatively high EFD (e.g. transportation and utilities) will increase it by 0.2pp.<sup>19</sup>

<sup>17</sup> The results are robust to adding controls, including log of net income, return on assets, and return on equity, and their interactions with policy rate.

<sup>18</sup> his regression is conducted in the sample of 2010-2023, to avoid overlapping period with EFD definition.

<sup>19</sup> The results are robust to adding controls, including log of net income, return on assets, and return on equity, and their interactions with policy rate.





**On the supply side, services will continue to drive growth, boosted by improved private domestic demand and the ongoing recovery of tourism.**

Services growth is projected to account for nearly 70 percent of growth between 2024 and 2026. It will remain anchored on the expansion of domestic economic activity as household incomes improve. Services will also benefit from the ongoing recovery of inbound international tourism. International tourist arrivals in the Philippines are projected to reach their pre-pandemic levels beginning in 2025 and will contribute to faster growth in transportation, accommodation and food services, and retail trade. Despite potential challenges from artificial intelligence, the IT-BPO industry will continue to support growth in real estate and information and communication services.

**Meanwhile, the positive investment outlook and a rebound in global goods trade will drive industry growth.**

Industry growth, which is projected to account for more than one-fourth of growth in 2024–2026, will be led by the expansion of manufacturing and construction activity. The improvements in global trade growth is expected to aid manufacturing, particularly electronics exports. The semiconductor industry is expected to rebound in 2025 as it addresses inventory issues, expands capacity, and launches new products. The government’s robust public investment pipeline, aimed at improving Information and Communication Technology (ICT) infrastructure and transportation and logistics, will support growth in the construction sector. However, the outlook for the agriculture sector is expected to remain tepid, dampened by the sector’s low productivity and vulnerability to weather-related shocks.

**Headline inflation is projected to remain within the BSP’s target range, facilitating the continued shift toward more accommodative monetary policy.**

Headline inflation is expected to gradually decline to 3.0 percent by 2026, comfortably within the BSP’s inflation target range of 2–4 percent. The decline in headline inflation will be bolstered by the reduction in commodity prices in 2025, as the global oil supply is projected to exceed demand by an average of 1.2 million barrels per day in 2025. Global commodity prices are projected to fall by nearly 10 percent from 2024 to 2026, benefitting net commodity importers such as the Philippines. Better global supply conditions will provide ample buffer against upside

risks from inflation stemming from geopolitical conflict and heightened trade tensions.

**The current account deficit is projected to narrow, led by steady remittance inflows, declining global commodity prices, and strong services exports growth.**

It is expected to decline from 1.9 percent of GDP in 2024 to an average of 1.5 percent in 2025–2026. This trend will be driven by stable growth in remittances, the projected decline in commodity prices, and a slightly lower trade balance. Services exports will continue to benefit from the projected increase in tourism demand and robust performance in the IT-BPO industry. While import growth is projected to increase due to robust domestic demand, falling global commodity prices will contribute to the slightly narrower trade deficit. The current account deficit is projected to be financed by net FDI and portfolio inflows amid improving domestic conditions and stronger investor confidence.

**The implementation of the medium-term fiscal consolidation program is projected to lead to a steady decline in the fiscal deficit.**

The government is expected to reduce the fiscal deficit from 6.2 percent of GDP in 2023 to 4.8 percent by 2026. Fiscal consolidation will be mostly expenditure-driven, with both recurrent spending and public investment projected to decline. Lower recurrent spending is expected to be supported by reforms that will lower personnel costs and improved spending efficiency. As a result, total expenditure is projected to fall by 0.8 ppts of GDP between 2024 and 2026, in line with the pace of reductions in recent years. Tax revenues will inch up marginally in 2024–2026, in part driven by the passage of tax policy reforms<sup>20</sup>, improvements in revenue administration, and strong economic growth.

**The combination of fiscal consolidation and robust growth set to reduce public debt over the medium term.**

The national debt ratio is projected to shrink over the forecast horizon to around 59.4 percent of GDP by 2026. While financing needs are expected to stay elevated due to the primary deficit remaining above pre-pandemic levels, debt sustainability will be bolstered by a favorable composition of debt. In particular, the country’s debt composition is expected to be characterized by a greater reliance on domestic borrowing and an increased share of medium-to-long-term instruments, which reduce vulnerability to external shocks and rollover risks.

<sup>20</sup> The priority tax reforms include the VAT on Digital Service Providers, the proposed excise tax on single use plastics, excise tax on pick-up trucks, and the adjustment to the motor vehicles road user’s tax.



## 2.2 POVERTY OUTLOOK

While medium-term growth is expected to remain robust under the baseline forecast, the balance of external and domestic risks remains tilted to the downside. On the external front, the Philippines is exposed to risks emanating from rising policy uncertainty and conflict that could dampen global economic activity and reverse global disinflation. Domestically, persistently high inflation because of supply related shocks could erode purchasing power, delay monetary easing, and dampen growth prospects of private domestic demand.

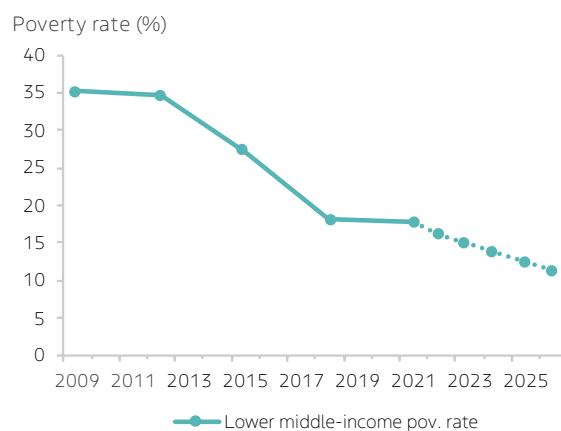
### Progress in poverty reduction is expected to continue, but recurrence of climate events and vulnerability to food price shocks poses risks.

Poverty incidence (based on the lower-middle-income country poverty line of US\$3.65/day, 2017 PPP) is projected to decrease from 15.5 percent in 2023 to 13.6 percent in 2024, before falling further to 11.3 percent by 2026 (Figure 17). The anticipated increase in real household incomes will support the projected decline in poverty, anchored on the continued improvement in the labor market and easing inflation. However, household income vulnerability, particularly high exposure and vulnerability to climate disasters, may undermine the potential for continued poverty reduction. These weather-related shocks have in the past damaged homes, infrastructure, and caused disruptions to businesses and livelihood. Agricultural production is particularly affected. Damages to rice, corn, and high-value crops are likely to push food prices higher, fueling inflation, and eroding real household incomes that could weigh on poverty reduction.

### Proactive government measures are crucial to protect poor and vulnerable households.

For example, the combined impact of damages due to typhoons Marce, Nika, and Super Typhoon Ofel reached an estimate of Php926 million, nearly half of which was damage to agriculture. In response to ongoing inflation and climate-related threats, the authorities are actively adopting policies to mitigate these shocks and ensure adequate energy and food supplies. In response to high inflation in recent years, the Department of Social Welfare and Development (DSWD) rolled out the Ayuda sa Kapos ang Kita Program (AKAP) which aims to protect minimum wage workers from the impact of inflation. The government provides support to affected communities, including insurance indemnities to compensate farmers and zero-interest loans available through the Agricultural Credit Policy Council's (ACPC) Survival and Recovery (SURE) Loan Program. Additionally, cash aid has been distributed to local government units to supply food packs and hygiene kits to households in typhoon-hit areas. The national government has also allocated funds for flood control, committing to effective mitigation and adaptation measures.

**Figure 17. Actual and projected poverty rates using the LMIC poverty line (\$3.65/day)**



Source: World Bank staff estimates.

## 2.3 RISKS AND POLICY CHALLENGES

### *Risks and Policy Challenges*

*While medium-term growth is expected to remain robust under the baseline forecast, the balance of external and domestic risks remains tilted to the downside. On the external front, the Philippines is exposed to risks emanating from rising policy uncertainty and conflict that could dampen global economic activity and reverse global disinflation. Domestically, persistently high inflation because of supply related shocks could erode purchasing power, delay monetary easing, and dampen growth prospects of private domestic demand.*

**The risks to the global growth outlook remain tilted to the downside, stemming from heightened policy uncertainty and geopolitical conflict, and existing weaknesses in China's economy.** Heightened global policy uncertainty, most notably on trade, remains as a key downside risk for global growth. Election outcomes in the US are expected to contribute to further fragmentation in trade policy and an increase in protectionism. A potential tariff escalation could lead to higher inflation in AEs, delay monetary policy easing, and cause potential disruptions in supply chains which would dampen global growth prospects. Moreover, the intensification of conflict and geopolitical tensions could disrupt the supply of commodities, driving up food and energy prices. China's growth outlook continues to face downside risks, with global economic implications. A protracted slump in China's property sector could further weaken domestic demand, resulting in negative spillovers to global trade, manufacturing, and tourism in the region.

**Domestically, the main downside risks to growth center on the strength of private domestic demand.** While the baseline forecast assumes inflation will remain low and stable between 2024 and 2026, risks are skewed to the upside. Key domestic upside risks to inflation include supply disruptions due to adverse weather conditions. Higher-than-expected inflation arising from these damages, particularly for food, could erode growth of real disposable income and suppress private consumption growth. As a net commodity importer, the Philippines is highly vulnerable to unexpected increases in commodity prices. This could also delay monetary policy easing, and lead to persistently higher interest rates that could dampen the growth of private investment. Meanwhile, delays in the implementation of key private investment reforms, such as the amendments to the Public Services Act, could lead to lower-than-expected growth in investment.



Photo: Shutterstock/MDV Edwards



## Economic Policy Challenges

On the macroeconomic policy front, achieving a high-quality fiscal consolidation remains as the top policy priority. Meanwhile, improving long-term inclusive growth requires addressing structural challenges in digitalization and early years human capital, as they enhance productivity, resilience, and competitiveness while unlocking the Philippines' demographic dividend and fostering inclusive development.

### Medium-term Stabilization

**The Government's main policy challenge is implementing its medium-term fiscal consolidation program (Figure 18).** Meeting consolidation targets will depend on the Government's ability to sharply reduce public spending in the short term and raise additional tax revenues in the last two years of the Marcos administration. Between 2024 and 2026, the Government aims to reduce public spending by around 0.8 percent of GDP. To reduce spending, the government could improve spending efficiency through procurement, budgeting, and investment management reforms while further optimizing the budget. These reforms include the implementation of the Government Procurement Reform Act and the passage of priority legislation, such as the Progressive Budgeting for Better and Modernized Governance Bill and the National Government Rightsizing Program. Moreover, reforming the pension system for military and uniformed personnel remains critical to ensuring long-term fiscal sustainability.<sup>21</sup>

**The increase in revenues needed to meet the government's fiscal consolidation program will require additional tax policy measures beyond those currently planned.** Improving revenue generation is essential to minimize potential cuts in public spending, rebuild fiscal buffers, and finance the country's development ambition. On the one hand, the implementation of the government's priority tax measures is projected to increase tax revenues by an average of 0.2 percent of GDP between 2025 and 2027. On the other hand, the government's medium-term fiscal program aims to increase public revenues by a total of 0.8 percent of GDP in 2027 and 2028. To enable higher collection, the government needs to

address structural weaknesses in the revenue system through a combination of base-broadening measures, improved tax administration, and the introduction of new taxes.

### Unlocking Potential: The Structural Reform Agenda

**Sustaining robust growth in the long-term hinges on the country's ability to address structural challenges that constrain the growth potential.** To boost growth beyond the current 6.0 percent potential, generate more and better jobs for Filipinos, and reduce poverty, the country must focus on increasing its potential growth. This requires improved connectivity infrastructure, enhancing local governance and service delivery, and increasing productivity through innovation policy and human capital investments. For example, a fully and effectively implemented PSA amendment is estimated to increase total factor productivity by 3.2 percent on average, and up to 6.4 percent in electrical machinery related sectors, that rely intensively on telecom and transport input.

**Accelerating the country's digital transformation and strengthening the digital economy will be essential to ensure sustainable long-term growth.** Advancing the digital economy can expand the country's growth potential, as increased digitalization could provide expanded market access, build resilience to economic shocks, while increasing the country's productivity, efficiency, and competitiveness. However, progress in digital transformation has been gradual, as key sectors of the digital economy have not kept pace with the broader economy. Moreover, the benefits from digitalization are not guaranteed.

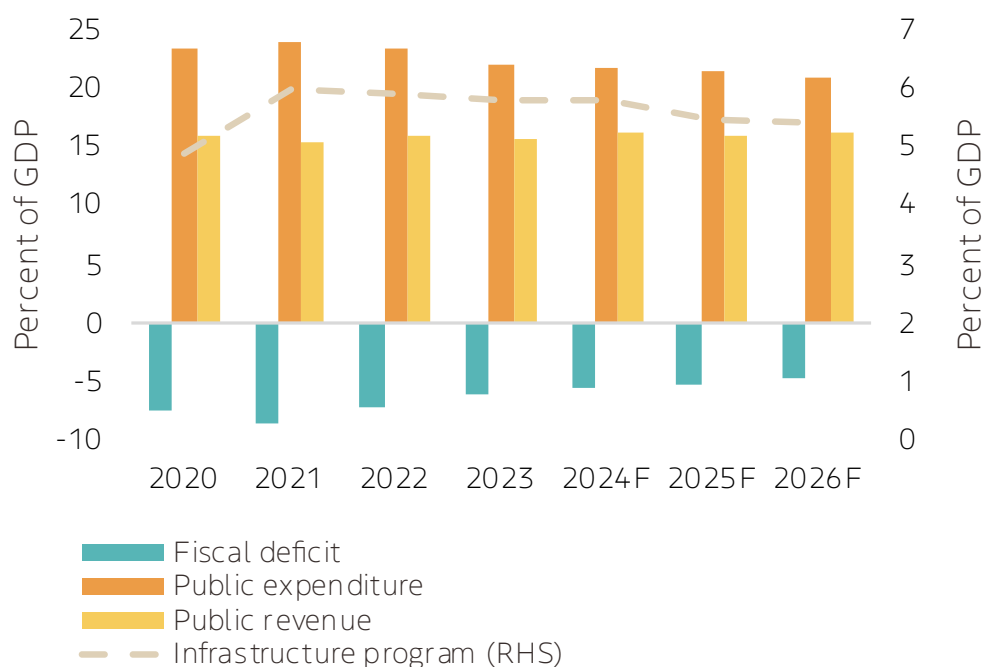
<sup>21</sup> In the absence of reforms, the pension budget for military and uniformed personnel could increase to around 1.6 percent of GDP by 2035.

When transformation efforts are undertaken without essential foundations—such as robust infrastructure, enabling policies, skilled human resources, and streamlined processes—digitalization risks exacerbating existing inefficiencies and stalling growth (Box 2).

**Investing in human capital is crucial for the Philippines to sustain its growth and seize the demographic dividend opportunity, which will only last for the next 20–25 years.** The Philippines stands out as one of the few East Asian nations that can potentially achieve prosperity before its population

ages significantly. However, to fully capitalize on this advantage, investments in human capital must begin early, even before birth. Maternal health and adequate nutrition are critical, as poor nutrition during pregnancy can lead to complications like anemia, which currently affects over a quarter of pregnant women in the country. Despite these opportunities, the Philippines faces challenges, with nearly one in three children stunted—significantly below expectations for its income level. Addressing these issues could unlock substantial long-term benefits for the country's growth and development.

**Figure 18. A steady decline in spending and marginal increases in tax revenues will help reduce the fiscal deficit over the medium-term.**



Sources: BTr, DBM, World Bank staff calculations



## BOX 2. PHILIPPINE DIGITAL ECONOMY – THREE FOUNDATIONAL CHALLENGES

*The Philippines faces foundational challenges in its digital economy, including slow growth, inadequate digital connectivity, limited ICT skills, and fragmented data governance, necessitating reforms in connectivity, digital skills, and data utilization to accelerate transformation and enhance economic outcomes.*

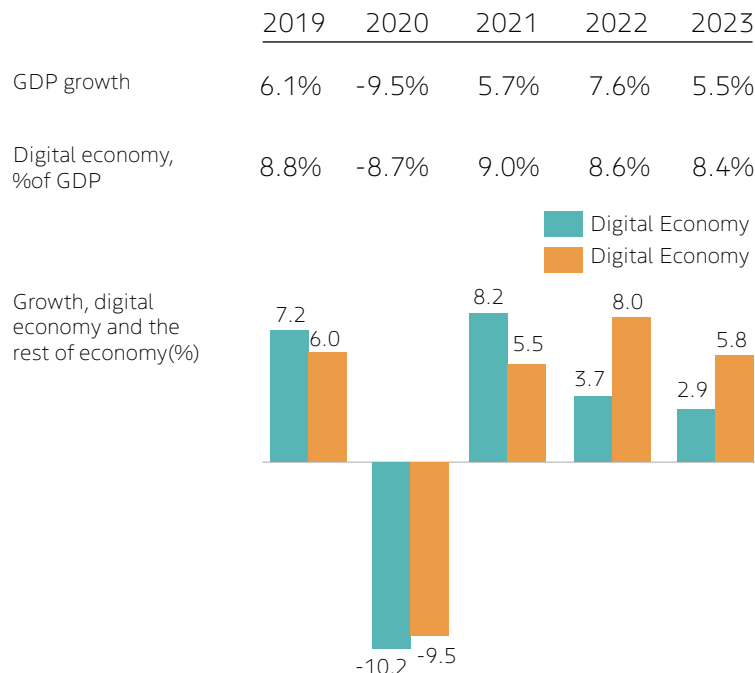
### Context

**In the Philippines, progress in digital transformation has been gradual.** In 2023, the digital economy, as officially defined by the government, is estimated to have grown at a rate of only 2.9 percent<sup>22</sup>, less than half the growth rate of other economic sectors (PSA) (Figure 19).

