



## FOURTH ANNIVERSARY ASSESSMENT

March 3, 2015

Rizal Ballroom

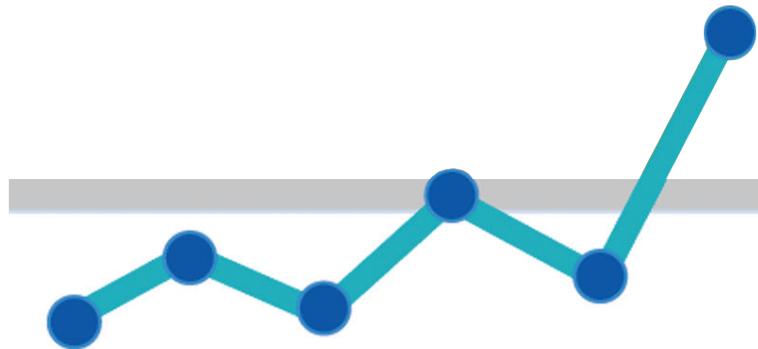
Makati Shangri-La

# ARANGKADA PHILIPPINES FORUM

## Invest NOW for Inclusive Growth!

A project of the Joint Foreign Chambers of the Philippines





# Invest

# Now

## for Inclusive Growth!

ARANGKADA PHILIPPINES FORUM

A PROJECT OF THE JOINT FOREIGN CHAMBERS OF THE PHILIPPINES

### Fourth Anniversary Assessment

**March 3, 2015**

**Rizal Ballroom**

**Makati Shangri-La**

**A project by the Joint Foreign Chambers of the Philippines**

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**2015 Arangkada Philippines Fourth Anniversary Forum: Assessment of Year 2014**

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21 July 2014



**His Excellency Benigno S. Aquino III**  
President of the Republic of the Philippines  
Manila, Philippines



Your Excellency:

AUSTRALIAN-NEW ZEALAND

The Philippine Business Groups and the Joint Foreign Chambers (PBG-JFC) recognize the vigorous efforts of your administration to introduce lasting social, political, and economic reforms that will pave the way for a progressive Philippines. We reiterate our common position that we stand with your administration in institutionalizing these much-needed and long-overdue reforms.



CANADIAN

In 2013, the PBG-JFC conducted a series of dialogues to craft a list of key issues and proposed measures which we strongly believe will help achieve our shared vision of inclusive growth through job generation, poverty reduction, and global competitiveness. The product of these consultations was a letter that we sent to your office and was subsequently acknowledged by the Economic Development Cluster of your Cabinet.



EUROPEAN

Entering the latter half of your term, the PBG-JFC would like to take this opportunity to revisit some of our recommendations. With the Philippines hosting various international fora in the next three years, there is a golden opportunity for the country to cement its reform agenda and showcase its success story to the global community, as was done recently during the World Economic Forum on East Asia.



JAPAN

**Institutionalizing Integrity and Good Governance**

The PBG-JFC is cognizant that your administration's drive to stamp out corruption has indeed borne fruit and contributed to the country's better-than-expected economic performance and competitiveness rankings. We must continue to push the campaign for good governance. It is imperative that public officials, both past and present, who are proven to have been involved in the misuse of public funds be **held accountable to the fullest extent of the law at the soonest time and without fear or favor.**



KOREAN

Despite your administration's best efforts to safeguard the allocation and use of public funds, recent developments demonstrate that corruption still rears its ugly head in the hidden nooks and crannies of the bureaucracy and government transactions. We believe that this greatly highlights the need and value of an engaged citizenry serving as government's partner in guarding against corruption. Thus, we take note of your commitment during the Daylight Dialogues to **pass the Freedom of Information Act before the end of your term** and are looking forward to its enactment.



PAMURI

Connected to this, we also welcome your pronouncement during the same Dialogue regarding the **issuance of an Executive Order seeking to institutionalize a mechanism for public-private cooper-**

**ation in instilling integrity in governance.** On this note, as what was done by the Department of Public Works and Highways, we would like to encourage other government agencies to insist that companies wishing to bid for government contracts **should sign the Integrity Pledge and submit themselves to doing clean and ethical business.** Finally, we encourage the Executive to closely coordinate with the Judiciary and the Legislative branch to **address issues of competence, efficiency, and integrity in the justice system.**

### **Achieving Inclusive Growth**

While the economy has rapidly expanded during your term—bringing the Philippines into the ranks of Asia’s best economic performers—we note that a commensurate impact on reducing unemployment and underemployment has yet to be felt by our people. We believe that greater focus on sustainable agriculture and responsible mining will substantially assist in our shared aim of inclusive growth.

Despite our stellar economic growth, we note that the agriculture sector continues to underperform. Given that this sector employs close to a third of our population, particularly in the provinces, we urge your administration to **immediately formulate and implement roadmaps for specific subsectors in agriculture,** similar to what has been done for certain industries by the Department of Trade and Industry. Furthermore, these roadmaps must be supported by adequate investments to **increase agricultural productivity and to improve the welfare of our farmers and fisherfolk.**

We also reiterate our position that responsible mining holds the potential not only to bring in more foreign investments, but also to increase incomes in rural communities as well. Therefore, we call for **the retention of the existing Philippine Mining Act,** as we hold that this is an effective piece of legislation if properly implemented. As a complement, we should ensure that we have an **internationally competitive fiscal regime for mining,** which gives the government a fair share of net mining revenues, as well as ensures an equitable and reasonable return for investors. Furthermore, in deciding on the mapping of “no-go” zones, we reemphasize our position that **the value of potential mineral projects should be balanced and weighed against agricultural, tourism, and other considerations.**

### **Accelerating Infrastructure Development**

Since 2010, we have seen the Public-Private Partnership initiative steadily gain steam, with close to 50 projects in the pipeline for implementation. We fully support government’s efforts to raise infrastructure spending to 5% of GDP by 2016. Nevertheless, the infrastructure gap continues to remain wide and must be bridged as soon as possible to support the economy.

First, we reiterate our position for a **multi-airport system, particularly NAIA, Clark, and a future third airport,** to serve the country’s current and prospective aviation requirements. On this note, we strongly believe that we should continue to enhance the advantages given by an international gateway in close proximity to the National Capital Region, while complementing this with further improvements in the capacity of Clark International Airport.

We also ask the government to **expedite the construction of the NLEX-SLEX Connector, as well as to construct a feeder road that will connect it to the Port of Manila,** which we believe will facilitate the movement of goods to and from production sites and our major ports. On a related matter, we once again emphasize our call to **shift cargo traffic from the Port of Manila to the Ports of Subic and Batangas** and support these with **parallel initiatives to stimulate economic activities in these areas, and to reduce the cost of logistics.**

### **Ensuring Energy Security and Price Competitiveness**

The business community is united in the belief that **opening up the Electric Power Industry Reform Act (EPIRA) to amendments will result in an unstable regulatory framework** and thus may cause the deferment or cancellation of pending and much-needed investments in the power sector. It is our common position that **what is needed is the full and proper implementation of EPIRA.**

Also, we call on the government to ensure that growth targets will be supported by the needed energy investments. As such, a roadmap **towards energy security and electricity price competitiveness**, which takes into account all the elements of the energy sector from generation to distribution, must be **formulated at the soonest time and likewise made available to the public.** Furthermore, moving forward, we call on the government **to augment the Department of Energy and Energy Regulatory Commission with capable, proactive, and visionary staff**, shifting the pertinent agencies away from a reactionary stance regarding energy issues.

### **Increasing Foreign Investments**

We recognize that the amount of Foreign Direct Investments entering the Philippines has been steadily increasing under your administration. However, relative to our neighbors in Southeast Asia, and taking into account our need for as much job-generating investments as possible, the Philippines continues to lag behind comparable regional economies.

In this light, we strongly encourage the government to consider proposals to **open certain areas of the economy to greater foreign participation.** Today is an opportune time to pursue economic liberalization as a multitude of positive factors are converging towards making the country a preferred investment destination, among which include a young and dynamic citizenry, a robust economy, and great interest from the overseas investing community to participate in the Philippine market.

Pending any amendments to the Constitution, we suggest an initial and immediate course of action: **to revise the Foreign Investment Negative List by reducing the list of industries where foreign participation is limited. Relevant legislation should be introduced in the near future for this purpose.**

### **Addressing Smuggling**

In a forum with business organizations, the Customs Commissioner stated that the value of smuggled merchandise in 2011 alone was estimated to be between P350 billion to P1.4 trillion. This hole must be plugged.

We are aware that the proposed **Customs Modernization and Tariff Act and various measures on Anti-Smuggling** are moving in both chambers of Congress. It is our fervent hope that, consistent with our goal to eliminate illicit trade and our commitment to the Revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures, **these necessary measures be immediately enacted and enforced.**

Moreover, we reiterate our proposal to have **high-level representatives from government to continuously engage with the private sector** in a joint effort to address smuggling, similar to a **Cabinet-level Oversight Committee with private sector participation as was done in previous administrations.**

Mr. President, through these measures, the PBG-JFC is firmly convinced that the Philippines will continue to be among Asia's trailblazers and, at the same time, ensure that the gains from good governance and a flourishing economy will benefit the majority of our people with the greatest of needs.

In relation to this and most significantly, the business community reiterates the appeal aired by some of our leaders in the Daylight Dialogues that the Supreme Court ruling on certain actions under the Disbursement Acceleration Program **must not be allowed to weaken the determination of your administration** to aggressively pursue its key reform programs in the next two years.

We thank you for this opportunity to be heard, and we look forward to working with your government towards these common goals.

Yours sincerely,



**RAMON R. DEL ROSARIO JR.**

Chairman  
Makati Business Club



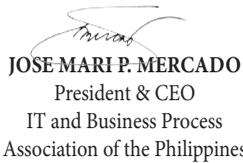
**DAN C. LACHICA**

President  
Semiconductor and Electronics  
Industries in the Philippines, Inc.

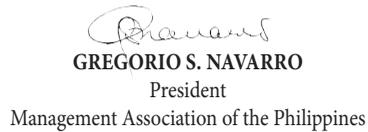


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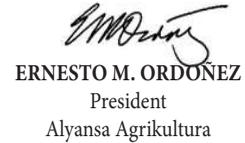
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Association of the Philippines



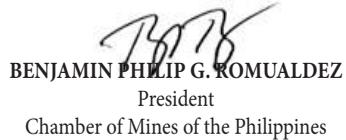
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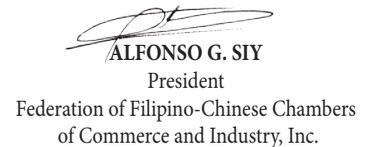
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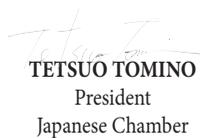
**IAN PORTER**  
President  
Australian-New Zealand Chamber  
of Commerce



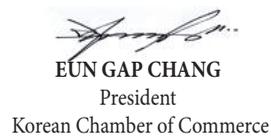
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President  
Canadian Chamber of Commerce



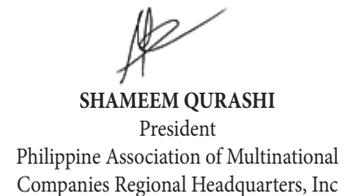
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**TETSUO TOMINO**  
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**SHAMEEM QURASHI**  
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Cabinet Secretary Jose Rene D. Almendras  
Sec. Cesar V. Purisima, Department of Finance  
Sec. Florencio B. Abad, Department of Budget & Management

# JOINT FOREIGN CHAMBERS TOP 8 PRIORITIES

- 1. Facilitate a major and sustained increase in FDI**
  - Approve RBH1 amending economic provisions of the Constitution
  - Reduce major restrictions in the FINL and liberalize Public Services Act
  - Approve competition policy and legislation
  - Improve “*Ease of Doing Business*” and other global rankings in the Philippines
- 2. Reform judicial sector to be more efficient, objective and predictable**
  - Enforce court practice and procedures to restrict abuse in use of TROs
  - Amend court practice and procedures to limit basis for reconsiderations
  - Establish “*fast track*” arbitration courts/procedures for business disputes
  - Ensure regional and local courts are independent of LGU influence
- 3. Continue and enhance anti-corruption measures**
  - Approve FOI legislation and expedite completion of IRR
  - Expedite trials of public officials and private business persons indicted for corruption
  - Urge government to ask all bidders for government contracts to sign Integrity Pledge
  - Encourage all members in JFC chambers to sign Integrity Pledge
- 4. Upgrade airports and seaports to facilitate exports, imports, and tourism**
  - “*Fast track*” implementation of a plan to rationalize airports serving Manila
  - Expedite construction of dedicated road link between Manila Port and NLEX-SLEX
  - Provide incentives for shipping lines to use Batangas and Subic seaports
  - Reform customs and immigration procedures at airports and seaports
- 5. Augment long-term power and water supply-sources (*and reduce costs*)**
  - Ensure national interests considered in site-selection as well as local concerns
  - Implement EPIRA including open access to improve competition
  - Initiate programs to convert solid waste to energy and to recycle wastewater
  - Reduce VAT on power for incentivized industries and other public fees and charges
- 6. Support environmental and socially responsible mining**
  - Maintain and enforce the existing Mining Act for large scale mining
  - Introduce an internationally competitive fiscal regime for large scale mining
  - Ensure LGU ordinances respect national mining legislation and policies
  - Regulate small-scale mining to comply with national interests and standards
- 7. Increase opportunities for employment and reduce unemployment**
  - Focus K-12 education program on areas with potential for employment growth
  - Reform the Labor Code to facilitate reallocation in use of human resources
  - Ensure a minimum wage level/holidays/leave competitive with ASEAN comparators
  - Apply PEZA incentives to domestic investments in the poorest regions
- 8. Continue to upgrade infrastructure**
  - Achieve the target of 5% of GDP on public sector infrastructure by 2016
  - Implement a strong PPP program to attract more private infrastructure investment
  - Prioritize power, air/land/sea transport, farm-to-market road, and water projects
  - “*Levelize*”, simplify, speed-up bidding/procurement procedures and join WTO GPA

May 14, 2014

# 2014-15 POLICY WISH LIST OF SEVERAL ARANGKADA SUPPORTERS



## **RAMON DEL ROSARIO JR.**

*Unfinished Priorities: The End Game*  
*The Philippine Daily Inquirer*  
*January 10, 2015*

1. Pass Bangsamoro Basic Law.
2. Pass Freedom of Information Bill.
3. Amend restrictive economic provisions of the Constitution (*confer on Congress authority to decide on economic restrictions*).
4. Fast-track resolution of Maguindanao (*Ampatuan*) massacre.
5. Resolve cases against former President Macapagal-Arroyo.
6. Fully implement K-12.
7. Address adequacy of electricity by affording baseload and peaking plants reasonable returns with regulatory consistency.
8. Fast-track recovery for victims of man-made and natural calamities.
9. Continue to host world-class summits and state leader visits.



## **DR. BERNARDO M. VILLEGAS**

*Business Matters*  
*The Philippine Daily Inquirer*  
*January 31, 2015*

1. The Philippine has to move beyond the “*new mediocre*” of 6-7% growth by growing at 8-10% at least for 10 years to attain inclusive growth.
2. Elect an honest and competent next set of national leaders to liberate Philippine society from waste resulting from corruption.
3. Attract higher levels of FDI at US\$5-10 billion annually through means such as amending the constitution to remove unreasonable provisions restricting foreigners from investing more in public utilities, real estate, media, and education.
4. Invest heavily in improving higher education and R&D. Take advantage of greater interest of Japanese manufacturing enterprises to relocate... by providing a high supply of qualified engineers and technical people.
5. Implement a thoroughgoing reform in land use policy by graduating to a new phase in agrarian reform by allowing... greater consolidation of land through such systems as the Malaysian nucleus estate plantation or cooperative farming.
6. Thousands of hectares of coconut farms devastated by typhoons and denuded forests, especially in Mindanao, can be planted to higher-value crops (*palm oil, coffee, rubber, and cacao*), which can be planted as intercrops.



## **DR. ROBERTO DE OCAMPO**

*Arangkada Forum 2014*  
*February 26, 2014*

1. Introduce amendments to the economic provisions of the Constitution to encourage more FDI.
2. Unleash the full potential of two principal competitive advantages: agriculture and mining.
3. Implement EPIRA more effectively.
4. Address major problems of infrastructure.
5. Relentlessly pursue anti-smuggling and other reforms at BOC.
6. Enact an effective competition law.
7. Prepare adequately for regional and global game changers that will affect the economy, i.e. the AEC and the TPP.

# 2014-15 POLICY WISH LIST OF SEVERAL ARANGKADA SUPPORTERS



## FERNANDO ZOBEL DE AYALA

*FINEX Inaugural Meeting and Induction Ceremonies  
January 13, 2015*

1. Good governance.
2. Cut bureaucracy and improve efficiency to start a business, register property, get credit, and protect investors.
3. Institutionalize reforms to be continued by the next administration.
4. Stronger enforcement of ethical standards/better corporate governance.
5. Financial inclusion.
6. Increase physical access to banks.
7. Massive increase in infrastructure expenditure to 5% share of GDP.



## PETER WALLACE

*Like It Is  
The Philippine Daily Inquirer  
January 1, 2015*

1. Resolve the MRT-3 mess.
2. Resolve Metro Manila traffic; remove 50% of buses on EDSA.
3. Improve turnaround time in and out of Manila ports.
4. Fix expressways, have one pass for all expressways, and remove barriers, just drive through.
5. Decide site of second international airport gateway.
6. Encourage construction of baseload power plants.
7. Create a DICT.
8. Support amendments to open key sectors of economy.
9. Push for enactment of major business/economic bills; FOI bill and BOT Law amendments.
10. Implement flexible labor laws; amend 40-yr old Labor Code.
11. Do not allow objections after a project is awarded.
12. Spend 5% of GDP on infrastructure in 2015, not 2016.
13. Build adequately manned family planning clinics.
14. Erect properly-built and equipped emergency centers for disaster victims.
15. Put more grafters in jail.

# METHODOLOGY

*Arangkada Philippines*, a project by the Joint Foreign Chambers of the Philippines (*JFC*), funded by USAID, and administered by AmCham, reflects 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 2010: A Business Perspective* was published and released to the press in December 2010 at the Department of Trade and Industry with DTI Secretary Gregory J. Domingo, BOI Managing Head Cristino L. Panlilio, and PEZA Director General Lilia de Lima. The 470 page document contains a total of 471 recommendations. *Arangkada Philippines* was converted into a virtual document accessible on [www.arangkadaphilippines.com](http://www.arangkadaphilippines.com).

On January 26, 2012, *Arangkada* held its First Anniversary Forum and released the “*First Anniversary Assessment*,” which evaluated progress in completing the 471 recommendations in the 2010 document for the year 2011. The advocacy coordinated some 40 experts—senior consultants, former public officials, business executives, and academics—who rated the recommendations based on our 6-star rating system:

☆	No Longer Relevant	★★★★	Started
★★	Backward/Regression	★★★★★	Substantial Progress
★★★	Not Ongoing	★★★★★★	Completed

On February 26, 2013, *Arangkada* held its Second Anniversary Forum and released the “*Second Anniversary Assessment*,” which evaluated the year 2012 and was a collaborative effort of 33 different experts.

To show the annual trend, each recommendation is labeled using the following legends:

 Improved	 Declined	 Steady	 Neutral or NLR
--	--	--	--

On February 26, 2014, *Arangkada* held its Third Anniversary Forum and released the “*Third Anniversary Assessment*,” which evaluated the year 2013 and was a collaborative effort of 33 different experts.

This document presents the *Arangkada Philippines Fourth Anniversary Assessment*, evaluating the year 2014. 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	2011		2012		2013		2014	
	Tally	%	Tally	%	Tally	%	Tally	%
★★★★★★ Completed	5	1.08%	11	2.38%	19	4.11%	21	4.55%
★★★★★ Substantial Progress	36	7.79%	74	16.02%	94	20.35%	117	25.32%
★★★★ Started	191	41.34%	205	44.37%	213	46.10%	193	41.77%
★★★ Not Ongoing	168	36.36%	134	29.00%	94	20.35%	88	19.05%
★★ Backward / Regression	51	11.04%	25	5.41%	26	5.63%	27	5.84%
☆ No Longer Relevant	11	2.38%	13	2.81%	17	3.68%	16	3.46%

*Calculations of previous years' tallies and percentages were adjusted to enable comparison with current data.*

## Active / Moving Recommendations

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

2011		2012		2013		2014	
Tally	Percentage	Tally	Percentage	Tally	Percentage	Tally	Percentage
232	51.44%	290	64.59%	326	73.26%	331	74.22%

*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).

2011		2012		2013		2014	
Tally	Percentage	Tally	Percentage	Tally	Percentage	Tally	Percentage
219	48.56%	159	35.41%	119	26.74%	115	25.78%

*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 2014 rating for each recommendation alongside its respective ratings from the previous years. The comparative data allows us to break down the rated recommendations into three types:

Progress	Tally	Percentage
Improved	76	17.04%
Steady	327	73.32%
Declined	43	9.64%

**Improved** - Recommendations with upgraded ratings.

**Declined** - Recommendations with downgraded ratings.

**Steady** - Recommendations with unchanged ratings.

## Fourth Anniversary Assessment Results (2014)

	Count	No Longer Relevant	Backward / Regression	Not Ongoing	Started	Substantial Progress	Completed	Steady	Declined	Improved	Active	Dormant
Part 1: Growing Too Slow	8	0	0	1	3	4	0	7	0	1	7	1
Part 2: Becoming More Competitive	3	0	0	0	1	2	0	3	0	0	3	0
Part 3: Seven Big Winner Sectors												
Agribusiness	18	0	0	1	16	1	0	14	1	3	17	1
Business Process Outsourcing	30	3	0	4	8	11	4	19	2	6	23	4
Creative Industries	16	0	0	4	9	1	2	12	3	1	12	4
Infrastructure: Policy	25	3	0	4	5	10	3	17	3	2	18	4
Airports	15	1	1	2	4	5	2	6	3	5	11	3
Power	21	4	4	6	7	0	0	9	4	4	7	10
Roads and Rail	9	1	1	0	2	5	0	4	2	2	7	1
Seaports	20	0	1	9	9	1	0	18	1	1	10	10
Telecommunications	11	0	0	5	6	0	0	7	1	3	6	5
Water	9	0	0	2	6	1	0	7	1	1	7	2
Manufacturing	17	0	3	3	7	4	0	12	3	2	11	6
Logistics	22	2	2	7	2	8	1	12	1	7	11	9
Mining	32	0	4	12	10	4	2	26	5	1	16	16
Tourism, Medical Travel, and Retirement	32	0	0	8	12	9	3	20	4	8	24	8
Part 4: General Business Environment												
Business Costs	16	0	5	2	7	2	0	13	2	1	9	7
Environment and Natural Disasters	14	0	0	0	13	1	0	11	0	3	14	0
Foreign Equity and Professionals	12	0	0	3	7	2	0	10	1	1	9	3
Governance	16	1	1	1	12	1	0	12	1	2	13	2
Judicial	12	0	0	2	5	5	0	5	1	6	10	2
Labor	9	0	2	0	0	6	1	7	0	2	7	2
Legislation	13	0	1	4	5	3	0	9	3	1	8	5
Local Government	15	0	1	1	5	8	0	14	0	1	13	2
Macroeconomic Policy	27	0	1	2	13	10	1	21	1	5	24	3
Security	15	0	0	1	8	6	0	14	0	1	14	1
Social Services: Education	12	0	0	2	8	2	0	12	0	0	10	2
Health & Population	9	1	0	2	1	3	2	4	0	4	6	2
Poverty	4	0	0	0	2	2	0	2	0	2	4	0
<b>TOTAL</b>	<b>462</b>	<b>16</b>	<b>27</b>	<b>88</b>	<b>193</b>	<b>117</b>	<b>21</b>	<b>327</b>	<b>43</b>	<b>76</b>	<b>331</b>	<b>115</b>

## Third Anniversary Assessment Results (2013)

SECTION	COUNT	NLR	B/R	NO	St	SP	C	Steady	Declined	Improved	Active	Dormant
Part 1: Growing Too Slow	8	0	0	1	4	3	0	6	0	2	7	1
Part 2: Becoming More Competitive	3	0	0	0	1	2	0	2	1	0	3	0
Agribusiness	18	0	0	3	14	1	0	14	0	4	15	3
Business Process Outsourcing (BPO)	30	2	3	11	4	4	6	11	12	5	14	14
Creative Industries	16	0	0	2	11	1	2	6	1	9	14	2
Logistics	22	3	4	4	4	7	0	11	4	5	11	8
Manufacturing	17	0	3	1	9	4	0	7	4	6	13	4
Mining	32	1	1	13	11	4	2	22	2	7	17	14
Tourism, Medical Travel, and Retirement	32	0	1	9	14	6	2	17	7	8	22	10
Infrastructure: Policy	25	3	0	4	8	8	2	4	9	11	18	4
Infrastructure: Airports	15	5	1	1	6	1	1	2	8	5	8	2
Infrastructure: Power	21	5	4	3	9	0	0	7	4	6	9	7
Infrastructure: Roads & Rails	9	0	0	3	1	4	1	6	0	2	6	3
Infrastructure: Seaports	20	0	1	9	9	1	0	10	5	5	10	10
Infrastructure: Telecommunications	11	0	0	7	4	0	0	8	2	1	4	7
Infrastructure: Water	9	0	0	1	8	0	0	8	0	1	8	1
Business Costs	16	0	3	4	8	1	0	13	1	2	9	7
Environment and Natural Disaster	14	0	1	5	8	0	0	8	6	0	8	6
Foreign Equity and Professionals	12	0	0	3	7	2	0	5	2	5	9	3
Governance	16	2	0	4	10	0	0	8	4	4	10	4
Judicial	12	0	0	5	5	2	0	9	0	3	7	5
Labor	9	0	3	0	1	4	1	7	0	2	6	3
Legislation	13	0	1	4	7	1	0	9	3	1	8	5
Local Government	15	0	1	1	6	7	0	15	0	0	13	2
Macroeconomic Policy	27	0	1	5	10	10	1	17	3	7	21	6
Security	15	0	0	1	9	5	0	9	1	5	14	1
Social Services: Education	12	0	0	2	8	2	0	11	0	1	10	2
Social Services: Health and Population	9	1	1	2	2	3	0	6	1	1	5	3
Social Services: Poverty	4	0	0	2	0	2	0	2	0	2	2	2
<b>TOTAL</b>	<b>462</b>	<b>21</b>	<b>31</b>	<b>127</b>	<b>185</b>	<b>81</b>	<b>17</b>	<b>260</b>	<b>87</b>	<b>99</b>	<b>302</b>	<b>138</b>

## Second Anniversary Assessment Results (2012)

SECTION	COUNT	NLR	B/R	NO	St	SP	C	Active	Dormant
Part 1: Growing Too Slow	8	0	0	2	4	2	0	6	2
Part 2: Becoming More Competitive	3	0	0	0	0	3	0	3	0
Agribusiness	18	0	0	7	10	1	0	11	7
Business Process Outsourcing (BPO)	30	2	0	8	7	7	6	20	8
Creative Industries	16	0	1	7	5	3	0	8	8
Logistics	22	2	1	10	4	5	0	9	11
Manufacturing	17	0	1	4	9	3	0	12	5
Mining	32	2	3	11	12	4	0	16	14
Tourism, Medical Travel, and Retirement	32	0	1	5	22	4	0	26	6
Infrastructure: Policy	25	1	1	5	11	4	3	18	6
Infrastructure: Airports	15	0	1	6	2	6	0	8	7
Infrastructure: Power	21	4	6	6	5	0	0	5	12
Infrastructure: Roads & Rails	9	1	0	2	3	2	1	6	2
Infrastructure: Seaports	20	0	0	12	7	1	0	8	12
Infrastructure: Telecommunications	11	0	0	6	5	0	0	5	6
Infrastructure: Water	9	0	0	2	7	0	0	7	2
Business Costs	16	0	2	6	7	1	0	8	8
Environment and Natural Disaster	14	0	0	0	14	0	0	14	0
Foreign Equity and Professionals	12	0	0	5	7	0	0	7	5
Governance	16	0	0	4	12	0	0	12	4
Judicial	12	0	2	5	3	2	0	5	7
Labor	9	0	3	0	3	2	1	6	3
Legislation	13	0	1	5	3	4	0	7	6
Local Government	15	0	1	1	6	7	0	13	2
Macroeconomic Policy	27	0	0	6	16	5	0	21	6
Security	15	0	0	4	7	4	0	11	4
Social Services: Education	12	0	0	2	9	1	0	10	2
Social Services: Health and Population	9	1	0	2	3	3	0	6	2
Social Services: Poverty	4	0	1	1	1	1	0	2	2
<b>TOTAL</b>	<b>462</b>	<b>13</b>	<b>25</b>	<b>134</b>	<b>204</b>	<b>75</b>	<b>11</b>	<b>290</b>	<b>159</b>

## First Anniversary Assessment Results (2011)

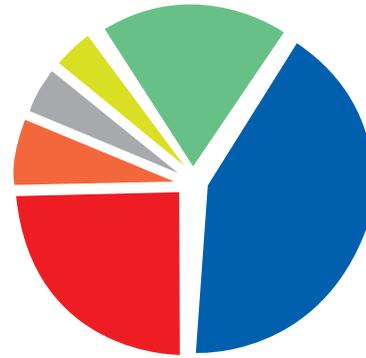
SECTION	COUNT	NLR	B/R	NO	St	SP	C	Active	Dormant
Part 1: Growing Too Slow	8	0	1	3	4	0	0	4	4
Part 2: Becoming More Competitive	3	0	0	0	0	3	0	3	0
Agribusiness	18	0	1	12	5	0	0	5	13
Business Process Outsourcing (BPO)	30	3	4	7	7	7	2	16	11
Creative Industries	16	0	1	10	4	1	0	5	11
Logistics	22	3	2	8	6	3	0	9	10
Manufacturing	17	0	1	7	9	0	0	9	8
Mining	32	1	3	13	12	3	0	15	16
Tourism, Medical Travel, and Retirement	32	1	1	6	22	2	0	24	7
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
Business Costs	16	0	5	4	7	0	0	7	9
Environment and Natural Disaster	14	0	2	3	9	0	0	9	5
Foreign Equity and Professionals	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 Government	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 and Population	9	0	0	3	4	2	0	6	3
Social Services: Poverty	4	0	2	0	1	1	0	2	2
<b>TOTAL</b>	<b>462</b>	<b>11</b>	<b>51</b>	<b>168</b>	<b>191</b>	<b>36</b>	<b>5</b>	<b>232</b>	<b>219</b>

# OVERALL TALLY



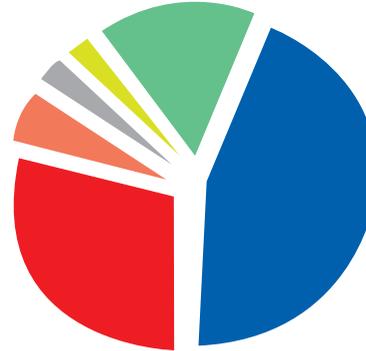
**Fourth Anniversary Assessment 2014**

★★★★★ Completed	21	(4.55%)
★★★★☆ Substantial Progress	117	(25.32%)
★★★☆☆ Started	193	(41.77%)
★★☆☆☆ Not Ongoing	88	(19.05%)
★☆☆☆☆ Backward / Regression	27	(5.84%)
☆ No Longer Relevant	16	(3.46%)



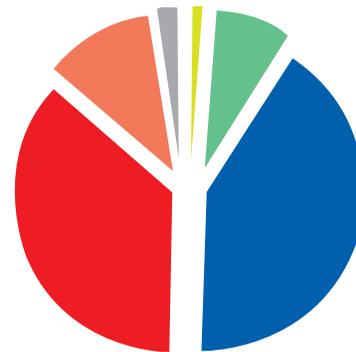
**Third Anniversary Assessment 2013**

★★★★★ Completed	19	(4.11%)
★★★★☆ Substantial Progress	94	(20.35%)
★★★☆☆ Started	213	(46.10%)
★★☆☆☆ Not Ongoing	94	(20.35%)
★☆☆☆☆ Backward / Regression	26	(5.63%)
☆ No Longer Relevant	17	(3.68%)



**Second Anniversary Assessment 2012**

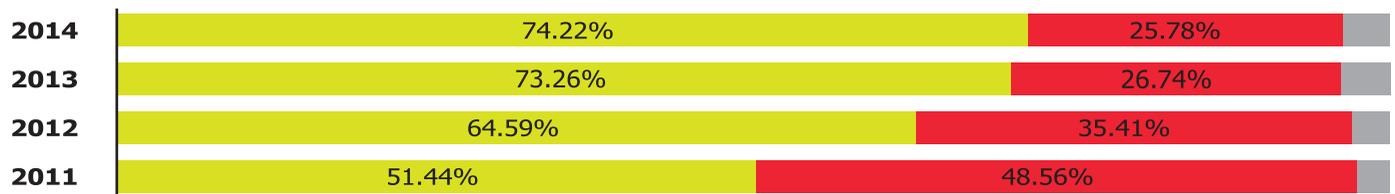
★★★★★ Completed	11	(2.38%)
★★★★☆ Substantial Progress	74	(16.02%)
★★★☆☆ Started	205	(44.37%)
★★☆☆☆ Not Ongoing	134	(29.00%)
★☆☆☆☆ Backward / Regression	25	(5.41%)
☆ No Longer Relevant	13	(2.81%)



**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%)

## Active Recommendations vs Dormant Recommendations



## PROGRESS OF RATINGS

Improved	76	17.04%
Steady	327	73.32%
Declined	43	9.64%



# SECTION SUMMARIES

## PART 1: Growing Too Slow

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	0	1	3	4	0	7	1	8
2013	0	0	1	4	3	0	7	1	
2012	0	0	2	4	2	0	6	2	
2011	0	1	3	4	0	0	4	4	



## Part 2: Becoming More Competitive

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	0	0	1	2	0	3	0	3
2013	0	0	0	1	2	0	3	0	
2012	0	0	0	0	3	0	3	0	
2011	0	0	0	0	3	0	3	0	



## PART 3: Agribusiness

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	0	1	16	1	0	17	1	18
2013	0	0	3	14	1	0	15	3	
2012	0	0	7	10	1	0	11	7	
2011	0	1	12	5	0	0	5	13	



## PART 3: Business Process Outsourcing (BPO)

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	3	0	4	8	11	4	23	4	30
2013	3	1	2	13	8	3	24	3	
2012	2	0	8	7	7	6	20	8	
2011	3	4	7	7	7	2	16	11	



# SECTION SUMMARIES

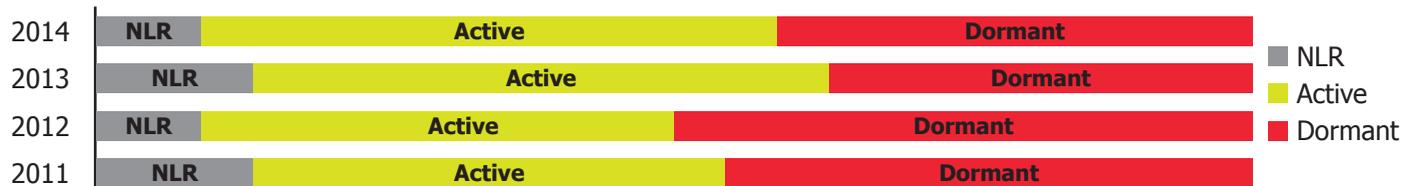
## PART 3: Creative Industries

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	0	4	9	1	2	12	4	16
2013	0	0	2	11	1	2	14	2	
2012	0	1	7	5	3	0	8	8	
2011	0	1	10	4	1	0	5	11	



## PART 3: Logistics

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	2	2	7	2	8	1	11	9	22
2013	3	4	4	4	7	0	11	8	
2012	2	1	10	4	5	0	9	11	
2011	3	2	8	6	3	0	9	10	



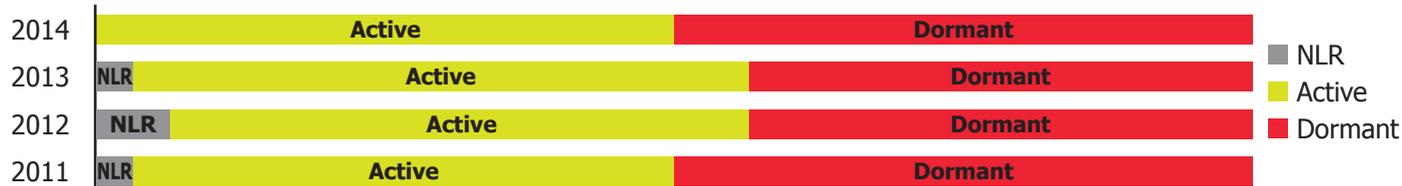
## PART 3: Manufacturing

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	3	3	7	4	0	11	6	17
2013	0	3	1	9	4	0	13	4	
2012	0	1	4	9	3	0	12	5	
2011	0	1	7	9	0	0	9	8	



