

SECOND ANNIVERSARY ASSESSMENT



2013
FEBRUARY 26

RIZAL
BALLROOM

MAKATI
SHANGRI-LA

ARANGKADA PHILIPPINES FORUM
Realize the Potential!

A PROJECT BY THE JOINT FOREIGN CHAMBERS OF THE PHILIPPINES

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2013 Arangkada Philippines Second Anniversary Forum: Assessment of Year 2012

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LIST OF ABBREVIATIONS

3G	Third Generation	CARP	Comprehensive Agrarian Reform Program
4Ps	<i>Pantawid Pamilyang Pilipino Program</i> (conditional cash transfer program)	CCT	Common Carriers Tax
ACT	Alcohol, Cigarettes, and Tobacco	CEO	Chief Executive Officer
ADB	Asian Development Bank	CECP	Creative Economies Council of the Philippines
AFTA	ASEAN Free Trade Area	CHARDO	Chassis RORO
AO	Administrative Order	CHED	Commission on Higher Education
ARMM	Autonomous Region of Muslim Mindanao	CICT	Commission on Information and Communications Technology
ARTA	Anti-Red Tape Act	CIDA	Canadian International Development Agency
ARTFF	Anti-Red Tape Task Force	CIQ	Customs, Immigration and Quarantine
ASEAN	Association of Southeast Asian Nations	CITEM	Center for International Trade Expositions and Missions
ASEAN-6	Indonesia, Philippines, Malaysia, Singapore, Thailand, and Vietnam	CMO	CHED Memorandum Order
ASTI	Advance Science and Technology Institute	CNN	Cable News Network
BEST	Basic English Skills Training	COA	Commission on Audit
BBC	British Broadcasting Corporation	COE	Centers of Excellence
BI	Bureau of Immigration	CSC	Civil Service Commission
BIR	Bureau of Internal Revenue	CTMA	Customs and Tariff Modernization Act
BOC	Bureau of Customs	DBM	Department of Budget and Management
BOI	Board of Investments	DCP	Design Center of the Philippines
BOT	Build-Operate-Transfer	DENR	Department of Environment and Natural Resources
BPAP	Business Processing Association of the Philippines	DepEd	Department of Education
BLPS	Business Process and Licensing System	DICT	Department of Information and Communications Technology
BPO	Business Process Outsourcing	DILG	Department of Interior and Local Government
BSP	Bangko Sentral ng Pilipinas	DO	Department Order
CA	Court of Appeals	DOE	Department of Energy
CAAP	Civil Aviation Authority of the Philippines	DOF	Department of Finance
CAO	Customs Administrative Order	DOH	Department of Health
CALA	Cavite-Laguna		
CALABARZON	Cavite, Laguna, Batangas, Rizal, and Quezon		

DOJ	Department of Justice	IACWS	Inter-Agency Committee on the Water Sector
DOLE	Department of Labor and Employment	ICC	Investment Coordination Committee
DOST	Department of Science and Technology	ICT	Information and Communications Technology
DOST-SEI	DOST Science Education Institute	ICTO	Information and Communications Technology Office
DOT	Department of Tourism	IFC	International Finance Corporation
DOTC	Department of Transportation and Communications	IMD	International Institute for Management Development
DPWH	Department of Public Works and Highways	INFRACOM	Infrastructure Committee
DSWD	Department of Social Welfare and Development	IOR	Importer of Record
DTI	Department of Trade and Industry	IP	Intellectual Property
E2M	Electronic-to-Mobile	IPA	Investment Promotion Agencies
e	Electronic; Estimate	IPR	Intellectual Property Rights
e-AdEPT	Electronic Advanced English Pre-employment Training	IRCAM	Integrated Risk Communication, Assessment, and Management
ECCP	European Chamber of Commerce of the Philippines	IRR	Implementing Rules and Regulations
EITI	Extractive Industries Transparency Initiative	IRRI	International Rice Research Institute
EP	Exploration Permit	IT	Information Technology
EPIRA	Electric Power Industry Reform Act	JBIC	Japan Bank for International Cooperation
ERC	Energy Regulatory Commission	JDR	Judicial Dispute Resolution
EU	European Union	JFC	Joint Foreign Chambers of the Philippines
EVAT	Expanded Value Added Tax	JICA	Japan International Cooperation Agency
f	Forecast	JMC	Joint Memorandum Circular
FDA	Food and Drug Administration	JV	Joint Venture
FDI	Foreign Direct Investment	JVA	Joint Venture Agreement
FINL	Foreign Investment Negative List	K-12	Kindergarten to Grade 12
FOI	Freedom of Information	LBP	Land Bank of the Philippines
FPI	Federation of Philippine Industries	LEDAC	Legislative Executive Development Advisory Council
FTA	Free Trade Agreement	LGU	Local Government Units
GCAT	Global Competitiveness Assessment Tool	LNG	Liquefied Natural Gas
GCG	Governance Commission for GOCCs	LRT	Light Rail Transit
GDP	Gross Domestic Product	LRTA	Light Rail Transit Authority
GILAS	Gearing up Internet Literacy and Access for Students	MARINA	Maritime Industry Authority
GPBT	Gross Philippine Billings Tax	MAP	Management Association of the Philippines
GPH	Government of the Philippines	MCC	Millennium Challenge Corporation
GPS	Global Positioning System	MDC	Mineral Development Council
GOCC	Government-Owned and Controlled Corporation	MGB	Mines and Geosciences Bureau
GSIS	Government Service Insurance System	MIAA	Manila International Airport Authority
HDM-4	Highway Development and Management Model	MICC	Mining Industry Coordinating Council
HIM	Health Information Management	MMDA	Metropolitan Manila Development Authority
HLURB	Housing and Land Use Regulatory Board	MRT	Metro Rail Transit
HR	Human Resources	MWSS	Metropolitan Waterworks and Sewerage System
HUC	Highly-Urbanized Cities	NAIA	Ninoy Aquino International Airport

NCC	National Competitiveness Council	PORTAL	Ports Transparency Alliance
NCIP	National Commission on Indigenous Peoples	PPA	Philippine Ports Authority
NCR	National Capital Region	PPP	Public Private Partnership
NDP	National Design Policy	PRC	Professional Regulation Commission
NEDA	National Economic and Development	PSE	Philippine Stock Exchange
NGCP	National Grid Corporation of the Philippines	RCOA	Retail Competition and Open Access
NGO	Non-Governmental Organization	RHC	Retirement and Healthcare Coalition
NLES	North Luzon Expressway	RORO	Roll-On/Roll-Off
NLRC	National Labor Relations Commission	RTC	Regional Transportation Commission
No.	Number	SAJJ	Special Allowance for Justices and Judges
NPA	New People's Army	SB	Senate Bill
NPAC	National Port Advisory Council	SBMA	Subic Bay Metropolitan Authority
NSSMP	National Sewerage and Sanitation Management Program	SC	Supreme Court
NTC	National Telecommunications Commission	SEC	Securities and Exchange Commission
NWC	New Wave City	SEI	Science Education Institute
NWRB	National Water Resources Board	SLEX	South Luzon Expressway
NWRMO	National Water Resources Management Office	SMS	Short Messaging Service
ODA	Official Development Assistance	SSME	Service Science Management Engineering
OFW	Overseas Filipino Worker	SSS	Social Security System
OJT	On-the-Job Training	SUC	State Universities and Colleges
OMD	Office of the Ombudsman	SWMC	Senate Ways and Means Committee
p	Projection	SWS	Social Weather Station
PA	Philippine Army	SY	School Year
PAGASA	Philippine Atmospheric, Geophysical, and Astronomical Services	TAF	The Asia Foundation
PBG	Philippine Business Group	TEU	Twenty-foot Equivalent Units
PC	Personal Computer	TEZ	Tourism Enterprise Zone
PCAARRD	Philippine Council for Agriculture, Aquatic, and Natural Resources Research and Development	TI	Transparency International
PCCC	Philippine Climate Change Commission	TIEZA	Tourism Infrastructure and Enterprise Zone Authority
PCI	Per Capita Income	TIPC	Tripartite Industrial Peace Council
PD	Presidential Decree	TPP	Trans-Pacific Partnership
PDDCP	Product Development and Design Center of the Philippines	TRO	Temporary Restraining Order
PDEA	Philippine Drug Enforcement Agency	UNESCO	United Nations Educational, Scientific and Cultural Organization
PDP	Philippine Development Plan	US	United States
PEZA	Philippine Economic Zone Authority	VAT	Value Added Tax
PHI	Philippines Healthcare Initiative	WB	World Bank
PhP	Philippine Peso	WEF	World Economic Fund
PIDS	Philippine Institute for Development Studies	WESM	Wholesale Electricity Spot Market
PLDT	Philippine Long Distance Telephone Company	WINGS	Wireless Internet-based Governance System
PLLO	Presidential Legislative Liaison Office	WSRA	Water Sector Reform Act
PN	Philippine Navy	WTO	World Trade Organization
PNP	Philippine National Police		
POPCOM	Commission on Population		

METHODOLOGY

Arangkada Philippines, a project by the Joint Foreign Chambers of the Philippines and first published in December 2010, reflected the results of nine focus group discussions with the participation of nearly 300 Filipino and foreign investors over a period of more than six months. The recommendations of these investors were supplemented by research into the advocacies of leading Filipino domestic business associations and foreign chambers of commerce.

Arangkada Philippines was published and released to the press in December 2010 at the Department of Trade and Industry with DTI Secretary Gregory Domingo, Board of Investments Managing Head Cristino Panlilio, and Philippine Economic Zone Authority Director-General Lilia de Lima. The 470-page document contains 471 recommendations. *Arangkada* Philippines was converted into a virtual document accessible on www.arangkadaphilippines.com.

On January 26, 2012, *Arangkada* held its First Anniversary Forum and released the First Anniversary Assessment, which evaluated progress in completing all 471 recommendations in the 2010 document. The advocacy coordinated some 40 experts — senior consultants, former public officials, business executives, and academics — who rated 462 of the 471 recommendations based on the six-star rating system:

- | | |
|------------------------|----------------------------|
| ☆ NO LONGER RELEVANT | ★★★★ STARTED |
| ★★ BACKWARD/REGRESSION | ★★★★★ SUBSTANTIAL PROGRESS |
| ★★★ NOT ONGOING | ★★★★★★ COMPLETED |

This document presents the *Arangkada* Philippines Second Anniversary Assessment, evaluating the year 2012. The results of the evaluations are presented in the following pages and will be posted on the *Arangkada* Philippines website.

ASSESSMENT SUMMARY

TOTAL RECOMMENDATIONS: 471

TOTAL RATED RECOMMENDATIONS: 462

Headline recommendations with sub-recommendations were not assessed. These headings can be found in Logistics, Mining, Tourism, Local Governance, and Macroeconomic Policy.

Rating	2012		2011	
	Tally	Percentage	Tally	Percentage
COMPLETED ★★★★★★	11	2.38%	5	1.08%
SUBSTANTIAL PROGRESS ★★★★★	74	16.02%	36	7.79%
STARTED ★★★★	205	44.37%	191	41.34%
NOT ONGOING ★★★	134	29%	168	36.36%
BACKWARD/REGRESSION ★★	25	5.41%	51	11.04%
NO LONGER RELEVANT ☆	13	2.81%	11	2.38%

Calculations of last year's tallies and percentages were adjusted to enable comparison with this year's data.

ACTIVE/MOVING RECOMMENDATIONS

Refer to recommendations that have scored at least four stars ("Started").

2012		2011	
Tally	Percentage	Tally	Percentage
290	64.59%	232	51.44%

Share of active/moving recommendations is given by the formula **Tally / (Total Rated Recommendations - No Longer Relevant)**.

DORMANT RECOMMENDATIONS

Refer to recommendations that were given the rating of either "Backward/Regression" (two stars) or "Not Ongoing" (three stars).

2012		2011	
Tally	Percentage	Tally	Percentage
159	35.41%	219	48.56%

Share of dormant recommendations is given by the same formula, which excludes the share of “No Longer Relevant” recommendations.

ANNUAL COMPARISON

This assessment shows the 2012 and 2011 ratings side by side for each recommendation. The comparative data allows us to break down the rated recommendations into three types:

Progress	Tally	Percentage
STEADY	258	57.46%
DECLINED	41	9.13%
IMPROVED	151	33.63%

- **Steady – Recommendations with unchanged ratings**
- **Declined – Recommendations with downgraded ratings**
- **Improved – Recommendations with upgraded ratings**

NO LONGER RELEVANT

Ratings that moved from “No Longer Relevant” in 2011 are tallied under “Steady” since “No Longer Relevant” does not necessarily mean government efforts were rated 1 out of 6. Mathematically, it is neither treated as a zero nor a one. Rather, it is best represented by the symbol “Ø”.

A rating that moved from “No Longer Relevant” to “Completed,” however, is tallied under “Improved”. (There is only one case of this in the assessment.)

Recommendations that are rated “No Longer Relevant” this year are excluded from all three tallies.

STALLED VERSUS SUSTAINED RECOMMENDATIONS

Furthermore, recommendations with unchanged ratings can be divided into two types:

- **Stalled – Recommendations which have remained dormant since last year**
- **Sustained – Recommendations which were completed last year as well as those which have maintained their rating of “Started” or “Substantial Progress.”**

STALLED	109	42.25%
SUSTAINED	149	57.75%

Second Anniversary Assessment Results (2012)

SECTION	COUNT	NLR	B/R	NO	St	SP	C	Steady	Declined	Improved	Stalled	Sustained	Active	Dormant
Growing Too Slow	8	0	0	2	4	2	0	5	0	3	2	3	6	2
Becoming More Competitive	3	0	0	0	1	2	0	2	1	0	0	2	3	0
Agribusiness	18	0	0	7	10	1	0	8	1	9	5	3	11	7
BPO	30	2	0	8	7	7	6	17	0	11	5	10	20	8
Creative industries	16	0	1	7	5	3	0	12	0	4	8	4	8	8
Infrastructure: Policy	25	1	1	5	11	4	3	10	3	11	2	6	18	6
Infrastructure: Airports	15	0	1	6	2	6	0	7	4	4	4	3	8	7
Infrastructure: Power	21	4	6	6	5	0	0	11	3	3	7	4	5	12
Infrastructure: Roads & Rails	9	1	0	2	3	2	1	3	0	5	1	2	6	2
Infrastructure: Seaports	20	0	0	12	7	1	0	11	3	6	9	2	8	12
Infrastructure: Telecommunications	11	0	0	6	5	0	0	6	2	3	4	2	5	6
Infrastructure: Water	9	0	0	2	7	0	0	8	0	1	2	6	7	2
Manufacturing	17	0	1	4	9	3	0	8	1	8	3	5	12	5
Logistics	22	2	1	10	4	5	0	13	4	3	8	5	9	11
Mining	32	2	3	11	12	4	0	22	4	5	11	11	16	14
Tourism, Medical Travel, and Retirement	32	0	1	5	22	4	0	21	3	8	4	17	26	6
Business Costs	16	0	2	6	7	1	0	8	2	6	3	5	8	8
Environment	14	0	0	0	14	0	0	9	0	5	0	9	14	0
Foreign Equity	12	0	0	5	7	0	0	7	1	4	3	4	7	5
Governance	16	0	0	4	12	0	0	6	4	6	2	4	12	4
Judicial	12	0	2	5	3	2	0	8	2	2	5	3	5	7
Labor	9	0	3	0	3	2	1	7	1	1	2	4	6	3
Legislation	13	0	1	5	3	4	0	8	1	4	5	3	7	6
Local Governance	15	0	1	1	6	7	0	4	0	11	2	2	13	2
Macroeconomic Policy	27	0	0	6	16	5	0	16	0	11	6	10	21	6
Security	15	0	0	4	7	4	0	4	1	10	1	3	11	4
Social Services: Education	12	0	0	2	9	1	0	7	0	5	2	5	10	2
Social Services: Health	9	1	0	2	3	3	0	7	0	1	2	5	6	2
Social Services: Poverty	4	0	1	1	1	1	0	3	0	1	1	2	2	2
TOTAL	462	13	25	134	205	74	11	258	41	151	109	144	290	159

First Anniversary Assessment Results (2011)

SECTION	COUNT	No Longer Relevant	Backward Regression	Not Ongoing	Started	Substantial Progress	Completed	Active	Dormant
Growing Too Slow	8	0	1	3	4	0	0	4	4
Becoming More Competitive	3	0	0	0	0	3	0	3	0
Agribusiness	18	0	1	12	5	0	0	5	13
BPO	30	3	4	7	7	7	2	16	11
Creative industries	16	0	1	10	4	1	0	5	11
Infrastructure: Policy	25	1	3	9	7	3	2	12	12
Infrastructure: Airports	15	0	0	5	6	4	0	10	5
Infrastructure: Power	21	2	5	5	9	0	0	9	10
Infrastructure: Roads & Rails	9	0	2	3	4	0	0	4	5
Infrastructure: Seaports	20	0	0	14	6	0	0	6	14
Infrastructure: Telecommunications	11	0	1	6	4	0	0	4	7
Infrastructure: Water	9	0	0	3	6	0	0	6	3
Manufacturing	17	0	1	7	9	0	0	9	8
Logistics	22	3	2	8	6	3	0	9	10
Mining	32	1	3	13	12	3	0	15	16
Tourism, Medical Travel, and Retirement	32	1	1	6	22	2	0	24	7
Business Costs	16	0	5	4	7	0	0	7	9
Environment	14	0	2	3	9	0	0	9	5
Foreign Equity	12	0	3	4	5	0	0	5	7
Governance	16	0	1	4	8	3	0	11	5
Judicial	12	0	2	4	5	1	0	6	6
Labor	9	0	2	1	4	1	1	6	3
Legislation	13	0	1	4	8	0	0	8	5
Local Governance	15	0	3	6	5	1	0	6	9
Macroeconomic Policy	27	0	0	13	13	1	0	14	13
Security	15	0	5	4	6	0	0	6	9
Social Services: Education	12	0	0	7	5	0	0	5	7
Social Services: Health	9	0	0	3	4	2	0	6	3
Social Services: Poverty	4	0	2	0	1	1	0	2	2
TOTAL	462	11	51	168	191	36	5	232	219

OVERALL TALLY



SECOND ANNIVERSARY ASSESSMENT 2012

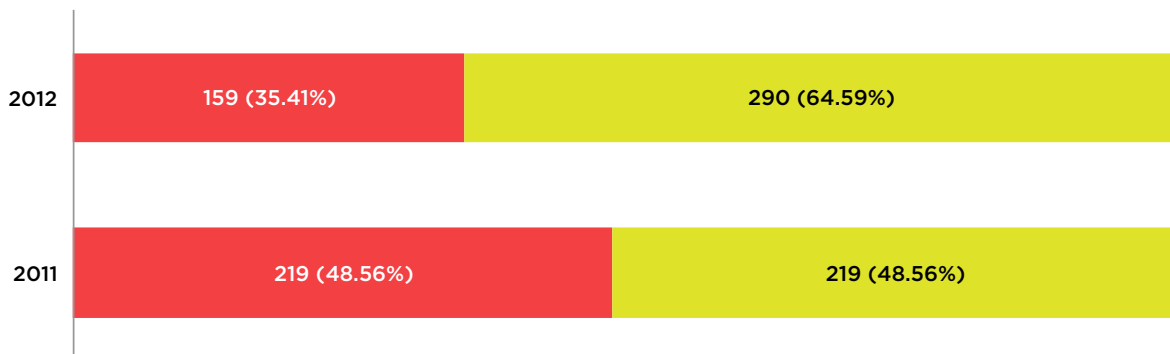
COMPLETED ★★★★★★	11	(2.38%)
SUBSTANTIAL PROGRESS ★★★★★	74	(16.02%)
STARTED ★★★★	205	(44.37%)
NOT ONGOING ★★★	134	(29%)
BACKWARD/REGRESSION ★★	25	(5.41%)
NO LONGER RELEVANT ☆	13	(2.81%)

FIRST ANNIVERSARY ASSESSMENT 2011

COMPLETED ★★★★★★	5	(1.08%)
SUBSTANTIAL PROGRESS ★★★★★	36	(7.79%)
STARTED ★★★★	191	(41.34%)
NOT ONGOING ★★★	168	(36.36%)
BACKWARD/REGRESSION ★★	51	(11.04%)
NO LONGER RELEVANT ☆	11	(2.38%)



DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



PROGRESS OF RATINGS



IMPROVED	151	(33.63%)
DECLINED	41	(9.13%)
STEADY	258	(57.46%)
STALLED	109	(42.25%)
SUSTAINED	149	(57.75%)

SECTION SUMMARIES

PART 1: GROWING TOO SLOW

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	0	2	4	2	0	6	2	8
2011	0	1	3	4	0	0	4	4	
Percentage 2012	0%	0%	25%	50%	25%	0%	75%	25%	
2011	0%	12.50%	37.50%	50%	0%	0%	50%	50%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



PART 2: BECOMING MORE COMPETITIVE

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	0	0	1	2	0	3	0	3
2011	0	0	0	0	3	0	3	0	
Percentage 2012	0%	0%	0%	33.33%	66.67%	0%	100%	0%	
2011	0%	0%	0%	0%	100%	0%	100%	0%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



AGRIBUSINESS (PART 3: BIG WINNER SECTORS)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	0	7	10	1	0	11	7	18
2011	0	1	12	5	0	0	5	13	
Percentage 2012	0%	0%	38.89%	55.56%	5.56%	0%	61.11%	38.89%	
2011	0%	5.56%	66.67%	27.78%	0%	0%	27.78%	72.22%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



BUSINESS PROCESS OUTSOURCING (PART 3)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	2	0	8	7	7	6	20	7	30
2011	3	4	7	7	7	2	16	13	
Percentage 2012	6.67%	0%	26.67%	23.33%	23.33%	20%	71.43%	38.89%	
2011	10%	13.33%	23.33%	23.33%	23.33%	6.67%	59.26%	72.22%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



CREATIVE INDUSTRIES (PART 3)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	1	7	5	3	0	8	8	16
2011	0	1	10	4	1	0	5	11	
Percentage 2012	0%	6.25%	43.75%	31.25%	18.75%	0%	50%	50%	
2011	0%	6.25%	62.50%	25%	6.25%	0%	31.25%	68.75%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



INFRASTRUCTURE: POLICY (PART 3)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	1	1	5	11	4	3	18	6	25
2011	1	3	9	7	3	2	12	12	
Percentage 2012	4%	4%	20%	44%	16%	12%	75%	25%	
2011	4%	12%	36%	28%	12%	8%	50%	50%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



INFRASTRUCTURE: AIRPORTS (PART 3)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	1	6	2	6	0	8	7	15
2011	0	0	5	6	4	0	10	5	
Percentage 2012	0%	6.67%	40%	13.33%	40%	0%	53.33%	46.67%	
2011	0%	0%	33.33%	40%	26.67%	0%	66.67%	33.33%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



INFRASTRUCTURE: POWER (PART 3)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	4	6	6	5	0	0	5	12	21
2011	2	5	5	9	0	0	9	10	
Percentage 2012	19.05%	28.57%	28.57%	23.81%	0%	0%	29.41%	70.59%	
2011	9.52%	23.81%	23.81%	42.86%	0%	0%	47.37%	52.63%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



INFRASTRUCTURE: ROADS & RAILS (PART 3)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	1	0	2	3	2	1	6	2	9
2011	0	2	3	4	0	0	4	5	
Percentage 2012	11.11%	0%	22.22%	33.33%	22.22%	11.11%	75%	25%	
2011	0%	22.22%	33.33%	44.44%	0%	0%	44.44%	55.56%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



INFRASTRUCTURE: SEAPORTS (PART 3)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	0	12	7	1	0	8	12	20
2011	0	0	14	6	0	0	6	14	
Percentage 2012	0%	0%	60%	35%	5%	0%	40%	60%	
2011	0%	0%	70%	30%	0%	0%	30%	70%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



INFRASTRUCTURE: TELECOMMUNICATIONS (PART 3)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	0	6	5	0	0	5	6	11
2011	0	1	6	4	0	0	4	7	
Percentage 2012	0%	0%	54.55%	45.45%	0%	0%	45.45%	54.55%	
2011	0%	9.09%	54.55%	36.36%	0%	0%	36.36%	63.64%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



INFRASTRUCTURE: WATER (PART 3)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	0	2	7	0	0	7	2	9
2011	0	0	3	6	0	0	6	3	
Percentage 2012	0%	0%	22.22%	77.78%	0%	0%	77.78%	22.22%	
2011	0%	0%	33.33%	66.67%	0%	0%	66.67%	33.33%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



MANUFACTURING (PART 3)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	1	4	9	3	0	12	5	17
2011	0	1	7	9	0	0	9	8	
Percentage 2012	0%	5.88%	23.53%	52.94%	17.65%	0%	70.59%	29.41%	
2011	0%	5.88%	41.18%	52.94%	0%	0%	52.94%	47.06%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



LOGISTICS (PART 3)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	2	1	10	4	5	0	9	11	22
2011	3	2	8	6	3	0	9	10	
Percentage 2012	9.09%	4.55%	45.45%	18.18%	22.73%	0%	45%	55%	
2011	13.64%	9.09%	36.36%	27.27%	13.64%	0%	47.37%	52.63%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



TOURISM, MEDICAL TRAVEL, & RETIREMENT (PART 3)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	1	5	22	4	0	26	6	32
2011	1	1	6	22	2	0	24	7	
Percentage 2012	0%	3.13%	15.63%	68.75%	12.50%	0%	81.25%	18.75%	
2011	3.13%	3.13%	18.75%	68.75%	6.25%	0%	77.42%	22.58%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



MINING (PART 3)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	2	3	11	12	4	0	16	14	32
2011	1	3	13	12	3	0	15	16	
Percentage 2012	6.25%	9.38%	34.38%	37.50%	12.50%	0%	53.33%	46.67%	
2011	3.13%	9.38%	40.63%	37.50%	9.38%	0%	48.39%	51.61%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



BUSINESS COSTS (PART 4: GENERAL BUSINESS ENVIRONMENT)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	2	6	7	1	0	8	8	16
2011	0	5	4	7	0	0	7	9	
Percentage 2012	0%	12.50%	37.50%	43.75%	6.25%	0%	50%	50%	
2011	0%	31.25%	25%	43.75%	0%	0%	43.75%	56.25%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



ENVIRONMENT & NATURAL DISASTERS (PART 4)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	0	0	14	0	0	14	0	14
2011	0	2	3	9	0	0	9	5	
Percentage 2012	0%	0%	0%	100%	0%	0%	100%	0%	
2011	0%	14.29%	21.43%	64.29%	0%	0%	64.29%	35.71%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



FOREIGN EQUITY & PROFESSIONALS (PART 4)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	0	5	7	0	0	7	5	12
2011	0	3	4	5	0	0	5	7	
Percentage 2012	0%	0%	41.67%	58.33%	0%	0%	58.33%	41.67%	
2011	0%	25%	33.33%	41.67%	0%	0%	41.67%	58.33%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



GOVERNANCE (PART 4)

DATA	0	0	4	12	0	0	12	4	COUNT
Tally – 2012	0	1	4	8	3	0	11	5	16
2011	0%	0%	25%	75%	0%	0%	75%	25%	
Percentage 2012	0%	6.25%	25%	50%	18.75%	0%	68.75%	31.25%	
2011	0%	0%	33.33%	66.67%	0%	0%	66.67%	33.33%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



JUDICIAL (PART 4)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	2	3	11	12	4	0	16	14	12
2011	1	3	13	12	3	0	15	16	
Percentage 2012	6.25%	9.38%	34.38%	37.50%	12.50%	0%	53.33%	46.67%	
2011	3.13%	9.38%	40.63%	37.50%	9.38%	0%	48.39%	51.61%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



LABOR (PART 4)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	3	0	3	2	1	6	3	9
2011	0	2	1	4	1	1	6	3	
Percentage 2012	0%	33.33%	0%	33.33%	22.22%	11.11%	66.67%	33.33%	
2011	0%	22.22%	11.11%	44.44%	11.11%	11.11%	66.67%	33.33%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



LEGISLATION (PART 4)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	1	5	3	4	0	7	6	13
2011	0	1	4	8	0	0	8	5	
Percentage 2012	0%	7.69%	38.46%	23.08%	30.77%	0%	53.85%	46.15%	
2011	0%	7.69%	30.77%	61.54%	0%	0%	61.54%	38.46%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



LOCAL GOVERNANCE (PART 4)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	1	1	6	7	0	13	2	15
2011	0	3	6	5	1	0	6	9	
Percentage 2012	0%	6.67%	6.67%	40%	46.67%	0%	86.67%	13.33%	
2011	0%	20%	40%	33.33%	6.67%	0%	40%	60%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



MACROECONOMIC POLICY (PART 4)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	0	6	16	5	0	21	6	27
2011	0	0	13	13	1	0	14	13	
Percentage 2012	0%	0%	22.22%	59.26%	18.52%	0%	77.78%	22.22%	
2011	0%	0%	48.15%	48.15%	3.70%	0%	51.85%	48.15%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



SECURITY (PART 4)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	0	4	7	4	0	11	4	15
2011	0	5	4	6	0	0	6	9	
Percentage 2012	0%	0%	26.67%	46.67%	26.67%	0%	73.33%	26.67%	
2011	0%	33.33%	26.67%	40%	0%	0%	40%	60%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



SOCIAL SERVICES: EDUCATION (PART 4)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	0	2	9	1	0	10	2	12
2011	0	0	7	5	0	0	5	7	
Percentage 2012	0%	0%	16.67%	75%	8.33%	0%	83.33%	16.67%	
2011	0%	0%	58.33%	41.67%	0%	0%	41.67%	58.33%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



SOCIAL SERVICES: HEALTH & POPULATION (PART 4)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	1	0	2	3	3	0	6	2	9
2011	0	0	3	4	2	0	6	3	
Percentage 2012	11.11%	0%	22.22%	33.33%	33.33%	0%	75%	25%	
2011	0%	0%	33.33%	44.44%	22.22%	0%	66.67%	33.33%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



SOCIAL SERVICES: POVERTY (PART 4)

DATA	NLR	B/R	NO	St	SP	C	ACTIVE	DORMANT	COUNT
Tally – 2012	0	1	1	1	1	0	2	2	4
2011	0	2	0	1	1	0	2	2	
Percentage 2012	0%	25%	25%	25%	25%	0%	50%	50%	
2011	0%	50%	0%	25%	25%	0%	50%	50%	

DORMANT RECOMMENDATIONS VS ACTIVE RECOMMENDATIONS



2013 COMPETIVENESS RANKINGS

SURVEY TITLE	2012 RP RANKING	PREVIOUS RP RANKING*	ASEAN-6 POSITION	TREND	DATE OF NEXT RELEASE
Best Countries for Business ¹	87 /141	87 /134	5 /6	Improved	Nov. 2013
Failed States Index ²	56 /177	50 /177	6 /6	Improved	June 2013
Index of Economic Freedom ³	97 /177	107 /179	4 /6	Improved	Jan. 2014
World Competitiveness Yearbook ⁴	43 /59	41 /59	5 /5	Deteriorated	May 2013
International Property Rights ⁵	87 /130	87 /129	6 /6	Improved	April 2013
Corruption Perception Index ⁶	105 /174	129 /183	4 /6	Improved	Dec. 2013
Human Development Report ⁷		112 /187	4 /6	N/A	Nov. 2012
E-governance Readiness Survey ⁸	88 /190	78 /184	4 /6	Deteriorated	Mar. 2014
Doing Business ⁹	138 /186	136 /183	6 /6	Stable	Oct. 2013
Investing Across Borders ¹⁰	N/A	87 countries	N/A	N/A	Indefinite
Paying Taxes ¹¹	135 /183	124 /183	5 /6	Deteriorated	Nov. 2013
Global Competitiveness Report ¹²	65 /144	75 /142	5 /6	Improved	Sept. 2013
Global Enabling Trade Report ¹³	72 /132	92 /125	6 /6	Improved	May 2014
Travel & Tourism Competitiveness ¹⁴	94 /139	94 /139	6 /6	Stable	May 2013
Environmental Performance Index ¹⁵	42 /132	50 /163	3 /6	Improved	Jan 2013

**All surveys conducted in 2012, except for Human Development Report (2011) and Investing Across Borders (2010).*

Sources: 1. Forbes Magazine, 2. Foreign Policy Magazine/The Fund for Peace, 3. Heritage Foundation/Wall Street Journal, 4. International Institute of Management Development, 5. Property Rights Alliance, 6. Transparency International, 7. United Nations Development Programme, 8. UN Public Administration Network, 9, 10, 11. World Bank, 12,13,14. World Economic Forum, and 15. Yale Center for Environmental Law & Policy.'

Improved Rankings: 8

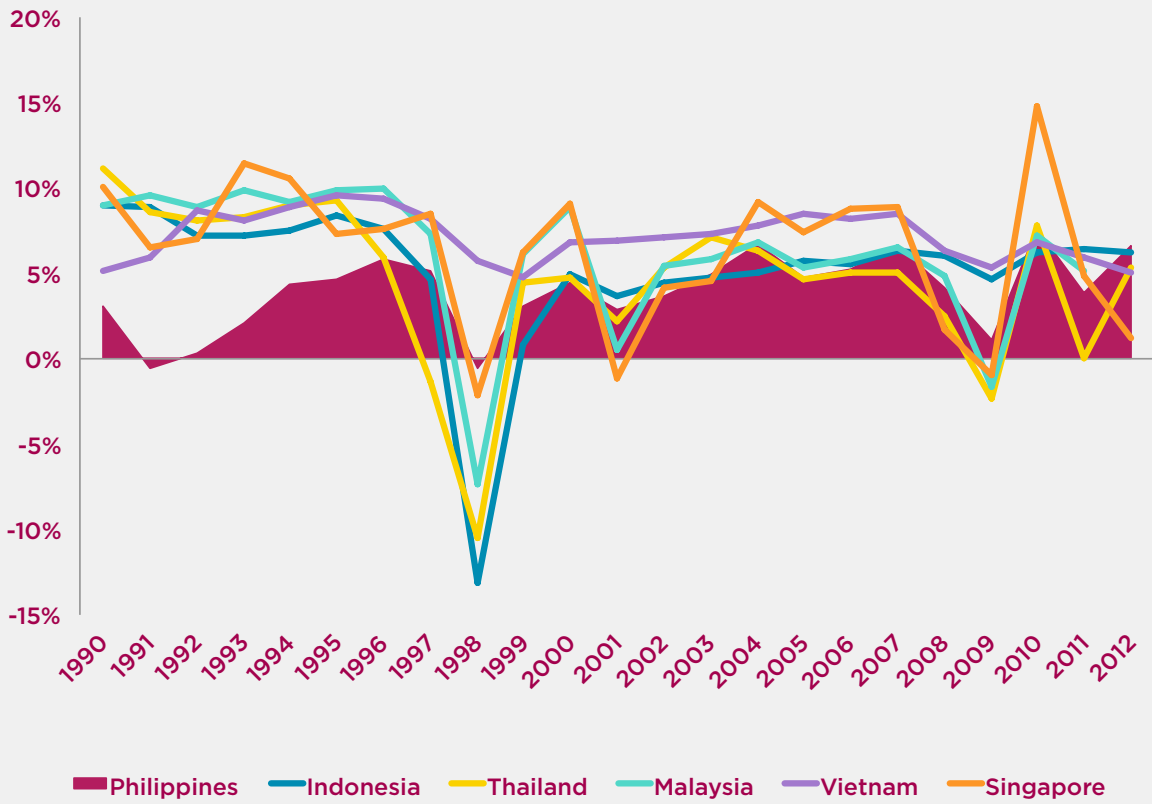
Stable Rankings: 2

Deteriorated Rankings: 3

Not Yet Released: 2

PART 1

GROWING TOO SLOW



REAL GDP GROWTH RATES AMONG THE ASEAN-6 FROM 1990 TO 2012

RECOMMENDATIONS: 8

PROGRESS	RATINGS	RATINGS
IMPROVED 3	☆ 0	★★★★ 4
DECLINED 0	★★ 0	★★★★★ 2
STEADY 5	★★★ 2	★★★★★★ 0

PART 1

GROWING TOO SLOW

“In spite of the country’s achievements in 2012, the government will definitely not be lulled to complacency... We shall continue planting the seeds of a structural transformation in our economy to make it more investment and industry-led.”

— Secretary Arsenio M. Balisacan
National Economic Development Authority (NEDA)

“I believe that the most pressing challenge we need to face is that of ensuring inclusive economic growth. In other words, we need to ensure that the expansion of the economy also creates more jobs and livelihood opportunities, and that it contributes meaningfully to poverty reduction.”

— Secretary Florencio B. Abad
Department of Budget and Management (DBM)
at the Philippines Development Forum, Davao City, February 4, 2013

The biggest challenge facing the Philippines is to move the economy to a higher level of growth and job creation. Per capita income (PCI) barely grew during the 1980s and 1990s, with high population growth and boom-bust business cycles shaped by intermittent political turmoil and costly lapses in economic management. Of the six major members of the Association of Southeast Asian Nations (ASEAN-6), for the past five decades, the Philippines had the lowest gross domestic product (GDP) and PCI growth. But since 1999 through 2010, real GDP growth improved and averaged 4.6%. For the three-year period 2010 to 2012, GDP growth averaged 6% bracketed by 7.6% in 2010 and 6.6% in 2012. Growth of 6.6% in 2012 made the Philippines the fastest growing economy of the ASEAN-6 economies, just ahead of Indonesia.


RECOMMENDATION 1

 Double the GDP growth rate to 9% supported by a clear long-term industry policy.



The growth of the Philippine economy at 6.6% in 2012 surpassed expectations, following 7.6% in 2010 and 3.9% in 2011. Growth in 2012 came in spite of global economic weakness and was the highest of the large ASEAN economies. The Philippine Development Plan (PDP) continues to target 7% to 8% growth in order for it to be inclusive. Increasing infrastructure spending must be sustained to encourage high gross capital formation, including foreign direct investments (FDI), which remains anemic for an economy the size of the Philippines. In 2012, the Department of Trade and Industry (DTI) assigned priority to manufacturing by encouraging industry groups to prepare roadmaps, which are to be completed in 2013.

RECOMMENDATION 2

 Job creation by the private sector should receive extremely high priority.



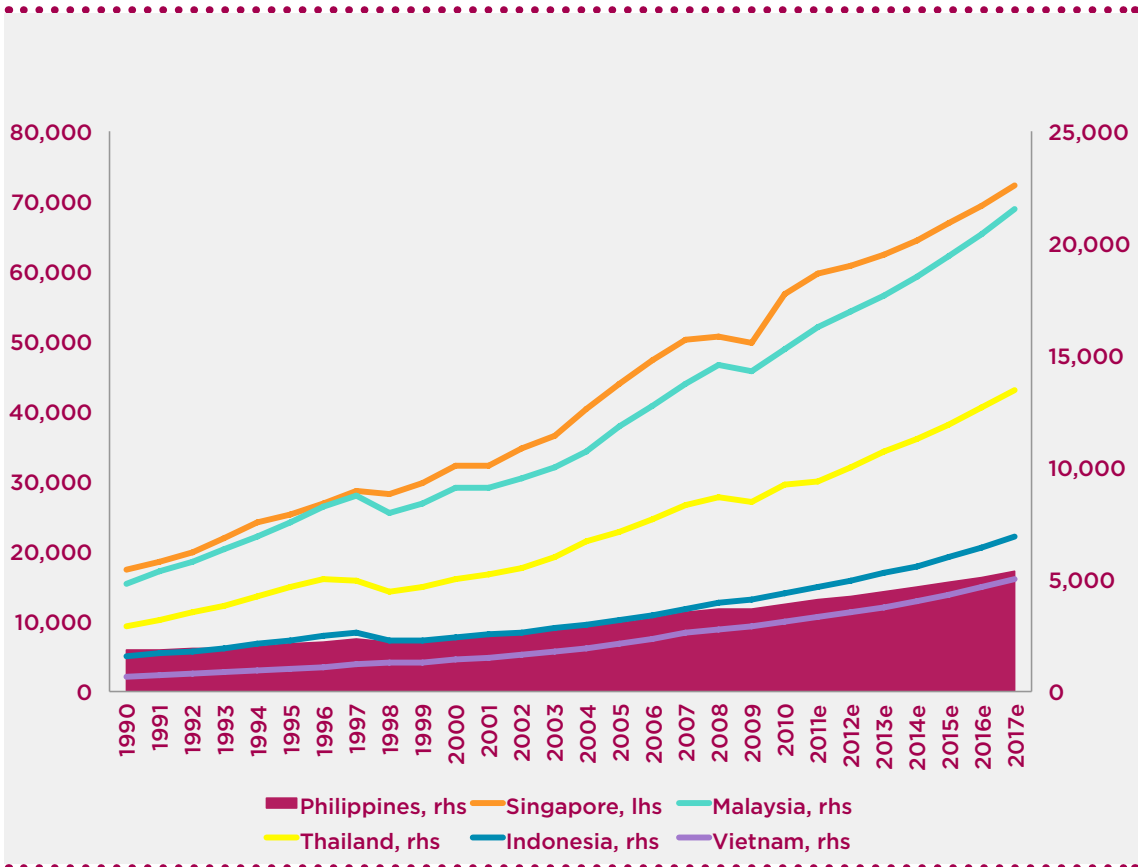
While more jobs are a priority, they are not being created fast enough to reduce the 7% unemployment rate in the 40 million workforce, the world's 16th largest. The private sector creates jobs in response to demand for its products and services. Success at accelerating manufacturing and tourism sector growth and reforming the long underperforming agribusiness sector could provide millions of new jobs. Construction and consumption from remittances comprise a sizeable part of the economy, but jobs in these sectors are low paying and often temporary. Underemployment remains very high at over 18%.

RECOMMENDATION 3

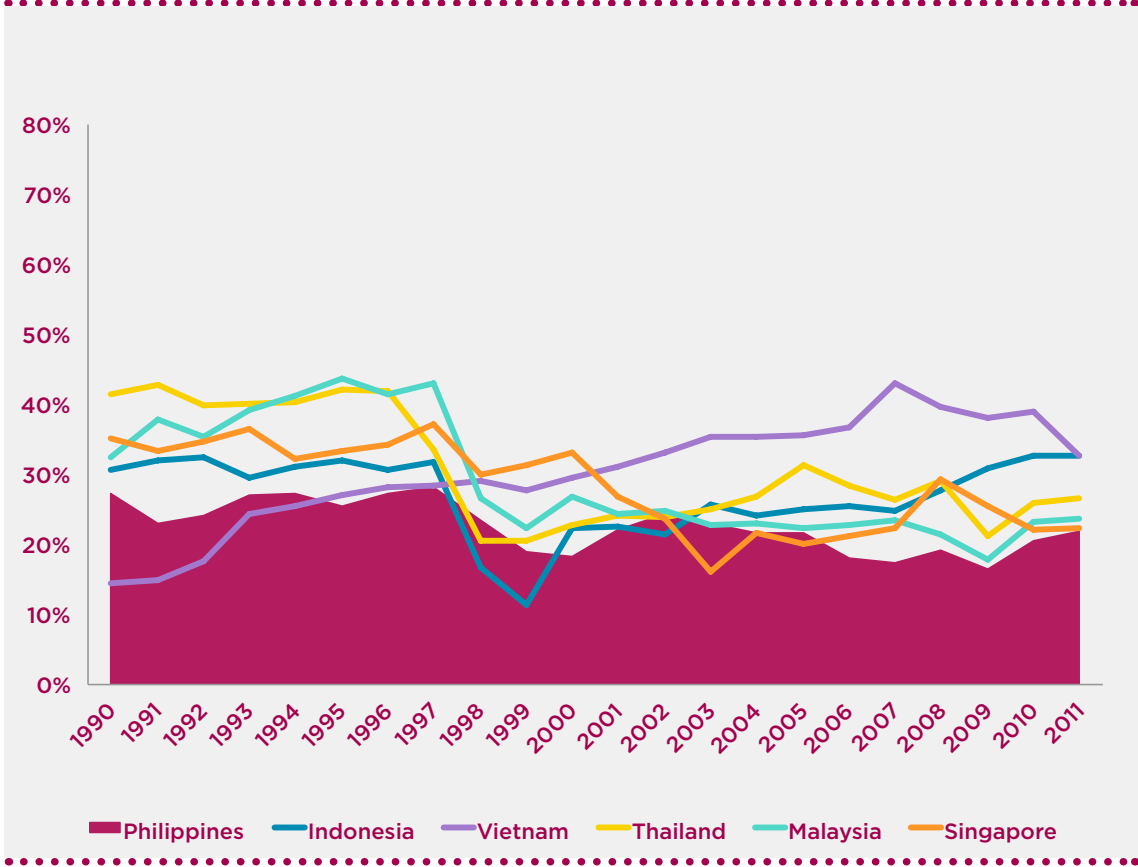
 FDI should be targeted to reach over US\$7 billion a year in three to four years.



GDP PER CAPITA, PPP, ASEAN-6, 1990 TO 2017E IN CURRENT INTERNATIONAL US\$



GROSS INVESTMENTS, % OF GDP AMONG THE ASEAN-6 FROM 1990 TO 2011



Net FDI remained below \$2 billion per annum in 2012, as the Philippines continued to receive much lower inflows than Indonesia, Malaysia, Singapore, Thailand, and Vietnam in the ASEAN group. With much higher approval levels for the country's 12 Investment Promotion Agencies (IPAs), according to Board of Investments (BOI) data, there appears to be more FDI than measured by the Bangko Sentral ng Pilipinas (BSP), the Philippine central bank. By contrast, the Philippine Stock Exchange (PSE) caught fire in 2012 rising 44.5% since the beginning of 2012 as of February 1, 2013 on the strength of foreign fund managers growing optimism for the Philippine economic growth story, including steady upgrades by rating agencies but adding to peso appreciation. Almost \$4 billion worth of net foreign portfolio investment flowed in during 2012.

RECOMMENDATION 4



Export target of \$100 million in five to six years.



The export target for the private and public sectors of \$110 billion represents a doubling from 2010. Based on BSP's data, exports of goods and services from January to September 2012 increased by 9.5% in 2012 to \$52.7 billion (estimated to \$67.8 billion for full year) versus the \$48.1 billion in the same period in 2011 and \$48.4 billion in 2010. Continued weak demand from major traditional markets and slowing of the People's Republic of China economy cooled export growth in 2012. There were indicators that electronics was a smaller percent of total merchandise export value in 2012, dropping to 49% from 52% recorded in the first 11 months of 2011. While exports grew 7% during the period, the value of electronic shipments declined by 1%.

RECOMMENDATION 5



Adequate funds should be made available for international promotion.



Aggressive overseas promotion remains weak. There is nothing comparable for the Philippines to the slick CNN ads of Indonesia's IPA. The Department of Tourism (DOT) launched its "More Fun in the Philippines" campaign, but its National Tourism Development Plan has not been released over 12 months after final draft. Overseas investment missions focus on Japan, which has a strong presence in manufacturing. Inbound business missions doubled in 2012 to 25 from 12. The Public-Private Partnership (PPP) Center promoted the Light Rail Transit (LRT)-1 South Extension project in Northeast Asia and Europe. Business leaders often accompany President Aquino on overseas trips, e.g. to the United Kingdom and the United States in mid-2012. The Administration has engaged a major international public relations firm but with a small budget.

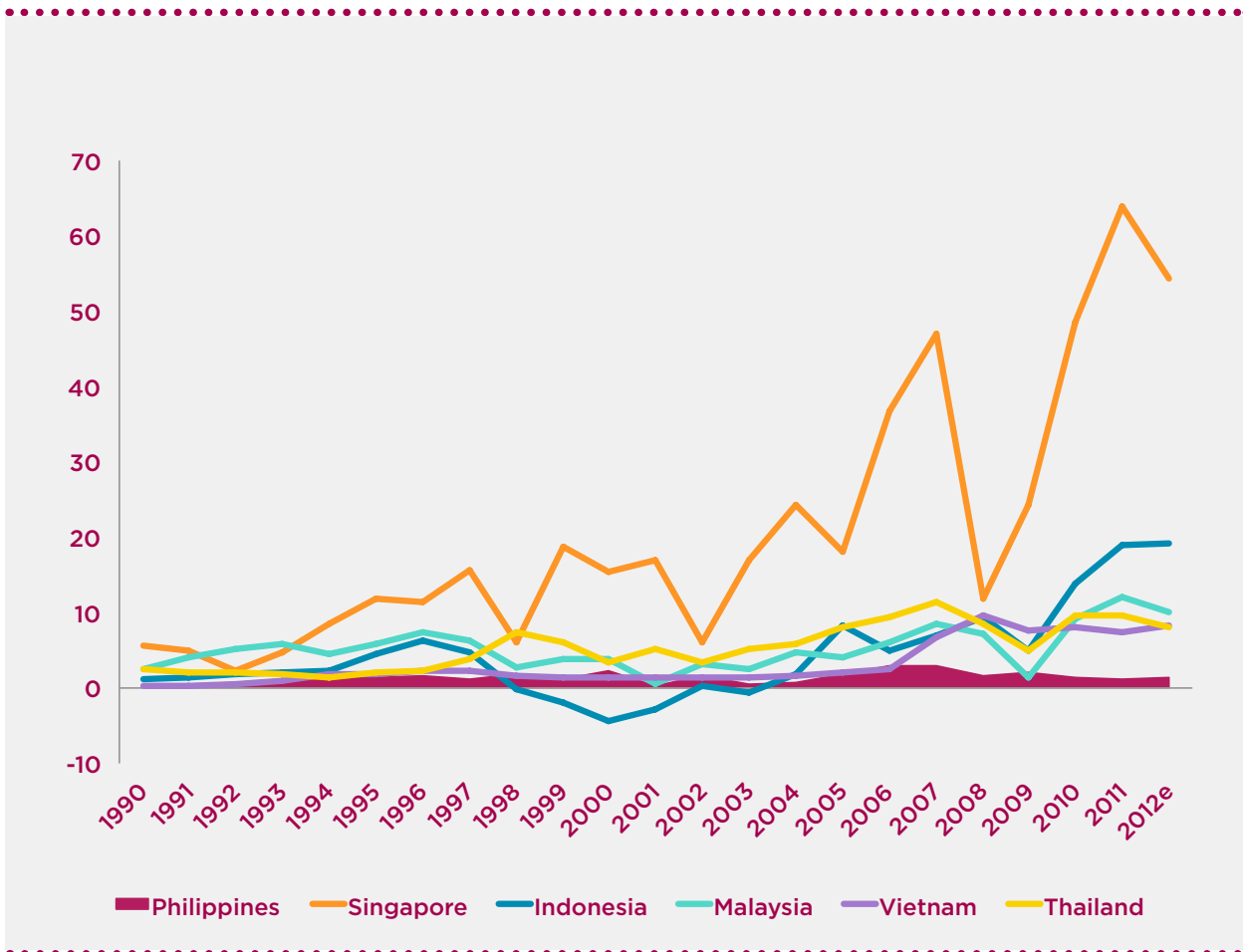
RECOMMENDATION 6

Remittances channeled into productive investments.



At \$22 billion in 2012, remittances are mostly spent on paying debt and basic consumption needs of families in the Philippines. Only 6.8% are spent on investments, according to the Commission on Filipinos Overseas (CFO). Financial education for overseas Filipino workers (OFWs) and their families is needed. The Personal Equity Retirement Account law (RA 9505) that creates a new savings vehicle for OFWs has yet to be implemented four years after its signing. The introduction of exchange-traded funds (ETF) in PSE in 2013 could be helpful.

NET FDI AMONG THE ASEAN-6 FROM 1990 TO 2012E IN US\$ BILLIONS



RECOMMENDATION 7



Double funds for growth-promoting expenditures through less waste in government spending, more effective tax collection, and selectively increasing taxes.



Revenue intake is growing slowly with administrative reforms at the Bureau of Internal Revenue (BIR), but the Bureau of Customs (BOC) still underperforms and is challenged by corruption. The alcohol, cigarettes, tobacco (ACT) excise tax reforms (commencing January 2013) and strong economic growth will improve receipts. BIR has stated there is potential for PhP300 billion by proper collection of income taxes from professionals. No other tax increases have been proposed by the Administration, but one measure to increase the allowable deductions for dependents may erode revenue. It appears spending corruption is being reduced by better procurement procedures and increased transparency. Citizen monitoring of spending is encouraged. Zero-Based Budgeting and the Performance-Based Bonus System are being introduced. There is over 10% growth in successive budgets for education, health, hard infrastructure, and defense. For example, the 2013 Department of Public Works and Highways (DPWH) and Department of Transportation and Communications (DOTC) budgets have nearly \$4 billion for road, rail, flood control, and other infrastructure projects, and the Department of Education (DepEd) budget has almost doubled in three years.

RECOMMENDATION 8



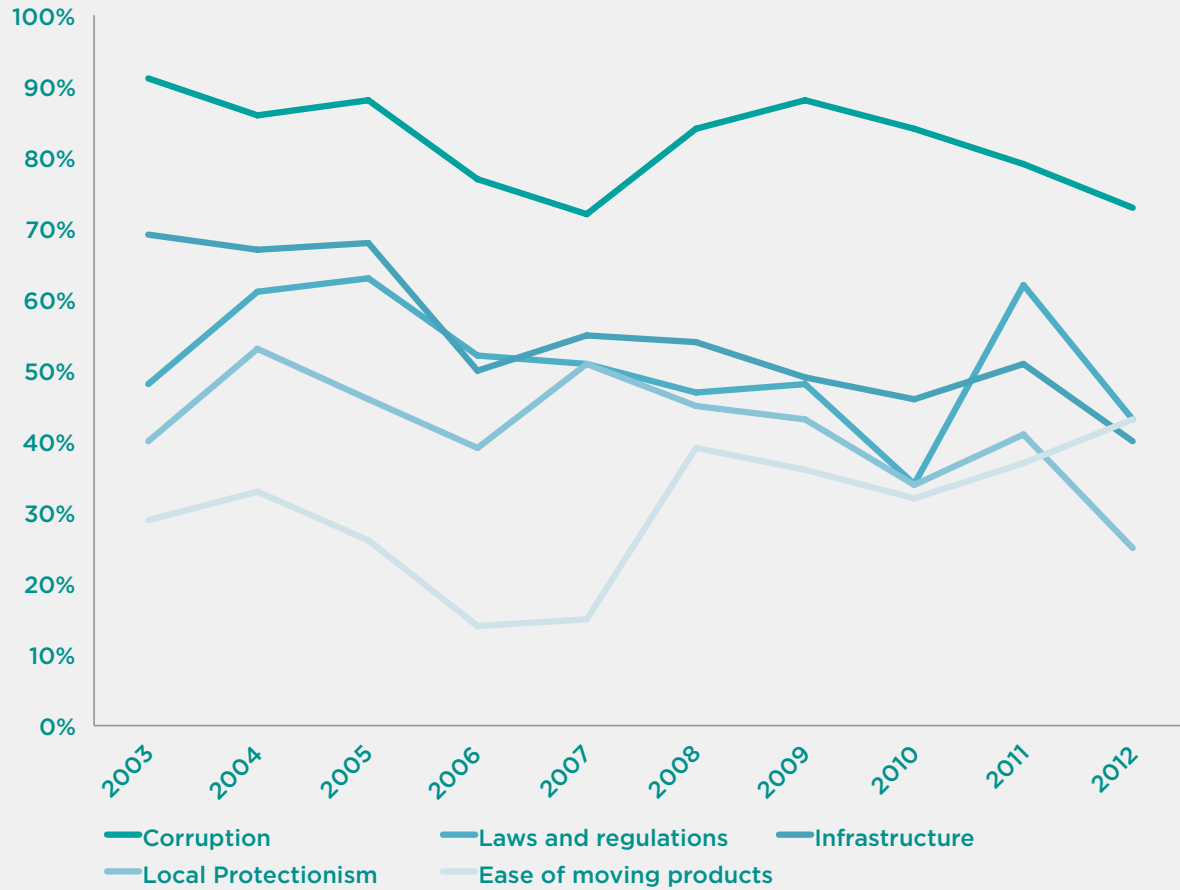
Organize a Special Experts Group to recommend key reforms to make the economy grow at least 9%.



No Special Experts Group advises the President or his cabinet. There is considerable interaction between public and private sectors. The revitalized National Competitiveness Council (NCC) brings public and private sector experts together in 11 Working Groups to monitor specific policy and program implementation and to move reform proposals to the Economic Development Cluster. (The NCC website, however, shows few such proposals.) The Institute for Solidarity in Asia is managing the Performance Governance System and tracking critical measures for organizational reform in 12 participating national government agencies—BIR, Civil Service Commission (CSC), Development Academy of the Philippines, DepEd, Department of Health (DOH), DOTC, DPWH, Department of Social Welfare and Development (DSWD), Maritime Industry Authority (MARINA), Philippine Army (PA), Philippine Navy (PN), Philippine National Police (PNP)—and several local government units (LGUs).

PART 2

BECOMING MORE COMPETITIVE



TOP AREAS OF DISSATISFACTION, PERCENT OF RESPONDENTS, PHILIPPINES, 2003 TO 2012

RECOMMENDATIONS: 3

PROGRESS	
IMPROVED	0
DECLINED	1
STEADY	2

RATINGS	
☆	0
★★	0
★★★	0

RATINGS	
★★★★	1
★★★★★	2
★★★★★★	0

PART 2

BECOMING MORE COMPETITIVE

While Filipinos are highly competitive in the world job market, the country's domestic competitiveness has declined. Global rating surveys abound with ever-expanding coverage, stimulated by the globalization of investment, trade, and information. Until recently, the Philippines was being left behind by most neighbors in too many measures of competitiveness. Indonesia and Vietnam, ranked lower in the past, were overtaking the country. The Philippines was on a downward trajectory in international competitiveness rankings during the last decade, especially for corruption, governance, and infrastructure. Focused efforts to reverse the trend after being underway for several years are beginning to take effect, especially since 2010. Efforts to reverse the trend must be sustained and intensified to produce more positive results sooner.

10 LESSONS ON COMPETITIVENESS BY GUILLERMO M. LUZ (PRIVATE SECTOR CO-CHAIR, NATIONAL COMPETITIVENESS COUNCIL — NCC)

1. Transparency leads to competitiveness.
2. "Work in progress" is not good enough.
3. Execution and delivery matter.
4. Teamwork is important.
5. We need to work on multiple fronts.
6. The competition never sleeps.
7. The bar always rises.
8. "Speed to reform" is important.
9. Maintaining momentum is important.
10. We need to institutionalize change.

RECOMMENDATION 1

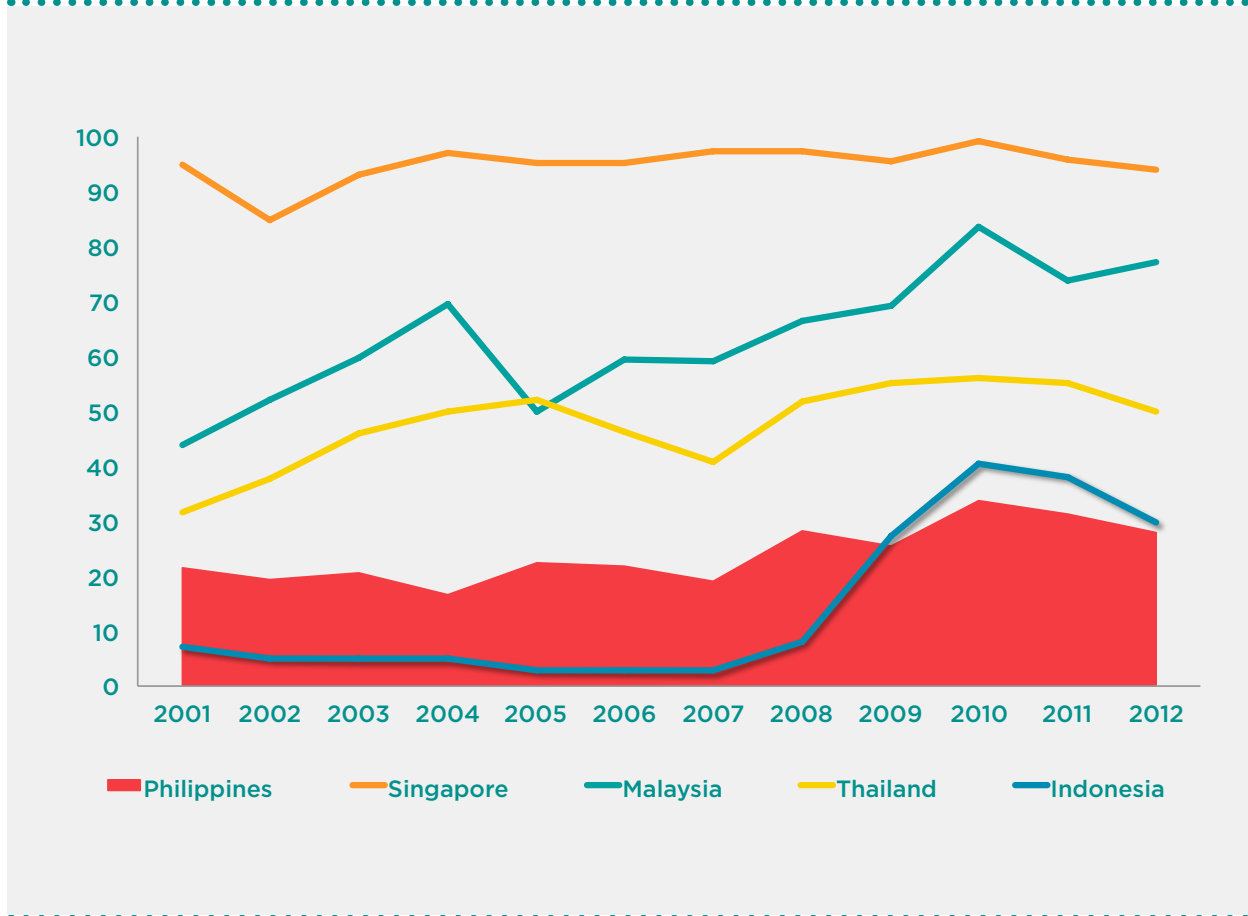


Undertake aggressive efforts to improve rankings faster. Government and private sector should select areas of competitiveness most important to investors where the Philippines can move up and focus resources on improving these.