Furthermore, in recent years, the Philippines has consistently and increasingly underperformed relative to its peers across various indices measuring digital maturity and readiness, affecting the government, economy, and society's capacity to leverage digital transformation effectively (Figure 20).<sup>23</sup>

**Figure 19 . Lagging Growth in the Philippine Digital Economy**

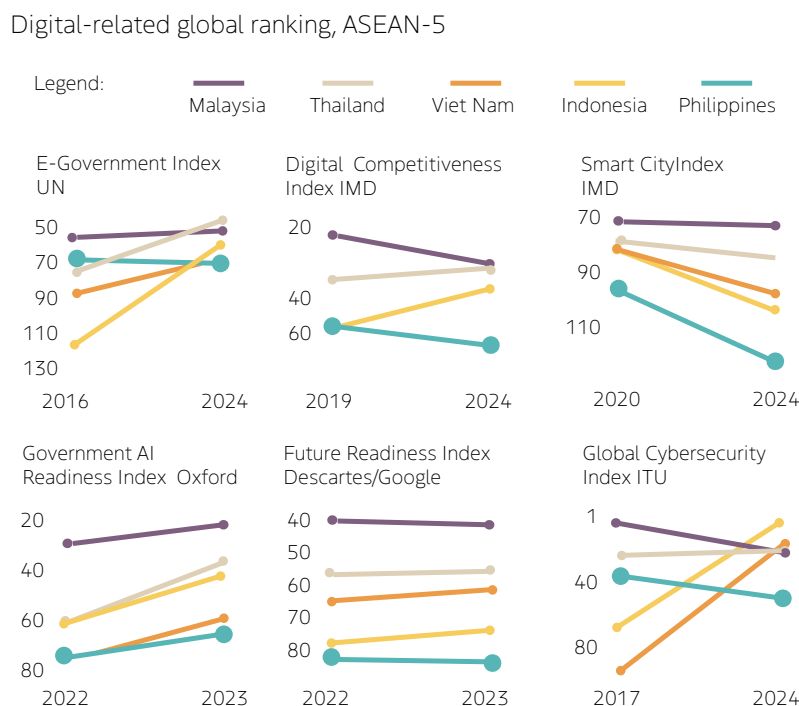
Philippines Digital economy growth and GDP growth, 2018-23



Source: World Bank staff calculation based on PSA Digital Economy Satellite Account.

<sup>22</sup> 2024 growth is likely to be higher, according to the 9th edition of the e-Conomy SEA Report by Google, Temasek and Bain, showing a 20 percent growth of the overall digital economy in 2024 the Philippines based on Gross Merchandise Value, which Department of Trade and Industry (DTI) attributed to strategic reforms such as the Internet Transaction Act and the value-added tax on non-resident digital services.

<sup>23</sup> UN, ITU and Oxford indices assess 193 UN member states, Descartes Institute index assesses 124 countries, IMD indices assess 64 economies and 142 cities (Kuala Lumpur, Bangkok, Hanoi, Jakarta and Manila represent respective countries in Smart City Index). Composite indices involve contestable methodological choices. This Box article cites indices underpinned by indicators relevant to digital government, economy and society to highlight trends over recent years, while not necessarily endorsing aggregation and weighting methodologies for each index.

**Figure 20 . Underperformance of the Philippines in Digital Maturity and Readiness Indices**


Source: World Bank staff calculation based on UN, IMD, Oxford, Descartes and ITU.

## The Fundamental Challenges

### Digital connectivity, digital skills, and limited capacity to leverage data effectively are among the primary barriers to digital transformation in the Philippines.

The country's fixed and mobile internet services fall behind those of regional middle-income peers in terms of access, speed, and affordability (Figure 21). Additionally, data traffic generated per internet user ranks among the lowest in ASEAN, and data center capacity<sup>24</sup> is less than one-third of the average in Malaysia, Thailand, and Indonesia. In addition, Filipinos are by far the least skilled in terms of Information and Communication Technology (ICT) skills in the ASEAN region (Figure 22). Moreover, weaknesses in the broader education system limit the capacity to learn and adopt digital skills. The World Bank reported a learning poverty rate<sup>25</sup> of 91 percent in 2022, with 9 out of 10 Filipino children aged 10 unable to understand age-appropriate content.

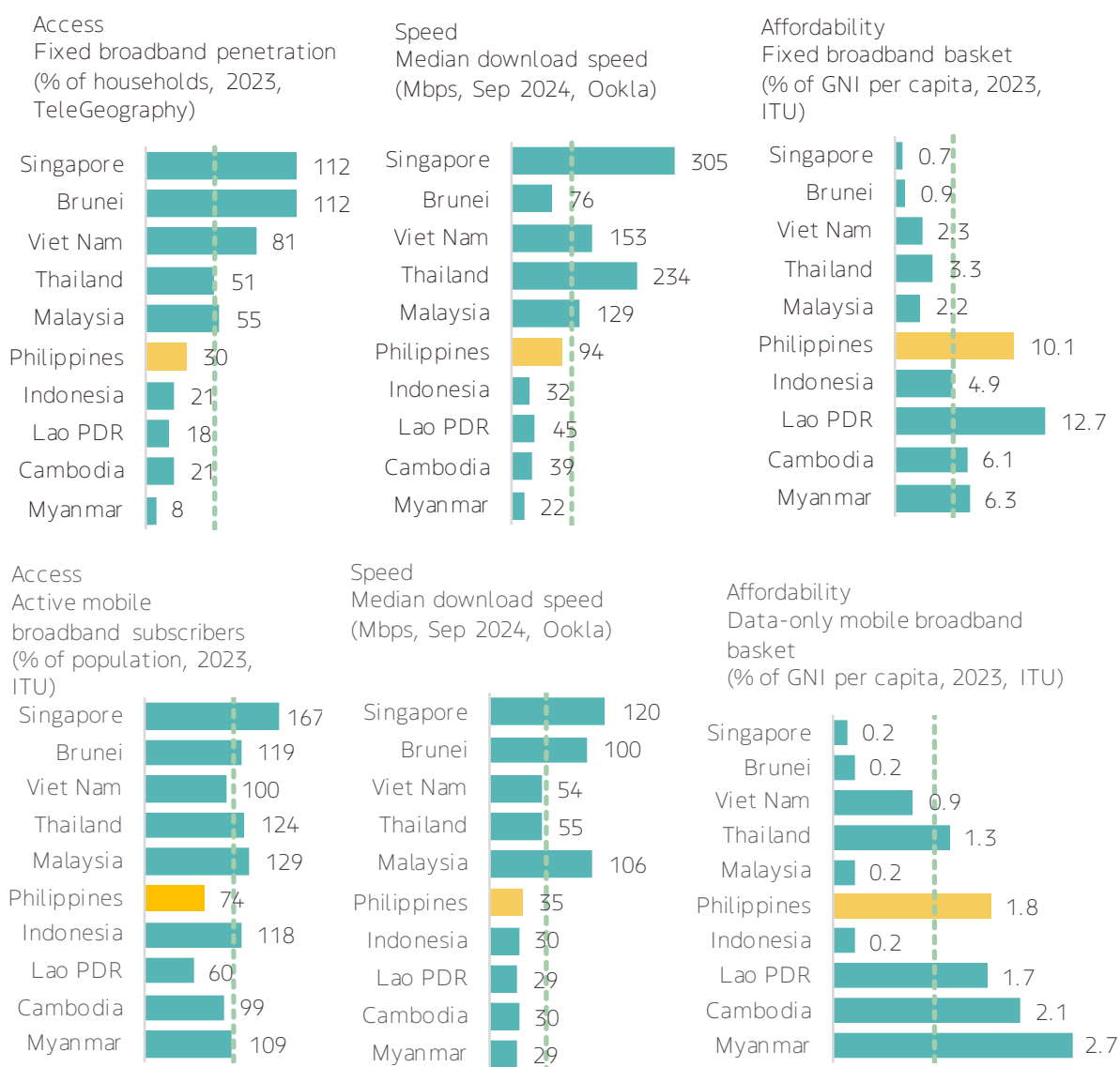
### The Philippines lacks a unified, whole-of-government approach to data governance, leading to inconsistent policy frameworks and practices

### for data collection, sharing, and utilization across key sectors and institutions.

While progress has been made in data privacy protection, national ID and digital payment—advancing people data systems for Government-to-Citizen (G2C) services—substantial gaps remain in prosperity data (firm, farm and asset registries; transactions and trade records) and planet data (geospatial data integration to broader data ecosystem), constraining inter-operable, efficient and transparent Government-to-Government (G2G) and Government-to-Business (G2B) services. These gaps limit the potential to improve economic and infrastructure policy planning and citizen experiences. Cybersecurity challenges persist, and inconsistent open data policies, along with a lack of interoperability standards, hamper the growth of public-private data ecosystems. The absence of a cohesive data-enabling framework and reliance on a complex web of bilateral data sharing agreements prevent the creation of a broad, secure data ecosystem that fosters collaboration, positive spillovers, and firms' adoption of data-driven, productivity-enhancing technology solutions.

<sup>24</sup> Measured by colocation floor space or connected energy for computing

<sup>25</sup> Learning Poverty, drawing on new data developed by the World Bank in coordination with the UNESCO Institute for Statistics, measures the ratio of children unable to read and understand a simple text by age 10.

**Figure 21. Fixed and mobile broadband access, speed, and cost, ASEAN countries**


Note: For Mobile Access data, the latest available data for Cambodia and Lao is for 2022.

### Policy Response – The Way Forward

**While progress may take time, immediate actions can help bridge existing gaps and accelerate improvements.** Key initiatives include i) enacting legislation to enhance connectivity, ii) promoting data utilization by businesses and government, and iii) building digital skills within the workforce.

**Foremost among these efforts is the prompt passage of the Konektadong Pinoy Bill, currently under Senate deliberation.** It introduces a regulatory framework to foster broadband infrastructure

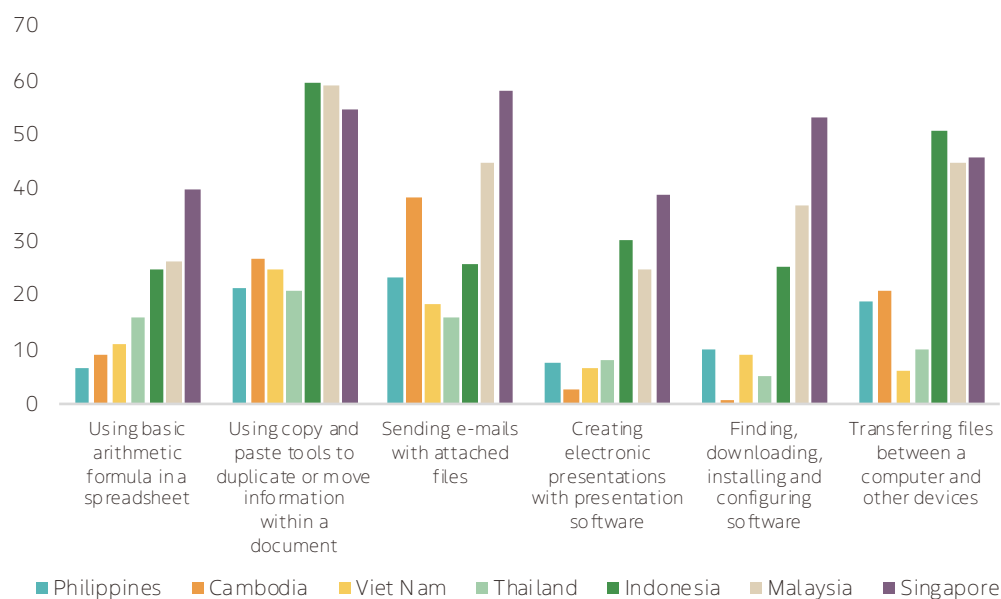
investment, especially in underserved rural areas, by streamlining entry processes for a wider range of Internet Service Providers (ISPs) to build and operate networks in communities that large telecommunications companies typically overlook. Additionally, the bill promotes cost-effective and efficient network expansion by facilitating infrastructure sharing, including for small providers and community networks. Evidence highlights the positive impact of improved connectivity on firm productivity and its broad contribution to inclusive growth. Access to the internet, especially fixed broadband, has a significant impact on business

outcomes, enhancing firms' sales, employment, and productivity growth (Figure 23). Moreover, a reduction in fixed broadband cost, is expected to increase the purchasing power of the lowest-income households by Php 307 per household at 2024 prices<sup>26</sup>.

**Complementary reforms to boost digital skills and ability to utilize data are essential.** Digital Workforce Competitiveness Act needs to be implemented

effectively, in line with the newly enacted Enterprise-Based Education and Training Framework Act and the Trabaho Para sa Bayan Master Plan. Key initiatives to utilize data include strengthening of trust environment such as through cybersecurity legislation and whole-of-government approach to data governance, frameworks and platforms for interoperability across government services and public-private data sharing and promoting investments in data infrastructure.

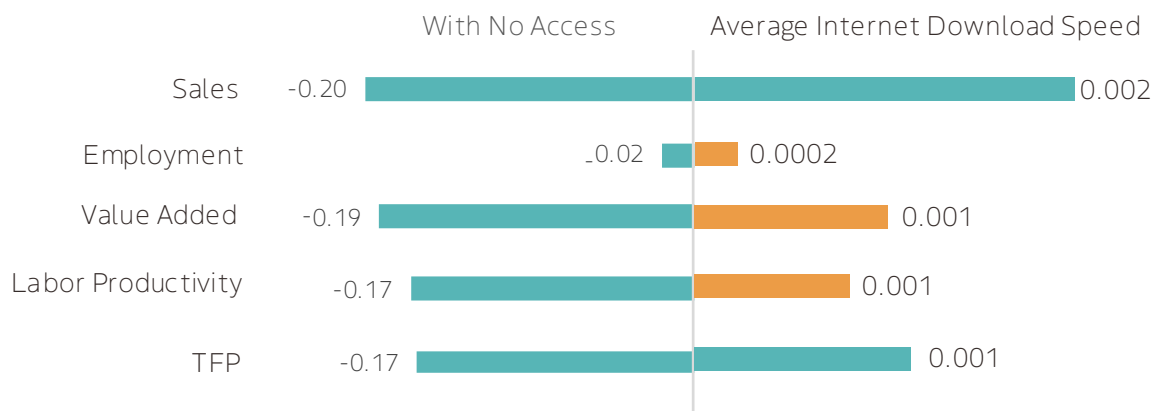
**Figure 22. Proportion of adults with ICT skills, ASEAN countries**



Source: UN SDG Indicators Database (accessed Nov 8, 2024).

Note: Data for all countries are 2019 values (the only data available for the Philippines), except for Cambodia and Indonesia, which are 2017 values.

**Figure 23. Correlation of Fixed Internet Access and Firm Outcomes in the Philippines**



Source: World Bank staff calculations based on PSA ASPBI and Ookla data.

Note: Results are from a pooled cross-section OLS with controls on firm characteristics, sectors, regions, and year dummies. Bars in blue/orange are significant at the 10% level or better.

<sup>26</sup> Simulation done with the 2021 Family Income and Expenditure Survey microdata, assuming reduction of fixed broadband price by 12.5% in levels, 25% as a share of GNI.





# 3

## FIRST STEPS MATTER: EMPOWERING EARLY YEAR WORKERS TO BUILD HUMAN CAPITAL

*This chapter underscores the urgency of early investments in human capital to unlock the Philippines' demographic dividend and sustain inclusive growth. It highlights the pivotal role played by early years workers in improving early years outcome — and how Local Government Units (LGUs) can help enhance their performance. The analysis explores barriers faced by LGUs, such as fiscal constraints, coordination failures, and weak public financial management, offering targeted recommendations to address these gaps. The chapter concludes with a call to empower LGUs, enabling them to support early years workers and accelerate human capital development*

## 3.1 BACKGROUND

**Human capital encompasses health, knowledge, skills, and experience acquired throughout one's life stages; it is one of the main drivers of broad-based economic growth that translates into improvements in living standards (Wantchekon, Klačnja, and Novta 2015).** Human capital represents the assets embedded within individuals. Beyond their intrinsic worth, these qualities significantly enhance people's productivity. Building human capital requires sustained and coordinated investments along multiple dimensions.