## PART 3: Mining

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	4	12	10	4	2	16	16	32
2013	1	1	13	11	4	2	17	14	
2012	2	3	11	12	4	0	16	14	
2011	1	3	13	12	3	0	15	16	



# SECTION SUMMARIES

## PART 3: Tourism, Medical Travel, and Retirement

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	0	8	12	9	3	24	8	32
2013	0	1	9	14	6	2	22	10	
2012	0	1	5	22	4	0	26	6	
2011	1	1	6	22	2	0	24	7	



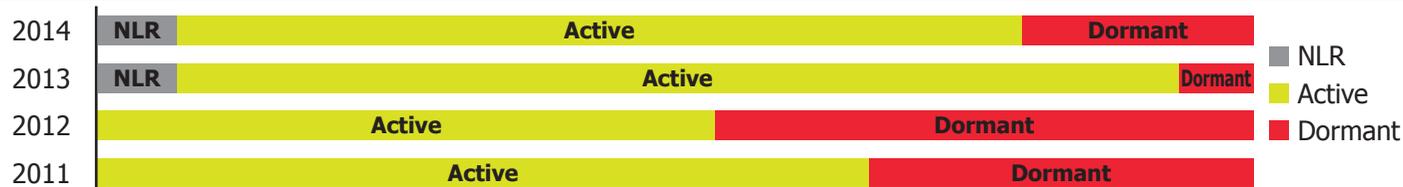
## PART 3: Infrastructure: Policy

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	3	0	4	5	10	3	18	4	25
2013	1	0	3	9	7	5	21	3	
2012	1	1	5	11	4	3	18	6	
2011	1	3	9	7	3	2	12	12	



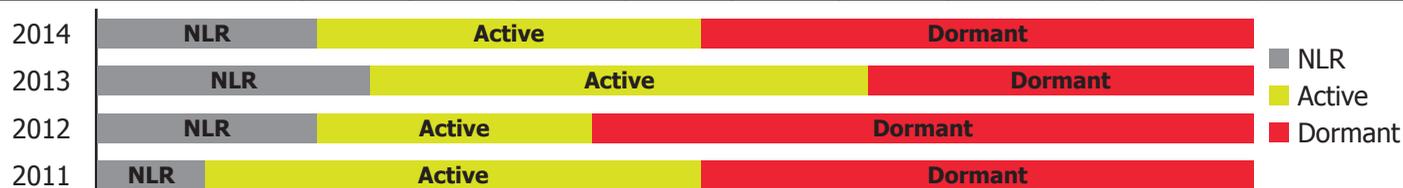
## PART 3: Infrastructure: Airports

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	1	1	2	4	5	2	11	3	15
2013	1	1	0	7	4	2	13	1	
2012	0	1	6	2	6	0	8	7	
2011	0	0	5	6	4	0	10	5	



## PART 3: Infrastructure: Power

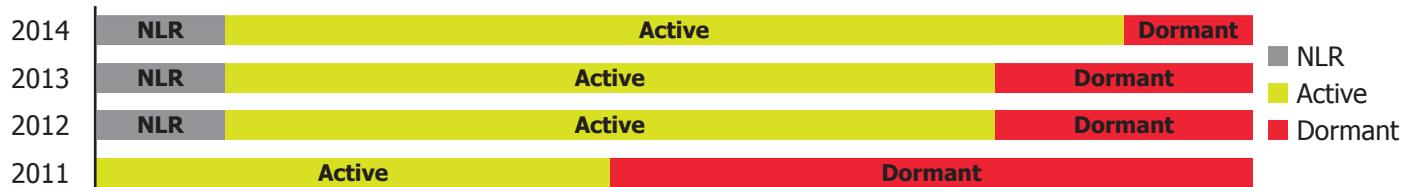
Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	4	4	6	7	0	0	7	10	21
2013	4	6	6	5	0	0	5	12	
2012	4	6	6	5	0	0	5	12	
2011	2	5	5	9	0	0	9	10	



# SECTION SUMMARIES

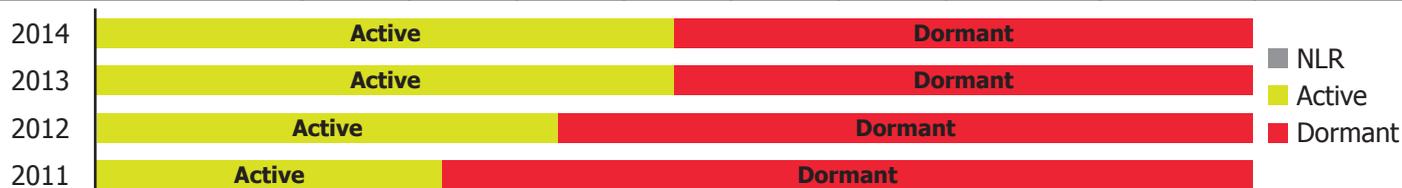
## PART 3: Infrastructure: Roads & Rails

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	1	1	0	2	5	0	7	1	9
2013	1	0	2	1	4	1	6	2	
2012	1	0	2	3	2	1	6	2	
2011	0	2	3	4	0	0	4	5	



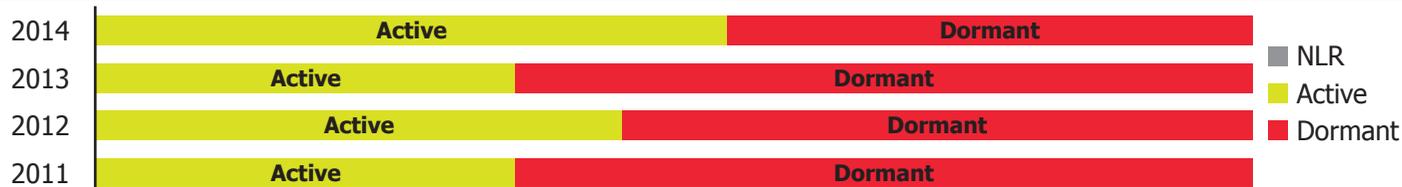
## PART 3: Infrastructure: Seaports

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	1	9	9	1	0	10	10	20
2013	0	1	9	9	1	0	10	10	
2012	0	0	12	7	1	0	8	12	
2011	0	0	14	6	0	0	6	14	



## PART 3: Infrastructure: Telecommunications

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	0	5	6	0	0	6	5	11
2013	0	0	7	4	0	0	4	7	
2012	0	0	6	5	0	0	5	6	
2011	0	1	6	4	0	0	4	7	



## PART 3: Infrastructure: Water

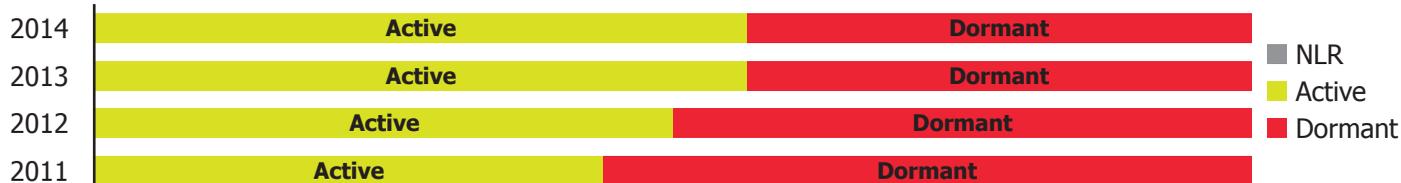
Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	0	2	6	1	0	7	2	0
2013	0	0	1	8	0	0	8	1	
2012	0	0	2	7	0	0	7	2	
2011	0	0	3	6	0	0	6	3	



# SECTION SUMMARIES

## PART 4: Business Costs

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	5	2	7	2	0	9	7	16
2013	0	3	4	8	1	0	9	7	
2012	0	2	6	7	1	0	8	8	
2011	0	5	4	7	0	0	7	9	



## PART 4: Environment and Natural Disasters

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	0	0	13	1	0	14	0	14
2013	0	0	2	12	0	0	12	2	
2012	0	0	0	14	0	0	14	0	
2011	0	2	3	9	0	0	9	5	



## PART 4: Foreign Equity and Professionals

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	0	3	7	2	0	9	3	12
2013	0	0	3	7	2	0	9	3	
2012	0	0	5	7	0	0	7	5	
2011	0	3	4	5	0	0	5	7	



## PART 4: Governance

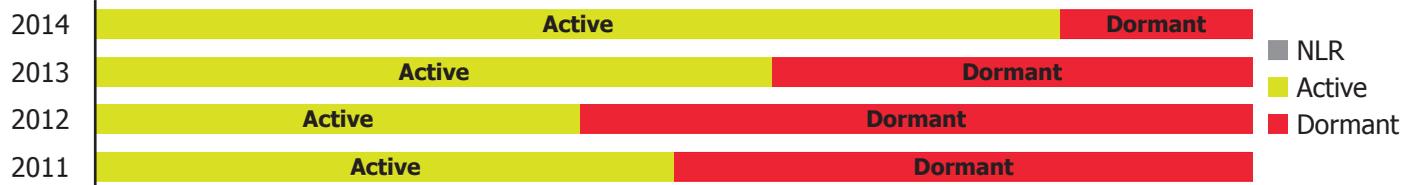
Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	1	1	1	12	1	0	13	2	16
2013	1	0	2	13	0	0	13	2	
2012	0	0	4	12	0	0	12	4	
2011	0	1	4	8	3	0	11	5	



# SECTION SUMMARIES

## PART 4: Judicial

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	0	2	5	5	0	10	2	12
2013	0	0	5	5	2	0	7	5	
2012	0	2	5	3	2	0	5	7	
2011	0	2	4	5	1	0	6	6	



## PART 4: Labor

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	2	0	0	6	1	7	2	9
2013	0	3	0	1	4	1	6	3	
2012	0	3	0	3	2	1	6	3	
2011	0	2	1	4	1	1	6	3	



## PART 4: Legislation

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	1	4	5	3	0	8	5	13
2013	0	0	4	5	4	0	9	4	
2012	0	1	5	3	4	0	7	6	
2011	0	1	4	8	0	0	8	5	



## PART 4: Local Government

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	1	1	5	8	0	13	2	15
2013	0	1	1	6	7	0	13	2	
2012	0	1	1	6	7	0	13	2	
2011	0	3	6	5	1	0	6	9	



# SECTION SUMMARIES

## PART 4: Macroeconomic Policy

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	1	2	13	10	1	24	3	27
2013	0	2	5	9	10	1	20	7	
2012	0	0	6	16	5	0	21	6	
2011	0	0	13	13	1	0	14	13	



## PART 4: Security

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	0	1	8	6	0	14	1	15
2013	0	0	1	9	5	0	14	1	
2012	0	0	4	7	4	0	11	4	
2011	0	5	4	6	0	0	6	9	



## PART 4: Social Services: Education

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	0	0	2	8	2	0	10	2	12
2013	0	0	2	8	2	0	10	2	
2012	0	0	2	9	1	0	10	2	
2011	0	0	7	5	0	0	5	7	



## PART 4: Social Services: Health and Population

Data	NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally 2014	1	0	2	1	3	2	6	2	9
2013	1	1	2	2	3	0	5	3	
2012	1	0	2	3	3	0	6	2	
2011	0	0	3	4	2	0	6	3	



# SECTION SUMMARIES

## PART 4: Social Services: Poverty

Data		NLR	B/R	NO	St	SP	C	Active	Dormant	Count
Tally	2014	0	0	0	2	2	0	4	0	4
	2013	0	0	2	0	2	0	2	2	
	2012	0	1	1	1	1	0	2	2	
	2011	0	2	0	1	1	0	2	2	





# PART 1

## Growing Too Slow



### Recommendations: 8



### Progress:

0 Declined      7 Steady      1 Improved      0 Neutral

### Rating:

0	☆ No Longer Relevant	0	★★ Backward/Regression	1	★★★ Not Ongoing
3	★★★★★ Started	4	★★★★★ Substantial Progress	0	★★★★★★ Completed

# PART 1

# GROWING TOO SLOW

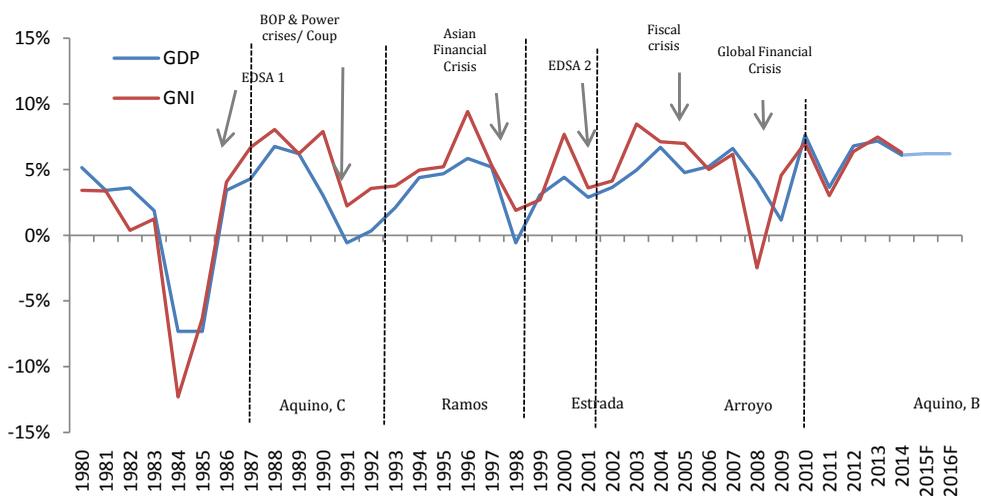
“While the macroeconomic fundamentals of the Philippines have been impressive, its share of foreign direct investments pales in comparison with those of other countries in the region. If we do not make our economy attractive for foreign investments, we would not be able to maximize the benefits from economic integration. Investments will pour in and factories will be built in our neighboring countries, and they will be exporting goods to us while we export our workers to them to run their factories... a most sorry scenario.” - *Speaker Feliciano R. Belmonte, Jr. Meeting with Joint Foreign Chambers and Philippine Business Groups. February 12, 2014*

“Should we be satisfied with a GDP growth rate of 6-7 percent in the coming years? The answer is no. The Philippine economy has to grow at 8 to 10 percent at least for the next 10 years if we are to attain inclusive growth. We have been growing at subpar rates for too long that we cannot be content with what we accomplished so far.” - *Dr. Bernardo M. Villegas, “Business Matters,” Philippine Daily Inquirer, January 31, 2015*

“Over the long-term, if growth is sustained at 6 percent per year, per capita income can double within 1 decade, grow 5 times in 2 decades, and reach 11 times in 3 decades, this means that poverty can be eradicated within a single generation. However, this requires a more aggressive approach to addressing the stubbornly high overall rate of underemployment.” - *World Bank, Philippine Economic Update: “Making Growth Work for the Poor,” January 2015*

The three biggest challenges facing the Philippine economy are to move to a higher level of sustained growth, create more and better jobs, and make growth inclusive. After two decades (1980-2000) of negligible per capita GDP growth, per capita income has steadily increased from 2000 onwards as the population growth rate fell and OFW remittances rose steadily to almost 10% of GDP. Of the ASEAN-6, for the five decades, the Philippines had the lowest GDP and PCI growth. But from 2010 through 2014, GDP growth accelerated, averaging 6.3%. The Philippines has joined Indonesia and Vietnam as ASEAN’s fastest-growing large economies period 1960-2009. The Philippines has been the fastest growing of the ASEAN-6 economies for three successive years (2012-14). This is the first time in our data series (beginning 1960) that the Philippines has placed first and should be the start of a phase of extended catching up with the other regional economies it has long lagged. The Philippines has also lagged in attracting FDI within ASEAN. However, 2014 saw a significant increase to a record level of US\$5.2 billion in the first 10 months and could reach US\$6 billion by year end, over 4 times the US\$1.3 billion FDI in 2010 and over twice the US\$1.3 billion in 2011. This development places Arangkada’s target of US\$7.5 billion a year within reach.

**Philippine Historical GDP and GNI Real Growth Rates, 1980-2016F**



*Sources: Philippine Statistics Authority (new linked series); Bernardo and Tang (2008); Consensus Feb 2015 forecasts*

# Recommendation 1

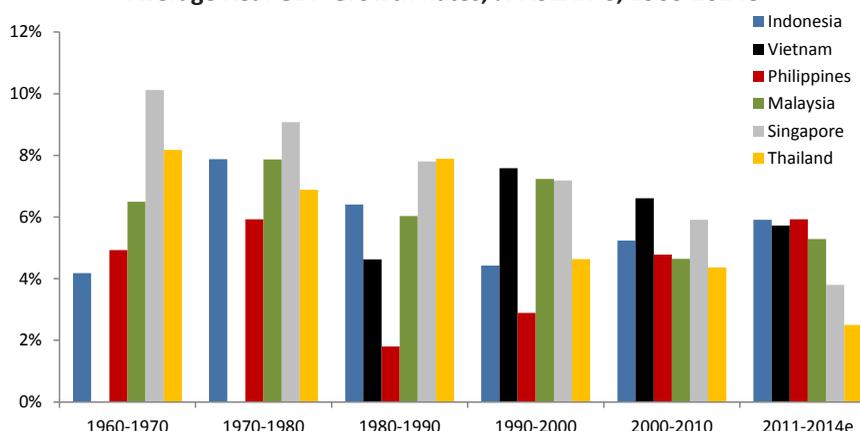


The new Philippine administration should consider adopting as a major high priority policy goal doubling the GDP growth rate to nine percent and adopt and implement a plan to achieve this within three years. This has to be supported by a clear long-term industry policy.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

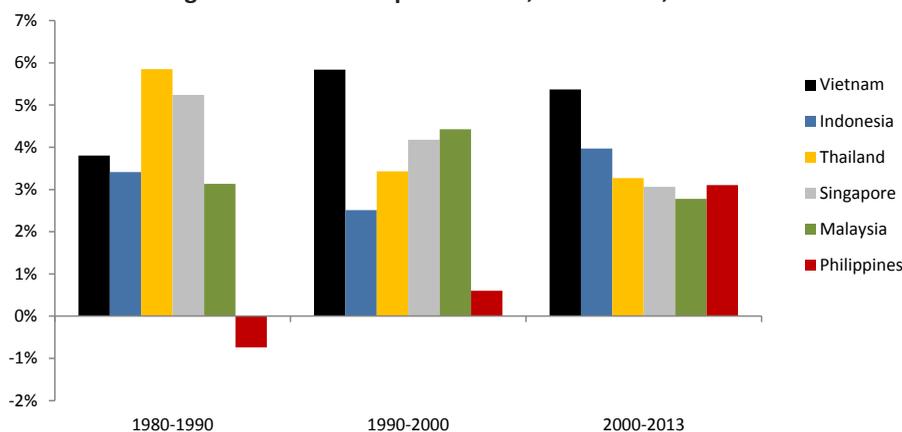
The much lower GDP growth rate of 6.1% for 2014 was disappointing after 7.2% in 2013 but does not preclude a rebound in 2015. Average GDP growth for 2010-14 was a respectable 6.3% and the highest of the ASEAN-6. A 9% annual GDP growth is out of reach in the near term, with still weak external economic conditions and increasingly constraining domestic infrastructure. Higher levels of public sector spending, increasing investment -- especially foreign -- and growth of the agricultural and mining sectors, which have high potential but are underperforming, could also raise growth much higher. The Philippine Development Plan (*PDP*) targets 7-8% growth as the level to create inclusive growth conditions. The government should focus on broadening and increasing value-added growth drivers, such as higher-value products and services in manufacturing, BPO, and export agriculture. Long-delayed major infrastructure projects should be moved to the construction stage faster. Power shortages, an extended mining moratorium, and weak growth in agriculture are among the darker clouds on the growth horizon.

Average Real GDP Growth Rates, % ASEAN-6, 1960-2014e



Sources: World Bank and Country Statistics Offices

Average Real GDP Per Capita Growth, % ASEAN-6, 1980-2013



Source: Author's calculations using IMF WEO Oct 2014 Data

## Recommendation 2



Job creation by the private sector should receive extremely high priority, to reduce unemployment and underemployment by 50% and to give Filipinos more alternatives to working abroad.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★ Started	★★★★ Started

Creating more jobs is a high priority, and the economy in 2014 saw the first significant drop in the unemployment rate to 6.4% in 9 years in the 41 million active workforce, the world's 16<sup>th</sup> largest. However, many of the new jobs created in the economy are of poor quality. Success at accelerating growth in the manufacturing and tourism sectors and reforming the long under-performing agribusiness sector could provide millions of new jobs. In December 2013, Arangkada with twenty business groups released a Manufacturing policy brief with recommendations that could generate 400,000 new jobs a year. A Mining policy brief was released by business groups in September 2014 to encourage policies to allow new investment in this sector. 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 19%. Job creation is strongly linked with the country's business climate and the government's investment and business policies. Investment growth (*fixed capital formation*) remains far lower than the other ASEAN-6. However, it is encouraging that FDI in 2014 reached its highest level ever.

## Recommendation 3

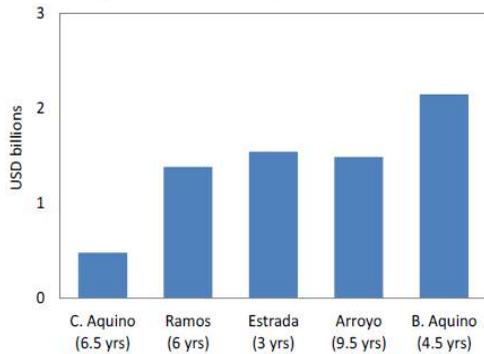


FDI should be targeted to reach over US\$7 billion a year in three to four years. FDI should also be measured in terms of job creation and exports (*products and services*) generated.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★ Started	★★★★★ Substantial Progress

Net FDI increased over 400% from 2010 to 2014 and may come close in 2015 to the levels of Malaysia, Thailand, and Vietnam. This development places Arangkada's target of US\$7.5 billion a year within reach in 2015. While Indonesia received US\$19 billion in 2013, the Philippines received a mere 1.3% of the US\$305 billion total FDI in the ASEAN-6 from 2010 to 2013, showing how much the Philippines has to catch up. DTI Sec. Domingo predicted FDI will reach US\$4.8 billion in 2014. PEZA DG de Lima reported a surge of projects amounting to US\$467 million, in January 2014, compared to US\$131 million in the previous year. However, she also reported a slowdown due to port congestion. Global FDI per UNCTAD increased by 11% in 2013, with a new high of US\$759 billion flowing to developing countries. Developing Asia is the world's largest recipient region for FDI. GPH targets for FDI remains too modest, given the great need for jobs and availability of foreign capital to invest in competitive economies. Continuing to raise the country's competitiveness ratings towards the NCC goal of the top-third globally is likely to be rewarded with strong foreign investment inflows. This will be even more true if restrictions on foreign equity are removed, infrastructure improved, rule of law strengthened, the moratorium on new mining resolved, and new FTAs with Europe and the TPP entered into.

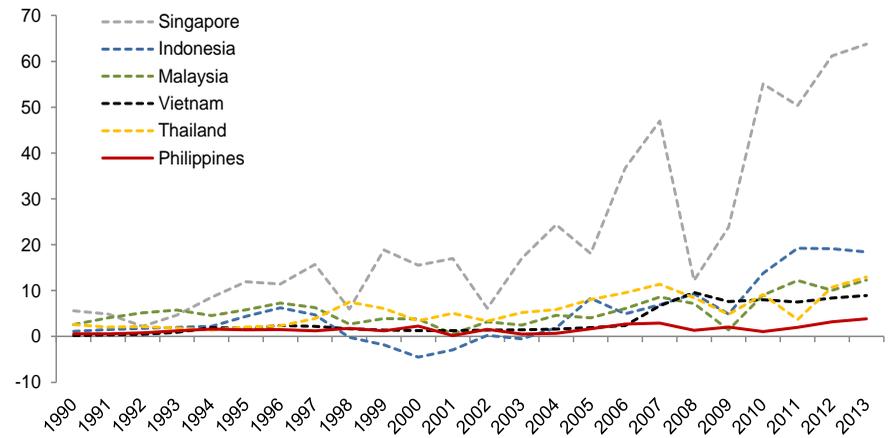
**Average Annual FDI by Administration**



Sources: WDI

Notes: Parentheses indicate the number of years served as President. In the case of B. Aquino, the number reflects the years served as of December 2014. Published in "Philippine Economic Update: Making Growth Work for the Poor," World Bank, January 2015.

**Net FDI, ASEAN-6, Bn US\$, 1990-2013**



Source: UNCTAD

## Recommendation 4

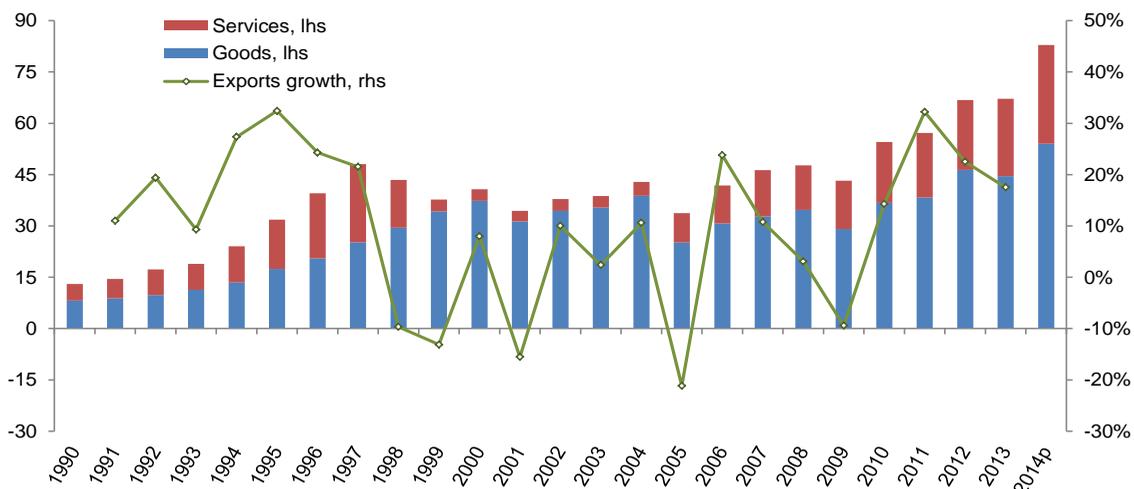


An export target of US\$100 billion in five to six years should be set, with more diversified exports and new markets.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

The goods and services export target PhilExport and DTI of US\$105 billion for 2016 represents a doubling from 2010. The target appears out-of-reach since exports of goods in 2014 (Jan-Dec) only increased 9.2% to US\$47.413 billion over the same period in 2013. Continued weak demand from several major traditional markets and slowing of the PRC economy continued to dampen export growth in 2014. Electronic products represented only 40% of total exports down from over 60% in previous years. Faster recovery of global demand for electronics should boost Philippine export growth. However, the total value of Philippine exports of goods has not increased much since 2010, slumping in 2005, then again in 2009. The government should implement reforms that will double export goods.

**Total Philippine Exports, Bn US\$, 1990-2014**



Source: BSP (BOP); 2015-2013 data - based on BPM6 concept

## Recommendation 5

 Adequate funds should be made available for international promotion of Philippine exports, inwards investments and tourism, medical travel and retirement programs.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

Overseas promotions have improved, especially in Japan and for the PPP program. DOT has more funds for foreign advertising and trade shows and sustained its “*More Fun in the Philippines*” campaign launched in 2012. Overseas investment and trade missions are focused on Japan, which has a strong presence in manufacturing. Inbound business missions have doubled indicating increased interest in the country, as well as more success by DFA and DTI in attracting such visitors.

## Recommendation 6

 A significant share of remittances should be channeled into productive investments in the domestic economy through bonds and other funds.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

Soon to reach US\$25 billion a year (*third in the world*), remittances from OFWs and Philippine immigrants are most often spent on basic consumption needs, debt, and small investments. According to the Commission on Overseas Filipinos, only 6.8% are spent on investments. Financial education for overseas Filipino workers and their families is needed. It is difficult to understand why the PERA law (*RA 9505*) that creates a new savings vehicle for OFWs remains unimplemented six years after it was signed into law. The introduction of ETFs in the PSE could provide another vehicle for small investors. The information campaign about savings options needs to be intensified. Available platforms for individual investors both in equity and bond markets are limited. Most banks are not aggressive in promoting investment vehicles other than their deposit facilities.

Domestic investments, % of GDP, ASEAN-6, 1990-2013

Countries	1990-1999	2000-2009	2010-2013	2013
Indonesia	27.57	25.00	33.40	33.64
Malaysia	36.30	22.97	24.62	26.15
Philippines	22.73	20.23	19.78	19.67
Singapore	34.65	25.38	28.64	29.05
Thailand	36.29	25.90	27.89	29.24
Vietnam	23.52	33.39	29.82	26.59

Source: World Bank

## Recommendation 7

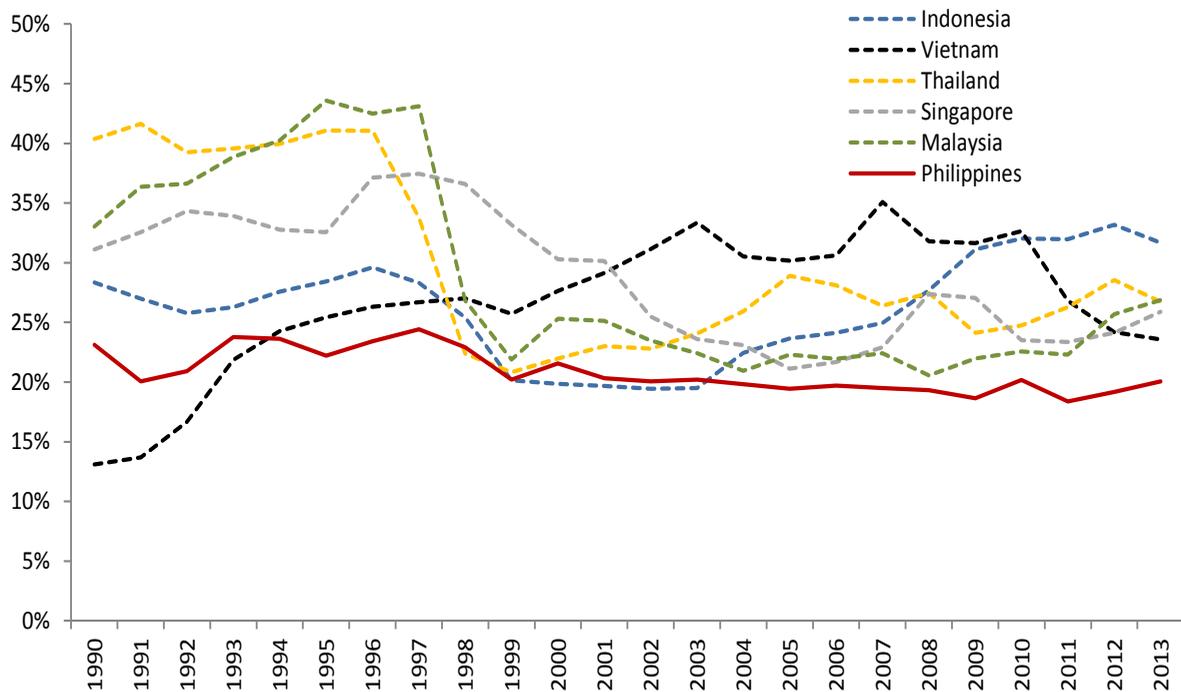


Double funds available for physical and social infrastructure, civil service quality improvement, investment, tourism and trade promotion, and other growth-promoting expenditures through less waste in government spending, more effective tax collection, and selectively increasing the Expanded Value Added Tax (EVAT), before other taxes.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

GPH revenue intake is growing with administrative reforms and public “shame” campaigns by the BIR, while the new vigorous anti-corruption campaign at the BOC only started in mid-2014. For details see Part 4: Macroeconomics. Smuggling appears to be lessening in the current administration but could quickly return in the future should the current stronger political will to reform dissipate. ACT excise tax reforms, which went into effect in January 2013, and ongoing strong economic growth are improving tax receipts. The DOF has pointed to professionals as an underpaying group that should pay Php300 billion in income tax. Corporate and individual tax rate increases are not likely as they are already among the highest in Asia. Low oil prices provide a good opportunity to raise the gasoline excise tax. Misspending is being reduced by better annually procurement procedures and increased transparency but will probably never be eliminated. Corruption convictions of major public figures are rare under the country’s glacial prosecution and trial processes. Citizen monitoring of spending is being encouraged with the open data reform of data.gov.ph. Zero-based budgets and Performance-Based Bonus System are being introduced. The annual GAA has grown 54% from 2010 to 2015 with very high growth in funding for education, health, hard infrastructure, and defense.

Gross Fixed Investments, % of GDP, ASEAN-6, 1990-2013



Sources: ADB and Country Statistics Offices

Note: The PH data from 2000 onwards are not linked to the back years' data

## Recommendation 8

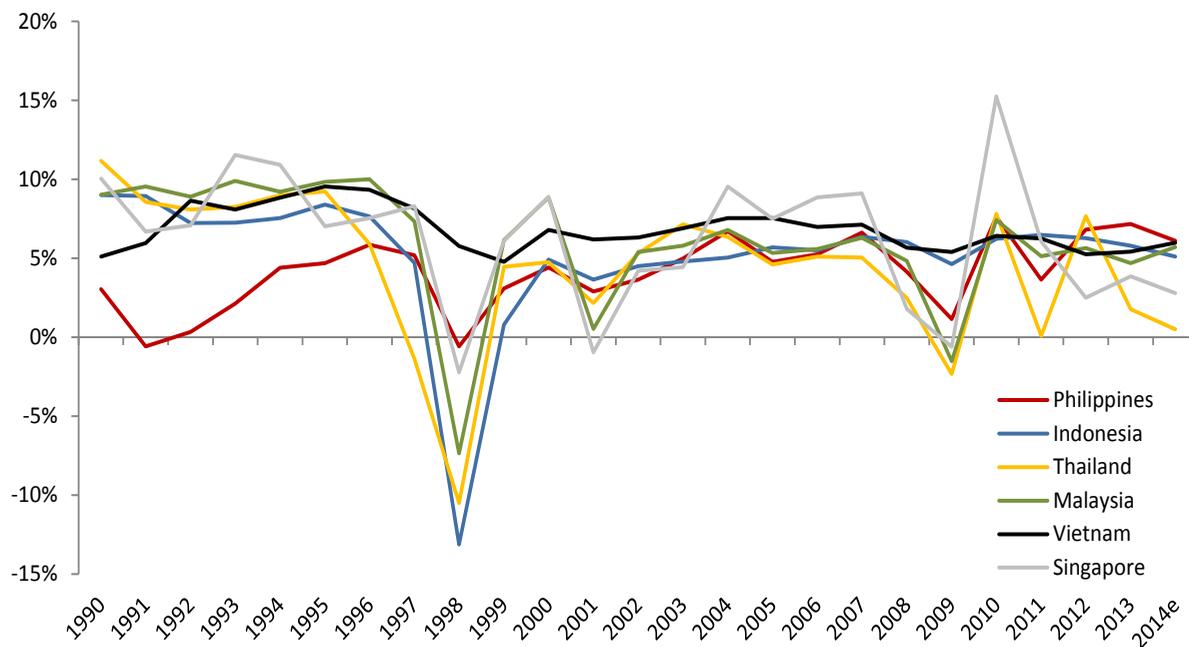


Public and private sectors should organize a Special Experts Group comprising economic, business, labor, and government leaders to recommend key reforms to make the economy grow at least 9%.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress

While the president has not seen a need to organize a Special Experts Group to advise him, there is substantial interaction between public and private sectors at senior levels. The National Competitiveness Council brings public and private sector experts together in 12 Working Groups to monitor specific policy and program implementation and to move reform proposals through the Economic Development Cluster. *(However, the NCC website discusses few details of these activities and the pace of work of the NCC seems to have slowed).* The NCC focuses on reforms needed to improve competitiveness rankings, with positive results in most major international rankings (see Part 2: *Become More Competitive*). The Institute for Solidarity in Asia with private sector volunteers is managing the Performance Governance System tracking critical measures for organizational reform in over 20 participating national government agencies and LGUs. Philippine Business Groups and the JFC wrote two letters to President Aquino in 2013 and 2014 and met twice with the Economic Cluster in 2013 to discuss reforms included in the letters. The DTI revised the Industry Development Council (IDC) in 2014 with senior public and private sectors members. The IDC was first established by President Ramos to create a national strategy to boost manufacturing. Similar councils for agricultural and mining could help solve challenges that are blocking the high potential growth of both of these sectors.