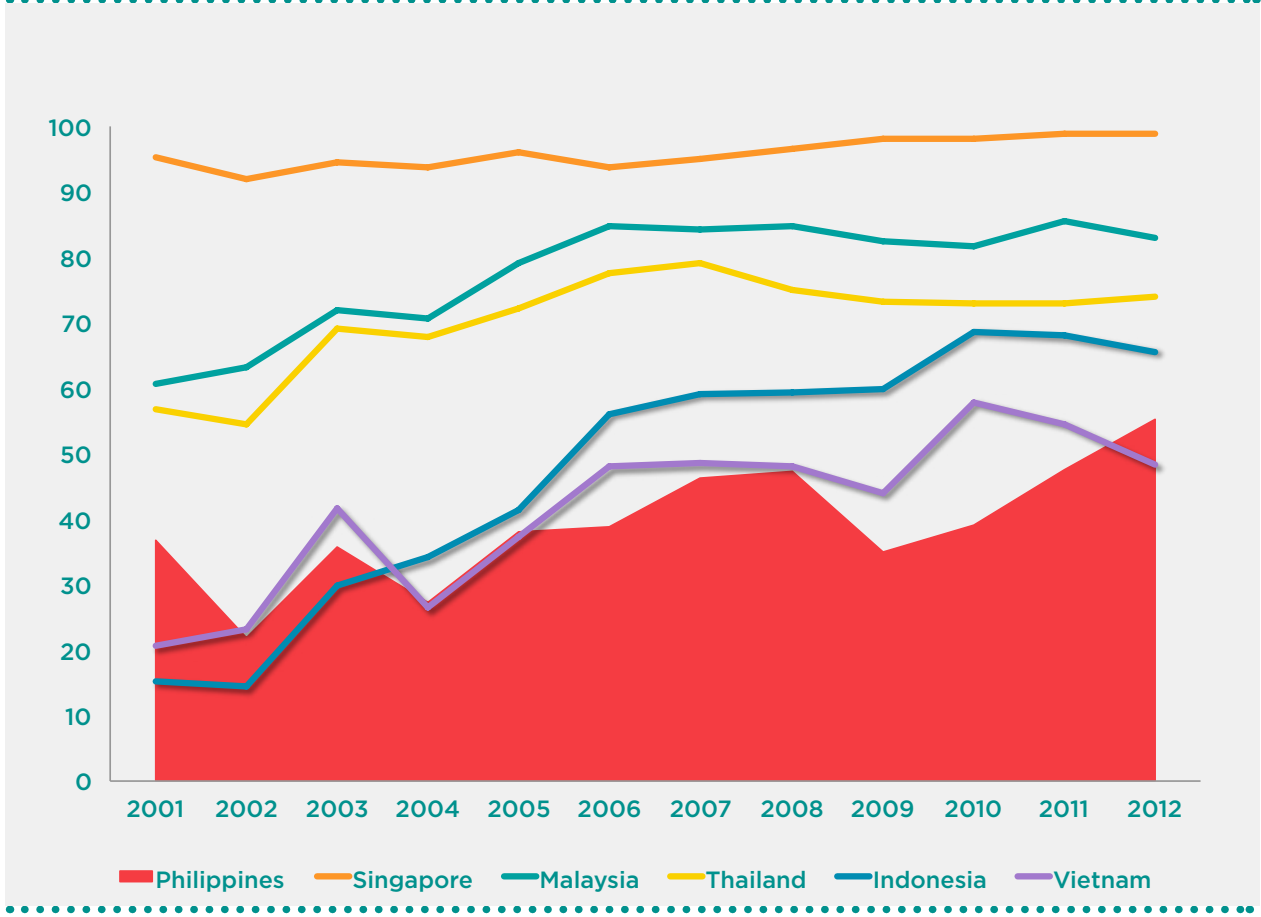


The campaign to improve rankings is underway but should move faster. Domestic and foreign business groups continuously advocate reforms. NCC has 11 working groups (see www.competitive.org.ph) focused on key reform areas, which systematically seek to raise Philippine rankings into the top third of five global ratings: (1) International Institute for Management Development (IMD) World Competitiveness Yearbook, (2) Transparency International (TI) Corruption Perception Index, (3) World Economic Forum (WEF) Global Competitiveness Report, (4) International Finance Corporation (IFC)-World Bank (WB) Doing Business Report, (5) FutureBrand's Country Brand Index. But the competition never sleeps, the bar always moves up, and more key decision-makers should embrace change faster.

IMD WORLD COMPETITIVENESS, ASEAN-5, PERCENTILE RANKINGS, FROM 2001 TO 2012



GLOBAL COMPETITIVENESS, ASEAN-6, PERCENTILE RANKINGS, FROM 2001 TO 2012



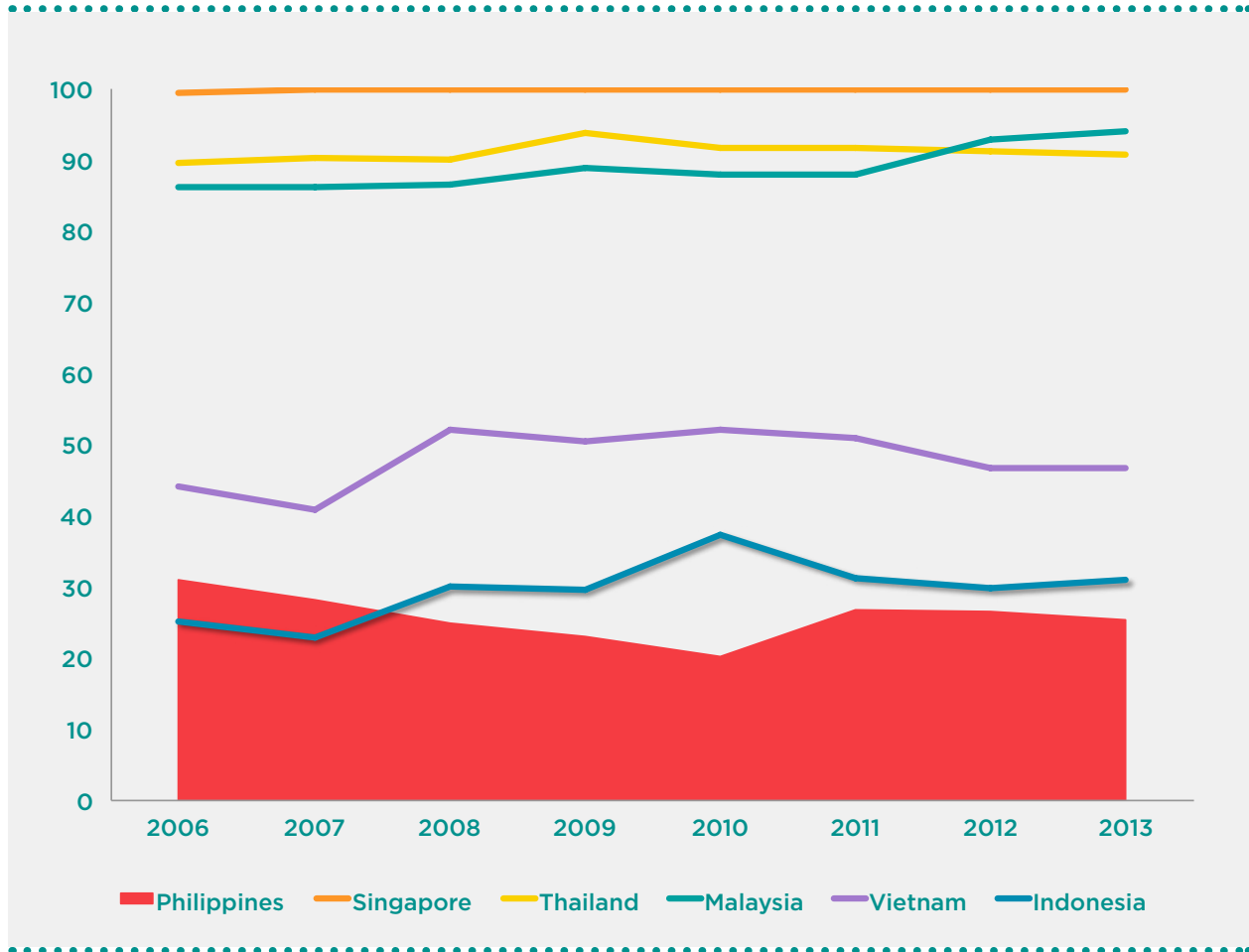
RECOMMENDATION 2

Identify areas where the Philippines is weakest. Maintain and improve high-rated strengths it has.

2012 RATING	2011 RATING
★★★★★ Substantial Progress	★★★★★ Substantial Progress

The weakest areas are well known and are being focused upon by NCC. Top concerns such as corruption, infrastructure, and education are being addressed but could regress under different leadership. Convictions for corruption are still few and take years, although some significant cases against public officials and business people are being pursued. Judicial reform is becoming a higher priority. The Integrity Initiative continues to grow, seeking to reduce the culture of corruption, and held its second Integrity Summit in 2012. However, the 2012 Social Weather Station (SWS) Enterprise Survey showed little progress in private sector propensity to bribe government officials and follow improper business practices such as keeping multiple books and not issuing proper receipts.

EASE OF DOING BUSINESS, ASEAN-6, PERCENTILE RANKINGS, 2006 TO 2013



RECOMMENDATION 3



Create a national psychology to improve international competitiveness ratings overall and in specific critical areas. The president could report on the state of national competitiveness.



While individual Filipinos are competitive, a national culture of competitiveness has been slow to grow; hence, the domestic economy is not creating enough jobs. Working abroad remained the preferred option for some 1.5 million Filipinos in 2012 who took overseas jobs. NCC is organizing competitiveness councils around the country and is the main proponent of becoming more competitive. Some LGUs act against national government policy. A heavy bureaucratic propensity to over-regulate persists; sunset provisions on rules, red tape, and fees are rare. The President proclaimed Chinese New Year a non-working holiday without public consultation; the Congress may make it a law. The negative impact of such policies on competitiveness is not fully taken into account.

PART 3: BIG WINNER SECTORS

AGRIBUSINESS



RECOMMENDATIONS: 18

PROGRESS	RATINGS	RATINGS
IMPROVED 9	☆ 0	★★★★ 10
DECLINED 1	★★ 0	★★★★★ 1
STEADY 8	★★★ 7	★★★★★★ 0

BIG WINNER SECTORS

AGRIBUSINESS

Although 35% of the labor force is in agriculture, Philippine food exports are only 5% of the ASEAN-6 total. The Philippines has high potential to export large quantities of specialized food products exploiting a multitude of new market opportunities from free trade agreements (FTAs). Filipino farmers face high domestic transport, labor, and other costs, and the Philippines lags in integrating small farms into larger enterprises. Mindanao has great potential, both to feed Luzon and to export. Long-standing farm infrastructure requirements need investment. Comprehensive Agrarian Reform Program (CARP) has greatly discouraged corporate farming.

RECOMMENDATION 1



New FTAs present immense new market opportunities for both traditional and new agricultural exports.

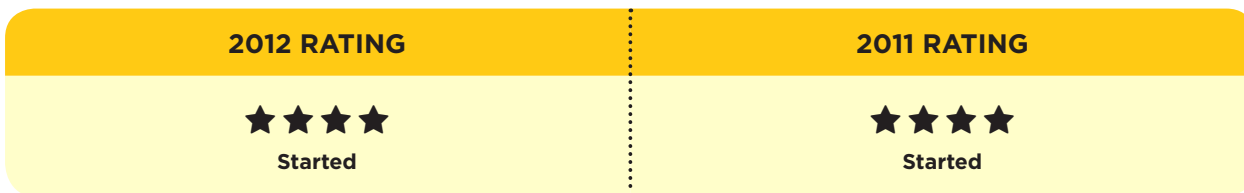
2012 RATING	2011 RATING
★★★ Not Ongoing	★★★★ Started

Regular pork exports out of Mindanao did not materialize as expected in 2012. This occurred despite the “foot-and-mouth-disease-free” status of the region and attractive pricing. The Government of the Philippines (GPH) needs to articulate a clear policy in this area. Exports of dressed chicken products are occurring but remain at a modest level. Japan is a key market. Farmers should be further educated on FTAs and the opportunities they present. At the same time, GPH should urgently develop, communicate, and execute plans to deal with those agri-sectors that may be affected by cheaper imports.

RECOMMENDATION 2



Increased efforts must be made to reduce the cost of farm inputs. Lowering the cost of farm inputs becomes even more important under a more competitive free trade regime. >>>

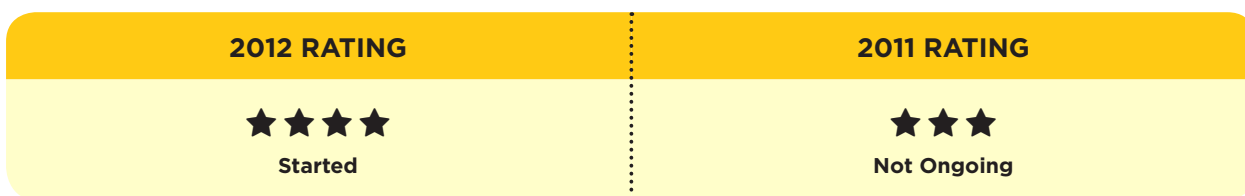


The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) has allowed for competitive feed wheat to be available as a substitute for corn in the production of animal feed. This has helped to ensure that corn is competitively priced. In turn, the supply of quality corn can be improved if more mechanical drying capacity and better post-harvest storage facilities are made available. GPH should also continue investing in more farm-to-market roads and better port facilities. By allowing the entry of approved genetically modified organisms products with appropriate regulation, the Philippines has benefitted from the availability of agricultural commodities at the best possible cost.

RECOMMENDATION 3



Encourage ASEAN to develop common rules for their agricultural markets.



Use of technical import barriers, such as setting impractical or unrealistic product quality, packaging, labeling, or product handling standards, is still pervasive. Moves toward harmonization have started but more work is needed, particularly with the onset of ASEAN Free Trade Agreement (AFTA).

RECOMMENDATION 4



There must be increased integration—backwards and forwards—in priority agriculture subsectors, such as grains/feeds, livestock, and poultry growing.



An increasing number of commercial hog and poultry farms are pursuing integrated strategies. Some recent foreign investments into the sector are also taking a vertically integrated approach. This can make them more competitive in the regional marketplace. Nevertheless, the position of small and mid-sized farmers in this equation remains relatively weak. More upstream and downstream companies need to take a leadership role in sourcing requirements from small farmers. The payback is more long term than short term; hence, the need for persistence. Education of farmers to be able to come to reasonable and sustainable business arrangements with such companies should be pursued by government.

RECOMMENDATION 5



Replicate the Unifrutti-La Frutera model combining foreign capital, Filipino agribusiness expertise, and Muslim land and workers in other conflict-affected areas.

2012 RATING	2011 RATING
★★★★★ Started	★★★ Not Ongoing

A few companies have followed and La Frutera is planning a significant expansion. In general, companies are still “wary” about investing in Muslim Mindanao (or Bangsamoro) due to peace and order concerns. Hopefully, with the signing of the recent Framework Agreement on Bangsamoro, more companies will seriously consider investing there. Potential investors should be briefed on details of the recent peace accord, what are the next steps in the accord, and the most promising areas of investment. A December 2012 forum in Makati with Ayala Chairman Jaime Augusto Zobel de Ayala, former DOTC Secretary Jose de Jesus, and former National Economic and Development (NEDA) Director General Dr. Cielito F. Habito is a good beginning. A booklet, “Braving It and Making It: Insights from Successful Investors in Muslim Mindanao,” on La Frutera and other firms operating in the Autonomous Region of Muslim Mindanao (ARMM) was released and is available at www.braintrustinc.org.

RECOMMENDATION 6



Encourage firms and non-government organizations (NGOs) to engage in upstream “fair trade” development for upland farming communities.

2012 RATING	2011 RATING
★★★★★ Started	★★★ Not Ongoing

Work on establishing standards and a certification program for sustainable coconut oil has recently been announced. This will help provide some differentiation and increase the attractiveness of Philippine coconut oil.

RECOMMENDATION 7

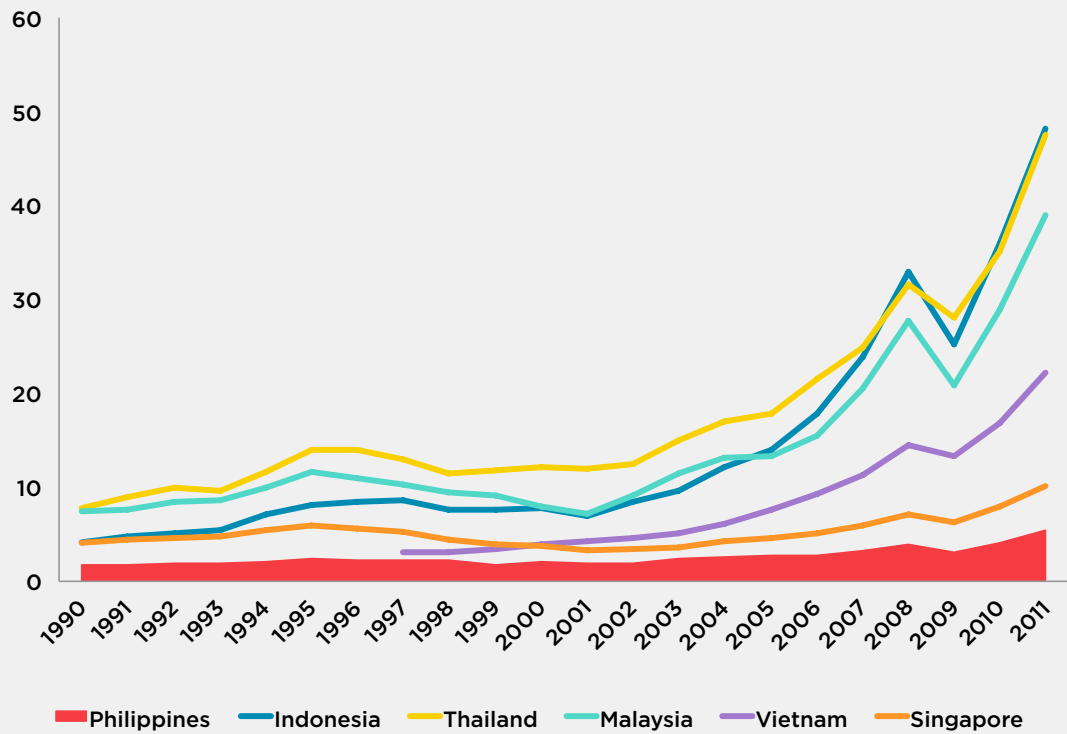


Development of new export crops and products must continually be encouraged.

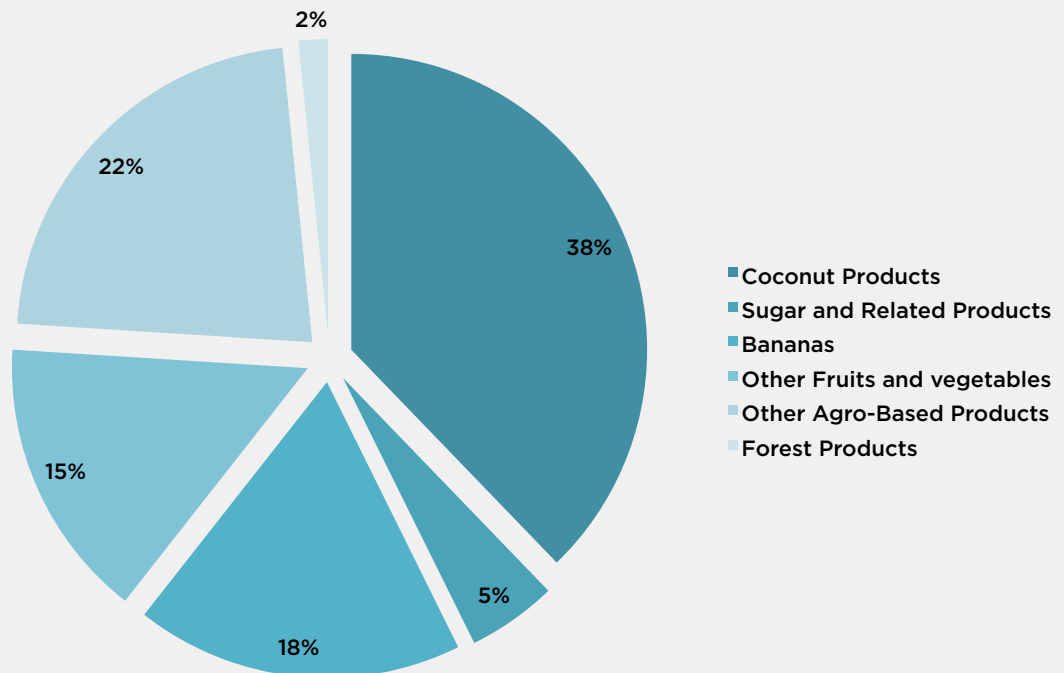
2012 RATING	2011 RATING
★★★★★ Started	★★★★★ Started

There is a greater effort to expand the coconut water exports of the Philippines. There is ongoing work with coconut oil mills in trying to capture the water that would otherwise

AGRICULTURAL PRODUCTS EXPORTS, ASEAN-6, 1990 TO 2011, US\$ BILLION




LOCAL AGRICULTURE AND FOREST PRODUCTS EXPORTS DISTRIBUTION, 2011



get thrown away by copra producers. There needs to be a greater push for non-traditional exports. The government should place greater emphasis on keeping markets for traditional products open, particularly in circumstances where the Philippines is involved in a situation of geopolitical tension with one of its export client countries.


RECOMMENDATION 8

 More zoning of agricultural lands should be done with priority given to export winner crops.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

This was done in the 1990s but now needs to be revalidated, refined, and implemented. Political interests will continue to be a key hurdle, but the government is in a good position to move this issue forward. The Land Use Act passed the House on Third Reading on September 20, 2012 and Senate in late January 2012. The Land Administration Reform Act is progressing more slowly through Congress and did not pass in the 15th Congress.


RECOMMENDATION 9

 A detailed study of the agricultural supply chain should be made, followed by actions to reduce redundant and unjustified costs.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

Many studies have been done, but there have been limited follow up actions on implementation of recommendations.

RECOMMENDATION 10

 Seek to reduce domestic shipping costs. Cabotage provisions should be reviewed and the roll-on/roll-off (RORO) system completed.

2012 RATING	2011 RATING
★★★★★ Started	★★★ Not Ongoing

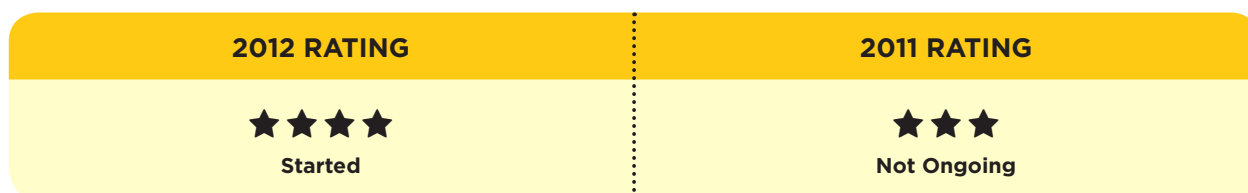
The domestic RORO network is fairly well developed. There are Chassis RORO or CHARO (containers mounted on chassis) capabilities available on certain routes. CHARO is a good alternative to liners for the movement of containers, particularly on less popular routes. Today

CHARO is not classified as part of the RORO service and thus gets assessed cargo handling fees. This needs to change to maximize benefits of the RORO network. More broadly, the government should prioritize reviewing and bringing down port handling costs as they are disproportionately high relative to other countries. There has been no progress in reviewing cabotage provisions of the marine laws.

RECOMMENDATION 11



Encourage more tube wells.

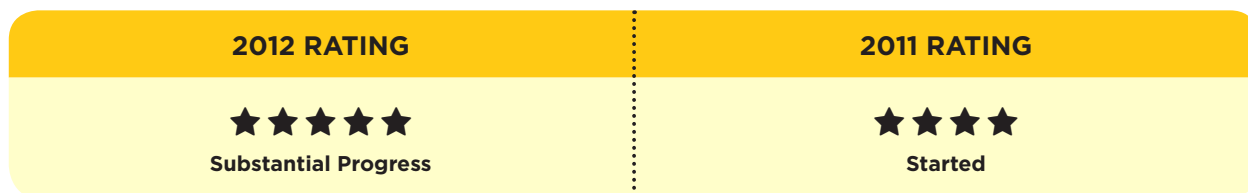


More budgetary requirements have been provided. The challenge is on the faster and more efficient deployment of this much needed infrastructure.

RECOMMENDATION 12



Increase research and development and spending. Seed improvement should be a priority.

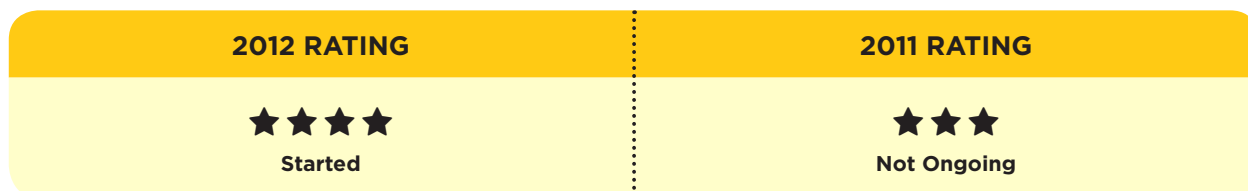


The government is commended for support of safe and responsible biotechnology. In addition to the broad adoption of genetically engineered corn, the International Rice Research Institute (IRRI) and Philippine Rice Research Institute (PhilRice) have made great strides in the area of biotech rice. Significant research projects in cotton, sweet potato, and eggplant are also ongoing. The commercialization of these new GMOs should benefit both farmers and consumers.

RECOMMENDATION 13



Information on Philippine agribusiness best practices should be better disseminated.

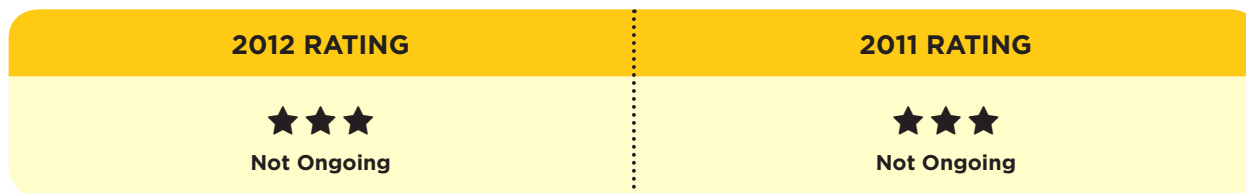


The Philippine Council for Agriculture, Aquatic, and Natural Resources Research and Development (PCAARRD) is active in the publication and dissemination of information. Many

campaigns, however, are not sustained to the point of changing farmer behaviors. There should be focus on developing more robust campaigns. The private sector is also involved in developing, promoting, and supporting new farming best practices. An example is the Copra Quality Improvement Program that allows farmers to produce “clean” copra. There is a need for more “investment-ready” projects, which the private sector can quickly take up and implement.

RECOMMENDATION 14

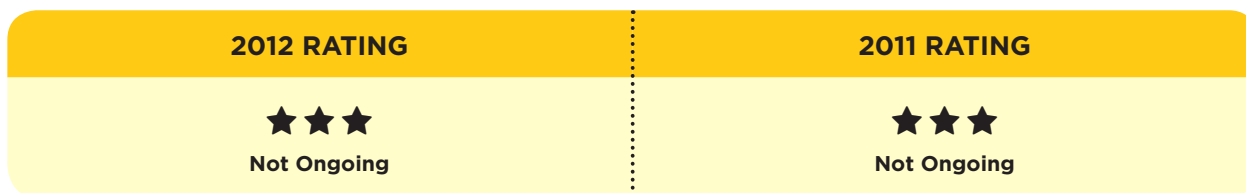
 **Effective network of analytical and testing laboratories in key regions.**



There is a real need for these in the outlying regions to support the needs of small and mid-sized farmers. Good labs will ultimately lead to improved products and help farmers keep pace with the rising standards of the markets. Government should increase its investment in these types of facilities.

RECOMMENDATION 15

 **Ramp up agricultural education and training programs. Create a stronger agribusiness development curriculum.**



There are some good agriculture programs available from top schools in the Visayas and Mindanao. While enrollment in these programs seems healthy, many graduates end up pursuing different career paths after graduation. They do not appreciate the business potential of the industry outside of being an employee of a large agribusiness or food company in the Philippines or overseas. Successful homegrown small to mid-sized agribusiness ventures should be showcased by the government and these ventures should be encouraged to hire more graduates in order to professionalize management.

RECOMMENDATION 16

 **Farmer groups need support to establish strong cooperatives. >>>**

2012 RATING	2011 RATING
★★★★ Started	★★★ Not Ongoing

Work on this is being done by bigger cooperatives. Some assistance is needed for smaller ones.

RECOMMENDATION 17

- Study the Agribusiness Investment Fund concept.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

This is being done on an individual basis, but interest thus far has been modest. The Land Bank of the Philippines (LBP) Charter is set to expire in 2013 and will need to be renewed. The government should consider charter amendments that will strengthen its mandate to provide financing to the agriculture sector and support related activities, such as the Investment Fund concept. Serious consideration should be given to narrowing LBP's scope of business away from its universal banking activities and back to its core focus on the Agri-Agra sector.

RECOMMENDATION 18

- ↑ Legislative reforms should be undertaken. CARP should end in five years. Farm Land as Collateral law should be passed. Mandated lending policy in the Agri-Agra law should be made optional.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★ Backward/Regression

As yet, there is no clear direction on the fate of CARP law, which expires on June 14, 2014. It is highly important that the law be allowed to expire in 2014. The increased penalties for non-compliance with Agri-Agra lending rules continue to have limited success in increasing lending activity to the sector. This suggests that the current laws may not be addressing core issues that make the sector unattractive to lenders. The Farm Land as Collateral bills did not progress further than the committee level in the 15th Congress.

BUSINESS PROCESS OUTSOURCING



RECOMMENDATIONS: **30**

PROGRESS
IMPROVED **11**
DECLINED **0**
STEADY **17**

RATINGS
☆ **2**
★★ **0**
★★★★ **8**

RATINGS
★★★★★ **7**
★★★★★★ **7**
★★★★★★★ **6**

BIG WINNER SECTORS

BUSINESS PROCESS OUTSOURCING

Business Process Outsourcing (BPO) is one of the biggest of the Big Winners, because of its large size, high growth rate, and long-term potential to provide millions of quality jobs and earn high service export revenue. The Philippines has clear advantages: a large workforce of educated English-speaking talent with a strong customer-service orientation and cultural affinity to North America; highly reliable low-cost international telecommunications; diverse and inexpensive site locations; and strong government support. These drivers for success must be strengthened, while new reforms are also needed to realize the high growth potential. A better industry legal framework requires retaining fiscal incentives, fixing labor legislation that makes it more difficult to compete in the global market, and reducing the high number of paid holidays, which cost industry tens of millions of dollars of unbudgeted expenses for every new holiday declared. The Labor Code should be amended to allow subcontracting and to make it easier to terminate employees.

RECOMMENDATION 1



Strengthen the industry with a robust legal framework, passing five key bills and opposing legislation that harms the IT-BPO investment climate.

2012 RATING



Substantial Progress

2011 RATING




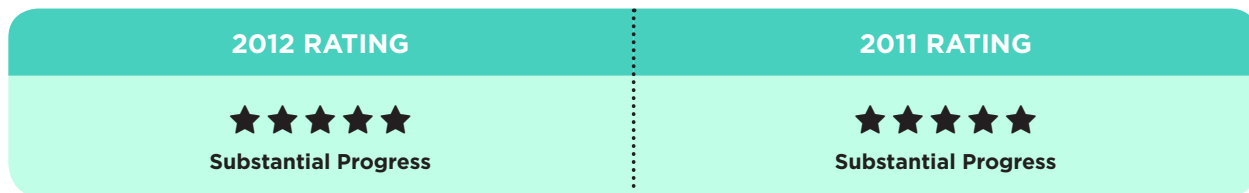
Substantial Progress

Most priority BPO bills have substantially progressed in Congress. The amendment to the Labor Code removing the restriction on women working at night was signed as Republic Act (RA) 10151. The Department of Information and Communications Technology (DICT) bill was approved by both House and Senate; a bicameral conference committee, however, was not held, and it was not approved by the 15th Congress. The Data Privacy bill has been signed into law as RA 10173 and is awaiting the drafting of its implementing rules and regulations (IRR)

by a Data Privacy Commission. The Cybercrime Prevention Act, which was signed into law as RA 10175, may be amended. Implementation was delayed by a 120-day temporary restraining order (TRO) issued by the Supreme Court (SC). Bills seeking to make Chinese New Year a non-working holiday were filed in both House and Senate. The House approved it on Third Reading, while the Senate approved it as a working holiday.


RECOMMENDATION 2

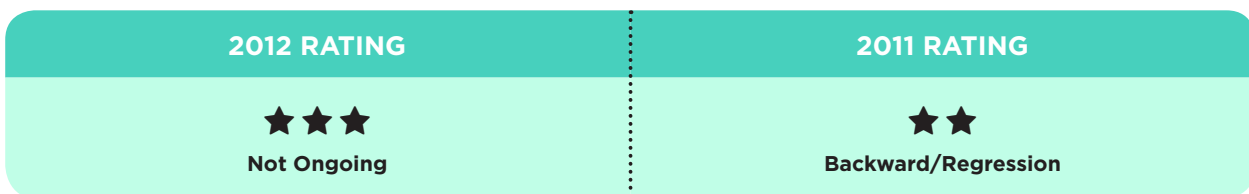
 Quickly report out two bills—DICT and Cybercrime—which came close to final passage in the 14th Congress.



The Data Privacy Act and the Cybercrime Prevention Act were signed into law during the 15th Congress. Upon lifting the TRO by February 2013, both House and Senate are expected to pass amendments (see previous narrative for Recommendation 1), but not until the 16th Congress. The bicameral conference committee for the DICT bill was not convened. The Data Privacy Commission, which will draft the IRR for the Data Privacy Act, will be formed when the Office of the President (OP) appoints a Commissioner and two Deputy Commissioners.

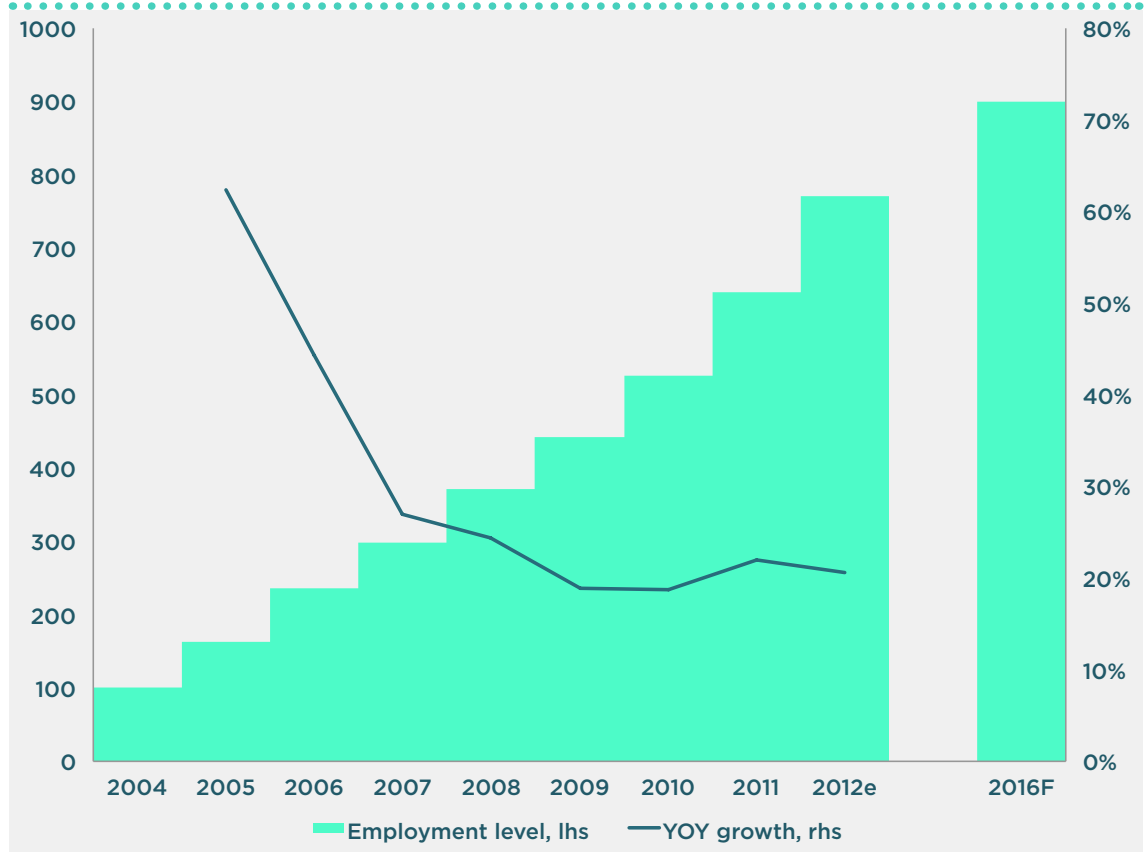
RECOMMENDATION 3

 Draft and pass a Holiday Rationalization Act which restricts the total number of national non-working holidays; Malacañang should continue to release no later than mid-year the schedule for the following calendar year of all national holidays.

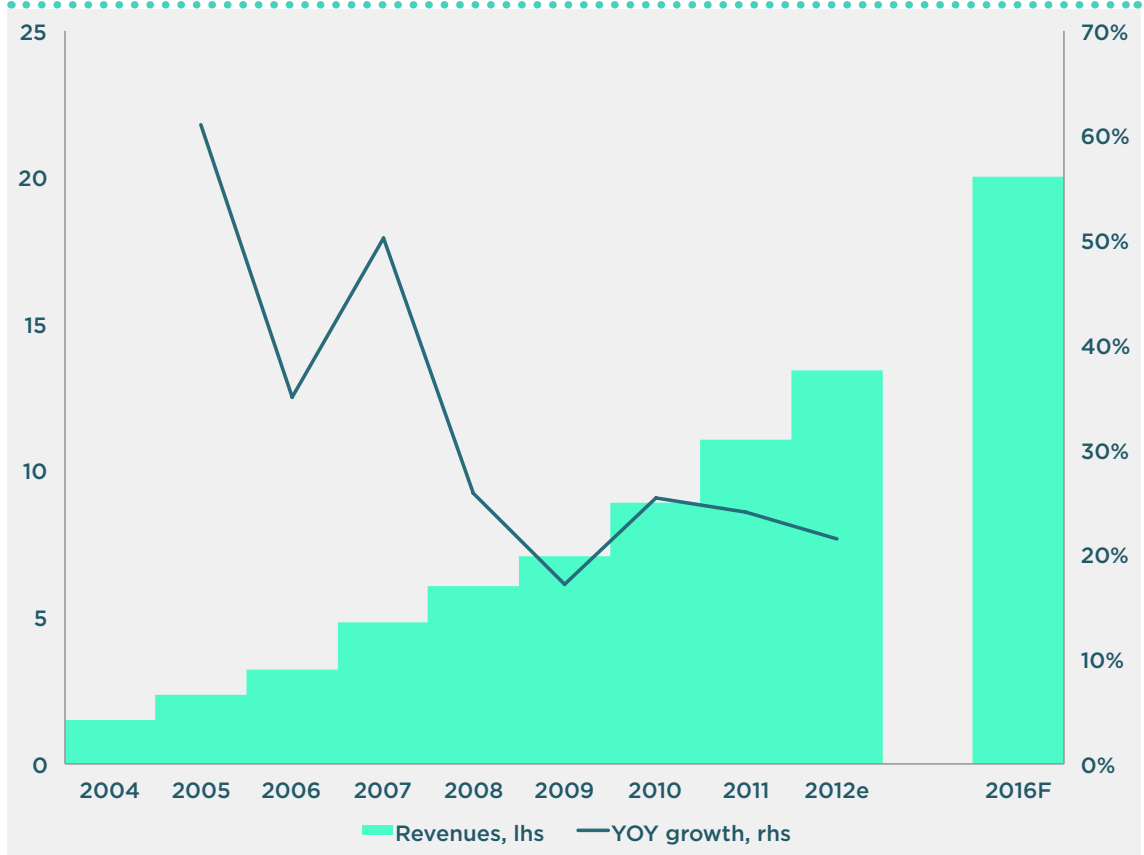


Malacañang proclaimed 2012 holidays on November 24, 2011, and 2013 holidays on August 16, 2012. No bill for Holiday Rationalization was passed during the 15th Congress. However, there is a Department of Labor and Employment (DOLE) regulation called “flexi-holiday arrangement” allowing swapping of holidays (along the lines of Recommendation 3), provided employees consent to the swap. In 2010, President Aquino stated that to make Chinese New Year a non-working holiday would harm Philippine competitiveness. In 2011, he proclaimed it a non-working holiday for 2012. In 2012, he did not. Several senators expressed strong opposition to more non-working holidays during the plenary debate on Senate Bill (SB) 3323 making Chinese New Year a non-working holiday. Because of their opposition, the Senate version of the bill was approved as a special working holiday. The House version, however, passed on Third Reading with Chinese New Year as a non-working holiday. The difference will need to be negotiated in conference.

OFFSHORING AND OUTSOURCING INDUSTRY EMPLOYMENT, 2004 TO 2012
ESTIMATE AND 2016 FORECAST, IN THOUSANDS



OFFSHORING AND OUTSOURCING INDUSTRY REVENUES, SAME PERIOD, IN US\$ BILLION



RECOMMENDATION 4



In the Rationalization of Fiscal Incentives bill, there should be double deduction for training within the industry.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★ Backward/Regression

The rationalization of Fiscal Incentives bill passed the House without this provision and has not moved in the Senate pending submission of a committee report.

RECOMMENDATION 5



Identify champions in both House and Senate who will sponsor key bills and work for their passage.

2012 RATING	2011 RATING
★★★★★★ COMPLETED	★★★★★★ COMPLETED

With the IT-BPO sector currently enjoying an unprecedented level of government support, the Business Processing Association of the Philippines (BPAP) continues to work very closely and effectively with industry champions in both the House and the Senate.

RECOMMENDATION 6



Request the next president to convene regular meetings of the Legislative Development Advisory Council (LEDAC).

2012 RATING	2011 RATING
★★★ Not Ongoing	★★ Backward/Regression

See Part 4: Legislation: Recommendation 1.

RECOMMENDATION 7




Show how the Philippines is lagging behind competitors in terms of its IT-BPO sector business legal framework. >>>

2012 RATING	2011 RATING
★★★★★★ COMPLETED	★★★★★★ COMPLETED

The advanced progress of key bills for the BPO sector and the present responsiveness of the government to issues affecting the industry is partially attributable to recognition of the need to update Philippine laws to keep up with competitors in establishing a supportive business legal framework for the IT-BPO industry.

RECOMMENDATION 8

 Pending passage of the Cybercrime Prevention and Data Privacy Acts, create interim solutions to address the primary concerns of industry stakeholders.

2012 RATING	2011 RATING
★★★★★★ COMPLETED	☆ No Longer Relevant

Cybercrime Prevention Act has been passed and is pending amendments, while the Data Privacy Act will be implemented pending the creation of a commission that will draft the law's IRR (refer to narrative for Recommendation 2).


RECOMMENDATION 9

 Review Presidential Decree (PD) 1718 and explore how it can help companies on data piracy issues.

2012 RATING	2011 RATING
☆ No Longer Relevant	☆ No Longer Relevant

Not relevant since the Cybercrime Prevention and the Data Privacy Acts have both been signed into law.

RECOMMENDATION 10

 BPAP and other private sector associations should endorse the “ethical best practices manual” of the Philippine medical transcription industry. Recommend to DTI the manual’s inclusion in the revised Administrative Order (AO) on data privacy guidelines. >>>

2012 RATING	2011 RATING
☆ No Longer Relevant	☆ No Longer Relevant

Not relevant since the Cybercrime Prevention and the Data Privacy Acts have both been signed into law.

RECOMMENDATION 11



Develop a highly positive and supportive public environment for the industry, informing the media, public, and Congress of its contribution to the Philippine economy and correcting misperceptions. A special task force is needed.

2012 RATING	2011 RATING
★★★★★★ COMPLETED	★★★★★ Substantial Progress

BPAP with the support of the Contact Center Association of the Philippines, Healthcare Information Management Outsourcing Association of the Philippines, Game Developers Association of the Philippines, Philippine Software Industry Association, and Animation Council of the Philippines, and in partnership with Department of Science and Technology (DOST)-Information and Communications Technology Office (ICTO), the National ICT Confederation of the Philippines, and university/college partners, does roadshows around the Philippines to promote careers in IT-BPO. It has also undertaken a marketing and public relations campaign to increase awareness about the many benefits and contributions that IT-BPO has brought to the country.

RECOMMENDATION 12



The Task Force should also propose ways to modernize the Labor Code.

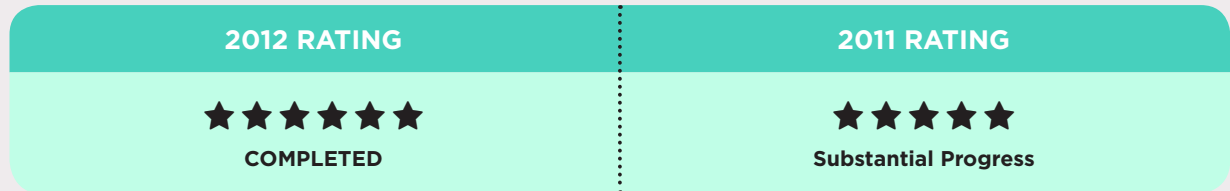
2012 RATING	2011 RATING
★★★★★★ COMPLETED	★★★★★ Substantial Progress

BPAP's Legislative Committee has successfully led many initiatives that have influenced policymaking and legislation to the benefit of the Philippine IT-BPO industry.

RECOMMENDATION 13



Propose amendments to the Labor Code that make it easier for companies to reasonably terminate employees and remove the prohibition on night work of women.

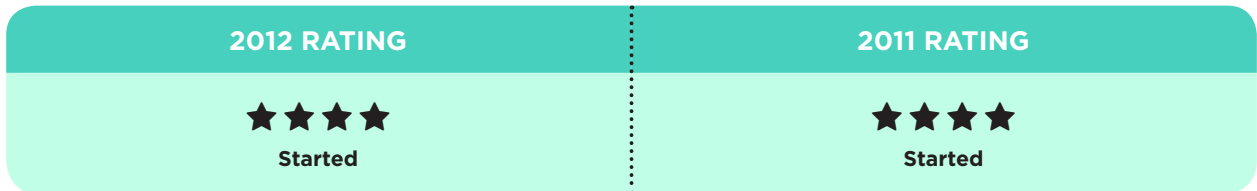


Prohibition of Night Work for Women has been lifted through RA 10151, which repealed Articles 130 and 131 of the Labor Code. DOLE issued Department Order 18-A, or rules implementing contracting/subcontracting in the Labor Code, but excluded the IT-BPO industry from its implementation through Department Circular No. 1 series of 2012. A late 2012 meeting with Labor Secretary Rosalinda Dimapilis-Baldoz also yielded a commitment to partner closely toward resolving issues concerning the IT-BPO sector, a framework drafted by BPAP for IT-BPO industry self-regulation, and support for DOLE's programs. Regular meetings with Secretary Baldoz and her team will be held in 2013.

RECOMMENDATION 14



Industry and government should identify manpower requirement goals by sub-sector, function, and specialty.

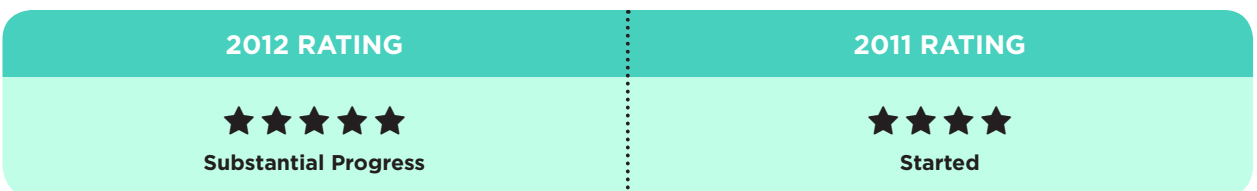


DOST-ICTO and IT and BPO associations are working on the overall and sub-sector-specific manpower requirements. These efforts cover contact centers and customer relations management, corporate services and multi-lingual BPO, engineering services outsourcing, health information management outsourcing, software development and IT outsourcing, and creative services outsourcing and original content.

RECOMMENDATION 15



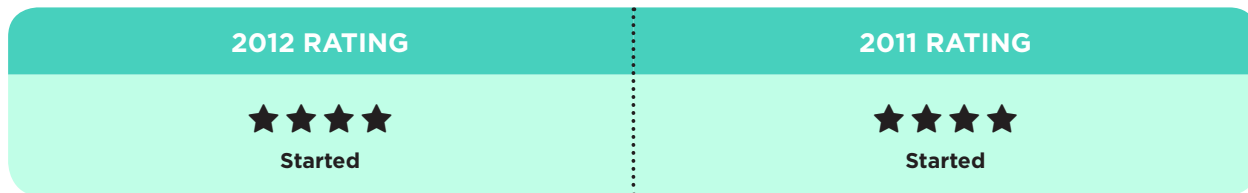
Adopt the National Competency Test at a regional (if not national) level.



In 2012, 3,000 graduating students were assessed with BPAP's Global Competitiveness Assessment Tool (GCAT) bringing the total of GCAT-assessed students to 20,000. DOST-Science Education Institute (SEI) provided funding to assess 10,000 students and testing will continue in 2013. BPAP has driven more awareness on GCAT as an assessment tool for work readiness and continues to work with the IT-BPO companies to adopt GCAT for assessment or to prioritize the hiring of applicants with good GCAT scores. BPAP also participated in the discussions of the National Basic Education Competency Assessment for Kindergarten to Grade 12.


RECOMMENDATION 16

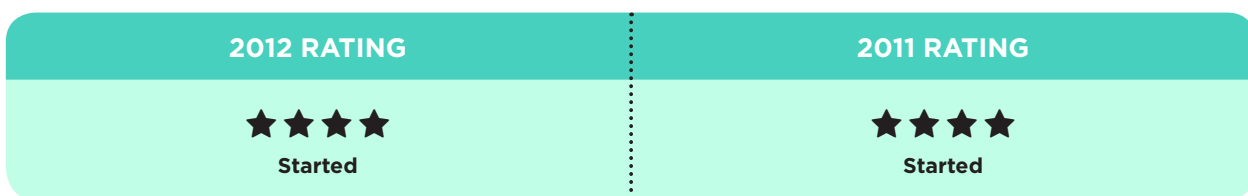
 **Adopt an industry-wide technical and leadership management certification.**



The program for technical and leadership management certification will be continued in 2013. BPAP prioritized the entry-level program (Service Management Program or Service Management Specialization Track), which was approved by the Commission on Higher Education (CHED) under CHED Memorandum Order (CMO) No. 6 series of 2012 for the Business Administration courses and CMO No. 34 series of 2012 for the Computer Science, Information Science, and Information Technology courses.

RECOMMENDATION 17

 **Accelerate development of local managers. Introduce Service Science Management Engineering (SSME) as a program/degree in the Philippine educational system. Business school should develop and train new service industry leaders.**



A John Clements Consulting Inc. and BPAP leadership education program using Harvard Business Publishing resources and methodology continues. In addition, BPAP will work with the Asian Institute of Management in 2013 for the development of the program for management and executive levels. Instead of SSME, BPAP focused on the Service Management Specialization Track for undergraduates.

RECOMMENDATION 18

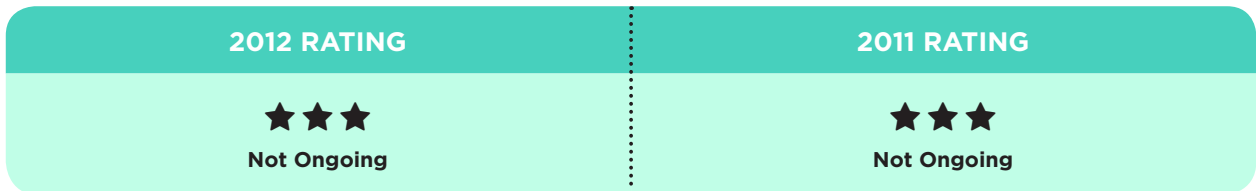
 **Participate in the CHED technical panel in 2010 to suggest curriculum improvements. >>>**



BPAP signed a Memorandum of Cooperation with CHED in November 2011, which allows BPAP to make recommendations on curriculum, assessments, and faculty development. This helped fast-track the approval and rollout of the Service Management Specialization Track. The program was launched in four schools (three in higher education and one in high school) starting academic year 2012 to 2013 and is being rolled out in 13 state universities and colleges nationwide in academic year 2013 to 2014.

RECOMMENDATION 19

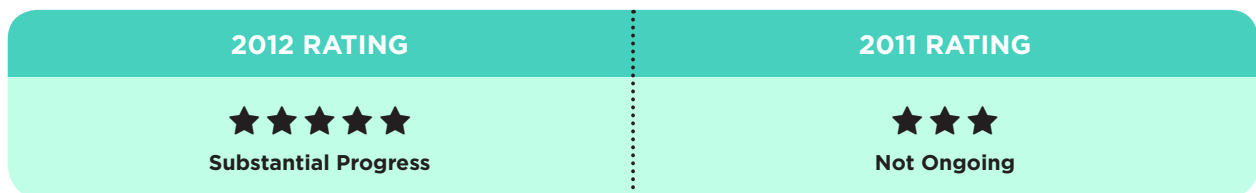
— Increase the use of English on local TV.



Season one of an industry-relevant TV show, Career Jam, ended in 2012 and season two will be aired in 2013. No advocacy for the use of English on TV has been started.

RECOMMENDATION 20

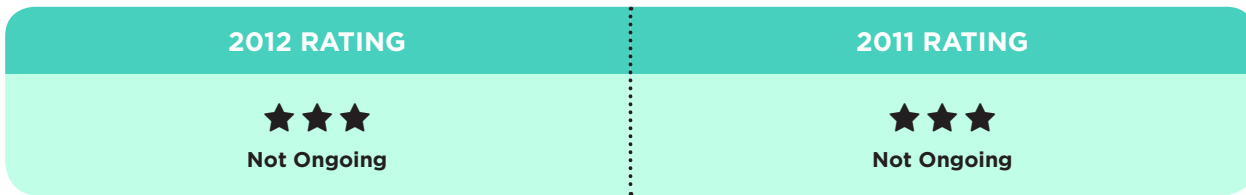
↑ Develop an affordable Internet cafe English-training program.



BPAP launched the Basic English Skills Training (BEST) e-learning tool, which was piloted in May 2012 with teachers of four schools in Quezon. BEST has also been rolled out with a trainers training program developed by industry, Trainers Methodology Plus, and offered through the Technical Education and Skills Development Authority (TESDA). Another e-learning program, Electronic Advanced English Pre-employment Training (e-AdEPT) will be rolled out in 2013.

RECOMMENDATION 21

— Develop a program to provide used computers to schools and install English software. >>>

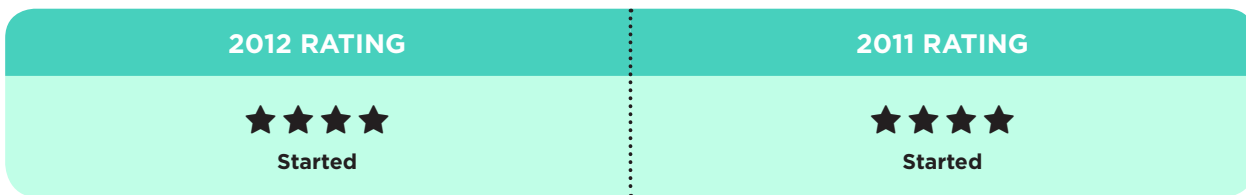


Part of the corporate social responsibility campaigns of some companies is donations of used computers to schools, but no organized program has been launched for this.

RECOMMENDATION 22



Build a university specifically for careers in the IT-BPO industry.

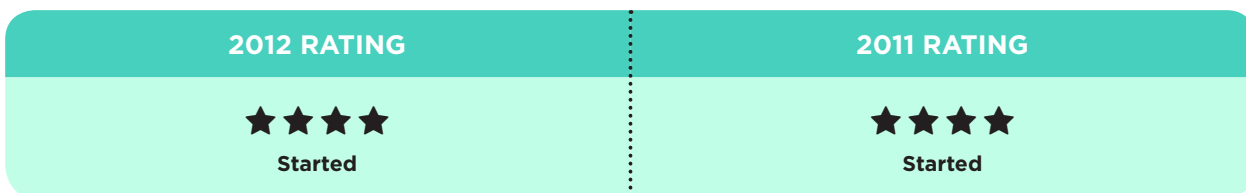


There are ongoing private initiatives such as Meridian International College and others. More existing universities are offering IT-BPO-specific courses.

RECOMMENDATION 23



Reposition the IT-BPO career opportunity as world class.



BPAP launched the Work Abroad, Live Here campaign in print and digital media (newspapers, websites, Facebook, and Twitter). Other efforts such as the BPO Career Hub website are also running. BPAP set up www.workabroadlivehere.com as a site to help potential employees learn more about careers in the industry. The site is promoted on Facebook and in print and online news releases. A public relations campaign to promote IT-BPO and Global In-house Center jobs was launched with the site in April 2012 and sustained throughout the year. With DOST-ICTO and National ICT Confederation of the Philippines (NICP), BPAP and its partner associations participated in a nine-city road show to promote industry careers in the Next Wave Cities (NWCs). A video was also produced and launched on YouTube to promote the Industry Training for Work Scholarship Program with TESDA. A multimedia campaign for career marketing, however, was not funded.

RECOMMENDATION 24



Develop a repatriation program for qualified Filipino talent overseas. >>>



BPAP participated in the OFW Summit sponsored by the Villar Foundation to attract OFWs and their families to consider the IT-BPO industry for employment. Some Filipino-American (Fil-Am) executives and managers have come back to work in Philippine-based IT-BPO and GICs without a special program or incentives but due to market forces. We have no information regarding the effectiveness of programs of other organizations.

RECOMMENDATION 25



Locate operations in second- and third-tier cities.

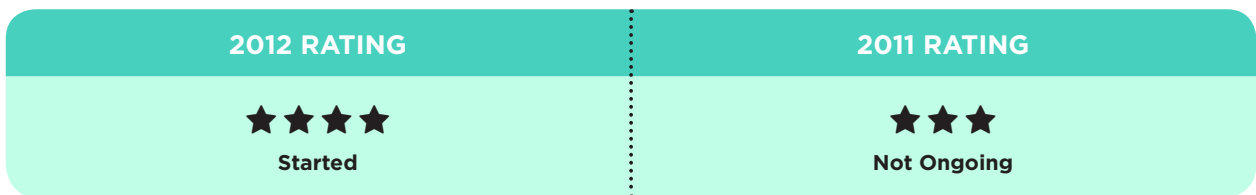


It is expected that about 30,000 new jobs were created in 2012 in locations outside the National Capital Region (NCR); many will continue to be in Cebu. A notable breakthrough among NWCs is the acceptance of Davao as a reliable and safe destination. It is estimated that there are over 10,000 IT-BPO employees in Davao at present—some considering this a conservative estimate. Carmona in Cavite also welcomed a new Sutherland site and a groundbreaking event was held for a Sutherland campus that is expected to host up to 8,000 IT-BPO employees in the future. Sutherland and Convergys continue to expand in both established and new second- and third-tier locations, and other companies have expressed renewed interest.

RECOMMENDATION 26



Promote the Philippine IT-BPO industry with a well-funded and aggressive international campaign.

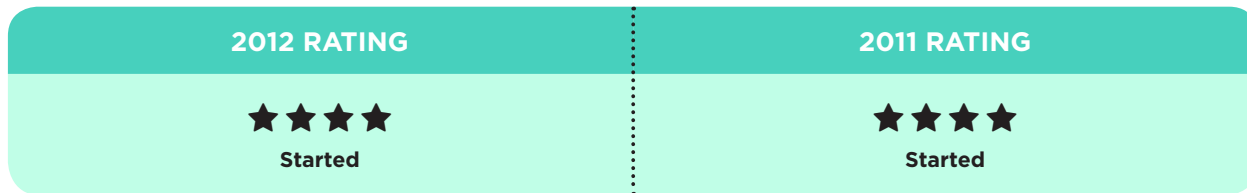


President Aquino led a business delegation to Australia that included IT-BPO among the highlighted sectors. BPAP President and CEO Benedict C. Hernandez and heads of BPAP member companies were part of the delegation. DOST-ICTO funded participation of IT-BPO associations in international conferences for telecommunications, health information management (HIM), and shared services; and supported association-managed international conferences in Manila for outsourcers, contact centers, HIM outsourcers, animation studios, and game developers. BPAP also successfully used international public relations to promote

its International Outsourcing Summit. Industry executives were featured on CNN, BBC, online, and other international news outlets.

RECOMMENDATION 27

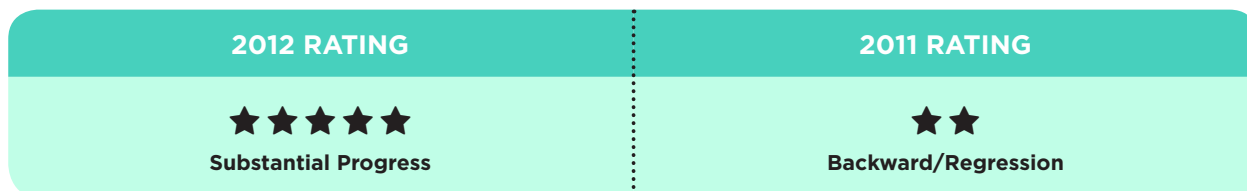
 Philippine government should publicize a clearer policy supporting development of the IT-BPO sector.



PDP 2011-2016 includes a Strategic Framework for Industry and Services with a vision to aim for a “globally competitive and innovative industry and services sector that contributes significantly to inclusive growth and employment generation.” Three goals of the vision are an improved business environment, increased productivity and efficiency, and enhanced consumer welfare. A set of specific strategies was also articulated in the plan. DOST-ICTO also formulated a Philippine Digital Strategy (2011-2016), in close consultation with the ICT sector, which is aligned with PDP. Government also worked with industry to produce the IT-BPO Roadmap 2016 and its updated version.

RECOMMENDATION 28

 LGUs should become more uniformly supportive of IT-BPO firms in their jurisdictions.



The Philippine Economic Zone Authority (PEZA) continues to be an effective manager of issues with LGUs. It has established agreements with the few but large LGUs that have policies that conflict with national policies regarding incentives and fees. Industry has worked with PEZA to reach better levels of understanding among proponents from different stakeholder groups including the legislature. The Department of Interior and Local Government (DILG) has also set up a governance assessment program that would recognize good practices; NICP has allied with DILG in this program. BPAP and ICTO plan to use these results in the update of the NWC scorecard. Good practices by LGUs are also featured in the NWC report. Public relations on good practices could also be used more effectively to spread awareness and recognition.

RECOMMENDATION 29

 Sector needs both wireless Internet and a higher-speed national broadband network. >>>

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

Upgrading the country’s ICT capabilities and facilities continues to be private sector-led based on market demand at commercial rates.

RECOMMENDATION 30



Reduce operating costs. IT zones to access electric power discounts. Review current PEZA policy requiring density of 70 square feet per seat. Do more to reduce IT-BPO firm attrition rates.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

Power rates remain high relative to the region. The strong peso and weak Indian rupee versus the US dollar have aggravated cost issues and eroded the competitiveness of the peso particularly for IT-BPO, OFW remittances, and other export sectors. BPAP has hired a full-time Human Resource (HR) Executive Director to focus on employee engagement and other initiatives to improve retention and address other HR-related concerns.

CREATIVE INDUSTRIES



RECOMMENDATIONS: **16**

PROGRESS
IMPROVED **4**
DECLINED **0**
STEADY **12**

RATINGS
☆ **0**
☆☆ **1**
☆☆☆ **7**

RATINGS
★★★★★ **5**
★★★★★ **3**
★★★★★★ **0**

BIG WINNER SECTORS

CREATIVE INDUSTRIES

Creative industries include a variety of sectors, such as advertising, animation, architecture, broadcast arts, crafts, culinary arts, cultural/heritage activities, design, film, literature, music, new media, performing arts, content development, mobile TV, publishing, and visual arts. Filipinos enjoy a well-deserved reputation for creativity. To better understand the sector, however, Philippine creative industries should be mapped and developed. There are legal issues that work against full development, such as limiting the practice of foreign professionals, the ban on any foreign equity in media, and the limit of 25% foreign equity in advertising.

RECOMMENDATION 1



Create a Philippine Creative Industries Master Plan.



A Master Plan for the entire creative industries stalled after efforts to create an umbrella organization covering music, film, animation, video game, visual arts, publishing, industrial design, handicrafts, architecture, and the like were unsuccessful. The Creative Economies Council of the Philippines (CECP) failed to submit a Master Plan document by end of 2012 as promised during the 2011 workshop. An initiative by ECCP to head an alternative effort might bear fruit in 2013. Nevertheless, the Design Competitiveness bill that was approved by Congress before adjournment provides for the formulation of a national design policy and will achieve this recommendation if signed by the President.