**A child born in the Philippines today, however, will achieve only about half of their productive potential by age 18, thereby depriving the Philippines of a significant amount of productivity.** The Philippines' Human Capital Index (HCI)<sup>27</sup> is estimated at 0.52, well below the HCI of neighboring upper-middle income countries, such as Malaysia (0.62), and Thailand (0.61). It is also lower than lower middle-income peers such as Vietnam (0.69).<sup>28</sup> The reasons for this are highlighted in detail in the Philippines Human Capital Review (HCR) and include limitations in the delivery of human capital services at the local level, where up to 26 percentage points in human capital potential could be lost due to governance or service delivery inefficiencies (Lebbos et al. 2024).

**Investing in human capital in the Philippines is crucial to sustain the economic growth achieved over the past decade, capitalize on the Philippines' demographic dividend and build a solid middle class.** This objective aligns with the vision of the AmBisyon Natin 2040, which seeks to ensure that by 2040, Filipinos enjoy a secure, comfortable, and well-rooted life.<sup>29</sup> Achieving this vision requires not only increasing income per capita but also significantly improving access to quality education, nutrition and affordable healthcare, quality jobs, and effective social protection—key drivers of productivity and human capital. These objectives are clearly articulated in the Philippines Development Plan, which emphasizes the need to enhance human capital as a critical foundation for sustained growth and development.

**The Philippines can unlock its demographic dividend—but only with urgent investments in human capital before this fleeting opportunity closes.** Investing in human capital is urgent as the country has about one generation (20–25 years) before the window of opportunity to reap a demographic dividend closes (Figure 24). Not only is it beneficial in the immediate term for the country to catch up with regional peers on key indicators, the long-term payoff for the Philippines is also immense. The Philippines is one of the few countries in East Asia that can potentially become rich before getting old depending on the quality of its human capital and the resulting economic growth. While China, Vietnam, Thailand and Malaysia are aging fast, the proportion of the working age population in the total population of the Philippines is projected to continue increasing for another generation, giving it a big advantage.

**The process of building human capital is sequential and cumulative, underscoring the need to start early (Heckman 2006).** Although human capital can be acquired over an entire lifetime, it is built most effectively when people are young. There are a variety of reasons for this, including greater brain plasticity at early ages and the fact that younger people are generally expected to engage in activities that deliberately build skills (such as formal schooling). Good nutrition in the early years as well as positive early experiences affect the quality of the brain's architecture, laying the foundation for future learning, health and development (Handryastuti et al. 2022). Investing in the first six years of a child's life — particularly the first 1,000 days between conception and a child's second birthday — have the highest return on investment (Heckman and LaFontaine 2006). Any disruption to the process of building human capital can have long-lasting effects. The Philippines HCR highlights the importance of human capital investments across the lifecycle and stresses an urgent need to focus on the early years.

**Effectively building human capital requires a combination of coordinated interventions.**

Investments in the early years, particularly ages 0 to

<sup>27</sup> The HCI, a key metric for the World Bank Group's analysis of human capital formation is the which measures, the constraints to productivity of the next generation of workers given the prevailing rates of mortality, schooling, and health in 174 countries.

<sup>28</sup> The World Bank. 2020. Human Capital Index.

<sup>29</sup> For details, see: <https://2040.neda.gov.ph/about-ambisyon-natin-2040/>

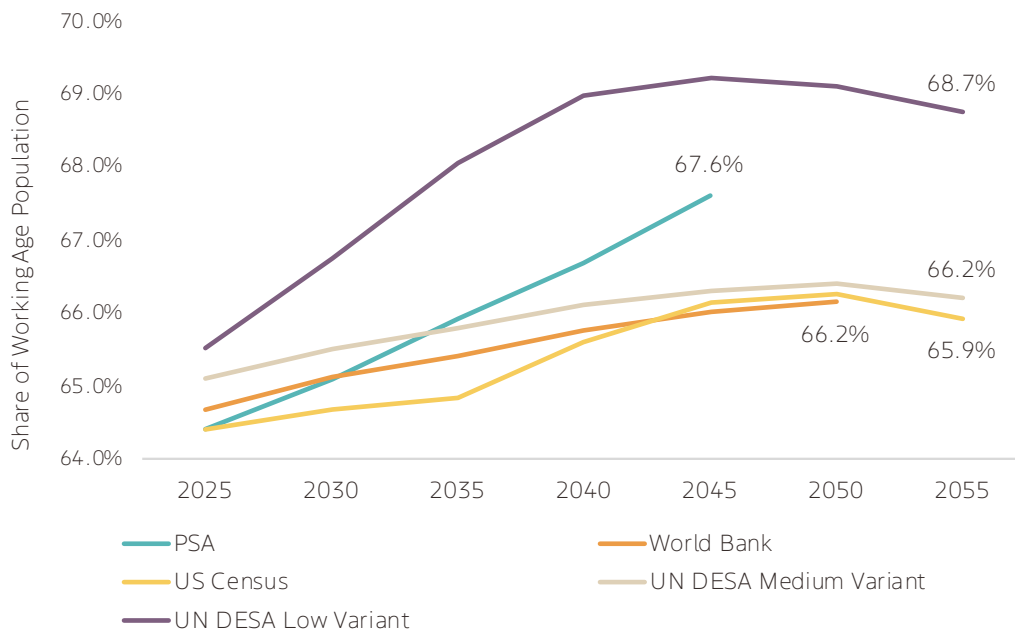
6, are required in nutrition, primary health care, early childhood education, and social protection. These are best implemented from a multisectoral perspective as they are complementary. For instance, if children are poorly nourished, they may not do well at school. Without social protection, poor families may pull children out of school when they face shocks. In the absence of adequate early childhood education, the future development of sophisticated cognitive and socioemotional skills will be challenging.

**LGUs have an essential role to play in boosting human capital in the Philippines, as service delivery is devolved to them.** They have mandates, defined under the 1991 Local Governance Code, to deliver health care and nutrition services<sup>30</sup> as well as to manage social welfare.<sup>31</sup> They are also entrusted with delivering early childhood education services for 3-4-year-old children, but not 5-year-olds, who are attended by the Department of Education. LGUs are where interventions and programs from various sectors ultimately come together and are implemented on the ground. Consequently, they are expected to play an

important coordination role in facilitating the implementation of national-level programs and regulations, including early education programs. Yet, many are unable to implement their mandate effectively.

**This special topic examines early years workers in LGUs—key actors who directly engage with families and children to deliver services, playing a crucial role in shaping early years outcomes.** It draws upon secondary data and key reports, including the World Bank’s HCR, The Second Congressional Commission on Education (EDCOM 2) ‘s Behind the Slow Start, and The United Nations Children’s Fund (UNICEF)’s *Delivering Essential Services through Community Action in the Philippines*. It examines the balance between national oversight and policies on the one hand, and local implementation and accountability on the other, with reference to how this impacts the availability, capacity and motivation of early years workers.<sup>32</sup> It concludes with recommendations on how to improve the performance of early years workers, leveraging the potential of LGUs.

**Figure 24: Predicted Share of Working Age Population, 2025–2055**



Sources: PSA, 2022b; World Bank Databank: Health, Nutrition and Population Statistics, Population Estimates and Projections; US Census Bureau International Database; UN DESA World Population Projections, medium and low fertility variants

<sup>30</sup> Mandates health services include for example extension of medical and health services through provincial health office and district, municipal, and Medicare community hospitals; purchase of drugs and medicines; implementation of primary health care programs; field health services; aid to puericulture; construction, repair, rehabilitation, and renovation of provincial, district, municipal, and Medicare hospitals; provision for the operation of five-bed health infirmaries.

<sup>31</sup> Mandates for social welfare includes for examples provisions for the operation of a day-care center in every barangay, provision for poverty alleviation in low-income municipalities and depressed urban barangays. Municipalities are mandated services that include programs and projects on child and youth welfare, family and community welfare, women’s welfare

<sup>32</sup> The term early years workers in this report is used to refer to community-based professionals and volunteers who deliver critical health, nutrition, and early childhood development services in the Philippines. Early years workers in the Philippines include barangay health workers, barangay nutrition scholars, child development workers, and family development session workers. re, welfare of the elderly and disabled persons.

## 3.2 EARLY YEARS INVESTMENTS ARE CRUCIAL FOR BUILDING HUMAN CAPITAL AND DRIVING ECONOMIC GROWTH

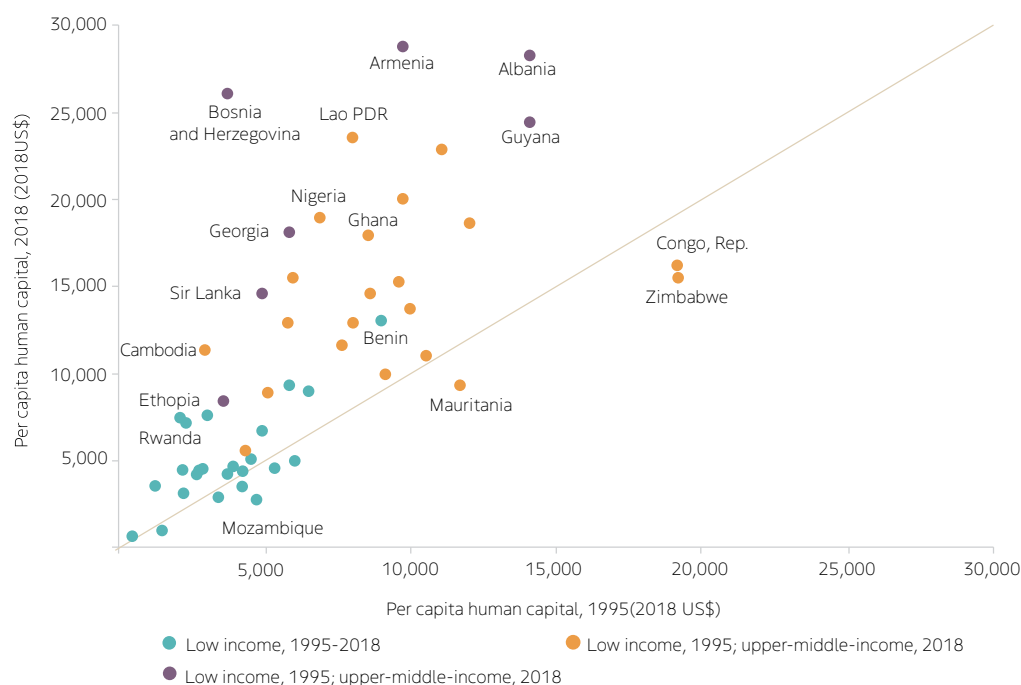
*The economic future of the Philippines hinges on its people.*

**Between 1995 and 2018, countries that moved from low- to middle-income status saw their human capital per capita double (World Bank, 2021).** Human capital is a key driver of sustainable economic progress (Wantchekon, Klačnjka, and Novta 2015). Investments in human capital lead to higher productivity, incomes, and living standards (Flabbi and Gatti 2018). Worldwide, the share of human capital in total wealth increases steadily with the level of development; high-income countries have more human capital than their lower-income counterparts. Development, then, is intimately linked to building human capital (Figure 25).

**The Philippines is not fully harnessing its human capital potential – its HCI of 0.52 remains lower than peers with similar economic status.** The nation’s human capital indicators that gauge sustainable development and people’s wellbeing

remain lackluster compared to its peers. In contrast to its 0.52, Vietnam is at 0.69, followed by Malaysia and Thailand at 0.61. In general, the Philippines performs lower than all its peers on the subcomponents of the HCI. For instance, while approximately 27 percent of 5-year olds are stunted in the Philippines, only 18 percent in Indonesia and 11 percent in Thailand are stunted. Learning outcomes also lag other countries. For example, while the average student in the Philippines and Vietnam spent roughly the same time in school (12.95 and 12.86 years respectively), students in Vietnam learn much more (about 10.68 years of learning) than the average student in the Philippines (about 7.49 years) as indicated by test scores. The Philippines’ low HCI warns of the constraints to productivity of the next generation of workers given the prevailing rates of mortality, schooling achievements, and health outcomes.

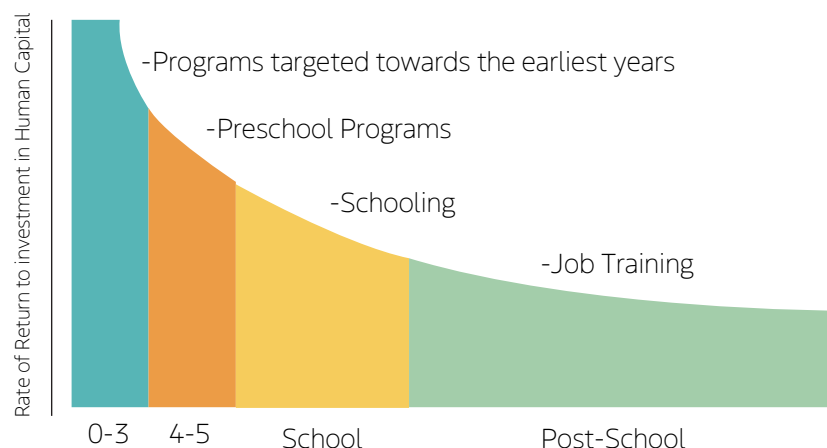
**Figure 25: Change in Per Capita Human Capital in Low-Income Countries, 1995–2018**



Source: World Bank. 2021. The Changing Wealth of Nations 2021: Managing Assets for the Future.



**Figure 26: Rate of Return to Investments in Human Capital**



Source: Heckmen and Lafontaine (2007)

*Early year investments are the most impactful for building human capital.*

**To be more effective, human capital investments must start early, even before a child is born.** Early year interventions affect the quality of the brain’s architecture, laying the foundation for future learning, health and development (Handryastuti, et al. 2022). These investments also yield the highest return on investment (Figure 26). Investments begin with mothers, given the crucial role of maternal health in ensuring the well-being of both the mother and the child. For example, adequate nutrition during pregnancy is essential to prevent complications such as anemia, which affects 26 percent of pregnant women in the Philippines.<sup>33</sup> Furthermore, adequate nutrition and cognitive stimulation for children are foundational for physical growth, brain development and future learning potential. Programs that integrate nutrition, health, and education contribute to the formation of neural connections that enhance cognitive and emotional growth, which in turn reduces stunting and improves future learning potential (Black et al. 2016).

*Weak early years outcomes are jeopardizing the development of human capital in the Philippines*

**The Philippines underperforms significantly in**

**early years outcomes.** Undernutrition among Filipino children is alarmingly high. In 2021, about one in four children under the age of five was considered stunted, or small in size for their age (Figure 27).<sup>34</sup> That same year, nearly one in five children was classified as underweight and six percent were classified as “wasted,” or underweight for their height.<sup>35</sup> These rates have not markedly changed in the past 30 years, and they place the Philippines among the ten countries globally with the highest number of stunted children. In contrast, Indonesia has been able to reduce stunting rates from approximately 31 percent to 21 percent between 2018 and 2022. The impact of undernutrition on the development of the young brain and body is profound. Additionally, while the under-five child mortality rate has significantly fallen over the last three decades, neonatal mortality rate has minimally changed with 60 percent of deaths below five years of age occurring among newborns (UNICEF 2023). This points to the need to focus the delivery of high-quality health and nutrition services during the first 1,000 days of life for both the mother and child.

**Enrollment in early childhood education remains low and stagnant, hindering the accumulation of foundational skills, despite most barangays having day care centers.** In 2020-21, only 47 percent of three- and four-year-olds in the Philippines were enrolled in preschools and 66 percent of 5-year-olds were in kindergarten (UNICEF 2021). In contrast, in Vietnam, early childhood education is near universal,

<sup>33</sup> World Development Indicators. 2019. Prevalence of anemia among pregnant women (%) - Philippines

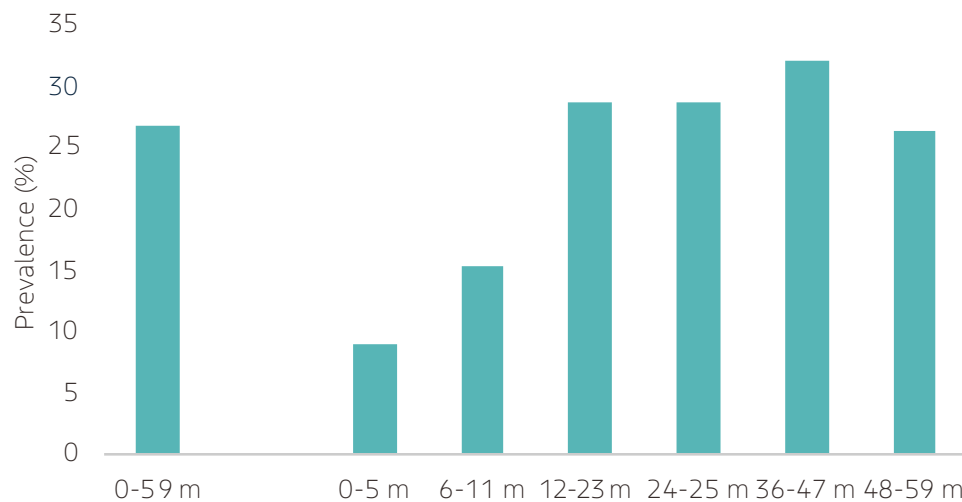
<sup>34</sup> Food and Nutrition Research Institute. 2022. Expanded National Nutrition Survey 2021 Survey. Food and Nutrition Agenda: Let’s Talk.