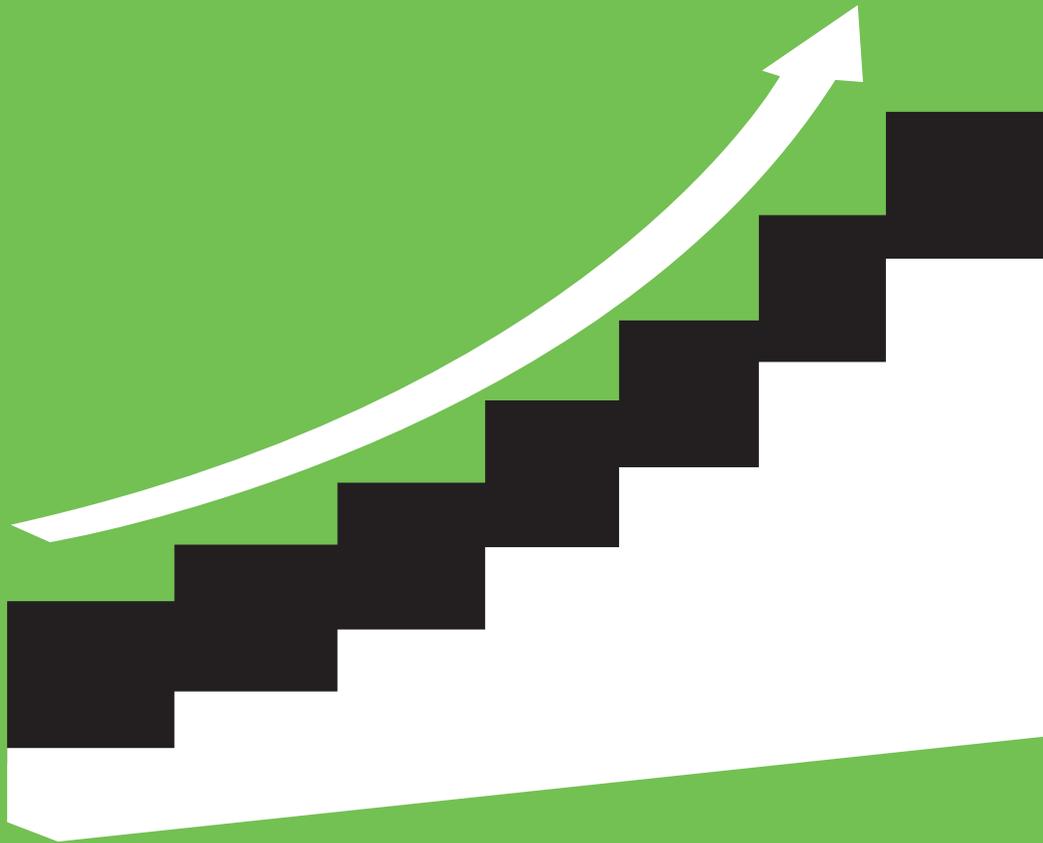
Real GDP Growth Rates, % ASEAN-6, 1990-2014e



Source: World Bank and Country Statistics Offices

## PART 2

# Becoming More Competitive



### Recommendations: 3

2014	Active	■ NLR
2013	Active	■ Active
2012	Active	■ Dormant
2011	Active	

### Progress:

0 Declined      3 Steady      0 Improved      0 Neutral

### Rating:

0	☆ No Longer Relevant	0	★★ Backward/Regression	0	★★★ Not Ongoing
1	★★★★★ Started	2	★★★★★ Substantial Progress	0	★★★★★ Completed

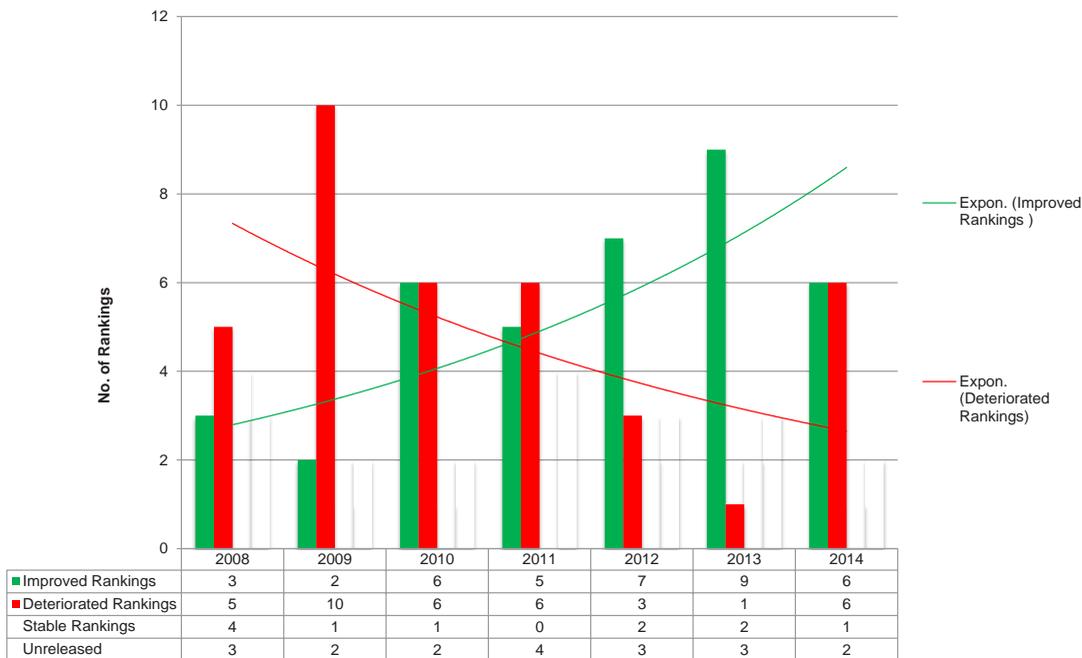
## PART 2

# BECOMING MORE COMPETITIVE

“Ultimately a competitive mindset will drive the Philippines to the top third of global rankings.”- *NCC Statement Year End 2014*

While Filipinos are highly competitive in the world job market, the country’s domestic competitiveness has much room for improvement. Global rating surveys abound with ever-expanding coverage, stimulated by the globalization of investment, trade, and information. After a downward trajectory in international competitiveness rankings, the Philippines has reversed direction, making significant gains in closing gaps with several of comparable regional economies. This improvement can be credited to the reform programs of the Aquino Administration and to more systematic efforts undertaken by the National Competitiveness Council. These efforts must be sustained and accelerated to produce further encouraging results and to achieve the target of being rated in the top one-third globally.

**Changes in 15 PH International Competitiveness Rankings, 2008-2014**



Source: AmCham-TAPP, Forbes Magazine, Foreign Policy, Heritage Foundation, IMD, Property Rights Alliance, TI, UNDP, UNPAN, WEF, World Bank, Yale Center for Policy and Envi. Law Policy

### 10 Lessons on Competitiveness by Guillermo M. Luz (Private Sector Co-Chair, National Competitiveness Council), PDI, 12/22/12

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

## Recommendation 1

 The Philippines should undertake aggressive efforts to improve its rankings faster. The government and private sector should select areas of competitiveness (*whether low- or medium-ranked*) which are most important to investors and where the Philippines can move up the most and the fastest and focus resources on improving these.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

The campaign to improve the country's key global rankings is well underway but could move faster. Domestic and foreign business groups continuously advocate reforms in the business and investment climate. The NCC lists 14 working groups (*see [www.competitive.org.ph](http://www.competitive.org.ph)*) focused on key reform areas. NCC systematically seeks to raise Philippine rankings into the top 1/3 of 5 global ratings: 1) IMD World Competitiveness Yearbook, 2) TI Corruption Perception Index, 3) WEF Global Competitiveness Report, 4) IFC-WB Doing Business Report, 5) Future Brand Country Brand Index. The Philippines has posted the biggest improvements in ASEAN over three years in the World Economic Forum Global Competitiveness Report (+33) and Global Enabling Trade Report (+28), World Bank-International Finance Corporation Doing Business Report (+53), Transparency International Corruption Perceptions Index (+49), and the Heritage Foundation Economic Freedom Index (+26). It has expanded its list of major global competitiveness reports that it tracks for Philippine performance ratings to a total of 12, and in 2014 improved in 7 of the 12. But the competition never sleeps, the bar always moves up, and more key decision-makers should embrace the ethic of change more rather than resist it.

PH Competitiveness Rankings, 2008-2014

Survey	Ranking					Trend	Sources
	2008	2010	2012	2013	2014		
1. Best Countries for Business	91 of 121	91 of 128 (2010)	87 of 141	90 of 145	82 of 146	Improved	Forbes Magazine
2. Fragile States Index <sup>1</sup>	59 of 177	51 of 177	56 of 177	59 of 178	52 of 178	Deteriorated	Foreign Policy Magazine / The Fund for Peace
3. Index of Economic Freedom	98 of 156	109 of 178	107 of 179	97 of 177	89 of 178	Improved	Heritage Foundation / Wall Street Journal
4. World Competitiveness Yearbook <sup>2</sup>	40 of 55	39 of 58	43 of 59	38 of 60	42 of 60	Deteriorated	International Institute of Management Development
5. International Property Rights Index	62 of 115	80 of 125	87 of 130	77 of 131	Removed from list <sup>3</sup>	Stable	Property Rights Alliance
6. Corruption Perception Index	141 of 180	134 of 178	105 of 174	94 of 177	85 of 175	Improved	Transparency International
7. Human Development Report <sup>4</sup>	90 of 177	97 of 169 (2010)	112 of 187 (2011)	114 of 186 (2012)	117 of 187 (2013)	Deteriorated	United Nations Development Programme
8. E-Government Readiness Survey <sup>4</sup>	66 of 182	66 of 182	88 of 190	---	95 of 193	Deteriorated	United Nations Public Administration Network

Survey	Ranking					Trend	Sources
	2008	2010	2012	2013	2014		
9. Doing Business	141 of 183 (2008-2009)	134 of 183 (2010-2011)	138 of 185 (2012-2013)	86 <sup>5</sup> of 189 (2013-2014)	95 of 189 (2014-2015)	Deteriorated	World Bank
10. Investing Across Borders	87 countries	87 countries	87 countries	---		---	World Bank
11. Paying Taxes	129 of 181 (2008-2009)	124 of 183 (2010-2011)	143 of 185 (2012-2013)	131 of 189 (2013-2014)	127 of 189 (2014-2015)	Improved	World Bank
12. Global Competitiveness Report	71 of 134	85 of 139	65 of 144	59 of 148	52 of 144	Improved	World Economic Forum
13. Global Enabling Trade Report	82 of 118	92 of 125	72 of 132	---	64 of 138	Improved	World Economic Forum
14. Travel & Tourism Competitiveness	81 of 130	---	---	82 of 140	---	---	World Economic Forum
15. Environment Performance Index	41 of 132	42 of 132	42 of 132	---	114 of 178 <sup>6</sup>	Deteriorated	Yale Center for Environmental Law and Policy

Note/s:

<sup>1</sup> Title of report changed to fragile states to emphasize human security component of measures on state failure

<sup>2</sup> Vietnam is excluded

<sup>3</sup> Philippines removed due to refinement in methodology; data accuracy and completeness cited as one of the reasons for exclusion

<sup>4</sup> Each annual report always contains data from the previous year since 2010

<sup>5</sup> World Bank issued an erratum on the Philippines ranking based on a methodological refinement

<sup>6</sup> Yale revised their methodology and included more countries in the sample

## Recommendation 2

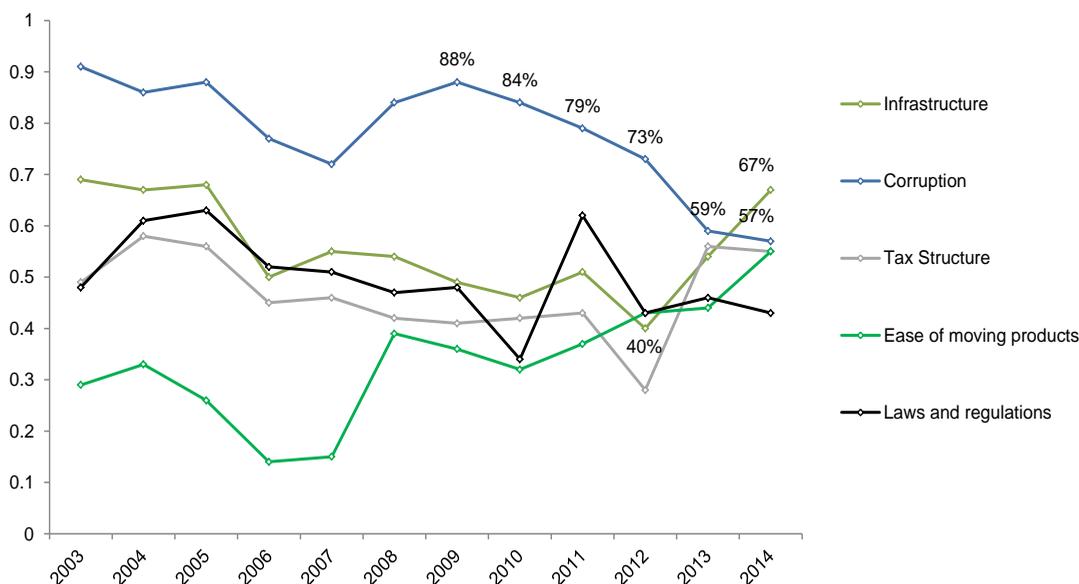
 The government and private sector should identify areas where the Philippines is weakest and plan effective strategies to improve rankings. The Philippines should maintain and improve those high-rated strengths it has in competitiveness ratings. Because corruption adds to business costs, most competitiveness surveys rank corruption as the most serious problem negatively affecting the Philippine investment climate. The government should join hands with the private sector to fight corruption through the Integrity Initiative driven by the Makati Business Club and the JFC.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

The weakest areas are well-known and are being focused upon by the NCC. Top concerns such as corruption, infrastructure, and education are being addressed (*but could regress under different national leadership*). Convictions for corruption are still few, and cases still take years to move through the courts. Some significant cases against public officials and business persons 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 fourth Integrity Summit in 2014. However, the SWS Enterprise Survey showed limited progress in private sector propensity to bribe government officials. Poor infrastructure has replaced corruption as the top concern of the

business sector. In the annual AmCham Gallup Survey of areas of dissatisfaction and satisfaction, infrastructure has become the top concern (67%), followed by corruption (57%), ease of moving products (55%), and tax structure (43%).

**AmCham Surveys,  
Areas of Dissatisfaction (%), Philippines, 2003-2014**



Source: AmCham Gallup Surveys/ Asean Business Outlook Surveys

### Recommendation 3

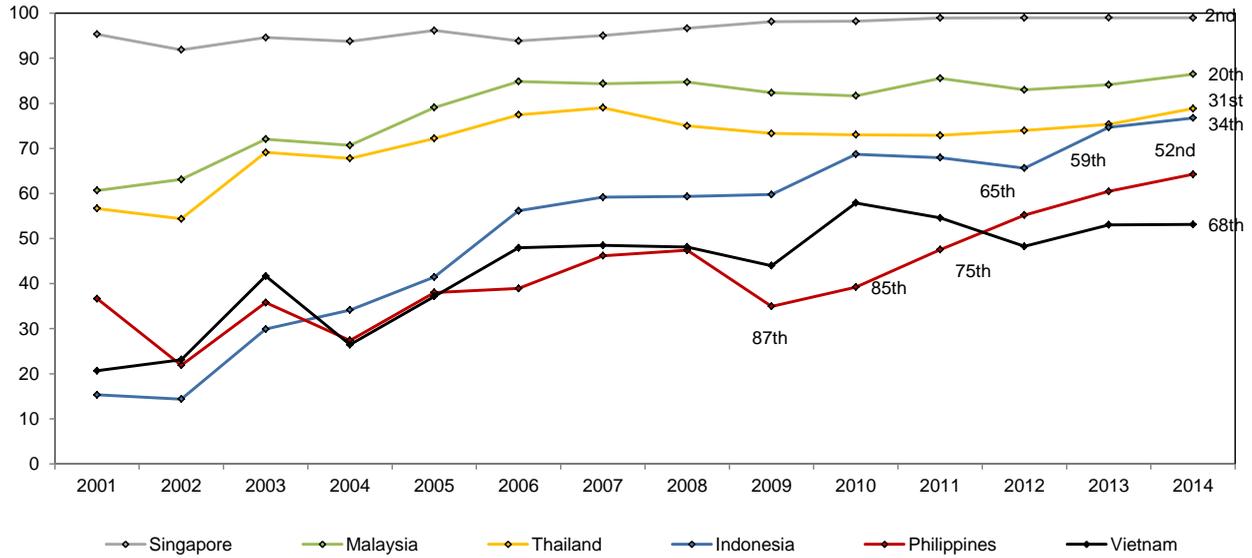


The country should create a national psychology to improve international competitiveness ratings overall and in specific critical areas, encouraging public discussion and support for solutions. Cabinet secretaries should be asked to formally incorporate competitiveness improvement into the programs of their departments. The president could report to the nation in the State of the Nation Address (SONA) on the state of national competitiveness. The Office of the President could prepare a public statement (after consulting with stakeholders) on new laws, before enactment, on whether the law will help or harm national competitiveness and veto the law if it is harmful.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Started	★★★★★ Started	★★★★★ Started

While individual Filipinos are competitive, a national culture of competitiveness has been slow to grow when combined with a high rate of population growth, hence the domestic economy is not creating enough jobs, and working abroad in the option chosen by more than one million Filipinos each year. The public-private NCC has organized competitiveness councils around the country and is the main proponent of becoming more competitive. The NCC in 2014 released a Cities and Municipalities Competitiveness Index that covered 535 LGUs. For 2015, NCC plans to cover more than 1,000. Too many LGUs act against national government policy, delaying projects of national importance. A strong bureaucratic propensity to overregulate persists; sunset provisions do not exist. The president made Chinese New Year a paid holiday without public consultation. The negative impact of such policies on national competitiveness is not fully taken into account. Remittances have become a major driver of the economy.

**World Economic Forum  
Global Competitiveness Index  
ASEAN-6, Percentile Ranking, 2001-2014**



Sources: World Economic Forum, author calculation

Note: N=75 (2001); 80 (2002); 102 (2003); 117 (2005); 122 (2006); 131 (2007); 134 (2008); 133 (2009); 139 (2010); 142 (2011); 144 (2012); 148 (2013); and 144 (2014).

**PART 3**  
SEVEN BIG WINNER SECTORS

# Agribusiness



## Recommendations: 18



### Progress:

1 Declined      14 Steady      3 Improved      0 Neutral

### Rating:

0  No Longer Relevant	0  Backward/Regression	1  Not Ongoing
16  Started	1  Substantial Progress	0  Completed

# PART 3

## SEVEN BIG WINNER SECTORS

# AGRIBUSINESS

“Not counting the efforts of earlier governments since the 1930s, the current Comprehensive Agrarian Reform Program (*CARP*) and its five-year extension under *CARPER* is now 26 years old, one of the longest in the world, and yet no significant development has been made in that sector.” - *Philippine Development: Creating More and Better Jobs*, World Bank, December 2014

“The main domestic challenge that faces the Philippines today is how to increase employment as to reduce poverty - especially in rural areas. For inclusive development, agricultural and rural projects need to be pursued, including the establishment of factories processing local produce. Small-scale farming by land reform beneficiaries has not improved productivity.” - *Cesar E. A. Virata, former Prime Minister, East Asia Forum Blog, January 3, 2013*

“With over one million Filipinos entering the labor force each year, the service sector alone cannot absorb them all...No surprise, then, that poverty has barely declined in recent years or that the country’s per capita GDP is the lowest among ASEAN’s core five. To reverse these trends, the country has to create jobs for semi- and unskilled workers in manufacturing and agriculture. But doing that, in turn, will require attracting more foreign investment, which for the Philippines is currently among the lowest in Asia...” - *Karen Brooks, former Asian Affairs Director, US National Security Council, Foreign Affairs, January-February 2014*

Although 30% of employed Filipinos worked in agriculture in 2014, Philippine food exports were less than 5% of the ASEAN-6 total. By contrast, Vietnam has tripled its share of the ASEAN total since 1997, while the share of the Philippines actually declined. Growth in Philippine agricultural export value has been very slow, while such exports of Indonesia, Malaysia, Thailand, and Vietnam skyrocketed 5- to 8- fold in the past two decades. Nevertheless, the Philippines has very high potential to export large quantities of specialized food products exploiting a multitude of new market opportunities from present and future Free Trade Agreements. 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 more investment. The Comprehensive Agrarian Reform Program Extended with Revisions (*CARPER*), which ended in mid-2014, has discouraged needed capital investment in agribusiness for over 25 years. Opportunities are opening in the Bangsamoro region as the government and the MILF move ahead with a settlement to 42 years of conflict.

In a meeting in January 2015, DA Secretary Alcala provided the JFC with a recommendation-by-recommendation commentary on all 18 Arangkada recommendations for Agribusiness. The only government agency previously to have done this is DOLE. Because such discussion between 16 public sector officials and private investors is important, we have included each comment of DA immediately following the assessment of each recommendation.

# Recommendation 1



Philippine agriculture needs to explore fully the immense new market opportunities that AFTA and other new FTAs present for both traditional and new agricultural exports. The farming sector should be made more aware of these enhanced export opportunities, as well as the principal threats from imports, so the sector can better adjust to increased competition.

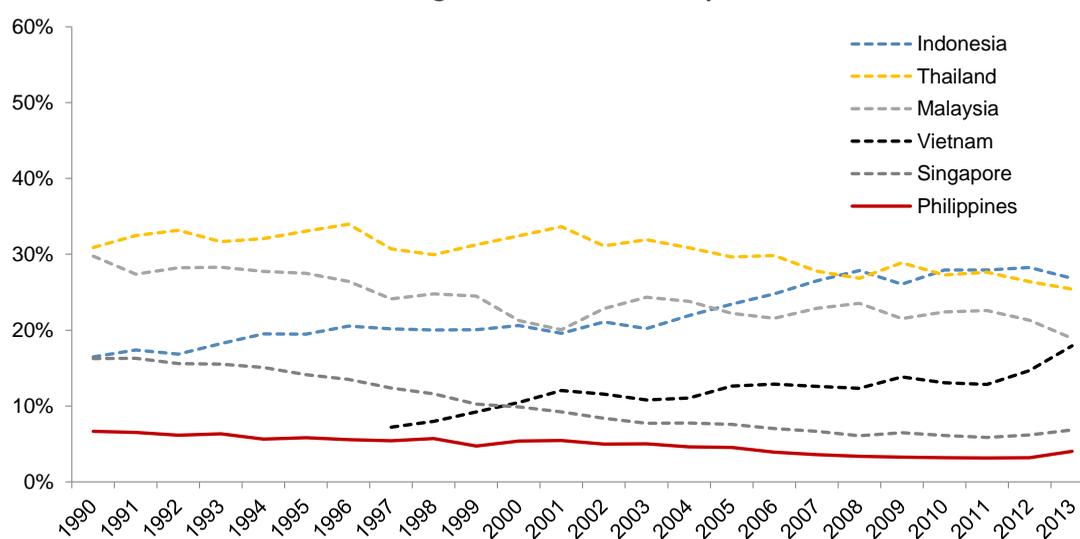
2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★ Not Ongoing	★★★★★ Started	★★★★★★ Substantial Progress

There is substantial progress, but not as much as it should be. Labor cost has been identified as the main cost problem in rice, which can be solved with intensified mechanization. Block farming and mill modernization are ongoing with sugar plus ethanol and energy production from biomass. Exporting to the region is gaining place, but the GPH needs to articulate a clearer policy in this area. Exports remain at modest levels. Farmers should be further educated on FTAs and the opportunities they present. At the same time, the government should urgently develop, communicate, and execute plans to deal with those agri-sectors that may be affected by cheaper imports. The vulnerable sectors (*e.g. rice and sugar*) should be focused on the critical need for substantial increases in productivity to be able to compete with imports.

## DA comment

Agricultural food exports registered over 32% increase from 2011 to 2013. Top performers were fish and fish preparations (+78.84%), vegetables and fruits (+40.47%), coffee, tea, cocoa, spices and manufactures thereof (+12.88%). Agriculture trade deficit was down to US\$1.48B in 2013 from US\$3.23B in 2010. Emerging coco-based products have also increased significantly particularly, virgin coconut oil and coco sugar. All these were possible due to enhanced cooperation between the DA and the private sector in the areas of compliance with product standards and Good Agricultural Practice for various commodities. Philippines is a party in FTAs with some of its top trading partners that helped to boost trade performance.

Share in ASEAN-6 Agricultural Products Exports, 1990-2013



Source: WTO; No data for Vietnam before 1997

## Recommendation 2



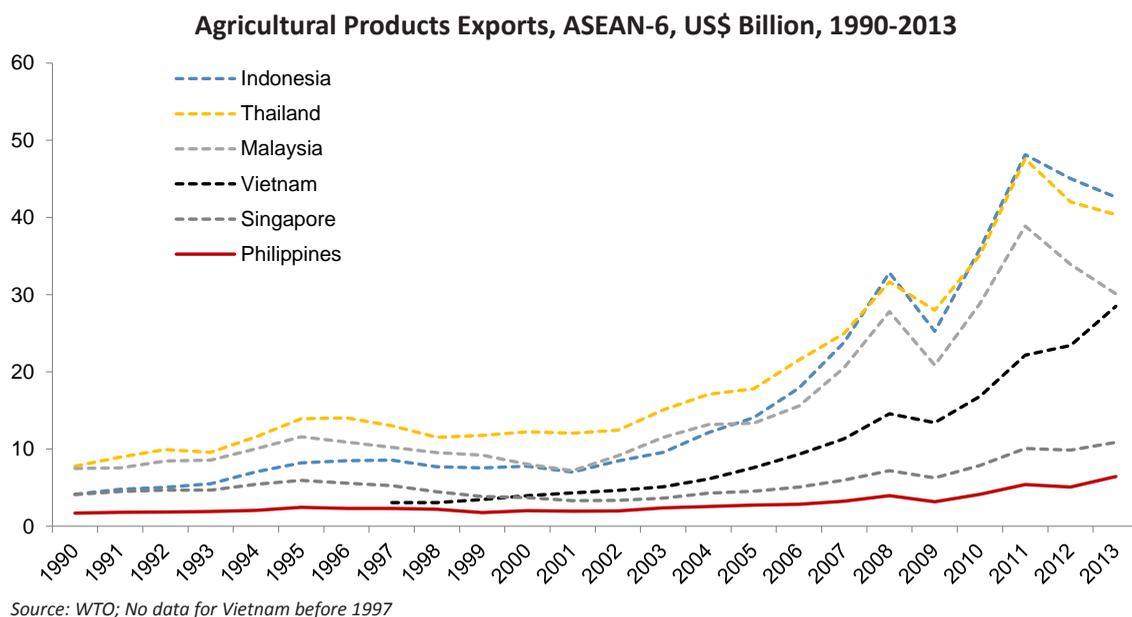
Increased efforts must be made to reduce the cost of farm inputs, such as labor, machinery, insecticides, fertilizer, and transport, to support the survival of current producers and to increase exports. Lowering the cost of farm inputs becomes even more important under a more competitive free trade regime. Road and port infrastructure must be improved in order to reduce ground and sea transport costs, irrigation must be expanded and better maintained. There must be less government red tape and lower prices for fertilizer and insecticides.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

Significant developments include: 1) the Farm Mechanization Act was enacted, 2) there are substantial improvements in road infrastructure, 3) there is more spending on irrigation, and 4) consolidation of the sugar industry is ongoing. While FTAs have helped ensure that commodity inputs are competitively priced, more should be done to improve the quality and ongoing availability of locally grown commodities. For example, the supply of quality corn during the off-season months can be improved if efficient mechanical drying capacity and better post-harvest storage facilities are made available. The government should continue investing in more farm-to-market roads and better port facilities. Allowing the entry of approved Genetically Modified Organisms products with appropriate regulation has benefited the Philippines from the availability of agricultural commodities of good quality at the best possible cost. In the rehabilitation of the Typhoon Yolanda affected areas, the government has an opportunity to develop a more coherent and effective agriculture strategy for the farms in the damaged regions. The sector is also beginning to benefit from new higher-yielding rice varieties.

### DA comment

Through timely and effectively guaranteed financing farmers can access better prices of farm inputs. Affordable credit, expanded crop insurance, and guarantee coverage were the main instruments specifically designed for specific commodities including rice, corn, bananas, livestock, and fisheries. Budget increases for agri-fishery infrastructure were highest during the last three years.



## Recommendation 3



The GRP should do more to encourage ASEAN to develop common rules for their agricultural markets and reduce behind-the-border barriers.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

Quantitative restrictions for rice will persist probably up to 2017. Harmonization of phytosanitary standards is ongoing. With harmonized standards, Philippine food exporters will benefit from the ability to export one common product to multiple markets, as opposed to customized and more costly products for each market. The temptation to use technical import barriers, such as setting impractical or unrealistic product quality, packaging, labeling, or product handling standards in the guise of “*food safety and health concerns*” is growing and should be resisted. Setting the right rules and standards for “*food safety*” is essential, but these should be “*science based*” and realistic.

### DA comment

*Philippine participation in ASEAN integration events have allowed us to harmonize Philippines regulations with that of other ASEAN countries. The more important focus is to demonstrate the gains realized from compliance with the opening of more business opportunities. While the Philippines is committed to developing and harmonizing regulatory standards, it does not mean relaxing its own regulatory controls. In fact, in light of the freer flow of goods, DA is implementing measures to strengthen regulatory controls to ensure that food is safe for consumers and to prevent the entry of pests and diseases as well as to help agricultural exporters comply with the requirement of trading partners.*

**Agricultural Goods and Food Exports, ASEAN-6, US\$ Billion, 2013**

Countries	Agricultural goods			Agricultural food exports, % of total agricultural exports	Agricultural Area, in ('000 Ha), 2012
	Exports	Imports	Trade Balance		
Indonesia	42.63	21.51	21.12	0.75	56,500.00
Malaysia	30.10	19.99	10.10	0.84	7,749.50
Philippines	6.42	7.16	-0.73	0.91	12,395.00
Singapore	10.88	14.31	-3.42	0.89	0.73
Thailand	40.36	16.65	23.71	0.73	21,860.00
Viet Nam	28.50	15.82	12.67	0.82	10,842.00

Sources: WTO and FAO (for agricultural land area as of 2012)

## Recommendation 4

-  To reduce costs and increase efficiencies there must be increased integration – backwards and forwards – in priority agriculture subsectors, such as grains/feeds and livestock and poultry growing. Small crop farmers should increasingly be linked in consolidated or cooperative arrangements with large companies in order for their products to be more competitive, in domestic as well as export markets. 40 Integrator companies should provide a guaranteed market and guaranteed floor price and otherwise facilitate support to small farmers. Farmers need to observe their commitments under contract-type arrangements regardless of market conditions.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★ Started	★★★★ Started

Integration has been very slow due to lack of effective farmer organizations. The need for production clustering is recognized but examples are very few and far between. There is an increasing number of commercial hog and poultry farms 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. However, the position of small- and mid-sized farmers in this equation remains relatively weak. More companies (*integrators*) 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. The government needs to invest in educating farmers to successfully negotiate and seal reasonable and sustainable business deals with integrators.

### DA comment

*With the DA's "farm-to-table" or value-chain orientation in service delivery, intervention have been focused not only on production support but has included market linking and agri-fishery infrastructure.*

## Recommendation 5

-  Replicate the Unifrutti-La Frutera model combining foreign capital, Filipino agribusiness expertise, and Muslim land and workers in other conflict-affected areas. Target areas should be identified for investment, with partial local financing, and promoted to domestic and foreign investors. Local infrastructure – ports, power, and roads must be improved.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★ Started	★★★★ Started	★★★★ Started

Additional investments are coming in, such as Dole in pineapple, banana plantations of Del Monte and Unifrutti, Agumil and Filipinas Palm Oil's palm oil operations, Unifrutti's planned expansion in ARMM, and a similar expansion by La Frutera. These investments come as road infrastructure needed improves and has been identified for specific investments. But other companies are still wary of investing in Muslim Mindanao (*or Bangsamoro*) due to peace and order concerns. Hopefully, with fast progress on the implementation of the Bangsamoro Basic Law, more companies will seriously consider investing there. Potential investors should be

briefed on details of the peace accord, what are the next steps, and the most promising areas of investment. Emphasis can be given on the availability and relative ease in consolidating larger tracts of land for large scale farming operations. 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](http://www.braintrustinc.org).

**DA comment**

For Unifrutti’s expansion in the ARMM, the DA-PRDP is investing PhP259 million to build 21.6 kilometers of farm-to-market roads that will connect the expansion areas in two municipalities of Maguindano. Similar proposals are being pursued, but there is need to ensure that the interest of the corporate partners goes beyond selling planting materials thru government programs

## Recommendation 6

 Encourage firms and NGOs to engage in upstream *“fair trade”* development for upland farming communities (e.g. in coffee), which can protect and reforest areas, preserve watersheds, and enhance irrigation.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

This is ongoing in coffee (both arabica and robusta). Cacao production is being promoted for intercropping in coconut lands, and rubber for reforestation. Work on establishing standards and a certification program for sustainable coconut oil has made good progress. This will help provide some differentiation and increase the attractiveness of Philippine coconut oil.

**DA comment**

Under the National Greening Program, the DA supported the planting of fruit-bearing trees for reforestation projects in collaboration with the Department of Environment and Natural Resources.

## Recommendation 7

 Development of new export crops and products must continually be encouraged. Examples include biodiesel components (e.g. palm oil and jatropa), coffee, mariculture, organic food products, and rubber.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

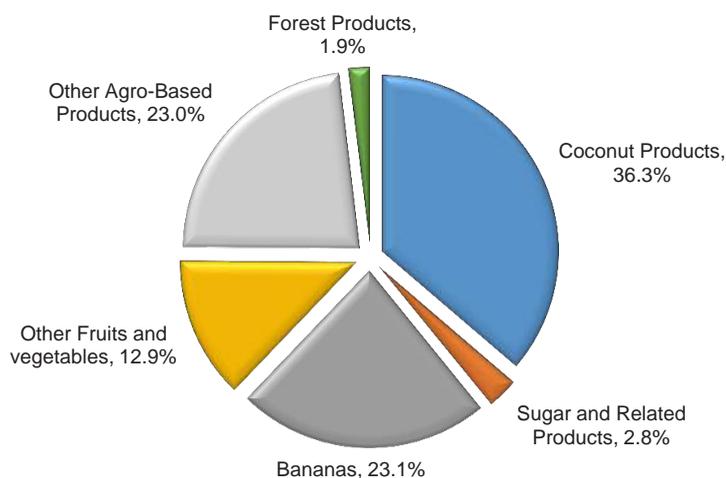
There are efforts to expand the coconut water exports of the Philippines. There is ongoing work with coconut oil mills in trying to capture the water that would otherwise get thrown away by copra producers. There are also expansion in the palm oil industry, increased rubber plantings, and more mariculture parks. 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. More ethanol production is planned for import substitution. Increased rubber and palm oil plantings are ongoing, and there is increasing production of organic products. There is great interest in increasing domestic cacao production to meet rising local demand and to take advantage of the significant supply shortfall in Asia today. The Philippines is an ideal place to produce cacao.

**DA comment**

*The export figures cited in item 1 indicate the recorded increase in emergent export commodities although there is still much work to be done*

**Agriculture and Forest Products Exports Distribution, %, 2014**



Source: PSA

**Recommendation 8**



More zoning of agricultural lands should be done with the close involvement of the private sector in selecting the most suitable crops, with priority given to export winner crops, such as banana, mango, pineapple, and other fruit and vegetables. Export crop production zones should be designated, supported by private sector post-harvest and processing facilities. The export cropland identification program of the DA should be strengthened.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started

First and foremost, the government has to complete and release the agricultural roadmaps for various key crops and activities in the country. This will provide the appropriate framework for the private sector to identify where and how it wishes to participate in the sector. There is still no deliberate program on export crop production zones by the national government. This was done in the 1990s, but now needs to be revalidated/refined and implemented. There has been no deliberate program formally established as yet by the government. Political interests will continue to be a key hurdle, but the current government is in a good position to move this issue forward. The Land Use Policy Act could pass in the 16<sup>th</sup> Congress, but the Land Administration and Reform Act is progressing more slowly through Congress and did not pass in the 15<sup>th</sup> Congress. The private sector is identifying the most suitable areas for production of different crops. As such, post-harvest and processing facilities are being established in those areas.