RECOMMENDATION 2



Establish the Creative Industries Development Council. >>>



The Senate and the House approved the Design Competitiveness bill strengthening and promoting Filipino design. The House version, which was adopted by the Senate, will be transmitted to the President for his signature. The bill provides for the creation of a Design Advisory Council, a public-private partnership tasked to “advise the Design Center in the formulation and implementation of policies that will enhance the competitiveness of Philippine products and service...” The bill, however, is limited in scope by focusing on design and not on film and other industry groups. A parallel effort to create a Creative Industries Council in the private sector headed by the European Chamber of Commerce of the Philippines (ECCP) conducted several consultative sessions in 2012, resulting in a unified effort to support the legislative agenda on the Philippine Design Council.

RECOMMENDATION 3

— The private sector should organize a Creative Industries Initiative.



ECCP, with the support of animation, game development, and comic sector representatives, is initializing an effort to create an umbrella organization that will also elicit participation from music, film, architecture, industrial design, fashion design, handicraft, furniture design, visual arts, web design, advertising, toy, and cultural arts sectors. The first achievement of the said organization is consolidating efforts to provide lobbying support for House Bill (HB) 5779 (Design Competitiveness bill). More substantial achievements are expected by ECCP and participating industry stakeholders in 2013.

RECOMMENDATION 4

— GPH should actively facilitate creative industries by showcasing Philippine talent and releasing budgeted funds for trade shows.



The approved version of the Design Competitiveness bill mentions that one of the goals of the National Design Policy (NDP) is to “promote Philippine design here and all over the world.” Separate from the efforts of the Design Center of the Philippines (DCP), DOST-ICTO began institutionalizing its support for *Animahenasyon*, the flagship event of the Animation Council of the Philippines. *Animahenasyon* showcases original work by amateur animation professionals, acting as an incubation platform for future animation studios and entrepreneurs.

RECOMMENDATION 5

 Protect Philippine intellectual property.



One of the primary purposes of DCP, as stated in the approved bill, is to “promote awareness on the protection of intellectual property rights (IPR).” The Product Development and Design Center of the Philippines (PDDCP) activated its role in facilitating the protection of intellectual property in game design, by engaging the Game Developers Association of the Philippines in its IP protection programs.

RECOMMENDATION 6

 Recreate a Design Center of the Philippines.



In the approved bill, PDDCP will be re-engineered and renamed into DCP. The bill further states that one of DCP’s goals is to “elevate Philippine designs and innovation toward global standards through collaboration with international design organizations.” DCP is further mandated to “promote Philippine design here and all over the world.” The approval of the bill demonstrates a growing concerted effort in government to restructure PDDCP into becoming a more effective platform for promoting and growing the design industries toward greater country competitiveness.

RECOMMENDATION 7

 Improve design curriculum and training facilities.



One of the objectives of DCP provided for in the approved bill is to “promote design education throughout the country to meet the needs of Philippine industries.” Beyond pursuing these bills’ enactment, no extensive program has been put forth by the government toward leveling up design education in the Philippines.

RECOMMENDATION 8



Expand the Philippine design talent pool by making better opportunities available to Philippine designers working abroad.



In the approved bill, NDP has goals of “building awareness of the importance of design to the public through local and international exhibitions, conferences, competitions, community and school activities, and other design-related events” and “establishing more public creative zones and environments in Metro Manila and other central hubs in different regions across the country.” Beyond pursuing the bill’s enactment, no extensive program has been put forth by the government toward expanding the design talent pool. Government has yet to make available opportunities to Philippine designers working abroad.

RECOMMENDATION 9



Encourage foreign professionals to practice and invest in creative industries in the Philippines.



Although the approved bill states that an NDP goal is to establish opportunities and platforms for international collaboration and exchange, there is no explicit mention of encouraging or allowing foreign professionals to practice their profession or to invest in the Philippines. Beyond pursuing the bill’s enactment, no extensive program has been put forth by the government toward allowing or incentivizing foreign professionals, including foreign-based Filipino design professionals, to practice their craft and/or invest in business enterprises in the Philippines.

RECOMMENDATION 10



Remove restrictions on foreign equity in advertising.



There is no mention of this goal in the approved bill. There has not been any mention in any discussion by the ECCP initiative nor by the Creative Economies Council of the Philippines to form an umbrella organization. It is, however, part of the advocacy of the House Speaker and

Senate President to remove such restrictions on foreign equity from the Constitution and deal with them, if at all, in new laws.

RECOMMENDATION 11



Rebrand the country's creative products and market them abroad as distinctly Filipino.



The approved bill explicitly states an NDP goal of “global positioning and branding of Philippine designs, creating a distinctive and recognizable identity for Philippine products.” Other than the bill, however, the national branding campaign proposal has not taken off and DTI has no new resources for promotion abroad.

RECOMMENDATION 12



Create a Creative Center to showcase Philippine designs and conduct lectures.



The bill provides for DCP's mandate to set-up design exhibitions and promote “Philippine design here and all over the world.” Beyond pursuing the bill's enactment, the government has not put forth any extensive program toward establishing a facility—whether real or virtual—for housing the repository of design products and materials as well as hosting fora, dialogs, and lectures.

RECOMMENDATION 13



Encourage Philippine creative industry practitioners to sell what they create abroad; design a program to bring overseas Filipino creative professionals back home.



The approved bill states goals for NDP that ultimately promote the creation of domestic demand for original Filipino designs by offering opportunities and platforms where Filipino designers can showcase their products and designs both locally and internationally. Nevertheless, the creation of incubation initiatives for original Filipino designs is not stated

explicitly in the bill. There is also no explicit statement of intent to promote the export of products and services that use original Filipino designs, in lieu of exporting Filipino designers. Lastly, there is no clear statement of incentivizing foreign-based Filipinos to invest in the Philippines.

RECOMMENDATION 14

 **Seek greater efficiency and cost savings in domestic production for export.**



The approved bill does not categorically state any goal to “seek greater efficiency and cost savings in domestic production for export” for NDP, although it mentions a goal to improve and upgrade the design of Philippine products and services. This may not necessarily imply efforts to seek improvement of efficiencies and cost-effectiveness of processes and technologies. Labor costs are rising in regional economies that compete with the Philippines, which would be beneficial to Philippine industry competitiveness. The effort to improve cost competitiveness in Philippine design industries has to be pursued by an organization other than DCP, according to the limitations on DCP’s charter both in its current form and even after a change due to a possible enactment of the legislation on DCP. No government agency, so far, has adopted this goal in its programs.

RECOMMENDATION 15

 **Conduct foreign market studies to determine where local Filipino input has unique competitive value.**



Although the approved bill mentions NDP goals of undertaking “research and development on the different design strengths and assets of the Philippines” and “the pursuit of a global positioning and branding for Philippine designs” as well as a DCP mandate to “conduct continuing research on product and product packaging design trends and processing technologies,” there is no mention of a need to use market studies as basis for developing market opportunities for Philippine designs. At the moment, PDDCP has yet to discuss the pursuit of this initiative with other agencies under DTI, especially with the Foreign Trade Service Corp, Bureau of Export Trade and Promotion, and Export Development Council.

RECOMMENDATION 16



Partner with larger foreign companies abroad with distribution networks.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

Although the approved bill mentions a goal for NDP of “establishing networks and resources for knowledge exchange, capability development, and content creation on design,” this goal is not explicitly stated as having the purpose of developing market demand for Philippine designs. It mentions, however, some tasks for DCP wherein demand for Philippine designs is created domestically and internationally. Still, none of these tasks mention partnering with large foreign companies or tapping distribution networks to market Filipino designs. Beyond pursuing the bill’s enactment, no extensive program has been put forth by the government toward establishing and/or promoting linkages between local design companies and sectors with larger design and design-based companies from abroad.

POLICY



RECOMMENDATIONS: 25

PROGRESS
IMPROVED 11
DECLINED 3
STEADY 10

RATINGS
☆ 1
★★ 1
★★★ 5

RATINGS
★★★★★ 11
★★★★★★ 4
★★★★★★★ 3

INFRASTRUCTURE POLICY

“Our Department of Public Works and Highways, for the longest time, was known as a hotbed of kickbacks and fund leakages. This has changed; by implementing mechanisms for a transparent bidding process, one that encouraged competition among contractors, the Department has saved, as of the end of 2012, around 300 million dollars.”

— President Aquino at the World Economic Forum
Davos, Switzerland, January 24, 2013

The Philippines significantly underinvests in physical infrastructure, with spending averaging 2% to 3% of GDP for the last 10 years, far below regional norms. Poor infrastructure is a key inhibitor to higher investment. In the WEF Global Competitiveness Report, among the ASEAN-6, the country’s overall infrastructure quality ranks below Singapore, Malaysia, Thailand, and Indonesia and close to Vietnam. *Arangkada* contains lists of major projects completed, under construction or being financed, and future projects from 2001 to 2020. Recommendations concern overall infrastructure policy and are followed by specific sub-sections for Airport, Power, Roads and Rails, Seaports, Telecommunications, and Water.

RECOMMENDATION 1



Double infrastructure spending to 5% of GDP with PPP by harnessing available resources and capacities of the private sector for infrastructure development.



Currently, GPH spends below the 5% international benchmark, i.e., 2% to 3%. Government should spend at least PhP200 billion more per year, but has capability challenges if spending expands too fast.

RECOMMENDATION 2



Implement with full transparency several large PPP projects; create a pipeline of PPP projects.



The Aquino Administration has highlighted its policy preference for the “solicited” process for PPP projects, which is a more open, transparent, and competitive process (as compared to the “unsolicited” approach). Moreover, the government issued in July 2012 the revised IRR of the Build-Operate-Transfer (BOT) law, which provides a more enabling, conducive, and predictable policy environment for PPPs.

RECOMMENDATION 3



Potential pilot PPP projects include two rail and three toll road projects.



Many of the big-ticket rail (LRT-1 South and LRT-2 East Extensions) and toll road (Cavite-Laguna [CALA] Expressway) projects were ready for bidding as early as 2010. Among these three ready-to-go projects, only LRT-1 South has been tendered in November 2012. In January 2013, CALA was approved for bidding.

RECOMMENDATION 4

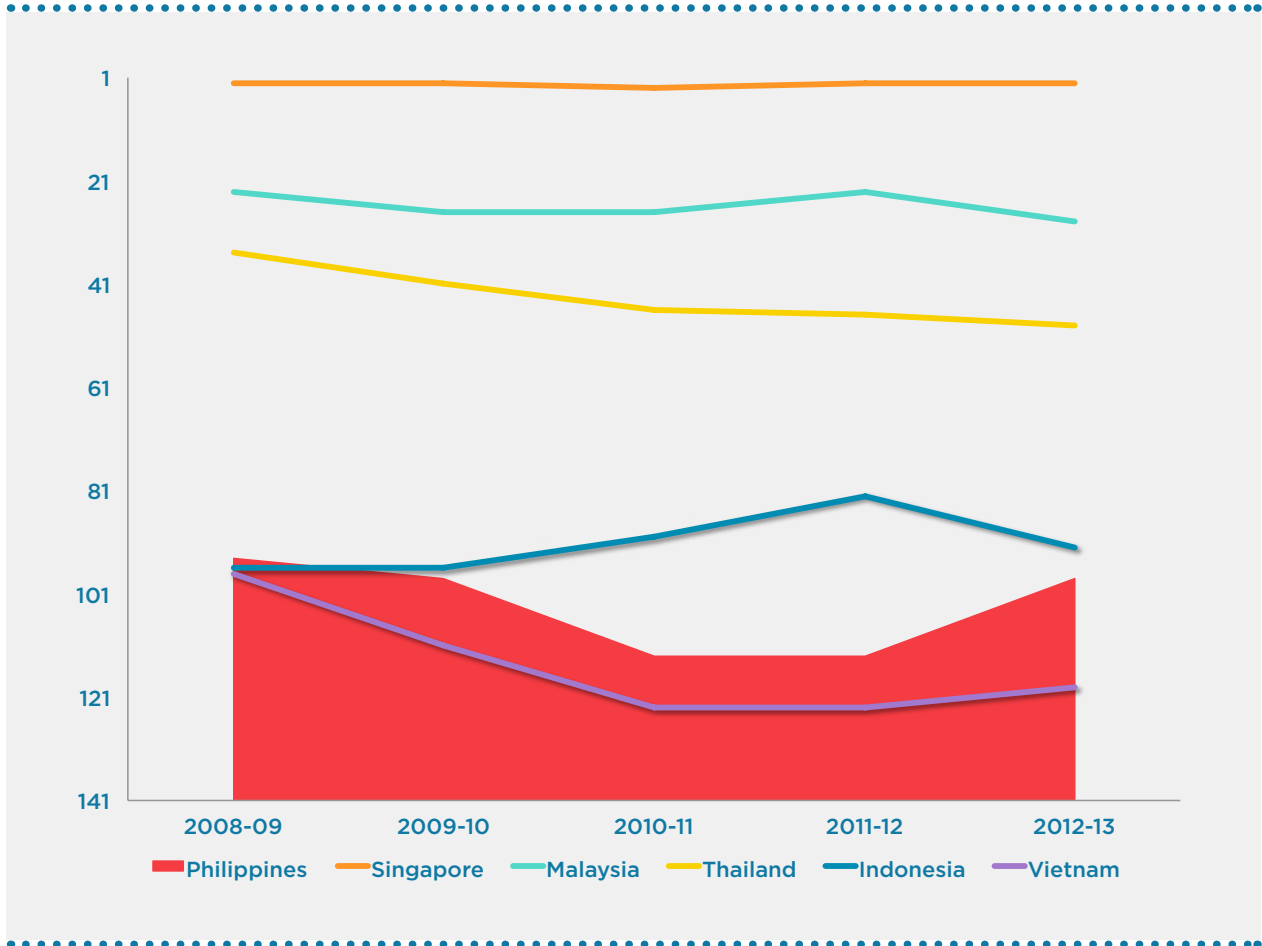


Use foreign technical and financial assistance.



Technical assistance funds from ADB, WB, and CIDA plus GPH funds support the Project Development and Monitoring Facility for consultants to help develop project studies, bid documents, and evaluate bids. The presidential Infrastructure Monitoring Task Force was formed during the time of former President Arroyo. Currently, the monitoring function has been delegated to the PPP Center. The PPP Center, however, should be headed by a high-ranking official (preferably, a Cabinet Secretary) who has political clout, can directly report to the President, and provide a strong directional approach to the PPP program.

QUALITY OF OVERALL INFRASTRUCTURE RANKINGS, ASEAN-6, 2008 TO 2013



RECOMMENDATION 5




Use available domestic capital of nearly PhP1 trillion for infrastructure investment.



The two PPP projects, Daang Hari-South Luzon Expressway (SLEX) and the PPP for School Infrastructure Project Phase 1, awarded to local companies will begin to unleash the huge available domestic resources. Currently, Special Deposit Accounts and Reverse Repurchase Agreements have reached a total of about PhP2 trillion, which is more than enough to fund all PPP projects in the pipeline.


RECOMMENDATION 6

 Create a coalition to promote good projects and good processes.

2012 RATING	2011 RATING
★★★★★★ COMPLETED	★★★★★ Substantial Progress

The private sector PPP Coalition was created in August 2010 with the participation of joint foreign chambers and local business groups to promote open, transparent, and competitive processes for PPPs.


RECOMMENDATION 7

 Amend the BOT law.

2012 RATING	2011 RATING
★★★★ Started	★★★★ Started

BOT IRRs were revised and issued in July 2012. The amendment of the BOT law is still pending in Congress. Hearings were held in the House during the 15th Congress.


RECOMMENDATION 8

 Institute long-range planning for infrastructure development; NEDA should consider a 10-year plan.

2012 RATING	2011 RATING
★★ Backward/Regression	★★★ Not Ongoing

The current development plan is only good for the term of the Aquino Administration. NEDA has not released the Philippine Investment Plan.

RECOMMENDATION 9

 Minimize removing projects from its PPP priority list; all priority projects should be solicited; all major projects to undergo review by NEDA-Investment Coordination Committee (ICC). >>>

2012 RATING	2011 RATING
★★★★★ Substantial Progress	★★★★★ Substantial Progress

Most of the priority projects are done and will be done via solicited process in this administration. This recommendation is being implemented.

RECOMMENDATION 10

- Study setting up a Philippine Infrastructure Facility with a World Bank loan.

2012 RATING	2011 RATING
★★★★ Started	★★★★ Started

There has been no progress yet on the Philippine Infrastructure Facility that will take equity and debt positions in PPP projects.

RECOMMENDATION 11

- Rescind or amend the EO on Joint Venture Agreements (JVAs).

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★★ Started

There has been no progress yet on the amendment of JV guidelines and/or the issuance of an EO amending and rescinding the JV guidelines. There was a recommendation by the PPP Coalition to include JV as an additional BOT variant. This, however, was not part of the recent BOT IRRs issued in mid-2012.

RECOMMENDATION 12

- Require mandatory disclosure of projects under JVA.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

As noted above, a policy change was promised in December 2010. As of December 2012, no policy has been issued.

RECOMMENDATION 13

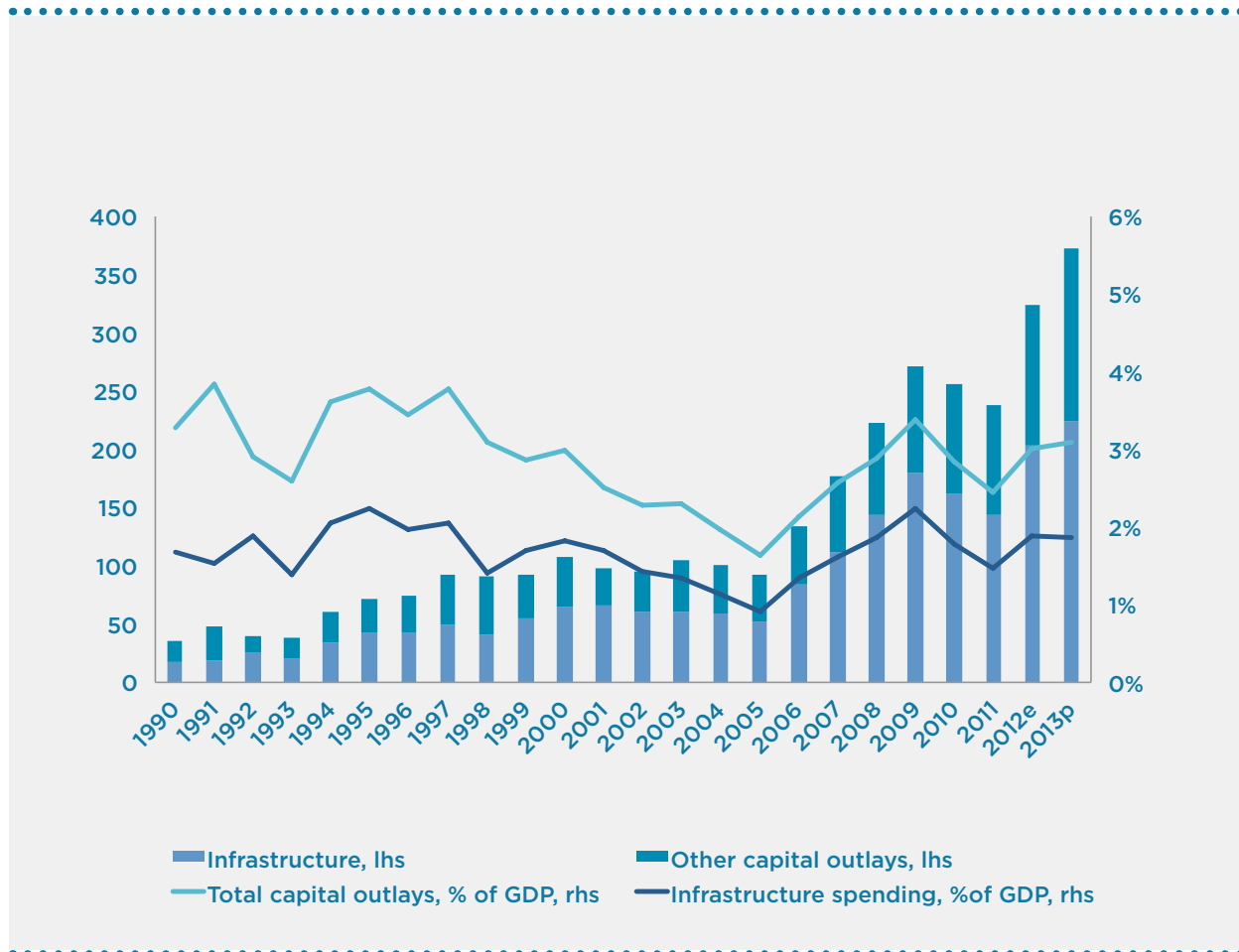


Reduce cost overruns due to unsolicited inputs particularly from LGUs; protect investors from political risks (TROs, LGU interference, right of way problems).



The issue of LGU exceptionalism and disregard for national policy remains serious. A DTI proposal for Domestic Economic Zones, which requires legislation, is one proposed solution. Another is to designate certain projects as “strategic” and not subject to LGU jurisdiction.

NATIONAL GOVERNMENT’S INFRASTRUCTURE SPENDING AND OTHER CAPITAL OUTLAYS 1990 TO 2013P IN PHP BILLION



RECOMMENDATION 14



Review foreign equity restrictions on infrastructure.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★★ Started

The JFC issued a position paper on July 19, 2011 affirming that up to 100% ownership, financing, maintenance, and operation of BOT projects is allowed except for direct interaction with the public utility function.

RECOMMENDATION 15



Implement the National Transport Policy Framework and the National Transport Plan.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

There are occasional GPH press releases referring to the existence of these plans. NEDA has drafted an implementing EO.

RECOMMENDATION 16



Build technical and legal capabilities of government agencies to prepare BOT projects.

2012 RATING	2011 RATING
★★★★ Started	★★★★ Started

There are occasional GPH press releases referring to the existence of these plans. NEDA has drafted an implementing EO.

RECOMMENDATION 17



Government should create reasonable timetables to address the long registration period of BOT projects. >>>



RECOMMENDATION 19

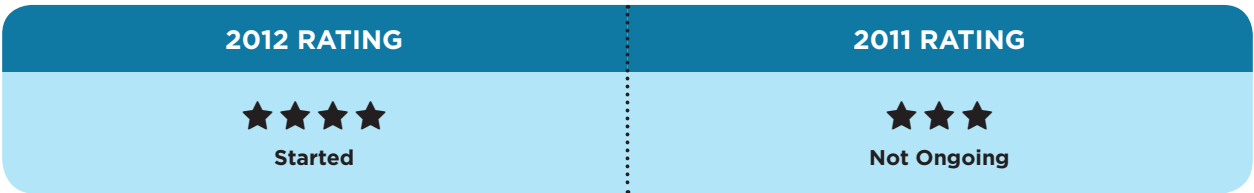
 The Countryside Development Fund should be utilized for necessary infrastructure projects and not follow political considerations.



The DPWH-DOT Convergence Program implements road projects based on objective technical and economic criteria using the Tourism Road Infrastructure Project Prioritization Criteria and Tourism Master Plan.

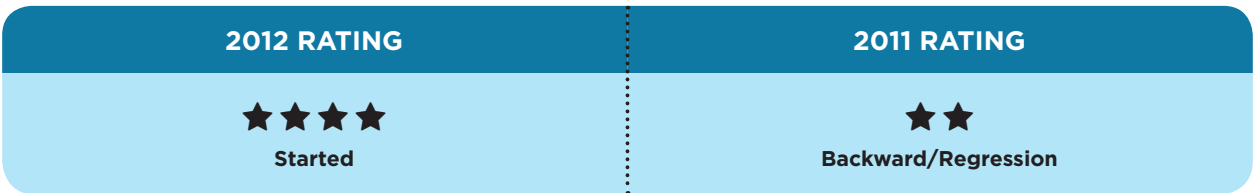
RECOMMENDATION 19

 Submit supporting documents during the loan period.



RECOMMENDATION 20

 The Department of Budget and Management (DBM) should release funds on time.



This situation improved greatly in 2012.

RECOMMENDATION 21



Strengthen the Pro-Performance Team.

2012 RATING	2011 RATING
 No Longer Relevant	 No Longer Relevant

RECOMMENDATION 22



Pass the Freedom of Access to Information Act.

2012 RATING	2011 RATING
 Started	 Started

While the Senate passed its bill on Third Reading in the 15th Congress, the House only saw delivery of the sponsorship speech on January 28, 2013—too late to pass the bill.

RECOMMENDATION 23



Develop an online registry for information on infrastructure projects.

2012 RATING	2011 RATING
 Substantial Progress	 Substantial Progress

Several department websites are quite informative regarding these projects, e.g., DPWH, NEDA, and PPP Center. DBM is posting Priority Development Assistance Fund projects for every member of Congress to encourage public monitoring.

RECOMMENDATION 24




The private sector can create a website tracking the top 200 to 300 large infrastructure projects.

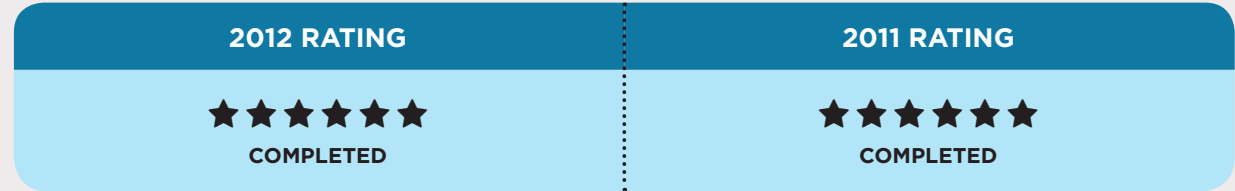
2012 RATING	2011 RATING
 Started	 Not Ongoing

Currently, the PPP Center website provides information on updates of PPP projects in the pipeline that are recently awarded and currently implemented. The website can be enhanced

by providing more information on PPP projects. The private sector should monitor the DOTC and DPWH websites, which contain much more detail on projects than in previous years.

RECOMMENDATION 25

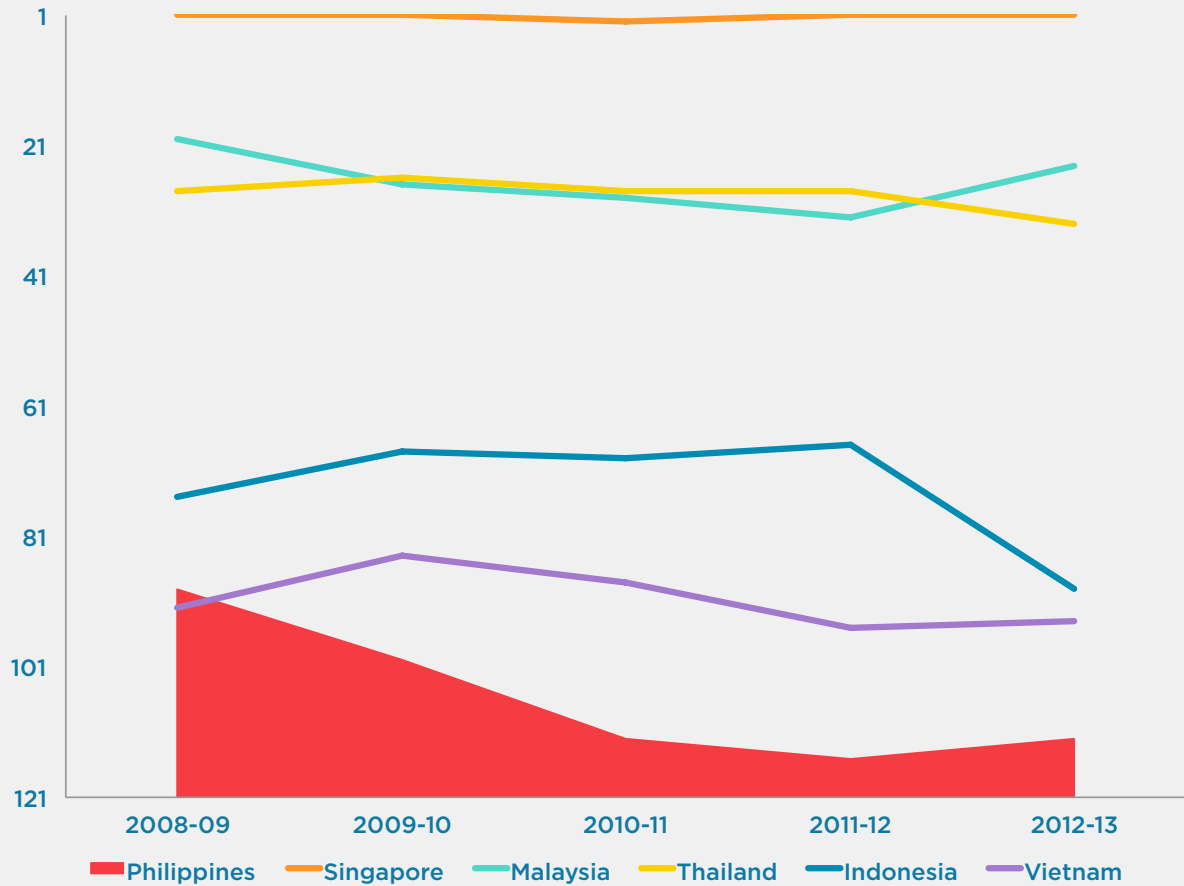
 **Lump sum budgets should be kept to a minimum.**



Lump sum budgets were a major source of corruption. Their removal is one of the main accomplishments of the Aquino Administration.

PART 3
BIG WINNER SECTORS • INFRASTRUCTURE

AIRPORTS



QUALITY OF AIR TRANSPORT INFRASTRUCTURE RANKINGS AMONG THE ASEAN-6 FROM 2008 TO 2013

RECOMMENDATIONS: 15


PROGRESS	RATINGS	RATINGS
IMPROVED 4	☆ 0	★★★★ 2
DECLINED 4	★★ 1	★★★★★ 6
STEADY 7	★★★ 6	★★★★★★ 0

INFRASTRUCTURE

AIRPORTS

With its archipelagic character, the Philippines depends on air and sea transport more than continental countries. Since affordable airfares have stimulated domestic tourism, Filipinos are flying more than ever. New terminals and modern equipment are needed, as are more direct international flights to secondary cities. The absence of a modern international gateway airport restricts tourism, trade, and investment—in short, a major turnoff for international visitors. Clark and Subic have great potential for passenger and cargo operations.

RECOMMENDATION 1

 Prioritize investments in airport terminal, runway, and communication facilities and development of an NCR/Central Luzon Transportation Master Plan.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

Frequent change of leadership at DOTC has put the dual gateway airport concept in the twilight zone. Connector roads to link SLEX to the North Luzon Expressway (NLEX) have been approved, but their relevance to Clark is no longer emphasized as there is no green light to make Clark a twin airport with the Ninoy Aquino International Airport (NAIA). The proposal of Ramon Ang to build a new airport for Philippine Airlines near NCR is another stumbling block in the decision of government to transform Clark as an alternate gateway to Manila and Luzon. An NCR/Central Luzon Transportation Master Plan has not been released.

RECOMMENDATION 2



One international airport per region.



The concept is not strictly applied. Long-term planning for airports has not graduated into regionalizing international access. This is partly because of partisan politics and also because some existing airports cannot be converted or improved to become larger airports that can accommodate the larger aircrafts common in international operations. But the idea is not totally lost and might make a comeback as the tourism master plan is designed for direct access to regional tourism attractions. The best solution to airport competitiveness is to remove all airports from the responsibility of the Civil Aviation Authority of the Philippines (CAAP), privatize airports that are critical or tactical in their contribution to tourism and the economy and go back to the concept of one international airport per region. Make all other airports within a region satellite airports of the regional international airport to create a hub and spoke network in each region.

RECOMMENDATION 3



Priority should be given to Laguindingan; Mactan runway should be extended; and high-speed ferry links to Tagbilaran increased.



Laguindingan Airport is in the final stages of completion. Navigational aids and landing approach systems are being installed. It should be in full operation by the second quarter of 2013. At Mactan a new terminal with runway and apron improvements will be bid out as a PPP in 2013. More high-speed ferry links between Mactan and Tagbilaran will become less necessary in several years as the construction of the Panglao Airport will be bid out in 2013.

RECOMMENDATION 4



Eventually make Clark the primary international gateway; connect with a high-speed rail line.



The importance of Clark as a twin airport to NAIA for the greater capital region has not been decided. DOTC insists it will soon make a decision and has allocated PhP100 million for a study to see how this can be done. In the meantime, the Clark International Airport Corporation (CIAC) is struggling to accommodate its ever increasing growth in passenger traffic, which passed the million mark in October 2012. CIAC plans to construct a budget terminal good for 15 million passengers regardless of whether Clark will become a premier gateway or not. Based on airline fleet planning for Clark, and fast growth of domestic and international air travel, by 2018 Clark passenger traffic could hit 16 million.

RECOMMENDATION 5

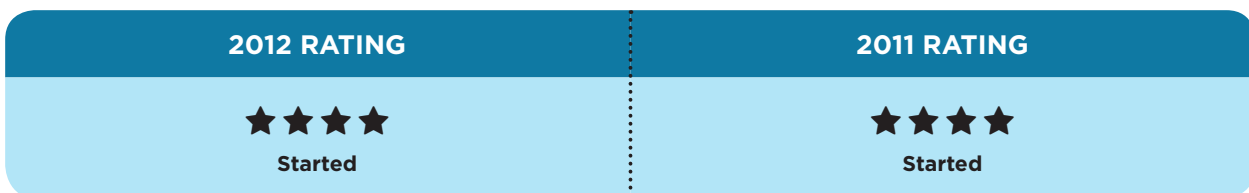
 The local Expropriation Court should quickly decide the amount due to NAIA Terminal 3 investors.




The Pasay Regional Trial Court (RTC) in May 2011 ordered GPH to pay \$176 million. The owners, claiming \$841 million (\$470 million for construction and \$371 for additional expenses) have appealed to the Court of Appeals (CA). An appeal by the willing owners of the 2007 decision favoring GPH by the International Center for Settlement of Investment Dispute is ongoing. The Court has decided on the amount to be paid Terminal 3 investors. Manila International Airport Authority (MIAA) is now negotiating with the Japanese construction company as to the cost and timeline of the reconstruction and repair of Terminal 3. There are still some legal issues as to the extent of the responsibility and/or liability of the Japanese company for the cost of repairs.

RECOMMENDATION 6

 Terminal 1 should undergo phased renovation.




RECOMMENDATION 7

 New fuel depot for NAIA is needed.



Moving the fuel depot is opposed by local residents, but doing so would free up space for expansion between Terminal 1 and Terminal 2. This is still being planned. The fuel depot requires a lot of land space and needs to be at a distance from the terminals. No place has yet been identified. It will also compete for land use with a proposed NAIA cargo terminal. Space at NAIA is critical.

RECOMMENDATION 8

 There should be a second parallel runway, a terminal with a 20-million passenger capacity, and a high-speed rail to Clark.



The dual airport concept as proposed by JICA needs to become a twin airport concept. If Clark becomes just a pure international airport and NAIA pure domestic, the government will create a burdensome “third” travel sector, the NLEX segment, which will create serious accessibility problems between the two airports. It will also produce an uneven playing field for foreign carriers as they will not have “connectivity” to domestic points. A fast rail connection should be timed when Clark will reach a passenger throughput of at least 20 million passengers. Sooner will require government to subsidize operations of the rail system. Runway capacity at Clark should be sufficient for the medium term.

RECOMMENDATION 9

 Resolve downgrading of CAAP by the US Federal Aviation Administration and the European Union.



Most of the basics to address the safety concerns attributed to CAAP are now in place, but the present organizational structure of CAAP may prevent early success on this aspect as the “Regulator-Operator” role of CAAP prevents it from truly purging its ranks of incompetents and prevents it from concentrating on the formulation of regulations or effectively using its oversight functions to police and supervise control over airmen, airlines, and aviation in general. A separate Airport Authority should be established to handle developments of airports.


RECOMMENDATION 10

 Remove discriminatory tax burdens such as Common Carriers Tax (CCT) and Gross Philippine Billings Tax (GPBT). >>>



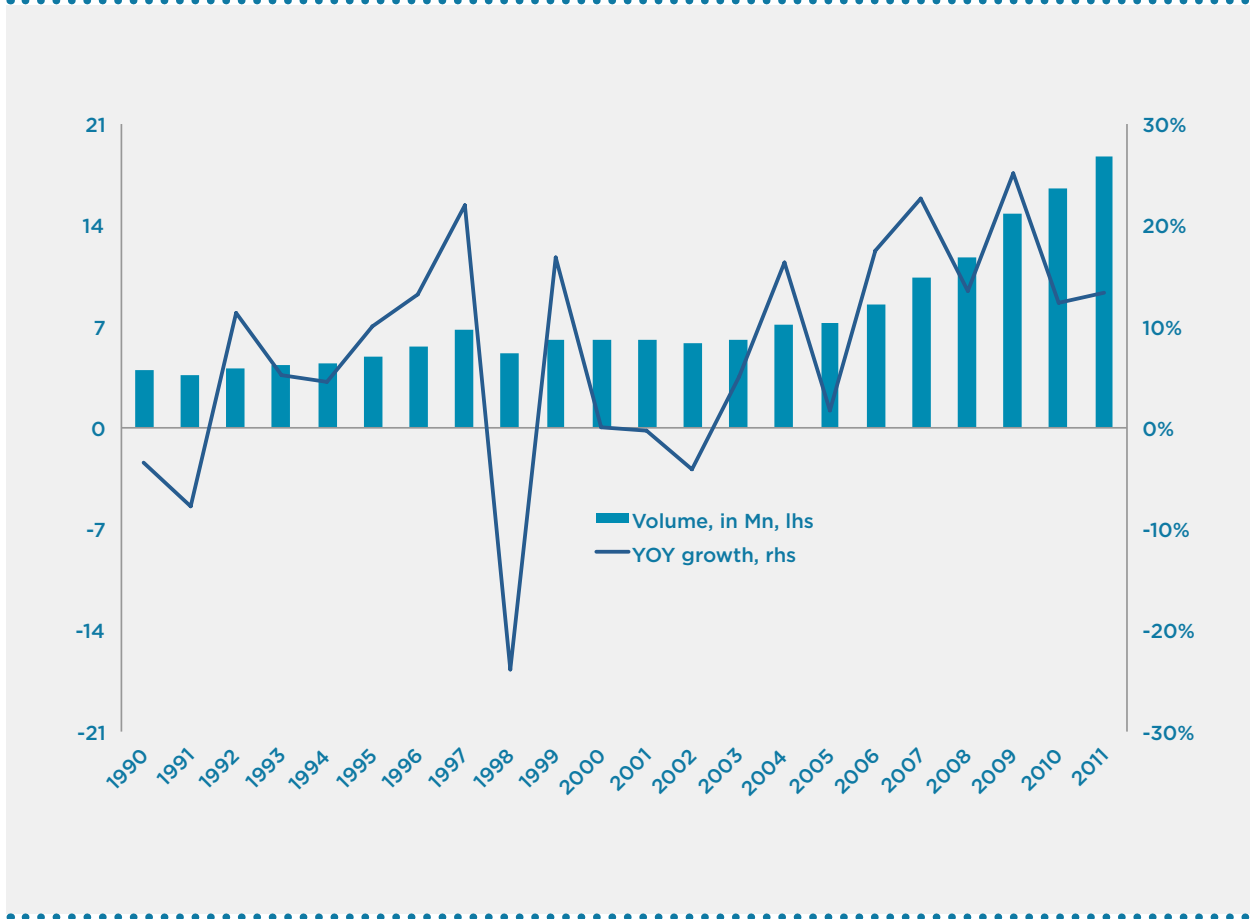
The bill removing CCT and GPBT has been passed by Congress and is awaiting the President's signature for enactment. The measure, which is in support of the tourism industry, will boost the national economy by generating investments, foreign exchange receipts, and employment in the country. The new law removing these taxes of international passenger revenue and fares should be in place in early 2013.

RECOMMENDATION 11

 Relieve the burden from customs, immigration, quarantine overtime, and meal and transportation charges for airlines and shippers.



DOMESTIC AIR TRANSPORT PASSENGERS FROM 1990 TO 2011



This has been done through an AO. There was serious initial resistance from the personnel in these agencies, including work slowdowns and delays in processing arriving foreign airline flights. Finally, the reform of three shifts on a 24/7 basis fully paid for by GPH is being implemented.

RECOMMENDATION 12

 Charge the same take-off and landing fees to international and domestic airlines.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

International convention is for weight to be the main determinant for landing and parking fees. For Philippine airports to remain competitive with other international airports, they should use the same formula as other airports.

RECOMMENDATION 13

 Allow Asian low-cost carriers to compete in the domestic market.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

This may require amendment of the Public Service part of the Constitution or the Public Services Act, which restricts foreign ownership of domestic carriers to 40%. The ASEAN Economic Community, however, may in the future lead to cross-border mergers of airlines in the ASEAN region.

RECOMMENDATION 14

 Complete Communications, Navigation, and Surveillance/Air Traffic Management project.

2012 RATING	2011 RATING
★★★★ Started	★★★★↓ Started – Substantial Progress

This long-delayed \$200 million modernization is a vital infrastructure requirement for the future development and upgrading of Philippine civil aviation. After contracts were signed by former Transportation Secretary de Jesus, his successor Secretary Mar Roxas placed implementation on hold in order to conduct a review. The review confirmed the project with some adjustments. It should go forward in 2013.

RECOMMENDATION 15

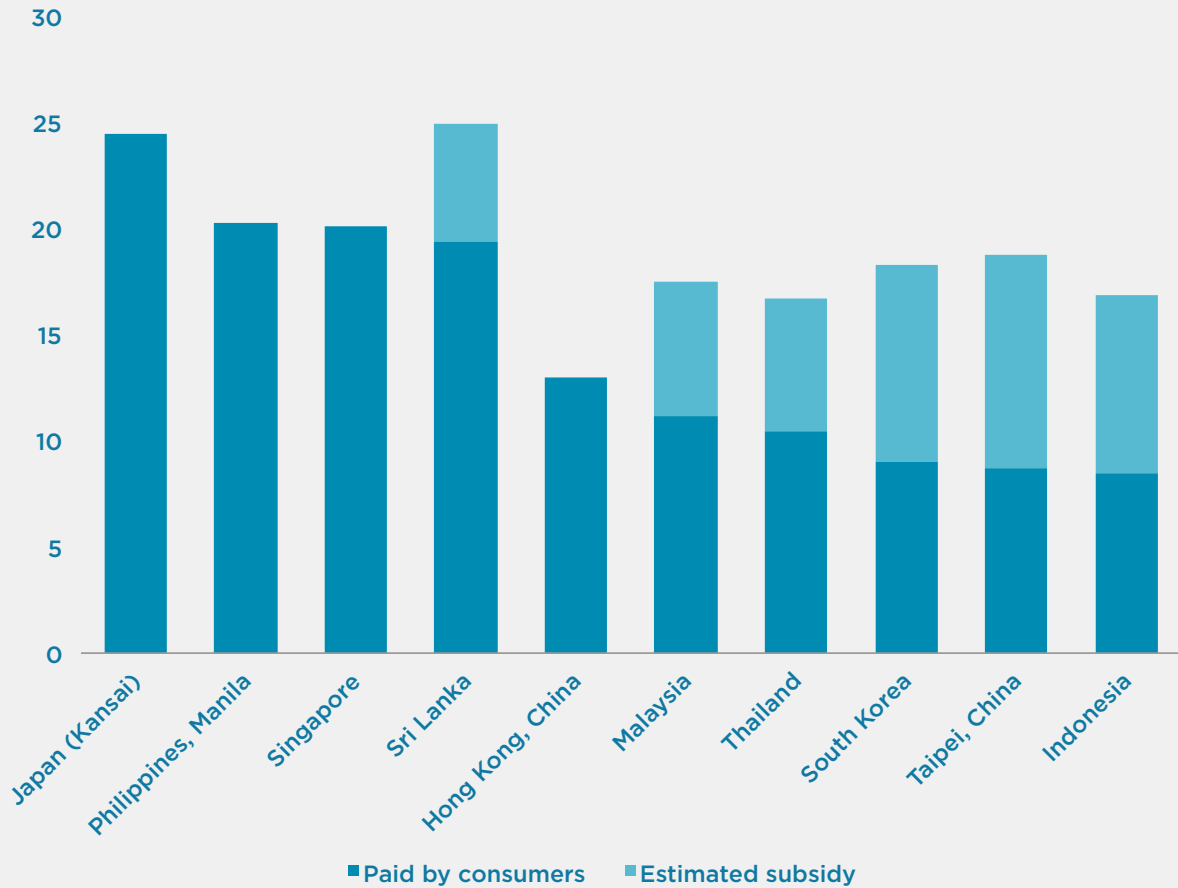
 The local Expropriation Court should quickly decide the amount due to NAIA Terminal 3 investors.



Palawan is receiving priority for open skies and continued improvement of infrastructure, including Puerto Princesa Airport. NEDA has approved a major airport improvement and terminal expansion to be financed by Korean Official Development Assistance (ODA). Destinations in Palawan, especially the Underground River (voted an international natural wonder), Coron, and El Nido, are receiving increasing numbers of visitors.

PART 3
BIG WINNER SECTORS · INFRASTRUCTURE

POWER



AVERAGE RETAIL ELECTRICITY TARIFFS, JUNE 2012, US\$/kWh

RECOMMENDATIONS: 21

PROGRESS	RATINGS	RATINGS
IMPROVED 3	☆ 4	★★★★★ 5
DECLINED 3	★★ 6	★★★★★★ 0
STEADY 11	★★★ 6	★★★★★★★ 0

INFRASTRUCTURE

POWER

The Philippines is completing a long transition from a public sector power generation monopoly to a private sector-led “open access” competitive environment with enhanced regulatory oversight. Electricity prices are among the highest in Asia and there are supply shortages in all three grids. Unreliable, expensive electric power is a major deterrent to foreign investment. Under the “open access” policy, rates will go up in the short-run, then down after more efficient generating plants are commissioned that are profitable at lower costs. Five conditions precedent to open access have been met. Underinvestment in power is likely to continue unless there is a clear energy policy indicating where the country will source future energy requirements and what will be provided as guarantees or credit enhancements. Renewable energy and nuclear technology offer excellent prospects for diversifying power sources. It is essential that the transmission and distribution network expands in line with generation and growth in demand.

RECOMMENDATION 1



Declare open access schedule before the end of 2010.



Initiation of retail competition and open access (RCOA) has now been set for June 2013. While substantially later than originally planned, it seems that the Department of Energy (DOE), the Energy Regulatory Commission (ERC), and market players are finally working to make this a reality.

RECOMMENDATION 2



The Power Sector Assets and Liabilities Management should solicit and award bids from the private sector for the Agus and Pulangi hydro facilities during 2010.

2012 RATING	2011 RATING
★★ Backward/Regression	★★ Backward/Regression

The privatization of these assets should be deferred until the power supply in Mindanao has been improved with the building of thermal plants.

RECOMMENDATION 3



Formulate an integrated energy policy and master plan giving clear direction for sources of energy, locations of power plants, and capacity; must take climate change, energy efficiency, and availability of new technology into account.

2012 RATING	2011 RATING
★★ Backward/Regression	★★ Backward/Regression

There is still no plan.

RECOMMENDATION 4



National Renewable Energy Board should create a roadmap.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★★ Started

This has not taken place yet.

RECOMMENDATION 5




Credit enhancement to support project financing and power supply agreements of new generating projects.

2012 RATING	2011 RATING
★★★ Not Ongoing	☆ No Longer Relevant

This recommendation may not always be relevant. We have seen that sovereign guarantees are not necessary. Seven plants are under construction in all three grids, each on the basis of small distribution utilities and with no sovereign involvement.

RECOMMENDATION 6

 Encourage industrial, commercial, and institutional load customers, distribution utilities, and electric cooperatives to establish their creditworthiness.



RECOMMENDATION 7

 Remove all foreign equity restrictions for power projects.



Removal of the nationality requirement for renewable projects would greatly accelerate progress in building these plants. The ban is contained in the Renewable Energy Act's IRR but not in the act itself.


RECOMMENDATION 8

 Ensure that contracts are strictly enforced. Rules and regulations must not change in the middle of project implementation.



This has not been an issue for the last decade. The Philippines currently has a stellar reputation internationally for honoring energy sector contracts that are not tainted with corruption.

RECOMMENDATION 9

 Partners such as ADB, IFC, and the Japan Bank for International Cooperation (JBIC) can help finance the longer tenor. >>>

2012 RATING	2011 RATING
★★ Backward/Regression	☆ No Longer Relevant

RECOMMENDATION 10



Comply with the requirements of lending institutions in dealing with climate change issues; create the Clean Technology Investment Plan.

2012 RATING	2011 RATING
☆ No Longer Relevant	★★ Backward/Regression

Philippine environmental laws and regulations are world class. It is the developers, not the government, who must comply.

RECOMMENDATION 11



Assist cooperatives in the transition to a privatized electric power industry.

2012 RATING	2011 RATING
★★★★ Started	★★★★ Started

RECOMMENDATION 12



Develop a power plant on isolated islands such as Semirara.

2012 RATING	2011 RATING
☆ No Longer Relevant	★★★ Not Ongoing

A number of plants are being built in the Visayas, but not on Semirara. Interconnecting and reinforcing existing interconnections in the Visayas and to Mindoro is advisable.

RECOMMENDATION 13



Study the potential of Liquefied Natural Gas (LNG) as a greener alternative energy source. >>>



LNG is currently too expensive. The government should stringently avoid fuel or power subsidies.

RECOMMENDATION 14

★ Merchant plants cannot succeed without a mature spot market to establish the correct price.



We have a number of merchant plants already even with an imperfect Wholesale Electricity Spot Market (WESM).

RECOMMENDATION 15

— Implement open access; the Electric Power Industry Reform Act requires removal of cost subsidies to reflect the true cost of electricity.



RCOA is not a panacea. Building more plants, however, is the key to bringing down prices. Meralco should have used its contracting power to encourage new plants to be built, by others as well as themselves, but instead soaked up virtually all the existing capacity thereby driving up prices for others.

RECOMMENDATION 16

— Include nuclear power development in the national power development plan.



Nuclear is probably not an option any time soon. The catastrophic failures following the tsunami that overwhelmed the Fukushima Daiichi Nuclear Power Plant in Japan on March 11, 2011 have set back development of nuclear power globally by at least a decade.


RECOMMENDATION 17

 Congress should pass a resolution supporting consideration of the development of nuclear energy.

2012 RATING	2011 RATING
★★ Backward/Regression	★★ Backward/Regression

See narrative for Recommendation 16.


RECOMMENDATION 18

 Congress should pass an Energy Efficiency Act after full stakeholder consultation support efforts of distribution utilities to reduce system losses.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★ Backward/Regression

Energy bills introduced in the 15th Congress languished, and none were reported out of committee in either the House or the Senate.

RECOMMENDATION 19

 Explore possibility of WESM sales of freely tradable forward power supply contracts in relatively small denominations.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

Over-the-counter trading of such forward contracts may begin to evolve after the initiation of RCOA. While there has been no progress, this should be worked on because it will help bring additional capacity into the market.

RECOMMENDATION 20



Interconnect the entire grid to enable producers to transport electricity to other parts of the country via WESM.



The Luzon and Visayas grids already are interconnected via submarine cable and have an interested wholesale spot market. The viability of interconnecting with the Mindanao grid via submarine cable has not been established yet, but will be reevaluated by the National Grid Corporation of the Philippines (NGCP). The severe power shortage in hydroelectric-dependent Mindanao during the 2012 drought led to some realization that future blackouts would be avoided by interconnection with the national grid.

RECOMMENDATION 21



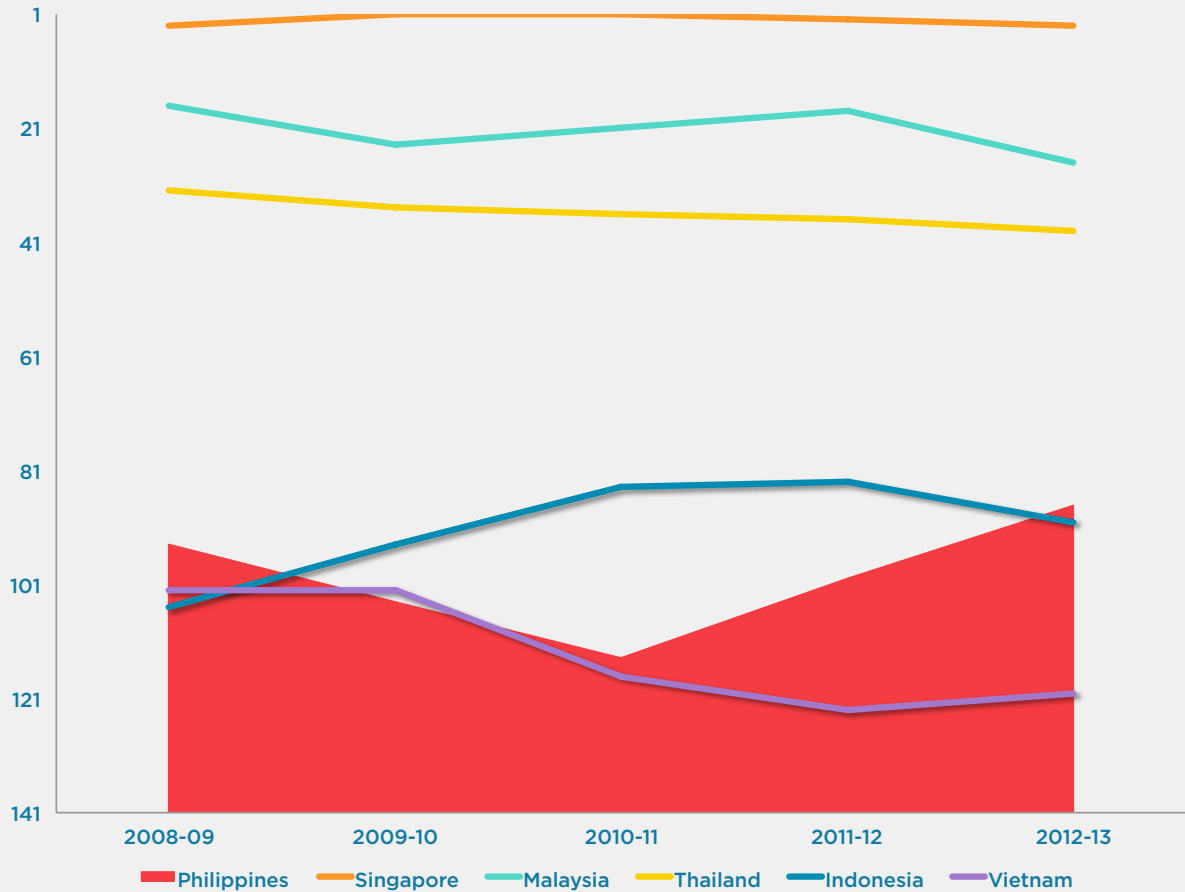
Resolve constraints limiting the flow of power; NGCP should interconnect Luzon and Visayas grids via submarine cable with Mindanao grid.



NGCP needs to accelerate its work.

PART 3
BIG WINNER SECTORS · INFRASTRUCTURE

ROADS & RAILS



QUALITY OF ROADS RANKINGS AMONG THE ASEAN-6 FROM 2008 TO 2013

RECOMMENDATIONS: 9

PROGRESS	RATINGS	RATINGS
IMPROVED 5	☆ 1	★★★★ 3
DECLINED 0	★★ 0	★★★★★ 2
STEADY 3	★★★ 2	★★★★★★ 1

INFRASTRUCTURE

ROADS & RAILS

“Rush hour, 5:30 p.m. Ayala MRT [Metro Rail Transit] station, north-bound. Queue 15 minutes to turnstiles. 10 Minutes wait and then one train comes, too crowded, only five people in front of me get in. Next train after five minutes, but announcement is made: train is defective, no passengers can ride. Wait for next train. Comes after three minutes. Meanwhile the platform is bursting with people because trains come too few and far between. I finally get in. Ride to Cubao takes 12 minutes. MRT is such a MESS! Fix those trains, add at least another five more per hour between 5 and 7 p.m., both directions.”

— Anonymous MRT-3 commuter

Modern, efficient ground transportation infrastructure facilitates the efficient movement of goods and people, while its absence increases transport cost and ultimately harms country competitiveness. Unfortunately, this “race” to improve public transport before traffic gridlock worsens is being lost. While DPWH greatly increased its budget in the final years of the previous administration, too much spending went into barangay roads built for political purposes. Meanwhile the national road network barely increased in two decades, although traffic on national roads multiplied. There are seven limited-access toll roads operating or under construction, all in Central Luzon, totaling under 300 kilometers. Another 300 kilometers are planned by 2020. The Philippines ranks a distant last among the ASEAN-6 for quality of railroad infrastructure. In fact, there is only one heavy rail line in operation. DOTC has sought unsuccessfully for two decades to restore rail service north of Manila, despite foreign assistance; the PRC-supported rail project turned into a major white elephant. Three light rail lines operate in Metro Manila. Planned new lines inexcusably take many years to implement. Unless construction begins in 2013, the current administration is unlikely to see any new rail or road projects, which it initiated, completed during its term. If this slow pace of implementation continues through successive administrations, the urban centers will become increasingly choked and unattractive to high levels of private sector investment.

RECOMMENDATION 1

- Start to build expressways and national roads twice as fast, using PPPs as well as DPWH funds.



The construction of the Tarlac-Pangasinan-La Union Expressway is ongoing and expected to be operational by 2014. The NAIA Expressway Phase II was bid out in July 2012 and bidder due diligence is ongoing. Meanwhile, the CALA Expressway and NLEX-SLEX Connector Road will be ready for rollout in 2013. The NLEX-SLEX connector is expected to have two segments by two different firms to be completed in 2016. The feasibility study for the C-6 Expressway is ongoing; the technical study is completed, while the PPP options and project structure are still being discussed.

RECOMMENDATION 2

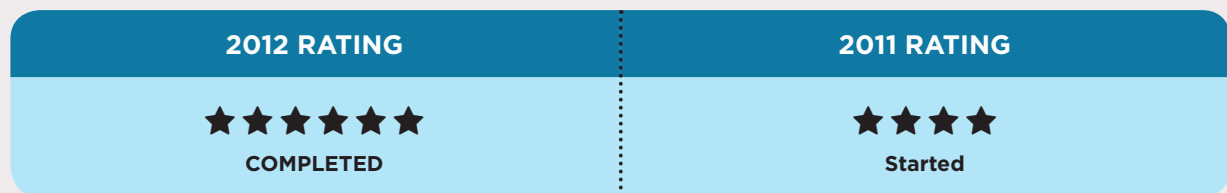
- Build large intermodal provincial bus terminals north and south of Manila.



There is no policy issued yet from DOTC or MMDA disallowing provincial buses from entering NCR. DOTC and MMDA have announced plans for four provincial bus terminals: two in the North and two in the South. The question, however, has an unproven assumption that current provincial bus terminals congest traffic. Considering their number (equivalent to 15,000), their concentration in four terminals may, in fact, lead to congestion in and around chosen sites. The provision of the intermodal provincial bus terminals in the North is integrated with the MRT-7 Project. The government may consider incorporating a terminal for provincial buses into the LRT-1 South Extension project. The construction of these projects has not yet started.


RECOMMENDATION 3

- National government budget should focus on the core road network.



The government has increased the DPWH budget allocation for roads and in 2012 as the latter accelerated its pace of tendering road projects. Secretary Singson has made a strong commitment to stick to the DPWH mandate on taking care of the national roads spanning approximately 31,000 kilometers cumulatively, bridges, and major flood control projects. Local roads are constructed under the regular budget of DPWH, if it is part of a tourism road network as validated by DOT through the DOT-DPWH Convergence Program on Enhancing Tourism Access. For example, in the 2013 budget, the Tourism Convergence Program has an allocated PhP12 billion for tourism roads across the country, the majority of which are local roads. The remaining budget for roads worth PhP100 billion is for national highways. What is important is that the overall quality of these roads improve. In 2011, only 45% of these roads were considered in good or fair condition. In 2011, DPWH spent PhP111.3 billion for 8,458 kilometers of roads and 14,946 lineal meters of bridges. As a result of these ongoing reforms, the WEF Quality of Roads ranking for the Philippines improved 27 places from 114th in 2010 to 87th in 2012, moving ahead of Vietnam and Indonesia.

RECOMMENDATION 4

 Major road and rail projects should be bid out competitively and evaluated and awarded transparently.



The Aquino Administration has declared its policy preference for the solicited bidding process, vis-à-vis the unsolicited approach. The priority road and rail projects, except for the NLEX-SLEX Connector, will be bid out transparently and competitively via the solicited mode. The government, however, should discourage the use of ODA for PPP projects in order to unleash more fully the available local private sector resources and expertise. DPWH has shown the most progress on the PPP front; it has awarded the Daanghari-SLEX connector. Three expressways (NAIA 2, Skyway 3, and North-South Link) are already in the early stages of implementation, after having been given the green light by NEDA Investment Coordination Committee (ICC). DOTC, challenged by three changes of leadership, has moved more slowly and has bid out the long delayed LRT-1 project. As a result of the increased movement to bid out LRT-1 and begin construction of MRT-7 in 2013, the WEF ranking of the country for Quality of Railroads, which had been steadily declining, reversed in 2012 and increased ranks, although still the lowest in the ASEAN-6.


RECOMMENDATION 5

 Use the modern planning tool known as the Highway Development and Management Model (HDM-4).



The updating of data for HDM-4 is becoming more frequent and strict. Dialogues with the private sector and Civil Society Organizations have resulted in more random visits and technical validation of data submitted to the central office. As a result, some engineers and officers are now under scrutiny to explain variances in data submitted versus actual technical visit. Moreover, Secretary Singson has made a policy to stop upgrading roads that are in good condition to cement asphalt. The use of HDM-4, however, is data hungry. The data input relies on visual inspection, which is subjective. By the time the resource is optimized by the tool, it is one year out of date. The tool may be unrealistic for the Philippine setting.

RECOMMENDATION 6

 **GPH agencies should post on their websites the list of road and bridge projects programmed for funding, based on HDM-4.**



All HDM-4-identified DPWH road projects can be seen in the National Expenditure Program and General Appropriations Act posted on DBM's website.