<sup>35</sup> World Development Indicators. 2021. Prevalence of stunting, height for age; Prevalence of underweight, weight for age; Prevalence of wasting, weight for height. Philippines.

and in Malaysia, nearly 90 percent of children attend some form of early childhood education. Participation rates in the Philippines dipped during the COVID-19 pandemic, with only 20 percent of Filipino children aged 3-4 years participating in pre-kindergarten programs (Figure 28). A recent study found that access is not the most critical problem in the system — almost all barangays in the Philippines have at least one public daycare/child development center

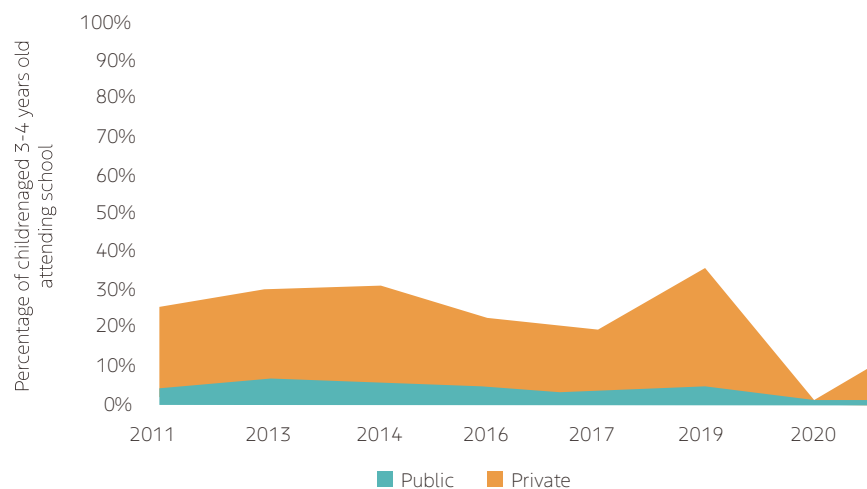
and about 89% of municipalities and cities meet the DCC/CDC to barangay ratio requirement per Republic Act No. 6972 (EDCOM2 2024).<sup>36</sup> However, access to quality early childhood education is a big concern among parents, discouraging greater enrolment of children. Additionally, many parents hesitate to enroll 3- to 4-year-olds, believing they are too young for such programs, leading to low demand (World Bank 2023).

**Figure 27: Prevalence of stunting in the Philippines, 2021**



Source: Expanded National Nutrition Survey. 2021.

**Figure 28: Percentage of children aged 3-4 attending school (public and private), 2011-2022**



Source: Author's analysis and visualization of 2012-2022 Annual Poverty Indicators Survey rounds (PSA 2022a)

<sup>36</sup> Republic Act No. 6972. (1990). An Act Establishing a Day Care Center in Every Barangay, Instituting Therein a Total Development and Protection of Children Program, Appropriating Funds Therefor, and for Other Purposes. Official Gazette of the Republic of the Philippines.

**Low enrolment in early childhood education programs impacts future learning outcomes in the Philippines, but quality is critical.**

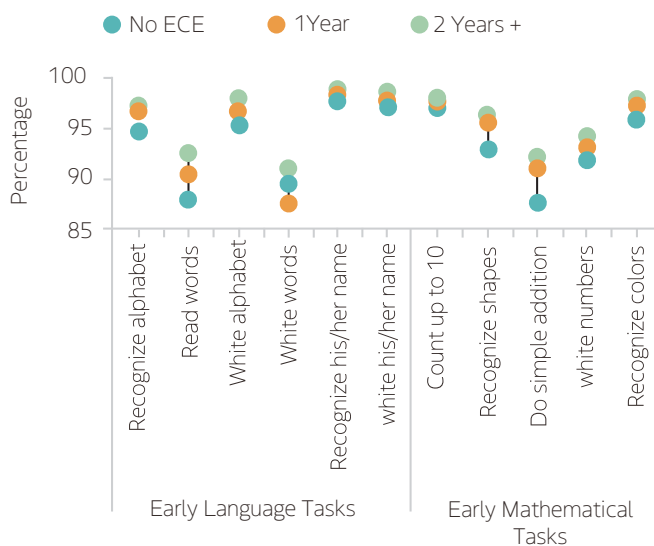
Grade 5 students in the Philippines who attended an early childhood education (ECE) program performed better in reading, writing, and math (UNICEF 2021). The Philippine Early Childhood Longitudinal Study, which tracked a cohort of students from kindergarten through Grade 4 found that students with kindergarten performed better on a range of skills, beginning with preparedness for school. These skills held students in good stead as they progressed through school (Cheng et al 2020). Indeed, starting education at the right age gives a head start in learning and predicts greater success in schools. In the Philippines, 46 percent of children who attended a 2-year ECE program and 40 percent with one year joined school at age 6 compared with 14 percent of their peers with no ECE (Figure 29). Students who started at the right age performed significantly better in reading, writing and math relative to those who started later. Grade repetition is also higher among students without ECE (Figure 30). Given that only 9 percent of Grade 5 students are proficient in reading an age-appropriate text, greater attention to ECE is essential. The longitudinal study cited above,

however, notes that even the best performing students with kindergarten had large gaps in conceptual skills, underscoring the importance of the quality of preschool and kindergarten education (Cheng et al 2020).

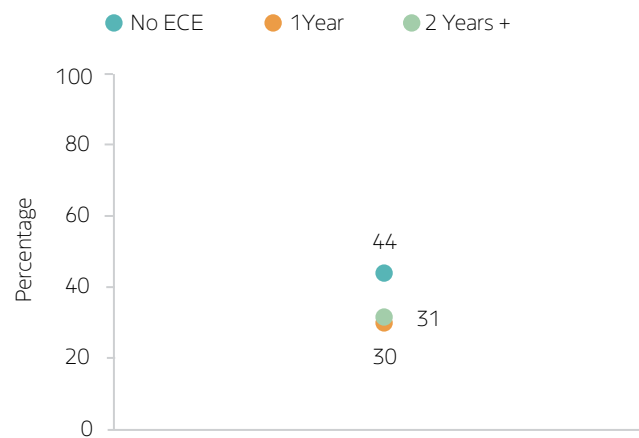
*Significant disparities in outcomes at the local level make the early years challenge worse*

**At the local level, spatial disparities in early childhood education are significant.** For example, enrollment rates in pre-kindergarten in the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) are eight times lower than in the Ilocos Region. Specifically, less than 5% of children in BARMM are enrolled in pre-kindergarten, compared to nearly 40% in Ilocos. Even in affluent areas like Region IV-A (CALABARZON) and the National Capital Region (NCR), participation remains low (Figure 31). These disparities challenge the assumption that higher regional income ensures better access to early education, pointing to other barriers influencing enrollment.

**Figure 29: Percentage of Grade 5 students by ability to perform early learning tasks prior to primary education by ECE attendance**

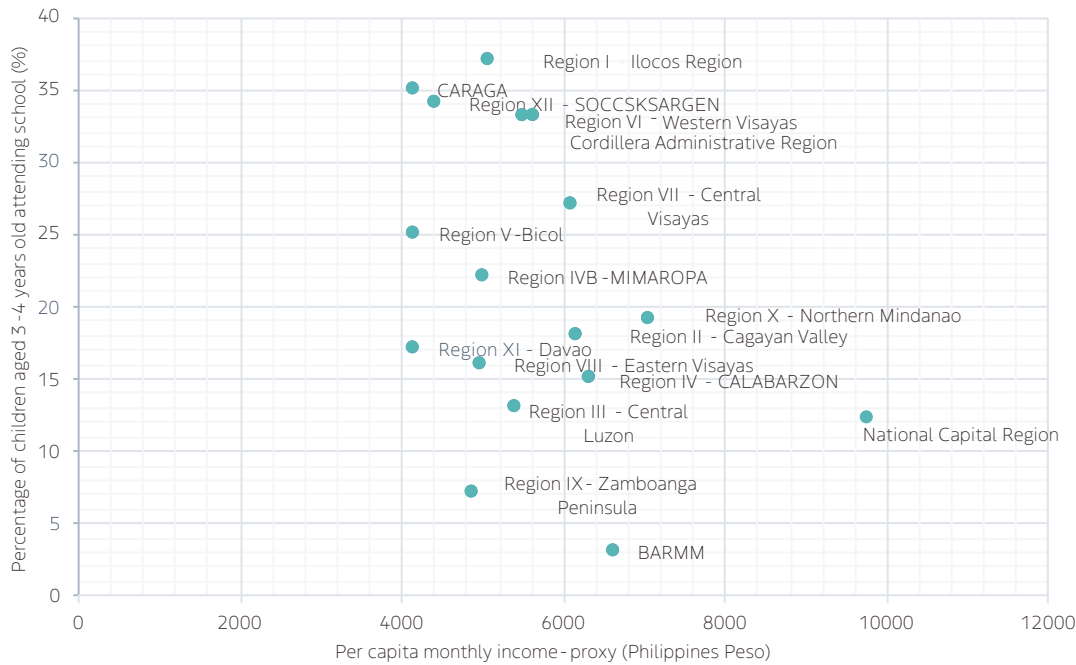


**Figure 30: Percentage of Grade 5 students who repeated grades by ECE attendance**



Source: UNICEF. 2021. Harness the potential of early childhood education for long-term benefits on children's learning Philippines SEA-PLM 2019

**Figure 31: Percentage of children aged 3-4 years old attending school vs. per capita monthly income, by region.**



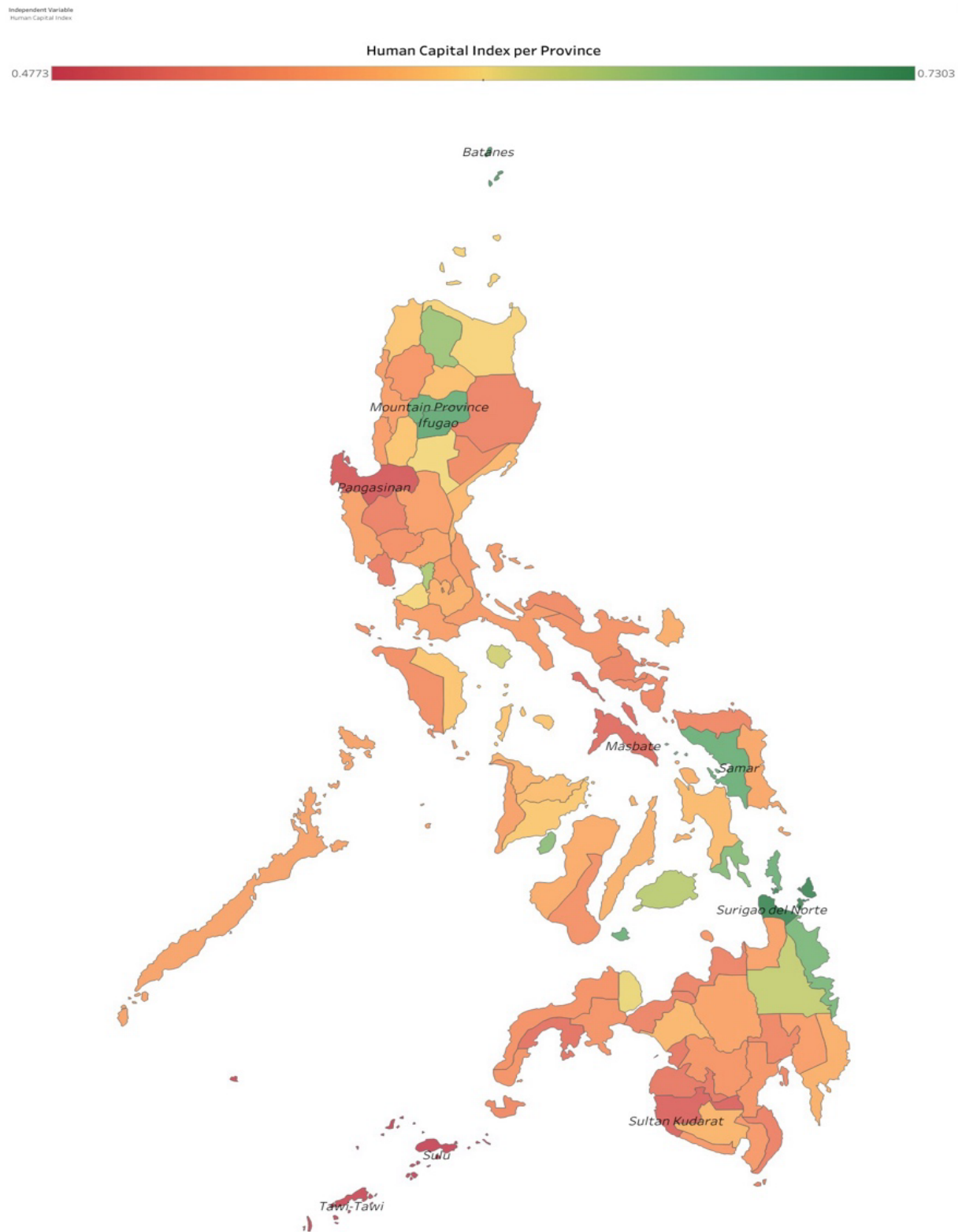
Source: APIS 2022

**Up to 26 percentage points in human capital potential could be lost due to LGU-specific factors, including governance and service delivery inefficiencies.** Sub-national HCI calculations reveal significant disparities among provinces and Highly Urbanized Cities (HUCs), with HCI estimates ranging from 0.48 to 0.74 (Figure 32). Provinces with below-median HCIs are scattered across the regions, but the largest number of the lowest performing provinces are in the regions of Bicol, Central Luzon, Davao, Soccsksargen, and Zamboanga Peninsula. HUCs show relatively higher HCIs but these vary by city. The HUCs with the lowest HCI are in the regions of Zamboanga Peninsula and Soccsksargen in Mindanao while the city with the highest HCI is in the National Capital Region. Overall, 16 HUCs (out of 33 in total)

in 11 regions have HCIs lower than the median of 60 percent for all HUCs. Early year outcomes are driving these disparities; for instance, stunting rates vary widely from 43.7 percent to 8.4 percent. Education outcomes also show large disparities, with enrollment rates differing significantly across regions and socioeconomic groups. Looking at the subcomponents of the HCI, the disparities are starker among provinces and HUCs in terms of health, especially for stunting and under-five mortality rates than for education outcomes. Based on analysis of budget data and qualitative case studies, governance and service delivery inefficiencies stood out as key drivers of the discrepancy. The chapter dives into these in the coming sections.