#### DA comment

The DA-Bureau of Soils and Water Management, with support from the World Bank, developed the Vulnerability and Suitability Assessment (VSA) that ranks all municipalities throughout the Philippines according to soil suitability to certain crop groups and exposure to climate risks of flooding and drought. This VSA guides the project vetting under the PRDP.

### Recommendation 9

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

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

High logistics and transport costs have been identified. Suspending the cabotage law continues to be faced with opposition, but the high cost burden of government fees, taxes, and regulations on the shipping sector is beginning to receive attention. Port congestion is a new issue that needs urgent and effective resolution. Port congestion in Manila has driven more shipping activity into Subic and Batangas ports. This is a positive development, but its impact is muted by the fact that these same vessels need to call on the Manila port as well, thus not entirely avoiding the congestion. More work on dealing with congestion is necessary. The National Competitiveness Council has established a committee to look into the agricultural sector and related logistics issues in the country.

#### DA comment

Farm-to-market roads are key to market access for most producers and for less costly process of product consolidation. The backlog is simply so huge with only 3.5% of barangay roads paved, based on a 2012 DPWH report. Under the current administration, FMRs are now concreted and built according to standards set by the DPWH and located at sites identified and validated by the DA. Geotagging is an important tool that tracks projects from inception to completion reducing duplication and allowing real-time monitoring.

### Recommendation 10

- Seek to reduce domestic shipping costs. The cabotage provisions of Philippine marine law should be reviewed, joint ventures between Filipino and foreign shippers should be duplicated, and the Roll-on/Roll-Off (RO-RO) system completed and expanded in order to increase competition and reduce domestic shipping costs.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

There has been very little progress in reducing shipping costs in spite of more intensified advocacy. 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. The president mentioned the need to review and amend the cabotage provisions in maritime laws in his 2013 State of the Nation Address. Limited amendments to the cabotage laws are expected to pass in the 16<sup>th</sup> Congress.

**DA comment**

*The DA supports this and continues to lobby for pertinent legislation.*

## Recommendation 11

 Encourage more tube wells powered by pumps and small windmills. Tube wells are more efficient than gravity systems.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★ Started	★★★★ Started	★★★★ Started

More budgetary requirements have been provided. The challenge is on the faster and more efficient deployment of this much-needed infrastructure. Although recognized, there is still no substantial progress.

**DA comment**

*The Bureau of Soils and Water Management has submitted its master plan. Priority is focused on repairs and completion of unfinished projects.*

## Recommendation 12

 Increase research and development programs and spending. Drought-resistant food and fodder crops and “floating rice” varieties should be prioritized. Seed improvement and development should be a priority, and more companies should engage in these activities.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★ Started

Different rice varieties that are drought-resistant or more tolerant to flooding and high-salinity water are being developed and introduced. There are substantial increases in R&D investments but more substantive results are awaited. The government is commended for support of safe and responsible biotechnology. In addition to the broad adoption of biotech corn, the International Rice Research Institute and 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 biotech crops should benefit both farmers and consumers. Legal setbacks in the Court of Appeals around BT eggplant field trials pose a risk for the development and commercialization of other GM crops.

**DA comment**

*Green Super Rice (GSR), a multi-stress resistant variety has been tested at 10 research stations of the DA. Local farmers have started to adopt. PhilRice and IRRI’s climate resilient varieties are also distributed to various areas through community seed banks and other associations.*

## Recommendation 13

- Information on Philippine agribusiness best practices should be better disseminated to existing and potential farmers and investors. Persuasive case studies can interest and persuade investors. Publish research studies on actual farm practices more rapidly.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★ Started	★★★★ Started	★★★★ Started

This is being done, but the implementation of best practices is still spotty due to poor extensions services. The Philippine Council for Agriculture, Aquatic, and Natural Resources Research and Development is active in the publication and dissemination of information. However, many campaigns are not sustained to the point of changing farmer behaviors. There should be a 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. When promoting the introduction of new crops or working on scaling up production of existing high potential crops, the educating and training of farmers component of the strategy needs to be well developed since, inevitably, many small holder farmers will need to be involved.

### DA comment

*Palayamanan is a farm system and diversification scheme that is developed in all regions of the country. These are showcases of farm-based enterprises. In 2015, these enterprises are targeted to earn at least Php1 million annually.*

## Recommendation 14

- Put in place a more effective network of analytical and testing laboratories in key regions. Accredit these facilities to international standards to comply with the US Food Safety Enhancement Act, the Japan Food Safety Law, and others.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★ Started	★★★★ Started

More but not enough investments by government are ongoing 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.

### DA comment

*The Food Safety Law passed in 2013 and its IRR completed in 2014 provide these laboratories. The budget for 2014 and 2015 include the upgrading and establishment of these laboratories.*

## Recommendation 15

-  Ramp up agricultural education and training programs, focusing on entrepreneurial skills for high school and college students. Create a stronger agribusiness development curriculum. Prioritize schools in Mindanao. Foreign technical assistance should be provided to improve agricultural education. Training models from France (*family farm schools*), Germany (*dual training centers*), and Switzerland (*agricultural entrepreneurship training*) can be applied to the Philippines.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

There is some progress but it remains slow. There are some good agriculture programs available at 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.

### DA comment

*In collaboration with the Food and Agriculture Organization, the Farmer's Business School (FBS) course was developed, initially piloted in two provinces covering 26 municipalities. Today, Nueva Vizcaya is positioning the province to supply organic oranges and onions for the ASEAN market. The FBS has trained some 1,610 lead farmers in the FBS.*

## Recommendation 16

-  Farmer groups need support to establish strong cooperatives, especially through development of competent managers and financing.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

Some integration of financial cooperatives (*banking and insurance*) is ongoing. Work on this is being done by bigger cooperatives, but assistance is needed for smaller ones. The need is recognized, but the consolidation of cooperatives is more the exception than the rule due to parochial issues.

### DA comment

*The DA's Agricultural Training Institute has various programs that address this. The DA is not limited to the cooperative setup. The emphasis is on the inclusiveness of the enterprise design allowing farmers and fishers to benefit from the gains in value adding.*

## Recommendation 17



A working group comprising of public and private sector experts and donors should study the Agribusiness Investment Fund concept.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

This has not generated enough public nor private sector interest. This is being done on an individual basis in the private sector, but interest has been very modest. Some initial interest from the public sector has been observed but there are no ongoing discussions at present. The Land Bank of the Philippines (*LBP*) Charter was renewed in 2013. The government did not make 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.

### DA comment

*This needs further discussion. Meanwhile, the credit schemes are focused on expanding the number of individually bankable farmers through the Sikat Saka Program that started with farmers in irrigated lands in four provinces in 2012. The program expanded to 25 provinces by 2014 and is set to cover 45 provinces by 2015. This is a joint program of the DA and the Land Bank of the Philippines. The model is being adopted for lending programs for other commodities.*

## Recommendation 18



Several legislative reforms should be undertaken. CARP should end in five years and limits on landholding lifted. A subsequent law should allow large corporate farms based on acquisition of smaller farms. The Farm Land as Collateral law should be passed to allow agrarian reform beneficiaries to sell or mortgage their land. Mandated lending policy in the Agri-Agra law should be made optional, allowing the market to determine bank lending while government banks can be more active in lending to small farmers.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★ Not Ongoing	★★★ Not Ongoing	★★★★ Started

The CARP Law expired on June 14, 2014, but there is still uncertainty over coverage. It appears a bill to extend it by two years could be difficult to reconcile as the Senate-passed version and the House committee report differ significantly. The increased penalties for non-compliance with Agri-Agra lending rules continue to have limited success in increasing lending activity to the sector. Banks still prefer to pay penalties rather than comply with the agri-agra law. This suggests that current laws may not be addressing core issues that make the sector unattractive to lenders. The Farm Land as Collateral bill did not progress further than the committee level in the 15<sup>th</sup> Congress, and the same is happening in the 16<sup>th</sup> Congress.

### DA comment

*Credit, insurance and guarantees are important instruments for enabling small farmers to become credit worthy players in the agri-fishery sector. These instruments have been designed to suit particular farm systems for specific crops.*



# PART 3

## SEVEN BIG WINNER SECTORS

# Business Process Outsourcing



### Recommendations: 30



### Progress:

2 Declined      19 Steady      6 Improved      3 Neutral

### Rating:

3	☆ No Longer Relevant	0	★★ Backward/Regression	4	★★★ Not Ongoing
8	★★★★★ Started	11	★★★★★ Substantial Progress	4	★★★★★ Completed

# PART 3

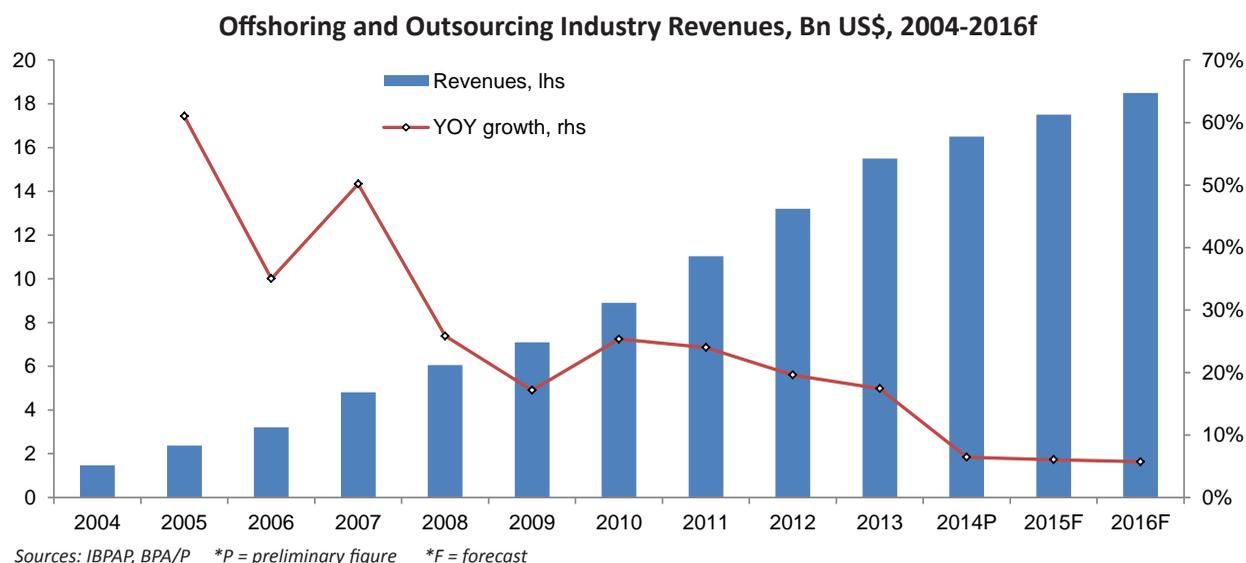
## SEVEN BIG WINNER SECTORS

# BUSINESS PROCESS OUTSOURCING

“The digital wave needs data protection. In this context it is just not acceptable that the Data Privacy Act remains unimplemented. That’s bad for business, that’s bad for investors, that’s bad for companies around the world that are considering the Philippines as a BPM/KPM location. While the DICT is still not there, I suggest that the DOST take action and move ahead in creating the Data Privacy Commission to get the IRR written.” - Henry Schumacher, ECCP External Vice President, Business Mirror, January 28, 2015

“Back office and transactional call center work in BPO will decrease (which has been the strength of the Philippines). This work is being automated, while the demand for high-value, KPO (knowledge process outsourcing) or customer-facing work is growing.” - Roberto R. Romulo, “Filipino Worldview,” The Philippine Star, February 13, 2014

Business Process Outsourcing (BPO) has become an important business sector, because of its large size, high growth rate, and long-term potential to provide several million 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. Drivers for success are being strengthened, while new reforms are also being sought 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. The 15<sup>th</sup> Congress should pass as soon as possible: 1) Department of Information and Communication Technology Act, 2) Cybercrime Prevention Act, 3) Data Privacy Act, 4) Holiday Rationalization, and 5) Labor Code amendments, all improving country competitiveness. Avoid new laws discouraging investment, such as security of tenure. Continue fiscal incentives for IT-BPO.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

Despite both chambers of Congress passing a DICT Bill in the 15<sup>th</sup> Congress, a bicameral conference was not convened, and President Aquino did not sign it into law. A joint hearing by the House Committees on Government Reorganization and ICT of the 16<sup>th</sup> Congress renewed efforts pushing for a Department of ICT. Both the Data Privacy Act and the Cybercrime Prevention Act were signed into law during the 15<sup>th</sup> Congress. However, a National Privacy Commission has yet to be created and a Commissioner and his two Deputies appointed to facilitate implementation of the Data Privacy Act. The scrapping of contentious provisions in the Cybercrime Prevention Act by the Supreme Court has strengthened the confidence of industry stakeholders. The DOJ expect final approval of IRRs in Q1 2015. There is no interest in Congress in reducing holidays, while many legislators favor additional non-working holidays. DOLE has introduced a comprehensive set of eight Labor Code reform bills.

## Recommendation 2

**—** The concerned committees in the House and Senate should be asked to quickly report out two bills – DICT and Cybercrime – which came close to final passage in the 14<sup>th</sup> Congress. Stakeholders should urge the Congressional leadership to approve the bills early in the 15<sup>th</sup> Congress. Industry leaders must participate in committee hearings to inform legislators of the importance of such legislation. The Data Privacy bill will take longer for hearings to be held but should also move quickly.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

The Cybercrime Prevention Act was signed into law in the 15<sup>th</sup> Congress with the Supreme Court scrapping several contentious provisions and restoring investor confidence in the process. The DICT bill, however, wasn't signed into law by the President despite being passed by both Houses of Congress. A joint hearing by the House Committees on Government Reorganization and ICT in late November in the 16<sup>th</sup> Congress signals renewed efforts for a Department of ICT again. The Senate is scheduling a hearing in February; Senate President Dilon has scheduled DICT for passage in the first half of 2015. The Data Privacy Bill, signed into law in the 15<sup>th</sup> Congress, is still awaiting presidential appointment of a Commissioner and two Deputies for the National Privacy Commission to be created and an IRR to be drafted by the Commission.

### Recommendation 3



Draft and pass a Holiday Rationalization Act which 1) restricts the total number of national non-working holidays to a regionally competitive number, 2) allows firms servicing foreign clients on Philippine national and local non-working holidays to give employees substitute days off, and 3) exempts firms engaged in the export of goods and services from local non-working holidays. Malacañang should continue to release no later than midyear the schedule for the following calendar year of all national holidays, both working and non-working. Alternatively (*to 2*), draft and approve DOLE administrative rules to permit IT-BPO companies to give alternative days off to employees who have to work on holidays, in lieu of holiday overtime pay.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★ Not Ongoing	★★ Backward/Regression	★★★★ Not Ongoing

A Holiday Rationalization bill has yet to be introduced and heard let alone passed in the 16<sup>th</sup> Congress. 2015 Holidays were announced through Proclamation 831 in July 2014 with Chinese New Year again being declared a non-working holiday. Some IT-BPM companies, however, observe the holidays of their countries of origin, or countries where their headquarters are located, subject to DOLE approval. Some do “*holiday swapping*” with the agreement of employees and also DOLE approval. The GPH continues to weaken business competitiveness with additional paid holidays. Repeated appeals to the national leadership from as many as 17 business groups have gone unheeded, with the exception of a policy study by the DOLE/ILS. In 2014, the holiday list for 2015 was released at mid-year.

### Recommendation 4



In the Rationalization of Fiscal Incentives bill, there should be double deduction for training within the industry, regardless of whether the firm paying for training hires the trainee.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

HB 2765 of Cong. Luigi Quisumbing, HB 302 of Cong. Susan Yap and SB 35 of Sen. Cynthia Villar all filed during the 16<sup>th</sup> Congress provide that a registered export enterprise should be entitled to 200% deduction for Training Expenses as well as another 200% deduction from taxable income for Research and Development.

### Recommendation 5



When the 16<sup>th</sup> Congress begins, identify champions in both House and Senate who will sponsor key bills and work for their passage. BPAP, the JFC, and other Philippine business groups and stakeholders should work together with these champions to urge the next administration and the new Congress to enact these bills within a year.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★★ Completed	★★★★★★ Completed	★★★★★★ Completed	★★★★★★ Completed

The support and responsiveness being demonstrated by the OP is echoed by the Cabinet, other government executives, and government agencies that are relevant to the continued growth of the IT-BPM industry. The strong relationship between IBPAP and government, the accessibility of key government agencies, and IBPAP's effective collaboration with the JFC and other Philippine Business Groups have worked well in getting industry concerns addressed.

## Recommendation 6

- Request the next president to convene regular meetings of the Legislative Development Advisory Council (*LEDAC*), a strategy used effectively in the Ramos administration. The president should convene key cabinet officials and Congressional leaders bi-weekly during legislative sessions to decide priorities and strategies to advance the government's legislative agenda.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

No meeting was held for 2012 and 2013.

## Recommendation 7

- Materials for the information campaign should show how the Philippines is lagging behind competitors in terms of its IT-BPO sector business legal framework.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★★ Completed	★★★★★★ Completed	★★★★★★ Completed	★★★★★★ Completed

The passage of the Data Privacy and Cybercrime Prevention Acts (*CPA*) during the 15<sup>th</sup> Congress, and the scrapping by the Supreme Court of the contentious last-minute provisions in the CPA clearly show the government's commitment to support the IT-BPM industry's growth and its responsiveness to issues affecting the sector. With impending ASEAN Integration in 2015, the government will need to step-up quickly and be more globally competitive in terms of effectively enacting these laws, passing other laws, and instituting reforms to improve the country's competitiveness in IT-BPM and preventing bills that may threaten the growth of the industry.

## Recommendation 8



Pending passage of the Cybercrime Prevention and Data Privacy Acts, create interim solutions to address the primary concerns of industry stakeholders. An industry subgroup should study possible revision of the IRRs of the E-commerce Act and Consumer Protection Act to address major issues of data piracy. Before the Cybercrime Prevention bill is refiled in the new Congress, sector stakeholders should study whether some of its provisions on data protection can be promulgated in a DTI departmental order.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
☆ No Longer Relevant	★★★★★★ Completed	☆ No Longer Relevant	☆ No Longer Relevant

With both the Data Privacy and Cybercrime Prevention Acts passed during the 15<sup>th</sup> Congress, the Supreme Court’s move to scrap contentious last-minute provisions from the CPA, and the IRR for the CPA being fine-tuned by the DOJ, what remains to be done is for the President to appoint a Commissioner and 2 Deputy Commissioners to pave the way for the creation of the National Privacy Commission (*see Question 2*).

## Recommendation 9



Review PD 1718 and explore how it can help companies on data piracy issues in the interim until such a time as a Data Piracy Act is legislated.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
☆ No Longer Relevant	☆ No Longer Relevant	☆ No Longer Relevant	☆ No Longer Relevant

No longer relevant since the Data Privacy and the Cybercrime Prevention acts have both been signed into law during the 15<sup>th</sup> Congress.

## Recommendation 10



BPAP and other private sector associations should endorse the “*ethical best practices manual*” of the Philippine medical transcription industry that includes templates for service-level agreements, acceptable business practices, marketing, solicitations, and data privacy guidelines. Recommend to the DTI the manual’s inclusion in the revised Administrative Order (AO) on data privacy guidelines and eventually in the Data Privacy Act.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
☆ No Longer Relevant	☆ No Longer Relevant	☆ No Longer Relevant	☆ No Longer Relevant

No longer relevant since both the Data Privacy and the Cybercrime Prevention acts have already 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. Industry and government – in partnership with universities – should undertake a broad-based public information campaign regarding contributions of the IT-BPO sector to the economy in terms of investment, jobs, and public sector revenues. A special Task Force is needed to plan and implement this campaign. IT-BPO companies could start the information campaign internally with their own employees.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★★★ Completed	★★★★★★★ Substantial Progress	★★★★★★★ Completed

IBPAP together with its 6 partner associations, and with the support of the Information and Communications Technology Office (*ICTO*) of the DOST, the National ICT Confederation of the Philippines, and partner universities/colleges regularly conduct roadshows, speak in various fora, give radio, television and print interviews, post articles online, publish an industry newsletter, and conduct talks in colleges/universities to increase awareness about the contributions of IT-BPM industry to the Philippine economy. Member-companies likewise conduct internal awareness campaigns while also regularly coming out with press releases in top broadsheets. A Task Force is no longer needed.

## Recommendation 12



The Task Force should also propose ways to modernize the Labor Code to make the Philippines more competitive as a destination for investment through revision of IRRs, issuance of department orders, and amendments to the Labor Code. Stakeholders should collaborate with law firms who will help the Task Force draft any needed amendments for introduction in the Congress.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★★★ Substantial Progress	★★★★★★★ Completed	★★★★★★★ Substantial Progress	★★★★★★★ Substantial Progress

IBPAP's Legislative Committee (*Legcom*) works closely with ECOP and other allies among Philippine Business Groups to amend the Labor Code and make it more relevant to the needs of the industry and its growing workforce. The Vice Chair for Labor of the Legcom has been regularly representing the industry in meetings of the Tripartite Executive Committee and continues to generously contribute his time and expertise to support IBPAP's initiatives towards a more responsive Labor Code.

## 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. Oppose amendments that make it more difficult to subcontract; flexibility is important for firms to survive. Work with DOLE to find ways to address abuses by smaller firms.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★★ Completed	★★★★★★ Completed	★★★★★★ Completed

Due to the lifting of the Prohibition of Night Work for Women through RA 10151 and DOLE's issuance of a clarification excluding the IT-BPM industry from the implementation of Department Order 18-A, or rules implementing contracting/subcontracting, IT-BPM companies are given more flexibility in streamlining operations. The partnership between IBPAP and DOLE, aimed towards voluntary compliance of IT-BPM companies to General Labor and Occupational Safety and Health Standards, has already yielded 16 recipient companies of DOLE's Certificates of Compliance. Orientations and joint assessments are still ongoing.

## Recommendation 14

- Industry and government should identify manpower requirement goals by sub-sector, function, and specialty. There is need to develop more sophisticated quantification of IT-BPO manpower requirements.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

A sectoral Roadmap needs to be developed beyond the IT-BPM Industry Roadmap (*created in 2006, updated in 2010*). Efforts are underway to get the government support and funding to start sectoral Roadmaps, particularly in Healthcare, IT, and Finance and Accounting that would break down the manpower and skills requirements by sector.

## Recommendation 15

- Adopt the National Competency Test at a regional (*if not national*) level. The private sector should agree to use it as a basis for hiring new employees. There is a need for funds from the private sector to administer the test and for commitment from the GRP, if not the companies, to impose a testing requirement.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★ Started	★★★★★★ Substantial Progress

GCAT was administered to 12,000 students in Metro Manila schools funded by DOST-SEI. This further showed the performance of the students against industry requirements. One private Higher Education Institution (HEI) initiated giving GCAT to Freshmen (DLSU-CSB) for school year 2014-2015. Discussions are still ongoing on whether GCAT can be officially adopted as the industry standard. GCAT is now being used mainly to assess students and recommend interventions where needed.

## Recommendation 16

 **Adopt an Industry-wide technical and leadership management certification to improve the quality of managers in the sector.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

IBPAP initiated the formation of the Leadership Development Council in August 2014. Volunteers from IBPAP member companies from Operations, HR, and Training attend the first meeting to discuss the necessary programs needed to address competency gaps at the leadership level. The Leadership Development Council has started working on the program for Team Leaders. Assessments will be conducted in January 2015 and programs will follow right after.

## Recommendation 17

 **Accelerate development of local managers. Introduce SSME as a program/degree in the Philippine educational system. Business schools should develop and train new service industry leaders. Enhance and advertise the BPAP program to develop new managers; IT-BPO executives should participate as facilitators. The government and private sector should offer more scholarships to develop managers.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

Teachers from 16 state universities have been trained on Service Management and languages as of November 30, 2014. Three schools (*Polytechnic University of the Philippines, Laguna State Polytechnic University, and Negros Oriental State University*) now have approximately 600 students doing internship, with 35% doing this with IT-BPM companies. It is estimated that 7 additional schools will have interns by Academic Year 2015-2016 producing 2,000-3,000 interns. Private HEIs have also embraced SMP with 90 teachers trained in the 5 SMP subjects last April, 2014. Discussions with secondary schools are ongoing. This is for the implementation of SMP in Senior High School to start in AY 2016-2017.

## Recommendation 18

 BPAP and other private sector leaders should participate in the CHED technical panel in 2010 to suggest curriculum improvements.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

The Service Management Specialization Track (*SMP*) is now being implemented in several state universities and private schools. CHED provided funding which to date has resulted in SMP training for 606 teachers from 15 SUCs.

## Recommendation 19

 Increase the use of English on local television. Media, advertisers, and MNCs should rethink their strategies and practices. The BPO sector should urge manufacturing companies, advertising and marketing agencies, and television to use more English to improve English proficiency. If the public is exposed more to English on television they will absorb more.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

Season 1 of an industry-relevant TV show, “*Career Jam*,” ended in 2012, and Season 2 was 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. They are accessible, have computers, and are inexpensive. Arrange for high quality English e-learning access at Internet cafes, promote, and incentivize usage. The government can sponsor access to these programs.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Substantial Progress	★★★★★ Started	★★★★★ Substantial Progress

Basic English Skills Training (*BEST*) and the online version of the Advanced English Pre-Employment Training (*AdEPT*) are now being implemented in the CHED funded SUCs. 622 teachers have been trained on the Language tracks. DOST has also launched LEAP (*Learning English Application for Pinoys*) which has been distributed to several public schools nationwide so that the norms can be established. More English programs are being implemented in CHED funded SUC schools.

## Recommendation 21



Develop a program to provide used computers to schools and install English software. Obtain an agreement between BPAP, SEIPI, JFCs, and DepEd for MNCs to donate used computers to public schools. Seek funds from countryside development funds of congressmen and senators to provide English training software.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★★ Substantial Progress

IBPAP continues to work to develop stronger industry and academe partnerships with the signing of 10 MOAs with companies and its partner SUC (*CHED-funded*). Infosys donated a computer lab to Cavite State University with 2 more companies doing the same with their partner SUCs. With CHED funding, 17 SUCs will be receiving computers that will be used for the teaching of SMP. These units will be donated to the SUCs.

## Recommendation 22



Organize real estate developers and BPO leaders to build a university specifically for careers in the IT-BPO industry.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★★ Substantial Progress

The Service Management Specialization Track is now being implemented in several SUCs and private HEIs. More schools have expressed their interest in offering SMP and will undergo teacher training in the summer of 2015.

## Recommendation 23

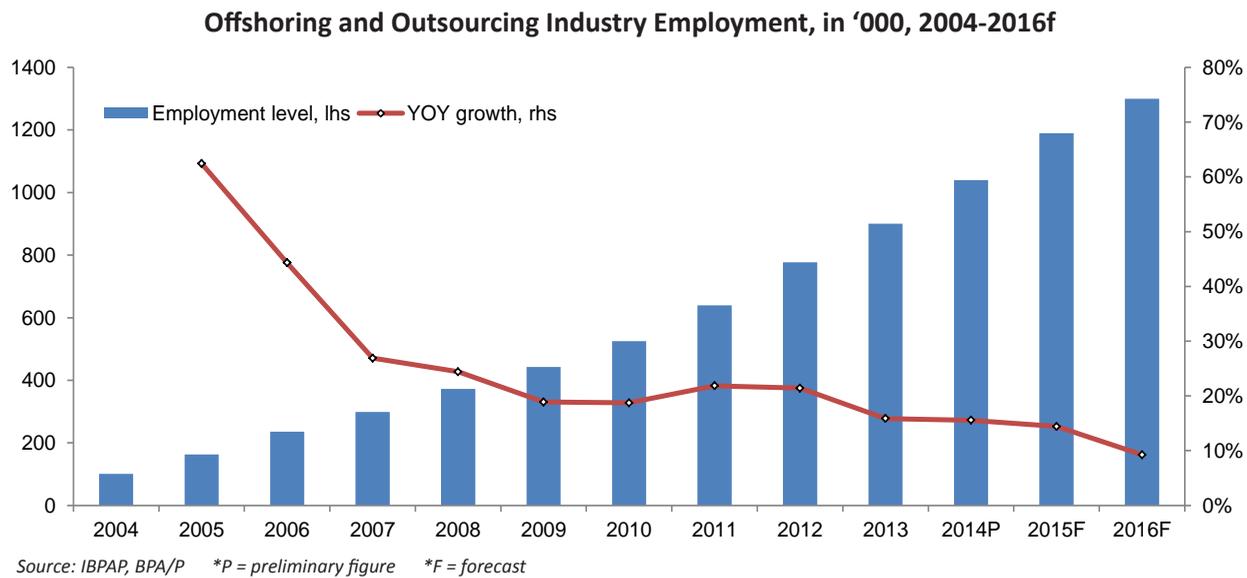


Totally reposition the IT-BPO career opportunity as world class to make it more appealing to applicants. Emphasize senior and middle-level positions in the industry with more developed skill levels. Invest more in training, including sending employees abroad for training programs. Organize BPAP-led internships for college students to expose them to IT-BPO work.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

About 600 SMP students undergoing internship will be graduating in the March/April 2015 timeframe. In addition, the pilot schools (*LPU, Calamba, University of Makati, Asia Pacific College, Jose Rizal University*) continue to offer SMP. With the CHED funding, several IT-BPM Roadshows were conducted in 15 SUCs to

encourage students to enroll in the SMP subjects. The SMP Facebook page has been set up with 32,000 likes. In addition, a “My Awesome Job” facebook page was also created to get students and parents more aware of the IT-BPM Industry.



## Recommendation 24

Develop a repatriation program for qualified Filipino talent overseas, along the lines of the “Balik Scientist” program that attracted engineers from California in the 1990s. Create incentives including payment of moving cost and competitive salaries for executives.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

With funding from ADB, IBPAP has started a program in partnership with the UP Open University. In this initiative, called IT-BPM Knowledge Hubs, the SMP content will be converted to eSMP. This will be offered in the UP Open University (UPOU) website as an online training program. A pilot of two subjects (BPO101 and Service Culture) generated 300 enrollees; quite interesting is that about half of the enrollees were OFWs. When the project is complete, this can be designed to provide a roadmap for OFWs to build their competencies prior to leaving their country of employment. Once they complete the course, they can come home and work for the IT-BPM industry.

## Recommendation 25

Continue to locate operations in second- and third-tier cities and provinces.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

More and more Next Wave Cities are getting the attention of potential locators. Cities like Iloilo, Laoag, Baguio, and Davao have grown substantially in 2014. As of 2014, 30% of the IT-BPM work is now being done in over 40 tier 2 and 3 cities and municipalities (*compared to 25% 3 years ago*).

## Recommendation 26

 Promote the Philippine IT-BPO industry with a well-funded and aggressive international campaign to better market and promote awareness of the industry. Focus on success stories. There is an urgent need for a sophisticated campaign with participation of the private sector and GRP financial support. As the global recession ends, many companies are deciding where to reinvest, and many decisions will involve outsourcing and offshoring to reduce business costs.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

The marketing campaigns in 2014 were not under a single initiative. Strong support was provided by the ICT Office of the Department of Science and Technology. The Philippines showcased its IT-BPM capabilities in the CeBIT Conference in Sydney, the Software Developers Conference in Tokyo, and CommunicAsia in Singapore. In addition, the DTI supported the Game Development sector through participation in conferences in Korea and Japan.

## Recommendation 27

 The Philippine government should publicize a clearer policy supporting development of the IT-BPO sector that clearly explains the role of each branch of government. The GRP should implement a consistent and stable legal framework and policies to create the environment most conducive to business. GRP agencies should avoid abrupt policy changes and varied interpretations.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★ Not Ongoing

The bill for the creation of the Department of ICT stalled when the President failed to sign the bill after it passed by both houses of Congress in the 15<sup>th</sup> Congress. The bill has been refiled in the 16<sup>th</sup> Congress, and hearings are taking place with expectation to pass in both chambers by mid-2015.

## Recommendation 28

— LGUs should become more uniformly supportive of IT-BPO firms in their jurisdictions. LGUs should follow PEZA/BOI guidelines. One-stop shops should be set up in key LGU sites that are and will become IT-BPO industry hubs. LGUs should be more involved in investment promotion. A common practice for the fees charged by LGUs for services should be established with clear, reasonable, and consistent policies. Publicize the best and also the worst practices of LGUs; reward progressive cities with new investment. Publicity can help correct bad practices and replicate good ones.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★★ Substantial Progress	★★★★★ Started	★★★★★ Started

The approach has been on a LGU by LGU basis, starting with the cities where IT-BPM companies are growing. Some success has been achieved, but much more needs to be done. PEZA manages dialogues with LGUs that are imposing fees on IT-BPM companies or employees to compensate for community services provided by the LGU; acceptable agreements have been reached in most cases. For LGUs wanting to attract new or more IT-BPM investments, the DTI Regional Operations and Development Group and the DOST-ICTO through the ICT Councils of the National ICT Confederation of the Philippines (*NICP*) provides capability-building support, funding for investor events and collaterals, and networking support for business matching. For LGUs in locations identified by industry and government as potentially good hosts for larger IT-BPM operations but whose officials have not shown sustained interest in promoting their localities, government and industry encourage greater engagement in coordination with local stakeholders. Industry associations have invested in PR campaigns that reach locations across the country.

## Recommendation 29

— Introduce higher speed broadband. New generation fiber optic technology is needed for heavy business tasks, such as transferring large amounts of information at very fast speeds. The sector needs both wireless Internet and a higher speed national broadband network. Government and telecommunication companies should accelerate planning and implementation of higher speed broadband. Capital investment by the private sector should receive fiscal incentives.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

Discussions have been initiated with the telecommunications companies with the support of the DOST. The major telecommunications companies continue to invest in new technology to improve the speed and capacity of the fiber optic and wireless networks. Government is studying the use of TV white space to provide free connectivity to underserved communities. Government has also launched the 3-year Medium-term ICT Harmonization Initiative (*MITHI*), which is expected to vastly improve e-government,

including ICT enablement of education, health, and justice programs. Laws and regulations for procuring IT services by government are also being reviewed with the aim of improving processes. The current administration is unlikely to provide fiscal incentives for telecommunication services.

### Recommendation 30

 Take actions to reduce operating costs. Study ways for IT-BPO locators in IT zones to access electric power discounts granted to PEZA locators at horizontal zones. Review current PEZA policy requiring density of 70 square feet per seat and consider 50 feet, which can save 18% of setup costs. Public and private sectors must do more to reduce IT-BPO firm attrition rates as a cost-saving measure.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

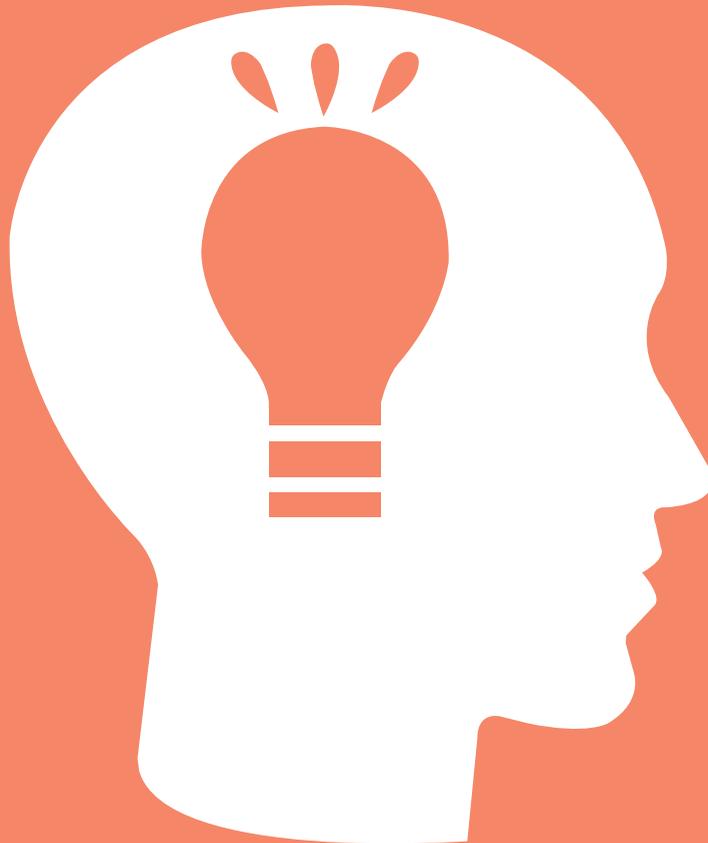
Depreciation of the peso in 2014 eased concerns that peso appreciation, ongoing in 2013, would greatly weaken industry competitiveness. Dialogue with PEZA is constant; PEZA has been very open to discussions and changes that may be needed.