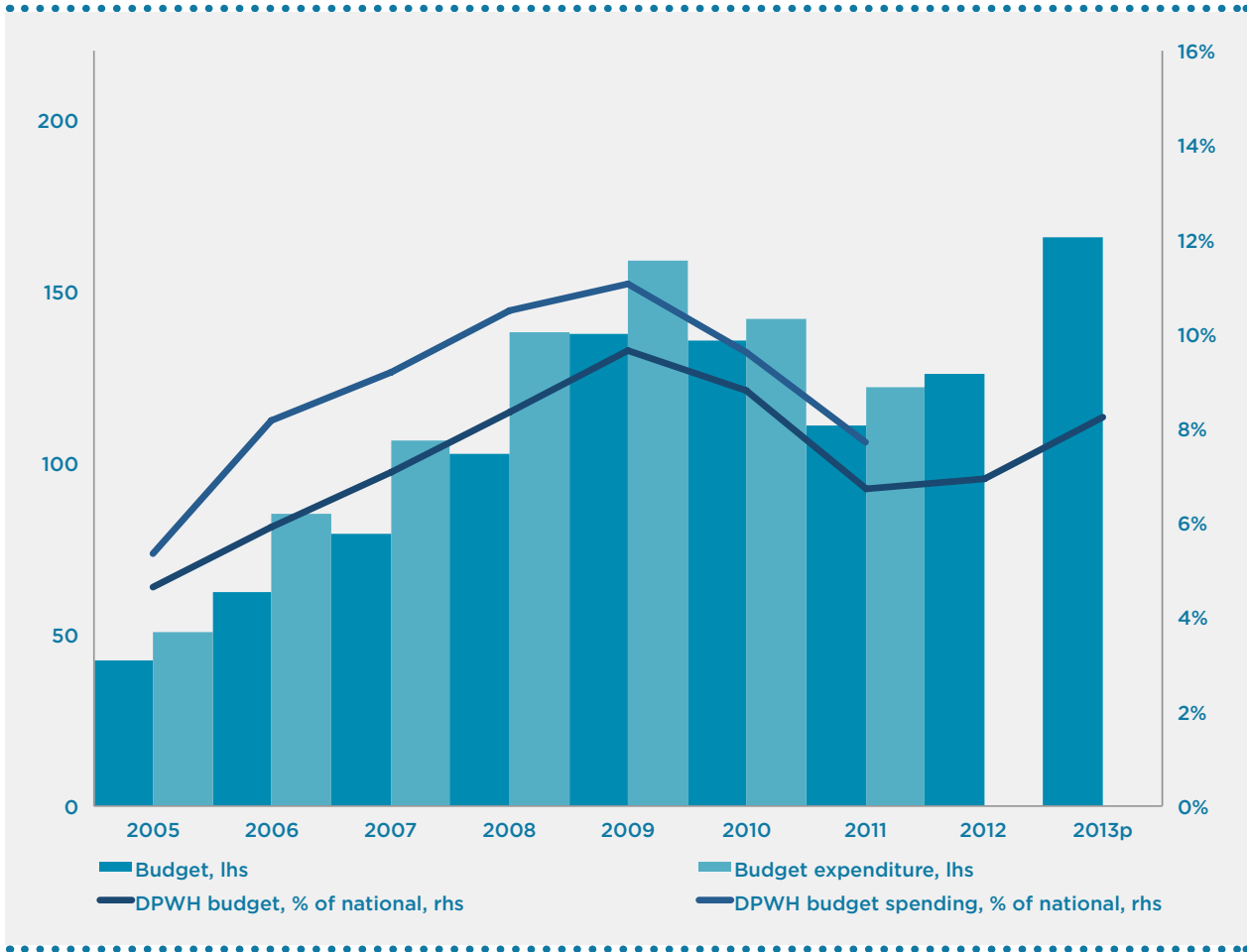
RECOMMENDATION 7

 **Build intercity rail and urban light rail, especially on Luzon, twice as fast. Accelerate rail construction on Luzon, using PPPs as well as DOTC funds.**



From 2000 to 2010, the government managed to add 18 kilometers of urban rail. Twice that rate from 2010 to 2020 implies 36 kilometers. The Northrail project is about 90 kilometers, MRT-7 20 kilometers, LRT-1 South Extension 12 kilometers, and LRT-2 East and West Extension combined 8 kilometers. MRT-4, which measured 22.6 kilometers, became irrelevant when MRT-7 was approved. The Cebu Bus Rapid Transit has replaced the LRT option. Financial closure for the MRT-7 project is ongoing and project implementation is expected to start in 2013. Of the priority light rail projects, only LRT-1 South Extension has been bid out during the current administration. Feasibility studies for LRT-2 East and West Extensions are still being updated, despite the fact that the feasibility studies were completed in 2010. The recommendation to fund the high-speed rail to Clark via PPP should be studied carefully. While the development of Clark as the next international gateway depends on the completion of the high-speed rail and other prerequisite conditions, the development of the Clark-Trinoma City Air Terminal will provide easy access and more convenience for Clark passengers from Manila.

DPWH's BUDGET AND ACTUAL SPENDING FROM 2005 TO 2013 PROJECTION



RECOMMENDATION 8

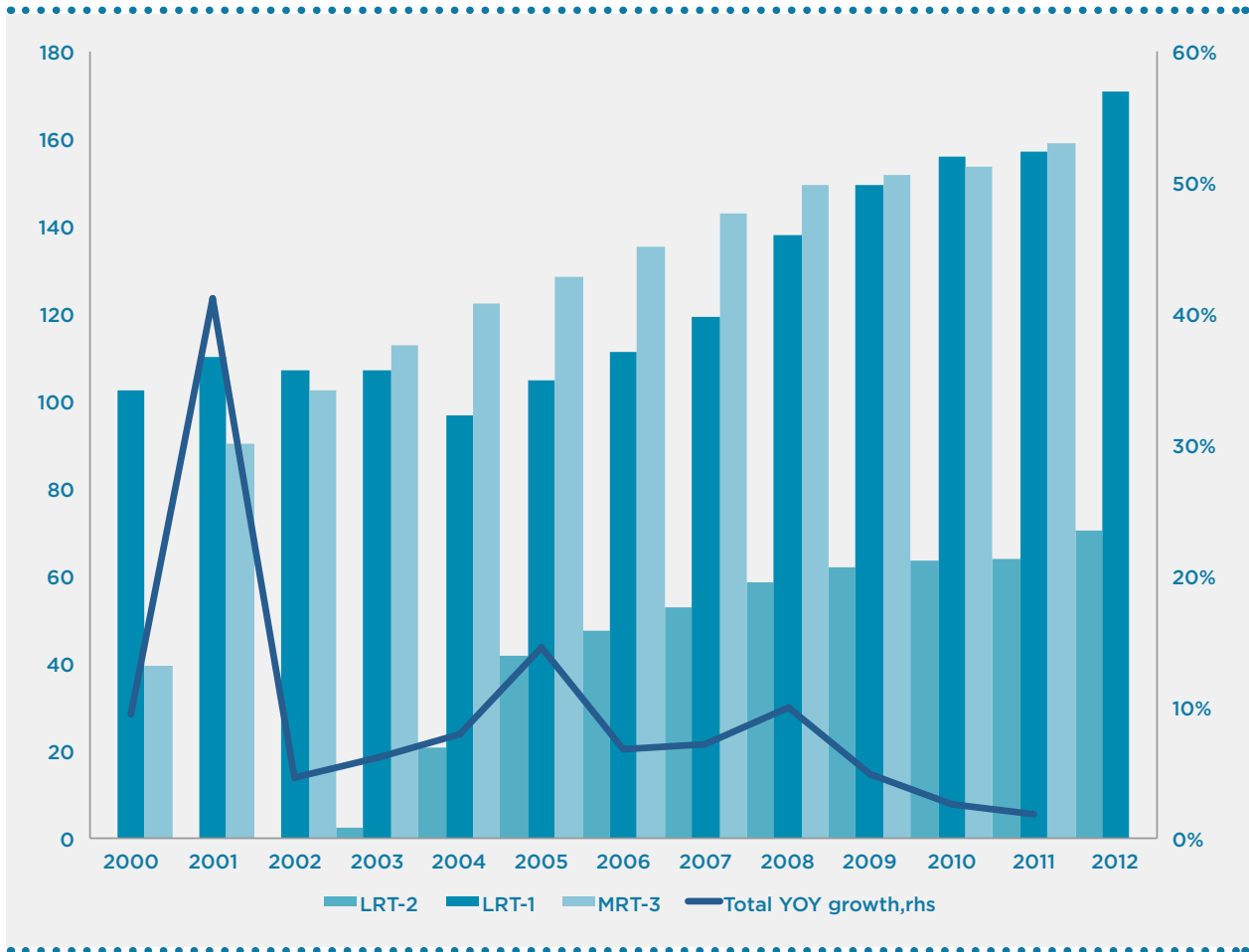


Correct the different gauges of the Northrail-Southern Linkage.



The Northrail-Southern Linkage Phase 1 (Caloocan to Alabang) has been completed and is now operational. Nevertheless, the correction of gauges for the Northrail Project to standard gauge is subject to the reconfiguration of the project and loan renegotiation after the Supreme Court (SC) ruled that the original Northrail Project was contrary to law as it did not undergo the proper bidding process during the previous administration. This was an intentional mistake during the previous administration. With the termination of contract with Sinomach, the reconfiguration study is being undertaken with JICA assistance. A new rail project for North-South commuter and the Airport Express to Clark will emerge.

LIGHT RAIL RIDERSHIP (LRT-1, MRT-2, AND MRT-3) FROM 2000 TO 2012



RECOMMENDATION 9



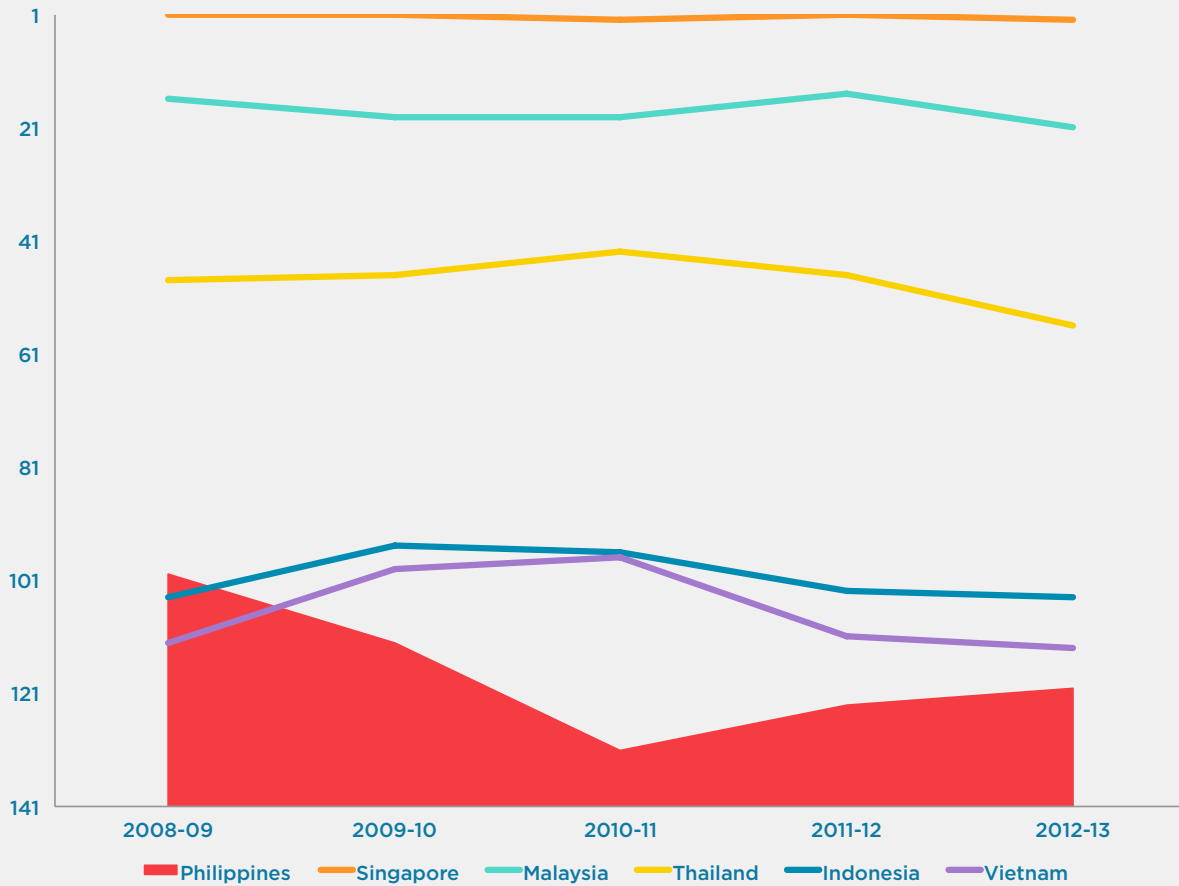
Enact an EO to create a single government agency to manage operations, maintenance, and planning of all light rail projects within Metro Manila.

2012 RATING	2011 RATING
☆ No Longer Relevant	★★★ Not Ongoing

There is no need for an EO. Under the charter of DOTC, it can perform planning of all rail projects, or even operate and maintain the same. The same goes for the Light Rail Transit Authority (LRTA). The recommendation is flawed for assuming that a single operator is *sine qua non* to a seamless rail system. In Munich, for example, there are five rail operators but commuters can transfer from one line to the other without buying another ticket. Furthermore, the recommendation implies that all Metro Manila rail projects be undertaken by this new government organization instead of via PPP.

PART 3
BIG WINNER SECTORS · INFRASTRUCTURE

SEAPORTS



RECOMMENDATIONS: 20

PROGRESS	
IMPROVED	6
DECLINED	3
STEADY	11

RATINGS	
☆	0
★★	0
★★★	12

RATINGS	
★★★★★	7
★★★★★	1
★★★★★	0

INFRASTRUCTURE

SEAPORTS

Because the archipelagic Philippines depends on seaports to move most of its domestic and international commerce, efficiency of marine transport is critical to national competitiveness. Its high cost has long been a problem. Tourism growth is also influenced by seaport quality. Improving maritime safety is important given the high loss of life from long-standing negligence of owners and government agencies. The volume of international container shipments is small compared to Asia's export economies and lowest of the ASEAN-6. Although it has improved in the past two years, the Philippines still ranks 120th out of 144 countries in Quality of Port Infrastructure of the WEF Global Competitiveness Report—the lowest among the ASEAN-6 countries. Manila ranked 99th worldwide in tonnage volume and 37th in container traffic. Over the last decade, there have been significant investments in the international ports of Batangas, Davao, Philippine Veterans Investment Development Corporation, and Subic, almost doubling their combined capacity. Nevertheless, Manila is still highly congested, while Batangas and Subic remain underutilized. The RORO Nautical Highway, with three routes connecting Luzon-Visayas-Mindanao, can be expanded and made more efficient. Regional ports need modernization with feeder links.

RECOMMENDATION 1

 Develop the NCR and Central Luzon Transportation Master Plan.



There is a need to formulate a comprehensive transport plan. Aside from identifying the necessary infrastructure, and possibly each project's mode of financing, the plan should determine and recommend necessary transport policies. The interconnecting highway between NLEX and SLEX will provide the missing link between the ports of Batangas and

Subic. Furthermore, a linkage between the Manila ports and NLEX is planned. JICA and other studies show that 40% of Manila traffic is linked to the port operation, and further expansion will lead to further serious traffic problems. A stop to building Berth 7 in Manila is under consideration. Overall, *Arangkada* has opened a dialogue which hopefully will lead toward the desired Transportation Master Plan. Shipping is a service for trade and industry and follows customer needs. It is important for various industry groups preparing manufacturing roadmaps for DTI to identify their present and future transport and infrastructure requirements. This should form the basis for the Transportation and Logistics (road, air, and sea) Master Plan. A Master Plan for transportation and logistics cannot be made in isolation from the country's limited resources. If such a plan has started without such input, then one could say it is already the wrong plan. A port like Cagayan De Oro may be developed, but without input from customers on their growth requirements, it may quickly become too small. Plans should have a 10- to 20-year horizon. Immediate solutions are appealing, but there is a need to know where we are going.

RECOMMENDATION 2



Hub-and-spoke system is ideal with major ports highly developed for larger ships.



This system is partially established for domestic and international shipping. However, the development of the domestic RORO market and the entry of larger RORO ships (400 twenty foot equivalent units or TEU capacity) no longer limit RORO ships to servicing small markets and secondary routes.

RECOMMENDATION 3



Major ports should include all needed infrastructure.



It is difficult to give one rating since ports are in different stages of development. Batangas and Cagayan de Oro are well developed. The modernization of Manila North Harbor has begun, but in Davao it has not. Major ports must have cranes and handling equipment and small ports, at least, weighing scales. The hub concept will identify other major ports in growing or targeted economic zones. The government has tendered several port improvement projects for open bidding. Many smaller ports still lack not only port facilities but the normally required equipment of the franchised port operators.

RECOMMENDATION 4



Major RORO ports should have modern passenger terminals.



Ports should improve intermodal connectivity and enhance the experience of the riding public. A good example is the Batangas port where there is a bus terminal, park-and-sail, and shuttle service inside the port facility. The Batangas port, however, is the only port with extensive interconnectivity with land transport. Thus, while Batangas is a good model, there has been limited overall progress. The identified tourism target areas must have the land, air, and sea hub-and-spoke infrastructure planned to support their growth.

RECOMMENDATION 5



Port infrastructure should also include facilities to accommodate bulk and break bulk cargoes.



Key domestic and international ports need bulk and break-bulk facilities. Constructing such facilities at rarely used ports would result in white elephants. Port development such as car handling facilities in the port of Batangas is ongoing. It is dangerous to generalize and proper planning is critical. If the government priority for agriculture and food security is serious, there will be a need for more bulk ports. If mining is to take off, there must be bulk terminals. Furthermore, the country's power requirements for coal, LNG, and the like are key issues that should be addressed.

RECOMMENDATION 6



Gradually shift international container shipment volume from Manila to Batangas and Subic.



Private sector representatives strongly advocate shifting container traffic from the Manila port to the outer ports of Subic and Batangas. The national government through the Philippine

Ports Authority (PPA) and DOTC has not acted upon this request. See more details in the chapter on Logistics. Some progress made with feeder operators serving Batangas as well as Subic and other shipping lines are considering calls as soon as volumes increase. Shifts to Batangas and Subic will follow if the industrial zones of Clark and southern areas of Manila are master planned to attract investment in industry and manufacturing. There is a misconception that business always follows infrastructure. Instead, transport follows business as seen by the massive Chinese hub ports like Shenzhen. At present, there is still resistance from customers to pay added trucking costs to Batangas and Subic.

RECOMMENDATION 7



Need for a transport study to identify the ideal capacity ports should have in relation to their adjacent road networks; establish cap on TEUs per port; develop inter-modal system with rail, roads, and waterways.



If the government undertakes such a study, DPWH should take the lead as it has the experience and expertise to determine road capacity. DOTC should also be involved, since it has expertise on rails and waterways. The Manila port is reportedly capped with the temporary shelving of the development of Berth 7 and initial assessments made of the impact of the port's expansion on city traffic.

RECOMMENDATION 8



Retain North Harbor as a domestic port, shift foreign cargoes to Batangas and Subic, and make Manila a cruise port.



While the Office of the President (OP) has allowed the reduction of port charges at the Batangas port, this incentive targets shipping lines and helps service providers to have sustainable operations. This policy does not lead to the shifting of traffic to the outer ports of Batangas and Subic.

RECOMMENDATION 9



PPA should consider creating a private corporation to develop ports and privatize the ports through an Initial Public Offering. >>>

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

PPA already has the powers of a private corporation. There appears to be no plan to separate the operational and development function from the regulatory function of PPA. The Governance Commission for GOCCs (GCG), however, is charged to review PPA and recommend changes to the president. PPA has plans to privatize several ports.

RECOMMENDATION 10

- Container shipping costs should be reduced.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

There are different ways to reduce cost. The most difficult is to achieve economies of scale in a country where trade is small. Another is through efficiency of the whole supply chain, e.g., fees, roads, truck bans, traffic, and port modernization. For example, the CHARO system should be excluded from cargo handling charges since the shipping line performs this activity instead of the cargo handler.

RECOMMENDATION 11

- PPA should find innovative ways to cut costs and increase revenue aside from continuously increasing fees.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

While PPA owns most Philippine ports, it rarely operates ports. PPA normally subcontracts port operation to private sector proponents such as the International Container Terminal Services, Inc., Asian Terminals, Inc., etcetera, and collects royalties from the revenues generated by subcontractors. PPA does not incur port operating costs since subcontractors pay for these expenses. BOC has tendered a GPS monitoring program that could add substantial cost to logistics companies and ultimately, importers if the new system is in addition to “under-guarding services” instead of replacing them.

RECOMMENDATION 12



Domestic shipping costs can also be reduced by port modernization.



Certain ports have been improved. Berth 6 of the Manila International Container Terminal was inaugurated in 2012. A new passenger terminal is being constructed in North Harbor. PPA, however, should allow private sector investment in port operation instead of blocking or “crowding-out” would-be investors. Port modernization has to kick in before costs will be reduced for domestic shipping. The truck waiting lines, especially in Manila, are growing. Based on the modernization of North Harbor (cranes and modern equipment), a major jump in port handling fees that will be imposed on shipping lines/shippers is foreseeable.

RECOMMENDATION 13



Extorting illegal fees from truckers should be stopped; rest areas should be provided along the nautical highway.



DILG has issued an AO to prevent LGUs from charging truckers illegal fees. There is, however, a need to enforce this issuance and penalize offending LGUs. The City of Muntinlupa has passed an ordinance requiring all truckers passing through to register at city hall. This opens the door for extortion and increases the cost of trucking. It is not a good precedent.

RECOMMENDATION 14



MARINA must have greater political will to impose higher standards.



There already is a draft omnibus maritime code that, if approved, will update the country's antiquated maritime law. We are not aware of any new standards being imposed. The new code should be approved in the 16th Congress. A permanent administrator should be urgently named. It is taking too long.

RECOMMENDATION 15



Amend RORO policy to include CHARO.



There are already efforts from the private sector, but the government has not yet responded to these requests. RORO policy has not been amended. GPH should adopt the international practice of having a single Terminal handling charge for container and break bulk.

RECOMMENDATION 16



Remove unnecessary as well as unauthorized fees affecting RORO traffic.



CHARO policy is part of this. Furthermore, waiving fees for lift-on/lift-off (LOLO) cargo, which serve an important market segment, should also be waived.

RECOMMENDATION 17



RORO bills of landing should be more transparent.



This should be done without causing increase in cost and delays. RORO bills of lading have not been changed. Furthermore, all bills of lading for both RORO and LOLO should be transparent—even bulk, for that matter.

RECOMMENDATION 18



Cabotage restrictions require further discussion but should probably be eased. >>>

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

We have no information that this is ongoing. Most countries have domestic shipping cabotage restrictions usually for national security reasons. Cabotage liberalization might occur in the context of the Trans-Pacific Partnership charter on investment. Bilateral or unilateral liberalization should not be ruled out. The ASEAN Economic Community could also adopt required cabotage along the lines of a regional open skies policy. To remove cabotage, Philippine law on public services, including the Constitution, Public Services Act, domestic shipping cost, and Tariff and Customs Code, would have to be amended. The entry of Maersk in a consortium with Aboitiz operating domestically as “MCC” is a good start and the concept should be promoted and expanded. It has led to reduced freight rates and better service.

RECOMMENDATION 19

- Pass and implement the new Marine Law.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

The draft maritime code has not gained any ground after the team finished drafting the proposed law.

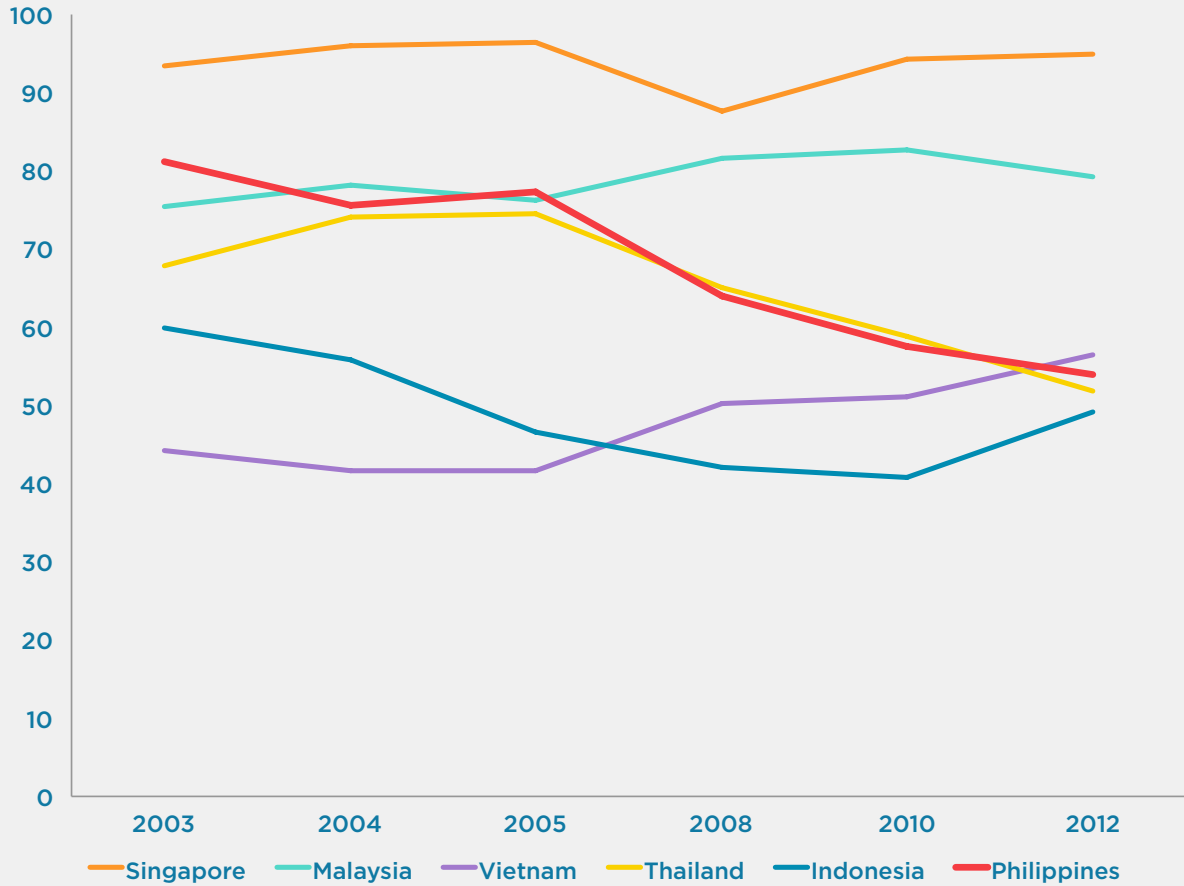
RECOMMENDATION 20

- Activate the National Port Advisory Council (NPAC).

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

There is a need to delineate the powers of PPA and other regulators. There is already an NPAC, although it is not convened. Its composition should also be changed by increasing the number of representatives that are port users and who pay port-related costs.

TELECOMMUNICATIONS



UN E-GOVERNANCE READINESS AMONG ASEAN-6 IN PERCENTILE RANKINGS FROM 2003 TO 2012

RECOMMENDATIONS: 11

PROGRESS	RATINGS	RATINGS
IMPROVED 3	☆ 0	★★★★ 5
DECLINED 2	★★ 0	★★★★★ 0
STEADY 6	★★★ 6	★★★★★★ 0

INFRASTRUCTURE

TELECOMMUNICATIONS

Reform in this area has been considerable. In a decade, Philippine telecommunications advanced from being monopolistic, high-cost, and inefficient to having considerable competition, enabling a majority of the population and businesses to communicate at home and abroad at much reduced cost. While fixed line penetration is lowest of the ASEAN-6, mobile phone penetration is high (80%), and digital fiber connections are robust. The next new technology for the country is high-speed wireless broadband. Within a few years many millions can have cheap Internet access on 3G mobile phones. The benefit to national competitiveness of these changes could be enormous. Filipinos will be able to avail of global SMS, email, and Internet on mobile devices and “leap over” the low 21% household computer penetration level. In the UN E-Governance Readiness Survey, Philippine ranking has been declining. For ICT, three non-fiscal laws (Cybercrime, DICT, and Data Privacy) have passed.

RECOMMENDATION 1



Overhaul of RA 7925: Public Telecommunications Policy Act, updating it to authorize full convergence.

2012 RATING



Started

2011 RATING



Not Ongoing

The Convergence bill has not moved. SB 3277 or the Magna Carta for Philippine Internet Freedom filed by Senator Defensor-Santiago in November 2012 includes provisions for telecom reform that update RA 7925, particularly responsibilities of the National Telecommunications Commission (NTC). These proposals should be taken up in the 16th Congress. President Aquino issued an EO creating a Competition Office under the Department of Justice (DOJ) in light of PLDT’s acquisition of Digitel in April 2011. The office is in the organization stage.

RECOMMENDATION 2



Pass the long overdue bill to create a DICT.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★★ Started

The DICT bill has languished for a decade. President Aquino is opposed to creating a new department and defers to the DOST for most ICT matters. DOST, which took over the Commission on Information and Communications Technology's (CICT) functions, disapproves of a separate ICT department. There are no signs that the executive branch will support a DICT.

RECOMMENDATION 3



Develop a national plan to double computer penetration in Philippine households and triple Internet penetration.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

ICTO is at the initial stages of developing a National Broadband Plan, which hinges on private sector participation to expand Internet penetration. It also plans to establish a government shared network, wherein government offices nationwide will serve as Internet access points. But in 2012, this was only on the drawing board. There are no major efforts to increase computer penetration.

RECOMMENDATION 4



Include a National Broadband Roadmap.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

ICTO has adopted the Philippine Digital Strategy, a five-year roadmap for ICT promotion and development, which pushes for investment in broadband. It is in consultation with key stakeholders in drafting a National Broadband Plan, but no major developments have occurred.

RECOMMENDATION 5

 Upgrade the speed of broadband and expand coverage.



Examine the need for and benefits of government defining minimum broadband speed. Analyze the broadband needs of key sectors and geographical areas—these can drive investment and initiate infrastructure development in pockets of areas. The best incentive for private telcos is the presence of a market. In areas where a broadband market has yet to emerge, government offices can be the primary client. The fast-growing use of smartphones and mobile Internet is increasing the expectations for speed and bandwidth. With dropping prices, these may serve as Internet access points outside A and B markets and urban areas.

RECOMMENDATION 6

 Create a plan for free wireless Internet services in public high schools and in densely populated areas.



Government efforts are ongoing through the eSkwela and iSchools projects. The private sector continues to provide support through GILAS (Gearing up Internet Literacy and Access for Students) and Smartschools. Recently, Procter & Gamble Philippines has initiated a program that provides internet-enabled XO laptops for grade school students. Continuous funding and training are necessary, particularly for maintenance, utilities, and technical support. Change management for school leadership and personnel is crucial, as they make decisions on the actual use of computers and Internet facility. Without proper appreciation for technology, computer and ICT projects are likely to be shelved. For government-owned wireless Internet initiatives, Alaminos City's WINGS (Wireless Internet-based Governance System) project can be considered a model.

RECOMMENDATION 7

 Create a national government data center and website.



ICTO and the Advanced Science and Technology Institute (ASTI) under DOST launched the Integrated Government Philippines or iGovPhil project in June 2012 aimed at addressing the government's ICT needs and supporting e-Government services. The iGovPhil project has three components: (1) a shared platform where agencies can deploy online services, (2) a common payment gateway for government, and (3) a national records management system. The first component entails building government data centers in Manila and Cebu. The second merges the eSerbisyo project of NCC with www.gov.ph. The third links all government databases and enables sharing citizen data across agencies. Initial funding is Php470 million and needs to be sustained.

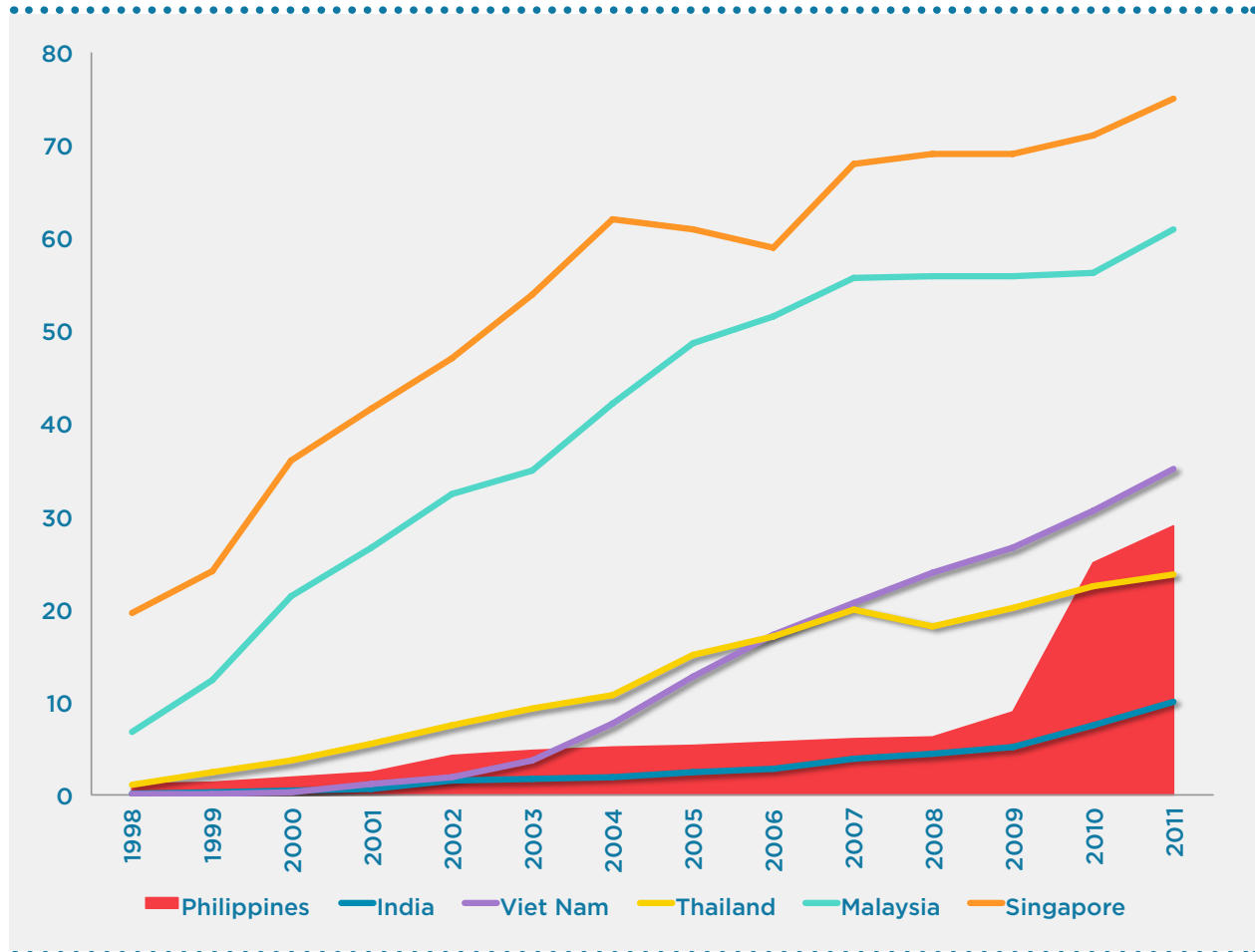
RECOMMENDATION 8



Make e-governance a reality for most Filipinos



INTERNET USERS PER 100 INHABITANTS FROM 1998 TO 2011



The iGovPhil project was established to promote, support, and improve e-Government services. See narrative for Recommendation 7. The need for a policy to institutionalize implementation, despite change in leadership, should be studied. It is also important to explore funding and technical support for this project to assist take-off and ensure sustainability.

RECOMMENDATION 9

 Use digital fund transfer technology for various government payments to citizens as well as payments to the government.



The second component of the iGovPhil project aims to build a common gateway facility for government transactions. Its security and reliability have to be ensured.

RECOMMENDATION 10

 Install a national GPS mapping and information system.



DOST-PAGASA's (Philippine Atmospheric, Geophysical and Astronomical Services) Project NOAH (Nationwide Operational Assessment of Hazards) and the Metropolitan Manila Development Authority's (MMDA) traffic monitoring system can serve as models, if not platforms, for this national GPS mapping.

RECOMMENDATION 11

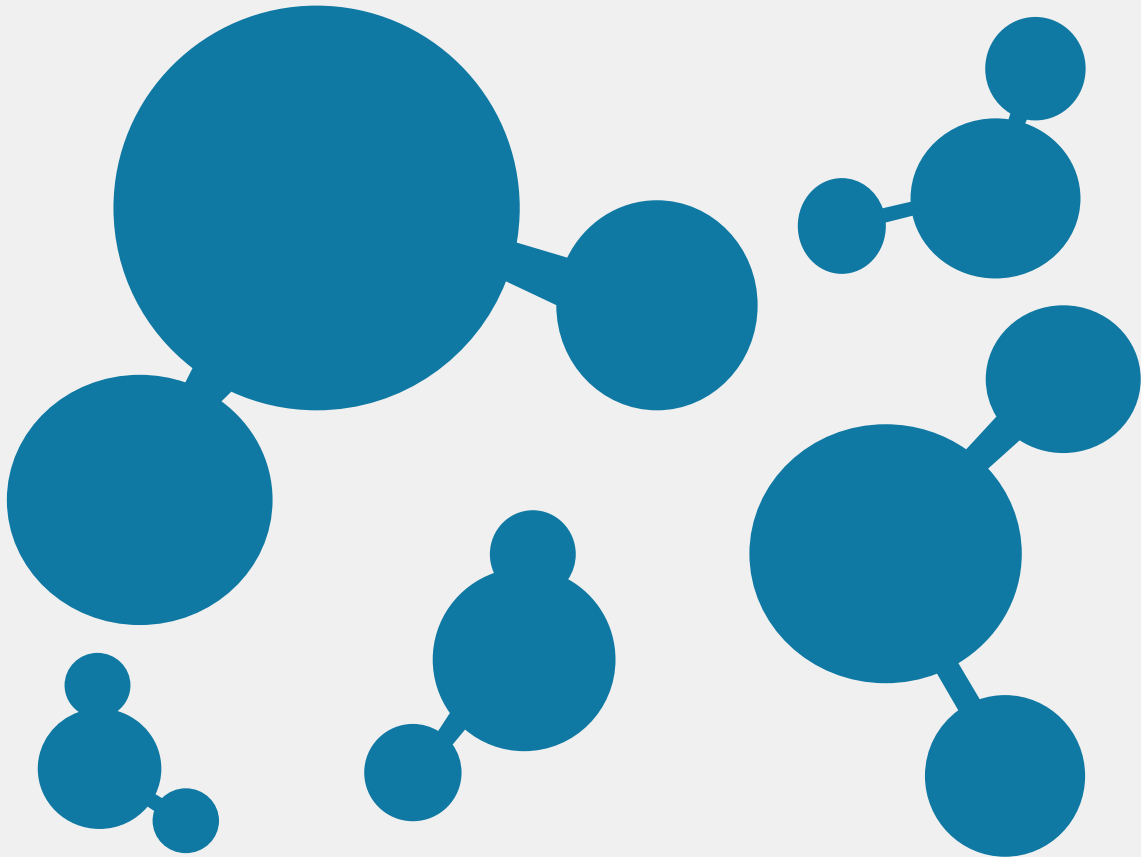
 Expand mobile phone service in remote areas with more cellular sites to benefit economic development and tourism.



The market has proven to be most efficient in providing mobile phone services as demand increased through the years. Most areas of the country are now covered. Telcos continue to expand and modernize their telecommunications networks. Government's primary roles are to promote an environment conducive to competition and manage spectrum effectively to ensure their availability and most productive use.

PART 3
BIG WINNER SECTORS • INFRASTRUCTURE

WATER



RECOMMENDATIONS: 9

PROGRESS	RATINGS	RATINGS
IMPROVED 1	☆ 0	★★★★★ 7
DECLINED 0	★★ 0	★★★★★★ 0
STEADY 8	★★★ 2	★★★★★★★ 0

INFRASTRUCTURE

WATER

Dependable supply and distribution of water for cities and agriculture is critical to growth and everyday life. The Philippines is challenged to store and deliver sufficient water and dispose of wastewater without damage to environment and public health. Prospective investors note the lack of an economic regulator and the inadequate capacity of the resource regulator. There is immediate need for the proposed Water Reform Act to create an institutional and legal framework to guide private and public cooperation in developing water sources. The present framework of some 30 agencies with varying jurisdictions must be rationalized, as it discourages new entrants. The supply situation in Metro Manila and eight other urban centers has been described as critical. Immediate solutions to cope with anticipated water deficits should be identified and implemented. Angat Dam currently supplies 97% of Metro Manila's water supply and water for irrigation and power. Additional dams are needed very soon, either Laiban or smaller ones, but the obstacle is the seeming lack of urgency to pursue the development of alternative water sources for Metro Manila. The ideal option is to bid out such projects, but the government has been slow in following through on its plans. Despite being the biggest consumer of water, the agriculture sector does not pay irrigation fees. Public sector irrigation systems are poorly maintained and inadequate. Flooding is common in low-lying areas of the archipelago and is worsening with uncontrolled urbanization and climate change.

RECOMMENDATION 1

- Establish an independent water regulator and a Department of Water.



Regulatory reform alone will not answer the country's water problems. Structural reform of the sector, in terms of water resource management and water utility operations, is the more fundamental requirement. By structural reform, what is meant is a fundamental rethinking of how: (1) water resources are administratively managed and (2) how municipal water supply and sanitation are operationalized on the ground. It may be worth considering managing the country's resources by river basin rather than by centralized planning or sub-basin and LGU-based planning, as is the case currently. Water should be managed in consideration of its natural rather than political boundaries. There are too many service providers making it impossible to regulate and maximize potential scale economies. More often than not, each LGU has its own water utility or operator translating into a concentration of services in the *poblacion* areas only. Scale economies via larger service areas could enable a larger customer base to spread cost of expanding services to its peripheries. Coupled with performance-based regulation, even the far-flung areas of these cities and metros could be eventually served. This setup also makes PPP in these areas—in water source development, water and wastewater treatment, or network management—more attractive.

RECOMMENDATION 2

- Legislate a Water Reform Act that will establish a separate government agency for water regulation.



Numerous bills exist to reform the water sector from the adoption of River Basin Management systems across the country to full sector reform as in the Water Sector Reform Act (WSRA). All have not moved past the Committee level. There is a need to consolidate them to come out with a single reform bill. On the advocacy of an independent regulator for the sector, legislation has been filed in both houses. The general thought, however, is for two distinct water sector regulators: one for resource regulation and another for utility regulation. The reason is to avoid potential conflict of interest that would arise from a single resource utility regulator that may tilt in favor of municipal water supply and distribution to the detriment of other water users, e.g., hydropower, irrigation, and transportation. Two bills stand out in terms of proposing an independent regulator: the Water Regulatory Commission bill and the WSRA. The former focuses purely on utility regulation, while the latter assigns resource and utility regulation to a single entity. A third bill seeks the creation of a Department of Water, Sewerage, and Sanitation, but it has a narrow focus on water supply and sanitation at the

expense of all other water uses. Consolidating these proposals into a single one is needed. A good starting draft may be the WSRA, which seems to be the most comprehensive reform proposal to date and includes provisions for enhancing PPP in the sector, institutionalizing Integrated Water Resource Management via the adoption of the River Basin Management approach, and strengthening economic regulation in the sector.

RECOMMENDATION 3

 Prepare a master plan and integrated water policy on how to develop each water source.



The National Water Resources Management Office (NWRMO) proposal (see narrative for Recommendation 4) was developed as an offshoot of a 2011 NEDA rapid assessment policy brief of the sector conducted in response to EO 62 series of 2011, which created the Inter-Agency Committee on the Water Sector (IACWS) composed of DPWH, NEDA, DBM, DILG and OP. IACWS was tasked to design a water sector master plan, which will effectively address all the issues and concerns of the water sector, and to recommend to the President the appropriate organizational structure of all concerned agencies for the effective implementation of the water sector master plan. A draft EO to create NWRMO has been submitted to the President, but remains pending due to concerns on the proposed budget and human resource requirements. Less attention was given to this when other priorities, including the Integrated Flood Management initiatives of DPWH, arose.

RECOMMENDATION 4

 In the interim, the executive branch should continue its current policy of strengthening the National Water Resources Board (NWRB).



Efforts to adopt a more integrated approach to water resource management are underway, albeit moving slowly. In 2012, fora with stakeholders on the draft operational plan for NWRMO were held. NWRMO is envisioned to be fashioned from the existing NWRB with other government offices that have absorbed water and flood management mandates. NWRMO will become the premier water resource manager for the country, i.e., a strengthened NWRB, guided in its operations by the principles of the Integrated Water Resources Management and River Basin Management.

RECOMMENDATION 5



Allow the market to determine the wholesale price of water.



The market is already involved in determining the wholesale price of water on a per-bulk-water-project basis—for example, in Carmen Bulk Water Project of the Manila Water Consortium in Cebu. The project is being undertaken by a joint venture between the Provincial Government of Cebu and a consortium of private companies and was an unsolicited proposal to provide domestic and municipal water to Metro Cebu. After undergoing a Swiss Challenge, the consortium matched the bid price of a challenger. The final bid price, determined by market forces, affects the final bulk water price to be offered to potential markets. Where PPP is involved, a market price for bulk water will be determined as long as the project undergoes public bidding. The market price, in turn, is determined by the bidding results as well as the price that the target market is willing to pay. For the bulk water PPP projects at the PPP Center, a similar market-based price outcome can be expected. Where pure public backs a bulk water project, it is necessary to ensure that the resulting project is economically viable. Market-determined bulk water prices ensure efficient allocation of water resources. Bulk water prices must also keep in mind affordability for the general public, particularly for the poor. The state can ensure affordability by institutionalizing a socialized pricing mechanism where higher consuming customers are charged higher tariff rates, thus allowing subsidies for the lower consuming public. Such a pricing mechanism is proposed under WSRA. Finally, much of the country’s groundwater resources are threatened by over-abstraction, which has led to the lowering of aquifer levels, land subsidence, and salt water intrusion, particularly in the country’s metro areas. In order to disincentivize over-reliance on groundwater, a pricing mechanism reflecting the full cost of the water abstracted should be considered. In Metro Manila, a measure to price groundwater at a rate equal to that of Metro Manila’s water and wastewater concessionaires is currently pending with NWRB.

RECOMMENDATION 6



For PPP water projects, GPH should revisit its policy disallowing “take-or-pay” or sovereign guarantees.



“Take-or-pay” or sovereign guarantees are powerful tools intended to entice the private sector to engage in water PPPs. The current administration is not supportive of such tools due to the perceived burden of such provisions on paying customers. A private investor, however, will only put in financing if realizing a return is certain. Striking a balance here is necessary. The revised BOT IRRs were recently released and the document is silent on its preference for or

against “take-or-pay” arrangements in BOT contracts. This sentiment stems from a desire to avoid onerous contracts as was experienced in past PPPs. An outright policy pronouncement supporting “take-or-pay” and sovereign guarantee provisions would attract more interest in water PPP projects in the pipeline. Where the social benefit outweighs the social cost, it would make sense to pursue a “take-or-pay” PPP project. An alternative proposal for striking a balance between investors’ need for guarantees and customers’ concerns is the partial government subsidy modality, where counterpart national and local government funding through ODA or internally generated funds is injected into various components of the project to minimize total project costs, thus reducing the project’s resulting tariffs once in operation. Though solicitation of PPP projects is the more ideal mode, unsolicited proposals should still be entertained. In fact, given the huge time lag in rolling out its PPP program, the government should encourage more unsolicited proposals to catch up with original targets. The laws are in place to ensure that even if a project is unsolicited, a transparent process can be expected to yield results beneficial to both the public and the investor if properly implemented. Finally, LGUs should be capacitated to engage in their own PPP projects. LGU-driven PPPs may result in faster turnaround times due to less bureaucracy and the natural autonomy they possess. The centralized approach being pursued by the PPP Center is prone to inefficiencies since it has limited manpower and resources. If LGUs were to handle their own PPP projects, many projects could be pursued simultaneously.

RECOMMENDATION 7

 **GPH should begin working on plans for alternatives to the Laiban project such as the water supply projects of Sierra Madre and Wawa.**



The Metropolitan Waterworks and Sewerage System (MWSS) has taken upon itself the challenge of ensuring water security for Metro Manila in the years ahead. Laiban Dam remains on the list of priority projects of the government as evidenced by its inclusion in the PPP Center’s priority list. A feasibility study of this project has been completed and is being reviewed by the PPP Center. The project may commence bidding by the first quarter of 2013 and should be awarded by the end of 2013. Expected timeline for project design and construction is from 2014 to 2019. The MWSS has considered the possibility of a delay due to social unrest in developing the Laiban Dam, a long-term water source. For this reason, MWSS has included the development of Kaliwa Dam to serve as an interim source to meet the forecasted demand of the metropolis. Also included in the PPP Center’s priority list, Kaliwa Dam is expected to be bid out between the second and third quarter of 2013 and ready for construction by 2014. Construction completion is targeted for 2019. Other possible water source developments for Metro Manila will only be possible if the water rights belong to the state. This is necessary to ensure a level playing field for potential private sector participants. For Sierra Madre and Wawa, private individuals and companies hold the water rights, giving them undue advantage over other market players who may be able to offer better project proposals.

RECOMMENDATION 8

 **Maintain and improve irrigation systems; encourage private sector investment through privatization of irrigation.**



We are not aware of any developments. This recommendation, however, is particularly applicable for multipurpose facilities, i.e., dams for municipal and domestic irrigation and hydropower use. Under such setup, proceeds from hydropower operations may in fact subsidize irrigation and municipal and domestic operations of the same facility. In terms of privatizing the entire irrigation supply chain from water source development to distribution and network operations, this would likely be opposed by farmer-customers who are not used to paying for their raw water supplies. Market mechanisms, however, may incentivize farmers to adopt technologies to improve crop yields as well as be efficient in their water use, including being vigilant of system losses for which a pricing mechanism would make them pay.

RECOMMENDATION 9

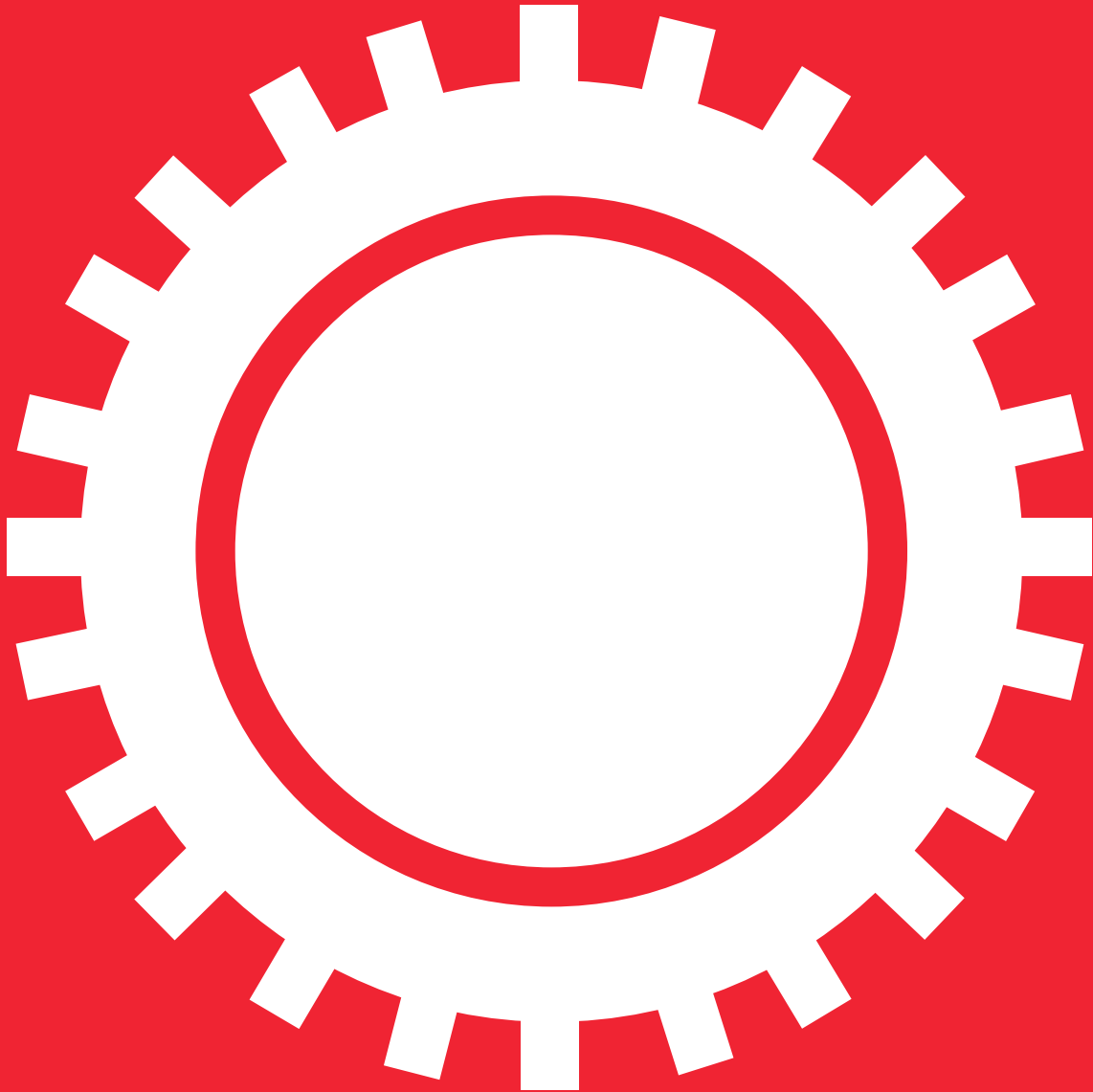
 **Implement measure to reduce silt and garbage in waterways and prevent flooding.**



The Manila Water Company (MWC) continues to do its part to clean metro waterways and contribute to flood prevention initiatives. MWC continues to build wastewater infrastructure in line with its obligations to the government under its concession agreement and approved business plans. The company is also involved in tree planting activities, particularly in the La Mesa, Ipo, and Marikina Watersheds. MWC, in cooperation with the ABS-CBN Foundation and ADB, also recently launched an advocacy campaign entitled “Toka-Toka” that seeks to persuade the public to commit to the following four “acts,” which can contribute to a cleaner sustainable environment: (1) segregate solid waste, (2) connect to a sewer line, (3) support local wastewater projects, and (4) de-sludge septic tanks regularly. On a national front, the NEDA-Infrastructure Committee (INFRACOM) approved the National Sewerage and Sanitation Management Program (NSSMP), which allocates national government counterpart funding to 17 Highly Urbanized Cities (HUCs) for the construction and operation of wastewater systems. NSSMP provides PPP as a modality to construct and operate wastewater systems in selected HUCs. Moreover, DPWH recently received NEDA-INFRACOM approval to pursue its Flood Management Master Plan for Metro Manila and surrounding environments. The Master Plan entails major flood prevention infrastructure projects, including the construction of a dam in Marikina; improvements on the Pasig and Marikina river embankments; and land raising projects along Laguna Lake’s shoreline, which are envisioned to limit the damage of major “*Ondoy*-like” flooding events in the future. The estimated cost stands at over Php350 billion. Besides this Master Plan for Metro Manila, DPWH has also developed comprehensive flood management plans for 12 of the 56 major river systems throughout the country.

PART 3: BIG WINNER SECTORS

MANUFACTURING



RECOMMENDATIONS: 17

PROGRESS
IMPROVED 8
DECLINED 1
STEADY 8

RATINGS
☆ 0
★★ 1
★★★ 4

RATINGS
★★★★★ 9
★★★★★★ 3
★★★★★★★ 0

BIG WINNER SECTORS

MANUFACTURING

“From a lackluster average annual growth rate of 3% in 2004 to 2009, manufacturing output has surged at an average of 7.5% in the last three years. If this keeps up, we may yet resume the industrialization that we missed in the last two decades as China assumed the role of factory of the world—a role now compromised by rapidly rising wages.”

*— Cielito F. Habito, PhD
Economist and former NEDA Secretary*

Asia’s developed economies had strong growth of their industrial sectors and large shifts of agriculture and services workers into manufacturing and exports. This has yet to take place in the Philippines, which has benefited less than Malaysia, Singapore, Thailand, and Vietnam from the globalization of trade and manufacturing. Unlike these four economies which are strong exporters, the Philippine has not increased its export percentage of GDP for 30 years because of lowered global demand—less than 50% of total Philippine exports in 2012. Without electronics, exports of manufactured goods would have grown very slowly, as garments exports have contracted. Another industry subsector declining in recent years is automotive manufacturing, undermined by used car imports and the higher cost of car assembly in the Philippines. The high percentage of exports made up of electronics is a failure to develop a diversified mix of manufactured exports, creating a risk should the viability of electronics manufacturing decline. Domestic manufacturing has never faced more challenges to survival than today, such as high business costs, low import duties, and extensive technical smuggling. As long as smuggling provides better profits than manufacturing, the economy will be one of traders and smugglers rather than manufacturers. When *Arangkada* was drafted, there was no strong, unifying policy that manufacturing is a key component of economic and technological development. There was no national industrial master plan and funding for trade and investment promotion was small.

RECOMMENDATION 1



Private sector should make a strong collective statement to the government that reforms are needed for global manufacturing companies to remain in the country.



The private sector throughout 2012 has been very assertive in raising awareness among policymakers on the importance of manufacturing. Statements by the Federation of Philippine Industries (FPI), Management Association of the Philippines (MAP), JFC, other industry associations, academe, and labor groups have specifically raised the need for other reforms to improve manufacturing competitiveness. This was best articulated in the 17 industry roadmaps generated in 2012, including the Philippine Industry Roadmap of FPI, as well industry-specific groups for chemical, rubber, copper, furniture, autoparts, bioethanol, and the like.

RECOMMENDATION 2



Increase the priority given to manufacturing and to make serious efforts to offer a competitive business environment.



Increased priority of manufacturing is evident in the collaboration between industry groups and BOI on the development of sectoral roadmaps. BOI has engaged the Philippine Institute for Development Studies (PIDS) to craft the Philippine manufacturing roadmap, which started in October 2012 and is expected to be completed by the first quarter of 2013. NEDA officials have also expressed support for industries and manufacturing to enable inclusive growth.

RECOMMENDATION 3

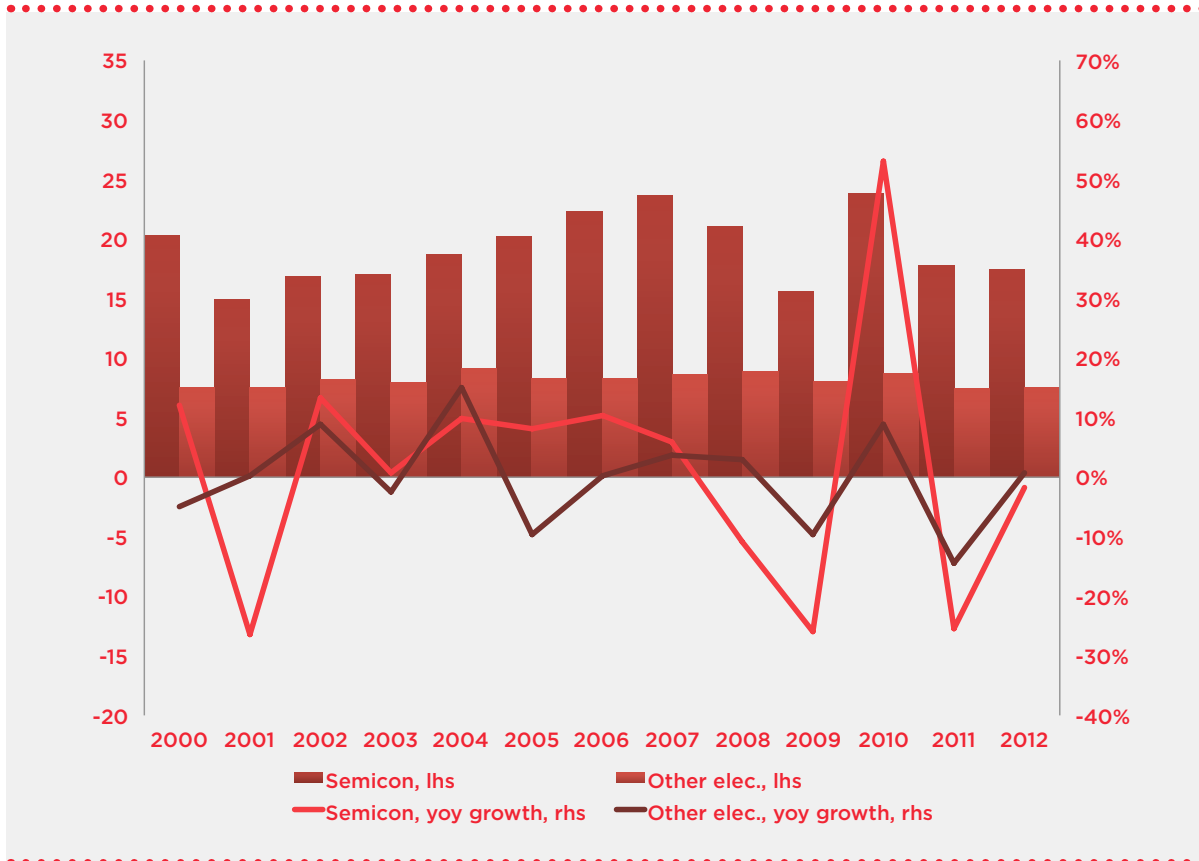


Clear overall policy supportive of the manufacturing sector from the president. There should be high level, dynamic collaboration between priority industries and GPH.

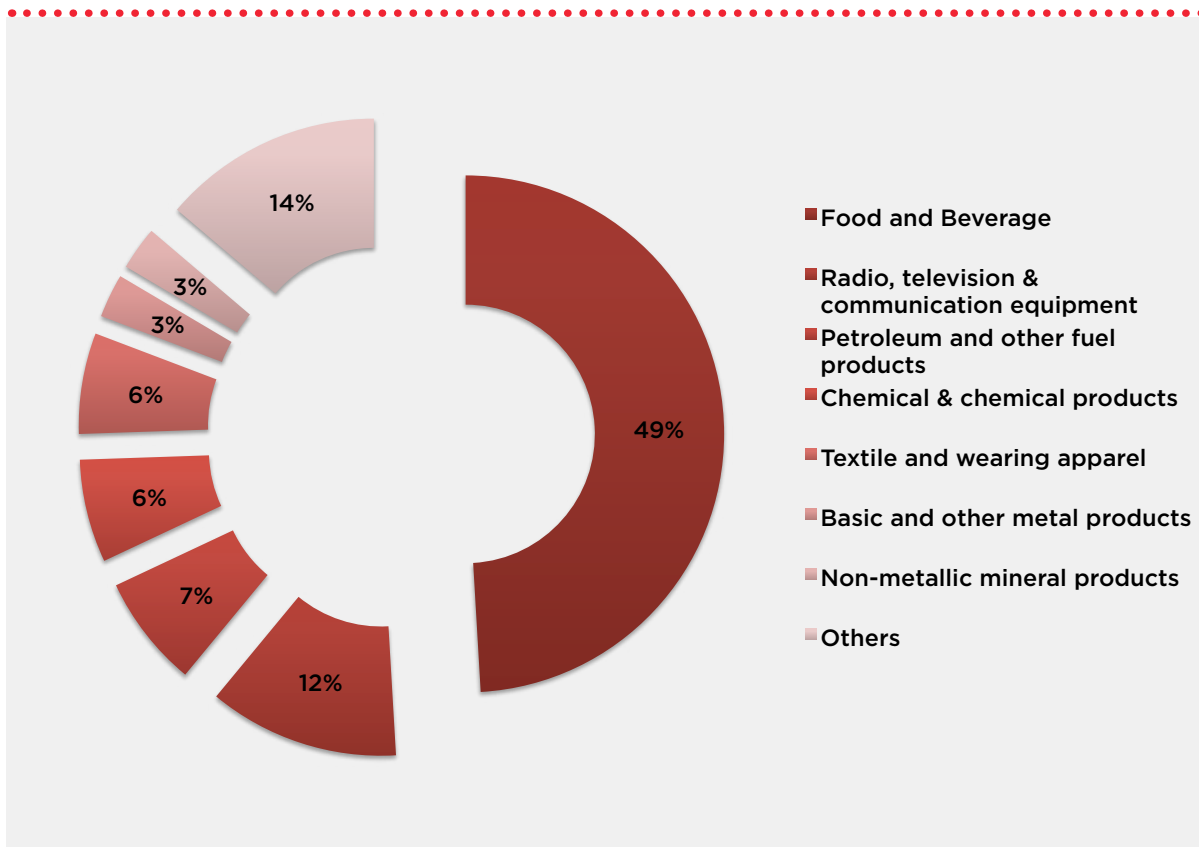


On few occasions, President Aquino has expressed interest in growing the manufacturing sector. Manufacturing, however, does not rank high in PDP priorities and strategies.

ELECTRONICS EXPORTS, PHILIPPINES, BY TYPE OF PRODUCTS, 2000 TO NOVEMBER 2012, US\$ BILLION



DISTRIBUTION OF MANUFACTURING GVA BY SUBSECTOR, 2012



Collaboration between industries and BOI has improved. NEDA leadership has expressed support for the industry. DOST has collaborated with DTI and specific industry groups to provide science and technology interventions to improve competitiveness of sectors. Nevertheless, there is still a need for inter-agency coordination and buy-in, especially for DOF and DOLE. BOI announced the revival of the Industry Development Council in 2013.

RECOMMENDATION 4



There should be a solid commitment from all government agencies to work with private industry to implement clear overall policy supportive of the manufacturing sector.