### Figure 32: Human Capital Index Computed at the Subnational Provincial Level





Independent Variable  
Human Capital Index

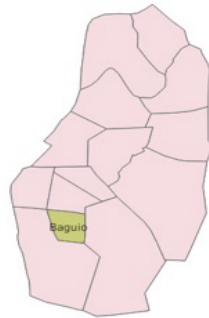
### Human Capital Index in Highly Urbanized Cities



National Capital Region (NCR)



Cordillera Administrative Region (CAR)



Ilocos Region (Region I)



Cagayan Valley (Region II)



Central Luzon (Region III)



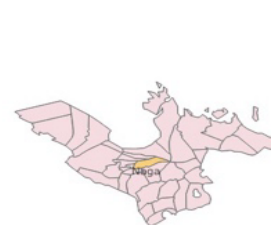
CALABARZON (Region IV-A)



MIMAROPA (Region IV-B)



Bicol Region (Region V)



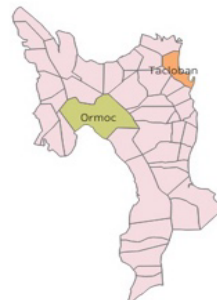
Western Visayas (Region VI)



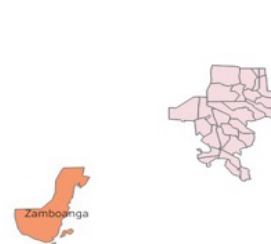
Central Visayas (Region VII)



Eastern Visayas (Region VIII)



Zamboanga Peninsula (Region IX)



Caraga (Region XIII)



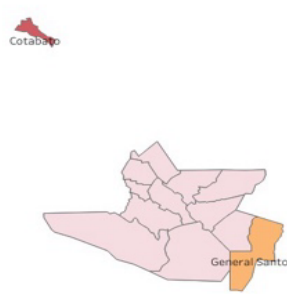
Northern Mindanao (Region X)



Davao Region (Region XI)



SOCCKSARGEN (Region XII)



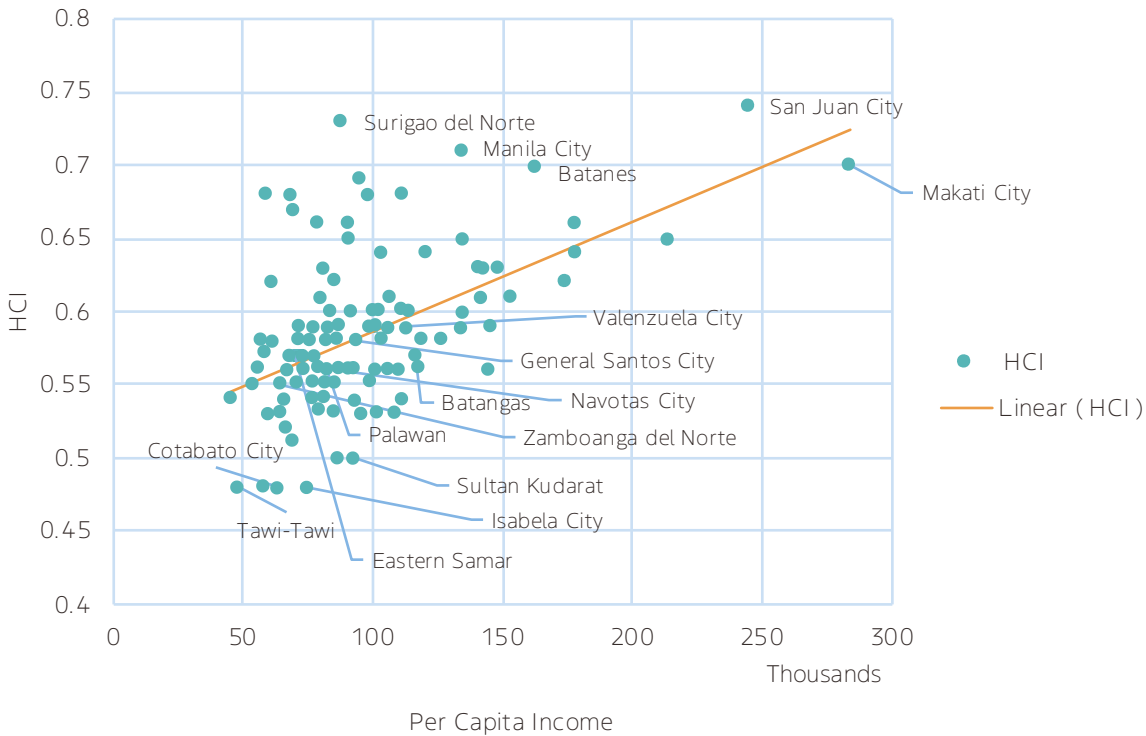
Source: Philippines HCR, 2024

**Differences in Gross National Income (GNI) per capita only partially explain the variation in HCI outcomes (Figure 33), with a significant portion of disparities likely attributable to the capacity of early years workers to deliver essential services.**

While there is a correlation between GNI per capita and sub-national HCI of 0.53, indicating that higher income levels are generally associated with better

human capital outcomes, this relationship does not fully account for the observed disparities. Findings from qualitative studies conducted with select LGUs provide nuance to challenges faced at the LGU level and point to a significant portion of these differences being likely attributable to the capacity of early years workers to deliver essential services (discussed subsequently).

**Figure 33: Province level sub-national HCI and Income per capita**



Source: Author's computation of sub-national HCI and Philippines, Family Income and Expenditure data 2023

# 3.3 HIGH-QUALITY COMMUNITY-LEVEL EARLY YEAR WORKERS ARE VITAL FOR IMPROVING EARLY YEARS OUTCOMES

**Community-based workers are crucial for early years interventions.** Globally, successful early years interventions depend on high-quality early years workers (see Box 3). Their importance is difficult to match because they interface with families and children on a regular basis. In the Philippines there are four types of community-based early years workers in the Philippines (see Box 4 for legislation, Table 3 for contractual details and Table 4 for roles and intervention details). Barangay health workers (BHW) and barangay nutrition scholars (BNS) provide a broad range of critical health and nutrition services for pregnant and lactating mothers as well as young children, especially during the critical first 1000 days of life. Together, they also form community health teams which provide outreach preventive health and nutrition services to household unable to regularly visit health facilities to avail of basic health services. They help mothers and children navigate the health system and encourage them to go to primary health care facilities where they could receive facility-based critical interventions from formal health workers (i.e.

doctors, midwives, nurses.). The shortage of medical personnel discussed below puts serious blocks on their ability to direct families appropriately.

**Child development workers (CDWs) focus on early childhood development by helping parents strengthen their nurturing skills and providing children opportunities for early learning, socialization and supplemental feeding in daycare centers.** Family development session workers (FDSWs) target poor and vulnerable households in promoting positive mother and child health, nutrition and education behaviors through the Pantawid Pamilyang Pilipino Program (4Ps) of the national government. They help promote positive health-seeking behavior prompting First 1000 Days households to avail services such as prenatal/postnatal visits, immunization, growth monitoring and nutrient supplementation delivered in primary care facilities (UNICEF 2024). Again, their effectiveness depends on the availability of facilities and personnel at these facilities.

**Table 3: Contractual arrangements and compensation of early years workers**

	BARANGAY HEALTH WORKERS	BARANGAY NUTRITION SCHOLARS	CHILD DEVELOPMENT WORKERS	FAMILY DEVELOPMENT SESSION WORKERS
<b>TYPE OF CONTRACT</b>	Voluntary worker with a contract of service signed with the LGU  *May qualify for first level civil service eligibility after two years of college education and five years of continuous satisfactory service as an accredited BHW to the community	Voluntary worker with a contract of service signed with the LGU  *May qualify for first level civil service eligibility after two years of rendering satisfactory nutrition services in the community	Majority are hired under contract of service by LGUs (30%); 22% hired as casual (seasonal) workers; few have permanent positions (11%)  *Day care worker I and Day care worker II are eligible for career service (Subprofessional) and have first level civil service eligibility under existing law	Hired under contract of service by the DSWD as city/municipal links
<b>COMPENSATION</b>	Monthly honorarium or stipend varies across LGUs but averages between Php 800- 1000 per month	Receives monthly honorarium or stipend of at least Php 2500	Monthly salary varies across LGUs with average of Php 5000; in remote areas, CDWs receive monthly honorarium of Php 1,000	Receives monthly salary of Php 36,619
<b>BENEFITS</b>	No standard salary, tenure and benefits	No standard salary, tenure and benefits	No tenure and benefits if under contract of service  Permanently employed CDWs receive benefits such as service insurance, health insurance, paid leaves, free legal assistance and overtime pay	No tenure but with benefits such as health insurance, social security and affordable housing loan benefits

Source: Author's compilation.



**Table 4: Coordination of Community-Based early years workers in the Philippines: Roles and Interventions**

AGE RANGE	BARANGAY HEALTH WORKERS (1:20 HOUSEHOLDS)	BARANGAY NUTRITION SCHOLARS (1:20 HOUSEHOLDS)	CHILD DEVELOPMENT WORKERS (1:10 CHILDREN)	FAMILY DEVELOPMENT SESSION WORKERS (1:500 HOUSEHOLDS)
<b>0-1 YEAR</b>	<ul style="list-style-type: none"> <li>- Primary care services</li> <li>- Maternal and child care (First 1000 days)</li> <li>- Family planning</li> <li>- Immunizations</li> <li>- Vitamin supplementation</li> <li>- SBC activities on IYCF</li> </ul>	<ul style="list-style-type: none"> <li>- OPT Plus Growth monitoring</li> <li>- Feeding programs</li> <li>- Counseling on nutrition and IYCF</li> <li>-Preparation of BNAPS</li> </ul>	<ul style="list-style-type: none"> <li>- Oversee child development centers in barangays</li> <li>- Run infant and toddler early education (ITED) program</li> </ul>	<ul style="list-style-type: none"> <li>- Conduct monthly sessions on maternal and childcare, parenting skills, financial and digital literacy, accessing health and social services, livelihood</li> <li>- conducts annual SWDI assessment of households</li> <li>- case management of 4Ps beneficiaries</li> </ul>
<b>1-2 YEARS</b>	<ul style="list-style-type: none"> <li>- Primary care services</li> <li>- Maternal and child care (First 1000 days)</li> <li>- Immunizations</li> <li>-- Vitamin supplementation</li> <li>- SBC activities on IYCF</li> </ul>	<ul style="list-style-type: none"> <li>OPT Plus growth Monitoring</li> <li>- Feeding programs</li> <li>- Counseling on nutrition and IYCF</li> <li>- Preparation of BNAPS</li> </ul>	<ul style="list-style-type: none"> <li>- Run infant and toddler early education (ITED) program</li> <li>- Supplemental feeding</li> </ul>	<ul style="list-style-type: none"> <li>Conduct monthly sessions on maternal and childcare, parenting skills, financial and digital literacy, accessing health and social services, livelihood</li> <li>- Conduct annual SWDI assessment of households</li> <li>- case management of 4Ps beneficiaries</li> </ul>
<b>2-3 YEARS</b>	<ul style="list-style-type: none"> <li>- Primary care services</li> <li>- Health monitoring</li> <li>- Health education on nutrition and hygiene</li> <li>- Family planning</li> <li>- Mobilize mother support groups</li> </ul>	<ul style="list-style-type: none"> <li>- OPT Plus growth Monitoring</li> <li>- Feeding programs</li> <li>- Counseling on family</li> <li>- Preparation of BNAPS</li> </ul>	<ul style="list-style-type: none"> <li>- Oversee child development centers in barangays</li> <li>- Supplemental feeding</li> <li>- Run facility-based sessions on ECD and enhancing parenting skills</li> <li>- Some regions also implement home-based early childhood care and development (ECCD) for children unable to visit daycare centers</li> </ul>	<ul style="list-style-type: none"> <li>Conduct monthly sessions on maternal and childcare, parenting skills, financial and digital literacy, accessing health and social services, livelihood</li> <li>- Conduct annual SWDI assessment of households</li> <li>- case management of 4Ps beneficiaries</li> </ul>
<b>3-6 YEARS</b>	<ul style="list-style-type: none"> <li>- Health monitoring</li> <li>- Health education on nutrition and hygiene</li> <li>- Family planning</li> <li>- Mobilize mother support groups</li> </ul>	<ul style="list-style-type: none"> <li>- OPT Plus growth Monitoring</li> <li>- Feeding programs</li> <li>- Counseling on family nutrition</li> <li>- Preparation of BNAPS</li> </ul>	<ul style="list-style-type: none"> <li>- Oversee child development centers in barangays</li> <li>- Supplemental feeding</li> <li>- Run facility-based sessions on ECD and enhancing parenting skills</li> <li>- Some regions also implement home-based ECCD for children unable to visit daycare centers</li> </ul>	<ul style="list-style-type: none"> <li>Conduct monthly sessions on maternal and childcare, parenting skills, financial and digital literacy, accessing health and social services, livelihood</li> <li>- Conduct annual SWDI assessment of households</li> <li>- case management of 4Ps beneficiaries</li> </ul>

Summary of acronyms in the table: 4Ps – Pantawid Pamilyang Pilipino Program; BNAPS – Barangay nutrition action plans; IYCF – infant and young child feeding; OPT – Operation Timbang; SBC – social behavioral change; SWDI – Social Welfare and Development Indicator

Source: Author’s compilation based on existing regulations.

**The effectiveness of early years workers is compromised by three types of interrelated challenges: shortages; quality-related concerns; and motivation.** Together, these impact how effectively LGUs can use early year workers.

## BOX 3: INTERNATIONAL EVIDENCE ON THE IMPACT OF EARLY YEARS WORKERS

The role of early years workers—such as community health workers (CHWs), preschool teachers, and other local community-based professionals—is crucial in driving better outcomes in health, nutrition, and education. Research highlights that the quality and availability of these workers significantly influence human capital development.

For example, CHWs are essential in delivering high-impact interventions, with a return on investment of 10:1. These workers, often based in the communities they serve, provide medical care, information, counseling, and referrals, connecting individuals with broader community services. In Rwanda, CHWs have

played a key role in reducing stunting by improving child nutrition through community-based programs and behavior change communication.

As with health, a well-prepared ECED workforce is a pre-requisite for the provision of quality services, as proved by a growing body of evidence. Teacher professional development has a significant impact on preschool attendance and early language and literacy practices, which are foundational for later academic success (Hanno and Gonzales 2022; Neuman and Cunningham 2009; Manning, Garvis, Fleming, and Wong 2017).

### Shortages

**The shortage of early years workers in the Philippines significantly hinders the delivery of essential services crucial for building human capital in the early years.** In many regions of the country, the limited availability of early years workers means that children and families do not receive the consistent, high-quality support needed for optimal development. These gaps in service delivery hinder the nation's ability to build human capital. The provision of health services provides a striking example of these challenges. A strong primary health care (PHC) approach reliant on multidisciplinary teams of health workers at the community level remains the foundation of effective service delivery for the first 1000-day households (UNICEF, 2024). However, there are severe challenges with shortages of health workers, uneven allocation, and inadequate capacity and skills-mix necessary to deliver high-impact health and nutrition interventions. The country has considerable gaps in terms of meeting the WHO recommended Human Resources for Health (HRH) density ratio of 44.5 HRH per 10,000 population with the current density ratio only at 19.7. Inadequate HRH given a growing population adversely affects the delivery of primary MCH services (Figure 34). For instance, in 2023, the national coverage of complete antenatal

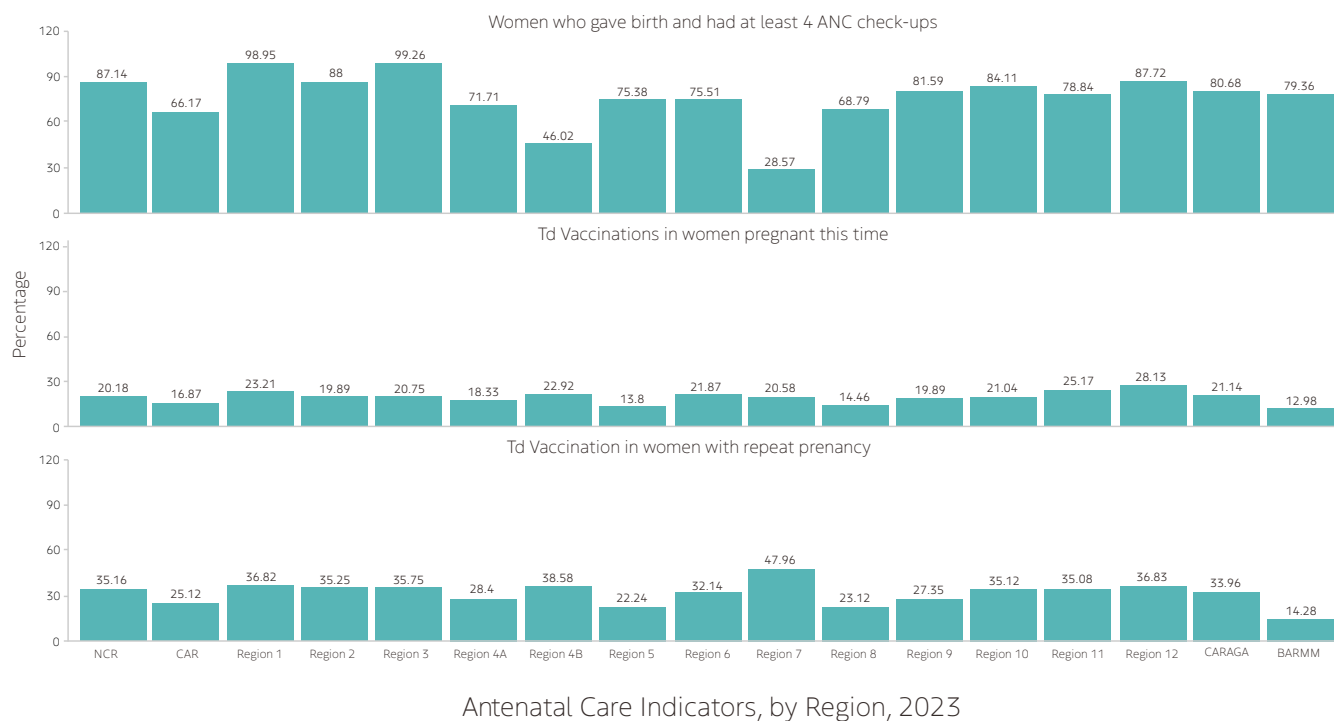
care fell below 80% for the first time in a decade with tetanus toxoid vaccinations not even reaching 50% (Department of Health 2024).