# PART 3

## SEVEN BIG WINNER SECTORS

# Creative Industries



### Recommendations: 16



### Progress:

3 Declined      12 Steady      1 Improved      0 Neutral

### Rating:

0	☆ No Longer Relevant	0	★★ Backward/Regression	4	★★★★ Not Ongoing
9	★★★★★ Started	1	★★★★★ Substantial Progress	2	★★★★★★ Completed

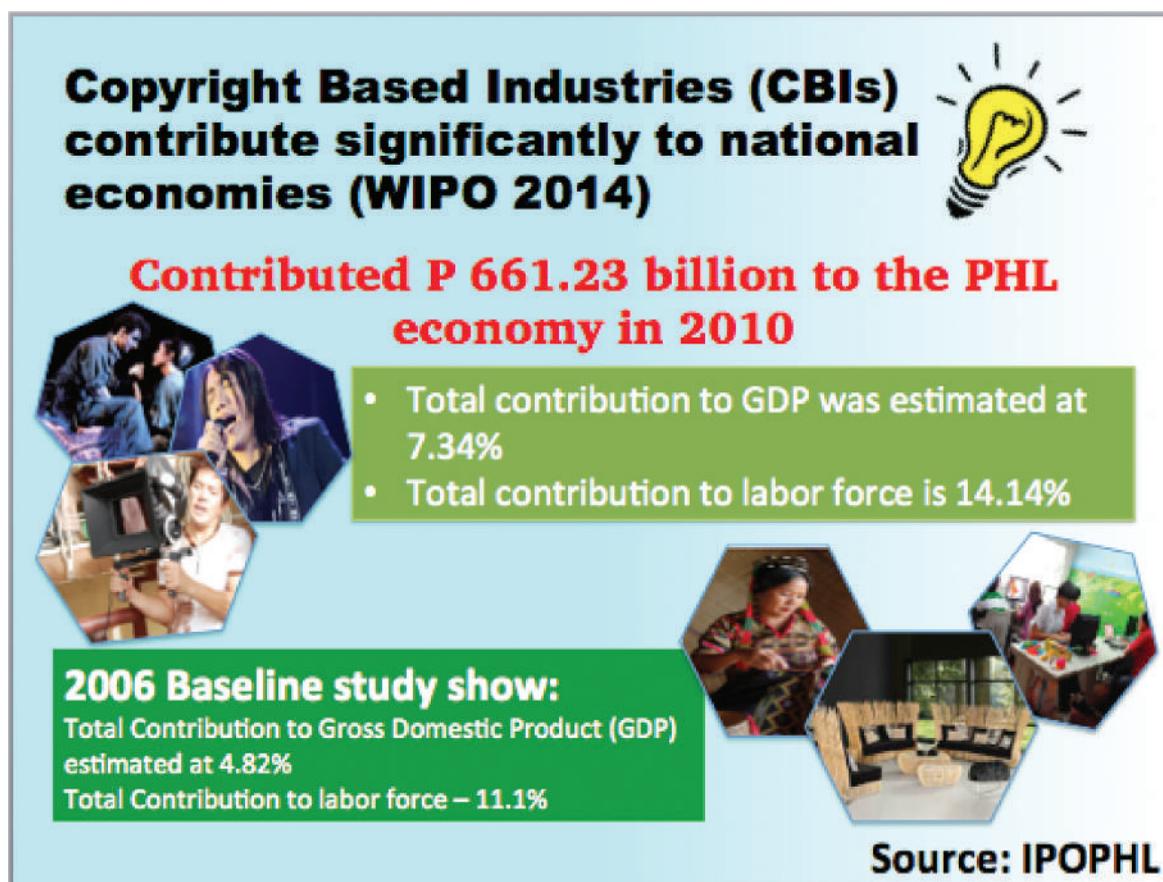
# PART 3

## SEVEN BIG WINNER SECTORS

# CREATIVE INDUSTRIES

In 2010 large establishments in the Philippine core and non-core CBIs contributed 661.23 billion pesos of value-added (7.34 per cent of the national GDP), and employed 560,665 of work force (14.14 per cent of total employment).” - “Updating the 2006 WIPO Study of the Economic Contribution of Copyright-Based Industries in the Philippines,” November 25, 2014

Creative Industries are extremely diverse, including advertising, animation, architecture, broadcast arts, content development, crafts, culinary arts, cultural/heritage activities, design, film, fine arts, literature, music, new media, performing arts, publishing, and visual arts. Filipinos enjoy a well-deserved reputation for creativity. However, to better understand the sector, 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. The landmark Philippine Design Competitiveness Act was enacted in 2013 to spur further development of the sector, but its IRRs have not been issued.



## Recommendation 1



Create a Philippine Creative Industries Master Plan that details where the industry should be going and steps that must be taken towards its goals. The Master Plan will create a consistent policy framework for the sector (*mapping*) and cost about PHP5 million.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Substantial Progress	★★★★★ Started	★★★ Not Ongoing

After the build up of interest in 2013 towards formulating a Master Plan for the Philippine Creative Industries, progress practically stalled in 2014 primarily due to the absence of a clear direction by which the government is to declare the scope and depth of its support. This is manifested in the absence of a roll out for the implementing rules on the Philippine Design Competitiveness Act of 2013 (*RA 10557*). The law was enacted to “help strengthen the design industry in order to make local products and services competitive.” RA 10557 empowers the Design Center of the Philippines (*DCP*) to continuously formulate 5-year plans in line with the National Design Policy. At the moment, the DCP has yet to begin the formulation of its first 5-year plan. A private-sector effort to form an umbrella group on creative arts, with support from the ECCP, is also pursuing formulating a similar Master Plan.

## Recommendation 2



Pass Senate Bill (*SB*) 2131 (*14<sup>th</sup> Congress*) to establish the Creative Industries Development Council. Ideally, the private sector will drive the council.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Completed	★★★★★ Completed

The draft Creative Industries Act of 2008 (*SB 2131 in the 14<sup>th</sup> Congress*), authored by Sen. Manny Villar, was re-filed in the 15<sup>th</sup> Congress as SB 1064 and subsequently consolidated with SB 2930 (*the Design Council of the Philippines Act of 2011, authored by Sen. Teofisto Guingona III*) into SB 3071, which was then consolidated with HB 6852 and eventually signed into law on May 15, 2013 as RA 10557.

## Recommendation 3



The private sector should organize a Creative Industries Initiative and eventually an effective association/organization similar to BPAP to discuss key strategies to improve the Creative Industries sector and not wait for government to be the prime mover. All subsectors should be included.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Substantial Progress	★★★★★ Started

Although efforts continue towards the consolidation of industry sectors in the Philippine creative industries, the absence of a roll out on the implementing rules for RA 10557 has begun to reduce the interest of industry players to participate actively in this effort. After successfully lobbying for the enactment of RA 10557, representatives of the animation, game development, and comic sectors formed a private sector umbrella organization to promote the creative industries and to formulate a Master Plan for developing these industries.

## Recommendation 4

 The GRP should actively facilitate creative industries by showcasing Philippine talent and releasing budgeted funds for trade shows and sub-sector specific congresses.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★★ Substantial Progress

The re-engineered Design Center of the Philippines (*DCP*) has begun to engage creative industry sectors in the organization of, and participation in, a wider array of trade events. Examples of such efforts include “*Taya*”, an exhibition of board game prototypes by the Industrial Design students of the College of Fine Arts and Design of the University of Santo Tomas.

## Recommendation 5

 Be more alert and do more to protect Philippine intellectual property. 51 Government should not only create laws and rules but also implement and enforce them.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

Consultation sessions with representatives of the Philippine creative industries continued to be held in 2014, towards the creation of a plan for promoting intellectual property protection.

## Recommendation 6

 Re-create a Design Center of the Philippines, where international designers lecture and advanced training for local designers is provided. The Design Center will promote interchange of American, Asian, and European design ideas, while informing potential investors of opportunities in the Philippines.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★★ Completed	★★★★★★★ Completed

With the enactment of the Philippine Design Competitiveness Act of 2013, the Product Development and Design Center of the Philippines has been re-engineered and renamed into the Design Center of the Philippines. Part of the DCP's mandate as defined by the Act is to *"build the competitiveness and capabilities of Filipino designers through continuous trainings, seminars and workshops"* by *"elevating Philippine designs and innovation toward global standards through collaboration with international design organizations."* The Design Center of the Philippines has begun organizing events that allow international designers to conduct advanced training of local design professionals and students of design.

## Recommendation 7

- 
**Regarding human resources, improve design curriculum and training facilities to foster talent development and entrepreneurial skills. Organize internship programs to train apprentices. Be open to foreign ideas and travel to understand markets abroad.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

Efforts by the Design Center of the Philippines to take the lead in promoting the advancement of design curriculum continued in earnest for 2014.

## Recommendation 8

- 
**Expand the Philippine design talent pool by making better opportunities available to Philippine designers working abroad. Make Filipinos more aware of their design capabilities through awards, exhibits, and lectures.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

*"Taya,"* an exhibition of board game prototypes by the Industrial Design students of the College of Fine Arts and Design of the University of Santo Tomas, and the Philippines International Furniture Show are just two of the showcase events that the Design Center of the Philippines began assisting in 2014.

## Recommendation 9

-  Encourage foreign professionals to practice and invest in creative industries in the Philippines, resulting in technology transfer, investment, and job creation. Correct the restrictions in existing laws that do not allow foreigners to practice architecture, landscape architecture, interior design, and other professions. They can own a company that provide those services and hire Filipinos to do the creative work but are not allowed to practice.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

The private sector umbrella organization that is currently being formed is looking at developing an agenda for encouraging more foreign creative professionals and companies to invest in the Philippines and to liberalize existing laws to allow foreign creative professionals to practice in the Philippines. No significant progress has been made since the build up of efforts back in 2013.

## Recommendation 10

-  Remove restrictions on foreign equity in advertising.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

There is no provision for the removal of restrictions on foreign equity in advertising in the enacted Philippine Design Competitiveness Act of 2013. However, it is continued in HJR1 sponsored by Belmonte to remove such restrictions on foreign equity from the constitution and deal with them, if at all, in new laws.

## Recommendation 11

-  Re-brand the country's creative products and coherently market them abroad as distinctively Filipino.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★ Not Ongoing

Although the Design Center of the Philippines has begun organizing efforts to engage creative industry sectors towards building international recognition of local designs, there is currently no effort to build the brand image of Philippine design.

## Recommendation 12



Create a Creative Center mandated to show the best Filipino talent with events to showcase Philippine designs and conduct lectures.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

International design exhibitions such as the Philippines International Furniture Show are becoming a staple of trade events organized or supported by the Design Center of the Philippines.

## Recommendation 13



Expand the small domestic market by encouraging Philippine creative industry practitioners to sell what they create abroad. Ideas and designs can be implemented or produced abroad and adapted to many foreign cultures. Encourage entrepreneurship and create incubators. Foster the export of creative services and products rather than the export of Filipino designers and creative people. Design a program to bring overseas Filipino creative professionals back home by providing incentives to work and establish their own companies in the Philippines.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

This is currently ongoing. Part of the mandate of the re-engineered DCP is to “*promote design as a creative tool for improving the quality, competitiveness and branding of Filipino products in the global market.*” DCP plans to achieve this by encouraging Philippine design professionals abroad to invest in the Philippines, sell their wares, transfer expertise to future creative professionals, and practice their craft and profession. Likewise, the DCP is formulating plans for incubating local design professionals and enterprises, develop the domestic market for design, and expand the pool of local design professionals.

### Examples of Creative and Knowledge Workers, 2013

Clustered Industries Utilizing Creative Workers:	Clustered Industries Utilizing Knowledge Workers:
<ul style="list-style-type: none"> <li>• Advertising</li> <li>• Architecture</li> <li>• Crafts</li> <li>• Design</li> <li>• Fashion</li> <li>• Film and video</li> <li>• Literature</li> <li>• Music</li> <li>• Performing and visual arts</li> <li>• Publishing</li> <li>• Television and radio</li> <li>• Video and computer games</li> </ul>	<ul style="list-style-type: none"> <li>• Business Process Outsourcing</li> <li>• Engineering Design</li> <li>• Financial Services</li> <li>• Hardware and Systems Design</li> <li>• Legal Services</li> <li>• Medical and Healthcare Services</li> <li>• Research and Development</li> <li>• Consulting Services</li> <li>• Software Development (non-entertainment Mobile Phone Applications)</li> <li>• Website Development</li> </ul>

Source: UNESCO-UNDP, *Creative Economy Report: Special Edition* [<http://www.unesco.org/culture/pdf/creative-economy-report-2013.pdf>] (New York: UN, 2013)

## Recommendation 14

-  To compete with lower-cost production centers abroad, seek greater efficiency and cost savings in domestic production for export.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

This is currently ongoing. Part of the DCP's draft program for achieving its mandate under the Philippine Design Competitiveness Act of 2013 is to promote best practices for achieving cost competitiveness, productivity, and global competitiveness among Filipino design professionals and companies both based in the Philippines and abroad. Plans for the said program are currently being formulated in collaboration with the private sector umbrella organization that is currently being formed as well as with other design associations.

## Recommendation 15

-  Conduct foreign market studies to determine where the local Filipino input in design and/or materials has unique competitive value.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

This is currently ongoing. The re-engineered DCP is consulting with the private sector umbrella organization that is currently being formed, as well as with other design associations, on the formulation of a market research plan to help expand the market for Philippine products and services, where design is a source of competitive advantage.

## Recommendation 16

-  Partner with larger foreign companies abroad with distribution networks for Filipino designs and creative products.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

This practice is currently ongoing. CITEM is collaborating with the private sector umbrella organization that is currently being formed for the establishment of a platform for the matching of locally-based Filipino creative professionals and companies with foreign and local distribution and publishing organizations, as well as investors, to promote trade in creative industries.

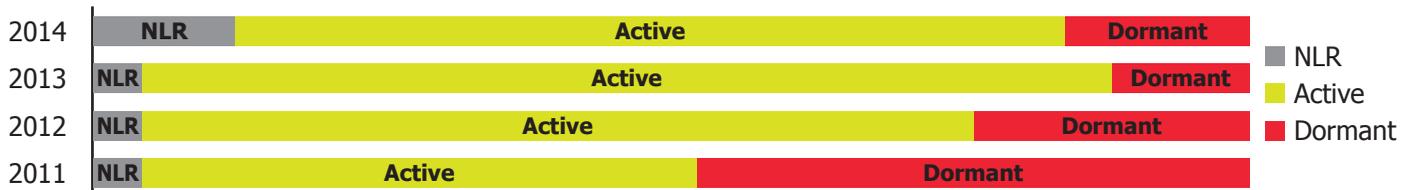
# PART 3

## SEVEN BIG WINNER SECTORS - INFRASTRUCTURE

# Policy



### Recommendations: 25



### Progress:

3 Declined      17 Steady      2 Improved      3 Neutral

### Rating:

3  No Longer Relevant	0  Backward/Regression	4  Not Ongoing
6  Started	10  Substantial Progress	2  Completed

# PART 3

## SEVEN BIG WINNER SECTORS

### INFRASTRUCTURE:

# POLICY

“What we can expect in the years to come: airports and ports to facilitate commerce and tourism; roads to ensure that we all reap the maximum benefit from these big-ticket projects; power plants that will generate enough energy and fuel the development of industry. All the infrastructure projects that are being and will be constructed will give rise to a society teeming with opportunity. This is the framework from which other initiatives will branch out, creating even greater opportunities for Juan and Juana de la Cruz.” - *State of the Nation Address of President Benigno S. Aquino III to the Congress of the Philippines, Batasang Pambansa Complex, Quezon City, July 22, 2013*

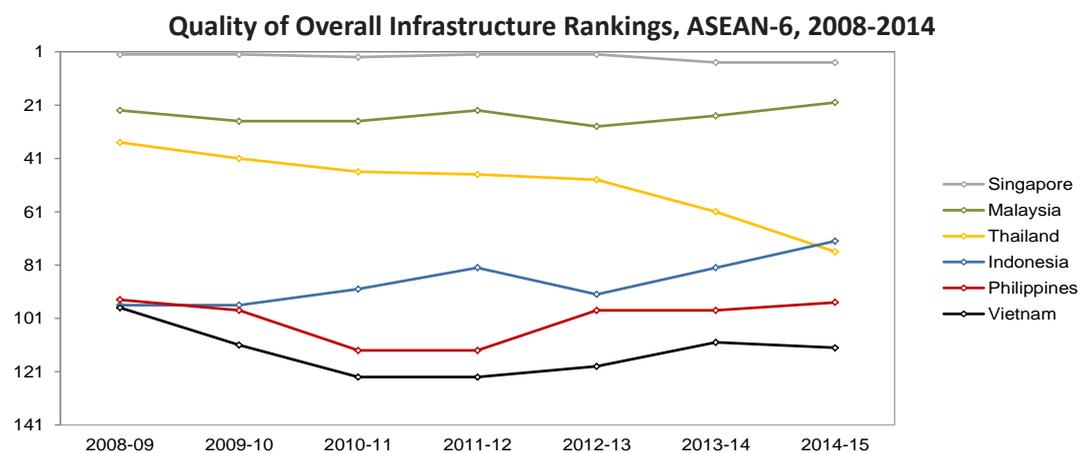
“I’ve said this many times before, and I’ll say it again, we are not investing enough for hard public infrastructure. We should be spending from 5% to 7% of GDP for public infrastructure. Yet we have been spending only about 2% of GDP. At the rate, it will take us forever to catch up with our ASEAN-5 peers.” - *Benjamin E. Diokno, Business World, January 10, 2014*

“If the government fails to address the infrastructure gaps, this will become an unlivable city. Traffic jams will become a nightmare, more people will move into slums. Its wealth and business opportunities will be gone.” - *Gil-Hong Kim, ADB Director of Sustainable Infrastructure, Bloomberg Interview, December 5, 2014*

“The continuing central problems to address are: infrastructure [pause], infrastructure [pause], and infrastructure [pause].” - *Former Finance Secretary Dr. Roberto de Ocampo, OBE, “Key Reforms to Grow Twice As Fast” speech, First Anniversary Forum of Arangkada Philippines, January 26, 2012*

“21st business need 21st century infrastructure... modern ports, stronger bridges, faster trains, and the fastest internet...” - *US President Barack Obama, State of the Union Address, January 20, 2015*

The Philippines significantly underinvests in physical infrastructure, with spending averaging 2% to 3% of GDP for the last 10 years, far below regional norms. However, the government has set the goal of 5% of GDP by 2016. Poor infrastructure is a key inhibitor to higher investment in the Philippine economy. In the WEF Global Competitiveness Report, 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 as well as future projects. Recommendations concern overall infrastructure policy and are followed by specific sub-sections for Airports, Power, Roads and Rail, Seaports, Telecommunications, and Water.



Source: WEF Global Competitiveness Reports; Note: Number of countries evaluated - 2008-134; 2009-133; 2010-139; 2011-142; 2012-144; 2013-148; 2014-144.

## Recommendation 1

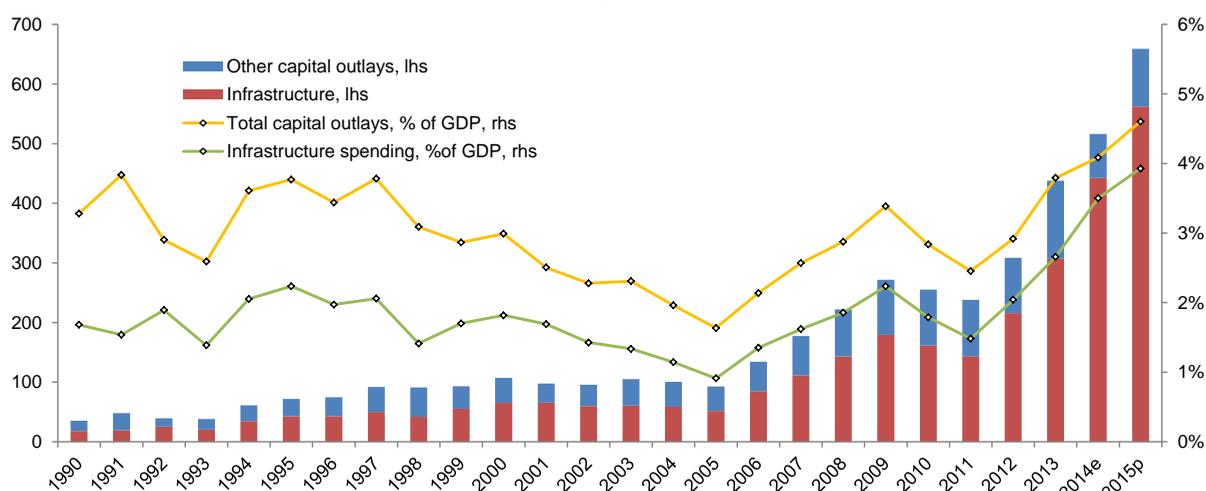


Double infrastructure spending to 5% of GDP with PPP. Overcome the constraint of low tax collection and the high budget deficit by harnessing available resources and capacities of the private sector for infrastructure development.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Substantial Progress

The Aquino administration is making significant progress. At the start of the administration, infrastructure spending was about 2% of GDP 2010 and the current 2015 budget is nearly 4%. The administration has announced plans to reach 5% by 2016. However, the bureaucracy is challenged to ramp up its project spending rapidly.

National Government's Infrastructure Spending and Other Capital Outlays, Bn PhP, 1990-2015p



Sources: DBM and authors calculations; Note: 2014 & 2015 are based on adjusted and proposed expenditure programs; other capital outlays include capital transfers to LGUs (20% of IRA allocation for development projects), special shares to LGUs and other capital outlay items not classified elsewhere but net of corp equity (all in obligation basis)

## Recommendation 2



Prepare, bid out, award, and implement with full transparency several large PPP projects that are already viable. This can create a pipeline of PPP projects to attract domestic and foreign investors.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Substantial Progress	★★★★★ Started	★★★★★ Substantial Progress

After a slow start, the Aquino administration is making significant progress. As of late 2014, 8 major projects have been competitively bid and awarded: Daang Hari-SLEX Link, PPP for School Infrastructure Project (*Phase 1*), NAIA Expressway Phase II, PPP for School Infrastructure Project (*Phase 2*), Philippine Orthopedic Center,

Automatic Fare Collection System, Mactan-Cebu International Airport Passenger Terminal Building, and LRT Line 1. However, very little of these 8 projects is yet operational. There is on-going work to tender and award a significant number of PPP projects in 2015, one as large as US\$8.6 billion. Please see PPP Center link at [ppp.gov.ph/?page\\_id=5663](http://ppp.gov.ph/?page_id=5663).

### Recommendation 3

 Potential pilot PPP projects include two rail and three toll road projects: LRT-1 South Extension and LRT-2 East Extension and the Cavite-Laguna Expressway, C-6, Expressway and SLEX-4 Calamba-Lucena. Total estimated cost of these five projects is PhP173 billion.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

It has taken a long time, but in 2014 there was considerable activity in moving projects to the bidding stage. The LRT-1 South Extension has been awarded in a second round of bidding: at US\$3 billion, this is the highest-value PPP project awarded to date. However, implementation of the largest toll road project yet bid out for the 44-kilometer CALAX project was delayed in 2014 by a Malacanang decision to rebid in order to get a higher “price” by allowing participation of a bidder disqualified by the DPWH BAC on technical grounds. The Cavite-Laguna Expressway and C-6 Expressway are expected to be awarded in 2015. The 4-km LRT-2 East Extension is being built by DOTC and is not a PPP. MRT-7, an unsolicited US\$1.6 billion project first proposed over a decade ago, has received GPH approvals and is working on financial closure.

### Recommendation 4

 To speed the process, use foreign technical and financial assistance; bring in experts who can be “embedded” in line agencies to prepare project bidding, evaluate proposals, and rank proponents with project monitoring to be done at PMS and final decisions made by the cabinet and the president.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	☆ No Longer Relevant	★★★★★ Substantial Progress	★★★★★ Substantial Progress

International donors led by the Australian Department of Foreign Affairs and Trade, the Canadian Department of Foreign Affairs, Trade, and Development, and the Asian Development Bank have provided substantial technical assistance to the government to supplement GPH funds for project development. NEDA should fast-track its approval of project revisions intended to accommodate legitimate private sector concerns.

### Recommendation 5

 Use available domestic capital for infrastructure investment. Interest rates are low and sustained growth in domestic liquidity indicates funds are available. Special Deposit Accounts and Reverse Repurchase Agreements total nearly PhP1 trillion.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

The eight PPP projects awarded have mobilized considerable capital. It appears that most of the financing requirements are being provided by local financial institutions, which hold large amounts of funds. However, the US\$8.6 billion Makati-Pasay-Taguig Mass Transit System Loop may test the limits of local funding.

## Recommendation 6



Create a coalition of the Philippine Bankers Association, investment houses, and the Philippine Constructors Association and agree to promote good projects and good processes (transparent and competitive). Foster participation between local and foreign contractors, investors, and banks.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★★ Substantial Progress	★★★★★★ Completed	★★★★★★ Completed	☆ No Longer Relevant

The commitment of the Aquino administration to promote good projects through transparent and competitive processes has made this coalition unnecessary.

## Recommendation 7



Amend the BOT Law. The role of the GRP in planning and preparing infrastructure projects for BOT should be more clearly defined. GRP should determine and identify projects it will undertake and projects to offer to the private sector under BOT/PPP. Increase Swiss challenge timeframe from 30 to 180 days. Pending passage of amendments, review again and issue revised BOT IRRs.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

A very encouraging sign is the announcement from the Executive that the BOT law amendment is one of its priority bills. There are various versions in the House (*notably one filed by Speaker Belmonte*) and in the Senate. The Senate President and the House Speaker have included this in their priority list of reforms for 2015. Unfortunately, there have been efforts by a handful of executive agency staff to stall the amendments. It is hoped that the administration can present a unified position and work with Congress to support this much-needed reform to update the 25-year old law.

## Recommendation 8

- 
 Institute long range planning for infrastructure development. Plans should not be limited to one president's six-year term of office. Infrastructure project planning should be depoliticized. NEDA should consider a 10-year plan, rather than encouraging plans, such as its MTDP and MTPIP, which are always for only a single presidential term.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★ Backward/Regression	★★★ Not Ongoing	★★★ Not Ongoing

The infrastructure agencies seem unable to develop a clear and consistent link between a long-term infrastructure plan, the medium-term plans, and the annual budgets. Planning at NEDA is still limited to the term of the current administration, ending in 2016. An exception is a proposed long-term ten-year JICA transportation plan for the NCR and adjacent provinces costing US\$60 billion.

## Recommendation 9

- 
 Government should minimize removing projects from its PPP priority list. All priority projects should be solicited and awarded through public bidding. Require all major projects to undergo review by NEDA-ICC.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

The Aquino administration's commitment to competition and transparency in awarding contracts through public bidding has been critical to the success of its PPP program. The administration promised and has delivered on awarding contracts through public bidding. Most priority projects are done and will be done via the solicited process. This recommendation is being implemented, and all major projects are undergoing review by the NEDA-ICC.

## Recommendation 10

- 
 Study setting up a Philippine Infrastructure Facility with a World Bank (WB) loan, as Indonesia has done. Funds can be sought from donors, insurance companies, OFWs, and others. The fund could support project preparation and promote PPPs, as well as take equity and debt positions in projects.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress

A Project Development and Monitoring Facility (PDMF) was established with funding from the Philippine Government and international donors (Australian DFAT, Canadian DFATT, and ADB). The PDMF provides support for project preparation and other related activities. The Philippines Investment Alliance for Infrastructure (in which GSIS invested US\$400 million and ADB US\$25 million of the total fund of US\$625 million) funds projects across the infrastructure sector.

Key Infrastructure Indicators, ASEAN-6

	Share of population with access to electricity, 2011	Quality of electricity supply score (out of 7), WEF 2014	Distribution losses as % of total net generation, 2012	Main fixed tel lines per 100 inhabitants, 2013	Mobile phone subs per 100 inhabitants, 2013	Share of population with access to improved water sources, %, 2012	Share of population with access to improved sanitation, %, 2012	Road density - Population per km of road <sup>1</sup> , 2012	Paved roads as % of total road network <sup>1</sup> , 2012
Indonesia	72.9	4.3	9.6	16.1	121.5	84.9	58.8	491.8	56.7
Malaysia	99.5	5.7	6.6	15.3	144.7	99.6	95.7	160.0	78.3
Philippines	70.2	4.2	12.0	3.2	104.5	91.8	74.3	449.6	26.9
Singapore	100.0	6.7	1.7	36.4	155.6	100.0	100.0	1,551.1	100.0
Thailand	99.0	5.1	6.1	9.0	138.0	95.8	93.4	288.3	80.8
Vietnam	96.1	4.2	10.2	10.1	130.9	95.0	75.0	343.8	66.3

Sources: US EIA, ITU, WHO-UNICEF JMP, ASEAN-Japan Transport Partnership, ASEAN Secretariat, World Bank & author's calculations

1 - This refers to the entire road network

## Recommendation 11



Rescind or amend the EO on JVAs. Review all JV arrangements and ensure that they are consistent with NEDA Board policy that major projects (over PhP500 million) should pass through the NEDA-ICC.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★ Not Ongoing	★★★★★★ Completed	★★★★★★ Completed

The new Guidelines on Joint Ventures issued in May 2013 are a very positive step forward to ensure transparency and oversight.

## Recommendation 12



Require mandatory disclosure of projects under JVA prior to the signing of an agreement. Adhere to the principle "No decision is valid without pre-signing disclosure." Review rules on risk sharing in the EO on JVAs.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★★ Completed	★★★★★★ Completed

Disclosure is now ensured under the revised Joint Venture Agreement guidelines as there is a set of conditions where the NEDA Board Investment Coordination Committee (NEDA ICC) acts as approving authority.

## Recommendation 13



Reduce cost overruns due to unsolicited inputs particularly from LGUs. Clarify the limits of LGU authority regarding national projects, but also include LGUs and local communities in stakeholder consultations to explain project benefits. Protect investors from political risks (*TROs, LGU interference, right of way problems*).

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★ Not Ongoing	★★★ Not Ongoing

There is no comprehensive approach and policy; instead the problems have been addressed on a case-by-case basis. As such there has been no progress on this issue. The issue of LGU exceptionalism and disregard for national policy remains serious.

## Recommendation 14



Review foreign equity restrictions on infrastructure with a view to maximizing foreign participation.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

Proposals and recommendations have been submitted, but there has been no concrete action. 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 (*“public utility” function*). The JFC position has been reflected in at least one published PPP bid notice for the south integrated transportation terminal. Restrictions in place derive from a 1936 law that should be amended to maximize investments in infrastructure by all potential parties. To ignore this reform means continued slow infrastructure improvements and poor service for the Philippine citizens.

## Recommendation 15



Implement the National Transport Policy Framework and the National Transport Plan (2011-2016) that were prepared with the support of Australian Agency for International Development (*AusAID*).

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★ Not Ongoing

There has been no progress on implementing the plan. It is not clear to the business community that the plan is being pursued.

## Recommendation 16



Build technical and legal capabilities of government agencies to prepare BOT projects, to have technical expertise to determine viability of BOT projects, to prepare feasibility studies, and to better allocate risks. More funding and technical assistance should be made available for such capacity building.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

There has been considerable capacity building and technical assistance provided by international development agencies.

## Recommendation 17



Government should create reasonable timetables to address the long registration period of BOT projects. Upon submission of a proposal, there should be a 90-day deadline for approval. Information should be on agency websites with credible explanations when deadlines are not met.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★★ Completed	★★★★★★ Completed	★★★★★★ Completed	★★★★★★ Substantial Progress

There is progress in terms of less red tape. However, there are still a few agencies that need to reduce the number of signatures. Power projects take five years to approve, two years longer than in the US.

## Recommendation 18



CDF should be utilized for necessary infrastructure projects and not follow political considerations. Strictly use HDM-4, which identifies and prioritizes project funding using objective technical and economic criteria.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	☆ No Longer Relevant

The CDF and PDAF have been abolished.

## Recommendation 19

- Process and submit supporting documents during the loan period prior to expiration of loan, so the financing agency shares payment of obligations.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

There has been no improvement.

## Recommendation 20

- DBM should release funds on time to meet contractual obligations and diminish the backlog of payment obligations.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress

At DPWH, the backlog has been reduced considerably.

## Recommendation 21

- ☆ Continue and strengthen the Pro-Performance Team that monitors infrastructure project implementation.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
☆ No Longer Relevant	☆ No Longer Relevant	☆ No Longer Relevant	☆ No Longer Relevant

The Pro-Performance Team under President Macapagal-Arroyo was discontinued.

## Recommendation 22

- Pass the Freedom of Access to Information Act. There should be a complete commitment to transparency. Create penalties for non-compliance of disclosure requirements and implement thoroughly.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

The Senate passed the FOI Act on March 10, 2014 as committed by Senate President Drilon. The House Committee has approved the legislation but did not issue its report in 2014. There is sufficient time to pass the law in 2015, and Speaker Belmonte has listed it among his priorities.

## Recommendation 23



Develop an online registry for information on infrastructure projects. Require permanent and updated online disclosure for priority projects, including timeline, status of project, proposed and actual expenditure, variation orders, etc. Foreign technical assistance should be requested to create a website to track major projects. When the Freedom of Access to Information Act is passed, it will be mandatory for government to fully disclose transactions.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★ Started	★★★★★ Started

Some agencies like DPWH provide information in the Philippine Government Electronic Procurement System (*PhilGEPS*) and on their own websites. PhilGEPS hopes to expand to cover all infrastructure projects by 2016. The Open Data Philippines initiative (*data.gov.ph*) of DBM will provide great amounts of information on public sector capital and infrastructure spending, if implemented successfully. Civil society must become more interested and capable to track and verify such public information.

## Recommendation 24



The private sector can also create a website tracking the top 200-300 large infrastructure projects, or find an independent government agency to create such a website (*e.g. NEDA*) without a need for legislation or an EO.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★ Not Ongoing

This has not been started. The PPP Center website was enhanced to provide more information and updates of PPP projects in the pipeline that are planned, in various stages of being awarded, and their implementation. The private sector should monitor the DOTC and DPWH websites, which contain much more detail on projects that in previous years.

## Recommendation 25



Lump sum budgets should be kept to a minimum, if not totally avoided, in order to promote transparency and accountability.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★★ Completed	★★★★★★ Completed	★★★★★★ Completed	★★★★★★ Completed

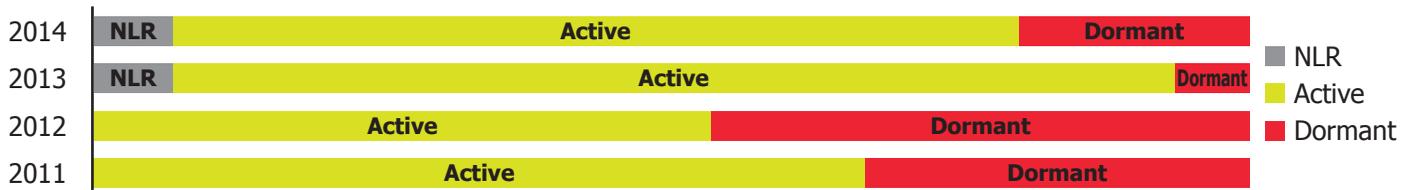
The administration has made an effort but the results have been uneven. The PDAF (*a version of lump-sum*) was declared unconstitutional in 2014 and funding for PDAF was removed from the GAA.