There is substantial progress in this area as the industry responded to BOI's call for sectoral roadmapping and submitted 18 roadmaps including chemical, furniture, motor vehicle, autoparts, cement, ceramic tiles, rubber, petrochemical, biodiesel, bioethanol, bamboo, and others. Industry champions from BOI have been identified and assigned to these sectors to provide guidance and support for implementation. FPI also prepared a Philippine Industry Roadmap. More sectors continue to develop their roadmaps. BOI-PIDS started the Philippine manufacturing roadmap in October 2012 and has been conducting dialogues with various stakeholders.

RECOMMENDATION 5



Professionalize the bureaucracy by limiting political appointees.



Political appointees continue to be in key positions of government, although the general perception is that many of them are competent, qualified, and well-educated executives from the private sector. These appointees, however, tend to stay for a limited time, and several appointees are returning to the private sector in 2013. This hinders continuity of reform and performance of some agencies. There are plans to prioritize people and leadership development in the bureaucracy, including technical and industry training at DTI. DTI budget, however, remains virtually the same—one of the smallest of all departments. DOST, on the other hand, has gained a substantial increase in budget, enabling GPH to invest more in science education and research.

RECOMMENDATION 6

 Diversify Philippine exports.



Diversification of exports is happening. The export share for electronics and semiconductors is significantly lower due to weak global demand and high growth of non-hi-tech exports, particularly wood manufactured products, transport vehicles, chemicals, and garments. Total exports in 2012 grew 7% through October over 2011, in spite of a 6.5% drop in electronic exports. Non-hi-tech exports now account for 53% of total exports. Unfortunately, the mineral sector suffered a huge setback as new laws and regulations impede its development. The mineral sector has high potential to diversify exports, which are still highly dependent on manufacturing.

RECOMMENDATION 7

 Reduce costs of doing business.



There has been little progress in this area. Power cost continues to be high as implementation of open access was delayed a year until mid 2013. Positive exceptions are the improved business registration process and BOC's Electronic to Mobile Information Portal (E2M), which can reduce red tape and opportunities for corruption if fully implemented.

RECOMMENDATION 8

 Consider removing or reducing EVAT on electricity and fuel for domestic manufacturers.



There have been calls for reducing EVAT on oil products from transport groups and some politicians, but there was no serious advocacy or consideration by the private sector nor the government in 2012 in removing or reducing EVAT on power and fuel for domestic manufacturers.

RECOMMENDATION 9



Increase E2M coverage for customs.



E2M for imports was fully implemented in 2012. There are concerns on system reliability given a few incidents of breakdowns this year. E2M implementation for export is ongoing and expected to be done in 2013.

RECOMMENDATION 10



Reduce unwarranted government interference in industry matters.



Government has been consistent in avoiding unwarranted government interference, except in calamity situations where price control of commodities is critical.

RECOMMENDATION 11



Link minimum wage policies to productivity enhancements.



The two-tier wage system was introduced and implemented in 2012. Basic pay increase ranged from PhP2 to PhP23 and PhP10 to PhP30 for cost of living allowance. President Aquino took a strong stand against the union-proposed PhP125 increase in minimum wage and instead, provided educational assistance and funding for skills upgrading of government workers.

RECOMMENDATION 12




Security of tenure. Government should continue to engage in tripartite discussions with labor groups and the private sector. >>>



DOLE DO 18-A defines the rules on contracting to protect labor as well as employers from unscrupulous contractors. Security of tenure bills did not pass in the 15th Congress.

RECOMMENDATION 13

 Rationalize holidays.



The Philippines continues to have one of the highest number of paid holidays in Southeast Asia, twice as many as Vietnam. Proposals for new paid holidays continue to be made. DOLE issued a policy brief proposing an increase in the number of paid holidays.

RECOMMENDATION 14

 Fight smuggling vigorously.



There is a strong perception that smuggling continues to be rampant and widespread. The private sector, particularly the agro-commodities sector and FPI, continues to pressure government. Senate investigations on rice smuggling led to the detention of alleged smugglers. BOC announced its first conviction of a smuggler. Announcement of seized smuggled items, however, tend to reinforce the perception that smuggling is getting worse instead of improving.

RECOMMENDATION 15

 Pass the Rationalization of Fiscal Incentives bill.



Hearings on the Rationalization of Fiscal Incentives bill continued in 2012, with the debate focusing on income tax holidays and the reorganization of the incentive-granting power of IPAs. Conflicting views and priorities of the various agencies involved led to a stalemate, and other legislative priorities delayed its progress.

RECOMMENDATION 16

 Allow duty and VAT-free importation of capital equipment for manufacturing in priority industries.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

We are not aware of any administrative proposals to implement this recommendation. RA 9337 in 2005 applied EVAT to capital equipment imports outside ecozones. Previously, it was refundable.

RECOMMENDATION 17

 Increase funding for and promotion of Philippine exports, inward foreign investment, and tourism.

2012 RATING	2011 RATING
★★★★ Started	★★★ Not Ongoing

Funding continues to be inadequate. There was no significant increase in funding for DTI. Fortunately, there was a substantial increase in investor interest in the Philippines, leading to a doubling of inbound investment and trade missions in 2012. DTI hopes to host almost 80 inbound missions in 2013. It will also place advertising in business magazines abroad. DTI-Center for International Trade Expositions and Missions (CITEM) will exhibit at trade fairs in Hong Kong, Macau, the Gulf States, Japan, and Germany in 2013.

PART 3: BIG WINNER SECTORS

LOGISTICS



RECOMMENDATIONS: 22

PROGRESS	RATINGS	RATINGS
IMPROVED 3	☆ 2	★★★★ 4
DECLINED 4	★★ 1	★★★★★ 5
STEADY 13	★★★ 10	★★★★★★ 0

BIG WINNER SECTORS

LOGISTICS

Batangas and Subic have new port infrastructure that can lower international shipping costs for CALABARZON and develop an Asian regional freeport at Subic. Batangas needs connections with feeder ports of Singapore, Kaohsiung, and Hong Kong. The country is well located for storage and distribution of goods to Asia, North America, and Europe through the Middle East. The Subic-Clark-Tarlac Corridor, if Subic were a true freeport, could create a regional distribution hub with cost advantages over the Asian freeports of Singapore and Hong Kong. Container export cargo should begin to transfer to Batangas and Subic to reduce traffic congestion in Manila. A GPH decision is needed to close the Manila port to international cargo over five years. Turning Subic into a real freeport means allowing traded goods to enter and leave uncontrolled, except for controlled egress into Philippine customs territory. Using available air capacity of Middle East carriers, the Philippines is well located to act as a sea-air or air-air transshipment hub to the Middle East. Logistics chain costs must be reduced to be more competitive, e.g., remove Customs, Immigration, and Quarantine (CIQ) overtime charges. Open more logistics operations to international investors. Allow cargo deconsolidation to PEZA bonded warehouses. Product transformation in the Philippines would enable tax and duty free distribution in ASEAN. Facilitate Importer of Record (IOR) services for Internet sales fulfillment. It is about 40% cheaper to transship a container from Manila to Cagayan de Oro via Hong Kong or Kaohsiung than shipping directly from Manila. Foreign companies are not allowed to provide maritime transport services. Domestic shipping industry is not competitive due to predominant use of small ships.

RECOMMENDATION 1

Promote the port of Batangas for CALABARZON-destined shipments and Subic for Central Luzon-destined shipments.

RECOMMENDATION A



Invite international feeder vessel operators to call at Batangas and Subic.



MCC is providing weekly feeder services from Singapore to Batangas. American President Lines and Wan Hai are doing the same for Subic. CMA CGM is reportedly planning to support Batangas port as well. SBMA is considering attracting additional feeder lines and more frequencies through take-or-pay volume arrangements. No concrete offers, however, have been made at the end of 2012.

RECOMMENDATION B



Request port operators to offer special promotional rates for feeder ships calling at Batangas and Subic.



The Subic Bay Metropolitan Authority (SBMA) is better at promoting its port, but arbitrary freight charges as well as some customs facilitation costs and high tug charges are disincentives to use Subic. Some port charges are lower than those in Manila, while tug charges, freight costs, and some facilitation costs remain higher.

RECOMMENDATION C




Promote the use of both ports with PEZA and SBMA.



Presentations made to both PEZA and SBMA have led to active promotions of their respective ports with modest positive results. Particularly, Batangas port is better promoted now by

PEZA and the port operator and has attracted the Millennium Challenge Corporation (MCC) to provide regular calls from Singapore inbound with outbound connections to Kaohsiung and Hongkong. ATI, a Batangas port operator, has reached out to logistics companies to provide secondary services such as trucking, and has also promoted the port for imports for completely built unit vehicles.

RECOMMENDATION D

 PEZA should organize a meeting to coordinate actions to increase export cargo volume at Batangas.



This has been done, but should be continued to maintain the momentum and propel both ports beyond at least 10% utilization within 2013.

RECOMMENDATION 2

 Modernize port operations in Batangas to serve automotive companies in CALABARZON.



ATI has invested close to \$1 million and CEVA another \$500,000 to improve facilities for car imports. Ford appointed an off-dock bonded facility, which means the Batangas port facility will be underutilized. Facilities are there now, but volumes are still missing. CEVA is therefore considering closing the facility if it remains underutilized. ATI may consider operating it with other partners.

RECOMMENDATION 3

 Create a plan to eventually phase out international cargo at the port of Manila over five years.



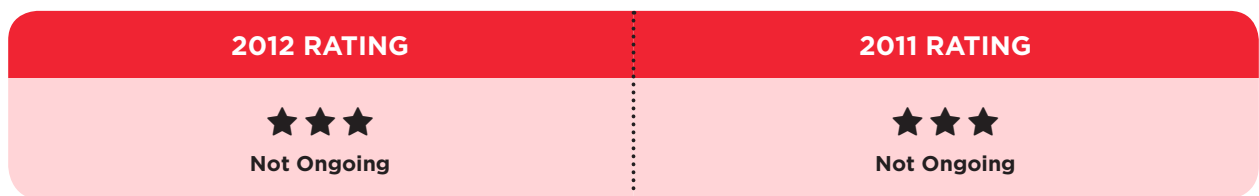
Started but not moving and in parts regressing. There has been no decision to phase out Manila, while JICA studies continue and recommend better use of Batangas and Subic. Berth 6 at MICT was inaugurated in 2012 as a major expansion, which is a regression to the recommendation. The planned Berth 7 is reportedly temporarily shelved. Advocacy to stop the development of Berth 7 and to promote Batangas and Subic instead should continue.

RECOMMENDATION 4

Develop Subic as a true Freeport for logistics.

RECOMMENDATION A

 Allow cargoes to freely enter Subic.



No serious efforts are being undertaken as there is no political will to make Subic a true Freeport. Consignments “to order” are still not possible and Customs is still located within the so-called Freeport Zone. The privatization of break-bulk cargo handling has been questioned in court by current port operators.

RECOMMENDATION B

 Move customs out of the Subic Freeport.



See above. (Recommendation 4.A)

RECOMMENDATION C

 Put in place tight safeguards against smuggling.



Safeguards against smuggling have improved and car smuggling operations moved elsewhere, such as Port Irene and Cebu. A DOF order to tighten up on oil imports at SBMA by requiring importers to pay taxes upfront and obtain a refund after proving sales to qualified duty free buyers was forged by a TRO from a local RTC. An apparent attempt to smuggle rice at Subic was thwarted. No major smuggler has yet been jailed.

RECOMMENDATION D



Promote an Asian Distribution Center of Goods.



Discussions are ongoing among JICA, ATI, ICTSI, PEZA, SBMA, and DOT toward better utilization of both Batangas and Subic ports with moderate results. Public awareness of needed changes in focus and emphasis toward the development of off-capital ports has significantly increased. An Asian Distribution Center of Goods, however, is possible in Subic, but requires turning Subic into a true Freeport.

RECOMMENDATION 5



Allow transshipment of cargo in various modes.



BOC prevents transshipments. The situation became even more difficult with the failure of E2M, the electronic customs entry filing system, to provide solutions to electronically filed transshipment cargoes and, at the same time, prohibiting the filing of the same manually.

RECOMMENDATION 6



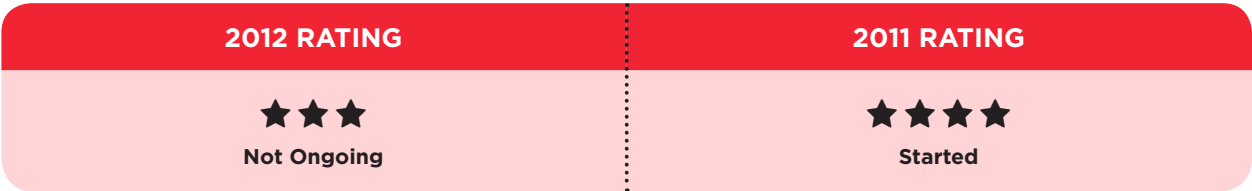
Government should provide CIQ services whenever needed.



DOF and BOC have issued circulars to the effect of providing free overtime services paid by the government. Yet, the move is still resisted by BOC officials in some areas. CIQ services at airports have improved and new staff has been hired by government to augment the workforce to deliver such services as needed.


RECOMMENDATION 7

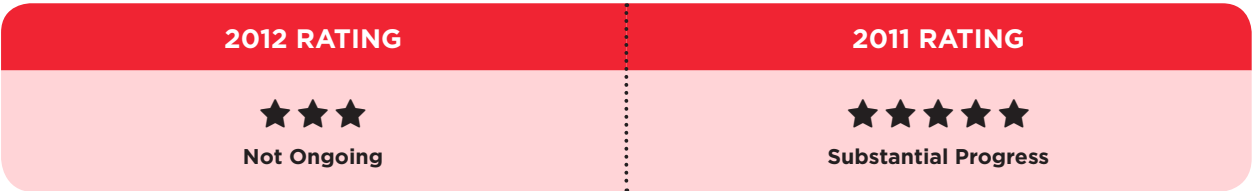
 **Open the door to foreign investment along the entire multimodal transportation chain.**



No change. The “negative list” of restricted investment areas has not become less negative. What constitutes a “public utility” has not been clearly defined in decades.

RECOMMENDATION 8

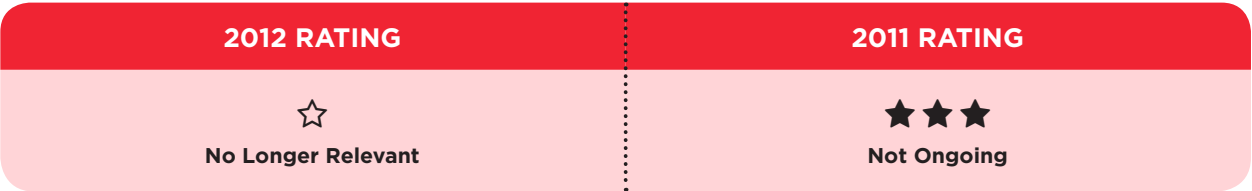
 **Allow direct deconsolidation of cargoes to PEZA bonded warehouses.**



PEZA has issued Letters of Authority for such operations, but BOC has effectively blocked PEZA deconsolidation hubs by not allowing access to their IT systems. BOC is of the opinion that by allowing deconsolidation in PEZA ecozones, their present policy of freezing the permits for bonded facilities will be circumvented. This overlooks the fact that PEZA ecozones in their own right are Customs bonded.

RECOMMENDATION 9

 **Take advantage of quick turnaround cycles and local BPO capability.**



The BPO sector is covered in a separate sector of *Arangkada*.


RECOMMENDATION 10

 Facilitate Importer of Record (IOR) services to develop expanded access to internet trade.



IOR services are tolerated but are forced to operate without clear EVAT rules.

RECOMMENDATION 11

 Continue to implement recent reforms in customs practices; extend E2M; pass CTMA.




The 15th Congress has not passed CTMA, although the Kyoto protocol was ratified by the Senate in the 14th Congress. E2M and the single window are not operating well, with frequent disruptions and calls for replacing the E2M system altogether.

RECOMMENDATION 12

Reduce high domestic shipping costs.


RECOMMENDATION A

 Liberalize rules that do not allow foreign companies to operate; encourage more JVs.



MCC remains the only such JV. Cabotage rules are not eased.

RECOMMENDATION B

 Introduce more reliable new ships. >>>



The entry of MCC into domestic shipping has led to lower freight charges and more reliable shipping services. Other local lines are considering deploying larger vessels to compete.

RECOMMENDATION C

- Limit the age of ships that can be imported.



No changes were made to the age requirements of imported vessels.

RECOMMENDATION 13

- ☆ Groups of importing companies should explore chartering ships.



With the present oversupply of vessels and low international freight charges, this is not workable. Many shipping lines are now operating at a loss.

RECOMMENDATION 14

- Develop better data for the logistics sector.



No improvements have been reported.

PART 3: BIG WINNER SECTORS

MINING



RECOMMENDATIONS: **32**

PROGRESS
IMPROVED **5**
DECLINED **4**
STEADY **22**

RATINGS
☆ **2**
☆☆ **3**
☆☆☆ **11**

RATINGS
★★★★★ **12**
★★★★★ **4**
★★★★★★ **0**

BIG WINNER SECTORS

MINING

With an estimated \$1.4 trillion in reserves, Philippine mining potential ranks fifth in the world, covering an estimated 9 million hectares, but less than 2% has mining permits. After long stagnation, the sector has been coming back after a 2005 SC decision affirming RA 7942, considered a world-class legal framework for sustainable development. Minerals development is a government priority and has great potential for jobs and revenue. Government has identified over 60 priority PPP projects. Mining can support poor rural areas through high quality jobs, local tax payments, and community development. The national government receives substantial royalty and tax payments. Government revenue from mining increased 800% from 2002 to PhP10.4 billion in 2007. Full development of the sector, however, continues to face significant challenges. Lengthy tedious approvals for Exploration Permits (EPs) continue to impede investment. Several LGUs have closed their provinces to mining. Industry is concerned that the Writ of Kalikasan might disturb lawful activities. An investor cannot tell easily if land is ancestral land. Skilled Mines and Geosciences Bureau (MGB) personnel often leave public service. EO 79 has imposed a moratorium on new mining permits, pending the passage of a new law on the revenue-sharing scheme between industry and government.

RECOMMENDATION 1

Speed up the growth of the mining sector by removing redundant approvals and non-performing claims.

While MGB has been quite active in this area, the result has created the situation where numerous appeals are headed to the court system, which will cause more delay and keep access to the ground inaccessible. The EITI may improve this in the future but current moratorium continues.

RECOMMENDATION A



Further streamline the exploration permit approval process; permits should be granted transparently at the regional level within six weeks and renewed in one day.



The EITI may improve this in the future but current moratorium continues.

RECOMMENDATION B



Applicants should be vetted strictly.



No apparent progress.

RECOMMENDATION C



Reduce Environmental Clearance Certificate processing time and certificates of non-coverage.



No apparent progress.

RECOMMENDATION D



Allow pre-permitting access by firms to potential project lands. >>>

2012 RATING	2011 RATING
★★ Backward / Regression	★★★ Not Ongoing

Temporary EPs have been stopped.

RECOMMENDATION E

- Continue processing of mining applications involved in mining cases.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

No apparent progress.

RECOMMENDATION F

- MGB should strictly monitor compliance by mining companies with the Mining Act and related departmental orders. MGB should cancel permits after two years of non-performance.

2012 RATING	2011 RATING
★★★★ Started	★★★★ Started

Mineral Production Sharing Agreements and Financial or Technical Assistance Agreements are regularly monitored, but small-scale mining is not, unless provoked by incidents. EO 79 tries to address this.

RECOMMENDATION 2

- Establish regional level one-stop shops.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

RECOMMENDATION 3

- Develop model best-practice regions.



RECOMMENDATION 4

- MGB should adopt the Philippine Mineral Ore Resources Reserve Reporting Code.



This is generally adopted, but enforcement by PSE needs strengthening.

RECOMMENDATION 5

- Seek to end LGU mining moratoriums.



The national government seems unwilling to tackle this important issue with firmness.

RECOMMENDATION 6


- Implement the simplified joint circular regarding release of mining taxes to LGUs.



There have been various bills over time addressing this, but they seem to get to a point and stop. HB 4410, which passed the House on Third Reading on May 16, 2011, promotes the direct remittance of the 40% LGU share of national government collection. The Senate bill saw only

one hearing in 2012, and the chair decided to hold another, which was rescheduled to the week before recess in late January 2013. A joint circular was issued, but no one is tasked to monitor how well it is working.

RECOMMENDATION 7

 Continue dialogue to find common-ground solutions to issues being raised against specific mining and exploration projects.



There is substantial dialog, but little progress has resulted.

RECOMMENDATION 8

 Industry should actively monitor developments in Congress and the judiciary.



Industry has never been so active in monitoring, participating, and presenting position papers. There is close coordination between the Chamber of Mines and the Philippine Mining and Exploration Association.


RECOMMENDATION 9

 Support revision of the 60-40 equity restriction provision in the Constitution.



The current administration was unwilling to address constitutional change of foreign equity restrictions in 2012.

RECOMMENDATION 10

 Continue implementation of the Minerals Action Plan; continue active private sector participation in the Mineral Development Council (MDC). >>>



MDC was abolished. The Mining Industry Coordinating Council (MICC) established in EO 79 does not have industry representation.

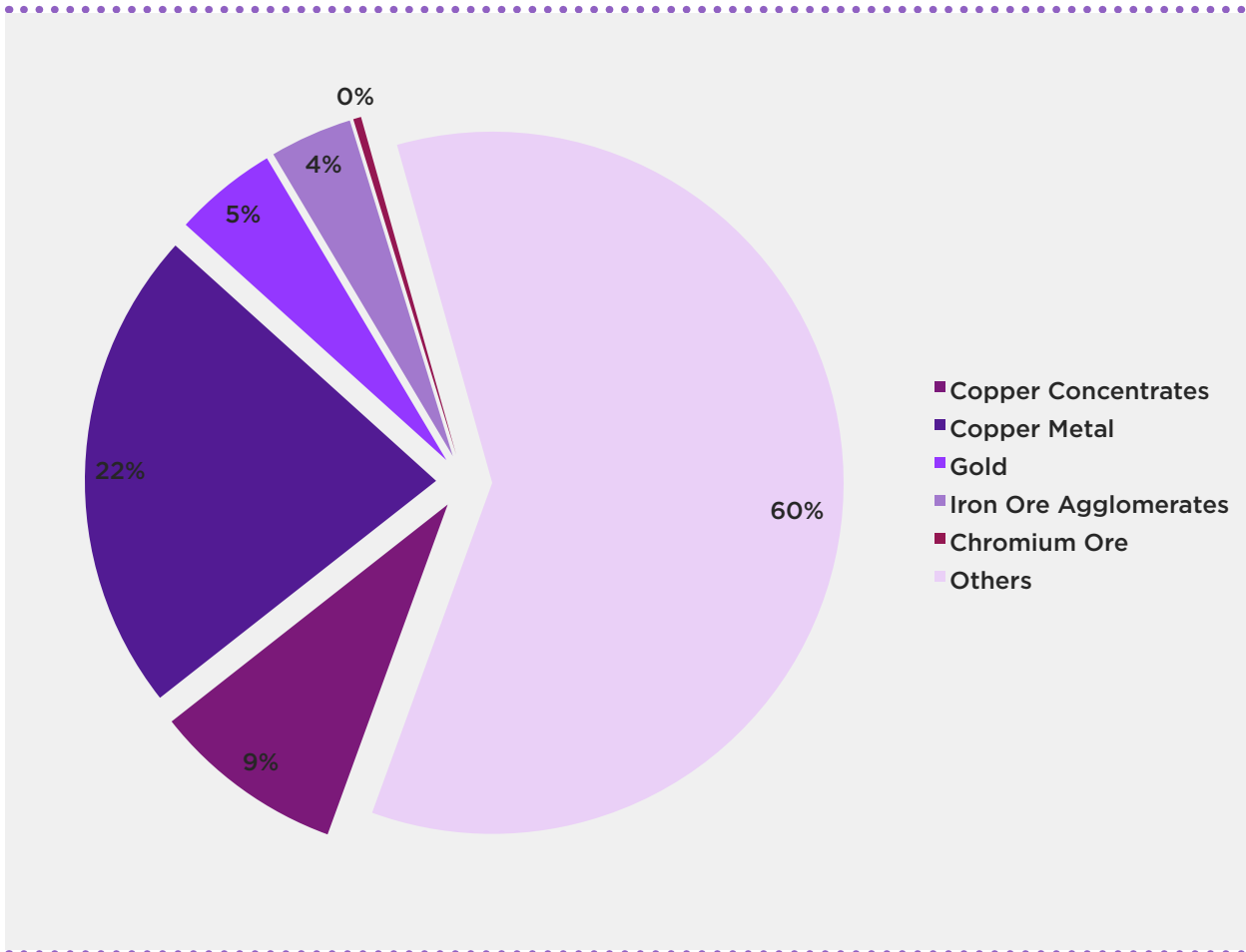
RECOMMENDATION 11



GPH should work on four programs to industrialize: (1) promote downstream processing and manufacturing for copper, nickel, gold, and chromite; (2) develop community-based supplier industries and services; (3) improve government benefits from mining; and (4) better control exports of small scale mining and unprocessed minerals.



MINING GOODS EXPORTS DISTRIBUTION IN 2012




EO 79 addresses some of these issues, but overall, there has been no real progress to date.

RECOMMENDATION 12

 Community building should commence from the first day.



RECOMMENDATION 13

 Mining firms should support labor intensive community-run enterprises.



Companies tend to focus on labor intensive projects by default.

RECOMMENDATION 14

 Increase the allocation of direct mining and milling costs for community development from 1% to 1.5%.



EO 79 has superseded this review.

RECOMMENDATION 15

 Private sector should help build the capacity of Indigenous Peoples.



There are numerous organizations that work with Indigenous Peoples.

RECOMMENDATION 16



Increase the budget and technical capacity of the National Commission on Indigenous Peoples (NCIP).



The new guidelines for Free and Prior Informed Consent are unworkable and released with no industry consultation.

RECOMMENDATION 17



When resettling people, find habitation as close as possible to their traditional lands.



The World Bank has issued clear guidelines for this purpose.

RECOMMENDATION 18



Companies should not pay stipends or occupation fees to local member of the New People's Army (NPA).

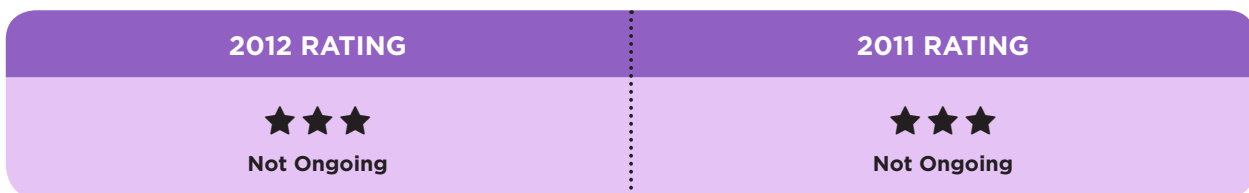


Payments to NPA are illegal, but reportedly still exist. Companies continue to be victims of attacks on equipment, apparently motivated by extortion cloaked in environmental rhetoric.

RECOMMENDATION 19



Private sector should work closely with the MDC committee and the Armed Forces of the Philippines (AFP) to establish a joint mining security protocol.



MDC was abolished, but the need for coordination on local security issues remains.

RECOMMENDATION 20

 Exploration companies should conduct security and social assessments in their areas.



Mining companies have internal procedures for security and social assessments. GPH has been quite proactive protecting resource interest.

RECOMMENDATION 21

 Mining industry should work closely with MGB.




As much as practical, this is the case. Unfortunately, the industry is excluded from MICC.

RECOMMENDATION 22

 Students following graduation who enter government service should be assigned to work with a local exploration or mining company.



RECOMMENDATION 23

 Encourage more students to study subjects needed in the mining community.



AusAID supported a scholarship program in its fourth year.

RECOMMENDATION 24

- Encourage mergers of local mining companies and list more on PSE.



PSE has been proactive and there are more mining firms listing. The fact remains, however, that it is not simple to list on PSE, particularly by way of introduction. There have been numerous rule changes over the last few years.

RECOMMENDATION 25

- Carry out a public information campaign regarding mining and increase dialogue with concerned groups.



There have been significant campaigns carried out by the Chamber of Mines.

RECOMMENDATION 26

- Support the Mining Museum project in Baguio to establish a museum to educate Filipinos.



There has been some progress, as demonstrated by the 2011 Baguio Mining Safety Conference focus on the Mining Museum.

RECOMMENDATION 27

- ↑ Endorse the Extractive Industries Transparency Initiative (EITI).



Industry has substantially endorsed EITI. GPH is seriously studying participation and support.

PART 3: BIG WINNER SECTORS

TOURISM ▪ MEDICAL TRAVEL ▪ RETIREMENT



RECOMMENDATIONS: 32

PROGRESS
IMPROVED 8
DECLINED 3
STEADY 21

RATINGS
☆ 0
☆☆ 1
☆☆☆ 5

RATINGS
★★★★ 22
★★★★★ 4
★★★★★★ 0

BIG WINNER SECTORS

TOURISM, MEDICAL TRAVEL, & RETIREMENT

Tourism can have strong poverty reduction and job creation effects. For every foreign tourist that spends \$1,000, one Filipino job for one year is supported. The range of direct and indirect income effects of tourism is enormous, involving agriculture, industry, and services. Travel and tourism is currently the fourth largest source of foreign exchange revenues. International arrivals exceeded 4 million in 2012, up by over 9% in 2011. Of 81 million international tourists recorded in Southeast Asia in 2011, only about 4% visited the Philippines. Domestic travel, the backbone of Philippine tourism, is resilient during times of external vulnerabilities and reached 21 million in 2011. Medical travel and retirement by foreign nationals are subsectors where the Philippines has high potential for competitive success. These are high yield markets, since visitors stay longer and spend more. The government has offered a foreign retiree program for several decades, and in recent years the number of new participants has increased to 2,000 to 3,000 a year. The low cost of living, excellent weather, world-class medical care, recreational options, and warmth of Filipinos are plus factors supporting the high potential of the retirement subsector. The key to unlocking the job creation potential of tourism is investment mobilization by both public and private sectors.

RECOMMENDATION 1

- Property rights should be facilitated for the new Tourism Enterprise Zones (TEZs).



The identification of flagship projects by DOT and the Tourism Infrastructure and Enterprise Zone Authority (TIEZA) can expedite this reform.

RECOMMENDATION 2

- Restrictions on foreigners should be liberalized in designated tourism and retirement zones to allow foreign ownership of land and retail facilities and the practice of professions.



Replacing the current ban on foreign ownership of land by limited ownership for residential and commercial purposes was again discussed in 2012 in both chambers of Congress and in a policy paper requested by President Aquino. Forty-one of 46 laws governing professions have reciprocity provisions allowing foreign nationals to practice with approval of the Professional Regulation Commission (PRC). Draft amendments, including reciprocity, to all five remaining laws with nationality restrictions have been heard in the 15th Congress. With the passage of the Environmental Planning Law amendments, only four professions in addition to Law will be restricted to Philippine nationals. PRC issued new guidelines on foreign professionals in 2012. See Part 4: Foreign Equity and Professionals.

RECOMMENDATION 3

- Rules in the new TEZs should be consistent, simple, and stable and shielded from unnecessary intervention from LGUs; one-stop shops in each TEZ.



This is ongoing at least in terms of discussions to come up with such one-stop shops. DOT and TIEZA are in the process of identifying flagship projects that can be designated as TEZs.

RECOMMENDATION 4

Reduce the time and cost of doing business for tourism enterprises.

RECOMMENDATION A



Eliminate the discriminatory CCT and GPBT.



The last European carrier, KLM, terminated its direct flight from Europe to Manila because of the high discriminatory taxes on passengers. Other foreign carriers have cut back on the frequency of their flights to the Philippines. The CCT and GPBT bill was passed by the 15th Congress to remove the taxes on passengers of airlines and ships, shifting the burden of paying CIQ overtime from the carriers to the government. The bill has already been transmitted to the President for his signature and enactment. To date, the bill has not yet been signed. The next challenge is the drafting of IRRs.

RECOMMENDATION B



Cease overtime CIQ charges to airlines.



Airlines are no longer paying, but the Bureau of Immigration (BI) Employees' Association challenged the executive ruling in CA. BOC issued CAO 7-2011 declaring 24/7 operations at international airports and seaports. President Aquino has clearly stated his policy that the Philippine Government will fully pay for these public sector overtime services. The agencies have hired additional staff to man three shifts and pay nighttime differential and overtime, although the older employees resent the loss of overtime pay that was paid by the carriers.

RECOMMENDATION B.1



Amend the 2010 Immigration Act to remove overtime charges. >>>

2012 RATING	2011 RATING
★★★★★ Started	★★★ Not Ongoing

The proposed new Immigration Act remained in Committee in the House and was reported out by the Senate Justice Committee. This bill, however, will no longer pass this Congress. In the 16th Congress, advocacy will be needed to ensure that authority to charge CIQ, meals, and transportation allowances to carriers will not be included in order to end this practice permanently and remove the authority in the 1940 Immigration Act.

RECOMMENDATION B.2



Amend the Tariff and Customs Code to eliminate overtime charges to shippers.

2012 RATING	2011 RATING
★★ Backward/Regression	★★ Backward/Regression

The Customs and Tariff Modernization Act (CTMA) was approved on Third Reading in the House on August 5, 2011. The Senate Ways and Means Committee (SWMC) Chairman Recto was opposed to the House version and held no Senate hearings in the 15th Congress. The House version still retains the provision on overtime charges to shippers and other persons served. It specifically enumerated airlines as one of those to be charged. The existing law does not name airlines as one of the payors. Advocacy will be needed in the 16th Congress to assure that the CMTA bill does not include inimical language as in the 15th Congress.

RECOMMENDATION B.3



Remove overtime charges for Quarantine personnel.

2012 RATING	2011 RATING
★★★★★ Substantial Progress	★★★★★ Started

The executive ruling applies that government will provide 24/7 services at government's expense.

RECOMMENDATION C



Review the need for travel tax as revenue. >>>

2012 RATING	2011 RATING
★★★ Not Ongoing	☆ No Longer Relevant

There was no effort in 2012 to review or remove travel tax as a source of public sector revenue. There is movement on including airport tax in domestic tickets to eliminate one line for domestic air travelers. On the other hand, including airport tax paid by passengers on international flights in their ticket price is administratively more complicated because of the many exemptions from the tax, such as OFWs.

RECOMMENDATION D

- Amend the Sanitation Code (PD 856); include a correct definition of wellness spa.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

RECOMMENDATION 5

Reduce the time and cost of doing business for tourism enterprises.

RECOMMENDATION A

- Review and reduce the cost in time and money of bureaucratic immigration policies and procedures.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

In 2012, complaints increased from foreign nationals that BI was overly strict in paperwork requirements, at times to the point of absurdity.

RECOMMENDATION B

- Introduce a long term stay visa for two new categories of foreign nationals. >>>



DOT, the Department of Foreign Affairs (DFA), and BI have basically agreed that this visa will be introduced. Finalization is expected within the first quarter of 2013.

RECOMMENDATION 6



Develop the meetings, conventions, and exhibits market by promoting key tourist regions.



This is ongoing in different cities (e.g., Baguio, Cebu, Clark, Manila, and Subic) almost entirely for domestic organizations but has potential for international patronage. The ADB annual meeting was held in Manila in May 2012 with over 2,000 delegates. The 2015 Asia Pacific Economic Cooperation Summit will be in the Philippines, possibly in Subic. Development of direct airline connectivity under open skies will support more foreign participation.

RECOMMENDATION 7



Reduce differential and discriminatory charges that are higher for tourists.



Roll out of accreditation for hotels has started in pilot cities.

RECOMMENDATION 8



Correct human resource competitive disadvantages.



DOT and ADB are working together to address this under a new ADB project facility. This is emphasized in the National Tourism Development Plan for 2011 to 2016. The “techvoc” training path of DepEd for high school students not advancing to college and TESDA training programs both emphasize training for tourism skill development.

RECOMMENDATION 9

— Increase efforts to meet the manpower demand of hotels and restaurants; make local examination standards for massage therapists appropriate to high school graduates.

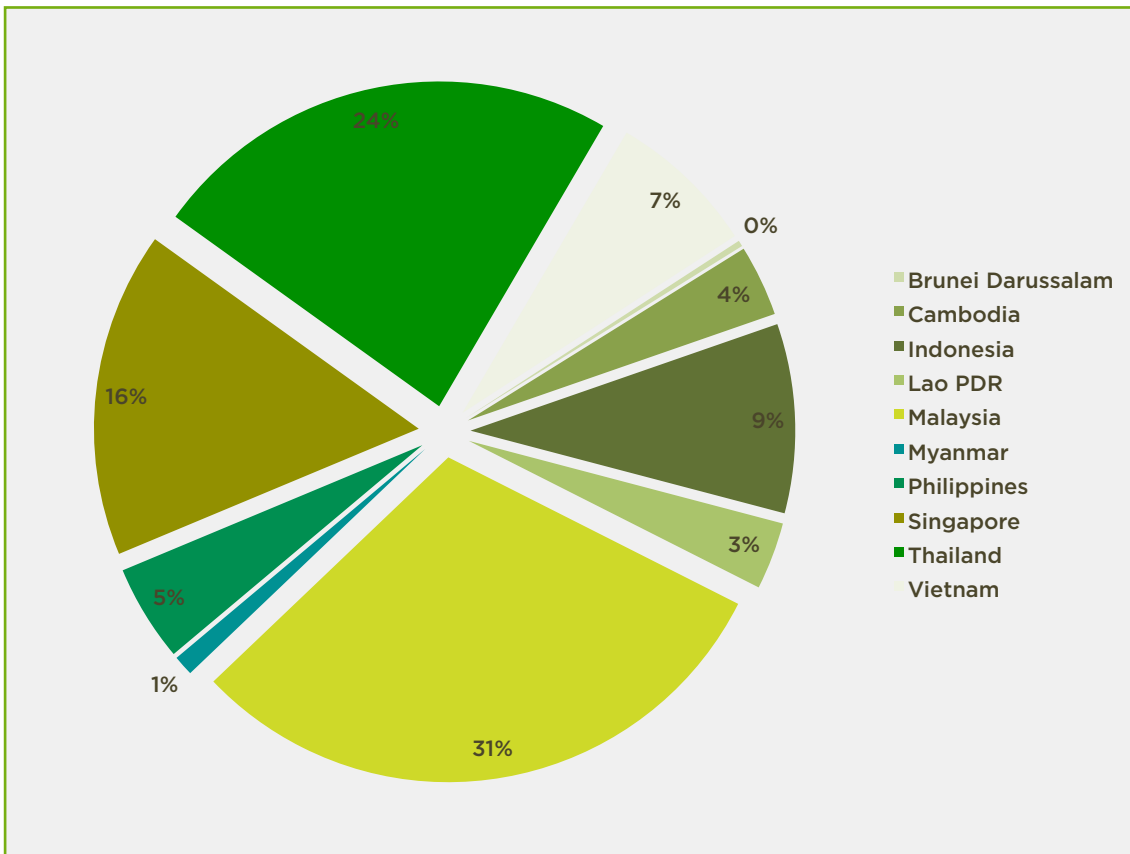


Included in the National Tourism Development Plan for 2011 to 2016.

NUMBER OF FOREIGN TOURISTS IN THE PHILIPPINES BY ORIGIN, 1990 TO 2011, in MILLIONS



DISTRIBUTION PER COUNTRY OF INTERNATIONAL TOURIST ARRIVALS IN THE ASEAN REGION, 2011



RECOMMENDATION 10

— Provide technical and marketing training for LGU tourism officers; improve services of tourism workers.



Included in the National Tourism Development Plan for 2011 to 2016.

RECOMMENDATION 11

— Improve quality of data on tourism sector.



Included in the National Tourism Development Plan for 2011 to 2016.


RECOMMENDATION 12

 Improve sanitation and waste management in local communities.



Included in the National Tourism Development Plan for 2011 to 2016.

RECOMMENDATION 13

 Allow more foreign dentists, doctors, medical technologists, nursing professionals, optometrists, physical therapists, and teachers to practice their professions.



Discussions with PRC are moving toward more liberal approaches to the practice of foreign professionals, provided there is reciprocity.

RECOMMENDATION 14

 Unbundle and standardize hospital and doctor fees.



DOH is supporting the advocacy of the Retirement and Healthcare Coalition (RHC) of several foreign chambers of commerce. A number of hospitals and clinics are willing to create more transparency regarding doctors' fees and procedures. The family doctor concept (gatekeeper) will be introduced in some leading hospitals soon.

RECOMMENDATION 15

 Increase availability and capacity of hospital services. >>>



Investment in new hospitals and medical services is ongoing, especially in Metro Manila.

RECOMMENDATION 16

- Improve modern technology-driven documentation systems in hospitals.



This will be addressed under the PPP Philippines Healthcare Initiative (PHI). Furthermore, RHC is working with Lifeline Medical Systems on a new Telehealth Platform. Under the initiative of the PPP PHI, TeleRad Asia is offering TeleRadiology to the first hospitals in the country.

RECOMMENDATION 17

- System of accreditation of tourist, medical travel, and wellness facilities should be developed.



DOT recognizes the need to create a “product” for this sunrise sector. The accreditation of facilities, jointly with RHC, is being discussed.

RECOMMENDATION 18

- Non-controversial medical procedures should be promoted.



First improvements in transparency and quality can be seen. RHC will be marketing the first products and services in the second quarter of 2013 through its website.

RECOMMENDATION 19

-  Pursue negotiations of public insurance portability.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

The need to discuss this issue with the European Union and the United States has been brought to the attention of DFA, DOT, and DOH toward including the Philippine perspective in potential FTA negotiations with the European Union. Trans-Pacific Partnership (TPP) negotiating members should be encouraged.

RECOMMENDATION 20

-  Encourage partnerships between Philippine hospitals and leading hospitals in target medical travel markets.

2012 RATING	2011 RATING
★★★★★ Started	★★★★★ Started

Addressed under PPP PHI. The project will establish international partnerships with at least one healthcare organization in Europe, the United States, Japan, and Korea where there are potential clients for health and retirement. The hospitals participating in PPP PHI will undergo their final audit in 2013, which is a prerequisite for the partnerships.

RECOMMENDATION 21

-  Develop the Philippines as regional medical center of excellence.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★★★ Started

This will happen once the “products” for retirement, health care, and medical travel have been finalized and implemented. There is a better chance that this will happen given DOT’s move from promoting “destinations” to “products.”

RECOMMENDATION 22

-  Develop commercially viable local wellness products. >>>



The local private sector and DOST are developing new products for wellness and nutrition, e.g., local organic products, *hilot* massages, upscale spas, and treatments.

RECOMMENDATION 23



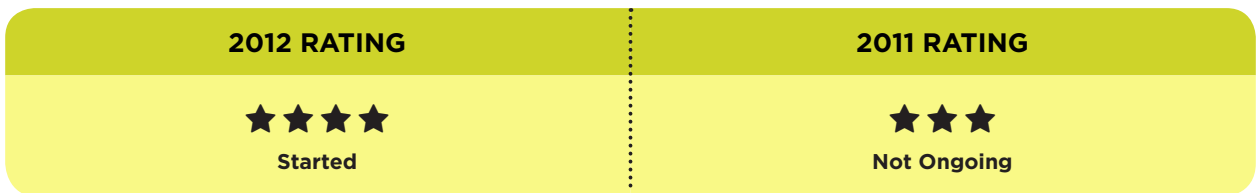
Develop horizontal condominium projects.



RECOMMENDATION 24



Develop assisted-living facilities for retirees to meet international standards.



RHC is discussing with DOH new approaches regarding quality standards for nursing homes and geriatric education for doctors, nurses, and caregivers.

RECOMMENDATION 25



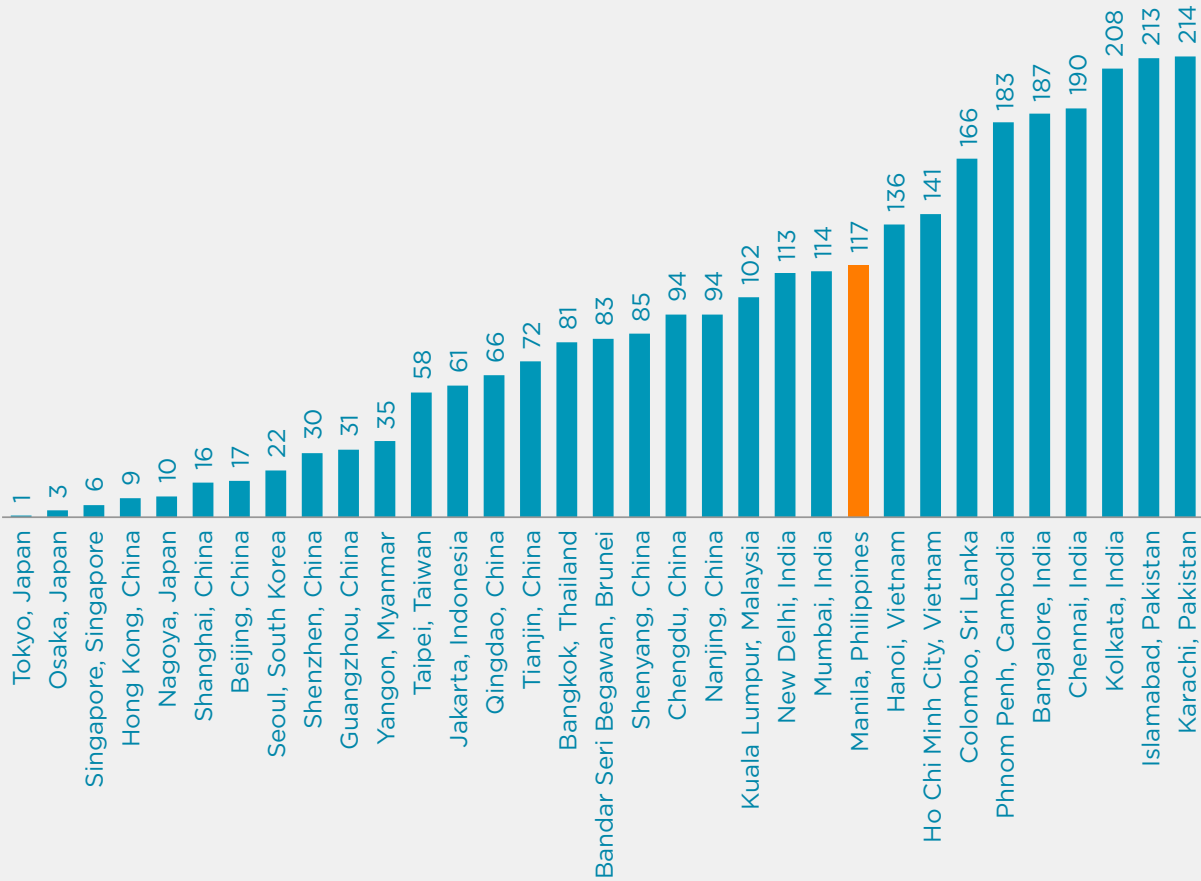
Develop integrated retirement facilities that meet international standards.



A number of models of retirement facilities are presently being discussed. Investments in this sector are expected.

PART 4: GENERAL BUSINESS ENVIRONMENT

BUSINESS COSTS



MERCER COST OF LIVING SURVEY, SELECTED ASIAN CITIES RANKINGS, 2012

RECOMMENDATIONS: 16

PROGRESS	
IMPROVED	6
DECLINED	2
STEADY	8

RATINGS	
☆	0
★★	2
★★★	6

RATINGS	
★★★★	7
★★★★★	1
★★★★★★	0

GENERAL BUSINESS ENVIRONMENT

BUSINESS COSTS

Since 2006, IFC has ranked economies on factors related to the ease of doing business. Of the ASEAN-6, the Philippines is ranked lowest. This subsection includes the following: (1) Minimum wages: They are much higher in the Philippines than in competing regional economies. (2) Holidays: The Philippines had the highest number (21 days) among the ASEAN-6 economies in 2010. (3) Office rentals: Renting office space in Manila is a relative bargain. (4) Power: They cost at least twice as much as those of competing economies, deterring investment. (5) Telecommunications: Including broadband, they are higher than that of other ASEAN-6 economies, China, and India. (6) Transportation: Heavy traffic, dilapidated ports, limited competition, and small ships make ground and inland marine transport inefficient and costly, although domestic air for both passengers and cargo is inexpensive. (7) Red tape: The Philippines has a reputation for excessive and corrupt bureaucratic impositions. In the WEF Global Competitiveness Report's measure of the Burden of Government Regulation, the Philippines ranked 113th of 133 countries. For Burden of Customs procedures, it ranked lowest of ASEAN-6. (8) Expatriate living costs: The Philippines compares well. Manila is one of the least expensive major cities in Asia.

RECOMMENDATION 1



Create a national culture to improve Filipino competitiveness.



While the Aquino Administration is making strong efforts to improve governance, which has raised such ratings as those by WEF and TI, there is no national motivational campaign for

competitiveness. NCC is organizing competitiveness councils outside Manila. See chapter on Becoming More Competitive (Part 2).

RECOMMENDATION 2



Continue and strengthen NCC following a review of its mandate.



Despite its revitalization under the current administration, NCC has no authority to direct government agencies. See Part 2, Recommendation 3. Instead, its working groups, comprising senior public and private sector experts, monitor implementation of 12 selected reform policies and programs and recommend reforms to cabinet clusters. NCC has identified competitiveness rankings with high potential for improvement. NCC targets to reach the top third by 2016 in WEF, IMD, and other global ratings are ambitious and will require strong cooperation from the public sector bureaucracy. An annual competitiveness report for 2012 is under preparation. GPH planning varies by agency. Many are not easily available to the public. The Aquino Administration has released in 2011 one overall plan, the PDP, with one lengthy assessment for 2011 and 2012. Sectoral or departmental plans are available for Energy and Labor. The Presidential Legislative Liaison Office (PLLO) also maintains the LEDAC Legislative Priority List. The National Tourism Development Plan and the Public Infrastructure Plan and probably others are still in preparation or under review, e.g., the National Transportation Plan.

RECOMMENDATION 3



Introduce a more flexible minimum wage and/or piecework policy for distressed industries; develop new industrial zones with infrastructure that offer lower minimum wage rates.



The two-tiered wage policy being introduced by DOLE is an important reform that over time can make the Philippine minimum wage more competitive, especially since minimum wages are rising in China, Indonesia, Malaysia, and Thailand. See Labor, Recommendation 4. Although there are millions of jobless Filipinos, GPH is not considering making exceptions to minimum wage. FDI in low labor cost export manufacturing has expanded in countries where labor and other business costs are lower than those in the Philippines. Recommendations to create export zones with minimum wage holidays to attract investors, such as garment and footwear export firms, have not been considered seriously by government despite their potential to create millions of jobs.

RECOMMENDATION 4

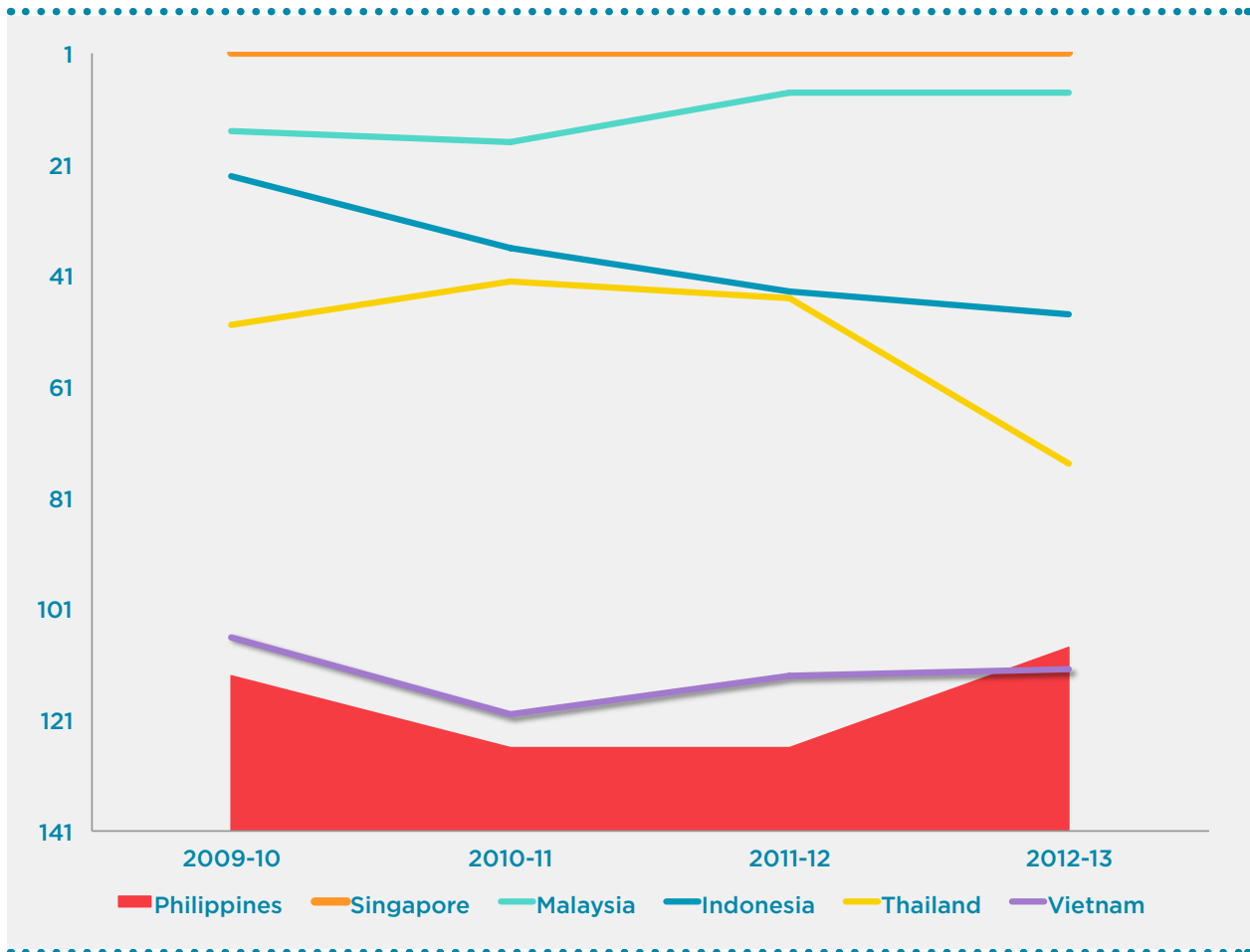


Absolute moratorium on new non-working holidays; veto any legislation creating any new non-working holidays; some non-working holidays should be changed to working holidays.



Employers in the Philippines absorb the cost of more holidays and leave days for their workers than in competitor economies, raising the cost of doing business and making the Philippines less attractive to many of the companies relocating from China and moving to Bangladesh, Cambodia, Indonesia, and Vietnam. The number of paid holidays has stabilized, but there has been no effort to reduce them to get closer to the ASEAN average of 15 days. The DOLE Institute for Labor Studies issued a special report in 2012 that called for an end to more paid holidays. Rationalization of non-working holidays remains a priority.

BURDEN OF GOVERNMENT REGULATION, ASEAN-6 RANKINGS, FROM 2009 TO 2013



RECOMMENDATION 5

 Implement open access provision of EPIRA.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★ Backward/Regression

Open access is at the core of the EPIRA Act signed in 2001 and the five preconditions to implement it were met after a decade. Target dates for implementation slipped from December 2011 to late 2012 and then mid 2013. The reason for delay was the need to put in place supporting infrastructure, reflecting a serious planning oversight by ERC. There can be no further delay in its commencement, which will prove over time how much competition open access should engender and lower power prices.

RECOMMENDATION 6

 Consider expanding power cost relief and discounts.

2012 RATING	2011 RATING
★★ Backward/Regression	★★ Backward/Regression

GPH has provided power rate discounts to three large foreign manufacturing investors, who together created some 40,000 new jobs, and 250 large export 250 manufacturers. This program is ending while the government finds out whether open access will reduce the cost of electricity. Combined with increased holiday and leave benefits, peso appreciation, and high power costs, the competitiveness of Philippine manufacturing is being further eroded when it should be reinforced.


RECOMMENDATION 7

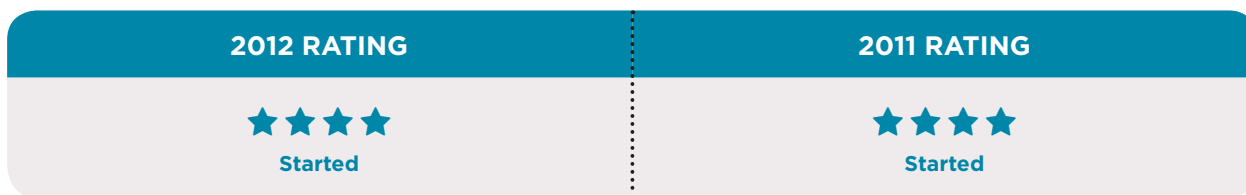
 Intensify the Anti-Red Tape Task Force (ARTFF) and projects to improve the WB-IFC Doing Business ratings.

2012 RATING	2011 RATING
★★★★ Started	★★★★ Started

Anti-red tape efforts and reducing business costs are important goals of the NCC Working Group on Transaction Costs and Flows, including the Business Process and Licensing System (BPLS). There are strong efforts to improve processes that encumber small business and result in persistent low rankings of the country in the WB-IFC Doing Business survey.


RECOMMENDATION 8

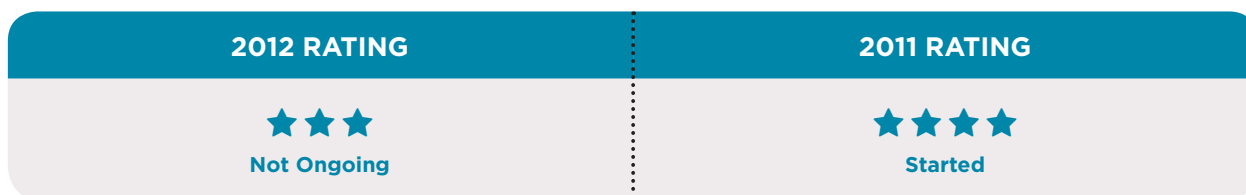
 Reduce red tape by assiduously implementing the Anti-Red Tape Act (ARTA).



CSC has for several years worked toward compliance with ARTA, and reports increased compliance by thousands of government offices at the local and national levels. Its efforts are largely unpublicized. E-governance should be ramped up to take advantage of new technologies and improve transaction efficiency for citizens in dealing with government. Much work remains to be done in this area.

RECOMMENDATION 9

 Encourage citizen feedback over the internet and through call centers at all major government agencies.



A single government Ports Transparency Alliance (PORTAL) is planned but not yet implemented. The quality and transparency of information on the websites of many major government agencies have improved in recent years. Greater effort should be made so that these services become sustainable and hard to reverse in the next administration. The DOF program for citizens to report alleged violations of tax and customs laws has refused a large number of reports. The government lacks sufficient investigators to follow up.

RECOMMENDATION 10

 Anonymously validate the effectiveness of implementation of ARTA.



CSC prepares report cards on different agencies, although their effectiveness in correcting poor behavior is unclear.

RECOMMENDATION 11

— Increase the provision of government services through e-governance.



There is slow improvement. The business community strongly supported the creation of DICT and the law for this was far advanced in the Congress, but the bicameral conference committee never met. In the absence of a department to promote e-governance, OMB and DOST are putting programs into place. One example is the new government debit card for “cashless” purchases.

RECOMMENDATION 12

— New GPH rules and regulations should not be issued without approval of a central office; contain a sunset provision.



The concept of sunset provisions and periodic rejustification of public sector rules, regulations, and fees have not been adopted in the Philippines. Stakeholders are not always consulted by government agencies in their rule making. CSC could be empowered to do more to comment on and review regulations through an EO.

RECOMMENDATION 13

↑ Exemptions from salary standardization could be made for critical front line agencies; civil service salaries may be brought more in line with the private sector.



Salaries of policemen and teachers have been raised in recent years to more acceptable levels, recognizing the importance of their services. There continues to be a need to raise salaries of employees in revenue and critical regulatory agencies, such as BOC, BIR, BI, COA, CAAP, and the Commission on Audit (COA).

RECOMMENDATION 14



Reduce ground transport costs.



There has been no apparent progress in reducing ground transportation costs. Projects for upgraded or new urban light rail, rapid bus lanes, and toll roads are in the pipeline, but few have started construction. It is critical for these projects to start in 2013 if they are to be finished by the end of the current administration.

RECOMMENDATION 15



Reduce telecommunications costs.



There has been no apparent progress in reducing the cost of traditional telecommunications (although Skype is increasingly used) and spending on faster broadband. While ongoing by major private telcos, results for 2012 have yet to be shown.

RECOMMENDATION 16



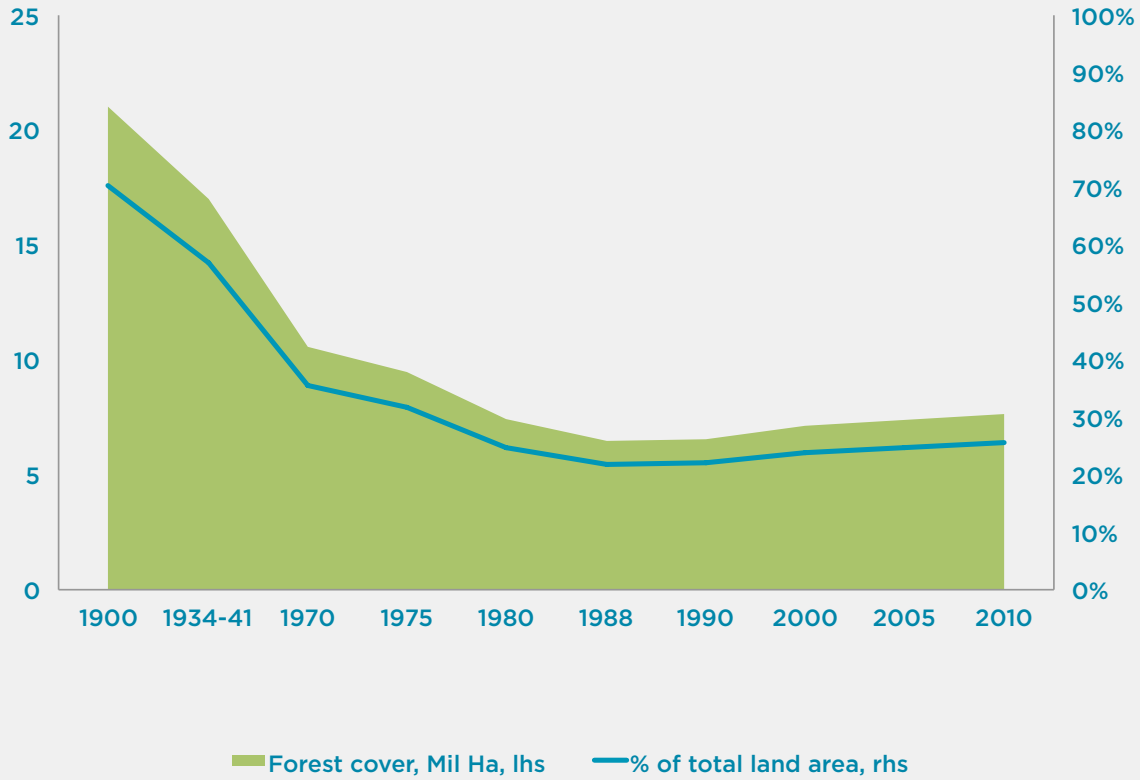
Reduce marine transport costs.



Talk of this need, especially to move more products from Mindanao to market in Luzon, has been ongoing for over two decades without results. MARINA and PPP have been ineffective and virtually deaf to the advocacy of the people of Mindanao. A concerted effort to produce results is overdue. See chapters on Seaports and Logistics.