**In addition to overall shortages in HRH availability, there are considerable disparities.** Less than 25% of LGUs reach the recommended HRH density ratio (Abrigo and Ortiz 2019). The HRH shortage is more severe in rural areas because of the low capacity of LGUs to hire, manage and retain staff as well as the relatively lower pay and incentives and the lack of opportunities for professional development when compared with health workers in cities and urban areas. At the municipality level where health and nutrition services are delivered through rural health units, the low ratio also translates to a gap of 2,031 physicians, 4,467 nurses and 3,966 midwives. These disparities on HRH distribution are caused by several factors such as the varying income generation capacities of provinces and municipalities and the current limits on the proportion of local budgets that could be allocated for personnel services which disadvantage the poorest LGUs in terms of their ability to hire, retain and compensate staff. Hence, many LGUs rely often on community health volunteers to deliver basic and essential health and nutrition interventions.

**There is a similar shortage of Day Care Workers (DCWs) and CDWs, with the ratio of enrolled children to workers exceeding the standard set by the ECCD Council.** The ECCD Council has established a ratio of 1 CDW per 10 children, a standard also observed in countries with well-established early childcare systems. However, in the Philippines, the average ratio stands at 19 enrolled children per CDW, with variations depending on the location. For

instance, in urban areas, this ratio can escalate to 30, exceeding the standard by threefold (see Table 5). Given the low enrollment rate in early childhood education, there is a need for strategies to boost the supply of CDW in conjunction with efforts to enhance demand through universal access to early childhood education. The country's current workers are short of around 90,000 to meet the 240,000 DCW/CDW required to meet 100% of the demand.

**Figure 34: Coverage of Complete Prenatal Care and Tetanus Toxoid Vaccination for Mothers**



Source: DOH Field Health Services Information System (2023)

**Table 5: Ratio of mean Daycare/Child Development Workers to enrolled children by LGU income class, 2023**

Income Class	DCW / CDW to enrolled children ratio (%)
Philippines	18
1st-2nd Class	16
3rd-6th Class	17
Component City, Highly Urbanized City and Indigenous Cultural Communities	30

Source: Authors' compilation and calculation of 2023 ECCD-IS data (DSWD 2023a) and World Population Prospects data (UN 2022). Note: The completeness and veracity of data depend on the encoding capacity of each LGU



## Quality

### **In addition to shortages, many early years workers lack mandated qualifications.**

In 2015, the ECCD Council updated standards for center-based ECE programs for children aged 0-4, with guidelines requiring CDWs to hold bachelor's degrees, and teacher aides needing at least complete secondary education. Ideally, each CDC should have one CDT or CDW and a teacher aide (World Bank 2023). However, due to limited resources, many CDCs rely on underqualified staff or unpaid parent volunteers. A report by the Philippine Institute for Development Studies (PIDS) found that about half of the CDWs in the Philippines have only completed high school, while the other half are college graduates (PIDS 2024). The proportion of college-educated CDWs varies across local governments and is influenced by income levels, with cities having a higher percentage of college-educated daycare workers (Figure 35). Another study found that the number of accredited CDWs dropped from 72 percent in 2018 to 11 percent in 2022, suggesting that many programs are handled by unqualified CDWs even in centers with valid accreditation status (World Bank 2023).

### **Early years workers are also not adequately trained.**

A UNICEF (2024) assessment highlighted significant deficiencies in training programs. For example, BNSs are expected to undergo 10 days of classroom training followed by a 20-day practicum. However, due to limited funding and resources, this is often reduced to just a 5-day course or an orientation with on-the-job training. The basic training provides minimal guidance on delivering nutrition services focused on behavior change and excludes topics like early childhood development (ECD) and nurturing care. These gaps call for updates in line with the Department of Health's expanded scope of work introduced in 2021. BHWs have a vast scope of work but receive only three days of basic training delivered once, and a national curriculum is yet to be developed. There is little information on the training received by FDSWs. There is also a lack of regular supervision, monitoring and mentoring programmes as part of a holistic human resource development strategy to improve their performance.

## Motivation

### **Early years workers, despite their roles being defined in national policies, face challenges**

### **that undermine their professional status and effectiveness.**

Despite having their roles defined in national policies, early years workers are yet to be fully professionalized. They struggle with unstable compensation, expectations of voluntarism, resource-constrained environments, limited tools and high turnover rates linked to political cycles. For instance, BHWs and BNSs face increasing workload often overseeing as many as 150 households instead of the Department of Health (DOH) standard of one BHW/ BNS per 20 households. This compromises their ability to deliver consistent early childhood development services across regions. Pay remains a challenge with reports of early years workers often missing salaries. The unregulated employment status of CDWs only allows for a small amount of compensation relative to their workload. Career progression opportunities are weak. For instance, although BNSs enjoy the same eligibility for civil service access, training opportunities are awarded to high performers but not necessarily tracked and there is no formal career ladder. A review of practices pertaining to early years workers found little structured, supportive supervision for these cadres (BHW and BNS are part of a CHT and have an allocated supervisor, as do CDWs). Quality assurance was generally lacking across all programs.

### **Political interference impacts motivation as early years workers are often replaced.**

Multiple studies point to the uncertainty associated with these appointments, with reports of these being politically determined (PIDS, 2024). Moreover, newly elected local chief executives (can be Barangay Captains or even city/municipal mayors) sometimes allegedly remove previously trained BHW/BNS (who may have been hired by the previous local chief executive) and recruit new ones who belong to their political affiliations.

### **Qualitative findings from case studies reveal how local government constraints and systemic challenges limit early years workers' motivation to provide essential services (Lebbos et al. 2024).**

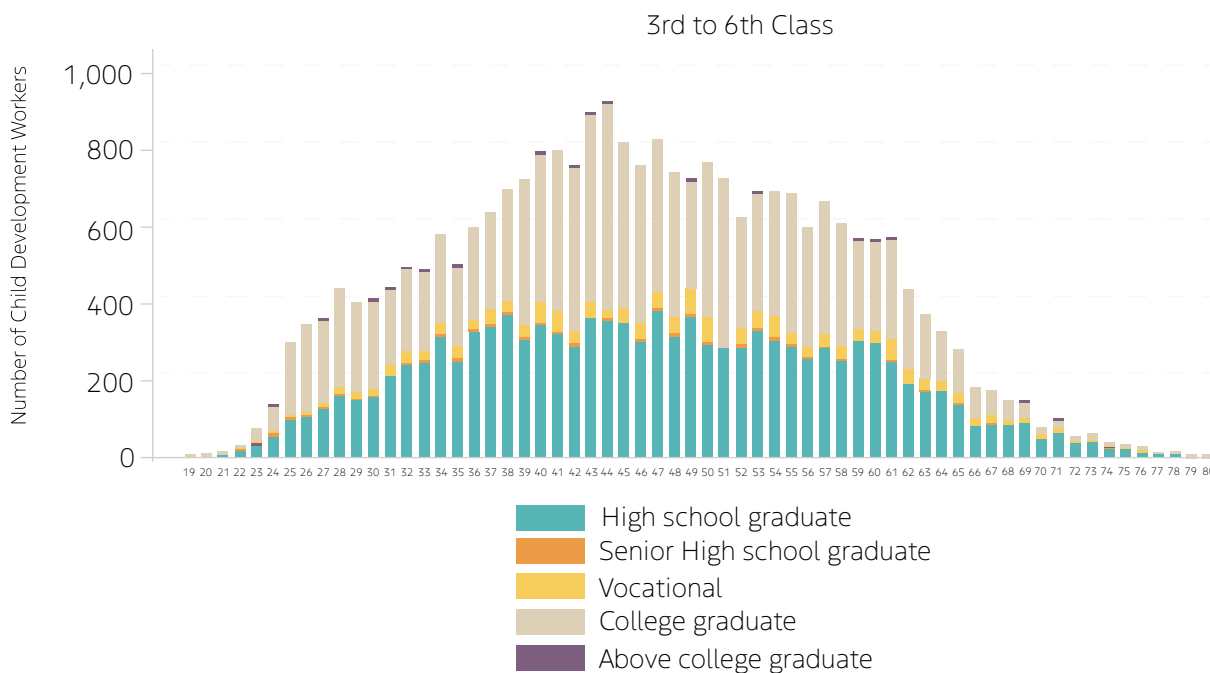
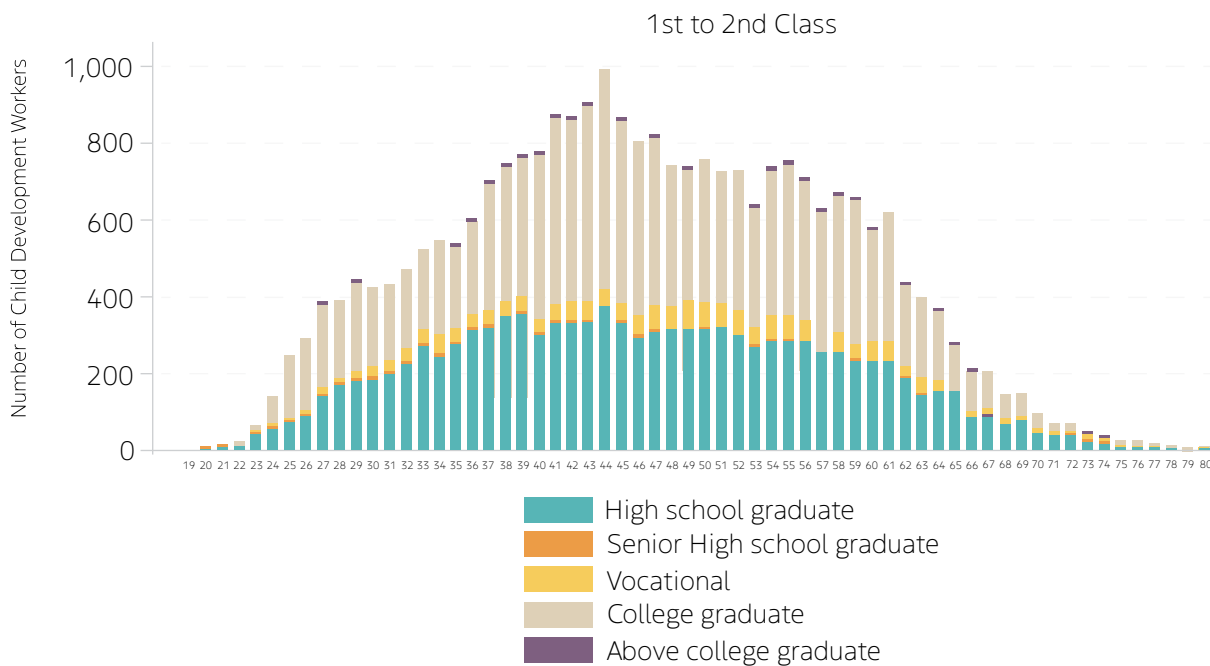
In Surigao City for example, CDWs face resource shortages, forcing them to buy classroom supplies themselves, while social workers manage overwhelming workloads, often working from 10 a.m. to 4 a.m. due to staff shortages. In Villareal, Western Samar, low compensation and politicized appointments result in high turnover among CDWs, destabilizing early childhood programs. Cotabato City similarly faces limited access to public health services

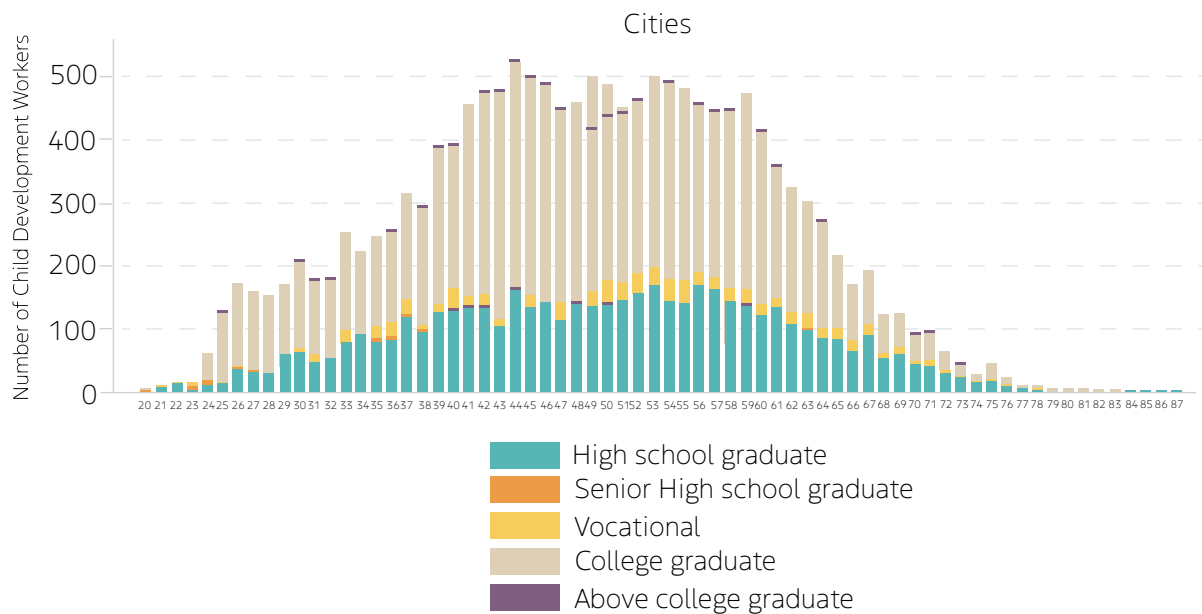


and personnel due to financial constraints, while in Surigao del Norte, barangay-level staff turnover tied to election cycles forces the constant retraining of new workers. These challenges, which invariably impact

early years workers, exacerbate disparities in critical early years outcomes, such as stunting and under-five mortality rates and disproportionately affect lower-performing provinces and HUCs.

**Figure 35: Highest educational attainment of DCW/CDW, by age among municipalities and cities by income classification**





Source: PIDS. 2024. Behind the Slow Start: An Assessment of Early Childhood Care and Development in the Philippines. <https://pidswebs.pids.gov.ph/CDN/document/pidsdps2404.pdf>



Photo: Shutterstock / Ulysses Nemeno

## BOX 4: COMMUNITY WORKFORCE STRENGTHENING FOR THE EARLY YEARS: LANDMARK LEGISLATION

**In 2019, the Universal Health Care Act shifted the paradigm for delivering health and nutrition services through a strong primary health care approach.**<sup>37</sup> The law redirects investments towards managing and professionalizing frontline health workers through the development of a primary care certification program which shall cover community health teams to equip them with essential primary care competencies as the first point-of-contact health service delivery in the communities. Currently, several bills are under deliberation pushing for the assimilation of BHWs and BNS into the professional health workforce by granting them civil service eligibility and providing opportunities for career advancement and enhancing their skills through formalized trainings. The proposed bills also include other provisions which include: (1) setting minimum education standards of qualification for community workers; (2) mandatory plantilla position in every barangay; (3) minimum salary grade and government mandated incentives; (4) celebration of barangay health workers day; and (5) creation of local training teams at the city/municipal levels.<sup>38</sup>

**The workforce-related bills and policies are reinforced by the Mandanas-Garcia ruling effectively** increasing the national tax allotment (NTA) transfers to local governments to supplement the special health fund (SHF) and the National Tax Allotment of LGUs. The increase in financial resources is envisioned to address the chronic underfinancing of health services at the local level giving LGUs a bigger fund pool to finance their needs which include salaries and incentives for hiring, training and retaining the workforce for early childhood development (Nuevo et al. 2022).

**The national government has also prioritized the Basic Education and Early Childhood Education Alignment Act (Senate Bill No. 2029) that seeks to advance the professional development of CDWs.**<sup>39</sup>

The bill supports efforts to improve early learning systems through the creation of plantilla positions and competency-based professional development that will address the current situation where a great majority of daycare workers are hired on a contractual basis with minimal honoraria. A proposed bill of rights for day care workers (House Bill 10224) is also under development that will provide incentives and opportunities for continuing skills training and knowledge enhancement programs to enable CDWs to provide high-quality ECE.<sup>40</sup>

**The national government is expected to finalize the Trabaho Para sa Bayan Master Plan for early years workers,** which is a 10-year employment strategy launched under Republic Act No. 11962, and signed into law in September 2023. This Plan will lay out key elements of a human resource development plan for early years workers.

<sup>37</sup> Republic Act No. 11223. (2019). An Act Instituting Universal Health Care for All Filipinos, Prescribing Reforms in the Health Care System, and Appropriating Funds Therefor, Rep. Act No. 11223. Official Gazette of the Republic of the Philippines. <https://elibrary.judiciary.gov.ph/thebookshelf/showdocs/2/86448>

<sup>38</sup> National Nutrition Council. (2024). Matrix of pending legislation on incentivizing and professionalizing community health workers.

<sup>39</sup> Senate Bill No. 2029. (2023). Basic Education and Early Childhood Education Alignment Act.