**PART 3**  
SEVEN BIG WINNER SECTORS - INFRASTRUCTURE

# Airports



## Recommendations: 15



### Progress:

3 Declined      6 Steady      5 Improved      1 Neutral

### Rating:

1	☆ No Longer Relevant	1	★★ Backward/Regression	2	★★★ Not Ongoing
4	★★★★★ Started	5	★★★★★ Substantial Progress	2	★★★★★★ Completed

# PART 3

## SEVEN BIG WINNER SECTORS

### INFRASTRUCTURE:

# AIRPORTS

“We have a runway congestion problem today. We overlooked the fact that runway traffic is building up due to increased aircraft population and flight schedules.” - *Former DOTC Secretary Mar Roxas, Press Release on Moratorium on new flights due to airport congestion, March 8, 2012*

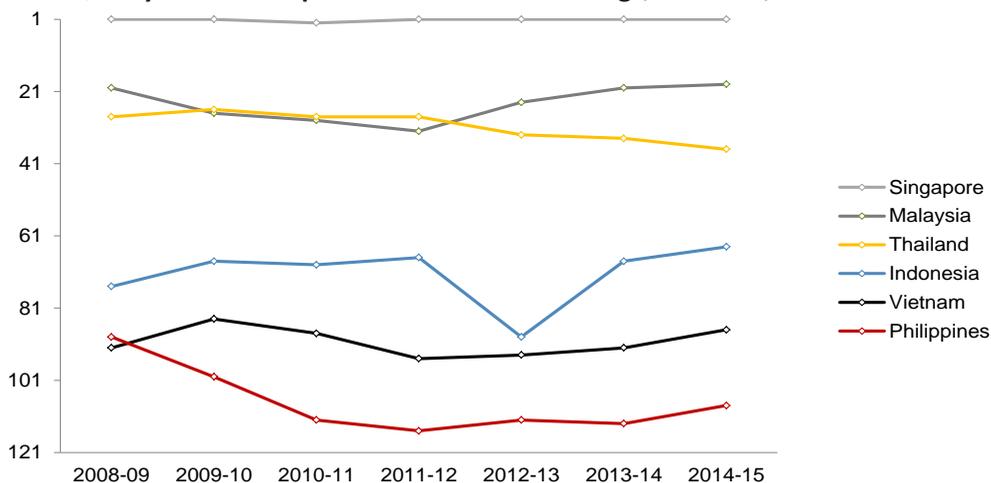
“A good example of how inadequate infrastructure is restructuring growth is the state of our airports, not just in NAIA. Foreign airlines who want to schedule new regular or additional flights to Manila are unable to do so because NAIA is congested as it is.” - *Boo Chanco, “Infrastructure, Infrastructure, Infrastructure,” The Philippine Star, June 10, 2013*

“So while the numbers are rising, the economy is growing; the chances of our countrymen to travel are growing, then of course the facilities of the government must be able to keep it up.” - *President Aquino quoted by Rappler.com, April 16, 2014*

“The NAIA catchment area will grow to more than 100 million passengers a year by 2040 or 2050, while the Clark catchment area will only grow to 9 million. NAIA, with a capacity of 35 million, has reached its capacity already.” - *Dr. Shizuo Iwata, JICA Team Leader for Dream Plan: Roadmap for Transport and Logistics Infrastructure for Metro Manila and Surrounding Regions (III and IV-A), RTD on Philippine Airport Infrastructure, September 12, 2014*

With its archipelagic character, the Philippines depends on air and sea transport much more than continental countries. Affordable airfares have stimulated domestic tourism, and Filipinos are flying in record numbers. But the Philippine government does not build airport and terminal capacity before demand, as do competing economies that plan and implement ahead better. New terminals and modern equipment are badly 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, old terminals are turnoff for international visitors, as well as for Filipinos who travel abroad. Clark has great potential for higher volumes of passenger and cargo operations. In many Asian airports - Beijing, Hanoi, Kuala Lumpur, Seoul, and Singapore - terminal capacity is being increased. The high standards being set by these Asian neighbors should be emulated by the Philippines. The WEF Quality of Airport Infrastructure Ranking in 2014 placed 108 of 144 countries and the lowest of the ASEAN-6.

**Quality of Air Transport Infrastructure Rankings, ASEAN-6, 2008 to 2014**



Source: WEF Global Competitiveness Reports; Note: Number of countries evaluated - 2008-134; 2009-133; 2010-139; 2011-142; 2012-144; 2013-148; 2014-144.

## Recommendation 1



The GRP should prioritize investments in airport terminal, runway, and communication facilities. There is a need for an NCR/Central Luzon Transportation Master Plan that includes a strategy for development, until mid-century, of the major gateway airport(s) as well as minor airports. The plan should include ground rail and road transport infrastructure linking the airports and cities, including major ports.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★ Backward/Regression	★★★★★ Started

A masterplan for NCR/Central Luzon Transportation for the next several decades has yet to be completed, although parts have been prepared and released. Corrupt leadership under the previous administration and three changes of leadership at the DOTC have long delayed sound planning, decision making, and project implementation, especially for the critical principal national gateway NAIA, which suffers from growing congestion, causing flight delays. There have been several studies made under a Transport Master Plan for Greater Manila; most were funded by JICA. The study on the gateway airport for the GCR is in its 5th version, and each one has a different recommendation. In March 2014, the most recent JICA “*Dream Plan*” study was released, which proposed US\$60 billion in spending over a decade to build rail and road infrastructure in the Bulacan-Quezon north-south corridor that will move commuters from road to rail. Included was a study on several sites for a new 4-runway US\$10 billion gateway airport, suggesting allocation at Sangley Point, Cavite, coincidentally in the former Congressional district of the DOTC Secretary. Because of urgent requirements, pieces of the overall plan become public.

## Recommendation 2



There should be only one international airport per region, with existing airports converted into international airports, in preference over building new airports.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★ Not Ongoing	★★★★★ Started	★★★ Not Ongoing

This recommendation never took off even if it was also in the Tourism Master Plan. It was not started because no one championed it. CAAP was still under review by international agencies on its oversight weakness, of which one was it cannot be a regulator and at the same time an operator of airports. The proposal to spin off operations of airports to a different authority froze the idea of airport concept classification. Meanwhile DOTC was doing its own thing, pursuing its much delayed PPP airport infrastructure concepts. Because of the open skies E.O., several local domestic airports have become international gateways. These are Kalibo, Iloilo, and Legaspi airports. Except for Iloilo, the infrastructure at Kalibo and Legaspi, especially the terminal, can be classified as “*makeshift*.” Legaspi will be replaced by the new Daraga International Airport, scheduled to open in mid-2017.

### Recommendation 3

 Outside Central Luzon, priority should be given to Laguindingan in Northern Mindanao. At Mactan, the runway should be extended and high-speed ferry links to Tagbilaran increased rather than creating a new airport at Panglao.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

Laguindingan is finally a full IFR airport good for day and night operations. Mactan runway will be extended and improved as part of the US\$389 billion PPP Mactan terminal project, which is initially facing unexpected bureaucratic implementation delays. The PhP7 billion new Bohol International Airport on Panglao Island will be built with Japanese ODA with expected completion in mid-2016. The new airport will reduce the need for ferries from Cebu to Tagbilaran. The DOTC is bidding out a project to privatize O&M of 6 regional airports Bacolod-Silay, Davao, Iloilo, Laguindingan, New Bohol (*Panglao*), and Puerto Princesa. The project is being marketed abroad as a single PPP project by NEDA PPP Center, DOTC, and CAAP.

### Recommendation 4

 Make Clark an alternative gateway to Manila/NAIA.<sup>75</sup> Eventually make Clark the primary international gateway and NAIA the secondary, but still the primary domestic hub. Connect with a high-speed rail line.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★ Backward/Regression	☆ No Longer Relevant	★★ Backward/Regression

The absence of a decision on future airport development for the Greater Manila Region with its 25-30 million population is very disturbing. Some observers believe the concept of twin gateway airports is dying, not because that is the best policy but because business interests both from the airline industry and other vested interests do not want a rival airport outside of the NCR. NAIA continues to become more congested, while no future development plan has been decided.

### Recommendation 5

 The local Expropriation Court should quickly decide the amount due to NAIA T3 investors. Subject to needed repairs and additional construction, begin to fully utilize the terminal for growing domestic traffic and for regional traffic using narrowbody aircraft. *(If widebody aircraft are to use T3, a new taxiway should be built separate from domestic runway 13-31).*

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Started	★★★★★ Started

T3 has been largely operational since August 1, 2014, after the original terminal construction firm Takenaka signed a deal in August 2013 to finish construction by Q3 2014. Legacy carriers ANA, Cathay Pacific, Delta, Emirates, KLM, and Singapore Airlines moved to T3 in 2014. The amount to be paid to PIATCO, the former owner of NAIA T3, by the GPH for the expropriated terminal has been undergoing judicial review since 2005. PIATCO appealed a May 2011 decision of the Pasay RTC. The Court of Appeals in August 2013 ordered the GPH to pay US\$371 million, computed as US\$300 million less US\$59 million (*paid in 2006*) plus 6% interest. The GPH is appealing the decision to the Supreme Court and a decision may take several years. A GPH promise to compensate the owners in 2004 has yet to be delivered, possibly out of concerns by officials that they may be sued. This undecided case has had a very negative impact on foreign investor confidence and interest in GPH PPP projects.

## Recommendation 6



Because T1 is closest to international runway 06-24 and the international cargo terminals, T1 should undergo phased renovation for continued use by long-distance widebody aircraft. T1 should eventually be connected to T2 to allow domestic to international transfer between buildings.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Substantial Progress

Renovation of T1 is ongoing after a two-year delay. Most of the renovation is inside the terminal where choke points in people movement areas are being removed. Check-in areas have been cleared of non-airline entities and check-in counters increased. There is no plan yet to connect it to T2.

## Recommendation 7



A new fuel depot for NAIA is needed as the current depot leaks and is too close to T1 and T2.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★ Not Ongoing	★★★★★ Started	★★★★ Not Ongoing

Moving the fuel depot is opposed by local residents, but doing so would free up space for expansion between Terminal 1 and Terminal 2. 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, although NAIA owns the former Nayong Filipino 22.3 hectare property. However, no plans to move the fuel deposit have been decided mainly because of location and the constant debate on relocating NAIA somewhere else.

## Recommendation 8



If most international traffic is moved to Clark, there should be a second parallel runway, a terminal with a 20-million passenger capacity, and a high-speed rail connection.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

The GPH remains unwilling to invest large sums in a Clark gateway terminal or high-speed rail connection to Manila. DOTC Sec. Abaya said in late 2014 that the Aeroport de Paris design for a LCC Terminal would be built in phases beginning in 2015, in accordance with passenger growth. The new CIAC president started phase 1 costing Php1.2 billion for a budget carrier terminal to increase Clark's capacity to 8 million passengers a year will be bid out in as a PPP project in early 2015 after DOTC and NEDA approve. CIAC officials continue to tell media that Clark can eventually have three parallel runways, can handle 80 million passengers a year, and will be connected to Manila by high-speed rail. This goal has been talked about for over two decades with little accompanying action. Meanwhile, several international carriers have reduced flights at Clark in favor of NAIA.

## Recommendation 9



Quickly resolve the downgrading of the CAAP from Category 1 to Category 2 status by the US FAA and the 2010 EU decision to prohibit Philippine carriers from European airports.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Start-Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Completed

ICAO removed its significant safety concerns about CAAP in March 2014, and the FAA restored the Philippines to Category One. This completed a reform program started in 2007 following downgrades. The EU has kept all aviation companies in the Philippines under its ban list except for PAL and CEBPAC, which both applied for removal and were cleared from the ban list after 6 months of audit by EASA, the safety agency of the EU. Legislation to separate the operational from the regulatory as well as accident investigatory functions of CAAP has been drafted and is undergoing consultations before being introduced in the Congress.

## Recommendation 10

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 Improve the business and investment climate for international air carriers and enhance long-term connectivity, tourism, and trade competitiveness by setting the level of aviation taxes and charges to conform to international agreements and standards by removing discriminatory tax burdens such as the CCT and GPB.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

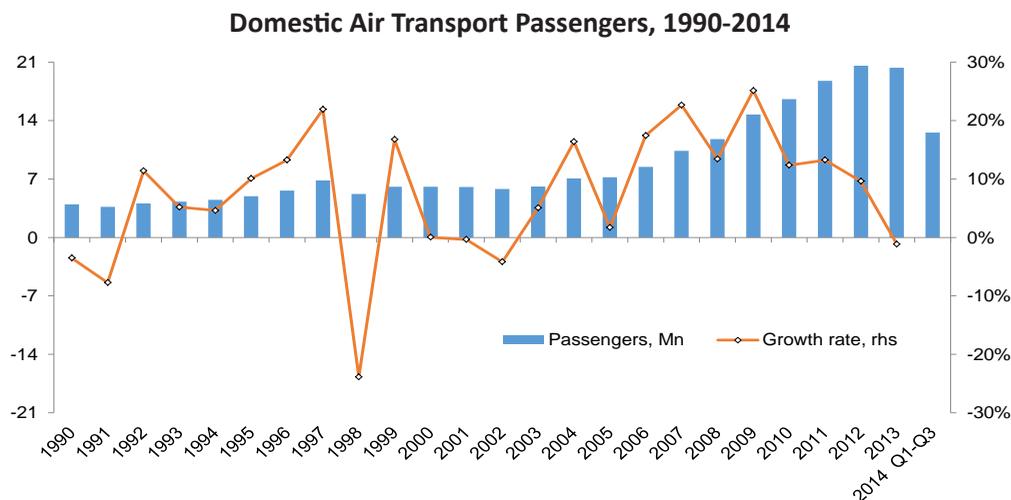
Congress passed a law removing CCT and GPB on international passenger tickets. Revenue Regulators 15-2013 were issued on September 20, 2013. A draft bill to remove their bases on international freight shipments was submitted in 2014 to the chairman of the HWMC and SWMC but remains to be introduced in either chamber.

## Recommendation 11

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 Amend the Immigration Act of 1940, Tariff and Customs Code of the Philippines, and the IRRs of the Quarantine Act to relieve the burden from customs, immigration, and quarantine overtime, meal, and transportation charges for airlines and shippers. Declare 24/7 operations at all international airports and ports and make the State shoulder the overtime payments for CIQ personnel.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★★ Substantial Progress	★★★★★ Completed	★★★★★ Completed

This has been done through an AO. There was serious initial resistance from some personnel in these agencies, including unprofessional 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 the GPH is being implemented. The BOI, BOC, and DOH (*Quarantine*) now provide 24/7 service. They were given authority to hire more personnel to cover the longer period and provisions for overtime was included in their budget. Upgrading their services in secondary international gateways and for international charter flights and some airports still precedes challenges of staffing.



## Recommendation 12



Revise take off and landing fees, make weight the main determinant, charge the same fees to international and domestic airlines.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★★ Completed	☆ No Longer Relevant

Landing fees are always charged by aircraft weight. This is not a big issue. Air Traffic Control fees are bigger issues as they are high. Flights that cater to tourism and cargo should be given discounts or exemptions from certain fees because of cascading effects on other industries.

## Recommendation 13



Modify equity rules to allow Asian low-cost carriers to compete in the domestic market.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★ Started	★★★★ Started

Cooperative agreements and JVs have taken place with foreign LCCs taking minority equity in the Philippine carriers allowing these JVs to participate in carriage over domestic sectors. A resolution authored by House Speaker Belmonte would amend the constitutional 60-40% equity restriction on public utility ownership to include "except as provided by law." The 1936 Public Services Act includes "common carriers" among services thus restricted. Airlines serving the domestic economy are conceived to be "common carriers" along with jeepneys, ships, buses, and taxis.

## Recommendation 14



Complete US\$270 million GOJ-funded Communications, Navigation, and Surveillance/Air Traffic Management project of the DOTC to modernize Philippine airports and improve air travel safety.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Start-Substantial Progress	★★★★★ Started	★★★★★ Started	★★★★★ Substantial Progress

Restarted in mid-2013, this long-delayed US\$200-million modernization is a vital infrastructure requirement for the future development and upgrading of Philippine civil aviation. After contracts were reviewed and signed by DOTC 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. Completion is expected by the end of 2015.

## Recommendation 15



Make Palawan a Tourism Economic Zone, adopting pocket open skies supported by infrastructure and a favorable tax regime (*e.g. relief of taxes and fees such as GPB and CCT*).

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

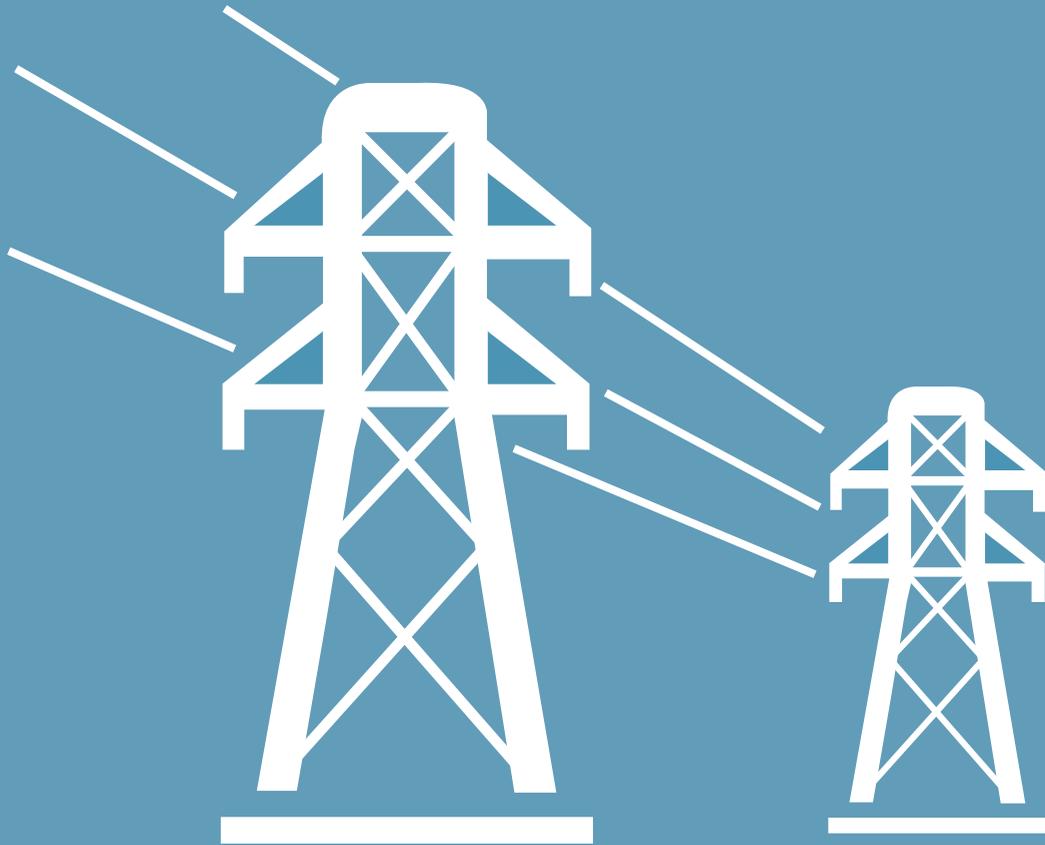
EO 29 covers this. Palawan is receiving priority for open skies and continued improvement of infrastructure, including Puerto Princesa Airport. A ROKG loan of PhP6 billion will fund a major airport improvement and terminal expansion due for competition in 2016, after which further expansion and O&M will be privatized. The municipality of San Vicente that features an unspoiled 14-km white sand beach and an airport with a 2-km runway is also being developed as a flagship TEZ by TIEZA. Destinations in Palawan, especially the Underground River (*voted an international natural wonder*), Coron, and El Nido, are receiving increasing numbers of visitors.



# PART 3

## SEVEN BIG WINNER SECTORS - INFRASTRUCTURE

# Power



### Recommendations: 21



### Progress:

4 Declined      9 Steady      4 Improved      4 Neutral

### Rating:

4	☆ No Longer Relevant	4	★★ Backward/Regression	6	★★★ Not Ongoing
7	★★★★★ Started	0	★★★★★ Substantial Progress	0	★★★★★ Completed

# PART 3

## SEVEN BIG WINNER SECTORS

### INFRASTRUCTURE:

# POWER

“We are doing everything... to ensure that the growing energy demand in our country is met... We need to make up for the shortages caused by the scheduled maintenance outages of old plants, the sudden halting of plant operations due to breakdowns, and delays in the progress of new plants.” - *President Benigno S. Aquino III, State of the Nation Address, July 28, 2014*

“Many questions have been raised on whether EPIRA was a success. I submit that, while there has been a delay, a fair call is “so far, so good.” EPIRA has provided the framework for the restructuring of the Electric Power Industry, including privatization of National Power Corporation’s assets, defining the responsibilities of various government agencies and the private sector, and transitioning to a functioning competitive structure. The end goal was to make sure we had an ample and reliable supply of electricity, at reasonable and competitive rates. While it is true that our rates are higher than our neighbors, this is because substantial subsidies have been removed as mandated under EPIRA so that “true cost of power” is adhered to, while our neighbors continue to subsidize. What actually needs to be done is to de-risk the sector from political and regulatory uncertainty to make the market work and encourage more investments, yielding more competition, ample supply and reasonable, less volatile tariffs.” - *Romeo L. Bernardo, BusinessWorld, January 26, 2014*

The Philippines is completing a decade-long transition from an inefficient 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 actual or potential supply shortages in all three grids. Unreliable, expensive electric power is a major deterrent to investment. Under the “open access” policy, rates in the medium term should go down after more efficient generating plants are commissioned that are profitable at lower costs. With the five conditions precedent to open access met, the long-awaited reform began in mid-2013. However, only one large baseload plant has opened in Luzon in the last decade. Underinvestment in power may continue unless there is a clear and stable energy policy, without legislative or judicial interference. Blackouts that have plagued Mindanao will end soon when new baseload coal plants begin to operate. But the main national economy in Luzon faces electricity shortages in 2015-2016 since new baseload plants have not been built fast enough and peaking power reserves are restricted. A needed new baseload plant was delayed by several years judicial risks but was eventually approved. 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



Ensure that EPIRA targets for open access are achieved and declare open access on schedule before the end of 2010. The ERC should promulgate the necessary and appropriate Rules and Regulations in a timely manner.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★ Backward/Regression	★★★★★ Started	★★ Backward/Regression

The commercial implementation of retail competition and open access (*RCOA*) began on June 26, 2013 with 239 of over 900 contestable customers registering with the PEMC to choose their preferred distribution utilities. Open access was introduced after long delays and is crucial to developing a competitive market. The threshold now of 1 MW and above represents around a quarter of the Meralco and Visayan Electric Co. (*Cebu area*) service area total demand. This will bump up to 40% once the threshold is brought down to 0.75 MW and more at 0.50 MW. ERC issued Resolution No. 13 on November 25, 2013 providing for amendments in the RES licensing guidelines. Certain provisions negate the thrust of EPIRA to promote competition and choice: (a) that no generation company or IPPA shall be issued a RES license; (b) that the supply capacity of RES will be counted against its generation company's capacity grid limit. The new issuance introduced provisions which appear to mirror rules applicable to distribution utilities to prevent anti-competitive behavior or abuse of market (because the DU's captive end-users have no say in the DU's choice of generation supply): (a) a RES cannot buy more than 50% of its requirement from affiliate generators; (b) a RES may only sell up to 50% of its capacity to its affiliate end-users. These provisions fail to consider that contestable customers have a choice and rules should not restrain them from choosing which RES can supply them at the lowest cost nor should the rules should restrain the RES from entering into arrangements that would provide the lowest cost to the contestable customers.

## Recommendation 2



PSALM should solicit and award bids from the private sector for the Agus and Pulangi hydro facilities during 2010 so that ownership can be transferred in June 2011 as currently authorized by EPIRA.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★ Backward/Regression	★★★★★ Started	★★ Backward/Regression

PSALM has not started any privatization process for these assets as envisioned in the EPIRA. The recent award of the Agus 6 plant is for upgrading only and not a privatization of the plant as required by EPIRA. On a positive note, Mindanao has seen an influx of capacity additions from coal fired power plants that will be commissioned between 2014 and 2016. This will assure the Mindanao Grid sufficient supply to sustain growth in the region. Government must expedite the interconnection of the Mindanao grid to the Luzon and Visayas grids to export the excess supply and to import power should Mindanao face future shortages.

### Recommendation 3



Formulate an integrated energy policy and master plan giving clear direction for sources of energy, locations of power plants, capacity each source generates (*accounting for future demand*), transmission of energy supply, policies to attract large investors and lenders (*into LNG, nuclear, coal, renewable energy, and others*) and importation of energy. The master plan must take into account the threats and/or challenges of climate change, energy efficiency, and availability of new technology. The priority power sources (*biomass, coal, gas, geothermal, hydro, LNG, nuclear, wind, and others*) should be strategically located throughout the country taking into account maximum capacity of each source.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★ Backward/Regression	☆ No Longer Relevant	★★★★ Started

The DOE has started consultation for a “Fuel Mix Policy” in September 2014 and has provided a framework for a long-term scenario for a fuel mix that, among others, dovetails with environmental protection goals. Under EPIRA, however, generation investments are primarily driven by competition in providing the least generation cost, which may not dovetail with the long-term fuel mix scenario. Under current costs, coal would dominate the choice of fuel in new generation projects unless there are countervailing measures to promote the cost competitiveness of other fuels or generation technology.

### Recommendation 4



The National Renewable Energy Board should create a roadmap to complement the overall energy master plan of the DOE recommended above.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

A National Renewable Energy Program was formulated and launched in 2011 with the aim of growing the country’s RE generation capacity to 15,304 MW by the year 2030, almost triple 2010 levels. This goal is further broken down into different RE types and their respective generation capacity objectives. NREB, for its part, was meant to review the program and recommend improvements in 2012 but progress has been slow due to reported lack of budget. DOE has endorsed to the ERC an increase of 450 MW installation target for solar from the current 50 MW based on the recommendation of NREB. However any increases in the RE installation target will necessarily affect the grid reliability and will require NGCP to procure the ancillary services (AS). If the policy of NREB is to hasten the development of RE, then government should provide a policy directing NGCP to procure AS to support the integration of renewable energy generations in the grid.

## Recommendation 5



The weak creditworthiness of most distribution utilities and electric cooperatives likely requires some form of credit enhancement to support project financing and power supply agreements of new generating projects with off-take agreements with such parties. Revisit policy disallowing “take-or-pay” or sovereign guarantees, in light of what makes economic sense.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
☆ No Longer Relevant	★★★ Not Ongoing	☆ No Longer Relevant	★★★★★ Started

DOE is currently drafting the Demand Aggregation and Supply Auction Policy (DASAP) which will address the issue of weak creditworthiness of electric cooperatives (ECs). However, stakeholders are refining the said DASAP as there is a possibility under the proposed mechanism that efficiently managed ECs will “subsidize” weak ECs, as they will be lumped together securing the same rates.

## Recommendation 6



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

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★ Backward/Regression	★★★ Not Ongoing

With the implementation of RCOA, the issue of creditworthiness of contestable customers will be taken care of by pricing signals from RES. Contestable customers which are risky will be left out to be supplied by SOLR (which the higher rates account for the risk premium). ERC on the other hand must rule on the mandatory nature of contestability, as this will spur additional capacity addition to the supply side.

## Recommendation 7



Remove all foreign equity restrictions for power projects to create a level playing field and attract more foreign energy players to invest.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Backward/Regression- Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

Renewable energy projects are still restricted to 40% foreign equity. The ban is contained in the Renewable Energy Act’s IRR but not in the law itself. The government should revisit this policy as this will open the industry

to more investors. For renewable, like solar and wind, utilization of these resources by foreign nationals will have no detrimental effect on the national patrimony of the country (*they are renewable and therefore an infinite resource*). The government may want to adopt a policy of full foreign ownership of power plants that will revert to government subject to an expiration period.

## Recommendation 8

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

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	☆ No Longer Relevant	★★ Backward/Regression	★★ Backward/Regression

The rate hike issue for the supply months of November and December is a good example of why the DOE should come up with a policy on what level of exposure of the ECs and DUs in the WESM is acceptable. However, this is not to say that WESM is irrelevant. The WESM design and rules are similar to markets in other jurisdictions. It is the governance and implementation of the rules which are the issues. In fact there are adequate market price signals in the market; however, these price signals are muted through political intervention, secondary price caps, and insufficient offer price caps, and are inconsistent with economic principles.

## Recommendation 9

 Partners such as ADB, IFC, and JBIC can help finance the longer tenor – the “tail risk” beyond 10-12 years – when international private banks are only comfortable with shorter tenor.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
☆ No Longer Relevant	★★ Backward/Regression	☆ No Longer Relevant	☆ No Longer Relevant

Local banks are now offering longer tenor and less stringent covenant restrictions which will translate to lower transactional cost for the proponent.

## Recommendation 10

 The RP must find ways to comply with the requirements of lending institutions in dealing with climate change issues. Create the Clean Technology Investment Plan and implement thoroughly.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	☆ No Longer Relevant	☆ No Longer Relevant	☆ No Longer Relevant

Similar to comment above, local banks can finance projects and no need to go to foreign lending institutions. Philippine environmental laws are stringent, and DENR issues permits before a plant can start construction and operation. There is a need however to streamline the permitting process to expedite the turn around time.

## Recommendation 11

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**The DOE needs to implement a policy with assistance from the private sector to assist cooperatives in the transition to a privatized electric power industry. Power generation companies should be interested in the creditworthiness of their clients. Strongly encourage electric cooperatives to establish their creditworthiness.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

The market is taking care of this already with cooperative bidding under open access. The Central Luzon Electric Cooperatives Association, with technical assistance from USAID, was able to conduct a bidding that yielded a very competitive and low wholesale power price. DOE is currently drafting the Demand Aggregation and Supply Auction Policy (*DASAP*) which will address the issue of weak creditworthiness of ECs. However, stakeholders are refining the said *DASAP* as there is a possibility under the proposed mechanism that efficiently managed ECs will “subsidize” weak ECs as they will be lumped together in securing the same rates.

## Recommendation 12

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**Develop a power plant on an isolated island such as Semirara with a supply of indigenous coal and deepwater access to international coal sources. Connect the island to a grid via submarine cables, for example to Mindoro and to Batangas. This will close the loop of Bicol, Samar, Leyte, Cebu, Negros, Panay, Boracay, Semirara, Mindoro, and Batangas.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	☆ No Longer Relevant	★★★★★ Started	★★★★★ Started

Semirara Mining Corp. proposes to replace SPUG oil plants on islands such as Masbate, Mindoro, and Palawan with coal plants, reducing the cost per KWH from PhP10 for diesel PhP2 (*fuel cost only*). NGCP is conducting the feasibility study for the Visayas-Mindanao interconnection project. The project has been approved in the 3rd Regulatory Period (*pre-construction activities*). Renewable energy and other emerging technology such as battery energy storage may also be adopted in lieu of interconnecting small island grids due to the high capex cost that will be incurred. RE and battery energy storage may displace diesel plants in these small island grids, which will lower the cost for the consumers and reduce the government subsidy.

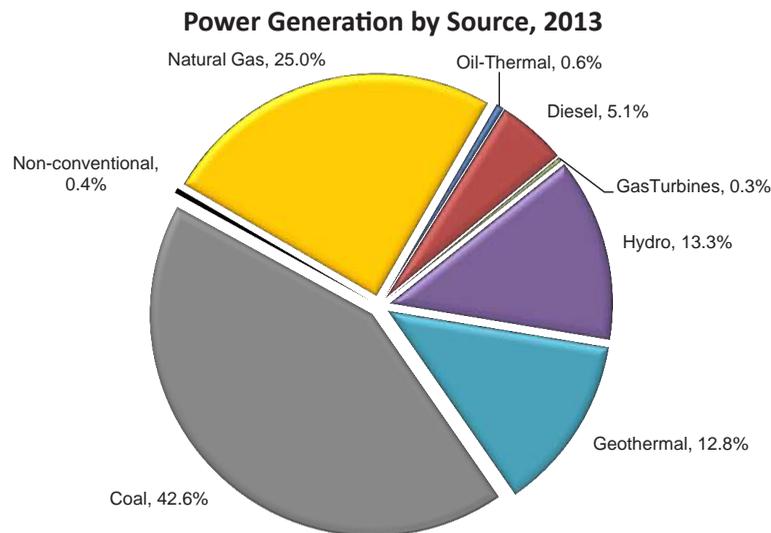
## Recommendation 13



Study the potential of LNG in the Philippines and create a comprehensive policy to attract investment in this sub-sector. LNG can be a greener alternative source of energy. Converting public transportation to LNG will generate large savings, have less negative effects on health, and reduce traffic congestion.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★ Backward/Regression	★★★★★ Started	☆ No Longer Relevant

Studies are being made. Malampaya gas may be exhausted by 2020. Pricing signals will determine the generation mix, unless the government provides a subsidy to develop its preferred fuel technology. Two large investors are considering whether to invest in LNG import terminals.



Source: DOE

## Recommendation 14



Merchant plants cannot succeed without a mature spot market to establish the correct price. Investment will not occur in this market if the price is below the long-range marginal cost of a new plant or at or less than the variable cost of plant operations, including fuel.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	☆ No Longer Relevant	★★★ Backward/Regression	★★★ Backward/Regression

The WESM design and rules are similar to markets in other jurisdictions. It is the governance and implementation of the rules which are issues. In fact there are adequate market price signals in the market. However, these price signals are muted through political intervention, secondary price cap and insufficient offer price caps which are inconsistent with economic principles. The recent decision of the ERC to recalculate

prices is an example of market intervention that is bereft of any legal basis and which dampens the investor confidence in the merchant market.

## Recommendation 15

 Implement open access. EPIRA requires removal of cost subsidies to reflect the true cost of electricity. Over the short term, electricity prices are likely to increase. The only way to bring the price down is for new generators to enter the market with plants that are profitable at a much lower cost per kilowatt-hour, thereby creating an abundant supply of baseload, intermediate, and peaking capacity. This can happen only via open access.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

ERC must be steadfast in implementing the full RCOA as envisioned in EPIRA. The contestable level should be at 750 KW by June 2015 and ERC should come up with a decision on the mandatory nature of contestability. The DUs must truly bid out for the least cost power to their franchise constituents before they sign any PPAs. Privatization of the Power Sector Assets and Liabilities Management Corp. (PSALM) assets began slowly. To date over 80% of the country's generating plants have been sold, and a slightly lower number of contracted capacity has been privatized through IPP administrators. Transmission is now under a regulated private company. From less than a handful, there are now over a dozen players in the industry, including Filipino companies that were never in the power business. Government needs to be more active in encouraging generation and supporting private power developers in every way. The appetite to invest is there, but developers are running into road blocks with "not in my backyard" advocates, excessive approval requirements, and unsupportive government units (e.g. the 600MW RP Energy project in Subic is three years delayed and pending judicial resolution in the Supreme Court).

## Recommendation 16

 The RP should include the development of nuclear power in the national power development plan. Preparations needed for this technology require at least 10 years, and infrastructure, power plant, and transmission require very large investments. The Philippines should come to a decision soon and then strategically prepare for the next 10 years.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★ Backward/Regression	★★★ Not Ongoing

Political/social acceptability will be the biggest challenge in accepting nuclear power plants. The Philippines is a disaster prone country, which could increase the cost of adopting nuclear technology. Nuclear is probably not an option any time soon. The catastrophic failures following the tsunami wave that overwhelmed the Fukushima nuclear power in Japan on March 11, 2011 have set back development of nuclear power globally. However, Korea has decided to go ahead with its nuclear plan by building two 1.4 GW plants. But Vietnam in 2014 delayed its nuclear plant (1,000 MW Russian) until 2020 or 2022 to its improve safety.

## Recommendation 17



Congress should pass a resolution supporting consideration of the development of nuclear energy, including small-scale nuclear power options currently under development, while leaving disposition of the Bataan Nuclear Power Plant for the Executive to decide.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★ Backward/Regression	★★★ Not Ongoing	☆ No Longer Relevant

Political/social acceptability will be the biggest challenge in accepting a nuclear power plant. The Philippines is also a disaster prone country, which could increase the cost of adopting nuclear technology.

## Recommendation 18



Congress should pass an Energy Efficiency Act after full consultation with stakeholders. The RP should implement foreign donor and national projects to improve energy efficiency. Efforts of distribution utilities to reduce system losses due to theft must be strongly supported. Capital investment in the transmission and distribution systems to reduce systems losses should be incentivized.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★ Not Ongoing	☆ No Longer Relevant	★★★ Not Ongoing

Congress must be careful with the interventions it plans for the power sector as free markets should force efficiency on their own. Energy bills introduced in the 15<sup>th</sup> Congress languished and none were reported out of committee in either the House or the Senate. Energy efficiency should focus on cooling, lighting, and petroleum efficiency. Current rules in the ERC do not incentivize ECs, which have a lower system loss than the cap as they are passed through to consumers. Thus, it does not make sense for ECs to invest in additional CAPEX to reduce system losses, but in return they cannot enjoy the savings derived from the lower system losses.