PART 4: GENERAL BUSINESS ENVIRONMENT

ENVIRONMENT & NATURAL DISASTERS



PHILIPPINES' FOREST COVER FROM 1900 TO 2010

RECOMMENDATIONS: 14

PROGRESS	RATINGS	RATINGS
IMPROVED 5	☆ 0	★★★★ 14
DECLINED 0	★★ 0	★★★★★ 0
STEADY 9	★★★★ 0	★★★★★★ 0

GENERAL BUSINESS ENVIRONMENT

ENVIRONMENT &

NATURAL DISASTERS

The Philippine environment has been under assault for decades from a fast-growing population and practices that degrade the country's air, land, and water. Over half the country's population lives in urban areas, where polluted air is a silent killer and solid waste management and sanitation are highly inadequate. There has been growing recognition of problems such as bad habits have created and an increasing desire to introduce sound practices. With inadequate disposal capacity, Metro Manila faces a solid waste crisis. Despite passage of the Clean Air Act, vehicles spewing noxious fumes still ply Metro Manila's streets due to weak enforcement. Nevertheless, over half of the 30,000+ taxis in Metro Manila have converted to LPG, and La Mesa watershed has been reforested. Extensive deforestation over a century contributed immensely to environmental degradation. Improved protection of watersheds, rivers, and estuaries is essential. Philippine urban areas have developed with little planning to mitigate the effects of natural disasters, despite their frequency. Storms and floods become worse in terms of frequency and number of people affected. Earthquakes and volcanic eruptions are less frequent. As the world's second largest archipelago, the country's shores and estuaries are predicted to be inundated as seas rise from global warming.

RECOMMENDATION 1



Environment: Solid Waste. Implement the Solid Waste Management Act (RA 9003). Build sanitary landfills to contain the future solid waste of the metropolis and clean up existing dumpsites. Improve garbage collection and recycling. Establish clear rules and standards that would allow modern incineration technologies. Amend the Clean Air Act to allow non-polluting clean incineration.



The 2011 fatal Baguio landfill disaster could be repeated. The Department of Environment and Natural Resources (DENR) said that clean incineration, which is allowed under an SC decision, is being considered. The growing trend to prefer organic produce offers an opportunity on increased composting, which provides fertilizer on organic plants. SIMBY (Start In My Back Yard) must continuously be promoted to confine solid waste generation at source households and offices. Local garbage collection must be analyzed; it has been observed that some LGUs benefit from the trucking of garbage; hence, no incentive to reduce waste.

RECOMMENDATION 2

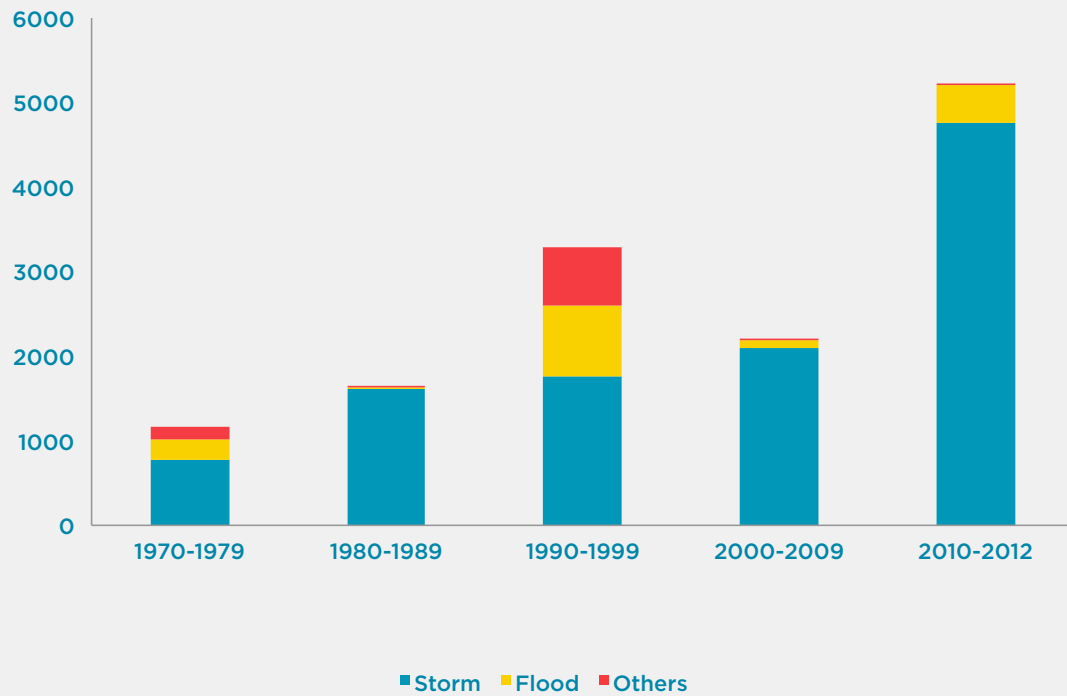


Environment: Air. Implement the Clean Air Act (RA 8749). Clean Manila's air faster by removing all vehicles that fail to meet pollution standards. Crack down on corrupt emission stations. Replace two-stroke with four-stroke engines. Convert jeepneys and buses from diesel to natural gas.

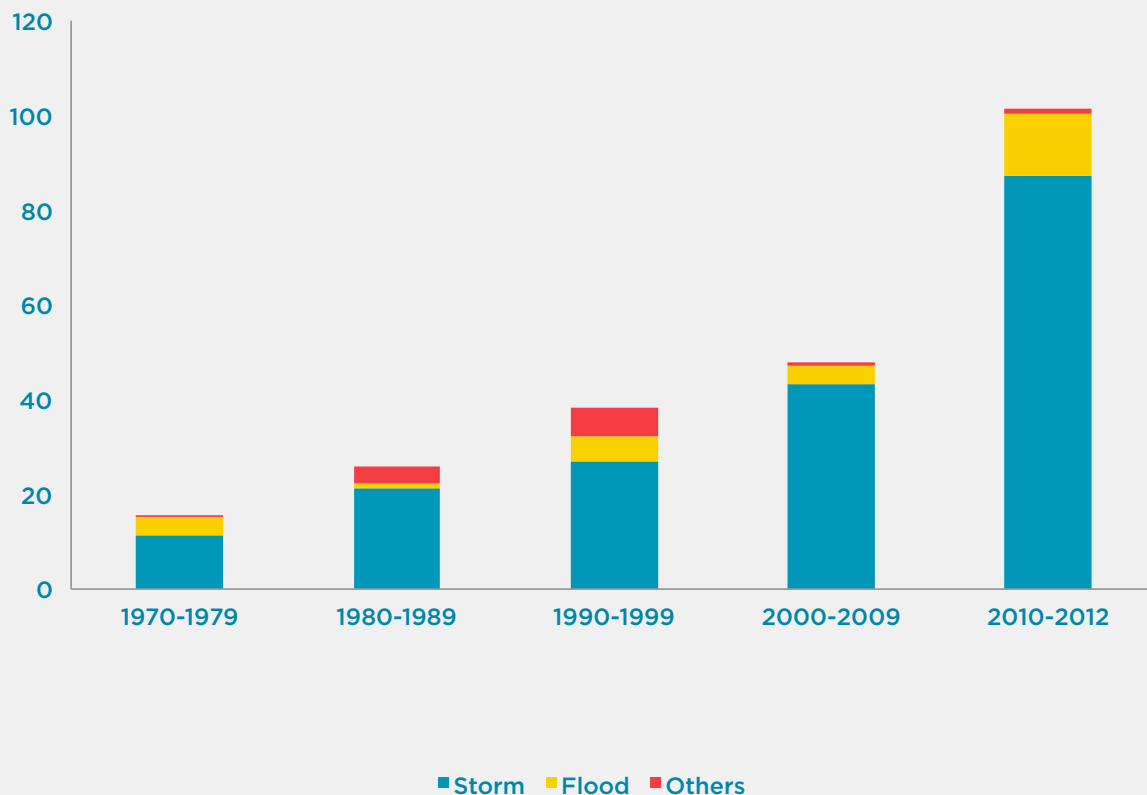


PDP calls for improved environmental quality for a cleaner and healthier environment. DENR reports that Metro Manila air pollution, while improving, remains far above the standard of 90 micrograms per normal cubic meter ($\mu\text{g}/\text{ncm}$) is still unacceptable and unhealthy. Smoke-belching vehicles may be fewer, but are still too many. Conversion of two-stroke tricycle engines and public utility vehicles to cleaner fuels has long been talked about with few results, except for the conversion of taxis in Manila. ADB has funded a project for 100,000 e-vehicles. Improved and expanded MRT and LRT systems in several years and more toll roads and expressways can help reduce the number of vehicles in heavy traffic and the pollution many of them emit. Industrial resources of emission must also be controlled. Increased monitoring systems should be installed in strategic places to promote awareness and the cooperation of all.


TOTAL DAMAGE OF NATURAL DISASTERS, PHILIPPINES, 1970 TO 2012, US\$ MILLION



TOTAL NUMBER OF PEOPLE AFFECTED BY NATURAL DISASTERS PHILIPPINES, FROM 1970 TO 2012, IN MILLION



RECOMMENDATION 3

 **Environment: Water.** Implement the Clean Water Act (RA 9275) to increase sewage systems and water treatment plants in all cities and municipalities in order to reduce water pollution.



PDP calls for improved environmental quality for a cleaner and healthier environment. We have not researched data on the degree of Clean Water Act implementation, such as establishing Water Quality Management Areas and a national sewage and septage program. Sewage, however, largely remains the responsibility of each household and is a major cause of water pollution. Maynilad operates three water treatment plants, while Manila Water is building some eight water treatment facilities. One hundred percent sewage coverage supports restoring major rivers and Manila Bay. In October 2011, DPWH Secretary Rogelio Singson was designated “water czar” to improve national water management. Preventive measures should be strictly implemented and promoted. Treatment must follow. If there is continuing discharge of filth into waterways, treatment systems cannot cope. Pre-treatment of water from industrial sources discharging metal contaminants must be done even with a water treatment system. Each city or industrial site should have an effective water recycling and treatment system. Costs, however, are large and adequate training as well as trained personnel are lacking.


RECOMMENDATION 4

 **Environment: Rivers.** Replicate the KapitBisig Para sa Ilog Pasig project to clean and restore the Pasig River and other polluted waterways.



PDP calls for improved conservation, protection, and rehabilitation of natural resources. The private sector is involved in actions to clean the Pasig River, especially the *esteros* that form the urban natural drainage system. DENR has promoted 19 rivers for clean up and reports progress. Three hundred fourteen (314) MOAs with the private sector have been signed under the Adopt-an-Estero/River Program. There should be an ongoing inventory of rivers, their state of cleanliness, and who the responsible LGUs are. Results of efforts to clean up should be available for public monitoring. Students can be included in monitoring.

RECOMMENDATION 5

 **Environment: Water.** Increase access to water and sanitation facilities for more Filipinos, in “waterless” municipalities and for residents of slums in urban areas. >>>



This is a continuing problem on which little or inadequate effort has been spent. LGUs should give priority and relate it to health issues which affect all, not only the waterless communities where disease-causing bacteria grow well.

RECOMMENDATION 6

- Environment: Reforestation. Reduce the rate of deforestation to zero. Protect remaining forests effectively and increase reforestation of damaged watersheds.



PDP calls for improved conservation, protection, and rehabilitation of natural resources and targets increasing national forest cover from 24% to 30% by 2016. By EO 23, President Aquino declared a total log ban in natural forests. EO 26 established the National Greening Program to plant 1.5 billion trees on 1.5 billion hectares in six years. DENR claims to have planted 89.6 million seedlings in 2011 and planned to double up in 2012. Tragic flash floods caused by Typhoons Sedong and Pablo in Mindanao highlight the critical need to restore damaged watersheds, so their protection is encouraged. Protecting forests should be a national security issue with many disastrous events attributable to flash floods due to lack of vegetation.

RECOMMENDATION 7

- Environment: Reefs. Continue to fight illegal fishing methods that destroy reefs. Expand reef restoration programs and education of coastal communities.



PDP calls for improved conservation, protection, and rehabilitation of natural resources. Only 5% of the country's coral reefs are in excellent condition. Their protection and restoration enhance fisheries and tourism. We must relate efforts on this to livelihood generation, e.g., nurturing and protecting mangroves must be promoted as habitat for fish, especially expensive ones. Developers must be taught improved practices that protect the coast and their properties. Mangroves can protect better than concrete infrastructure.

RECOMMENDATION 8



Environment: Plastic Bags. Educate the public to use reusable non-plastic bags and consider laws to reduce the widespread use of plastic that pollutes the marine environment and clogs waterways.

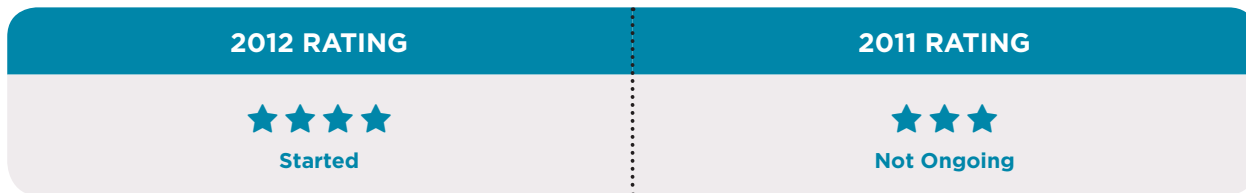


Year 2011 marked the beginning of regulatory restrictions on the high quantities of plastic polluting streams, canals, and littoral waters of the Philippines. HB 4840, the Plastic Bag Regulation Act, has been approved on Third Reading in the House but was not passed in the Senate. A growing number of LGUs have passed bans on plastic bags. DENR encourages reusable bags and has placed restrictions. The choice of material for packaging must be studied well. A biodegradable plastic that can be reused and disposed of properly might be better than a one-time use paper bag that is produced using fiber from trees. Plastic comes in different types. The knee-jerk reaction to plastic bags needs rethinking.

RECOMMENDATION 9



Disasters: Prevention. Incorporate disaster prevention, not just disaster reaction, into planning, development, and education.



PDP calls for improved conservation, protection, and rehabilitation of natural resources. Only 5% of the country's coral reefs are in excellent condition. Their protection and restoration enhances fisheries and tourism. We must relate efforts on this to livelihood generation, e.g. nurturing and protecting mangroves must be promoted as habitat for fish, especially expensive ones. Developers must be taught improved practices that protect the coast and their properties. Mangroves can protect better than concrete infrastructure.

RECOMMENDATION 10



Disasters: Typhoon Warning Systems. Install Doppler radars, capable of predicting rainfall, with coverage of Luzon and Visayas. Improve alert systems when typhoons are approaching and when full dams need to spill water.



The installation of Doppler radars will assist in forecasting rain intensity and better predict severe flooding as well as better enable evacuation of communities at risk. Better rainfall predictability should also reduce frequency of communities going to school or work only to be told to hurry home when a typhoon intensifies. Solar-powered automatic weather monitoring systems are also available and should be used. This effort must be localized. National systems are not as useful as local ones, especially on crop protection that requires warning for farmers.

RECOMMENDATION 11



Disasters: Flood. Seek to create flood-proof cities by undertaking extensive flood-control measures, improving drainage, building dikes and water retention facilities, and planting trees.



Limited programs to improve drainage are underway, but overall low-lying inhabited areas are unprotected. Replanting deforested watersheds is an increasing priority. A proposed Laguna Lake diversion to Manila Bay is not underway. DPWH Secretary Singson has announced a medium-term Php350 billion flood control and water management project for NCR. LGUs should increase efforts at solid waste management to reduce clogging of drainage. The starting point is communication to bring parties together on a common ground that will allow good assessment, then management to take place. Measures and improvements are part of management, which should be done after assessment. We often put the cart before the carabao.

RECOMMENDATION 12



Disasters: Earthquakes. Develop and implement a program to make cities safer against major earthquakes. Make gas, electric, and water supply facilities more secure and make codes for building construction stricter following best practices to more advanced countries. Audit buildings and infrastructure for safety.

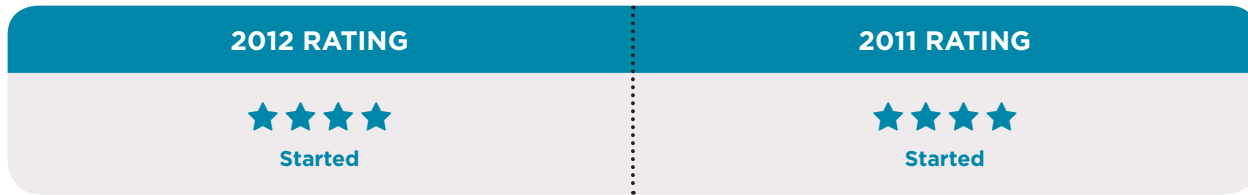


Philippine urban areas remain exposed to severe risks from earthquakes. IRCAM should be followed—see narrative for Recommendation 9. There must be full and constant risk communication. The starting point of risk management is the result of risk assessment.

RECOMMENDATION 13



Disasters: Hazard Maps. Prepare and publish Hazard Maps for earthquakes, flooding, volcanic eruption, tsunami, fire, and rising water levels due to climate change and other hazards.



GPB has made a start with distribution by DENR-MGB of geohazard maps throughout the country. The maps use colors to warn of vulnerability to landslides, floods, and flash floods, down to municipal and barangay levels. The maps 1:50,000 scale will be magnified to 1:10,000 and will be available on multiple websites to aid media and local officials to warn residents living in hazardous zones. The program should be expanded to other hazards. Current available maps that are made as part of Comprehensive Land Use Plans should be translated to digital format and all localities should adopt one platform—e.g., Google Maps—for easy updating, sharing, and access. Consultants are hired by LGUs to make maps, but the results are difficult to use after because all are in hard copy.

RECOMMENDATION 14

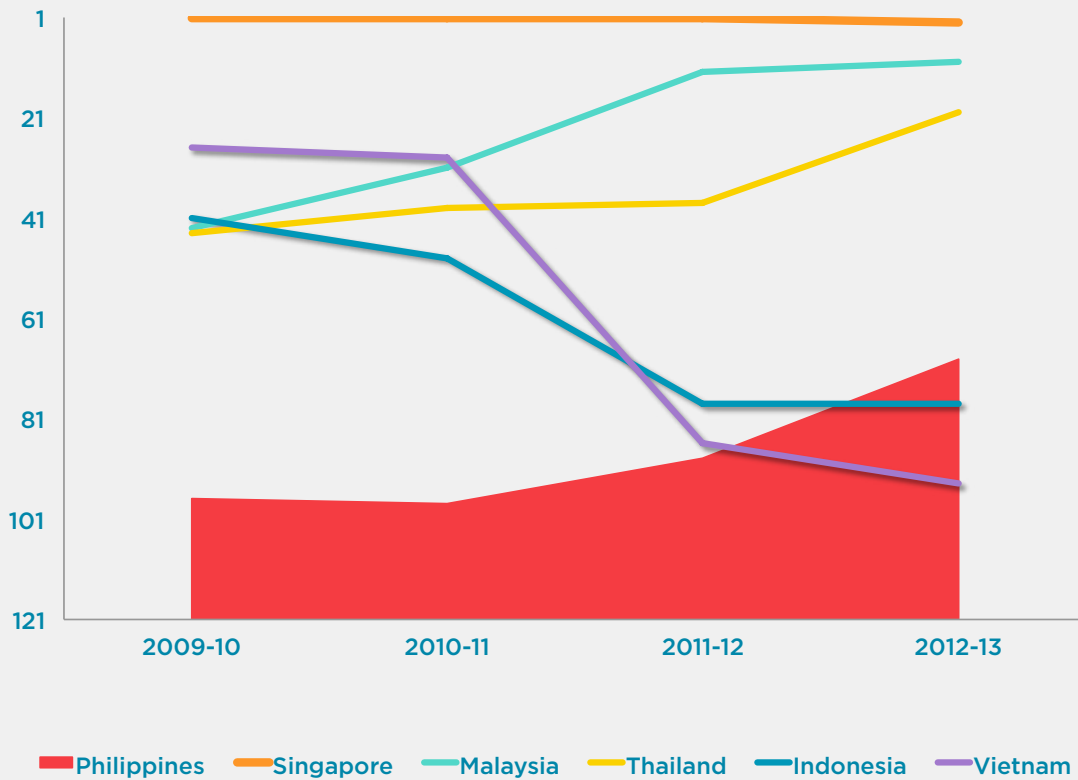


Global Warming. Implement the planning, educational, and other tasks of the Philippine Climate Change Commission (PCCC) created in 2010 by the Philippine Climate Change Act (RA 9729), especially making the country better prepared to deal with natural disasters.



EO 43 issued in May 2011 emphasized the importance of preparing for climate change by designating one of five cabinet clusters the Cabinet Cluster on Climate Change Adaptation and Mitigation. PCCC completed preparation of the National Climate Change Action Plan (2011 to 2028) approved by President Aquino in November 2011. The plan focuses on seven strategic priorities to address the challenge of climate change. Local Climate Action Plans will be prepared next. Detailed mapping of all cities and municipalities is planned by 2014. MAP is working with PCCC to develop eco-towns. A recent book by DENR, “Climate Change Adaptation: Best Practices in the Philippines,” provides ideas from 100 public and private organizations. Climate Change should be a major national priority because it can inundate large populated areas of the Philippines.

FOREIGN EQUITY & PROFESSIONALS



BUSINESS IMPACT OF RULES ON FDI, ASEAN-6 RANKINGS, FROM 2009 TO 2013

RECOMMENDATIONS: 12

PROGRESS	RATINGS	RATINGS
IMPROVED 4	☆ 0	★★★★★ 7
DECLINED 1	★★ 0	★★★★★★ 0
STEADY 7	★★★ 5	★★★★★★★ 0

GENERAL BUSINESS ENVIRONMENT

FOREIGN EQUITY & PROFESSIONALS

“I think our leaders should seriously assess why foreign investors continue to bypass the Philippines. [...] [T]hey should look at the real constraints to foreign direct investments (and) having identified the constraints, the government should address each and every constraint with vigor, focus, and perseverance.”

— Benjamin E. Diokno
Former Budget Secretary

Reforms allowing more foreign equity participation in restricted sectors of the economy have not been a government priority. The Philippines significantly lags behind in ASEAN-6 and ranks at the bottom third of all countries surveyed by WB in having a regulatory regime favorable to foreign investment. The Philippine constitution is rather unique in containing foreign equity restrictions on certain business activities. Two presidential commissions have recommended their removal. The only significant change in the Foreign Investment Negative List (FINL) since limited foreign investment in retail trade was allowed in 2000 was the opening of gambling casinos to majority foreign equity in 2010. The Philippines is also restrictive of practicing foreign professionals. The constitution states “the practice of all professions... shall be limited to Filipino citizens, save in cases prescribed by law.” There are 46 laws governing the practice of specific professions, and 41 contain “reciprocity” provisions allowing foreigners to practice. An SC rule limits legal practice to Philippine nationals, but only five of the 45 laws limit their professions to nationals. Few foreign professionals take exams or apply to PRC and few are approved. It should be in the Philippine interest to seek reduced restrictions on professionals in other countries, e.g., in the World Trade Organization (WTO) General Agreement on Trade in Services and the ASEAN Framework Agreement on Services, and to have more foreign professionals in the country who can bring new skills and connections to global networks, create more jobs for Filipinos, and support sunrise sectors like Research and Development, Medical Travel, and Retirement.

RECOMMENDATION 1

- Create a commission to review restrictions on foreign equity and professionals.



Other than the biennial administrative survey by NEDA to ask government agencies to report changes in FINL, there is no known executive branch initiative that reviews restrictions with the policy direction of reducing the list. JFC has recommended a systematic inter-agency review several times. There is interest among some government agencies—i.e., DTI, DFA, NEDA, etcetera—to undertake liberalization, but there is apparently no single office designated or task force created to assume this focused function.

RECOMMENDATION 2

- Support practicable efforts to remove economic restrictions from the 1987 Constitution.



President Aquino's stated position is that now is not the time to amend the Constitution. The Senate President and House Speaker, however, have included in their legislative priorities amendments to the economic provisions of the Constitution through the two chambers of Congress voting separately. After meeting with the two Congressional leaders in mid 2012, President Aquino asked the Economic Cluster of the Cabinet for a policy paper on the issue. While not made public, the paper reportedly recommends liberalizing the Constitutional restrictions on foreign ownership.

RECOMMENDATION 3

- Encourage foreign investment in education and more foreign teachers and researchers to practice in the Philippines.



The liberalization of education is part of the constitutional reform advocacy under the Enrile-Belmonte initiative, which is supported by various citizen groups. RA 7836 allows foreigners to teach in the Philippines subject to reciprocity and PRC approval.

RECOMMENDATION 4

 Prepare a list of principles governing future foreign ownership of agricultural, commercial, and residential land.

2012 RATING	2011 RATING
★★★★ Started	★★★★ Started

The 2005 Commission that prepared recommendations regarding the 1987 Constitution made preliminary recommendations for limited foreign ownership of land for various purposes: agricultural, commercial, industrial, and residential. An update was drafted for a University of Asia and the Pacific Roundtable Conference. A draft bill resulted from the Roundtable Conference in 2011. Apart from this private sector initiative, there is no counterpart government initiative.


RECOMMENDATION 5

 Adjust the FINL to make explicit that foreign ownership of land in horizontal condominiums, etc. is allowed.

2012 RATING	2011 RATING
★★★★ Started	★★ Backward/Regression

Recommendations to NEDA and DTI to conform FINL with a broad definition of condominium in RA 4726 and the Housing and Land Use Regulatory Board (HLURB) Resolution No. R. 699-01 were rejected by NEDA as “legally untenable” in a May 6, 2011 letter. The Senate Committee on Housing, Urban Planning, and Resettlements conducted a hearing on SB 1025 amending the Condominium Law to allow foreign ownership of land in horizontal condominiums, industrial estates, tourism estates, and retirement villages, but the bill was taken up too late to advance in the 15th Congress.

RECOMMENDATION 6

 Review laws and IRRs for all regulatory agencies to determine the extent to which each can authorize exceptions to 60-40 public equity rule.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★★ Started

The issue of foreign equity restrictions was raised in a JFC-Philippine Business Group (PBG) meeting in late 2012 with House leaders. As a result, Speaker Belmonte instructed the Congressional Policy and Budget Research Department to review existing laws for possible reforms in foreign equity restrictions and other discriminatory provisions. The Economic

Cluster of the Cabinet was also asked by the President to consult with business groups on relaxing foreign equity restrictions, short of constitutional amendments. There is, however, no comprehensive list, let alone review of the many 60-40 restrictions scattered throughout Philippine laws.

RECOMMENDATION 7



Maintain the “control test;” consider language for regulated public utility sector similar to Section 6 of the Electric Power Industry Reform Act (EPIRA).



The Securities and Exchange Commission (SEC) is finalizing the draft guidelines for the registration of nationalized and partly nationalized corporations with ownership requirements in the Constitution and existing laws. The current draft maintains the “control test” as applicable with respect to the 60-40 rule for equity in public utilities. There has been no significant development with respect to introducing amendments for regulated public utility sectors similar to Section 6 of EPIRA.

RECOMMENDATION 8



Remove the practice of professions from FINL and distinguish ownership of companies that provide services from professionals who provide services.



EO 98 providing for the Ninth FINL does not contain any new liberalization. It retains the practice of professions as part of “doing business” from what foreign nationals are restricted to, contrary to the Constitution and existing laws regulating the practice of professions. FINL is very misleading.

RECOMMENDATION 9



Encourage PRC to relax its interpretation of reciprocity provisions.



The issuance of PRC Resolution 2012-668 on the Guidelines on the Practice of Foreign Professionals in the Philippines is an explicit recognition of the reciprocity provisions of existing laws regulating the practice of professions. It serves as an invitation for foreign nationals to practice unrestricted professions in the Philippines, but PRC and GPH can do much more to publicize this policy.

RECOMMENDATION 10



File bills to open the practice of professions now closed by law to foreign nationals.



Bills regulating the practice of five professions (i.e., Criminology, Forestry, Environmental Planning, Pharmacy, and Radio and X-Ray Technology) and amending existing laws to include a foreign reciprocity provision have advanced in Congress. The Environmental Planning bill was approved by Congress and will be transmitted to the President for his signature. The bills on Criminology, Forestry, and Pharmacy, which were approved on Third Reading in Congress are low-hanging fruit, which *Arangkada* will recommend for passage at the first regular session of the 16th Congress. Once the Environmental Planning bill becomes law, only Criminology, Forestry, Pharmacy, Law, and Radio and X-Ray Technology will be professions restricted solely to Filipinos.

RECOMMENDATION 11



Encourage changing the rule of the court to allow foreign lawyers to practice.



Little advocacy for this reform has taken place.

RECOMMENDATION 12



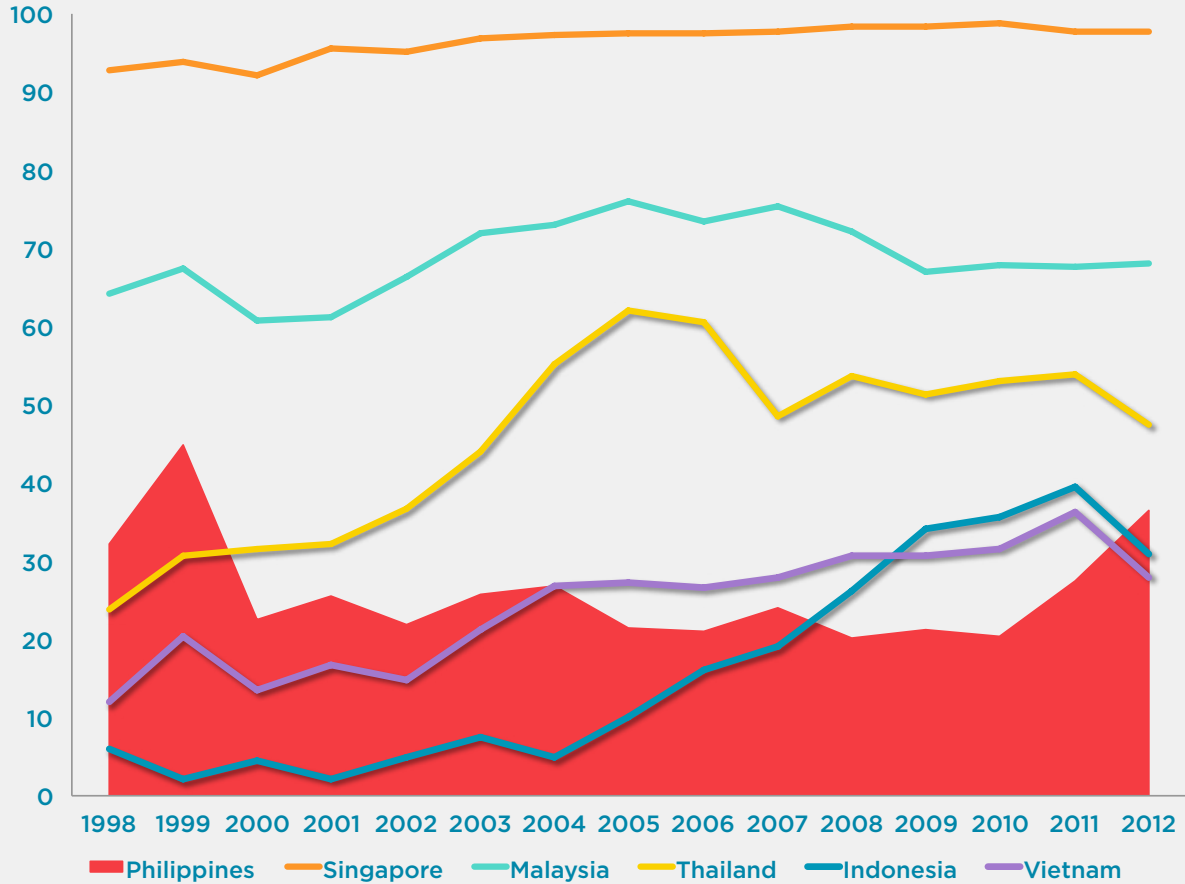
Philippine diplomacy should seek increased opportunities for Philippine professionals to work abroad.



We have no information to evaluate whether any increase in diplomatic efforts to benefit Philippine professionals is underway. However, the Philippines is partnering in the ASEAN program to allow cross-border practice for selected professions.

PART 4: GENERAL BUSINESS ENVIRONMENT

GOVERNANCE



CORRUPTION PERCEPTIONS INDEX, ASEAN-6, PERCENTILE RANKINGS, FROM 1998 TO 2012

RECOMMENDATIONS: 16

PROGRESS	RATINGS	RATINGS
IMPROVED 6	☆ 0	★★★★ 12
DECLINED 4	★★ 0	★★★★★ 0
STEADY 6	★★★ 4	★★★★★★ 0

GENERAL BUSINESS ENVIRONMENT

GOVERNANCE

“We want our people to come to expect more from their government; we want to prove that their mandate, given freely during elections, counts for something. If the benefits of good governance are palpable, we believe that the old challenge for most Filipinos—one that consists of finding ways to escape the spiral of despair, of finding a different, adoptive homeland that will allow them to thrive, and will not deprive them of opportunities—we believe that this is transformed into one that asks, “What can I do to help you? What can I do to ensure that the good things we are seeing now are sustained for the benefit of future generations?”

*— President Aquino at the World Economic Forum
Davos, Switzerland, January 24, 2013*

Filipinos and foreigners agree many problems of the country could be turned around with better governance. The reputation for political instability and widespread corruption persists. Of the ASEAN-6, it ranks lowest for Political Stability and Absence of Violence. During the past decade, the TI rating of the Philippines fell to the bottom of a list of 14 Asian and South Asian countries. In global competitiveness surveys, corruption is cited as the top factor harming business. Smuggling is a major concern to business, because it weakens the domestic market for manufacturers and for importers who pay duties and taxes. Domestic automotive production has been undercut by used car imports, negating the industry development plan. Huge sums that could build schools and provide better health care have been stolen through under-declaration of oil import volumes. The Philippines does not adequately protect intellectual property rights (IPR). While law is sound, sale of counterfeit goods remains widespread because of inadequate enforcement. The Office of the Ombudsman (OMD) lacks resources. Government procurement practices should be more transparent. GOCCs should be reformed and rationalized.

RECOMMENDATION 1



GPH must demonstrate through consistent example political will to end corruption, using lifestyle checks and punishment of public officials and private sector persons who commit serious corrupt acts; GPH should join the Integrity Initiative of the private sector and follow its Integrity code.



The Executive and Legislative departments have failed to sufficiently provide resources and judicial infrastructure to enable OMB to conduct an effective “lifestyle check” campaign. The Sandiganbayan’s five divisions should at least be doubled to enable it to conduct continuous trial and resolve cases promptly. The number of OMB prosecutors should be increased to 200. The number of investigators at OMB should be dramatically increased. In Hong Kong, which is in the top 10 cleanest governments, the Independent Commission Against Corruption has one investigator for every 208 government officials and employees, which number 1.5 million including military and police. OMB should have at least 5,000 investigators.

RECOMMENDATION 2



Public officials and private persons found guilty of major corrupt activities should after a fair trial, be severely punished, including imprisonment and seizure of assets. Cases against them should be widely publicized and anti-corruption laws amended periodically to assure that penalties serve as a deterrent.



The Philippines has sufficient laws, to a very great extent, relating to penalties. What are needed are complementary laws that will support effective implementation. Laws should be passed at least for: doubling the number of divisions in the Sandiganbayan; providing for a whistleblowers’ program covering exclusively corrupt acts; authorizing the Ombudsman to deputize private prosecutors to prosecute corrupt officials; providing for the penalty of imprisonment for the sole act of acquiring ill-gotten wealth without the need of proving any predicate crime; and implementing other provisions of the UN Convention Against Corruption.

RECOMMENDATION 3



The Ombudsman must be impartial and investigate major allegations of official corruption, without favoritism or political considerations. OMD resources should be substantially increased. >>>



The Ombudsman is impartial and willing to prosecute all corrupt officials. There is, however, no progress with respect to OMB resources. As previously stated, the number of OMB investigators should be increased immediately, perhaps by at least 250 annually until the needed number is achieved. It would be unmanageable to hire more since basic training must be provided and new recruits should be mentored and supervised by veteran OMB investigators. Regrettably, the number of veteran OMB investigators is low. OMB personnel should be exempted from the Salary Standardization Act, given their very difficult task and to enable OMB to recruit those with integrity and potential for acquiring competence.

RECOMMENDATION 4



Government agencies should have websites where citizens can anonymously email information about corrupt activities.



The Department of Finance (DOF) appears unique in operating a citizen’s reporting office for customs and tax infractions. Unless the number of investigators can be increased dramatically, as discussed previously, citizens who provide information will only be frustrated. Because of the low number of competent and honest investigators, the information given cannot be acted upon promptly. Otherwise stated, there should be an adequate number of investigators who can respond to the information provided by citizens.

RECOMMENDATION 5



The private sector should police its ranks to discourage corrupt actions with government agencies and implement integrity programs for businesses not to bribe public officials and to report corruption.



Integrity programs can only do so much. The strongest deterrent against graft and corruption is still swift detection, prosecution, and conviction.

RECOMMENDATION 6



Smuggling must be vigorously countered to protect legitimate businesses and collect public revenue, especially from petroleum imports.



Please see narratives for the first five recommendations.

RECOMMENDATION 7



Further reform public sector procurement. Expand public sector e-procurement system. Reform project selection process and bidding procedures. Reduce waste in public expenditures.

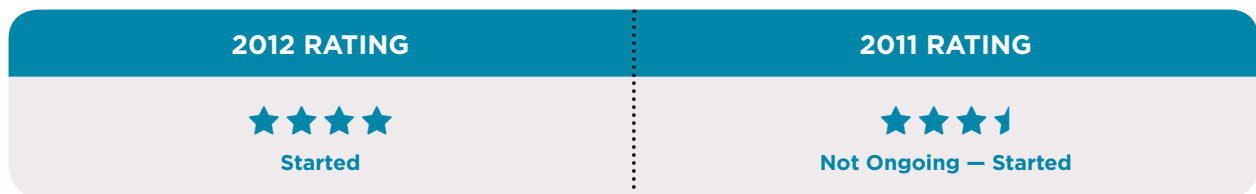


The problem lies in strict implementation. This is a *sine qua non*. DPWH underspent in 2011 in order to clean up its procurement procedures, claiming 30% savings. There have been fewer cases of corrupt procurement reported by media than in previous administrations.

RECOMMENDATION 8



Increase public sector transparency by releasing more information to the public and passing the Freedom of Information (FOI) Act. Expand e-governance.



Same as immediately preceding narrative assessment. The FOI Act has moved too late in the 15th Congress to achieve final passage.

RECOMMENDATION 9



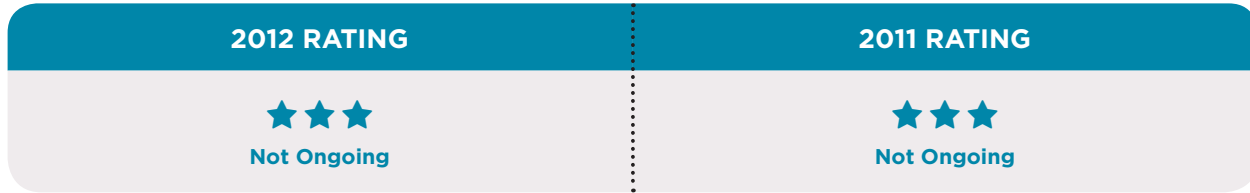
Reduce the fiscal burden of GOCCs by limiting salaries, etc., rationalizing, privatizing and closing those serving no public purpose.
>>>



Same as narrative for Recommendation 7. RA 10149, the GOCC Act, is a major reform measure beginning to clean up GOCC abuses of recent years.

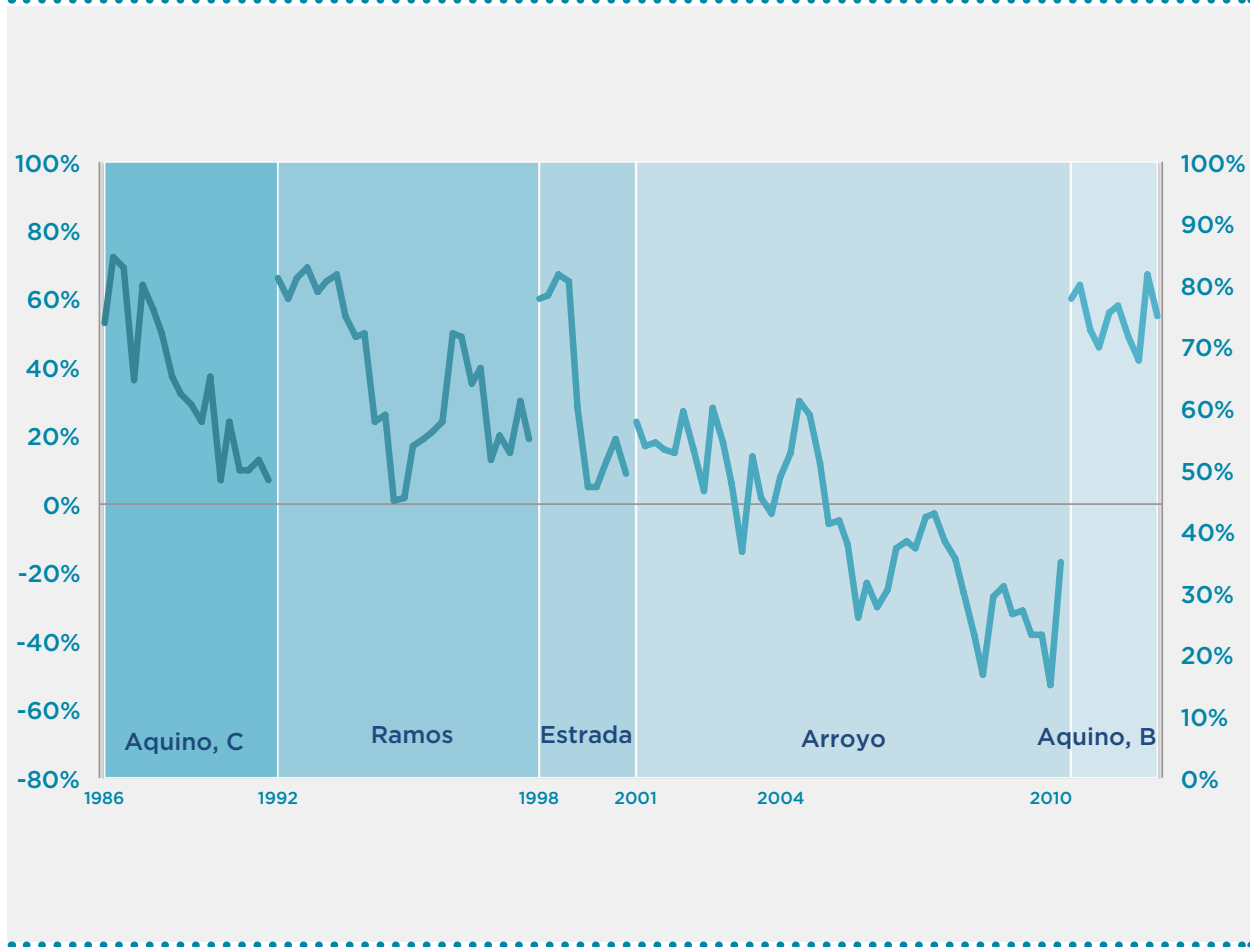
RECOMMENDATION 10

— Focus congressional Countrywide Development Funds more on priority social infrastructure needs (education and public health).



Of course, this is quite necessary. Given the present political environment and composition of the legislature, however, this is already bordering on fantasy.

NET SATISFACTION RATINGS OF PHILIPPINE PRESIDENTS FROM MAY 1986 TO DECEMBER 2012



RECOMMENDATION 11



Undertake civil service reforms, limiting political appointments and strengthening career professionals in senior positions. Pay competitive salaries at critical agencies.



The Executive and Legislative departments should exert stronger political will to achieve this. It is, however, inspiring that these reforms have already started with the Aquino Government. Former CSC Chairman Karina David had initiated civil service reforms during her term, but her efforts were stymied by the contrary acts of the prior administration.

RECOMMENDATION 12



Reduce red tape and speed up bureaucratic decisions. Implement the Anti-Red Tape Act.



Reducing red tape will help a lot in fighting corruption. Again, there is a need for stronger political will not only to pass complementary laws but also to implement strictly all necessary legislation.

RECOMMENDATION 13



Strengthen corporate governance.

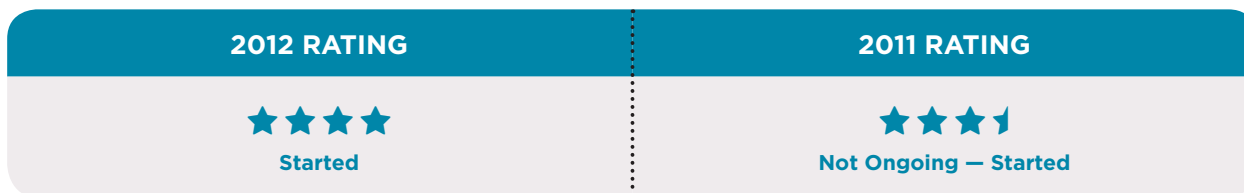


Ongoing efforts to strengthen corporate governance give hope that effective corporate governance can be achieved in the near future.

RECOMMENDATION 14



Reduce abuse of IPR, including brand name forgery. This will encourage more FDI and remove the Philippines from the US Section 301 priority “watch list.”



RECOMMENDATION 15



Legalize *jueteng* to eliminate a major source of corruption for local police and politicians.



Given PNP’s lack of resources, it should prioritize its efforts to fighting “real” crimes. It should also help the Philippine Drug Enforcement Agency (PDEA) and reallocate its resources from fighting *jueteng* to battling drug trafficking. Moreover, PDEA should be rehabilitated and given sufficient resources to fight the drug menace.

RECOMMENDATION 16



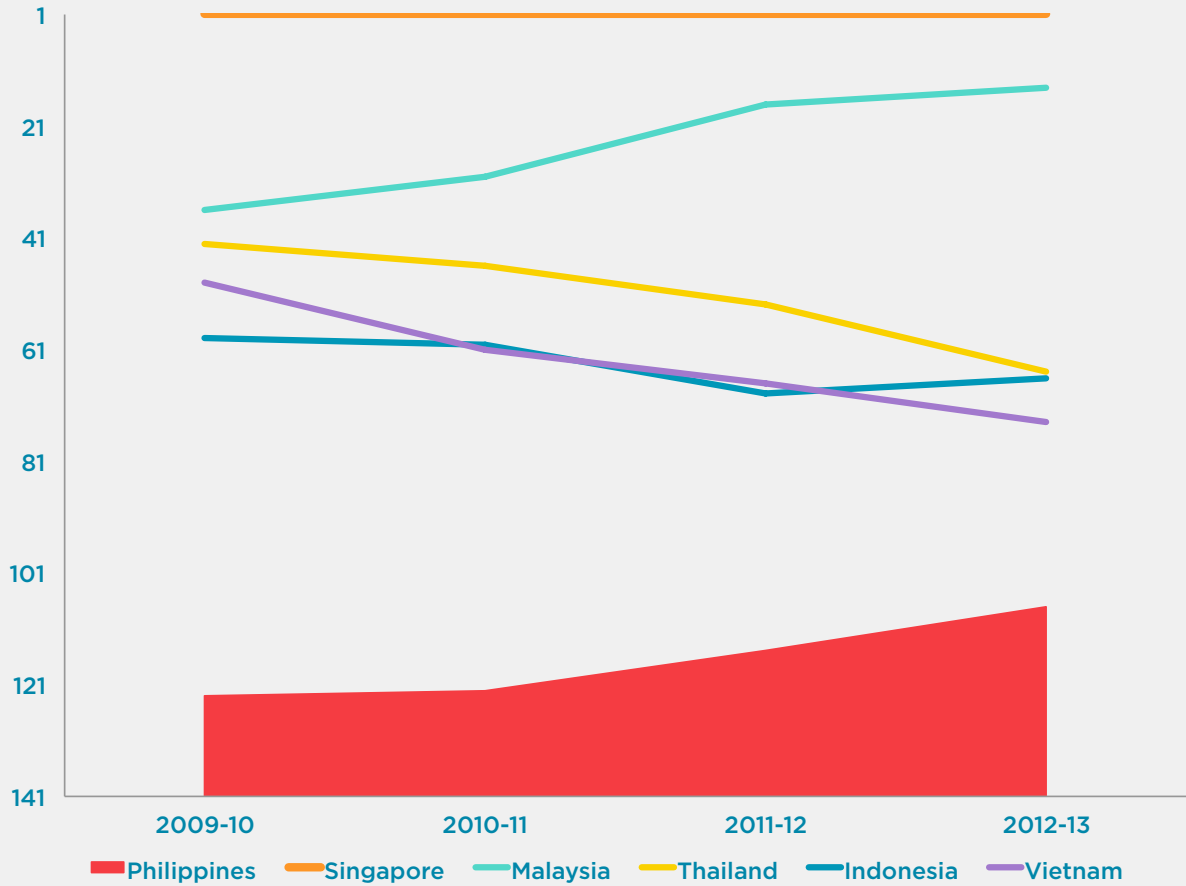
Strengthen the anti-corruption legal framework by passing (a) Anti-Graft and Corrupt Practices Act amendments, (b) Ombudsman Act amendments, and (c) Whistleblowers Protection Act.



See narratives for Recommendations 1 to 4.

PART 4: GENERAL BUSINESS ENVIRONMENT

JUDICIAL



EFFICIENCY OF LEGAL FRAMEWORK IN SETTLING DISPUTES, ASEAN-6, RANKINGS, FROM 2009 TO 2013

RECOMMENDATIONS: 12

PROGRESS	RATINGS	RATINGS
IMPROVED 2	☆ 0	★★★★ 3
DECLINED 2	★★ 2	★★★★★ 2
STEADY 8	★★★ 5	★★★★★★ 0

GENERAL BUSINESS ENVIRONMENT

JUDICIAL

Reforms in administration of justice should be intensified. Among challenges are clogged dockets, rulings that negatively impact the business climate, the use of courts and sheriffs for legal harassment, and questionable TROs. Increased judicial salaries helped reduce the vacancy rate from 30% to 22% and, after peaking in 2000, the caseload for all courts declined from 1.5 to 1 million. The Alternative Dispute Resolution Act of 2004 encouraged more parties to arbitrate. The volume of new cases is down, and there is a 50% increase in their resolution. Caseload per judge has declined by half. With more judges handling fewer cases, the backlog should shrink and also the delay of justice. The number of graft and corruption cases filed before the Sandiganbayan has fallen since 2002, but the percentage of convictions increased. The Philippines rates poorly in the Global Competitiveness Report for efficiency of legal settlement, ranking at 107 out of 144 countries—the lowest in ASEAN-6. SC appears to have become more cautious about its decisions harming the business climate. Its rulings supportive of the economy should be recognized. SC should more often request amicus curiae advice in business-related cases. The SC docket is crowded with some 7,000 cases divided among 15 justices. SC uses computers to track the status of cases, but lower courts do not yet. Greater selectivity would decrease the caseload and help SC meet the constitutional requirement to reach decisions within 24 months. The US SC accepts only some 150 of 10,000 petitions it receives each year.

RECOMMENDATION 1



Continue to increase judicial salaries and hire more judges, encouraging new judges to reduce the case backlog.

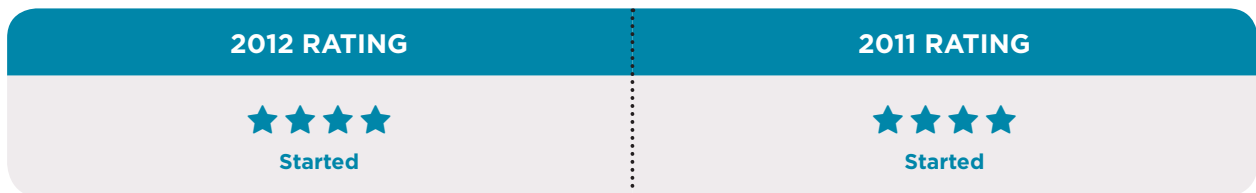


The palace and SC are pointing fingers at each other as to who should pay the judges their earned but unpaid special allowance for justices and judges (SAJJ) under the law that increased judicial benefits, and which were not paid in full from 2007 to 2009. In an MOA on the issue, payments were made to trial judges for the deficiency from 2009 to update it until 2012, but no agreement was made regarding the earlier three-year period. During the time of CJ Corona, he ordered the updating but told the judges SC no longer was able to pay trial judges the allowance under the special law by 2013 and no word was said on the unpaid deficiency. Judges are demoralized.

RECOMMENDATION 2



Discipline errant judges who do not follow the rules of the court or the laws of the land.



There is inconsistency in the imposition of penalties in that trial judges complain that those who are well connected get off with lighter penalties or with none at all. Judges are discouraged by the repeated promotion to higher judicial positions of other judges who are known to be corrupt, incompetent, or immoral. SC has issued decisions in administrative cases that are unduly harsh to trial judges who are honest hard workers but who have to deal with impossible backlogs which were caused by previous judges, not them. The system of resolving administrative cases against trial judges is also contributing to the heavy SC docket because only SC can act on these cases. Judges should police their own ranks.

RECOMMENDATION 3




Avoid capricious and arbitrary TROs, which too often are unfair to one party in a dispute.



Since 2007, SC under AM 07-7-12-SC has required that upon issuance of a writ of preliminary injunction, a case must be decided on merits within six months. This has addressed the former practice of issuing a preliminary writ, then delaying trial indefinitely.


RECOMMENDATION 4

 SC should request amicus curiae expert advice in cases impacting on the business environment.



SC should change its traditional view that cases must be decided strictly on the facts and law. SC should always look at its important role in shaping the nation's policy by injecting a social conscience or perspective to its decisions.


RECOMMENDATION 5

 Make greater use of alternative dispute resolution and arbitration to resolve civil disputes outside of courts, which should reduce the backlog of cases and hasten justice; immediate action all courts and the private sector.



SC, through the Philippine Judicial Academy, has rolled out in major trial stations nationwide the second tier of Alternative Dispute Resolution for courts—Judicial Dispute Resolution (JDR), where judges themselves try to bring the parties to a settlement after mediators who are non-lawyers fail to settle the case. Judges through JDR are allowed to make an early neutral evaluation of the case to settle it. The efficiency is, however, largely dependent on the judges' time and effort. A judge with a clogged docket and daily hearings might not have the time to do meaningful JDR.

RECOMMENDATION 6

 Strengthen foreign arbitration by changing the “Rules of Court.” Philippine law provides that all arbitration awards have to be confirmed by Philippine courts for execution. The courts should not reopen cases only confirm them. Reopening of cases should be limited to proven gross negligence of the arbiters. >>>

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

The Rules of Court still remain unchanged on this point.

RECOMMENDATION 7

- Reduce the SC caseload by limiting acceptance of cases largely to cases involving national issues.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

SC continues to take cases not of major national significance and carries an extremely heavy caseload. There should be more selectivity on the part of SC in choosing its cases. This has resulted also in instability in precedents because sometimes one SC division will issue a decision that contradicts another decision issued by a different SC division. Also, SC is wasting precious time in repeatedly addressing the same legal issues that it has ruled on countless times over the years.

RECOMMENDATION 8

- Create a special court for Strategic Investment Issues where justices are chosen based on familiarity with international investment and business issues and laws.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

Special Courts for Strategic Investment Issues have not been created. SC believes these issues can be handled in existing commercial courts whose judges have received relevant training. The problem is not creating new courts but the volume of cases before the commercial courts, which hinders speedy decisions. Perhaps with the new Chief Justice and her background, this might become a reality soon.

RECOMMENDATION 9

- ↑ Oversee the environmental courts in administering the Writ of Kalikasan so that application of Philippine environmental laws supports responsible mining practices and results in substantial socio-economic benefits for the Philippines. >>>



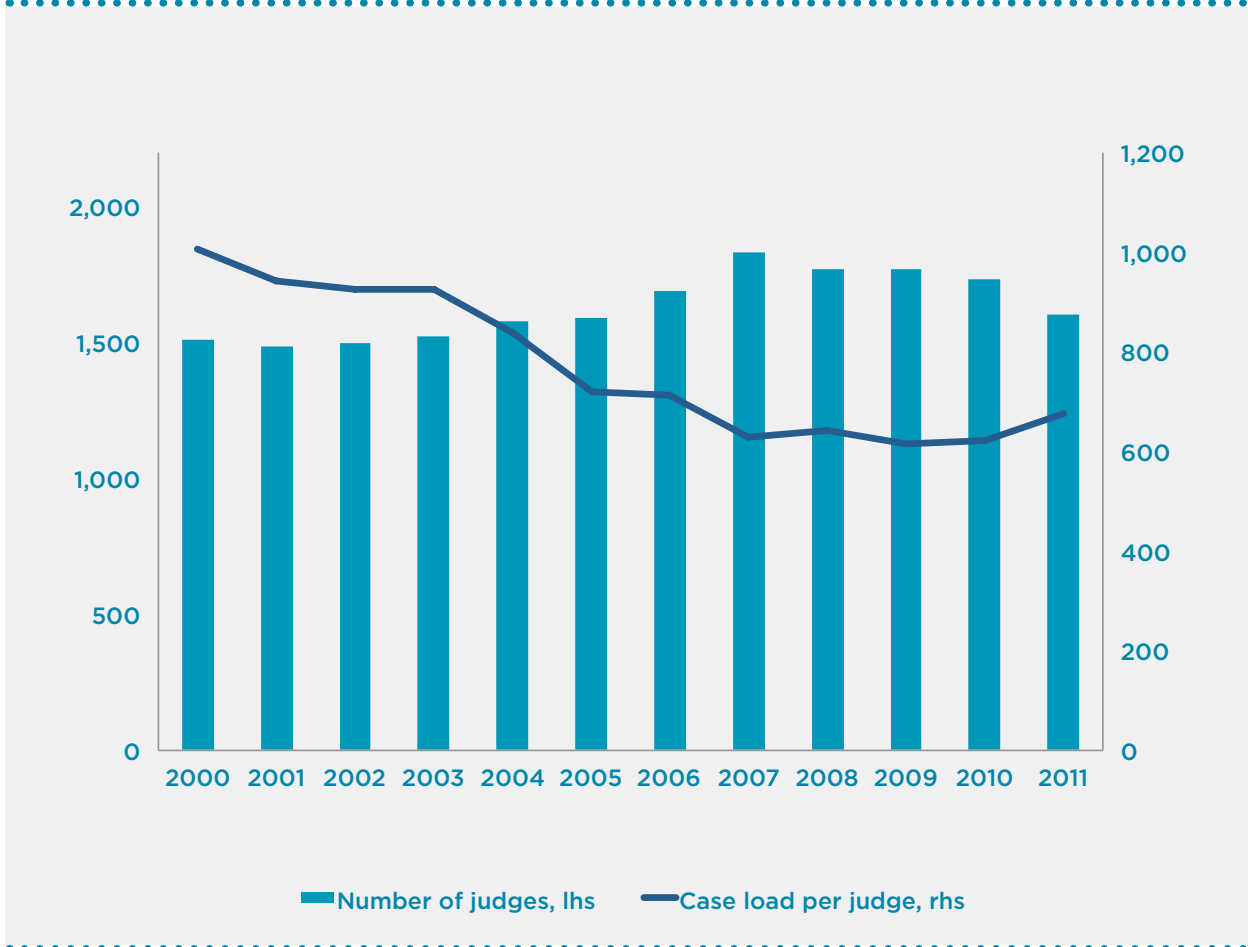
The public needs to be better educated to initiate cases against serious abusers of the environment and irresponsible firms, especially in the mining sector. With the designation of special courts to try environmental cases and the training of their judges, the first step has been taken in this regard.

RECOMMENDATION 10

— OMD should increase its investigations of allegations of corruption against public officials. The Sandiganbayan conviction rate should continue its increasing rate of convictions for graft and corruption.



NUMBER OF JUDGES AND AVERAGE CASE LOAD PER JUDGE, 2000 TO 2011



The Sandiganbayan has a terribly high backlog. Its disposal rate is the lowest among all courts in the country. There is a need for additional divisions in the Sandiganbayan. A House bill proposing this has been filed but remains pending in committee. Legislators or the President should make this a priority bill in the next Congress.

RECOMMENDATION 11



The legal divisions of BOC and BIR should be given resources and management leadership to prepare smuggling and tax cases more thoroughly to increase the chances for successful prosecution and conviction.



The legal division of BOC has failed to investigate and move ahead with many oil smuggling cases involving imported oil. For successful prosecution, the prosecuting officer should be part of the investigation and case build-up.

RECOMMENDATION 12



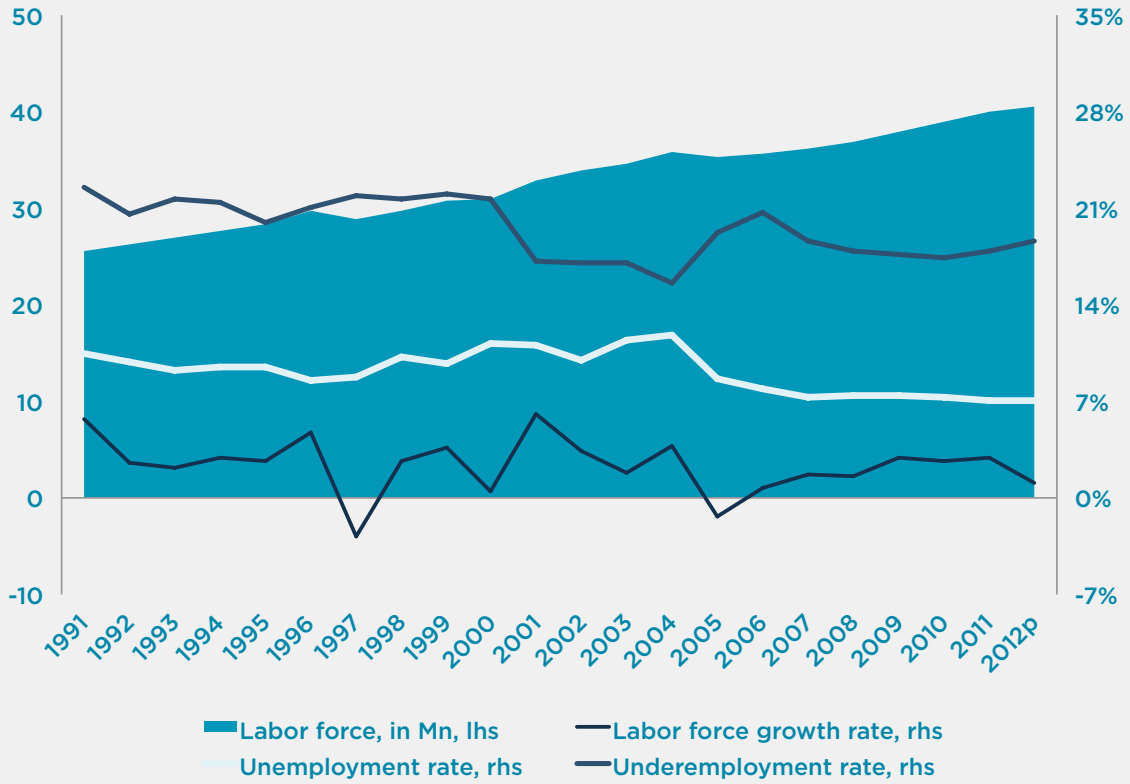
End harassment seizures of private businesses by sheriffs.



We have had no reports of seizures of property of foreign businesses in 2012. The sheriff's job is to execute the court's processes, not to go beyond the writ they are enforcing; else they can be open to sanctions. Sheriffs in the Philippines embark on their duties without training. There is not even a manual for sheriffs. There should be special training for sheriffs, as they are given a huge responsibility in enforcing court decisions.