<sup>40</sup> House Bill No. 10224. (2024). An Act Granting Benefits to Child Development and Day Care Workers and Appropriating Funds Therefor. <https://www.congress.gov.ph/legislative-documents/>

## 3.4 THE ENABLING ENVIRONMENT: NATIONAL GOVERNMENT OVERSIGHT AND LGU INITIATIVE

*The Philippines has established robust policies and frameworks to enhance early year outcomes, with national and local agencies playing key complementary roles*

**At the national level, multiple entities are engaged in the design and implementation of the early years agenda in the Philippines (see table 6).** The

Department of Education (DepEd), the Department of Health (DOH), and the Department of Social Welfare and Development (DSWD) are the key departments contributing to the technical design of early years strategies, policies, and interventions. The Technical Education and Skills Development Authority (TESDA) provides technical and vocational education, including training programs for early years workers. Tertiary education is under the purview of the Commission on Higher Education, and includes medical education. These agencies have developed policies or legal frameworks that underpin the implementation of sectoral strategies to build human capital in the early years covering important areas such as early childhood care and development, basic education, maternal, neonatal, child health and nutrition in the first 1000 days, universal health coverage, responsible parenthood and reproductive health, and social protection.<sup>41</sup> Additional sectoral plans exist for guiding investments in nutrition, health, and education.<sup>42</sup>

**Recognizing the multisectoral nature of interventions, the national government has set up multisectoral councils at the national level.** These councils are expected to ensure coordination across agencies (see Table 6). Together, the government agencies and multisectoral councils provide LGU level support through regional offices. In this context, it is important to note that while DOH, DSWD, and DILG are national agencies, their service mandates are fully decentralized to local-level counterparts. In contrast,

DepEd is not decentralized.

**The Department of Interior and Local Government (DILG) at the national level plays a key role in the implementation of the early years agenda.** DILG

oversees LGUs, who as discussed below have the mandate for implementing early years interventions (0-4 years), while coordinating with national government agencies on the same. Its key functions include ensuring: (1) vertical alignment between the key early years programs designed by national government agencies and councils and their implementation at the local level by LGUs; (2) assessing and monitoring LGU performance; and (3) training for LGUs. It is important to note that two of the main legislations governing the early years — the Early Years Act 2013 and the First 1000 Days Law — identify who should be responsible for financing, delivery and standards and regulations, but do not include DILG. This creates a fundamental accountability problem.

**LGUs are expected to play a key role in service delivery as defined by the Local Government Code of 1991.** In recent years, the Philippines

has passed and proposed landmark pieces of legislation to strengthen systems for delivering health, nutrition and early childhood interventions with a focus on increasing resources and mandating greater responsibilities to LGUs (see Box 4). The Local Government Code of 1991 was designed to decentralize governance and empower LGUs by granting them greater autonomy and responsibility. This legislative framework aimed to enhance local

<sup>41</sup> These include the Juvenile Justice and Welfare Act of 2006 (RA 9344); the Kindergarten Education Act of 2011 (RA 10157); the Enhanced Basic Education Act of 2013 (RA 10533); the Early Years Act of 2013 (RA 10410); the RPRH Act of 2012 (RA 10354); the universal health coverage (UHC) Act of 2018 (RA 11223); the Kalusugan at Nutrisyon ng Mag-Nanay Act of 2018 for the first 1000 days of life (RA 11148); and the Act of 2019 institutionalizing the Pantawid Pamilyang Pilipino Program (4Ps) (RA 11310).

<sup>42</sup> For example, the Philippine Plan of Action for Nutrition Action (PPAN 2023-28), the National Human Resource for Health Master Plan (NHRHMP 2020-2040), and the MATATAG Curriculum initiative. The MATATAG Curriculum initiative sets the government agenda for addressing challenges in basic education to improve on access, equity, resilience and well-being. An "Early Years First" National Strategic Plan for Early Childhood Care and Development 2019-2030 has also been developed but is yet to be published.



governance by devolving functions and increasing the share of national revenues allocated to LGUs. The Mandanas-Garcia Ruling further reinforced this by mandating a significant increase in the National Tax Allotment (NTA) transfers to LGUs,<sup>43</sup> providing

LGUs additional financial resources. In 2022, the ruling increased the IRA by for LGUs by approximately 37.9%. LGUs are once again expected to receive a substantial increase in NTA transfers in 2025, by nearly 20 percent year-on-year.<sup>44</sup>

**Table 6: Summary of councils addressing the early years**

Council	Objective / Role	Members
National Nutrition Council (NNC) <sup>45</sup>	The NNC is the country's highest policy-making and coordinating body ensuring the nutritional well-being of Filipinos. It is mandated to orchestrate government, private sector and other relevant stakeholder efforts through policy and program formulation, resource mobilization, capacity development, nutrition surveillance, promotion of good nutrition and fostering alliances and partnerships	Chair: Department of Health Vice Chair: Department of Interior and Local Government Board Members: Department of Agriculture Department of Education Department of Labor and Employment Department of Social Welfare and Development National Economic Development Authority Private sector representative
Early Childhood Care and Development Council (ECCD Council) <sup>46</sup>	This council is responsible for establishing national ECCD standards, developing policies and programs, providing technical assistance and support to service providers, as well as well as monitoring ECCD service benefits and outcomes	Chair: Department of Education Vice-Chair: Executive Director, ECCD Council Board Members: Department of Health Department of Social Welfare and Development National Nutrition Council
Council for the Welfare of Children (CWC) <sup>47</sup>	The CWC is the focal inter-agency body promoting and advancing policies and measures to protect child rights. It aims to create child-friendly and child-sensitive environments through policy and program formulation and implementation; advocacy, resource mobilization, coordination and partnership-building	Department of Social Welfare and Development Department of Agriculture Department of Health Department of Interior and Local Government Department of Justice Department of Labor and Employment National Nutrition Council National Economic Development Authority Private individuals (3) ECCD experts (3) Youth representative
The 4Ps' National Advisory Council (NAC) <sup>48</sup>	The 4Ps NAC serves as the policy-making and coordinating body for the Pantawid Pamilyang Pilipino Program (4Ps). It formulates and recommends policies towards the enhancement of the 4Ps program implementation.	Chair: Department of Social Welfare and Development Members: Department of Education Department of Health Department of Labor and Employment Department of Budget and Management National Economic Development Authority National Nutrition Council Commission on Population National Commission on Indigenous People Council for the Welfare of Children Philippine Commission on Women National Anti-Poverty Commission

Source: Author's compilation.

<sup>43</sup> Previously known as Internal Revenue Allotments (IRA).

<sup>44</sup> National Tax Allotments are set to increase to Php 1.034 Trillion in 2025.

<sup>45</sup> National Nutrition Council Official website (2024). <https://nnc.gov.ph/>

<sup>46</sup> Early Childhood Care and Development Council Official website. (2024). <https://eccdcouncil.gov.ph/>

<sup>47</sup> Council for the Welfare of Children Official Website. (2024). <https://cwc.gov.ph/>

<sup>48</sup> An Act Institutionalizing the Pantawid Pamilyang Pilipino Program. Rep. Act No. 11301. (July 23, 2018). [https://legacy.senate.gov.ph/republic\\_acts/ra%2011310.pdf](https://legacy.senate.gov.ph/republic_acts/ra%2011310.pdf)



**LGUs are uniquely placed to ensure convergence of services at the household and individual level, but many LGUs are unable to do so.** The provision of essential maternal and child development services particularly during the first 1000 days hinges on the adequacy of a multidisciplinary health team composed of doctors, nurses and midwives supported by community health teams, CDWs and FDSWs. This in turn depends upon how LGUs manage early years workers: all four types of early year workers depend on the support and funding of local governments to ensure the adequacy, quality and sustainability of the services they coordinate and deliver.

*LGU ability to invest effectively in early years workers is hindered by fundamental challenges*

**Despite multiple efforts to strengthen LGUs, they continue to encounter numerous challenges that impact the availability, capacity and motivation of early years workers and ultimately their ability to deliver on their service mandates.** The challenges include (i) limited, dependent, and inefficient fiscal resources; (ii) coordination failures and unclear accountability; and (iii) capacity challenges in public financial management (PFM).

*Inadequate fiscal resources and low prioritization of human capital*

**For LGUs to meet implement policies on early years workers, they need adequate funding, but face numerous constraints.** National government (NG) transfers remain the primary source of revenues for LGUs relative to local tax and non-tax revenues (Diokno-Sicat, Adaro, and Maddawin 2020). In the last five years, NG transfers represented, on average, 59 percent of the LGUs' total revenues and receipts. Following the Mandanas-Garcia Supreme Court Ruling of 2021, which resulted in an increase in the NG transfers to the LGUs beginning in 2022, the transfers increased by 38 percent between 2021 and 2022. The Local Government Code of 1991 empowers LGUs to raise local revenues through taxes, fees, and charges, but various constraints keep LGUs dependent on NG transfers. Only about 40 percent of LGUs' revenue is generated from local sources. Generally, the capacity

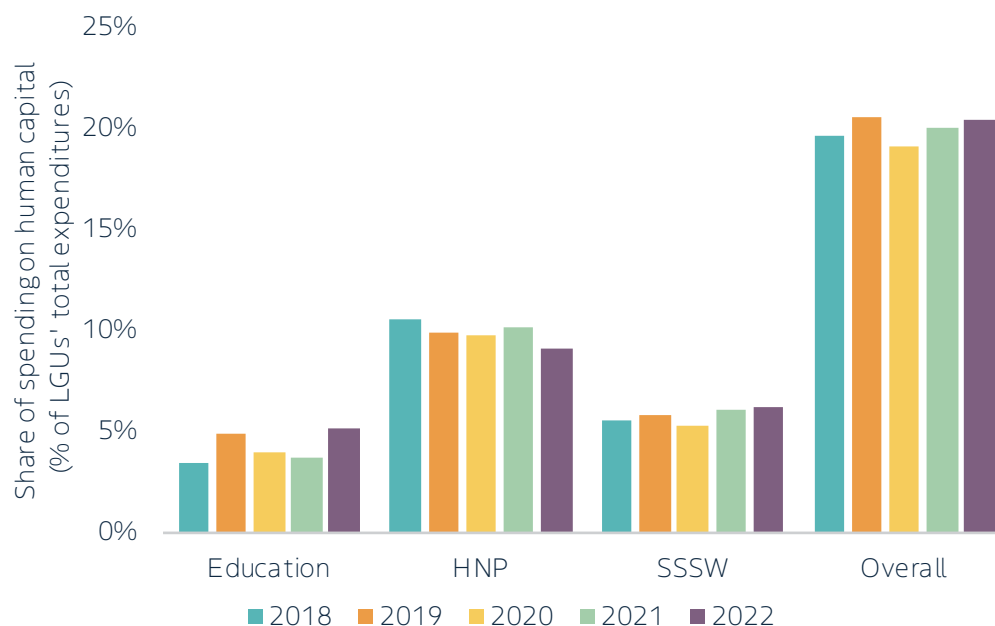
of an LGU to raise revenues depends on the dynamism of its local economy and its socio-demographic characteristics, but structural political economy factors also play a major role. For example, local politicians are wary about updating their local taxation schedules because they may lose in the next elections (Atienza and Go 2023). Moreover, as the Mandanas Ruling increases NG transfers to LGUs, it may further create disincentives for LGUs to raise their revenues from local sources.

**In addition to funding, LGUs must also prioritize human capital and thereby investment in early year workers.** Despite a substantial increase in NG transfers between 2021 and 2022, LGUs' spending on human capital did not increase commensurately (Figure 36). Most of the budget increase was directed to General Public Services, with 1.5 percentage points (ppt) of GDP out of 1.8 ppt going to Personnel Services and Maintenance. Indeed, NG transfers covered about two-thirds of LGUs' total expenditures and one-third of their spending on human capital over the past five years. However, the share allocated to health, nutrition, and social welfare fell by five ppt. Qualitative insights from six LGUs highlight disparities in budget prioritization, particularly pointing to the role of local political motives in influencing budget allocation decisions. For example, some LGUs may favor short-term investments like infrastructure over human capital investments, which yields longer-term benefits. However, examples like Mabalacat City and Navotas City illustrate the success that can be achieved when human capital investments, such as early childhood care and development, are prioritized. (Lebbos et al. 2024).

*Coordination failures and unclear accountability*

**Limited coordination between national government agencies (NGA) and LGUs results in the dilution and duplication of efforts (Juco et al. 2023).**<sup>49</sup> For example, DepEd is entrusted with ensuring universal access to kindergarten (5-year-olds). However, to ensure students join at the right age and are prepared for kindergarten, the DepEd needs to coordinate on curriculum and quality assurance with LGUs as they are mandated with providing preschool education

<sup>49</sup>As of November 2024, LGUs are composed of 82 provinces, 148 cities, 1486 municipalities, and 42,027 barangays (villages). These LGUs are spread across the 17 regions of the country. Seven regions account more than 100 municipalities and 3,000 barangays each. In addition, some LGUs are isolated, that is the geographically isolated and disadvantaged areas or GIDAs.

**Figure 36: Share of Spending on Human Capital (% of LGUs' Total Expenditures), 2018 – 2022**


Source: Authors' calculations using data from the COA's annual financial reports for LGUs. HNP=Health Nutrition and Population, SSSW= Social Services and Social Welfare, Overall=Education + HNP + SSSW

(3–4-year-olds). Without such coordination, the efforts of LGUs — and early years workers — in preschool education are likely diluted as they may teach material that does not help students transition effectively to kindergarten.

**Lack of coordination between NGAs and LGUs on the tools that are deployed at the local level often creates inefficiencies and unnecessary burden for early years workers.**

For example, even though both the ECCD Council and NNC address early years challenges, each has a separate and disconnected monitoring and evaluation system. The LGUs are also supposed to use different monitoring systems for social protection (i.e. Community-Based Monitoring System) and nutrition (Monitoring and Evaluation of Local Level Plan implementation) established by DWSD and NNC, respectively, even though they cover the same households. The fragmented nature of these systems and lack of coordination between different institutions makes complying with these national directives and data requirements difficult for early years workers.

**The lack of horizontal coordination at the subnational level also results in inefficiencies.** A review of the implementation of the Philippine Plan of Action for Nutrition (PPAN) 2017-2022 finds that the

governance of nutrition programs is siloed. Nutrition programs can, for instance, achieve greater impact through multisectoral coordination involving the relevant national councils, which are the NNC, ECCD Council, National Authority for Childcare, and potentially the CWC. Yet, such coordination rarely happens, potentially leading to an overburdening of workers and reducing the ability to troubleshoot. As another example, considering the lack of regional offices of the ECCD Council, the different councils can strengthen their synergies at the LGU level to enable the delivery of all ECCD services (Silvestre et al. 2023).

**Many local governments still rely heavily on NGAs for services that were intended to be decentralized or devolved.**

This reliance persists due to unclear roles and responsibilities between NGAs and LGUs (Atienza and Go, 2023). While LGUs are tasked with managing these services, NGAs continue to hold significant control, often undermining the spirit of decentralization. For instance, while LGUs are accountable for health service delivery, DoH managed the national HRH deployment program, controls the Health Facilities Enhancement Program and has medicines to distribute to LGUs. For the early year worker, unless DOH and LGUs are perfectly synchronized, there is little accountability for health outcomes, since, for example, vaccinations and medicines may not arrive on time.. This lack of clarity



in accountability contributes to several issues. First, it undermines the objective of decentralization, which is to better align spending with local needs. With NGAs still making key decisions about service provision, resources may not be allocated in ways that reflect the unique priorities of each locality, potentially contributing to regional disparities. Additionally, even when LGUs have the financial resources, they often prefer to defer responsibility for service delivery to NGAs, which prevents them from building the administrative and technical capacity needed for effective governance. This results in a cycle where LGUs fail to develop the skills and systems necessary for managing services independently, ultimately stifling their growth and exacerbating capacity gaps.

### *Capacity challenges in Public Financial Management*

**LGUs face key challenges in public financial management, including planning and connecting plans to budgets.** Key planning documents include local comprehensive development plans (CDPs), local development investment programs (LDIP), annual investment programs (AIP), and annual budgets or local expenditure programs (LEP), along with a list of programs, projects, and activities (PPAs). For early years-related interventions, LGUs are expected to create domain-specific investment plans. However, many LGUs lack some or all the essential planning documents needed for early years-related

interventions or update these plans irregularly. This affects the planning and budgeting for adequate human resources, including early years workers. Recent COA reports confirm a previous study's finding that only 50 percent of LGUs had updated their CDPs in 2018. A recent DOH report indicated that in 2021, 11 provinces (out of 81) and one city (out of 38) lacked a validated AIP; additionally, 194 municipalities lacked local investment plans for health (LIPHS).<sup>50</sup>

**Even when LGUs effectively implement PFM, they still face issues related to budget predictability, monitoring, and reporting.** Qualitative assessments undertaken as part of the Philippines HCR indicate that LGUs were aware of and implemented the LGU PFM manual mandated by the NG. This led to improvements in participatory budget planning through the involvement of all sectors, CSOs, and barangay captains in prioritizing the LGUs' PPAs. LGUs, however, pointed out delays in government transfers of the National Tax Allotment, which affects the ability to disburse their budgets in accordance with their activity timeline (Lebbos et al. 2024). LGUs also face deficiencies in monitoring and reporting financial information and inefficiencies in the collection of local taxes. This impacts payments to early years workers. In addition, the devolution of additional functions such as procurement adds financial and human resources burden of the LGUs, especially those with lower capacities, often leading to ad hoc responses to early years interventions and workers.