## Recommendation 19



Explore the possibility of WESM sales of freely-tradable forward power supply contracts in relatively small denominations (*such as 5 or 10 MW*) and applicable for specified timeframes (*e.g. short, long, baseload, and peaking*) for sale to load customers or investors. Investigate performance security options to protect parties to such forward contracts.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★ Not Ongoing

WESM and the ERC should promulgate rules to hasten the forwards market. This will limit the exposure of customers in price spikes during events of forced/maintenance outages of power plants. It will also entice capacity addition investments.

## Recommendation 20

- Interconnect the entire grid to enable producers to transport electricity to other parts of the country via the WESM. With a truly national grid, investors will be able to come in and take advantage of the growing demand for power supply. There must be an abundance of supply for the WESM to be effective in lowering costs of electricity.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

National Grid Corporation of the Philippines (NGCP) is conducting the feasibility study for the Visayas-Mindanao interconnection project. The project in fact has been approved in the 3rd Regulatory Period (*pre-construction activities*). However there must be a study on the cost implication to consumers of this CAPEX vis-à-vis the savings that will be generated through sharing of reserves between the Visayas and Mindanao grids.

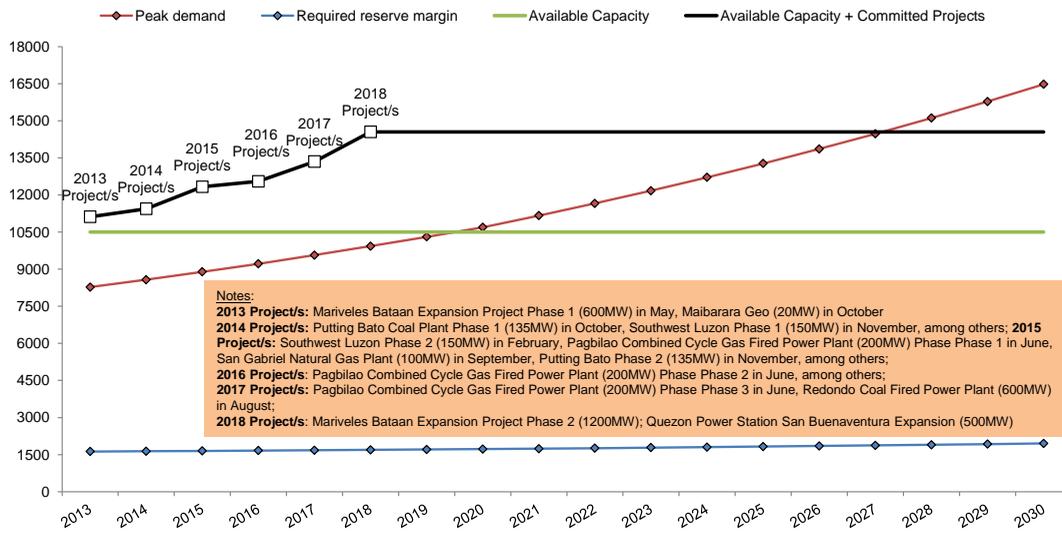
## Recommendation 21

- NGCP and the ERC should accelerate capital investments to resolve constraints limiting the flow of power from Luzon to the Visayas and from southern Luzon to the NCR and from northern Luzon to Metro Manila. NGCP should continuously evaluate the technical and commercial feasibility of interconnecting the Luzon and Visayas grids via submarine cable with the Mindanao grid and/or various isolated grids, such as Mindoro.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

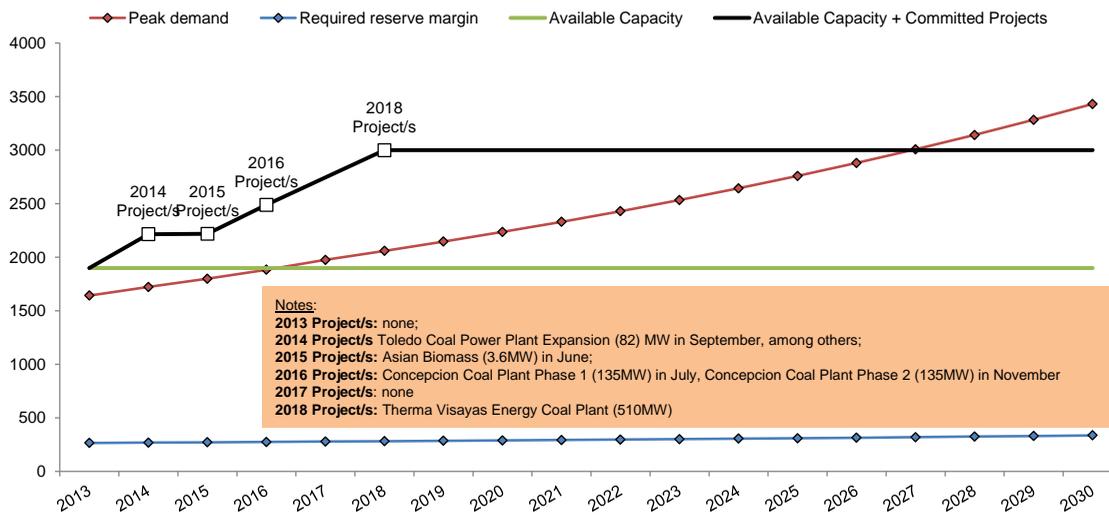
The severe power shortage in hydroelectric-dependent Mindanao during the 2012 drought led to the realization that future blackouts would be avoided by interconnection with the national grid. The NGCP needs to accelerate its work. National Grid Corporation of the Philippines (NGCP) is conducting the feasibility study for the Visayas-Mindanao interconnection project. The project in fact has been approved in the 3rd Regulatory Period (*pre-construction activities*). However there must be a study on the cost implication to consumers of this CAPEX vis-à-vis the savings that will be generated through sharing of reserves between the Visayas and Mindanao grids.

### Required Reserve Margin and Peak Demand Estimates, Luzon, in MW, 2013-2030



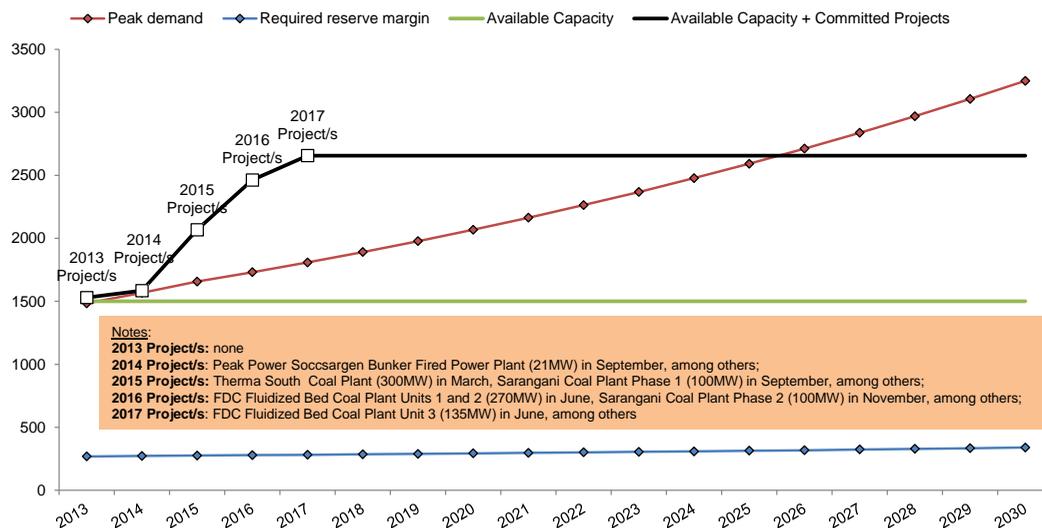
Source: DOE Power Supply Demand and Outlook, SourceWatch, UNCFCC, author's calculations

### Required Reserve Margin and Peak Demand Estimates, Visayas, in MW, 2013-2030



Source: DOE Power Supply Demand and Outlook, SourceWatch, UNCFCC, author's calculations

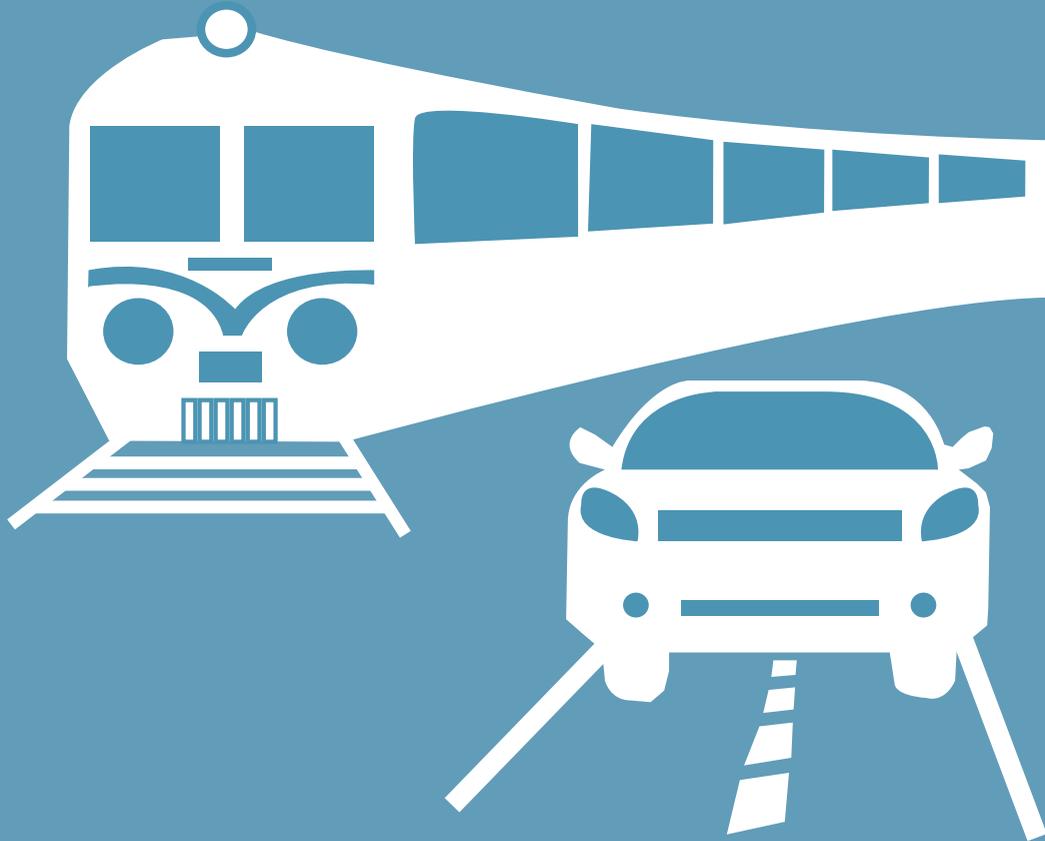
### Required Reserve Margin and Peak Demand Estimates, Mindanao, in MW, 2013-2030



Source: DOE Power Supply Demand and Outlook, SourceWatch, UNCFCC, author's calculations

**PART 3**  
SEVEN BIG WINNER SECTORS - INFRASTRUCTURE

# Roads and Rails



## Recommendations: 9



### Progress:

2 Declined      4 Steady      2 Improved      1 Neutral

### Rating:

1	☆ No Longer Relevant	1	★★ Backward/Regression	0	★★★ Not Ongoing
2	★★★★★ Started	5	★★★★★ Substantial Progress	0	★★★★★★ Completed

# PART 3

## SEVEN BIG WINNER SECTORS

### INFRASTRUCTURE:

# ROADS AND RAILS

“Nothing much has changed in terms of the MRT’s efficiency, in fact, things have gotten worse. 2014 saw too many mishaps for daily riders of MRT-3, mainly because of poor maintenance, or the lack of any maintenance. Most people just want to get from point A to B. We put up with a lot because we know that the trains are old and there are too many people using them. I’m very much in favor of the fare hike if only to improve efficiency and for the trains to have badly-needed repairs. MRT-3 is a disaster waiting to happen. Any time, trains could collide, ignite, or fall off elevated tracks onto the busy EDSA below. Hundreds of lives could be lost.” - *Ms. Carol Singson, veteran MRT-3 commuter*

“Expanding the urban rail transit network is a must. But our government has dillydallied on this challenge. The three LRT lines are managed poorly - with Line 3 on EDSA as the poster boy of flawed rail policies and mismanagement.” - *Rene S. Santiago, Philippine Daily Inquirer, September 14, 2014*

“According to the Japan International Cooperation Agency, road congestion costs the economy some Php 876 billion (*US\$19.65 billion*) annually, equivalent to about 8% of GDP, or Php2.4 billion (*US\$53.84 million*) per day.” - *Rappler, January 9, 2015*

“Metro Manila has nearly two times more vehicles per km of road than Singapore. This is compounded by a population density that is even higher than that of Tokyo metropolis (*19,126 persons per square kilometer; Tokyo, around 14,390, and Singapore, around 7,100*).” - *Rene S. Santiago, Philippine Daily Inquirer, September 14, 2015*

“A bigger challenge are the jeepneys (*about 60,000 relics of World War II*) with their atomized operating structure. They account for 23 percent of daily trips. This Filipino innovation has wallowed in a low-performance equilibrium trap over the past six decades. No innovation.” - *Rene S. Santiago, Philippine Daily Inquirer, September 14, 2014*

Modern, efficient ground transportation infrastructure facilitates the efficient movement of goods and people, while its absence increases transport cost and harms country competitiveness. Unfortunately, this race to improve public transport before traffic gridlock worsens is being lost. Although DPWH greatly increased its budget in the final years of the previous administration, much went into barangay roads built for political purposes. Meanwhile, the national road network barely increased in two decades, although traffic on national roads multiplied. The current administration has corrected this and is implementing an ambitious national highway and bridge program, spending over Php 100 billion each year. There are seven limited-access toll roads operating or under construction, all in Central Luzon, totalling some 300 kilometers. Another 300 kilometers are planned by 2020. This acceleration of road investments led to a sharp improvement in the Philippine rank in the WEF quality of roads ranking, from the lowest of the ASEAN-6 in 2009-10 to 5th in 2014-2015. In contrast to roads, the Philippines ranks a distant last among the ASEAN-6 for the WEF quality of railroad infrastructure. Successive Philippine administrations have neglected the potential of rail for long-distance service on Luzon. However, the outgoing executive is rushing several projects to bidding. There is only one short heavy rail service in operation on the 377 kilometer Manila-Naga PNR line. DOTC has sought unsuccessfully for two decades to restore rail service north of Manila; the PRC-supported North Rail project turned into a major white elephant. Three light rail lines operate in Metro Manila, often at overcapacity. New lines are taking over a decade to implement, mired down by bureaucratic slowness. The current Administration will not see even one new kilometer of rail, which it initiated, completed during its term. If this slow pace of implementation continues, the urban centers will become increasingly choked and unattractive to private sector investment.

## Recommendation 1

- 
**Start to build expressways and national roads twice as fast, using PPPs as well as DPWH funds. Extend expressways North to La Union, North East to Nueva Ecija and South to Batangas, Lucena, and Cavite; extend Manila Skyways and build C-6 in NCR; also Davao to GenSan; Trans Cebu (*Danao to Talisay*); third Cebu-Mactan bridge; consider Cebu-Bohol bridge. Relieve congestion on national roads by building more and through widening. Cost: US\$3+ billion (*not including national roads*).**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress

Strategic infrastructure projects are in various phases. With DPWH, four toll roads under PPP are being constructed. The 4-km Daang Hari-SLEX link (*through PPP*) should open in early 2015 and NAIA Expressway Phase 2 is scheduled to finish by October. TPLEX is open to motorists from Tarlac to Urdaneta City, while the final section to Rosario, La Union, is scheduled for December 2016. The second phase of STAR Phase II, involving an additional 2 lanes of 20-km pavement from Lipa City to Batangas City, has been completed.

Other priority toll road projects in the pipeline include the biggest PPP road project to date, the PhP122 billion Laguna Lakeshore Expressway Dike, currently being tendered with a prequalification conference conducted in December 2014; the 24-km, half-finished Plaridel By-pass Road; the 30-km Central Luzon Link Expressway (*Tarlac to Cabanatuan*); the 92-km NLEX East Expressway (*NLEEx*) in Bulacan that was awarded in 2013; and PhP35 billion Cavite-Laguna Expressway (*CALAx*).

Three critical road projects that are expected to decongest Metro Manila traffic are also underway, albeit more slowly than they should be. Construction of the six-lane, 14-km Metro Manila Skyway Stage 3 which will connect to NLEX and relieve EDSA traffic beginning January 2014 is underway. The 34-km C6 Metro Manila Express Way Project (*PPP*) traversing Skyway FTI to the Batasan Complex has been approved is in Final Engineering Design stage. The Manila North Expressway Project (*also partially elevated*) has been delayed for several years by bureaucratic inconsistent position shifts but is expected to begin construction after a Swiss challenge in 2015.

Elsewhere, Cebu North Coastal Road, Tagum-Davao-General Santos High Standard Highway, and O&M and Improvement of Kennon Road and Marcos Highway have completed their PPP studies, while R7 Expressway, which connects Quezon City to Manila City (*and hence helps decongest the two busiest cities in Metro Manila*), has also been endorsed to the PPP Center for economic and financial cost analysis.

Some of these critical roads have experienced delays in project tenders like NLEEx, CALAx, and the NLEX-SLEX Connector Road and will not be completed in the Aquino Administration.

## Recommendation 2

- 
**Build large intermodal provincial bus terminals north and south of Manila, near expressways and light rail. Bid out the project as PPP. Prohibit provincial buses from entering the NCR and close their present terminals which congest traffic.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started

The policy of DOTC and MMDA regarding the daily entry of 15,000 provincial buses into the NCR continues to be uncertain, if not inconsistent. Although the President issued EO 67 in 2012 that provides authority to DOTC to establish an integrated mass transport system and restricts entry of provincial buses into Metro Manila thoroughfares, the LTFRB allowed the re-entry of 2,000 buses in July 2014, a move opposed by MMDA, after provincial operators and Bicol Governor Salceda filed a petition in the Supreme Court requesting a TRO. Then in August 2014, LTFRB issued Memorandum Circular 2014-015 defining Metro Manila endpoints of provincial public buses from Southern Luzon, Bicol, and Visayas. In any case, the Integrated Transport System-Southwest Terminal awarded to Megawide-WM Property Management consortium in January 2015, while the South Terminal has just completed its pre-qualification evaluation. In the meantime, an interim terminal along the South Coastal Road merely forces commuters to change buses without offering a connecting rail transfer leading to congestion around the chosen site. The MRT-7 Project, which involves an intermodal terminal in Bulacan, is still in financial closing after over a decade of delay, with SMC set to bid out.

### Recommendation 3

 The final national government budget should focus on the core road network. These are highly travelled roads with great economic and social impact. 85 to 90% of the total road infrastructure budget must be aligned to core roads and only 10 to 15% to other various projects.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★★ Completed	★★★★★★★ Completed	★★★★★★★ Substantial Progress

The government has increased the DPWH budget allocation for roads and accelerated its pace of tendering road projects. Secretary Singson has made a strong commitment to stick to the DPWH mandate on taking care of national roads spanning approximately 31,000 km. 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. Php16.5 billion will be allocated in 2015 for construction, upgrading, rehabilitation and improvement of strategic tourism infrastructure roads and bridges, while the budget for national road network services and flood management increased from Php200 billion in 2013 to Php130 billion in 2014. As a result of this increased investment and spending and ongoing reforms in DPWH, the WEF Quality of Roads ranking for the Philippines improved 27 places from 114<sup>th</sup> in 2010 to 87<sup>th</sup> in 2014, moving ahead of Vietnam.

### Recommendation 4

 Major road and rail projects which government decides to be funded as PPPs should be bid out competitively and evaluated and awarded transparently. Unsolicited proposals should be minimized.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★★★★ Substantial Progress	★★★★★★★ Substantial Progress	★★★★★★★ Substantial Progress

Although it is laudable that the Aquino Administration has committed to its policy preference for the solicited bidding process over the unsolicited approach (*as acutely evidenced by the DOJ opinion against the NLEx-SLEx connector unsolicited proposal by MPIC*) this policy must be balanced, however, with the greater goal of fast-tracking transport infrastructure development, as rigid/overly technical commitment to the solicited approach can cause delays in critical road and rail infrastructure projects. For example, the NLEx-SLEx Connector Road was originally proposed as an unsolicited project in 2010, was re-classified as a JV with PNCC for purposes of expediting it, and will be subjected to a Swiss challenge four years after it was first proposed. Yet, concerns are also raised by the business community as to the extent of discretion of pertinent executive offices or executive overreach in rendering decisions on awarded PPP projects, which are detrimental to overall investor confidence in the PPP program and bidding procedures implemented by the PPP Center, as exemplified by the cases of CALAx rebidding and the LRT-MRT Common Station confusion.

Despite these, most priority road and rail projects are being bid out transparently and competitively via the solicited mode. The DPWH has shown the most progress on the PPP front; it has awarded the Daanghari-SLEX connector road and the NAIA Expressway Stage II and has continued to show gains in finishing TPLEx and STAR Road Stage II-Phase II, in preparing the bid for Laguna Lakeshore Dike Expressway, and in actively conceptualizing a healthy pipeline of road projects (*Central Luzon Link Expressway, NLEx East Expressway, Plaridel By-Pass Road*). It had almost awarded CALA Expressway in Q4 2014 but had to re-bid the project after the President issued a stay order in response to an appeal by a disqualified bidder. Despite challenges, DOTC has also after more than a decade successfully tendered the contract awards for the LRT 1 South Extension, the Automatic Fare Collection System, and ITS-Southwest Terminal and is currently bidding out ITS-South Terminal and the O&M of LRT-2, among others. The proposed Php378 billion Pasay-Makati-Taguig Mass Transit System Loop (*the country's first subway*) is up for NEDA approval. As a result, WEF ranking of the country for Quality of Railroads, which had been declining reversed in 2011, and improved from 101st of 134 countries in 2008 to 80th of 144 in 2014, although still the lowest among ASEAN-6. Consistent with private sector recommendations, ODA funding has also stopped crowding out private sector participation in PPPs, except in feasibility studies and consultancy, where foreign expertise or exposure to international best practices is needed. Overall, most major PPP projects on roads and rails follow the solicited bid mode.

## Recommendation 5

 **Strictly use the modern planning tool known as HDM-4 in the identification and prioritization of road infrastructure projects for funding (*using objective technical and economic criteria*). HDM-4 should be strictly followed in determining amount budgeted for lump sum utilized for rehabilitation, construction, and upgrading of roads.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

In a Performance Government System review organized by the Institute of Solidarity Asia, DPWH reported using HDM-4 as a major process improvement in objective programming and project selection. As a result, the updating of data 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. Some engineers and officers are now under scrutiny to explain variances in data submitted versus actual technical visit. 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.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress

All HD-4 identified DPWH road projects can be seen in the National Expenditure Program and General Appropriations Act posted on DBM's website. All projects will be posted for the public to see on data.gov.ph. The DPWH and the DOTC also post a comprehensive list of PPP projects on their respective websites: <http://www.dpwh.gov.ph/PPP/index.asp> and <http://www.dpwh.gov.ph/PPP/index.asp>.

## 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. Complete the MRT-7. Build the LRT-1 south extension, the LRT-2 west and east extensions, complete the Northrail and Southrail projects and their interconnection. Build the MRT-4 and the MRT-8 and a Cebu light rail. Build a high-speed connection between Manila business hubs and Clark airport by 2020. Cost US\$12+ billion.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★ Not Ongoing	★★★★ Not Ongoing	★★★★★ Started

LRT 1 South Extension was successfully awarded in 2014. LRT 2 east extension – via duct construction to start soon (*station construction to be tendered during Q1 2015*); Operation and maintenance of LRT2 being tendered. Implementation of Northrail/Southernrail project is behind schedule and is now being considered under PPP. There is no clear government direction in the development of Clark Airport (*hi-speed rail is dependent on the feasibility of Clark Airport*).

Accelerated construction has not transpired, even for those rail projects with previous feasibility studies. However, some movement - albeit overdue - happened in 2014: the MRT-7 has finally gotten its Performance Undertaking, the LRT-1 south extension contract has been awarded to the Ayala and MPIC consortium, and bidding for the construction of the 4-km viaduct for LRT-east extension closed in December 2014. The greenlighting of MRT-7 has virtually shut down prospects for MRT-4. MRT-8 was just an idea with no underlying study, nor was it a component of a previous urban transport master plan. The Cebu LRT was placed in the backburner by DOTC in favor of a Cebu BRT, which has gotten NEDA-ICC approval (*as well as World Bank funding*) to begin construction in 2016. Another BRT is planned by DOTC for Manila.

A new feasibility study for a high-speed connection between Manila and Clark was completed in mid-2013; but the US\$8 billion scheme was subsequently junked in 2014 and replaced by the so-called Integrated Luzon Railway Project (*ILRP*). The pre-feasibility study on ILRP indicate that the north portion is supposed to rebuild and expand the old PNR Main Line North using standard gauge, while the south portion to Bicol and Batangas would be rebuilt on narrow gauge.

If the 2014 pronouncements from DOTC can be believed, the national railway system will be expanded. Studies for a Taguig-Makati-Pasay subway system, as well as an LRT-1 extension to Dasmariñas Cavite, are in full swing. However, these projects as well as the ILRP, appear surreal.

## Recommendation 8



Correct the different gauges of the Northrail-Southern link, which is not congruent with the gauge of both Northrail and Southern projects. The former uses standard gauge, while the latter uses narrow gauge. To go to Southern from Northrail, commuters will have to transfer trains twice on the linkage line.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★ Backward/Regression

The original recommendation was triggered by the Northrail contracts with Sinomach that had a standard gauge for phase 1 (*Caloocan to Malolos*), and a narrow gauge for phase 2 (*Malolos to Clark*). The so-called Southern project of PNR (*from Tutuban to Alabang*) managed to rehabilitate the South Commuter Service up to Sucat; it operates on narrow gauge. The pre-2010 plans did not contemplate through train operations from North to South. Since 2010, construction works on the Northrail segment have been halted, with the contract with Sinomach terminated in 2012. Arbitration proceedings pre-occupied Northrail throughout 2014. The DOTC has replaced the aforementioned projects with the North-South Commuter Railway Line, which it said would be rolled out for tender by mid-2015. However, it has bundled this latest version of the suburban railways into the larger and ambitious Integrated Luzon Railway Project (*mentioned in item 7 above*) which is inter-urban. For a substantial part of 2014, DOTC has vacillated between standard and narrow gauge options for the North-South Commuter Railway. Its study for the ILRP calls for standard gauge in the north and narrow gauge in the south.

## Recommendation 9

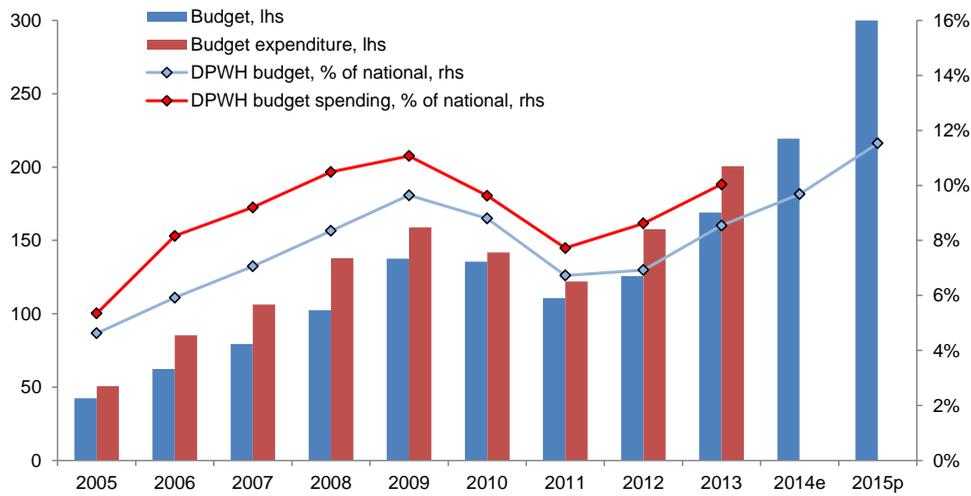


Enact an EO to create a single government agency to manage operations, maintenance, and planning of all light rail projects within Metro Manila in order to ensure a seamless rail system.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	☆ No Longer Relevant	☆ No Longer Relevant	☆ No Longer Relevant

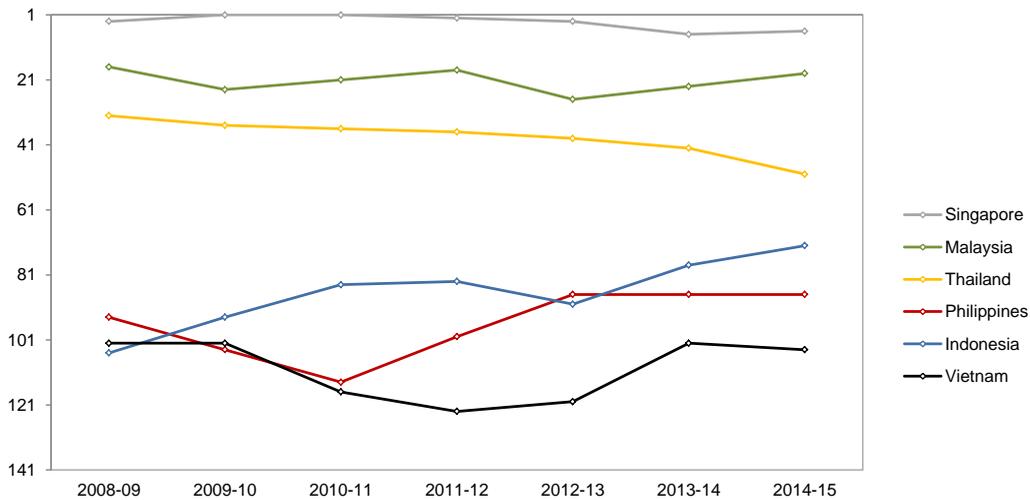
The original recommendation was aimed at achieving seamless rail system through one agency. This objective can be achieved without having a single rail agency for the 3 light rail lines. Without need of an EO, DOTC has become de facto the sole agency responsible for the 3 lines – by assuming planning, bidding for the operations, and maintenance of the 3 lines. Although O&M is fragmented, a seamless rail system is achievable via a common ticketing system and re-design of the “*common station*.” The common ticketing (AFCS) was awarded via PPP to a Consortium of Ayala and Metro Pacific on March 31, 2014. This may reduce delays in inter-line transfers but will be meaningless if without concomitant policy reform on fares (*no cost-penalty to passenger transfers*). There has been no movement on the second element.

### DPWH's Budget and Actual Spending, Bn, PhP, 2005-2015p



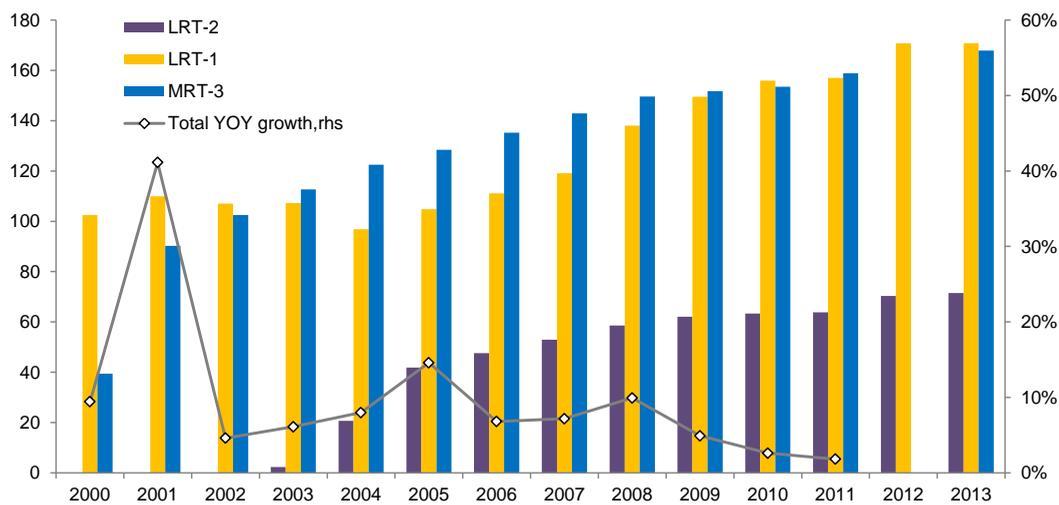
Source: DBM (Total obligations; Adjusted-Budget; Actual-Expenditure)

### Quality of Roads Rankings, ASEAN-6, 2008-2014



Source: WEF Global Competitiveness Reports; Note: Number of countries evaluated - 2008-134; 2009-133; 2010-139; 2011-142; 2012-144; 2013-148; 2014-144.