PART 4: GENERAL BUSINESS ENVIRONMENT

LABOR



LABOR MARKET KEY INDICATORS FROM 1991 TO 2012 PROJECTION

RECOMMENDATIONS: 9

PROGRESS	RATINGS	RATINGS
IMPROVED 1	☆ 0	★★★★ 3
DECLINED 1	★★ 3	★★★★★ 2
STEADY 7	★★★★ 0	★★★★★★ 1

GENERAL BUSINESS ENVIRONMENT

LABOR

“I know of no other country in the world that is quite like ours - where the government effectively functions as a placement agency facilitating the deployment of its own people for work abroad. I imagine that the policy of labor export is not only ultimately self-defeating for any nation, it must also be a source of shame.”

— Randy David, sociologist

“10 million Filipinos are either unemployed or underemployed. In addition, 1.1 million new Filipinos enter the labor force every year. That’s a total of 14.6 million jobs that need to be created between now and 2016. The need for good jobs—jobs that raise real wages or bring people out of poverty—is an overwhelming challenge. Everything we do must contribute to job creation.”

— Motoo Konishi
Philippine Country Director, World Bank

The Philippine economy is not creating enough high quality jobs for the growing population and for improving economic growth. Of a labor force of 40 million, 37 million are employed. Unemployment stood at 6.9% and underemployment at 22.7%. Over nine million Filipinos would like to work more or would like to have some full or part-time work. Over the past decade, an annual average of 846,000 persons entered the workforce. As the economy does not create enough jobs, some go abroad and some remain unemployed. Without the overseas market, unemployment and underemployment rates could be two to three times higher. The country has the fastest rate of brain drain among the ASEAN-6. Much needs to be done to match educational and training curricula to available jobs. More young Filipinos need to acquire specialized fields related to the Seven Big Winner sectors. DOLE is undertaking Project Jobs Fit to identify the new and emerging employment sectors as well as the skills needed. The Philippine Labor Code is 39 years old and out of tune with regional developments. Disruptive labor action is infrequent. The economy has been unable to raise labor productivity. Of the ASEAN-6, only the Philippines has not significantly increased labor productivity in three decades.

RECOMMENDATION 1

- Modernize the 39-year old Labor Code to end the disadvantage it creates for the Philippines with regional competitors.



DOLE Secretary Baldoz issued AO 375 in August 2011, constituting a Tripartite Labor Code Reform Project. This *ad hoc* project team has not moved forward nor presented its recommendations to the Tripartite Industrial Peace Council (TIPC). In the past, there were attempts by Congress to amend the 1974 Labor Code. No omnibus bill has been filed in Congress to effect a wholesale amendment. Several bills, however, were filed and some were passed to amend specific provisions of the outdated Labor Code, including 52 amendments made on the Labor Code over time. Two bills amending the Labor Code have passed this Congress and may be enacted: Strengthening Tripartism and Strengthening Conciliation-Mediation as a Voluntary Mode of Dispute Settlement for all labor cases.

RECOMMENDATION 2

- Rationalize holidays to approach ASEAN average of 15 paid holidays a year.



While DOLE has been consistent with its position to maintain existing regular holidays to 12, and special days to three, the Philippines continue to have more paid regular and special holidays than any of the ASEAN countries. Typical male employees today have 34 paid leave days, excluding paid holidays that number more than 20 per year. Female employees can avail of as many as 142 or 160 more paid leaves. (Data counts as “employed” anyone working just a few hours a week.) There are pending bills increasing maternity leaves from 60 to 120 days, with an optional additional 60 days (HB 6128), 15-day paid leaves for victims of domestic violence (HB 5334), 14-day paid bereavement leaves (HB 3762), 15-day leaves for legitimate spouses of OFWs (HB 2550), and several other bills granting more days off to employees for various reasons. More Philippine holidays and paid leave days will further reduce productivity and reduce the country’s global competitiveness. In 2012, DOLE issued a policy paper, which it circulated to Congress, recommending that no additional non-working holidays be approved.

RECOMMENDATION 3



Allow firms providing same day services to overseas clients to provide employees, who have to work on Philippine holidays, substitute days off with pay without holiday premium.



DOLE Labor Advisory No. 2 series of 2009 allows flexible work arrangements, such as compressed work week, reduction of working days, rotation of workers, forced leave, broken time schedule, and flexi-holiday schedule. Perhaps better guidelines and dissemination can help in the full implementation of this Advisory. On August 7, 2012, DOLE also issued Labor Advisory No. 1 series of 2012, together with question and answer guidelines on the payment of wages and related issues on suspension of work due to calamities.

RECOMMENDATION 4



Make wage increases consistent with inflation and productivity.



The National Wages and Productivity Commission issued Resolution No. 2 series of 2010, introducing a two-tiered wage system. The first tier consists of a mandatory floor wage, while the second tier is a voluntary productivity- or performance-based wage component above the floor wage. Regional floor wage is the lowest wage for the most vulnerable workers—the unskilled and new entrants to the labor market. Most recent poverty threshold estimates are used as a major reference for determining the regional floor wage. The two-tiered wage system has first been implemented in Region IV-A on a pilot basis. Regional Wage Boards should implement this system in all other regions of the country. In coordination with other government agencies and private companies, DOLE also pursues non-wage benefits to address specific needs of a target group of workers, particularly the minimum wage earners.

RECOMMENDATION 5



Further narrow the skill-jobs mismatch by revising curricula and training. Ensure that skills needed for the Seven Big Winner sectors are included in curricula. Increase interaction between TESDA and the private sector. >>>



Hundreds of thousands of jobs remain unfilled, while millions of Filipinos are jobless. Government, industry, the academe, and non-governmental organizations are continuing to address the issue by determining what is causing the mismatch. These stakeholders are refining a roadmap of Philippine education that can prepare future entrants into the workplace to become more productive in their chosen careers and contribute to nation-building and to a globally competitive Philippine economy. Meanwhile, DOLE chairs the Technical Working Group on Convergent Programs to address job mismatch issues under the Human Development and Poverty Reduction Cluster. Convergent programs include a K-12 modeling program for Grades 11 and 12, review of Higher Education and Training Curriculum, career guidance advocacy plan, skills registry system, and partnerships with various industry sectors.

RECOMMENDATION 6

 Create millions of new jobs, many of higher quality, through increased investment.

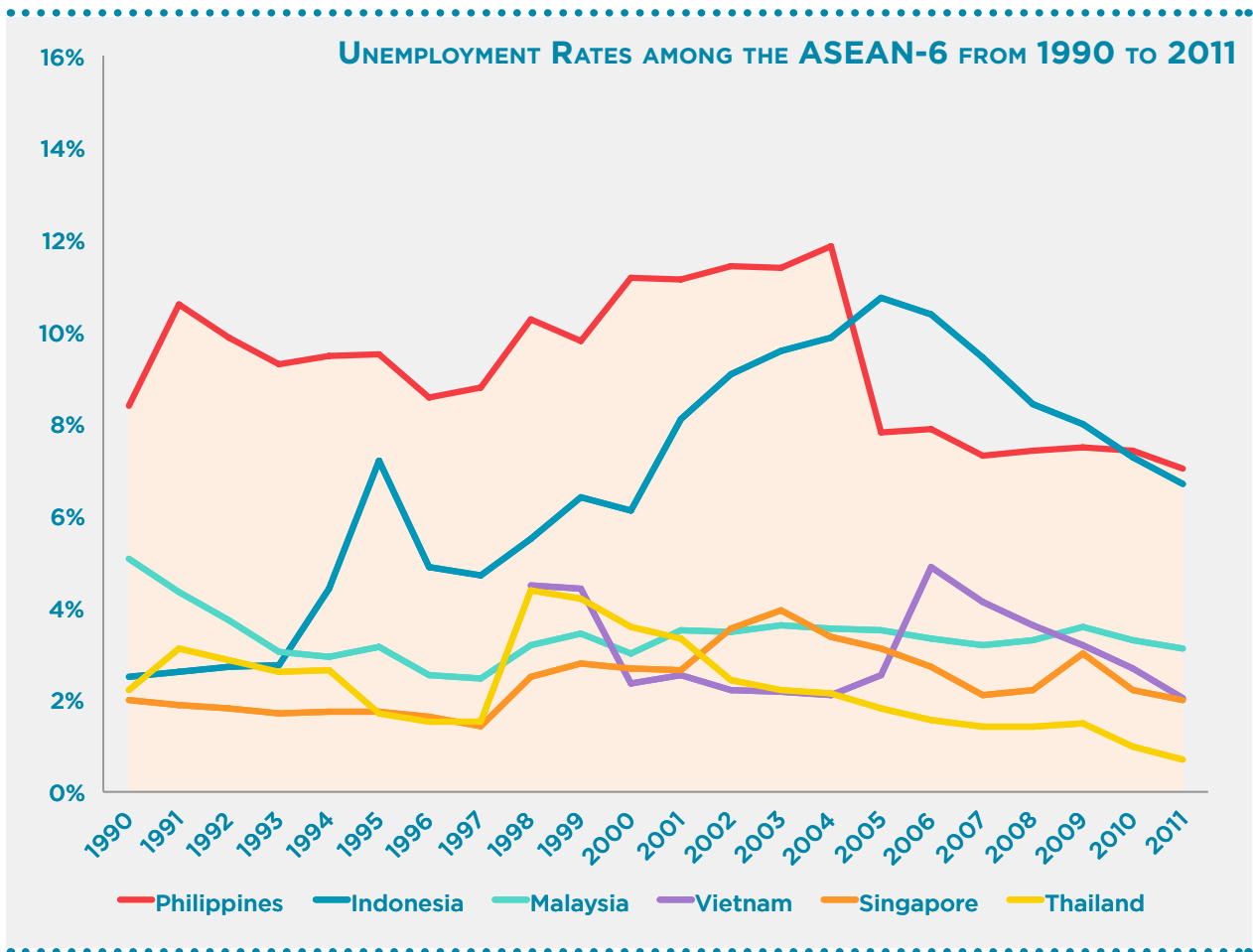


While the Philippine economy grew by 7.1% in the third quarter of 2012, this growth did not result in more employment. From July 2011 to July 2012, net employment increased by 478,000, while the labor force increased by close to a million new entrants. Underemployment during the same period grew from 19.1% to 22.7%. FDI going to the Philippines continues to be a small fraction of what other large ASEAN economies attract every year. There should be more pro-investment policies and less anti-employer laws, policies, and regulations in order to entice investments that create more employment. In the 2011 Labor and Employment Plan, DOLE endorsed policy and program actions to remove impediments to the creation and expansion of enterprises, and to identify positive reinforcing elements to business innovation and dynamism. Nevertheless, much is still expected toward implementing these much needed pro-investment, pro-employment policies and legislation.

RECOMMENDATION 7


 Develop a package of incentives to attract manufacturers relocating from China.





The Philippines is in a sweet spot as some manufacturers in China contemplate the possibility of relocating their manufacturing operations to the Philippines. While the Philippines has available manpower for the manufacturing sector, the country has not become the destination of choice for most manufacturers on account of several factors: high energy cost, restrictive laws, policies, regulations, etcetera. The Philippines should continue to benchmark against ASEAN, improve its infrastructure, improve its image through rebranding, and entice more investment with more pro-investor policies and programs. While DOLE's two-tiered wage system is being implemented in many regions where manufacturing industries can grow, the present level of wages are not competitive with ASEAN economies such as Vietnam, where most manufacturers tend to relocate their manufacturing centers.

RECOMMENDATION 8

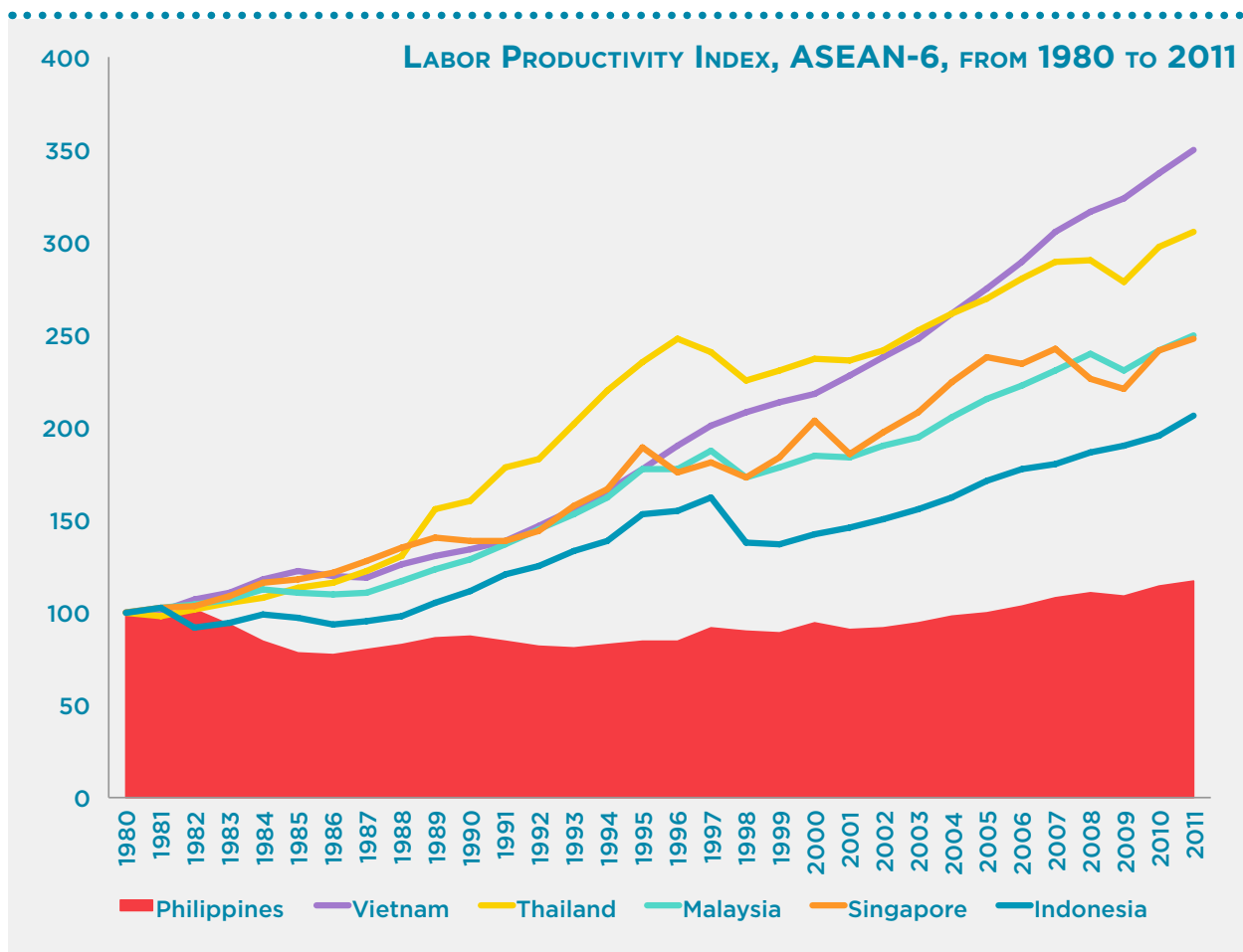
 Maintain the low level of labor disruption of business operations. Allow self-regulation of companies.

2012 RATING	2011 RATING
 Substantial Progress	 Substantial Progress

There were only two strikes in 2011 and none in the first half of 2012. By contrast, the People's Republic of China had an increase of almost 40 strikes per month in 2012; labor disruptions were also common in Indonesia and Vietnam. This industrial peace results from increased social dialogues among government, organized labor, and capital. Strengthening TIPC, the highest advisory body on labor in the executive branch, contributed to the reduction of work disruption. The preference of conciliation and mediation over arbitration as the mode of dispute settlement helped in reducing work disruptions. DOLE also continues to cultivate a culture of voluntary compliance by reaching out to big companies to deal with their subcontractors' legitimacy. This enhances fair and just treatment of workers by small employers, leading to more stable working environments devoid of work issues that can cause disruptions in business operations.

RECOMMENDATION 9

 Improve the speed and fairness of the adjudication of labor cases before the National Labor Relations Commission (NLRC).



DOLE pursued its 2009 programs to improve adjudication of labor cases with its Speedy and Efficient Delivery of Labor Justice Project and Single Entry Approach in handling labor cases. The 30-day mandatory conciliation-mediation resulted in more speedy, impartial, inexpensive, and accessible settlement services for unresolved employer-employee issues and complaints. In 2011, the compulsory arbitration branch of NLRC awarded PhP4.6 billion to 34,455 workers at a disposition rate of 76.8%, while the Commission Proper awarded PhP2.9 billion to 14,015 workers with a disposition rate of 82.7%. Dialogues between NLRC and TIPC continue to address problems in the labor justice system. As a result, NLRC pursued reforms in: (1) quality of decisions, (2) improved dockets, and (3) integrity. NLRC also amended the Rules of Procedure Governing Administrative Disciplinary Proceedings for the Commission's Efficiency and Integrity Board to ensure greater fairness in the system. DOLE and NLRC also developed a Case Tracking System for the Regional Arbitration Branches to provide a reliable database of all pending cases. The passage of the bill strengthening conciliation and mediation services would declog the department's quasi-judicial arm and appropriate offices, prevent issues from escalating into full-blown labor disputes, and reduce lawsuits, especially those on small money matters.

LEGISLATION



RECOMMENDATIONS: 13

PROGRESS	
IMPROVED	4
DECLINED	1
STEADY	8

RATINGS	
☆	0
☆☆	1
☆☆☆	5

RATINGS	
★★★★	3
★★★★★	4
★★★★★★	0

GENERAL BUSINESS ENVIRONMENT

LEGISLATION

While the Philippines has many excellent laws, there is continual need to update old laws and legislate for new developments. Usually, the legislative process moves slowly, but sometimes bills move unexpectedly fast. Forty-two significant new business and economic reforms enacted in the 12th, 13th, and 14th Congresses are listed in the future. Speeding enactment of new laws and amending old ones should be a higher priority for the Executive Branch. With strong leadership, the 15th and 16th Congresses can move twice as fast and pass many bills that improve the Philippine economy and competitiveness. The list is organized into eight categories according to the Big Winners and General Business Environment. A group of PBGs and JFC members have recommended to the President and Congress 41 reforms for consideration in the 15th and 16th Congress. The private sector must be vigilant and oppose market-unfriendly legislative proposals early in the legislative process since presidential vetoes are rare. LEDAC was used very effectively during the Ramos Administration and can be an excellent management tool for achieving the legislative agenda.

RECOMMENDATION 1



President should hold regular LEDAC meetings.

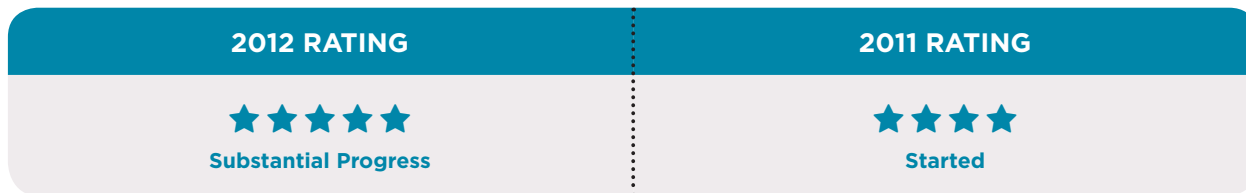
2012 RATING	2011 RATING
★★★ Not Ongoing	★★★★ Started

Republic Act 7640, the LEDAC Law, provides that the Council shall meet at least quarterly. Since 2010, however, only two LEDAC meetings on February 28 and August 16, 2011 have been convened. There should be more frequent meetings to monitor and fast track LEDAC priorities moving, or not moving, in Congress. Nine LEDAC priority measures have been enacted in the 15th Congress out of a total of 35.

RECOMMENDATION 2



Prioritize bills that improve competitiveness, increase investment and revenue, and create jobs; deter market-inimical bills.



Deliberation on bills that improve competitiveness, increase investment and revenue, and create jobs moved faster in 2012. Fifteen business and economic reform laws were enacted as of December 2012 and an additional 15 are to be transmitted to Malacañang for President Aquino's signature. Many more were approved on Third Reading in one chamber and are pending in plenary in the other. These may still be passed in the remaining weeks of session of the 15th Congress. A number of market-inimical bills, including declaration of new local non-working holidays, mining-free zones, and extreme pro-labor laws have advanced, especially in the House.

RECOMMENDATION 3



Pass legislation much more rapidly, especially for business and economic reforms.



While passage of investment climate reform bills have been slow in the first two years of the 15th Congress, movement on these bills became quicker during the previous months with Congress passing bills such as Rural Bank Act amendments, CCT and GPBT removal, Anti-Money Laundering Act of 2011 amendments, and the Design Council bill. While some business and economic reform bills have advanced, there is considerable delay in the passage of most "low-hanging fruit" legislation close to final passage in the 14th Congress (e.g., Immigration, DICT Creation, LPG Industry Safety and Regulation, and Anti-Smuggling). Out of the low-hanging fruit legislation, only the Cybercrime Prevention Act was enacted. Several others passed one chamber but have yet to pass the other: Freedom of Information bill, Direct Remittance of LGU Share in National Wealth Taxes, Rationalization of Fiscal Incentives, Sustainable Forest Management, and Charter of the Philippine Trade Representative Office.

RECOMMENDATION 4



Pass legislation much more rapidly, especially for business and economic reforms.



Fifteen investment climate reform bills have been enacted. 15 more are for transmittal to Malacañang for the president’s signature. The passage of at least 30 investment climate reform bills will surpass the number enacted in the previous Congress. Many other investment climate reform bills are identified in the Medium-Term Philippine Development Plan, but no specific targets are set for their passage. They can be added as priority measures for the 16th Congress. The House does set targets for its priority reform measures, but the enactment of a law is largely dependent on the priority given by the Executive Branch, the President in particular. For example, the RH bill and Excise Taxes on Alcohol, Cigarettes and Tobacco (ACT), both of which were certified as urgent and supported strongly by the Executive Branch.

RECOMMENDATION 5

 Use EOs to introduce reforms quickly.



EOs introduce reforms, but can also impede them. EOs 28 and 29 reorganized and set up rules for open skies at 10 international airports, but not congested NAIA. EO 45 designated DOJ as a competition authority, while EO 47 transferred CICT to DOST. These EOs delayed more permanent and significant reforms in competition policy and creating a DICT, respectively. EO 79 on the Mining sector and the proclamation declaring Chinese New Year as a non-working holiday harm the investment climate and discourage foreign investors from doing business in the Philippines. EO 98 providing for the Ninth FINL contained no reforms that sought to attract new foreign investment.

RECOMMENDATION 6

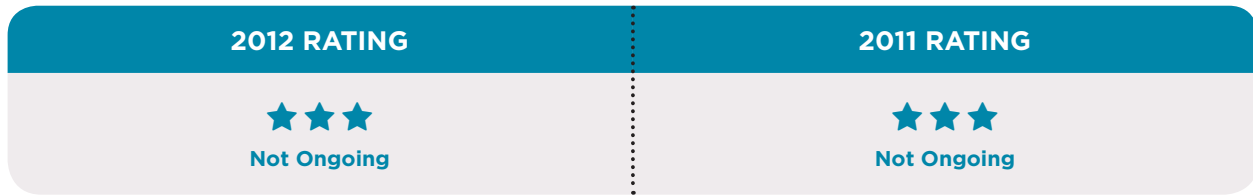
 Revise Implementing Rules and Regulations (IRRs).



The draft rules on the Financial Rehabilitation Insolvency Act only were circulated for comment by stakeholders over two years after RA 10142 became law. Other significant reform laws that remain unimplemented, sometimes for several years, include: Personal Equity Retirement Account with BSP, Credit Information System with SEC, the Data Privacy and Cybercrime Prevention Act (pending a legal question raised with SC). The 60-40 provision in IRRs of the Renewable Energy Act remains unamended. The reforms sought to be achieved by the enabling laws may not be achieved in the absence of relevant IRRs.

RECOMMENDATION 7

- The Executive Secretary should assess how a bill passed by Congress affects competitiveness and job creation.



There has been no significant development. The Executive Secretary is not mandated to review bills passed by Congress. An EO could be issued directing concerned government agencies to assess laws for their impact on competitiveness and job creation and recommend policy changes.

RECOMMENDATION 8

- Seek to make FINL more positive.



EO 98 providing for the Ninth FINL added four new minor restrictions legislated in the 14th Congress. It does not contain any new liberalization. For instance, the practice of profession by foreign nationals remains to be interpreted as “doing business” under FINL and thus, restricted to Filipinos. This does not reflect explicit provisions on reciprocity in some 90% of laws regulating professions.

RECOMMENDATION 9

- ↑ Simplify the present 45 laws regulating 46 professions to relax restrictions on foreign professionals and redefine reciprocity.



Most laws regulating professions contain a reciprocity provision. Only five (i.e., Environmental Planning, Criminology, Forestry, Pharmacy, and Radio and X-Ray Technology) out of 46 under PRC jurisdiction are restricted to Philippine nationals. An SC rule limits legal practice to Philippine nationals. PRC, consistent with laws regulating professions, issued guidelines in the practice of profession of foreign nationals. Bills regulating the above professions, amending existing laws to include a foreign reciprocity provision, have advanced in Congress. The Environmental Planning bill was approved by Congress and will be transmitted to the President for his signature. The bills on Criminology, Forestry, and Pharmacy, which

were approved on Third Reading in Congress, are low hanging fruit, which *Arangkada* will recommend for passage at the first regular session of the 16th Congress. Once the Environmental Planning bill becomes law, only Criminology, Forestry, Pharmacy, Radio and X-Ray Technology, and Law will be professions restricted solely to Filipinos.


RECOMMENDATION 10

 Clarify that foreign investors can own firms providing services.

2012 RATING	2011 RATING
 Not Ongoing	 Not Ongoing

There has been no significant development. There is a pending SB amending the Foreign Investments Act (FIA) to lower the employment threshold requirement from 50 to 15 employees and to clarify that FIA does not apply to professions.

RECOMMENDATION 11

 Remove discrimination against foreign firms in Philippine government procurement.

2012 RATING	2011 RATING
 Not Ongoing	 Not Ongoing

There has been no significant development. RA 9184 applies to all government procurement activities, irrespective of funding source. There are pending bills seeking to amend RA 9184 which have not advanced in the 15th Congress. Amendments to remove the current legal discrimination against foreign firms have yet to be introduced. The House of Representatives Congressional Planning and Budget Department is reviewing laws for possible reforms in foreign equity restrictions and other discriminatory provisions.

RECOMMENDATION 12

 Encourage new investment in selected regulated public utility activities by using language similar to Section 6 of EPIRA.

2012 RATING	2011 RATING
 Not Ongoing	 Not Ongoing

RECOMMENDATION 13

 Develop a comprehensive Philippine Legal Code and Code of Regulations.



DOJ has created a Criminal Code Committee to develop a New Criminal Code that is more effective and relevant. It will codify many laws enacted after the Revised Penal Code of 1930. The DOJ Committee has finished the draft of Book 1 of the new Criminal Code. There are pending bills to create a Civil Code Commission to review and re-codify all substantive civil laws of the Philippines, but they did not advance in the 15th Congress. Development of a comprehensive Philippine Legal Code and Code of Regulations is not underway.

LOCAL GOVERNANCE



RECOMMENDATIONS: 15

PROGRESS	RATINGS	RATINGS
IMPROVED 11	☆ 0	★★★★★ 6
DECLINED 0	★★ 1	★★★★★★ 7
STEADY 4	★★★ 1	★★★★★★★ 0

GENERAL BUSINESS ENVIRONMENT

LOCAL GOVERNANCE

LGUs should be supportive of investors who bring jobs and revenue to their communities. Complaints are rare when LGU processes are transparent, efficient, fast, and honest. When they are not, investors complain, and the image of the Philippines is harmed. Surveys of domestic and foreign investors have scored “corruption” as the top business problem, with “inefficient government bureaucracy” the second. A solution for bureaucratic corruption is reducing the number of signatures and using e-governance. Ratings of LGU competitiveness can encourage cities and provinces to improve themselves. When LGUs impose taxes or fees contrary to national policy or ban mining, they can harm the investment climate. This is a serious issue requiring attention.

RECOMMENDATION 1



Programs to make LGUs (provinces, cities, and municipalities) more efficient and competitive in attracting investment should be continued and even intensified.



See narrative for Recommendation 8.

RECOMMENDATION 2



Give priority to the fastest-growing regions.



See narrative for Recommendation 8.

RECOMMENDATION 3



Expand e-governance services on LGU websites from providing information to enabling routine transactions and providing information on budgets and procurement.



Compared to a year ago, many LGUs have started to develop and update their websites to include details in compliance with the Full Disclosure Policy of DILG. Compliance to Full Disclosure is one of the requirements to get the Seal of Good Housekeeping, which then allows LGUs to qualify for a Performance Challenge Fund. At the end of 2012, almost 35% of LGUs have fully complied, while 50% have partially complied with the policy. On the other hand, the 2012 Survey on Good Local Governance by The Asia Foundation (TAF) and AusAID showed that less than 30% of the respondents have said that information on government plans, budgets, and procurements can be easily seen or found. Citizen perception, however, on overall transparency and understandability of municipal transactions and processes showed a steady increase since 2009—from 58% in 2009 to 72% in 2011 and 77% in 2012.

RECOMMENDATION 4



Increase efforts to correct the issues identified in the IFC-WB Doing Business rating.



An increasing number of LGUs are streamlining their business permits and licensing processes, in addition to the one-stop shops they establish during the first three weeks of January each year for the renewal of business permits.

RECOMMENDATION 5



Steady reduction in the solicitation of bribes for bureaucratic services



The 2012 SWS Survey of Enterprises by NCC, Integrity Initiative, TAF, and AusAID showed that 31% of surveyed enterprises were solicited with bribes. While perception remains high, a review of 10-year data from 2000 to 2012 on the same question showed a declining trend, with the exception of 2007 and 2008 where the enterprise perception rose from 33% in 2006 to 40% in both 2007 and 2008.

RECOMMENDATION 6



Observe incentives, such as exemption from local taxes, awarded by the national government to investors under national laws.



Currently, there is no mechanism by which approval and implementation of investment projects are coordinated, specifically when it comes to granting tax incentives and right of way acquisition. When the investment belongs to a preferred investment that is included in investment priority plans, the national government can issue a certification of pioneer status for six years or non-pioneer status for four years, which the investor can show to the LGU in seeking for tax exemption. In short, exemption from local taxes does not automatically flow down from national to local. It has to be negotiated separately by the investor with the local government. The investor has to show proof of exemption issued by the national government before the LGU issues an exemption.

RECOMMENDATION 7




When the LGU Code is amended, language should be included to make the foregoing application of national laws clear. Declare certain investments as strategic to take them out of the influence of LGUs.



This will face a lot of opposition from LGUs who want to continue to make decisions on these investments because of their public safety mandate. The issuance of EO 79 on mining somewhat appeased LGUs' concerns regarding environment protection and public safety. Nevertheless, the provision of the EO restricting the role of local government only to impose "reasonable limitations on mining activities within their respective territorial jurisdictions that are consistent with national laws and regulations" is anticipated to be problematic.

RECOMMENDATION 8

 **DILG and other departments should intensify programs for LGU capacity building.**




GPB through Joint Memorandum Circular (JMC) No. 1 series of 2010 between DILG and DTI is implementing standards for processing business permits and licenses in all cities and municipalities. The said JMC echoes the requirements under the Anti-Red Tape Act (RA 9485), which adopts a single unified business permit form and prescribes the number of signatories and steps in securing business permits. The adoption of a unified form provides LGUs and national government agencies the information they need from the business registrant. The prescribed reduced number of steps and signatories will reduce the time toward applying for business permits and improve efficiency. The JMC also indicated the 480 priority cities and municipalities included in the National BPLS (Business Permits and Licensing System) Streamlining Project of the government from 2010 to 2014. These cities and municipalities are those that were determined to have a critical mass of establishments and good potential for generating investment in the four priority sectors of government—namely, BPO, Tourism, Mining, and Agribusiness. The 2012 SWS Survey on Good Local Governance by TAF and AusAID also showed a +63 net satisfaction rating on local government processing of papers and permits.

RECOMMENDATION 9

LGUs should choose which among the Seven Big Winner Sectors could be significantly promoted in their localities.

RECOMMENDATION A

 **Agribusiness.** LGUs in key agricultural areas should strengthen their agricultural extension and training services for farmers and improve farm-to-market roads. >>>



Ongoing but slow progress. Extension services are devolved, but the technical capacity of LGUs is still wanting. They look to national government as a source of expertise in this area. There is also a need to rationalize the allocation and funding of farm-to-market roads to improve access and transport for agriculture products.

RECOMMENDATION B



BPOs. LGUs should respect the status of investor operations established in PEZA/IT zones. At the same time, guidelines should be developed and followed on which fees for local services (e.g. garbage collection) are acceptable.



Currently, local governments observe the status of investor operations in PEZA but continue to require them (PEZA or the individual locators) to pay for real property tax for the beneficial use of the land, and to secure permit to operate a business with minimal fee. LGUs have their Local Revenue Codes adopted through ordinances in local councils, which provide the basis for fees and charges that local governments can collect.

RECOMMENDATION C



Creative Industries. LGUs should fully support the development of the creative industries in their locality and encourage them to export their products and services.



Started but slow progress. LGUs need to be assisted on this. Resources, technical capacity, and budget are usually lacking.

RECOMMENDATION D



Infrastructure. LGUs should strongly support rapid implementation of priority infrastructure projects, including PPP projects, that will develop their regions, e.g. for tourism. >>>



Started but slow progress. LGUs need be assisted on this. Resources, technical capacity, and budget are usually lacking.

RECOMMENDATION E



Manufacturing and Logistics. LGUs should fully support manufacturing and logistics, which provide local jobs, procurement, LGU revenue, and prioritize reducing and minimizing business costs. Investments are long-term, done on the basis of existing rules and based on established zoning regulations. It is essential for LGUs to maintain these rules long-term and avoid rezoning developed industrial zones.



Started but slow progress. LGUs need be assisted on this. Resources, technical capacity, and budget are usually lacking.

RECOMMENDATION F



Mining. LGUs should help develop local community support for national government policy to develop mining projects that observe social and environmental regulations.



Anti-mining initiatives, through LGUs and by congressmen, increased in 2012 and are becoming a major issue. The resolution is for the national government to enforce national law. Meanwhile, illegal mining, with its non-payment of taxes and environmental destruction, continues unchecked.

RECOMMENDATION G

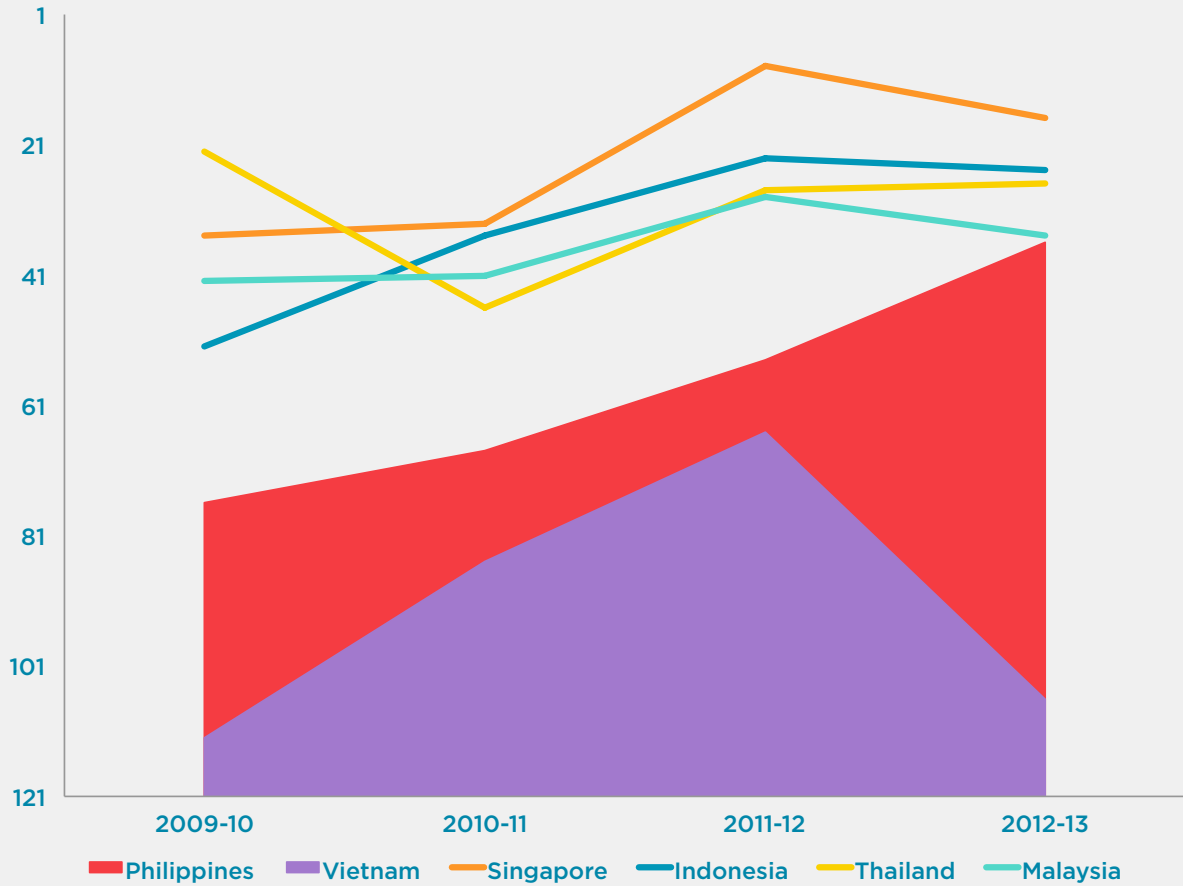


Tourism, Medical Travel, and Retirement. LGUs can help mobilize local communities to make the local tourism experience better through a clean and safe environment, more efficient transportation, and the like. LGUs will have a greater role under the Tourism Act, becoming involved in master planning, tourism zone site selection, implementation of standards, putting one-stop shops in place, upgrading local infrastructure, and the like.



There are already a number of LGUs that are doing this, specifically those that are identified as tourism areas. Such efforts include developing a multisector tourism plan, putting up *pasalubong* centers, and promoting travel packages and homestay accommodations that allow tourists to stay and interact with the local communities. Technical capacity, specifically on packaging tourism products and promoting social safeguards, are still wanting. Additionally, the partnership between DOT, DPWH, and local governments of identified priority tourism areas (i.e., Palawan, Iloilo, Bohol, Cebu, Davao, and Metro Angeles) have ensured budget for the construction and repair of priority tourism roads, which will make transportation and access easier in these localities.

MACROECONOMIC POLICY



MACROECONOMIC ENVIRONMENT/STABILITY, ASEAN-6 RANKINGS FROM 2009 TO 2013

RECOMMENDATIONS: 27

PROGRESS	RATINGS	RATINGS
IMPROVED 11	☆ 0	★★★★ 16
DECLINED 0	★★ 0	★★★★★ 5
STEADY 16	★★★ 6	★★★★★★ 0

GENERAL BUSINESS ENVIRONMENT

MACROECONOMIC POLICY

Macroeconomic management of the economy has generally been sound after 1986 with the exception of periods of large deficits. Since the 2008 to 2009 financial crisis, the biggest fiscal challenges have been large deficits and weak tax effort. Tax effort peaked in 1997 at 17% but fell in 2012 to 13%. In the WEF Global Competiveness Report, among the ASEAN-6, the Philippines placed midway in rankings for overall macroeconomic environment. Philippine sovereign ratings have steadily advanced close to investment grade. Within ASEAN-6, the Philippines has the highest corporate income tax. In WEF's 2012 to 2013 rankings for the category Burden of Government Regulation, the Philippines placed 108th of 144 countries, the second lowest among ASEAN-6. Investors seek a stable and predictable policy environment with low risk, which has too often not been true in the Philippines. Many new FTAs create great opportunities to develop new export markets. The Philippine economy could be hurt if not included in EU bilateral FTAs in ASEAN or in TPP. The European Union and the Philippines have agreed to negotiate a new bilateral Partnership and Cooperation Agreement.

RECOMMENDATION 1




Improve macroeconomic policy management and raise sovereign credit ratings.



While keeping inflation low (2.9% in 2012) external and public debt ratios have continued to decline to historic lows. The exchange rate has been kept stable despite pressures from volatile flows of hot money and a structurally positive current account. The slight real

appreciation of the currency relative to major trading partners is a challenge for industry competitiveness. BSP is using all available tools to moderate appreciation, but may require support at the national government level. The borrowing mix by the national government continues the trend of reducing the foreign borrowing component and repaying maturing debt using the country's reserves; perhaps more can be done in this regard toward moving forward. Acceleration of major infrastructure construction should also help increase dollar demand and reduce pressure for peso appreciation. As a result of favorable macroeconomic management and outcomes, the credit rating of the Philippines has been upgraded by all major rating agencies to one notch below investment grade with a positive outlook. This is as favorable a set of ratings as ever in Philippine credit rating history.


RECOMMENDATION 2

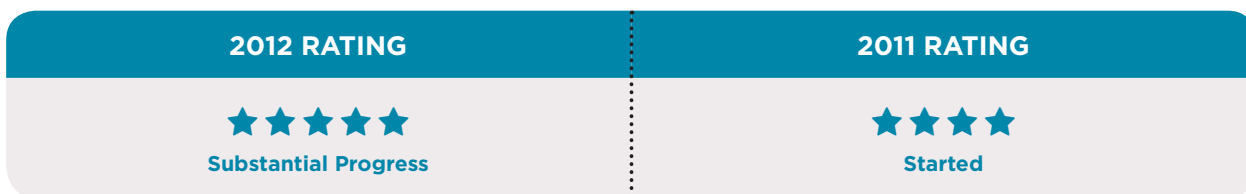
 Gradually reduce the national budget deficit to below Php100 billion and the Consolidated Public Sector Deficit to below 3% through improved revenue collection, followed by tax reform.



In 2012, the government overachieved its deficit targets from 2.6% of GDP to only 1.4% largely because of underspending. Revenues from January to November 2012 grew by a robust 12.7%, almost on target or in excess of target, primarily from performance of BIR. BOC underperformed by Php60 billion (17%) in 2012, against a background of hard to reconcile statistics from exporting countries and the Philippines, especially for oil products. The passage of ACT tax increase law is a milestone in tax policy, economic governance reform, and cooperation among all these branches as well as with civil society and business.

RECOMMENDATION 3

 Through prudent debt management, reduce the public external debt as a percentage of GDP ratio and reduce interest payments as a percentage of government expenditures.



External debt ratios declined from 29% in 2011 to 27% in September 2012. This ratio has been dropping since the administration assumed office as a result of lower deficits, primarily on account of underspending, but also due to good debt management, including measures such as debt bond swaps that lengthen maturities and reduce foreign exchange exposure. These DOF and Treasury initiatives, supported by BSP and SEC, have enhanced the fixed income market. BIR could be more supportive of capital market development by easing its new rulings on withholding taxes on interest income.

RECOMMENDATION 4

- The political leadership should convey an austerity message, follow taxing and spending policies that are frugal, and avoid difficult to sustain populist policies.



Reforms in government procurement processes making them more transparent and competitive are underway in major agencies. While slowing implementation of projects at times, including those in the last administration that have issues, on the whole these reforms are proceeding satisfactorily. DBM has been at the forefront of introducing greater transparency and accountability and making good progress. Supported by donor institutions, GPH is pursuing a Government Integrated Financial Management Information System to enable real-time online accounting as well as monitoring and control of obligations and disbursements, and provide regular in-year reports on the status of budget execution as well as linking disbursements to cash management for effective financial control and accountability.

RECOMMENDATION 5

- Privatize more state assets. While major privatizations have been made (e.g. Philippine Airlines, NCR water, National Power Corporation (NPC) power plants, National Transmission Corporation, and Philippine National Oil Company-Energy Development Corporation), many assets remain to be sold or leased (e.g. Food Terminal Incorporated), military facilities, San Miguel Corporation shares of Coco Levy Fund, other assets sequestered by the Presidential Commission on Good Government (PCGG), and GOCCs that could be better run by the private sector.



In 2012, the government awarded its biggest privatization to date with the disposal of FTI for PhP24.3 billion, one of the long-running privatizations from past governments. More can be done to facilitate sale of other assets, especially in the power sector to complete its full privatization. Much more remains to be privatized in assets and functions. Clark and Subic might be better operated by the private sector, including foreign management firms, as might the country's major international airports. Privatization of BOC could greatly reduce its endemic corruption, as it did in the late 1980s and 1990s.

RECOMMENDATION 6



Reduce corruption in public sector revenue collection and expenditure through more transparency, e-governance, competitive bidding, and enforcement at all levels of government.



Reforms continue to be broadened and hardened to greatly reduce large-scale corruption in public procurement, but less so in public revenue collection at BOC. The 2012 SWS Enterprise Survey showed improved ratings for most agencies. Reports of procurement scandals, frequent in most past administrations, are now rare. While some corruption has probably gone underground and the sins of the past could be repeated in future administrations, for the present there is great progress. The principal collection agency, BIR, is showing gradual success in meeting its targets by becoming more objective and strict in its collections, thus raising the revenue-to-GDP ratio. With a \$50 million MCC grant, BIR will be using sophisticated software to detect tax avoidance and reduce opportunities for human interference. BOC remains a corrupt agency involved in technical smuggling, leading to tens of billions in VAT and other revenue losses. Solicited projects are replacing unsolicited projects for the BOT-PPP program. Public sector spending projects, including Congressional Pork Barrel project details, are online for citizens to check.

RECOMMENDATION 7



Continue BOC's National Single Window Program interconnecting 40 government agencies involved in licenses, clearances, and permits for import and export transactions and the E2M Project, which will fully automate import and export processing at all major ports.



This project has been underway since mid 2000s, but has not been fully implemented to date.

RECOMMENDATION 8



Reduce and rationalize congressional pork barrel. Persuade Congress to do its part to control waste in government by reducing pork barrel and spending it better on national priority projects. >>>


2012 RATING	2011 RATING
 Not Ongoing	 Not Ongoing

The Administration appears to have tightened controls on congressional pork barrel with categories of approved projects narrowed, and encouraging recipients to implement projects through national government agencies. Overall funding, however, has not been significantly reduced, nor is the program’s political rationale weakening. In principle, legislators should primarily legislate, and line agencies should fund projects in accordance with national development plans, but political reality has long dictated continuation of this funding.

RECOMMENDATION 9

Improve collection of current taxes.

RECOMMENDATION A


-  All taxes due to the national government should be collected from all taxpayers to reduce the huge losses from smuggling and tax evasion.

2012 RATING	2011 RATING
 Started	 Started

BIR is taking numerous steps to do this. BOC is not doing as well. BOC remains a serious challenge to better revenue collection and the goal of ending corruption in leading public sector agencies. The continued intransigence of many of its personnel may require a radical rather than reformist approach to BOC collection of its full legal revenue share. An effort by DOF and BOC to fight oil smuggling through SBMA was blocked by a local court in Olongapo. A similar situation under the last administration lasted five years before a final SC decision was promulgated, during which time 180,000 illegal used vehicles entered Philippine customs territory through the freeport.

RECOMMENDATION B

-  Increase computerization of relevant data to enable BIR and BOC to better estimate taxpayer liabilities.

2012 RATING	2011 RATING
 Started	 Started

Significant improvements in this area are being introduced and should begin to yield higher tax revenues.

RECOMMENDATION C



Enable more e-transactions to reduce direct interaction between taxpayers and BIR personnel, especially outside BIR offices.



This is also ongoing for BIR, although BOC follows mixed online and manual processing.

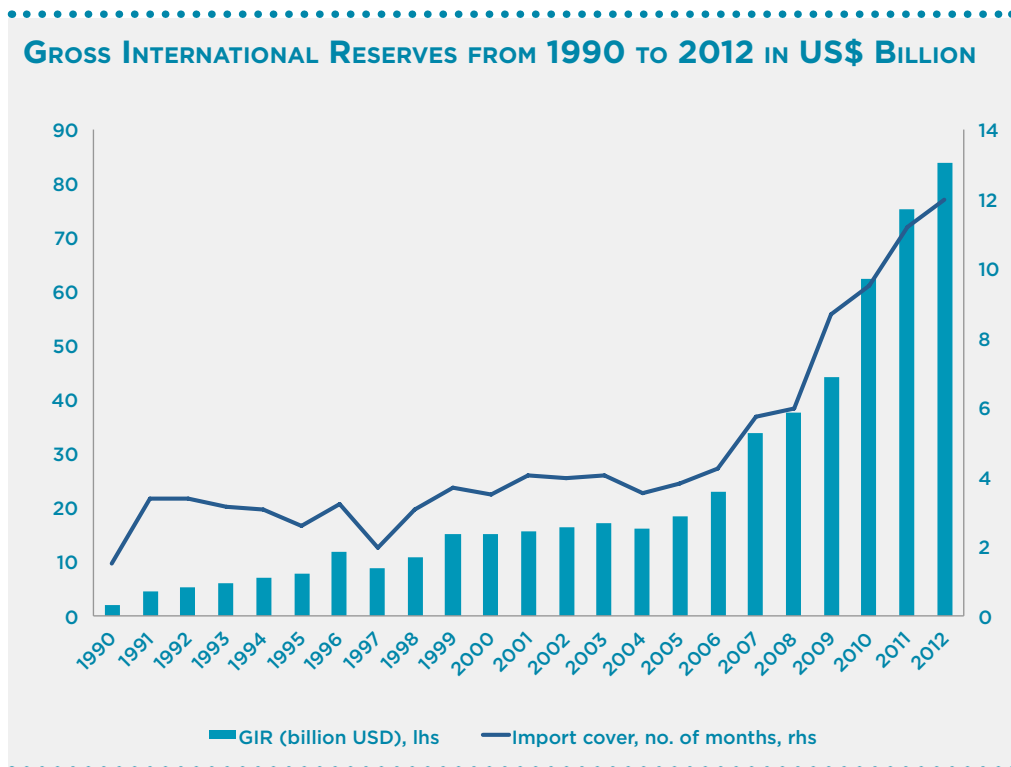
RECOMMENDATION D



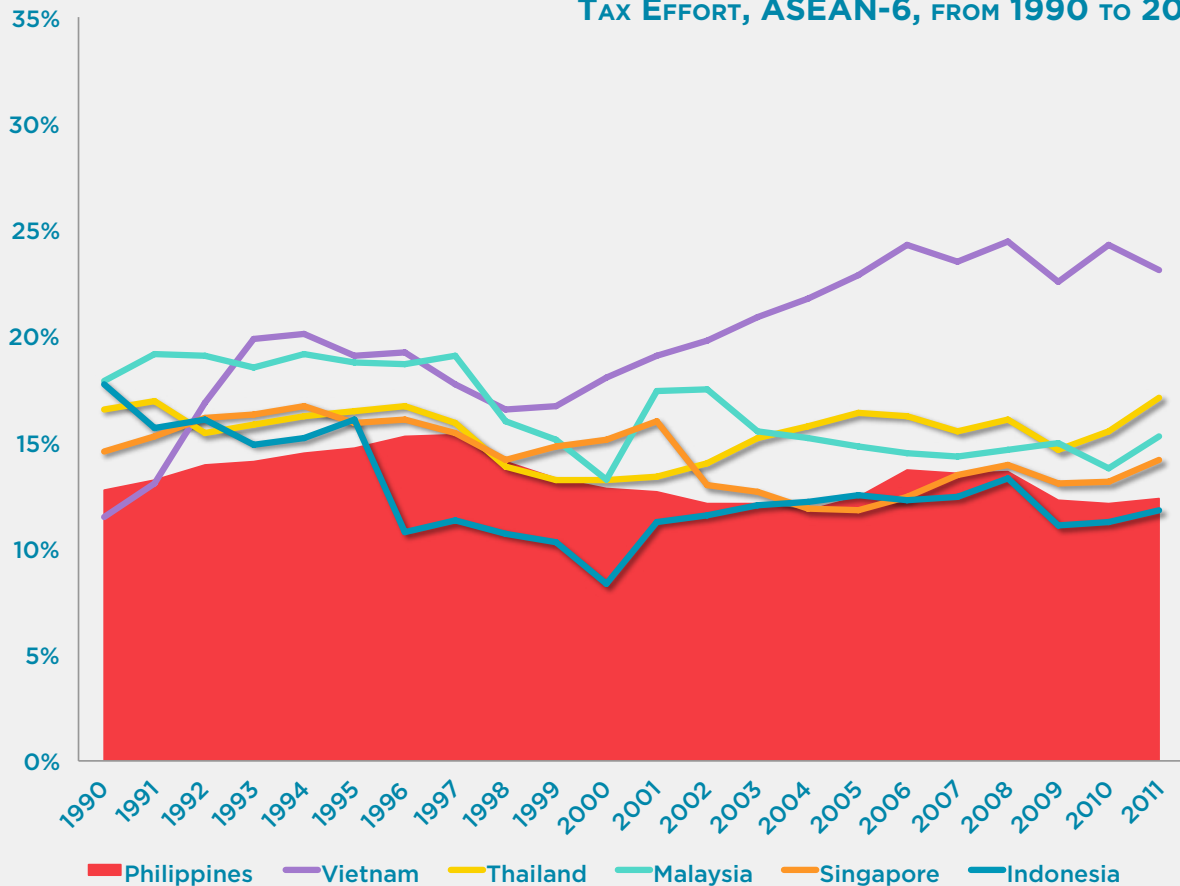
BIR and BOC should maintain the Run After Tax Evaders (RATE) and Run After the Smugglers (RATS) programs and regularly initiate cases against tax evaders and smugglers, accompanied by publicity and successful prosecution.



RATE and RATS continue, and some convictions have started. The program, however, is hobbled by lack of investigators and prosecutors at all the involved agencies and by the glacial pace of Philippine justice.



TAX EFFORT, ASEAN-6, FROM 1990 TO 2011



RECOMMENDATION E

— Pass Simplified Net Income Taxation legislation.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

This was not a priority in the 15th Congress.

RECOMMENDATION 10

↑ LGUs should be more efficient in updating and collecting local real estate and other taxes to improve their revenue base.

2012 RATING	2011 RATING
★★★★ Started	★★★ Not Ongoing

LGUs are beginning to reform their revenue base and collection, in line with the general enhancement of governance in the Aquino Administration. The great variety of taxes and fees charged by LGUs should be rationalized.

RECOMMENDATION 11



Implement new revenue-enhancement legislative measures and cease passing unwarranted tax leakage laws. Implement the Revised Kyoto Convention. Pass the Fiscal Responsibility Act, Rationalization of Fiscal Incentives bill, and CTMA.



ACT increases were passed in the 15th Congress and signed as RA 10351. Increased revenue is expected with increased ACT rates introduced at the beginning January 2013. New tax leakage laws, too common in the 14th Congress, have disappeared from the legislative agenda. The Rationalization of Fiscal Incentives, CTMA, and Fiscal Responsibility bills were not enacted in the 15th Congress. LEDAC should prioritize them in the next Congress.

RECOMMENDATION 12

Comprehensive reform of taxes should be considered after revenue collection efficiency results are achieved.

RECOMMENDATION A



Taxes and fees and their collection should be greatly simplified.



Public sector bureaucracies rarely can rationalize taxes and fees without external pressure. DTI and NCC help with their efforts to reduce red tape and business costs. The IFC Doing Business and other surveys repeatedly identify the collection of taxes and fees as inefficient and an added cost of doing business. For example, exiting the Philippines at NAIA Terminal 3 requires payment of a travel tax, terminal fee, and immigration fee, as well as checking in and going through immigration and security twice for a total of seven lines. Similar inefficiencies are encountered at seaports.

RECOMMENDATION B

- Taxes should be more progressive than regressive. The poorest sector should be provided relief through conditional cash transfers and discount programs, e.g. Residential Electricity Lifeline Rate.



The poorest cohorts escape income tax but pay consumption taxes. Income taxes are progressive. The lifeline rate subsidizes electricity for small consumers of power. Expansion of the Conditional Cash Transfer program is assisting millions of families and encouraging attendance at school and better nutrition and inoculations for young children.

RECOMMENDATION C

- Taxes on corporate and personal income should be reduced (eventually to 25%) to incentivize working and compliance.



This reform, supported by many economists, remains politically difficult to achieve.

RECOMMENDATION D

- ↑ Taxes on consumption should be increased (eventually to a 15% EVAT). Other consumption taxes including ACT and fuel excise taxes should be increased.



Increases in ACT effective January 2013 are a good start. There are no reports that the government is considering increasing VAT or fuel taxes, both of which would be unpopular.

RECOMMENDATION E

- ↑ Reduce or eliminate many of the fees and taxes that increase the cost and efficiency of doing business (e.g. airport fees, travel tax, CCT, CIQ charges, BOC de minimus, financial transaction fees, GPBT, and port charges.) >>>

2012 RATING	2011 RATING
★★★★ Started	★★★ Not Ongoing

The CCT and GPBT bill was passed by the 15th Congress to remove taxes on passengers of airlines and ships and has already been transmitted to the President for his signature and enactment. CIQ billed to foreign airlines has ended with the government manning CIQ 24/7. Reform momentum should move to removing other taxes and fees, such as CCT and GPBT on cargo, arrastre, other port charges, BOC *de minimus*, and many small financial transaction charges.

RECOMMENDATION 13

- Exemption of BIR and BOC employees from the Salary Standardization Act should be implemented.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★★ Not Ongoing

The Philippines might learn from Singapore public sector's salary scheme. Give highly competitive pay packages to government workers and executives, especially in positions that require unique skill sets, but make them fully accountable. Higher salaries at PEZA and NPC allowed those agencies to hire competitive and honest staff.

RECOMMENDATION 14

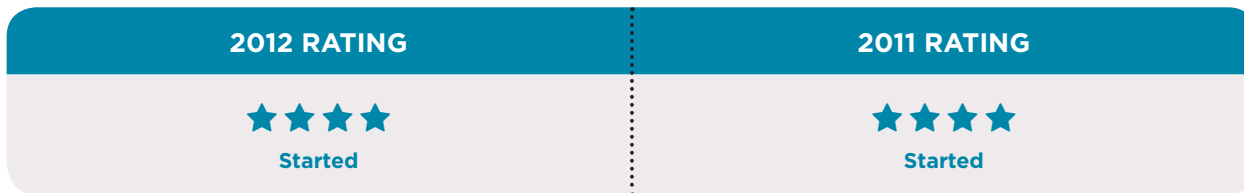
- Settle Tax Credit Certificate (TCC) arrears due to foreign investors who have paid taxes that were to be credited to subsequent tax liabilities or refunded. Allow the cross-application of TCCs of BOC and BIR.

2012 RATING	2011 RATING
★★★★ Started	★★★★ Started

More funds have been budgeted, and a procedure for refunds set up and applications have been accepted. DOF Joint Circular No. 2-2012 provided a deadline for TCCs Modernization Program of October 17, 2012. As of February 2013 applications worth Php327 million were still being processed at the DOF.

RECOMMENDATION 15

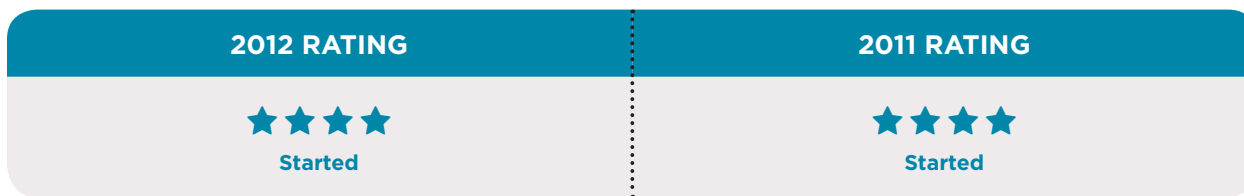
 Increase the savings rate and strengthen domestic capital markets.



Philippine gross domestic savings rate, by far the lowest of the ASEAN-6, remains stuck at around 20% for the last two decades. Links between firms and capital markets are weak. Banks are stringent lenders. Equities and bonds markets are small. Small-to-Medium Enterprises (SMEs) have little access to credit. BSP, however, has programs to ease the burden, and PSE is considering relaxed rules for initial public offerings by smaller firms.


RECOMMENDATION 16

 Increase the independence of regulatory agencies. Reduce “capture” of regulatory agencies.



The GOCC Governance Act of 2011 when implemented should bring about considerable reform of all GOCCs. Some, such as PPA and CAAP, have dual regulatory and operational roles, which should be divided. GCG is required to study and submit recommendations to the President regarding these and other GOCCs regarding their reorganization and abolition.

RECOMMENDATION 17


 Reduce the burden of government regulation on the private sector. Encourage the executive branch and Congress to become “smarter” regulators in their writing and administration of laws, protecting health and safety without slowing economic growth and job creation and avoiding undesirable effects on business costs, competition, and innovation.



To balance government regulations and their impact is quite a difficult task, even in the most sophisticated developed economies. For instance, while authorities intend to make the business climate as attractive and inexpensive as possible, they also have to deal with

immediate fiscal needs, consumer concerns, etcetera. Furthermore, political interests are too often not congruent with what the economy really requires. Efforts have started at reforming government regulatory excess with the help of business-friendly officials at CSC, DOH, DOT, DTI, NCC, the Food and Drug Administration (FDA), and elsewhere.


RECOMMENDATION 18

 **Maintain policy predictability and stability. Maintaining policies in a predictable and stable fashion creates a positive climate for investors, who prefer that unpredictable risks are minimized.**



Some years must pass before this recommendation can be evaluated. A long-term plan and reduced corruption may help minimize the pattern of incoming elected officials undoing the work of their predecessors.

RECOMMENDATION 19

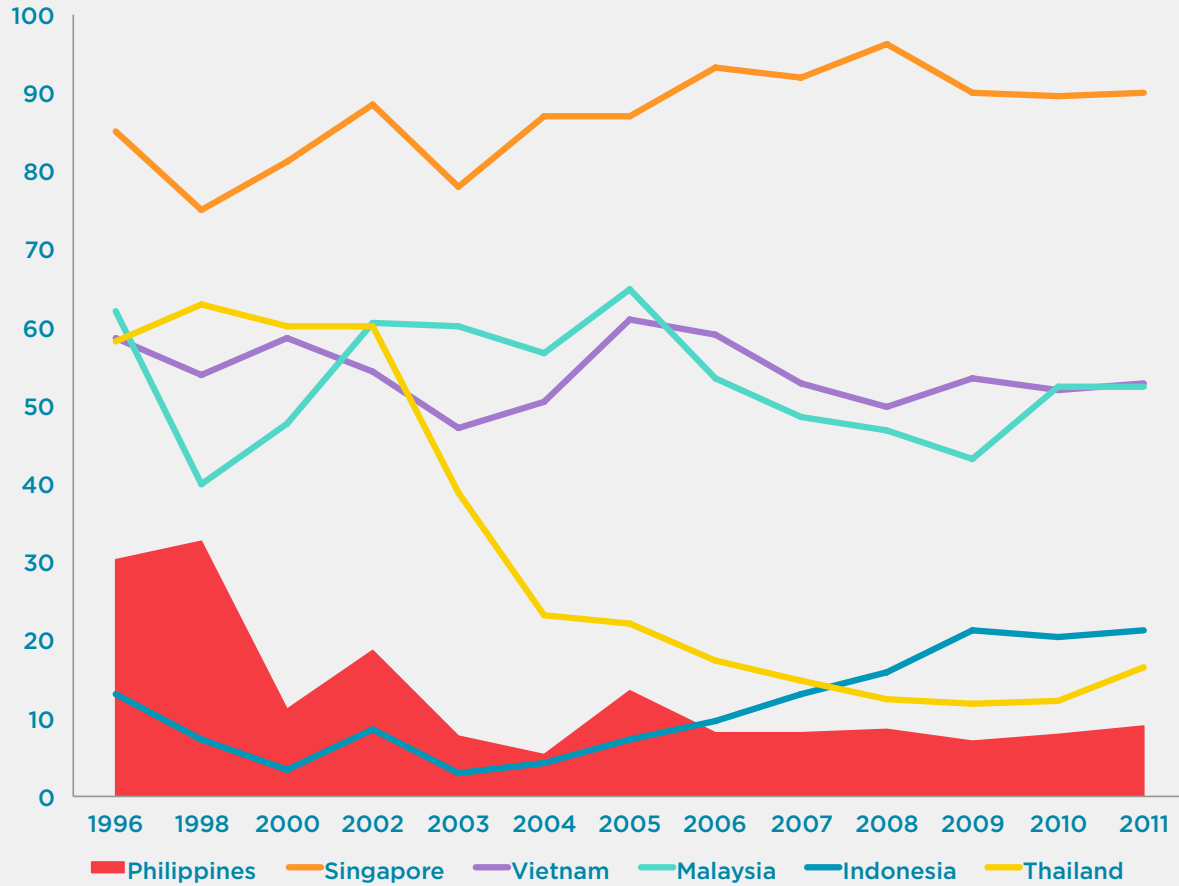
 **Take advantage of new trading opportunities under the various new Asian regional free trade agreements. Negotiate new free trade agreements with Europe and the United States. Educate local leaders about changes the Philippines should make for compliance.**



FTAs work best for countries with high comparative advantage. In the Philippines, the cost of capital, labor, and intermediate materials is relatively high. While it is not easy to capitalize on the increasing number of FTAs a country has entered into, not to try is unacceptable. In almost all industries, the production chain is incomplete, reducing the ability of firms to capture economies of scale. Local SMEs are not designed to compete internationally.