<sup>50</sup> Department of Health. 2022. 2021 LGU Health Scorecard Annual Report. Manila





## 3.5 RECOMMENDATIONS

**Improving early years outcomes rests fundamentally upon early years workers.** Ensuring that these workers can do their best requires two types of interventions. First, the Philippines must build the foundation by addressing shortages in such workers, building their capacity to deliver services and motivating better performance. Second, it must secure the enabling environment to ensure that early years workers can function effectively.

### ***Recommendation 1: Build the foundation — address shortages, build capacity and motivate early years workers***

#### *Ensure financing for early year workers*

**Increasing funding for early years workers requires a strategic approach that identifies how much is needed and leverages multiple financing mechanisms.** Early years workers are the foundation on which better service delivery rests. Building the foundation means ensuring an adequate number of well-trained and motivated early year workers. This requires greater and stable financing. The first step is to know how much financing is needed. This calls for an LGU-level costed plan for early childhood care and development, which lays out what is needed to implement the vision articulated in the Early Years Act 2013.

**The next step is to ensure the financing is available.** This involves undertaking policy changes, such as (i) revisiting current limits on the proportion of LGU budgets to be spent on human resources that hinder adequate compensation of barangay-level service providers; (ii) and stipulating spending a fixed ratio of relevant funds (GAD, LCPC, Development Fund, SEF) on young children and early childhood care and development). Brazil and Indonesia provide good examples of how governments allocate a defined amount of relevant funds to be used by local governments for early childhood interventions.

**Ensuring funding also involves leveraging the opportunities provided by decentralization.** In decentralized settings such as the Philippines, Performance-based grants (PBGs) present a promising strategy to unlock additional resources by creating financial incentives for local governments to prioritize and invest in early childhood development. This approach has been used in effective early years programs worldwide, including in Brazil's Auxilio Brasil, which incentivizes municipalities to invest in early childhood interventions, and Indonesia's Dana Desa system where villages demonstrating measurable improvements in nutrition-related outcomes receive additional funding. Another mechanism for increasing funding involves using matching grants. In matching grant programs, dedicated funding pools for early childhood development are established, and national-level investments are matched by local contributions. Such programs have been used effectively in South Africa and Brazil.

**The Philippines is piloting an innovative mechanism to encourage greater financing for early years outcomes.** A PBG-based system is being piloted in the Philippines currently, where PBGs not only provide direct funding but also encourage LGUs to allocate more of their own budgets to critical early years services by linking financial rewards to demonstrable performance and outcomes. See Box 5 for an example from Quezon Province. To reiterate, linking funding mechanisms to clear performance indicators can help attract additional resources from both government and potential external donors, including international development agencies and private sector partners interested in supporting comprehensive early childhood interventions.

**PBG-type interventions work best when there are integrated data systems tracking how local governments are performing on early years outcomes and inputs.** DILG has important tools for tracking progress, which it should continue refining performance incentive tools like the Seal of Child-

Friendly Local Governance, linking financial rewards directly to the quality of early years interventions.<sup>51,52</sup> The Child Friendly Local Government Audit provides an opportunity to encourage LGUs to focus on early years outcomes. Currently, however, the audit only profiles early years workers. To be effective as a performance management tool, it is worth including data on how LGUs are performing in terms of the quantity, quality and professionalization of early years workers. Similarly, the DOH can expand its LGU

scorecard approach, developing more nuanced performance indicators that capture the complexity of maternal and child health services, particularly in the context of the Universal Health Care Act.<sup>53</sup> By implementing robust monitoring and evaluation systems, LGUs can demonstrate the impact of their early years programs, making a compelling case for increased budget allocations and attracting additional funding from national government and external sources.



Photo: Shutterstock /Andrew Repp

<sup>51</sup> Department of Interior and Local Government. (2024). Memorandum Circular No. 2024-064. 2024 Seal of Good Local Governance. <https://dilg.gov.ph/issuances/mc/2024-Seal-of-Good-Local-Governance-Pagkilala-sa-Katapatan-at-Kahusayan-ng-Pamahalaang-Lokal/3915>

<sup>52</sup> Department of Interior and Local Government. (2024). Memorandum Circular No. 2024-160. 2025 Child-Friendly Local Government Audit (CFLGA) for all levels of Local Government. <https://dilg.gov.ph/issuances/mc/2025-Child-Friendly-Local-Governance-Audit-CFLGA-for-all-levels-of-Local-Government/4007/>

<sup>53</sup> Department of Health. 2024. Implementation of the 2023 Local Government Unit Health Scorecard (LGU HSC) Performance Results.

## BOX 5: SAN ANTONIO, QUEZON'S PBG TIPS THE SCALE TOWARD A GREEN BANNER AWARD

**Located at the intersection of three of the country's largest provinces, San Antonio, Quezon is a landlocked, primarily agricultural, 4th class municipality.** It is surrounded by the major development hubs of Lipa City in Batangas, San Pablo City in Laguna, and the highly urbanized City of Lucena, the provincial capital. Despite its modest population of 35,891 (PSA, 2020) and annual income of P179 million (DTI, 2023), which contribute only about 1% to Quezon's totals, San Antonio has achieved a significant milestone in 2023. It stands tall as one of only seven Green Banner Awardees in Region IVA, out of 122 municipalities, marking a first for the municipality.

**Dr. Wilma Laroza, the Municipal Health Officer (MHO) and concurrent Municipal Nutrition Action Officer (MNAO), credits their success to the Performance-Based Grants (PBGs) from the Philippines Multisectoral Nutrition Project (PMNP).** These grants have motivated the municipality to enhance their Local Nutrition Action Plans (LNAPs) at both the municipal (MNAP) and barangay levels, a requirement for the first tranche of PBGs. For the first time in her 30 years of service, Dr. Laroza has seen Barangay Nutrition Action Plans (BNAPs) developed for all 20 barangays in the municipality. These BNAPs provide detailed, ground-based problems and solutions that feed into the MNAP.

**A key factor in achieving their LNAP goals is the multi-sectoral process used to develop the BNAPs, employing the community-driven approach of the DSWD's Kalahi-CIDSS program.** San Antonio is among the first five PMNP LGUs selected to pioneer the Project's Household Convergence Scorecard (HCSC) due to its efficiency in completing and updating its master list of F1kD households. Dr. Laroza looks forward to using the HCSC results to identify specific women and children who are not currently covered by their programs, allowing for more targeted outreach.

**The municipality is already utilizing their first tranche of PBG funds to hire additional personnel to facilitate the HCSC encoding process, which will help them achieve their second tranche deliverables.** They plan to use about one-third of their PBG funds to supplement their current health and nutrition budget allocation (P800,000 for 2024) for the procurement of nutrition supplements.

**San Antonio's experience with PBGs demonstrates the effectiveness of performance-based incentives in decentralized settings, where there is considerable variability in service delivery.** PBGs help bring LGUs up to standard and up to speed. Equally important are parallel systems strengthening modalities to improve information systems on which performance will be monitored and subsequently rewarded.

*Formulate a comprehensive competency framework for early years workers and roll out targeted training programs to equip them with essential skills.*

**To be effective, early years workers require a comprehensive competency framework, clear roles, targeted training programs, and robust monitoring systems.** Such an approach will ensure that early years workers are equipped with the necessary skills, qualifications, and ongoing support to deliver high-quality services across different worker cadres.

**As a first step, a Comprehensive Competency Framework for early years workers should be developed.** A robust competency framework for early childhood care workers needs to be developed, drawing on the Nurturing Care Framework endorsed by the World Bank, UNICEF, and WHO. Such a framework should be created by an inter-agency task force with representatives from relevant government departments including DILG, DOH, DepEd, and DSWD. The framework should define clear roles and responsibilities for different cadres of early years workers; specify required qualifications and skills; and define the parameters of professional development





programs that ensure workers can effectively support children's holistic development.

**Second, it is important to establish Targeted Training and Certification Programs.** The inter-agency task force could collaborate with TESDA and CHED to create specialized certification programs for early years workers. This should involve creating distinct, role-specific training programs rather than a one-size-fits-all curriculum, focusing on quality and specialization for each worker type. Such training should be continuous and not one-off. Countries with robust early childhood development (ECD) systems have prioritized the creation of national technical frameworks for early years workers. For instance, New Zealand developed a National Early Childhood Education Curriculum, which includes a certification system for teachers that ensures alignment with the national standards for child development. Similarly, Rwanda introduced a Teacher Development and Management Policy to improve the professional capacity of early childhood educators.

**Finally, it is important to develop to implement robust monitoring and support systems.** This should include a dedicated supervision and mentoring system for early years workers, focusing on addressing the current lack of supervision and mentoring by creating a regular structured, supportive system that enhances service delivery and worker effectiveness. Implementing digital tools for real-time data tracking of performance can help provide immediate feedback to early years workers.

*Motivate and professionalize early years workers*

**Beyond training and performance management, ensuring timely salary payments and providing adequate incentives is crucial for the retention and motivation of early years workers.** Across the Philippines, early year workers often forgo pay. They are seen as voluntary workers, even though they are expected to perform essential services. They also lack clear career pathways. In contrast, in Brazil, most early years workers are professionals. Countries such as Indonesia are focusing on professionalizing this cadre in full, underlining the importance such professionalization plays in the performance of early years workers.

**Non-monetary rewards also play a vital role in maintaining high morale among workers.**

Skill-building opportunities, such as professional development workshops and training programs, not only improve the workers' competencies but also provide them with a sense of career progression. Singapore and Mexico provides credits/ stipends to early years workers for skills development. Community recognition, through awards or public acknowledgment, can boost the workers' motivation by highlighting their contributions to early childhood development. Turkey provides public acknowledgement of outstanding early years educators through awards. Financial incentives, such as stipends or bonuses, can also significantly enhance job satisfaction and reduce turnover rates but require careful fiscal considerations. Brazil, Colombia and South Africa provide performance bonuses for outstanding performance.

**The Philippines is currently expected to finalize the Trabaho Para sa Bayan Master Plan for early years workers, which is a 10-year employment strategy launched under Republic Act No. 11962 and signed into law in September 2023.** This Plan will lay out key elements of a human resource development plan for early years workers.

***Recommendation 2: Strengthen the enabling environment – drive successful implementation by harmonizing national government roles and building local management capacity, enhancing monitoring and evaluation, and fostering community-level coordination.***

Successful implementation of early years programs and the performance of early years workers rests upon harmonizing national government roles and building local management capacity, enhancing monitoring and evaluation, and fostering community-level coordination.

**First, elevating the oversight of the ECCD and NNC Councils to the Office of the President will ensure strong high-level commitment and coordination, leading to enhanced local capacity for delivering and monitoring early years interventions.** This move could secure high-level priority and attention, fostering better coordination and accountability among government agencies. EdCom2's recent report, Behind the Slow Start (2024), underscores the coordination challenges faced within multisectoral councils. With a higher authority overseeing these councils,





alignment across health, nutrition, education, and social protection programs is likely to improve. This authority could also clarify roles, financing sources, and key performance indicators (KPIs) for each agency, addressing misaligned actions through a coordinated multisectoral approach. Additionally, it is crucial to strengthen the secretariats of the NNC and ECCD, ensuring they are adequately staffed and technically equipped to set national directions and guide LGUs. In a decentralized system, it is also essential for the ECCD and NNC to track LGU budgeting and performance in delivering early years interventions through a timely and harmonized monitoring system that informs policy, priority setting, and targeted actions to address service gaps.

**By placing oversight of the ECCD and NNC Councils at the Office of the President, the move could complement the goals of Executive Order 138.**

By ensuring a more coordinated, efficient, and high-priority approach to the delivery of early years interventions across sectors, while maintaining alignment with the broader devolution efforts. It could ensure that the devolution process does not result in fragmentation but instead strengthens the capacity of LGUs to meet the evolving needs of early childhood development, particularly by providing clear leadership and direction at the national level. Indonesia, an exemplar in the East Asia and Pacific region for reducing stunting in record time, saw big improvements once the task of stunting reduction was placed under the Office of the President and Vice President. Countries such as Peru and Rwanda have seen similar transformations with high-level oversight.

**Next, empowering LGUs by building their capacity to strengthen local management capacity for early years programs is crucial.**

Local governments need comprehensive, data-driven approaches to training and resource allocation. The success of the Philippines Multisectoral Nutrition Project (PMNP) provides a blueprint, demonstrating how training over 4,000 barangays in participatory situation analysis

can transform local nutrition planning. LGUs should invest in similar capacity-building programs that enable local authorities to understand their specific health and nutrition landscapes, directing resources more strategically to reach previously underserved households. Concerned national government agencies handholding LGUs in identifying and addressing their gaps through tailored capacity-building will also exact better local accountability and ensure they meet targets of performance.

**Finally, Barangay-level coordination represents a critical opportunity for more effective service delivery.**

Learning from international best practices, such as Peru's coordinated household visit model, local governments should develop protocols for early years workers to provide integrated, comprehensive support. This might involve creating standardized schedules where health workers, nutrition specialists, and early childhood educators can simultaneously engage with families, maximizing intervention efficiency. The Quezon province's experience with PBGs demonstrates how financial incentives can motivate barangays to implement more transparent, accountable, and targeted community programs, ultimately improving early childhood development outcomes.

**Empowering LGUs to support their early years workers and drive human capital growth will require a bold rethinking of policies.**

These policies need to carefully account for the intricate institutional setups already in place, leveraging them to meet the specific needs of LGUs rather than imposing a top-down approach. Key to this is ensuring robust horizontal coordination at the national level, coupled with strengthened vertical coordination with LGUs, to empower and incentivize them effectively. Policies also need to address implementation bottlenecks and provide clear strategies to overcome them, ensuring practical and sustained support for early years workers.

# ANNEX 1: LIMITING FACTORS TO INVESTMENTS IN HUMAN CAPITAL AND THE EARLY YEARS

## **Qualitative assessments in five cities across NCR, Caraga, Eastern Visayas, and BARMM reveal multiple factors that limit LGU investments in human capital, particularly in the critical early years.**

These include geographical challenges, financial constraints, and issues with public financial management (PFM) and national government (NG) regulations, all of which undermine efforts to provide essential services for young children and their families.

**Barriers due to geography.** Coastal LGUs and those with geographically isolated and disadvantaged areas (GIDAs) may face land scarcity and accessibility hurdles that limit their capacities to deliver adequate and quality education, health, nutrition, and social protection services to the local populations. A coastal city in Metro Manila with a high population density lacks land on which to build needed education and health facilities. Its limited land also limits business activities, and therefore revenues, too, that can finance more investments in human capital. Another city in the Visayas has eight percent of the population residing in five geographically isolated and disadvantaged areas (GIDAs); because of the isolation, out-of-pocket expenditures even just for regular preventive and primary healthcare is very high, and it is burdensome because of depressed economic conditions of the residents. Similarly, a coastal component city in Mindanao with 21 island barangays requires transportation by sea for accessing health facilities. These barangays and their residents are also more vulnerable to natural hazards that also often destroy education and health facilities. These service delivery contexts services require targeted support from the NG.

**Shortage of financial capacities.** Low-income LGUs and especially those with GIDAs and coastal places

face higher costs and greater financial shortages that limit their investments in the Early Years. For example, a fourth-class municipality in Samar could not come up with enough funds to implement the Tatak Tangkad, which was the first 1,000 Days program launched in 2021 to address the high prevalence of stunting in the province. Low-income LGUs that also have a large number of GIDAs could not afford the supplies and equipment for GIDA health facilities. They could not build the infrastructure each GIDA needs, including roads; and the cost of outreach and information campaigns so people even in remote sitios can seek out the health services and social protection services can also be prohibitive. Another coastal province in Mindanao had to allocate half of its budget to rebuild public schools destroyed by a typhoon. When primary and preventive health services are unavailable, gaps in human capital development outcomes can become greater because affected populations end up needing the more costly curative services.

**Issues with PFM and NG's regulations.** In many LGUs, plans are either non-existent or they are not binding. Investments in human capital and the early years can be intermittent and are subject to the discretion of the Mayor, the Congressman or the Governor, who cannot but respond to the practicalities of political contests and alliances. Even transfers and grants from national government agencies can similarly become unpredictable. In that setting, NG-mandated allocation of budget shares to specific sectors such as the special education fund (SEF) and the Gender and Development (GAD), though frowned by some for being too constricting, can sometimes provide a measure of predictability that allows plans to be formulated and pursued consistently over time.

Source: Qualitative assessments conducted as part of the Philippines HCR (2024)



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