PART 4: GENERAL BUSINESS ENVIRONMENT

SECURITY



POLITICAL STABILITY AND ABSENCE OF VIOLENCE/TERRORISM, ASEAN-6, PERCENTILE RANKINGS, 1996 TO 2011

RECOMMENDATIONS: 15

PROGRESS	RATINGS	RATINGS
IMPROVED 10	☆ 0	★★★★ 7
DECLINED 1	★★ 0	★★★★★ 4
STEADY 4	★★★★ 4	★★★★★★ 0

GENERAL BUSINESS ENVIRONMENT

SECURITY

Security issues are a serious investment climate concern for the mining and tourism sectors, especially in some rural areas and in parts of Mindanao. This section discusses external and internal (e.g., insurgency, terrorism, and warlordism) security, military extra-constitutional actions, crime, defense and police capabilities, economic development of Mindanao/Sulu, and foreign government travel warnings. The WB measure, Political Stability and the Absence of Violence and Terrorism, shows the Philippines is lowest-ranked among ASEAN-6, although Thailand and Indonesia are also ranked low. In Global Competitiveness the Philippines ranked lowest of ASEAN-6 for Business Costs of Terrorism as well as Business Costs of Crime and Violence. At 1% of GDP, military spending is the lowest of the ASEAN-6. The homicide rate is the highest of 10 Asian countries. Solutions for Mindanao/Sulu include: (1) better governance and economic growth that undermines the appeal of local combatants, (2) an feasible political settlement with the Moro Islamic Liberation Front (MILF), and (3) military/police action against the Abu Sayyaf Group (ASG). Mindanao infrastructure, especially the unreliable supply of power, inadequate ground transport, and high domestic shipping costs, needs urgent attention.

RECOMMENDATION 1



Improve the Philippine country rating in the WB measure of Political Stability and the Absence of Violence and Terrorism.

2012 RATING	2011 RATING
★★★ Not Ongoing	★★ Backward/Regression

The Philippines remained at the bottom of the ASEAN-6 in the WB 2011 ranking for Political Stability and Absence of Violence as well as in the WEF 2012 rankings for Business Costs of Terrorism and also Business Costs of Crime and Violence. While there has been steady improvement in the country's political stability, reducing crime, violence, and terrorism and their costs to business remain a serious challenge. Considerable improvement will be required before the Philippines can match the ratings of Indonesia and Thailand. Catching up with the

ratings of Malaysia, Singapore, and Vietnam appears nearly impossible in the medium term. Some FDI avoids the country and certain provinces due to security concerns.

RECOMMENDATION 2



Minimize conflict in Mindanao with MILF and negotiate a settlement agreement.



After 15 years of negotiation, the October 15, 2012 signing of the Framework Agreement between GPH and MILF represents a major achievement toward long-term settlement of the 40-year rebellion. The parties will be challenged to complete the next stages by the 2016 target: (1) negotiation of annexes on power-sharing, wealth-sharing, normalization, and transition arrangements; (2) organize the Transition Commission; (3) draft and pass the Bangsamoro Basic Law; and (4) conduct a plebiscite in affected communities. Major clashes involving MILF units have been avoided for several years. Integration of 12,000 armed MILF members into local police is planned to enhance security.

RECOMMENDATION 3



Contain and eliminate ASG and minimize/prevent any presence of Jemaah Islamiya militants.



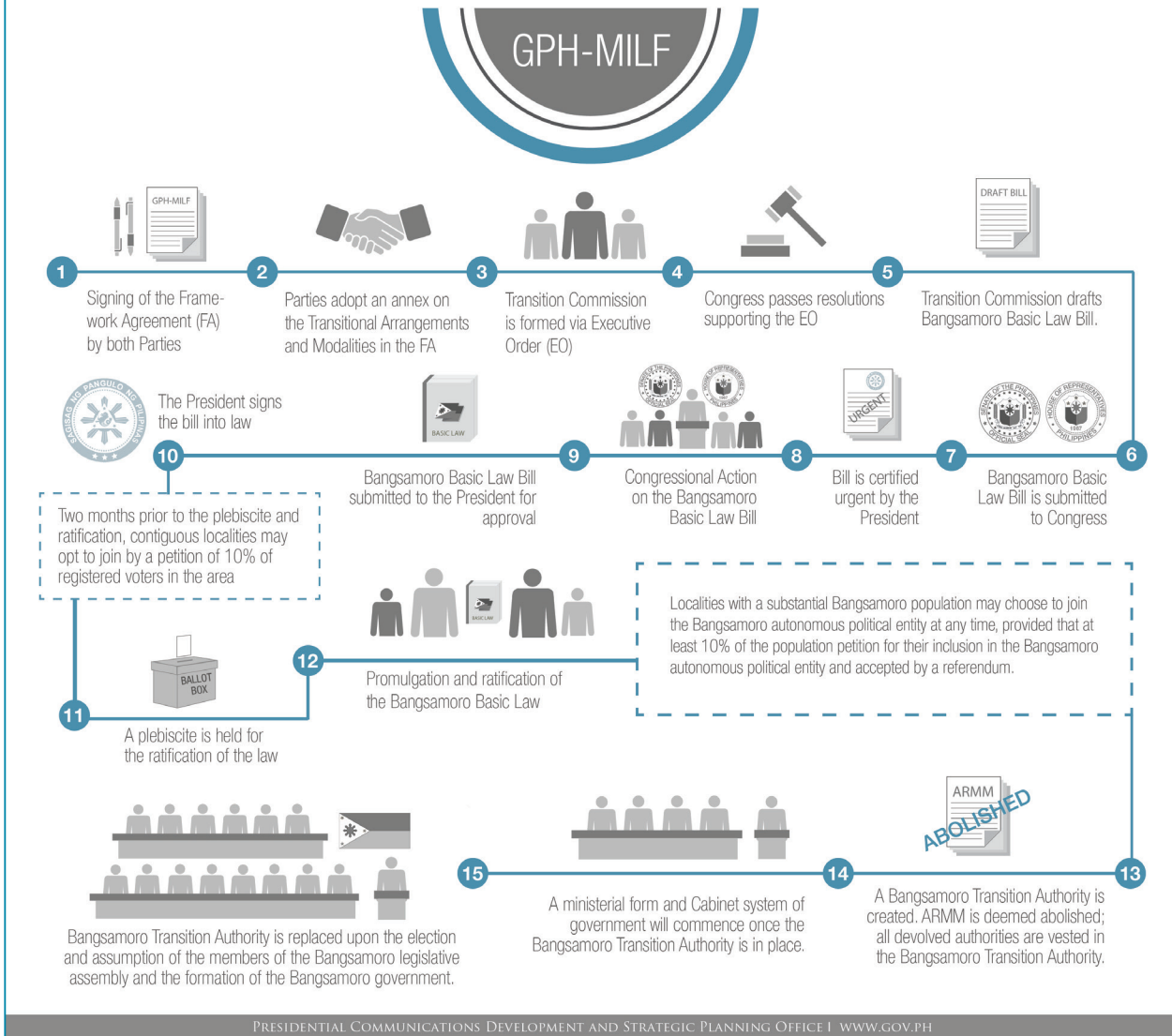
After over a decade of GPH military action, the terrorist ASG has been attrited and contained but not eliminated in its strongholds on Basilan and Sulu islands and the Zamboanga peninsula. The last major clash, the 2011 Al-Barka Basilan incident in which 19 soldiers were brutally killed, demonstrated remaining capability of the most radical Philippine rebel group in its home base. The few hundred ASG adherents can still carry out limited ambushes, bombings, and kidnappings but are unlikely to repeat incidents like the 2000 Sipadan kidnapping, the 2001 Dos Palmas kidnappings, and the 2004 Superferry bombing. Foreign military support for AFP anti-ASG operations continues.

RECOMMENDATION 4



Reduce poverty faster in the poorest provinces in Mindanao. >>>

ROADMAP TO THE CREATION OF THE BANGSAMORO AUTONOMOUS POLITICAL ENTITY



2012 RATING

★★★★
Started

2011 RATING

★★★
Not Ongoing

Both Muslim and non-Muslim provinces in Mindanao remain among the poorest in the country. The national government is beginning to spend proportionately more than before in Mindanao on health, roads, schools, etcetera. The conditional cash transfer program also helps. Private investment has largely avoided these areas because of the image of violence (e.g., Muslim, communist, political warlords, and banditry). Agribusiness, mining, and tourism have excellent potential that could create large numbers of jobs and reduce poverty when confidence in a more secure investment climate is achieved.

RECOMMENDATION 5



Complete and implement the Mindanao 2020 Peace and Development Plan.



After extensive stakeholder consultations, the plan was officially launched in May 2012 in Cagayan de Oro. The plan is very detailed, containing specific targets for 2016, 2020, and 2030. (See: <http://www.minda.gov.ph/site/About-Minda/Mindanao-2020/Executive-Summary>.) It remains to be seen whether there is sufficient political will and financial resources to implement the plan. A strong commitment to do so through three presidential administrations will be required. Successful implementation will go far to fulfilling the promise of this “Land of Promise” for more than 25 million residents of the 26 provinces in Mindanao and Sulu.

RECOMMENDATION 6



Warlordism, primarily in Mindanao, must be suppressed.



PNP in late 2012 said it has identified at least 60 private armed groups it would disband before the May 2013 elections. This number was reduced from 132 groups identified by GPH in early 2010. Such promises have been poorly implemented in the past. Most private armed groups are associated with local politicians who use them with impunity to influence elections, as most shockingly shown in the massacre of 58 persons, including 32 journalists accompanying a political rival of the Ampatuan family in November 2009 in Maguindanao. Only half of the suspected killers have been arrested, and three witnesses have been killed. The trial of Ampatuan family warlords is moving slowly. Private armies are most prevalent in Mindanao.

RECOMMENDATION 7




Hold talks and negotiate with Philippine communist political representatives and seek longer cease-fire periods.



GPH “preliminary” negotiations with civilian leaders of the 43-year old NPA/National Democratic Front (NDF) have made little or no progress in ending the “protracted people’s war” of the Maoist Filipino communists. More radical elements of the Communist Party of the Philippines/NDF/NPA have shown little willingness to compromise. Absent a political solution, the rebel movement is slowly degenerating into factionalized banditry subsisting on extorting revolutionary taxes from the private sector and local politicians. Longer cease fire agreements and extension of effective public services in poor rural areas of Mindanao where NPA bands are located is the best alternative strategy to a feasible peace agreement.


RECOMMENDATION 8

 **Extend government services, including health and education, and improve infrastructure.**



A key Aquino Administration policy and program thrust is to improve the lives of all poor Filipinos. K-12, school construction, universal health care (UHC), and reproductive health (RH) care are intended to improve national education and health programs. Higher infrastructure spending on roads, irrigation, and disaster/flood control also reduces poverty indirectly. The conditional cash transfer (CCT) program targets 4.8 million families by 2014, up from three million in 2012. The 2013 budget increases CCT spending by 30% from PhP34 billion to PhP45 billion in 2013 to cover 700,000 more beneficiaries. But missing so far, especially in Mindanao, is the job creation effect from inclusive growth. This should come with sustained high economic growth rates above 7% for longer than a decade and a more competitive economy.

RECOMMENDATION 9

 **Successfully investigate and prosecute human rights abuses; Ampatuan massacre trial must be conducted in an expeditious and legally correct manner.**



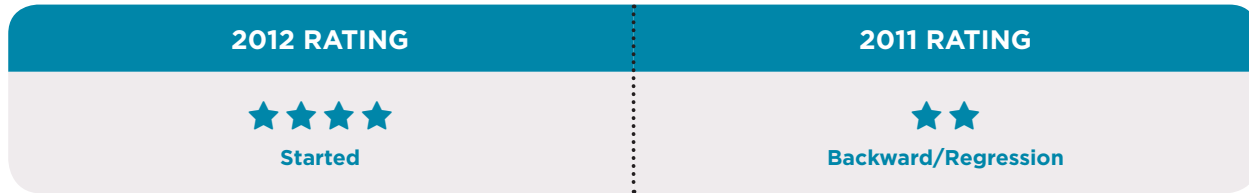
Human rights abuses continue in Mindanao and elsewhere in the country due to a culture of impunity and weak rule of law. Extrajudicial killings prevalent in the former President Gloria Macapagal Arroyo Administration have declined but not ended; prosecutions are rare. Charges have been brought against a former army general who is evading arrest. The Presidential Human Rights Commission (PHRC) has identified a backlog of some 12,000 “killer” cases stuck in its regional offices. A recommendation for OMD action against a former Davao mayor for hundreds of murders by “Davao Death Squads” resulted in fining 21 PNP officials a paltry one month’s salary. In December 2012, President Aquino signed RA 10350, Asia’s first law

punishing disappearances as a distinct crime. The United States Government (USG) annual report has described human rights abuses for several decades, progress is glacial.

RECOMMENDATION 10



Implement defense modernization faster.

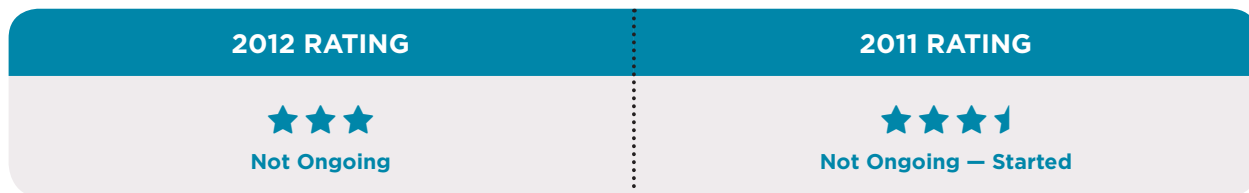


After decades of neglecting external defense capabilities, during which most equipment became inoperable (e.g., a Philippine Air Force [PAF] with no jet fighters and only two C-130 transports), the Aquino Administration has taken initial steps to procure limited equipment such as trainer jets, helicopters, and vehicles. A successor law to the unimplemented 1995 PhP50 billion AFP modernization plan, RA 10349 allocating PhP75 billion over five years for equipment was signed in December. Some limited new and surplus equipment and training is provided free or at low cost by USG and others, including Japan. People's Republic of China's vigorous claims on disputed maritime areas close to the Philippine coast have heightened the country's awareness that it cannot patrol, let alone defend, its extensive coastal waters.

RECOMMENDATION 11



Increase the size of and better equip the national and local police forces.



While still below the goal of one per 500 citizens, the PNP force is expanding. In 2011 the number of police personnel was 117,252. This increased by 19% to 148,000 in 2012. It needs 60,000 more to reach the 1:500 ratio. Spending on police services has also increased fairly rapidly. The budget allocation for PNP capabilities, including weapons and other equipment, increased by 109%, from PhP11.6 billion in 2010 to PhP24.3 billion in 2012. The budget for operations, including salaries, services, police relations, intelligence, and investigation, grew by 16% from PhP43 billion in 2010 to PhP50 billion in 2012. Two billion pesos was allocated for the PNP Modernization Program in 2010, renamed in 2012 as the Capability Enhancement Program. Minimum salary for police personnel has increased to PhP21,000 per month.

RECOMMENDATION 12



End extra-constitutional actions by any military units. >>>



The motivators have waned for mutinous actions and *coup d'état* scheming that contributed to political instability from the 1985 Reform the Armed Forces Movement plan to topple President Marcos to the bizarre 2007 Peninsula Manila takeover by now-Senator Antonio “Sonny” Trillanes IV and now-BOC official retired Brigadier General Danilo “Danny” Lim. The Aquino Administration is strong and popular in fighting corruption, including in the highly corrupt AFP, and is beginning to acquire new equipment for the military. The lessons of past incidents, where they fail, weaken the economy, and usually harm careers, also appear to be sinking in. Three of the 23 sitting senators, however, have been involved in *coup* plotting.

RECOMMENDATION 13



Limit firearms in civilian hands and reduce loose firearms; pass the Anti-Deadly Weapons Act.



According to PNP, there were almost two million firearms in the country in 2011 (i.e., licensed private, security agencies, military, and police), including more than 500,000 unlicensed weapons. An amnesty program of the previous Administration was replaced with the option of surrendering or renewing a license. Almost 8,000 homicides a year are attributed to firearms, which are easy and inexpensive to acquire. Currently there are no government programs to purchase loose firearms, renew the amnesty, or increase penalties for unlicensed possession. The PNP is tightening gun licensing procedures to capture photos and fingerprints of owners. The Comprehensive Firearms and Ammunition Regulation Act was approved by Congress and is up for enactment by the President.

RECOMMENDATION 14



Do more to discourage kidnapping.



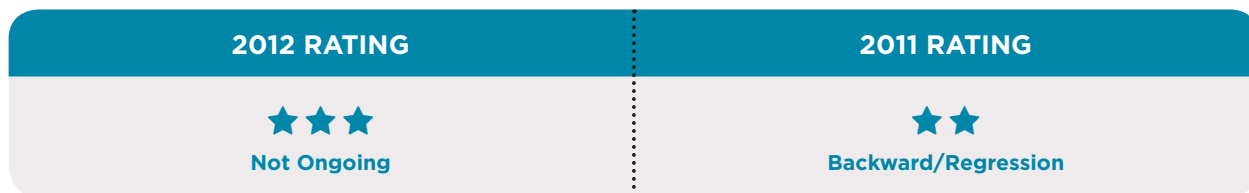
Criminal kidnapping has a long history as an extortion activity in the Philippines, especially against Chinese Filipinos and in Muslim provinces. A high majority of reported kidnappings in 2012 were in Muslim areas, and Filipinos were usually the victims. Infrequent kidnapping

of foreigners, usually for ransom, always receive international news coverage. Former and possibly active duty police and military are suspected to be involved in kidnappings. In Mindanao a variety of kidnappers operate, including NPA, ASG, MILF renegades, and military and police. A leading security firm estimated more than 100 kidnappings occurred in the country in 2012. At year end, several foreign nationals were being held for ransom in Mindanao.

RECOMMENDATION 15

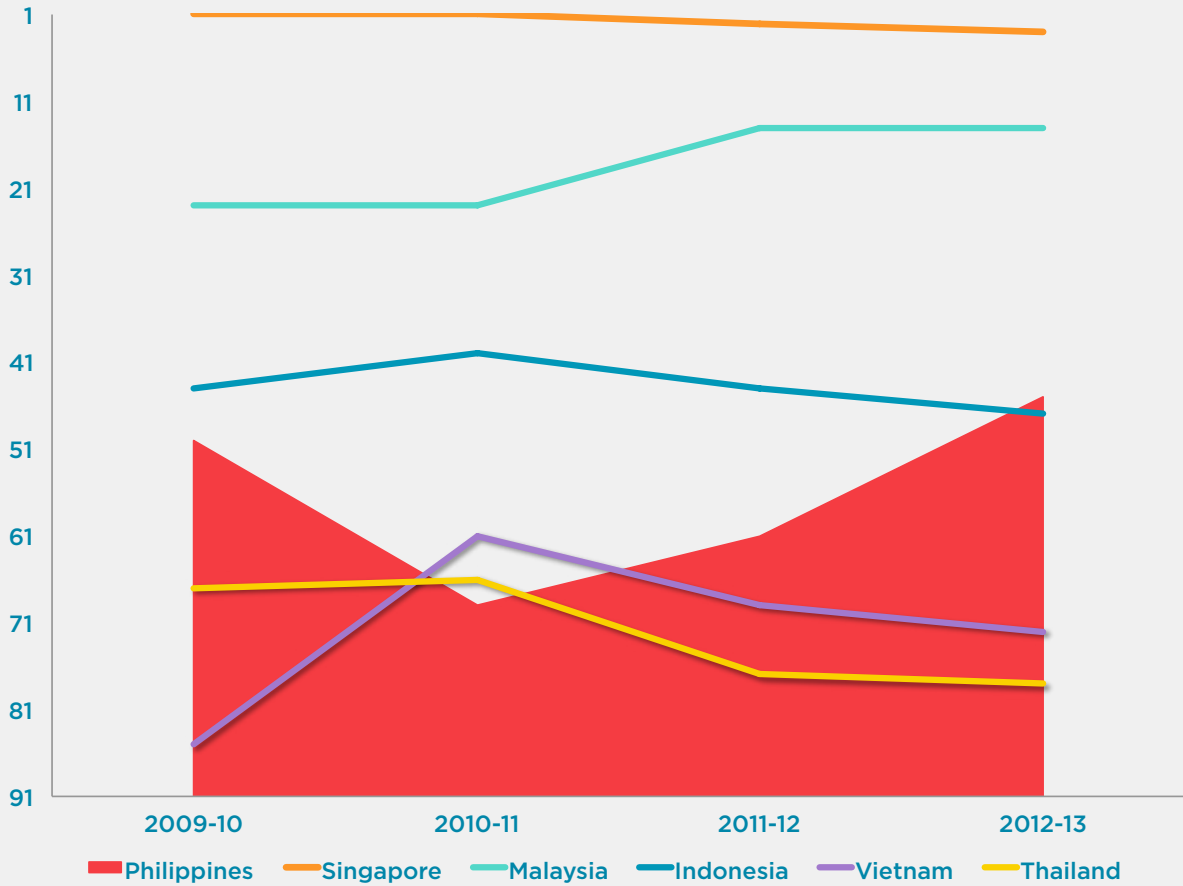


Encourage more balance in foreign government travel advisories.



Cautious foreign government travel advisories written for home constituencies overdramatize risks and contribute directly to lower tourist arrivals and may discourage FDI. In a December 2012 review of travel advisories of six countries, only the United Kingdom gave balance by stating 104,000 British tourists visited in 2011 and “most visits are trouble free.” The Hong Kong Special Administrative Region (HKSAR) Security Bureau classified the Republic of the Philippines (RP) with Syria under its worst category “severe threat...avoid all travel.” The Government of Australia (GOA) stated “terrorist attacks could occur anytime, anywhere...” In their travel advisories on the United States and Europe, these governments provide little or no detail on major terrorist incidents. US advisory does not warn against Jakarta. None note that terrorists killed more foreigners in United States and Bali than in the Philippines.

EDUCATION



QUALITY OF EDUCATIONAL SYSTEM, ASEAN-6, RANKINGS, FROM 2009 TO 2013

RECOMMENDATIONS: 12

PROGRESS	RATINGS	RATINGS
IMPROVED 5	☆ 0	★★★★ 9
DECLINED 0	★★ 0	★★★★★ 1
STEADY 7	★★★ 2	★★★★★★ 0

SOCIAL SERVICES

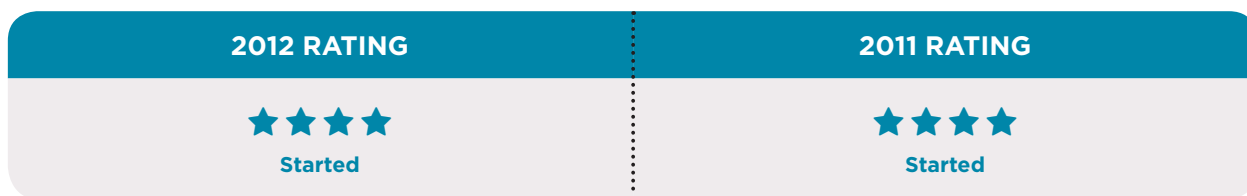
EDUCATION

Education determines the quality of tomorrow's workforce. Appropriate skills are essential for a middle-income economy trying to increase its knowledge-based sectors. Philippine education needs both policy reform and greatly increased resources. All educational levels have deteriorated over several decades, faced with a young population that has outstripped resources. In the 2012 WEF Global Competitiveness Report, the Philippines ranks 46th of 144 countries for quality of the education system. There has been a significant reversal in the decline in the WEF rating from 69th of 139 countries in 2010 to 46th of 144 countries in 2012. The Philippines is now third of the ASEAN-6, only behind Singapore and Malaysia. Of the ASEAN-6 the Philippines spends the least per student. Malaysia, Thailand, and Vietnam spend more than twice as much. Graduates perform poorly. The 10-year basic education cycle is the shortest in the Asian region. Competitors follow a 12-year basic education system, then four years of college. High school and college graduates are inadequately prepared for employment. Dropout rates are high; only 12% finish college. Classrooms in basic education are overcrowded. The pupil-teacher ratio is higher than most Asian countries. The WEF rating for quality of math and science education ranks the Philippines as 98th of 144 countries, a reversal of the downward trend in this rating. Competitors, such as China, are moving much faster. For example, over the last decade China has nearly tripled the share of GDP devoted to education. In the Philippines, the GDP share declined during the same period. The Philippines cannot afford further deterioration of English in public schools, weakening its main competitive advantage, its large English-speaking workforce.

RECOMMENDATION 1



Commit to a large increase in the public education budget; double the average spending per student.



GPH has significantly increased education spending primarily at the basic education level. The national budget given to DepEd for public elementary and secondary has risen tremendously in the last three years from PhP174.5 billion in 2009 and 2010 (no increase in election year 2010) to PhP238.8 billion in 2012. This represents a growth of 18.6% in 2011 over 2010 and 15.4% in 2012 over 2011. More important, the priority of education is revealed by its rising share of the national budget, which is going up after a decade of slow decline or no growth. In 2012 the education share of the national budget rose to 13.15% from 11.33% in 2010, indicating that growth in education spending outpaced the growth of the national budget. Nevertheless, the growth in average spending per student in basic education continues to remain low, well below the average spent in the Southeast Asian region (PhP9,632 per year in 2012). This increase since 2009 has only been slightly more than 0.5% owing to the large increases in enrollments, especially at the preschool level. The budget for CHED has been flat in the past two years, following a spike in 2010. National budget subsidies for State Universities and Colleges (SUCs) have fallen as GPH pushes SUCs to increase very low tuition fees and generate more local revenues to cover costs. TESDA's budget for technical vocational education has been steady at PhP2.75 to PhP2.8 billion a year. This is a sharp drop from the PhP6 billion released in 2009 as "scholarship" money a year before the national elections.

RECOMMENDATION 2



Extend basic education by two years and add one year before elementary school (K-12 model).



DepEd has announced the plan to increase basic education by two years (i.e., Grades 11 and 12), adding to the high school cycle in School Year (SY) 2016 to 2017 and SY 2017 to 2018. In addition, kindergarten has been added as a prerequisite for enrolment in Grade 1 starting in SY 2011 to 2012. As a result of the latter policy, preschool enrolment has doubled (+96%) from 0.88 million preschoolers in SY 2010 to 2011 to 1.73 million in SY 2011 to 2012. The Enhanced Basic Education Act to formalize the increase in the number of years of schooling was approved by the 15th Congress and is up for enactment by the President.

RECOMMENDATION 3

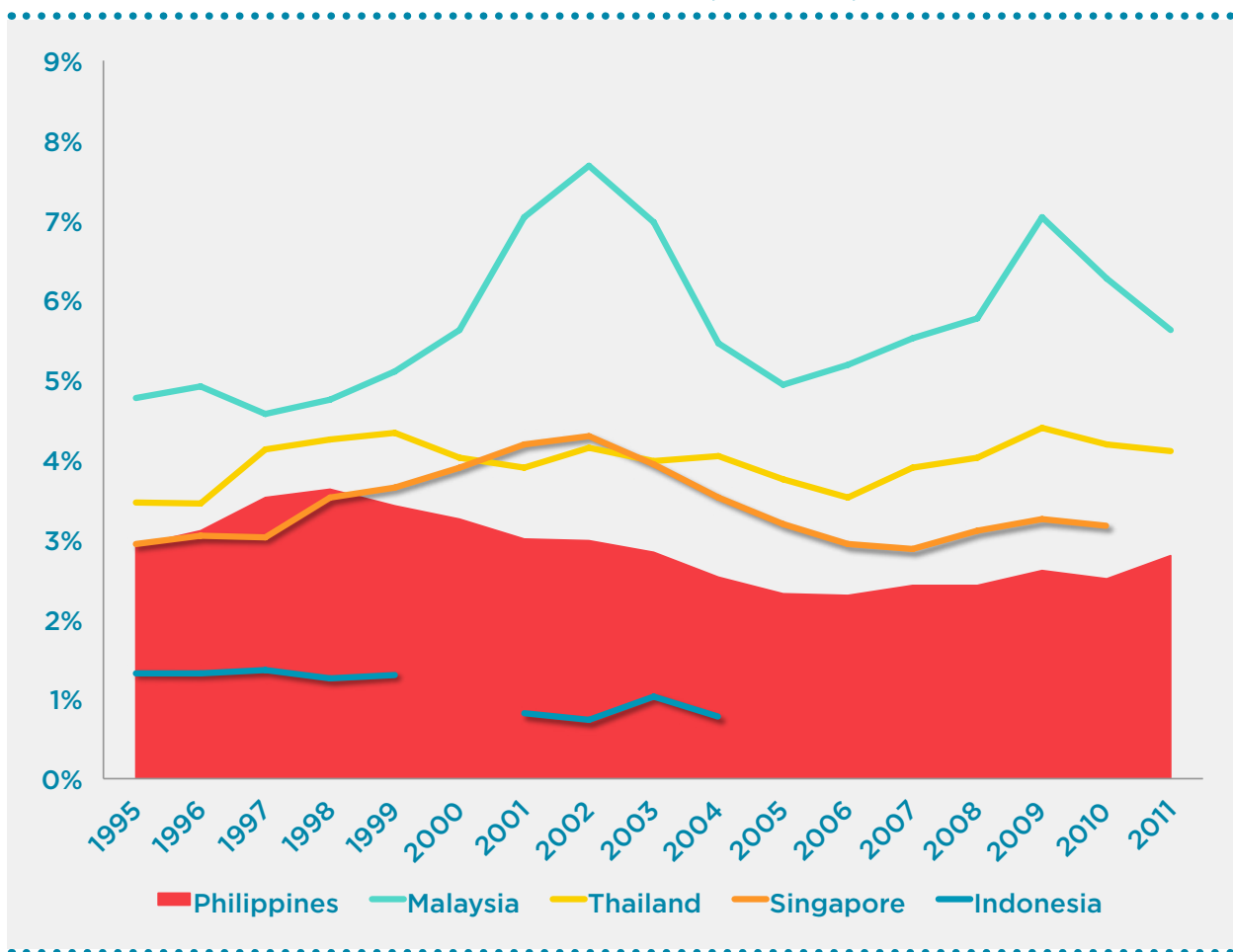


Empower teachers by constantly improving their quality and curriculum; apply competency-based standards for teachers and provide more in-service training, while maintaining welfare and morale.



Teacher competence is a major reform area under the Basic Education Sector Reform Agenda since 2004. National competency standards are needed to improve the quality of teachers and teaching. The National Competency-Based Teacher Standards have been developed by DepEd with pilot implementation starting with diagnostic surveys undertaken in 2011 to 2012. In-service teacher training continues to be delivered. The third and last tranche of the Third Salary Standardization Law was completed in 2011 with teachers now receiving at least 75% more in basic salaries per year.

NATIONAL GOVERNMENT EDUCATION EXPENDITURE AS % OF GDP, ASEAN-6, FROM 1995 TO 2011



RECOMMENDATION 4



Basic education and college curricula should be adjusted to increase the study of math and science.



The current focus of DepEd on science and math is to reorganize the curriculum in anticipation of the Grades 11 and 12 rollout. This will increase the amount of time for both subjects at the high school level, but will not begin until SY 2016 to 2017 onwards. Curriculum committees for science and math have been organized to refine the high school science and math curricula. The work is still in its early stages. Once the basic education cycle has been increased by two years, the college curricula for science and math majors can also be expanded when the general education requirements of the current freshman year (largely remedial) are eliminated or changed. One of the immediate impacts is that students should be able to go straight into their major field of study instead of general education requirements that may take up to two years of their college education.

RECOMMENDATION 5



Intensify investment in technology for high school education.



Investment in technology in high school education has largely been in the IT field. IT investment in public high schools started in 2001 with the “PCs-for-Public Schools” program of DTI and DepEd. DepEd continues to pour resources into high schools to improve computer laboratory facilities. Internet connectivity began in 2005 through a private sector initiative GILAS. In 2010, GILAS was turned over to DepEd. Internet connectivity continues to be expanded with new investment under DepEd. Beyond the initial rollout of a tablet experiment on Lubang Island, there is little to report from DepEd. Two other areas of investment in technology for both high schools and elementary schools are satellite dishes and cable for educational television. DepEd has used the former to reach remote schools in a program called *Eskwelang Bayan*, but few in number relative to the total number of remote schools. A private foundation, Knowledge Channel, has a program in educational television that reaches over 2,000 schools nationwide via cable television. This number should increase significantly with its new online interactive platform.

RECOMMENDATION 6



Strengthen higher education by providing more resources for world-class centers of excellence and expanding scholarships and loans for higher education.

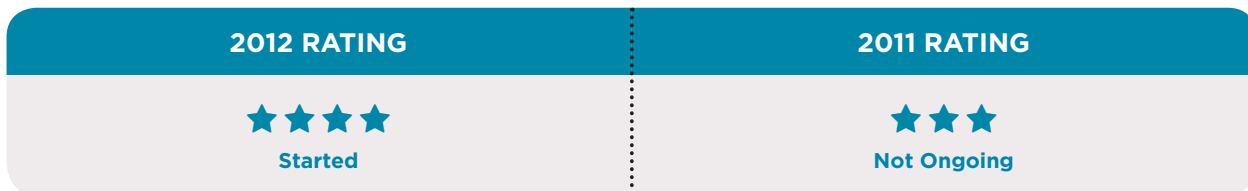


CHED has designated 83 Centers of Excellence (COE) in science, mathematics, English, and other disciplines in various universities all over the country. COE serve as sites for undergraduate education, graduate study, teacher training, and academic research that are recognized by CHED and given some form of assistance. Higher education scholarships are provided by different sources, many of which are private and specific to identified universities. The largest national program is the Merit Scholarship Program of DOST. The goal of DOST is to expand the number of science and math graduates throughout the country. The scholarships are granted on a competitive basis and are to be applied in COE schools in identified disciplines. The total number of new scholars per year, however, remains small relative to the total number of high school graduates going onto university. Scholarships cover tuition and fees plus a small stipend over the entire course lasting four to five years. SB 2848 to enact a national student loan program was filed in 2011 but is still at the committee level. A similar bill has been filed in the House of Representatives, but is also in committee. The House has passed a bill on Voluntary Student Loan Program for Banks and Government Financial Institutions, but it remains pending in the Senate Education Committee.

RECOMMENDATION 7



Encourage qualified foreign schools to operate and foreigners to teach.

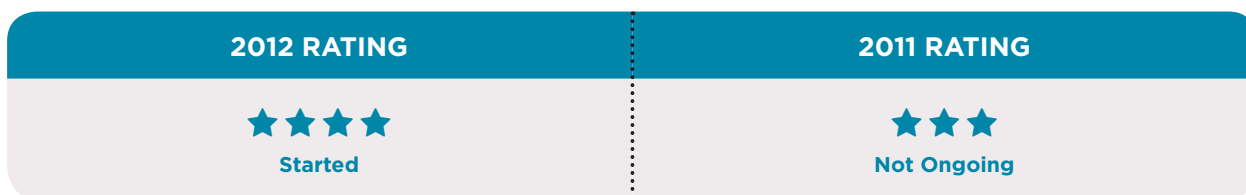


At the basic education level, a few foreign schools have been licensed to operate in the country. In addition, some Philippine schools are bringing in the International Baccalaureate system. At the tertiary level, some newly registered and established colleges and universities with foreign university partners are offering joint degrees. At both levels, the hiring of foreigners has been limited. This is not because DepEd or CHED regulations prohibit the hiring of foreign faculty but is more of a financial issue as foreign faculty command higher hiring salaries than local teachers. In summary, GPH has been relatively liberal in terms of policy, but the takeup has been slow largely because of affordability.

RECOMMENDATION 8



Install English language computer training labs in high schools.



Per DepEd records, 97% of all public high schools have computer laboratories (though student-to-computer ratios remain high), while 68% have internet access. The quality of computer laboratories is the current issue, as replacement of older units needs to be done in a timely manner. Decentralized assessment, planning, procurement, and distribution of computers is the solution, as the DepEd budget for IT has increased significantly. (Note: Computer training labs in high schools are used for subjects in addition to English. Computers in public elementary schools are very limited due to the large number of schools and the focus on reading. In the province of Agusan Sur, the provincial government has established computer-based language and speech labs in identified central schools at the elementary level. This is a local government program to supplement the DepEd curriculum.)

RECOMMENDATION 9



Undertake a vigorous public campaign to emphasize the importance of English competency; encourage television and radio stations to use more English in their programs.



At the basic education level, English is an important subject taught from Grade 1 up through end of high school. The official policy of DepEd, however, is not to use English as the medium of instruction for science and mathematics until Grade 4 onwards. This policy is consistent with the United Nations Educational, Scientific and Cultural Organization (UNESCO) research findings that very young children learn best in their mother tongue before taking on a second language. There is widespread public agreement that English proficiency is important. The drop in English quality in the country comes from implementation or the quality of instruction of and in English. This is an area that requires more work and investment, especially at the teacher training stage. Television and radio use more Filipino or local languages as the language medium in terms of programming hours. Language—both Filipino and English—suffers when *Taglish* or code-switching is used as in variety shows, leading to a situation where individuals lose the proficiency for either. There is no policy or program to use more English in television or radio programming.

RECOMMENDATION 10

- Recognize high schools and tertiary schools and students who score well on English tests.



There is no recognition program for high schools, tertiary schools, or students who score well on English tests. As an industry initiative, BPAP has created its own university-based program on English and critical thinking competencies that is recognized by CHED. AdEPT is a 100-hour English proficiency course using industry-developed courseware and methodology offered as an elective at participating universities for university students interested in working in the BPO industry.

RECOMMENDATION 11

- Strengthen the Dual Education/ Dual Technical Systems.



True dual education/dual technical system in the country remains a limited arrangement between firms and individual student/trainees. Introduced over two decades ago by German foundations, very few companies subscribe to such a dual tech system because of the cost and the large amount of time spent on training while being employed. Unlike Germany where an apprenticeship culture prevails, Philippine companies see apprenticeships as more properly part of pre-employment internship or On-the-Job Training (OJT). A vocational-technical education system for pre-service, however, has been greatly expanded under TESDA. Placement in industry is still a relatively weak part of the system. This is not entirely TESDA's shortcoming, because industry hiring has also been slow, though picking up. The reintroduction of technical vocational education in DepEd has been slow despite a policy statement made in 2011.

RECOMMENDATION 12

- ↑ Expand the internship period to prepare students better for employment. >>>

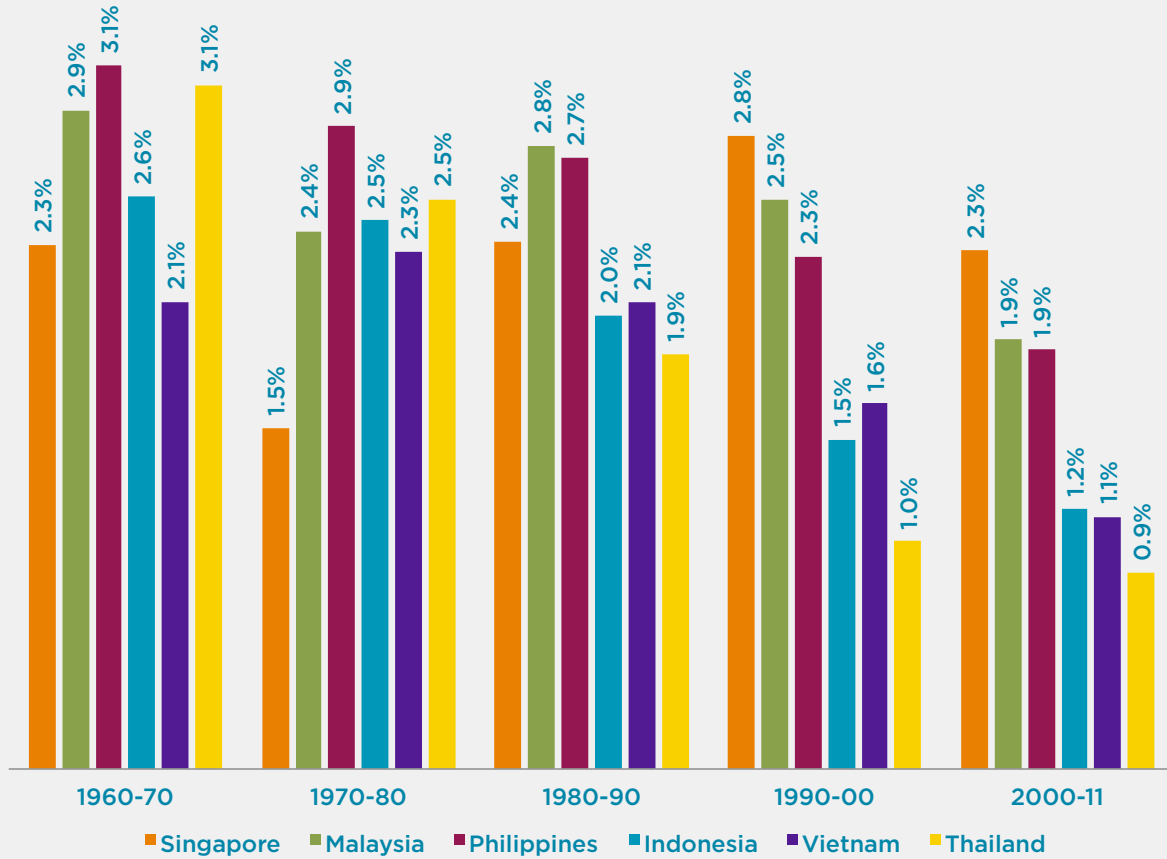


Internship programs continue to be university-driven as a requisite for graduation. Internship periods vary from university to university and occur throughout the year. The number of hours of internship is determined by the university and not by the company or industry. The period of internship or OJT is dependent on the individual university student's year level and where they are in terms of completing their degree. The one industry that has organized an industry-wide OJT program is the BPO industry under BPAP. An OJT Internship Program under CMO No. 6 (2012) provides up to 600 hours of OJT with member organizations for university credit. Nevertheless, more industry-university discussion on better use of the internship period should be pursued. Otherwise, many internships involve students in clerical work and without mentorship or supervision. These arrangements do not add industry knowledge nor experience as far as students are concerned; time may be spent in a company, but without adding value to the student's knowledge.

PART 4

GENERAL BUSINESS ENVIRONMENT · SOCIAL SERVICES

HEALTH & POPULATION



AVERAGE ANNUAL POPULATION GROWTH AMONG THE ASEAN-6 FROM 1960-2011

RECOMMENDATIONS: 9

PROGRESS	
IMPROVED	1
DECLINED	0
STEADY	7

RATINGS	
☆	1
★★	0
★★★	2

RATINGS	
★★★★	3
★★★★★	3
★★★★★★	0

SOCIAL SERVICES

HEALTH & POPULATION

Good public health is a significant concern for the business community. Healthy employees are more productive, have lower absenteeism, and cost less for healthcare premiums. Healthier children are able to benefit from education and eventually contribute to the economy. Good health promotes increased labor productivity, which supports higher wages. The poorest segment of Philippine society, with the least access to healthcare services, has serious health problems. The Aquino Administration is introducing UHC. Population growth and age structure determine the size of the workforce. Population policy strengthens the freedom of parents to choose family size. The debate about whether the Philippines is overpopulated and how many people the economy, environment, and government can support remains intense. A large, well-educated, and healthy population will provide the Philippines the “demographic dividend” for higher economic growth for the next several decades. RH policy should be everyone’s concern in the context of responsible parenthood toward fostering truly dignified and fulfilling human development. It affects whether parents are well-informed in exercising their right to choose among alternative methods of determining family size and their ability to raise children to become good and productive citizens.

RECOMMENDATION 1



Double national spending on health care to 2.5% to 3% of GDP; direct increased spending to poorest Filipinos; government hospitals should be modernized, rationalized, and expanded; village health centers built; better equipment and staff are needed.



Although slowly increasing, per capita spending on health by GPH is only half of Thailand and a third of Malaysia, below Vietnam and the same as Indonesia. The proportion of health spending that is out-of-pocket, however, is over 53% based on 2010 data. Government spending should increase to reduce this amount to 20 to 30%. Government health spending should be through universal social health insurance (i.e., PhilHealth) as well as direct programs and facilities subsidies, probably at 35% each. Spending on public hospitals and clinics is also increasing. Some progress has been made with RA 10351, Excise Tax on ACT, effective January 2013. The bulk of these new revenues have been earmarked toward PhilHealth, particularly aimed at the poor. Serious research suggests such policy, especially coupled with the new RH Law, will be good for the country in the long run.

RECOMMENDATION 2



PhilHealth should be expanded to become UHC. Enrollment in PhilHealth should be made mandatory; poorest Filipinos should be enrolled with no copayments for services required.

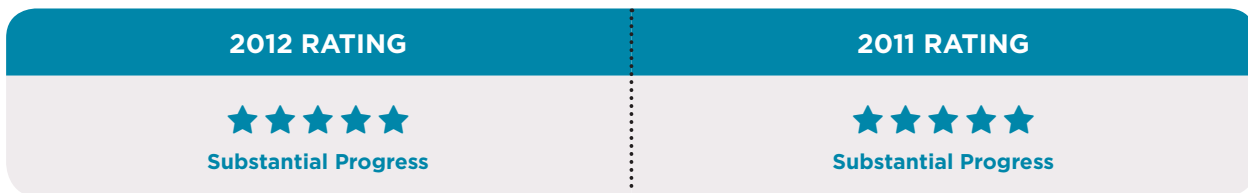


UHC legislation was approved by the 15th Congress and is up for enactment by the President. RA 10351, which increased excise taxes on ACT, provides that 80% of incremental revenue is allocated to health insurance and 20% for medical assistance and health enhancement facilities. Under the National Household Targeting system, a total of 5.2 million indigent households will have PhilHealth premiums funded by GPH. Premiums are still regressive because of an unrealistically low salary cap. The expansion of benefits is also still very slow.

RECOMMENDATION 3



Cease healthcare legislation that does not achieve desired policy goals of improving health of the poorest. >>>

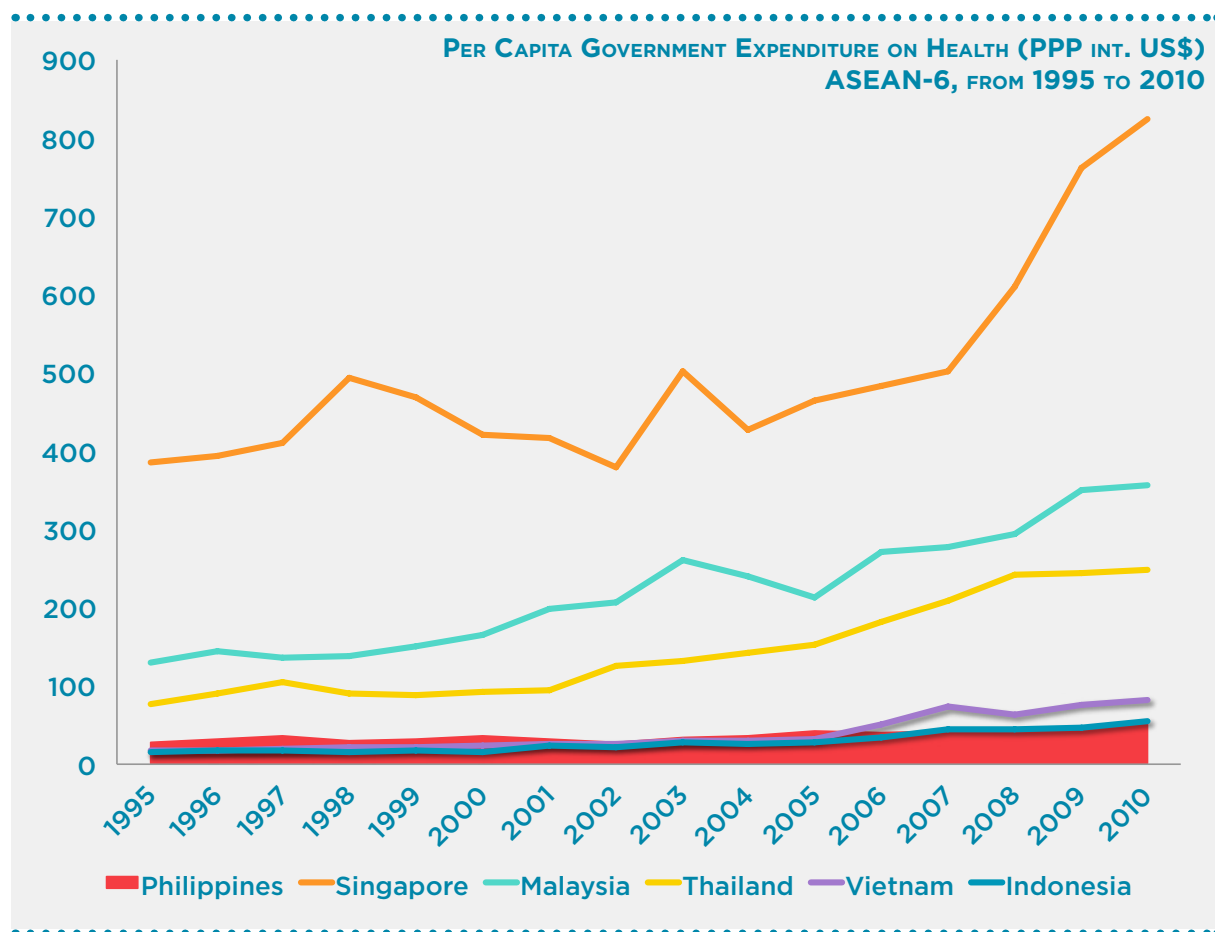


Although there are legislative proposals in the Congress that force drug price discounts and heavily regulate infant formula, the 15th Congress was much less inclined to pass such laws than the 14th Congress. Pharmaceutical companies have adapted to the new realities of more ethical marketing. Strengthening FDA has been slow but is expected to progress faster. The situation of breastfeeding is still unsatisfactory and some milk companies appear to oversell their products, which may lead to more stringent restrictions. ACT and RH laws should make headway toward improving the health of the poorest.

RECOMMENDATION 4




Use the PPP model to improve public sector health services.



DOH has shown strong interest in developing PPP projects for the private sector to play a greater role in financing, owning, and operating hospitals and other healthcare facilities. One PPP project, Modernization of the Philippine Orthopedic Center, was bid out in 2012, while the Vaccine Self-Sufficiency Project was still pending approval. Care must be taken in implementing PPP health activities. Since they are often not involved in decision making, concerns of the poor should be prioritized over profit intentions of private sector partners.


RECOMMENDATION 5

 Government should set a target for sustainable population growth rate, increasing contraception prevalence rate, and lowering the fertility rate; implement a reproductive health program to achieve the targets.



The Philippines has no specific targets and programs for reducing the population growth rate, increasing the contraceptive prevalence rate, and lowering the fertility rate. Setting such targets is sensitive, and anti-RH groups object vehemently to this direction. Government, especially DOH, NEDA, and the Commission on Population (POPCOM), should firm up their commitment to encourage effective contraceptive method mix with implicit targets for contraceptive prevalence rate and family planning unmet needs reduction.


RECOMMENDATION 6

 Private sector should support reproductive health policy legislation and assist employees to have smaller families.



Many companies follow the requirement of the Labor Code to provide contraceptives to employees in workplaces with more than 200 workers, but more firms should be encouraged to follow the law. Most large business associations and chambers favor RH legislation.

RECOMMENDATION 7

 Private sector should support reproductive health policy legislation and assist employees to have smaller families.



RA 10354, the Responsible Parenthood and Reproductive Health Act, was signed by President Aquino in December 2012. A legal challenge is expected. Implementation in school curriculum will take some time. The national government for the first time, however, has substantial funding appropriated for reproductive health programs in the 2012 budget. It is the obligation of government to assist parents in educating their children, particularly with respect to being able to protect them against exploitation.

RECOMMENDATION 8



Government should reward poor families who have fewer children.

2012 RATING	2011 RATING
 No Longer Relevant	 Not Ongoing

This may not be necessary since most couples intend to have fewer children. This is also implied in *Pantawid Pamilyang Pilipino Program (4Ps)*, a conditional cash transfer program, that limits cash grants to a maximum of three children (i.e., PhP500 to the mother and PhP300 to each child for a maximum conditional cash transfer of PhP1,400 per family).

RECOMMENDATION 9

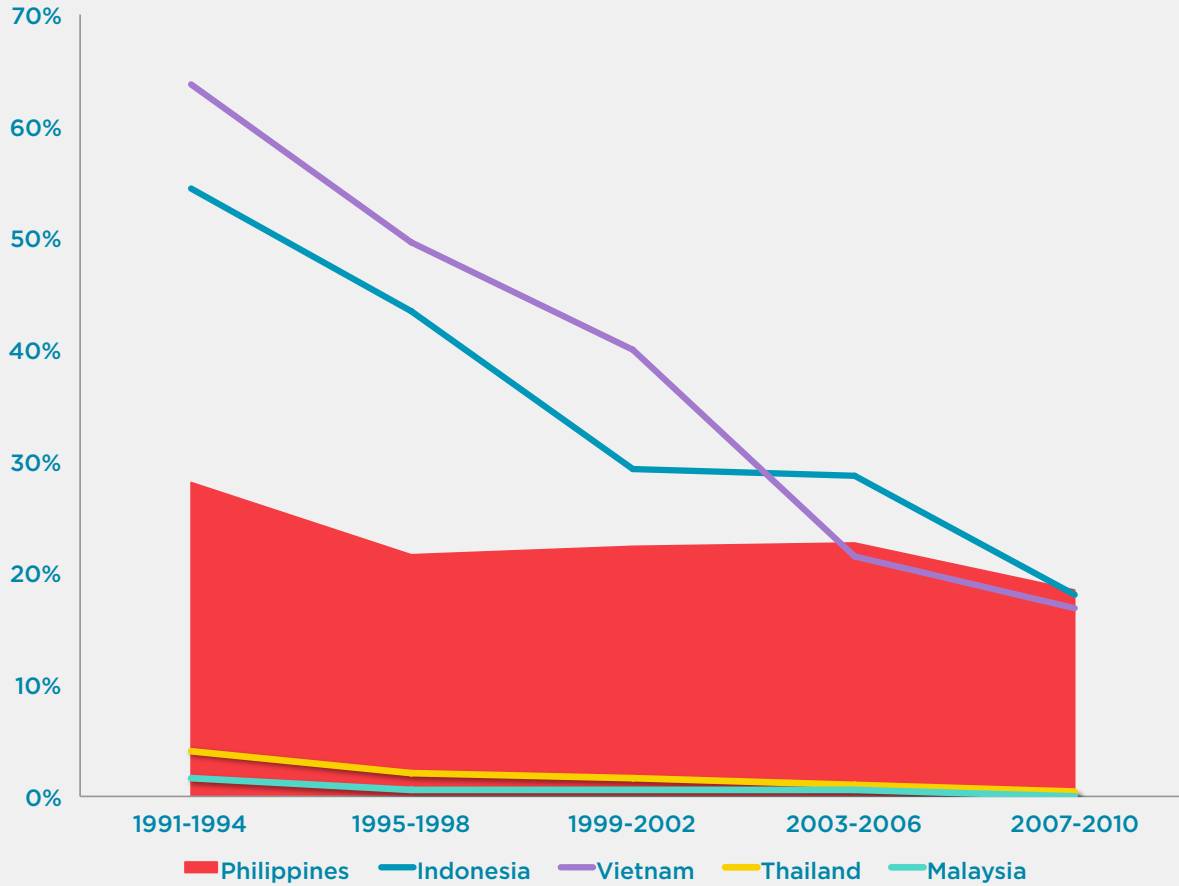


PhilHealth should introduce a family planning requirement for hospital accreditation.

2012 RATING	2011 RATING
 Not Ongoing	 Not Ongoing

PhilHealth should promote family planning more aggressively as a reimbursable benefit.

POVERTY



POVERTY RATE AT \$1.25 A DAY (PPP) BENCHMARK, % OF POPULATION, ASEAN-5, FROM 1991 TO 2010

RECOMMENDATIONS: 4

PROGRESS	RATINGS	RATINGS
IMPROVED 1	☆ 0	★★★★ 1
DECLINED 0	★★ 1	★★★★★ 1
STEADY 3	★★★★ 1	★★★★★★ 0

SOCIAL SERVICES

POVERTY

As percent of population, poverty decreased from 41% in 1985 to 28% in 2006. In terms of actual population, however, it increased from 22 million in 1985 to 24 million in 2006. Among the ASEAN-6 the Philippines has the most persistent incidence of poverty (< \$1.25 a day). While Malaysia and Thailand have almost eliminated poverty of this low cohort and Indonesia and Vietnam have reduced by two thirds, the Philippines has not, primarily due to high population growth rate and low economic growth. The poor are often hungry, their diet inadequate, and their children malnourished. A 2012 SWS poll counted four million families who claim having had nothing to eat at least once in three months. In 2009, the Philippines has the highest percentage (40%) of slum population as percent of urban population among six Asian countries. The poor do not have PhilHealth insurance and most die without seeing a doctor. Conditional cash transfers (CCTs) as a means of reducing future poverty are being rapidly expanded in the Aquino Administration.

RECOMMENDATION 1



Steadily reduce the number of poor and poor as percentage of population.

2012 RATING	2011 RATING
★★ Backward/Regression	★★ Backward/Regression

Per official figures of 2003/2006/2009, the percentage of poverty remains very high and the total number is increasing. The next official reading, referring to 2012, is not expected until 2014. It is absolutely urgent that the government upgrade its poverty monitoring to every year, from the present every three years. Alternatively, self-rated poverty from SWS is available quarterly, up to the present. The SWS Self-Rated Poverty annual average in 2012 stood at 52%. This was a slight increase of four points from 2010, and three points from 2011.

RECOMMENDATION 2



Reduce the incidence of hunger.



The last official figure is for 2008; the next reference year is 2013. It is absolutely urgent that the government upgrade its hunger monitoring to every year, from the present every five years. Alternatively, household-reported hunger from SWS is available quarterly, from 1998 up to the present. SWS self-rated hunger data shows that hunger has almost doubled from 11% in 1998 to 20% in 2012.

RECOMMENDATION 3



Expand insurance coverage to include more poor.



For the first time, a program to expand Philhealth coverage to the neediest cohorts of the population is underway. The Social Security System (SSS) and Government Service Insurance System (GSIS) both worked to expand their services in 2012. A fund of PhP11.2 billion was earmarked for an education assistance program to benefit 1.6 million GSIS and SSS members.

RECOMMENDATION 4

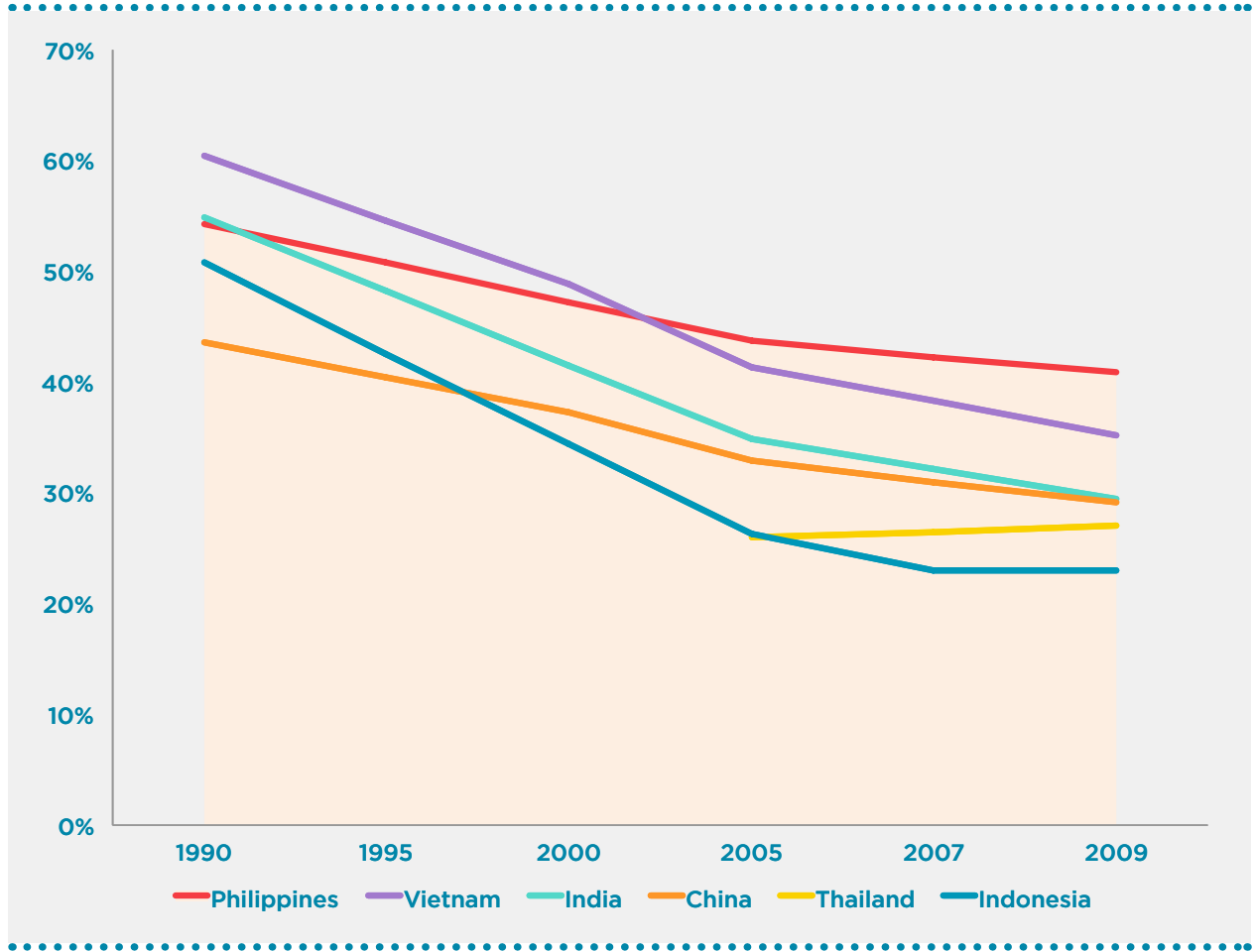


Successfully implement the expanded CCT (4Ps) program to include all 6.9 million poor Filipino families.



4Ps is moving swiftly, and is accompanied by ongoing independent spot-checking of field operations, and independent research on implementation and evaluation. In July 2011 the CCT program had 2.3 million beneficiary households, and this figure rose 31% to 3.014 million in the third quarter of 2012. The budget allocation for 4Ps increased by 12.18% in 2013, from PhP40 billion to PhP44.255 billion.

SLUM POPULATION AS % OF URBAN POPULATION, ASEAN-6 FROM 1990 TO 2009



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Finally, the Anniversary Forum would not have been possible were it not for the efforts of Ramon N. Cabrera.

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