### Light Rail Ridership (LRT-1, MRT-2 & MRT-3), in Mn, 2000-2013



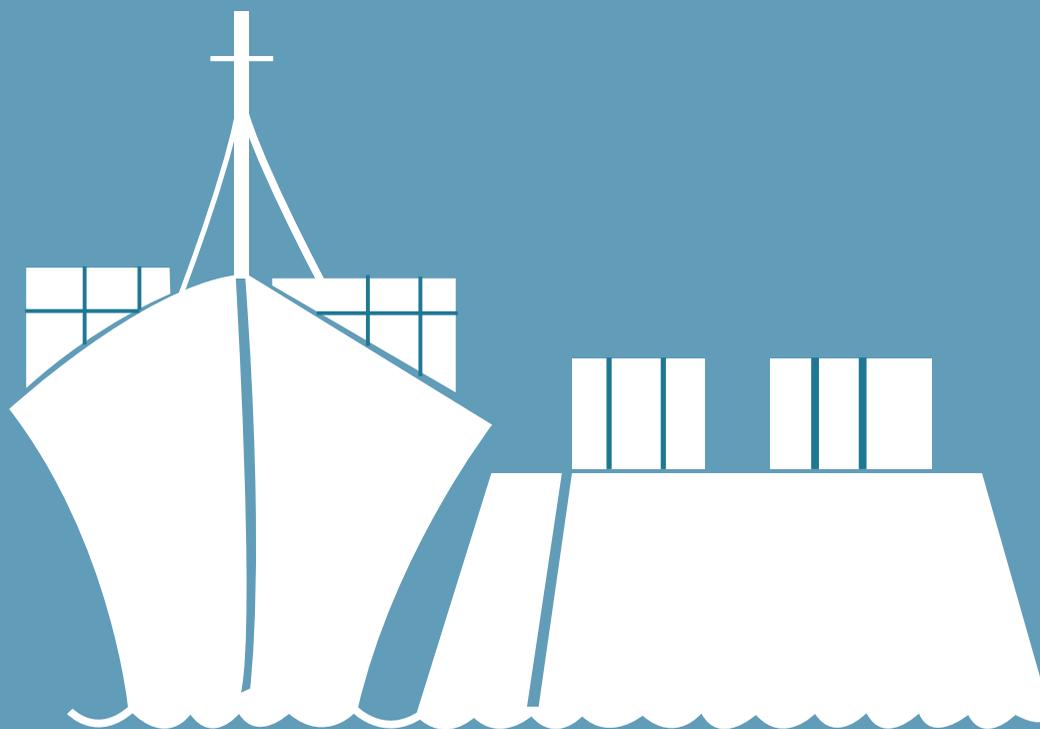
Sources: LRTA and Metrostar Express;

Note: MRT-2 and MRT-3 only started operating in Apr 2003 and Dec 1999, respectively. 2012 and later MRT data not yet released

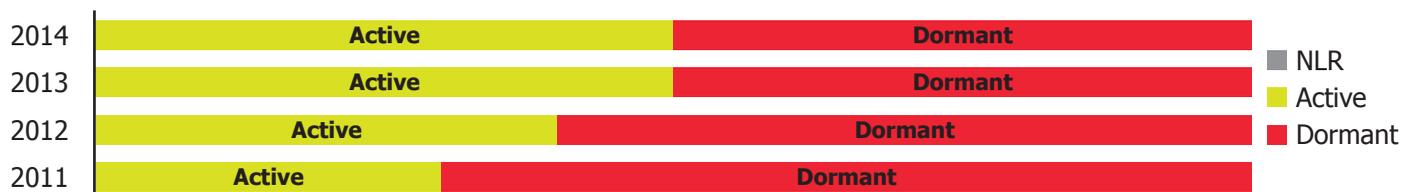
# PART 3

## SEVEN BIG WINNER SECTORS - INFRASTRUCTURE

# Seaports



### Recommendations: 20



### Progress:

1 Declined      18 Steady      1 Improved      0 Neutral

### Rating:

0	☆ No Longer Relevant	1	★★ Backward/Regression	9	★★★ Not Ongoing
9	★★★★★ Started	1	★★★★★ Substantial Progress	0	★★★★★ Completed

# PART 3

## SEVEN BIG WINNER SECTORS

### INFRASTRUCTURE:

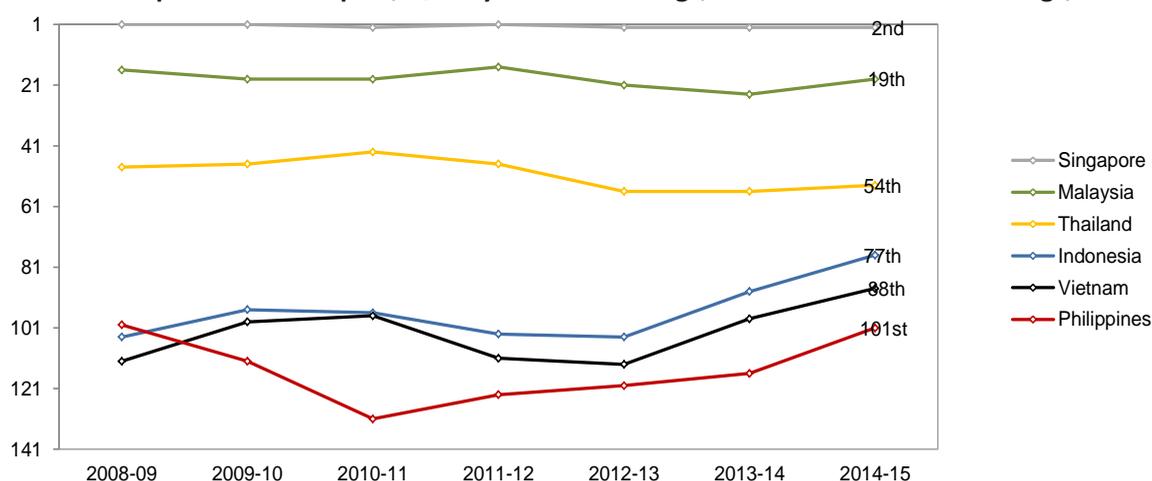
# SEAPORTS

“With the upcoming ASEAN integration in 2015, there is a need to have immediate and long-term solutions to the problems on port congestion, since the flow of goods had been restricted by the issuance of policy orders of different government agencies.” - *Senator Paolo Benigno Aquino, The Filipino Connection, August 9, 2014*

“Our archipelagic geography beams with immense opportunities for a cruise tourism industry to grow and flourish. That our neighboring countries are way ahead of us only means that we need to double, quadruple even, our efforts. If we do not speed up infrastructure development, we will be missing out on a lot of opportunities. Clearly the strong demand is there. We need to step up.” – *Senator Sonny Angara, Senate Tourism Committee Vice Chairman, February 19, 2015*

Because the archipelagic Philippines depends on seaports to move most domestic and international commerce, efficiency and cost of marine transport is critical to national competitiveness. Its high cost has long been an impediment to more commerce. Tourism growth is also influenced by seaport quality. Improving maritime safety is important given the high loss of life from long-standing negligence by ship owners and government agencies alike. The volume of international container shipments is small compared to Asia’s larger export economies and is the lowest of the ASEAN-6. Although it has improved in the past two years, the Philippines ranked 101<sup>st</sup> of 144 countries in 2014 in Quality of Port Infrastructure of the WEF Global Competitiveness Report—the lowest among the ASEAN-6 countries. In 2013, Manila ranked 36<sup>th</sup> worldwide in tonnage volume. Over the last decade, there have been significant investments in the international ports of Batangas, Davao, PHIVIDEC, and Subic, almost doubling their combined capacity. Bangkok and Ho Chi Minh City have capped their old city ports in favor of new deep-water ports, while Manila has done the opposite by expanding Manila Port. In 2014 an extension of NCR truck bans caused severe congestion in Manila and the usage of Batangas - but not Subic - quickly ramped up to full capacity. Expansion of Batangas is urgent, while the challenge at Subic remains increasing the frequency of ship calls. The RORO Nautical Highway, with three routes connecting Luzon-Visayas-Mindanao, should be expanded and made more efficient. Regional ports need modernization with feeder links. Cruise tourism is growing at several Philippine destinations.

**WEF Global Competitiveness Report, Quality of Port Rankings, ASEAN-6 Percentile Rankings, 2008-2014**



Source: WEF Global Competitiveness Reports; Note: Number of countries evaluated - 2008-134; 2009-133; 2010-139; 2011-142; 2012-144; 2013-148; 2014-144.

## Recommendation 1



The recommended NCR/Central Luzon Transportation Master Plan should include a strategy for future utilization and development, until mid-century, of the major international seaports in Central Luzon, the Visayas, and Mindanao. The plan should include ground transport infrastructure linking the seaports to airports and cities. The plan should set the capacity of ports in relation to the adjacent road networks and to overall domestic and international shipping demand. It should also include a seamless, integrated inter-modal transport system.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

There is a need to formulate a comprehensive Transportation Master Plan. Aside from identifying necessary infrastructure, the plan should determine and recommend necessary transport policies. As a general principle, the plan should make access to Manila, Batangas, Subic, and other future ports smooth and efficient, giving shippers choices that make. Studies by JICA and others show that 40% of Manila traffic is linked to the port operation; further expansion will certainly worsen traffic problems in the absence of better road access. Interim actions like truck bans are a palliative, not a solution. Arangkada has opened a dialogue, which hopefully will lead toward the desired Transportation Master Plan. The JICA road and rail plan prepared in 2013 is an excellent start and should be very seriously considered. It is important for various industry groups working with the DTI on manufacturing roadmaps to identify future desirable industrial and manufacturing cluster areas so transport and port infrastructure requirements can be planned. The Transportation and Logistics (*road, air, and sea*) Master Plan should be an integral part of manufacturing, industrial, and agricultural hub areas. A Master Plan for transportation and logistics should not be made in isolation. Shipping, trucking and logistics firms provide services that follow customer needs and trade patterns. Such service providers should be consulted on the NCR/Central Luzon Transportation Master Plan, which should have a 20-year horizon and build for future capacity needs.

Key elements of a Master Development Plan for NCR and Central Luzon should include:

- 1) Focus on Metro Manila as a Financial and Service Center - tourism, finance, education, hospitals, BPOs, and other services
- 2) Incentivize LGUs to encourage factories and warehouses to move to planned production hubs in Bulacan, and Clark/Tarlac/Subic served by CIAC and SBMA; and to Batangas/Cavite/Laguna served by Batangas and Manila ports;
- 3) Jobs created outside Metro Manila will improve local economies, which would be customers of Metro Manila services;
- 4) Batangas, Subic, and Manila should have world class facilities, including logistics warehouses and distribution centers;
- 5) All NCR and Central Luzon should be connected by large arterial roads and rail, as well as RoRo and LoLo networks and port operators should build inland container depots, (*considered off-dock bonded port extensions*)

- 6) Connecting and Clearing Main Arteries. The interconnecting elevated highway between NLEX and SLEX will provide the missing link between the ports of Batangas and Subic. Progress is being made; the NLEX-SLEX interconnection will consist of a combined section connecting to 2 separate legs going north to Balintawak. Construction started in 2014 on the common leg. The ill-fated Northrail project connecting Manila to Clark has been shelved, hopefully temporarily.
- 7) NLEX to Manila Ports. The Manila port to NLEX connector may require further studies as its planned route traverses heavy traffic areas in Navotas and Malabon. NLEX operator Metro Pacific has set aside PhP9 billion for this project. A direct connection to the interconnecting road has become more urgent with growing traffic congestion in the NCR.
- 8) Cavite Coastal to Manila Ports. A tunnel below Roxas Boulevard from Buendia to Intramuros (with a worldclass waterfront of local roads and parks above) would allow traffic from Cavite PEZAs to access Manila ports, alleviating the burden on SLEX. This would also allow Roxas Boulevard to become a more important logistics artery without compromising the historical importance of the area. A connection to the CALA will further improve the transport plan.
- 9) Connecting the North. SCTEX connects Subic, Tarlac, Pampanga, and Central Luzon.

The Philippines competes with ASEAN neighbors who have clear master plans. For example, the Master Plan for Johor, Malaysia is designed around a cluster. There are five key drivers to its plan including housing, government, industry, and manufacturing, The Port of Tanjung Pelepas, a major container port, is an economic cluster that comprises key economic activities such as a free zone industrial area, regional distribution, international procurement, and oil storage terminals with logistics. The port will be supported by a manufacturing hub in the region around it.

## Recommendation 2



A hub-and-spoke system is ideal with major ports highly developed for larger ships with cargoes delivered to and from smaller production centers by truck or small RORO.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★ Started	★★★ Not Ongoing

It is important to identify a few ports that will serve as the country's mega-port hubs both to support present and targeted manufacturing, industrial, and agricultural hubs so that larger ships can be deployed to cut costs of shipping, since ship size follows trade volumes. Smaller RORO vessels and smaller container vessels would service the less developed markets and secondary routes from the hubs. The main domestic and international ports of Manila, Cebu, Cagayan de Oro, and Davao should be developed and planned for scalability. Hub and smaller ports should also be planned for future capacity. For Manila ports to remain a viable hub port, the roads to and from these ports must be improved. Since Metro Manila is a mega city, an efficient port in the vicinity is urgent to serve the consumption needs of the population. For Manila International Berth 7 to operate, the need for better infrastructure is critical. The capacity of a port is measured by several factors: length of berth (*number of ships that can be accommodated at the same time*), number of cranes, and productivity and efficiency of discharge and loading, land based equipment to move containers around the port, and the size of the port to accommodate the container population.

## Recommendation 3



Major ports should include all needed infrastructure including container terminals, cranes, truck marshaling areas, and weighing scales, which are not present at many ports.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

This has started but is not a deliberate and strategic effort. For example, Cebu is a mess, and there is no clear direction where the new port will be. Uncertainty and short term thinking stops the private sector from making needed investments in the ancillary needs for container yards, warehouses etc. There should be a clear, comprehensive and ambitious goal for each port. The rating “started” is a beginning but is not good enough. This approach should be applied for both international and domestic ports. The PPA should exercise better coordination with or jurisdiction over LGUs on infrastructure that serves the national interest. It is difficult to give one rating since ports are in different stages of development needing cranes and equipment, automation and technology, weighing scales, and truck marshaling areas. Identified hub ports and smaller ports should have scalability and be planned for future capacity.

### Ports and their Key Needs

Port	International Port	Domestic Port	Key Needs
Manila	ICTSI 13 cranes and 6 to come with expansion ATI 9 cranes	North Harbor- 2 plus 2 cranes being installed but more are needed to accommodate present demand. The operator has ordered 3 more cranes. While this will reduce port congestion, there is an argument to delay until better road connections are put in place. Informal settlers around port areas and short term leases given to locators over the years mean no one can justify long term investment.	Road access to port
Batangas	Two cranes	No cranes	Needs expansion
Subic	Two cranes serving both international and domestic		Needs expansion
Cebu	Four cranes	One crane and congested	Relocation to a new area with expandable areas to be a major hub port for the Visayas. Typhoon Yolanda showed how even the Cebu Port could not accommodate the needs of a relief hub.
Cagayan de Oro	Has two cranes serving domestic and international ships.		Ready for expansion. There is enough area around the port.

Port	International Port	Domestic Port	Key Needs
Davao	The SASA port close to the city is going to be privatized but has no cranes. It serves both domestic and international ships. The Port in Tadeco has two cranes and serves banana boats. Another new port is being planned by the Tuasons.	Distance too far for domestic trade	The PPA is tendering Davao International Port for bids.
General Santos	The port services both international and domestic. It has no cranes and ships must be geared.		
Zamboanga	The port services both international and domestic. It has no cranes and ships must be geared.		

The government has tendered several port improvement projects. Many smaller ports lack not only port facilities but also normally required equipment of the franchised port operators.

## Recommendation 4



Major RORO ports should have modern passenger terminals with connected bus terminals, security systems, and berthing spaces with good road access.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

This has started but is not a deliberate and strategic effort. Uncertainty and short term thinking stops the private sector from making needed investments in the ancillary facilities needed by the passengers like planned bus terminals and waiting sheds. There should be a comprehensive plan for each RORO port. Major RORO ports should improve inter-modal connectivity and enhance the experience of the riding public. A good example is the Batangas port where there is a bus terminal, ample park-and-sail space, and shuttle service inside the port facility. However, the Batangas port 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. Manila North Harbour has completed a modern passenger terminal. Otherwise, we are not aware of further progress. GPH guidance on minimum standards that port facilities should follow for passenger terminals is inadequate.

## Recommendation 5

 Port infrastructure should also include facilities to accommodate bulk and break bulk cargoes (e.g. silos, discharging equipment, and discharging areas).

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★ Not Ongoing	★★★ Not Ongoing

Some key domestic and international ports need separate bulk and break-bulk facilities to service commodities and raw material imports and exports. These include grain and soya bean imports for feed and other commodities. There is no master plan as to where these facilities should be. The developmental involvement of government is lacking. A comprehensive study should identify which ports need these expanded functions for break-bulk and bulk cargoes. They could be totally separate ports from container and RORO ports. If the car manufacturing road map is implemented, specialized ports with RORO ramps must be developed to service the needs of the industry.

If the government's priority for agriculture and food security is serious, there will be a need for more storage facilities and bulk ports located in the vicinity of or accessible to production areas or processing facilities. The mining sector uses private ports for imports and exports of commodities and raw materials. If local processing will be imposed as a policy, more specialized terminals will be required. The power sector imports of coal also use private ports. If LNG begins to be imported, major investment in purpose built LNG terminals used exclusively to import LNG will be needed. If the car manufacturing road map is implemented, specialized ports with RORO ramps must be developed to service the needs of the industry. Present car deliveries into Batangas use the same port facilities as container ships and cargoes causing congestion. For example, the Port of New York and New Jersey is the largest port in the U.S. for automobile imports and exports. In 2013, the port handled 745,419 vehicles. Each terminal provides immediate access to major interstate highways and a number of rail services.

## Recommendation 6

 Adopt a firm policy to gradually shift international container shipment volume from Manila (South Harbor and MICT) to Batangas and Subic.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★ Not Ongoing	★★★★★ Substantial Progress	★★★★★ Substantial Progress

Businesses with manufacturing facilities or distribution centers north and south of the NCR strongly wish that ships would call at the ports of Subic and Batangas regularly. However, volumes of trade in the north and south have made it difficult to justify regular calls to these ports. For the ports of Subic and Batangas to have regular ships calls there should be:

- an aggressive plan to promote a manufacturing, industrial and agricultural production hub;
- an aggressive plan to expand the two ports in time to accommodate the plants being built;

- a plan to decongest Manila of factories to locate in these new cluster areas; and
- a housing plan for workers and managers so new demand for return trade is created to make shipping services viable and sustainable.

The truck ban in Manila caused such a huge congestion problem, that it compelled shipping lines to shift to these ports especially Batangas (*see Logistics: Recommendation 1A*). The Star Highway to Batangas port has been widened to 4 lanes, but its quality should be improved to accommodate future traffic and truck weights. Yokohama Tire, located at Clark increased its usage of Subic in 2014, in light of congestion and trucking problems in Manila. Time will tell if these two ports will continue to be used this much when congestion in the port of Manila is solved.

## Recommendation 7

 As part of the Master Plan, NEDA, DTI, DPWH, and PEZA with LGUs should identify future manufacturing, industrial, and agricultural production clusters. PPA should lead a study to identify the ideal port infrastructure and needed capacity to support the clusters. The DPWH should design the road network to support trade. A cap on TEUs per port should be established, with cargo above the limit moved to other ports. The study should plan for an inter-modal system with rail, roads, and waterways.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★ Not Ongoing	★★ Backward/Regression	★★ Backward/Regression

There is a need to identify the country's mega-port hubs to accommodate trade in future production clusters. The national goal should be to grow trade so the Philippines stops being a feeder port and can attract larger ships. A cluster composed of NEDA, DTI, DPWH, and PEZA including provincial government and LGUs should identify future manufacturing, industrial, and agricultural production clusters. The PPA should lead a study to identify the ideal port infrastructure and needed capacity to support the clusters. The PPA should have the power to plan for expected trade in 20 years based on the manufacturing road maps and an overall transport study. DPWH should take the lead to design the road and rail network to support trade. A new PPA mandate needs to be explored with the power to plan and expropriate land beyond its own borders. If we compare this to NAIA 3, all the land around the airport should have been allocated for the airport and not awarded to private use. Roads, railways, and waterways should be enlarged to accommodate larger port and truck volumes. The Manila port is an important hub because factories and distribution centers are still located close to the consumer market. The Manila ports impact on traffic is a problem that can be addressed with the connector roads being planned or proposed and with policies to move factories and distribution centers outside the city. The proper infrastructure for operation of Manila ports is needed and there should be no restrictions to the free flow of cargo to and from the port. Without restrictions and 25 container moves per truck 6,000-8,000 trucks are enough. With only 10 to 12 container moves, 20,000 trucks are needed. Letting trucks move through side roads instead of going straight in and out does not decrease but increases traffic.

## Recommendation 8

- Retain North Harbor as a domestic port, shift foreign cargoes to Batangas and Subic, and make Manila a cruise port. This will decongest Manila and make it unnecessary to invest as much in road infrastructure for Manila port. There should be a timetable for implementation and incentives for shippers to move. Private port operators should creatively market the ports.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★ Not Ongoing	★★★★ Started	★★★★ Started

Decongesting Manila is not the government's plan. Large reclamation projects in Manila Bay are pending. This recommendation needs revision as the complete shutdown of the Manila ports to focus on cruise vessels and domestic freight is not feasible in the near future. There is a lack of capacity in roads leading to Batangas and Subic and their port infrastructure is limited and would not be able to accommodate all the existing trade. There was a recommendation to limit the existing capacity in Manila to encourage trade to Subic and Batangas but, the truck bans and resulting congestion showed that Batangas and Subic were quickly filled to capacity because of their limited size. The ICTSI contract permits the construction of Berth 7, and its construction has commenced. A truck ban free access lane/route should be designated from Manila ports to the NLEX/SLEX connectors (*with a road from SLEX to the ports and a tunnel under Roxas Boulevard allowing the Cavite Coastal Road to be a major artery to the ports*). Truck bans should only be imposed for intra-city distribution and to encourage nighttime deliveries without blocking the cargo flow to and from outlying areas. Like an airport, shippers should have options. Customs work schedules should be reviewed so that there are neither barriers nor impediments to slow down or congest the delivery of cargoes from the port to consignees or from shippers to the port.

## Recommendation 9

- PPA should consider creating a private corporation to develop ports and privatize the ports through an IPO to create broad ownership.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

PPA should retain its role as regulator and privatize the operation of all ports to avoid any conflicts of interest. PPA already has the powers of a private corporation. There appears to be no plan to separate the operational and developmental function from the regulatory function of PPA. The Governance Commission for GOCCs (GCG) is charged to review the structure and functions of the PPA and recommend changes to the President. The GCG is making a study to separate the commercial and regulating functions of PPA to submit to President Aquino in 2015. PPA has plans to privatize several ports. The terms of reference of such tenders should focus on the amount of investment needed to create the best infrastructure, at the lowest possible cost for the public, instead of revenue generation, a common and serious mistake of present practice of PPA.

## Recommendation 10

-  Container shipping costs should be reduced by (a) eliminating the double charging of separate stevedoring and arrastre charges by rationalizing them into one cargo handling charge; and (b) no arrastre fee should be charged for RORO and LOLO which discharge directly onto the truck bed.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

Domestic container shipping costs of local shipping lines can be reduced by: 1) removing the ban on the use of foreign shipyards for maintenance, 2) removing a sulfur content restriction of their fuel in line with international standards, 3) removing the minimum number of crew imposed by Marina, 4) rationalizing port charges (*which is not happening because of conflicts of interest of the PPA, which keeps increasing port rates*), 5) removing income tax for domestic shipping companies, 6) removing taxes on fuel, 7) removing taxes on shipping services, and 8) removing restrictions on bareboat chartering of vessels or temporary charters for peak seasons. There are also discussions on liberalizing cabotage for foreign container movements to and from selected major ports.

## Recommendation 11

-  PPA must find innovative ways to cut costs and increase revenue aside from continuously increasing fees, which make Philippine ports less competitive and adds to costs for cargo owners.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

This is not ongoing because of the conflicts of interest of the PPA and the policy of revenue generation of the government, instead of enforcing competitive port, handling, and warehousing charges. While the PPA owns most Philippine ports, it rarely operates them. PPA normally subcontracts port operations to private sector proponents such as ICTSI and Asian Terminals, and collects royalties from revenues from its subcontractors. PPA does not incur port operating costs, since subcontractors pay for such expenses. The dual role of the PPA as port operator and regulator creates conflicts of interest that block progress. PPA should retain its role as regulator and privatize the operation of all ports to avoid any conflict of interest. PPA's conflicts of interest and the direction of tenders towards revenue generation - instead of facility creation for the best cost to the public - prevent cost reductions.

## Recommendation 12

 Domestic shipping costs can also be reduced by port modernization recommendations above.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

See Recommendation 3.

## Recommendation 13

 The practice of extorting illegal fees from truckers should be stopped by LGUs; lighted, safe and secure rest areas should be provided along the nautical highway.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

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 passed an ordinance requiring all truckers passing through to register at City Hall. This opens the door for extortion, increases the cost of trucking and is a bad precedent. The Batangas political mafia has ended its extortionate charges and violence against truckers for non-compliance.

## Recommendation 14

 MARINA must have greater political will to impose higher standards on quality, safety, and environmental protection following international practices, which will help create a more mature and efficient Philippine shipping industry.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

There is a draft omnibus maritime code that, if approved, will consolidate and modernize the country's many disconnected maritime laws. It is under consideration in the 16<sup>th</sup> Congress. In May 2013 President Aquino appointed Dr. Maximo J. Meija, Jr., an experienced naval officer and maritime professor, as administrator of MARINA. Marina should limit the age of vessels importable into the Philippines and allow bareboat chartering,

use of foreign shipyards for maintenance, and impose a sulfur content restriction of their fuel in line with international standards, as well as stop the mandatory over-crewing of domestic vessels. It is possible to improve standards by requiring international standards for classification societies (*there should only be one class society*) and imposing insurance as a requirement. International insurance companies will impose audits and standards. Although it is not yet clear what new standards will be imposed, MARINA seems to be determined to make safety and quality as key priorities.

## Recommendation 15

 Amend the RORO policy to include chassis RORO as part of the service.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★ Started	★★★ Not Ongoing	★★★ Not Ongoing

This is important as it would enable competitive delivery charges by truck. There are already efforts from the private sector, but the government has not responded. RORO policy has not been amended. A draft CHARO EO has been pending for four years, but DOTC is not taking action. The reform is clearly stuck in the bureaucracy. GPH should adopt the international practice of having a single terminal handling charge for container and break bulk. There should also be policies to remove arrastre for containers lifted from and onto trucks.

## Recommendation 16

 Remove unnecessary as well as unauthorized fees affecting RORO traffic. (*Immediate action DPWH, DOTC, DILG*).

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★ Not Ongoing	★★★ Not Ongoing

Removing unnecessary as well as unauthorized fees affecting all trucks has not started. Waive fees for lift-on lift-off containers on to trucks have also not started. LGUs in some areas are imposing additional fees.

## Recommendation 17

 RORO bills of lading should be more transparent; currently they are prepared on ships and do not show port of origin, commodity, and value.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★ Started	★★★★ Started

After the Sulpicio vessel “Princess of the Stars” sunk stricter rules were partially implemented. More enforcement is needed particularly for the declaration of dangerous goods cargo. All bills of lading for both RORO and LOLO should be transparent - even bulk, for that matter. All bills of lading should be transparent.

## Recommendation 18

 Cabotage restrictions require further discussion but should probably be eased through Consortium Shipping. The Philippine inter-Island Shipping Association argues that, because almost every country imposes cabotage, the Philippines should as well. The counter-argument is that removing cabotage will increase competition, improve service and safety, and reduce domestic shipping costs for exporters and consumers.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

Many countries have domestic shipping cabotage restrictions, usually for national security reasons. In 2013 discussions began on whether cabotage liberalization in the Philippines would reduce shipping costs for the country’s domestic and international trade. The 60-40 restriction in Article XII of the constitution does not define what a public utility is, but CA 146, The Public Service Act (1936), specifically includes domestic marine transportation and inland transport following the US Jones Act. To remove cabotage, the Public Services Act and the Tariff and Customs Code would have to be amended. The ASEAN Economic Community could someday adopt a maritime cabotage protocol, along the lines of a regional open skies policy or the transportation cabotage arrangements of EU members. In his 2013 SONA President Aquino directed the government to work on amendments of cabotage with the goal to lower shipping costs. One way being proposed is to lower the cost of shipping international cargoes by allowing their carriage between domestic ports on foreign ships and code/share pool with their vessels. This proposal is in SB 2486 pending 2<sup>nd</sup> reading. Ways to reduce costs for domestic shipping companies would be to align with the benefits international shipping companies enjoy (see recommended list of cost reforms in recommendation 10 above). The Philippine Interisland Shipping Association, which supports SB 2486, points out that the most effective way to lower costs would be for the government to promote building economies of scale near cluster ports (as discussed in Recommendation 2). The goal should be to have enough volume so that the country stops being a “feeder” economy and will have large mother ships servicing mega port hubs. For domestic cargoes, the ports should be planned in clusters so that domestic ships are able to grow in size. PISA argues that the problems of lack of scale requiring small ships, lack of road and port infrastructure, and trade imbalances are the main reasons why cost are higher than for large ships. These challenges would be faced by any ship owner, whether foreign or Filipino. Foreign ships that trade trans-Pacific have average sizes of 6,000 TEU capacity. Foreign ships that act as feeders to the Philippines are 2,000-3,000 TEU vessels. Philippine domestic ships average 350-500 TEU capacities, dictated by the small volumes of trade and port limitations. Until trade patterns have economies of scale and port infrastructure is built, domestic shipping will be challenged. PISA states that cabotage is not a trade issue, but one followed by developed and developing economies to ensure the security of coastal and inland trade. The USA, Canada, Japan, China, Indonesia, and most countries with coasts, including the EU, impose cabotage for shipping as well as inland transportation.

## Recommendation 19



Pass and implement the new Marine Law, which came close to final passage in early 2010. The Marine Law addresses several areas intended to raise Philippine Law to a level competitive with other flag states.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started

An updated Maritime Code for the Philippines is long overdue and highly important to replace the current law, which contains provisions going back to the Spanish colonial period. Old and archaic laws for Philippine shipping should be updated and modern international standards incorporated. The current Marina leadership should push ahead with the new Maritime and Shipping law which could make Philippine-flagged ships competitive, especially internationally in cross trades. In addition, with Filipino seafarers serving 30 percent of the world fleet, a road map should envision the Philippines as a service provider of technical management, as a ship owning and ship building country. Little progress has been made on the Maritime Code since the 14<sup>th</sup> Congress.

## Recommendation 20



Solve a serious structural regulatory problem by separating the policymaking body from port operations. Create a National Port Advisory Council that would define the policies of the ports and put jurisdiction of all ports under the DOTC.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ 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.

## Essential Actions for Efficient Movement of International Container Freight in Philippine NCR Ports

### A. Short-term:

1. Ban all container truck bans, in particular the expanded MMDA truck ban.
2. Fast track the development of yard capacity behind Berth 7 at MICT.
3. Accelerate the construction of a skyway connector from Manila ports to the NLEX-SLEX connector.
4. Double the capacity of Batangas with more cranes and regain control of subleased port areas for expansion.
5. End midnight delivery orders/gate pass expiration at Manila container ports.
6. Speed up the processing of BIR Import Clearance Certificates.
7. Establish legal liabilities for shipping lines to accept empty containers returned by importers.
8. Implement a 24-hour by 7-days vehicle booking system.
9. Operate a 24-hour free flow exemption for refrigerated/perishable/dangerous cargoes.
10. Maximize the efficiency of the port area by identifying and clearing underutilized areas including relocating informal settlers and illegal businesses on Bonifacio Drive, Anda Circle, and R10 and providing housing for port workers.
11. Review/challenge if “trucking” is a public franchise under the Public Service Act.
12. Provide implementing guidelines for the EO designating Subic and Batangas ports as subports of Manila.

### B. Long-term:

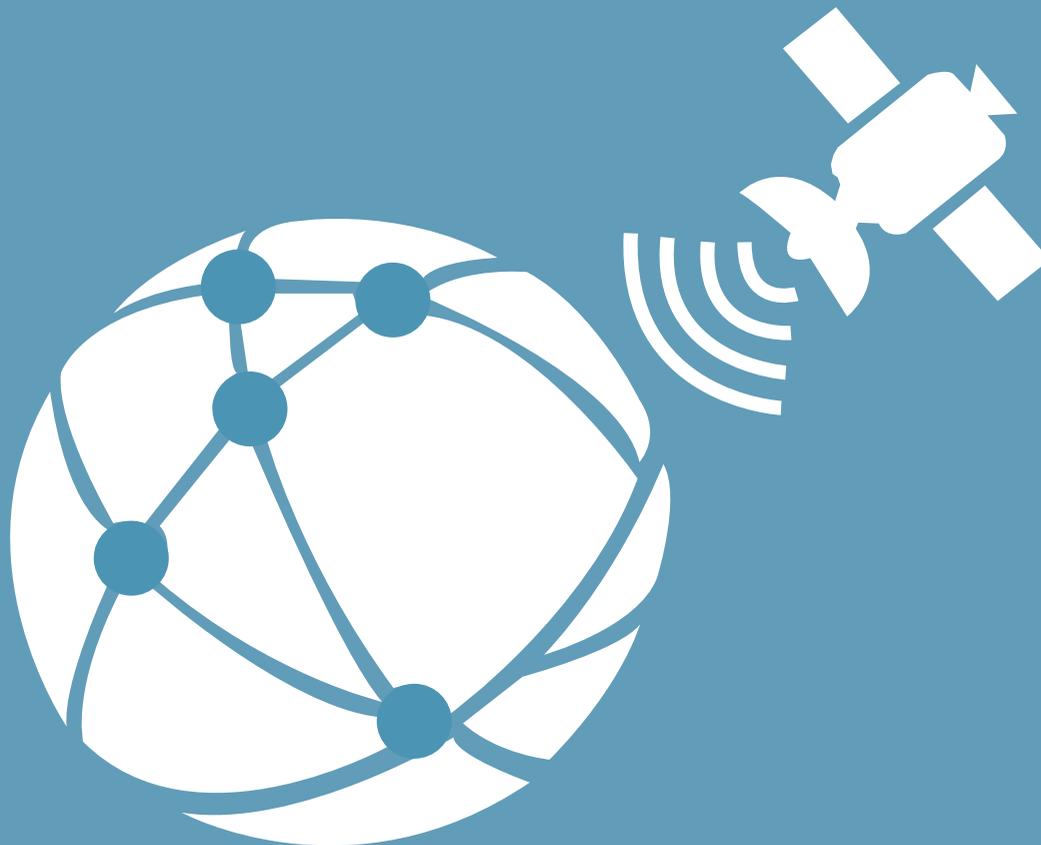
1. Identify an agency or person with authority and accountable for the overall planning of the transport system to ensure that the supply chain for trade is efficient.
2. Formulate a Master Plan for the whole Port Area of Manila to accommodate long-term growth in trade.
3. Formulate a Master Plan for staged expansion of the Port of Batangas to accommodate present and future Laguna and Batangas based trade for international and domestic cargoes. With the rerouting of ships to Batangas, the port capacity is full.
4. Formulate a Master Plan for staged expansion of the Port of Subic to accommodate present and future Subic-Clark-Tarlac based trade for both international and domestic cargoes.
5. Formulate a Master Plan for an access road system from Cavite going to the Manila Ports, which would include an underground tunnel from Vito Cruz to the port under Roxas Blvd with a waterfront park development above it.
6. Formulate a far-reaching strategy and Master Plan to incentivize businesses to relocate to other development hubs within or outside of Luzon, as proposed by the JICA.

The overall vision is to have three excellent ports serving international and domestic trade so shippers, consignees, shipping lines and logistics providers have a choice that is efficient, developed not for present trade but for the future.

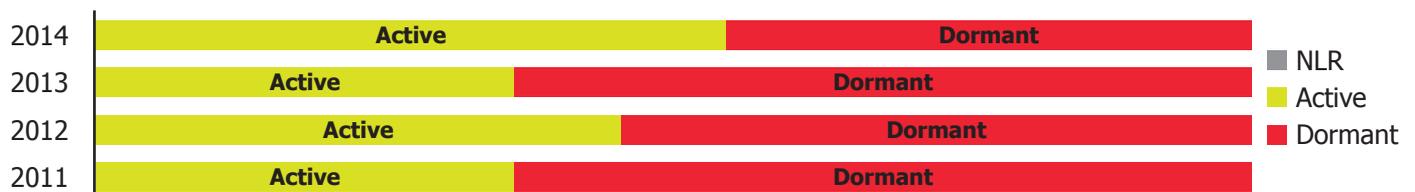


**PART 3**  
SEVEN BIG WINNER SECTORS - INFRASTRUCTURE

# Telecommunications



## Recommendations: 11



### Progress:

1 Declined      7 Steady      3 Improved      0 Neutral

### Rating:

0	☆ No Longer Relevant	0	★★ Backward/Regression	5	★★★ Not Ongoing
6	★★★★★ Started	0	★★★★★ Substantial Progress	0	★★★★★ Completed

# PART 3

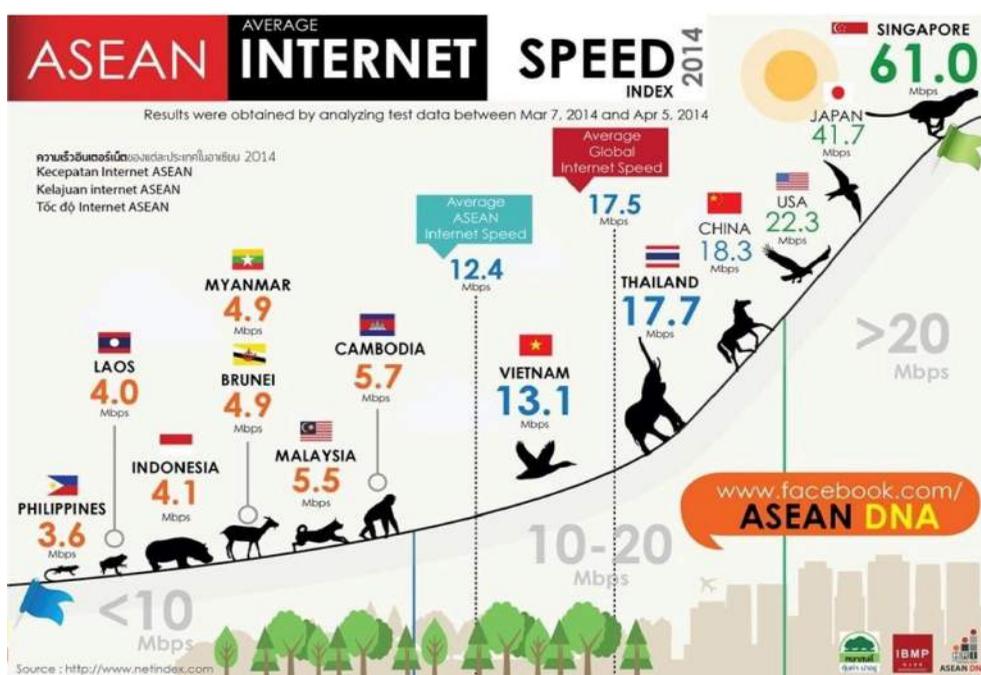
## SEVEN BIG WINNER SECTORS

### INFRASTRUCTURE:

# TELECOMMUNICATIONS

“These days, in the modern economy, if you do not have a good Internet connectivity, it’s difficult to call you competitive or business friendly.” - *Senator Paolo Benigno Aquino IV, Chairman, Committee on Trade, Commerce and Entrepreneurship, Philippine Daily Inquirer, January 29, 2015*

Reform in this sector have slowed down. Beginning under President Ramos, 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. The sector has seen consolidation into a duopoly, and a direct foreign equity limit of 40% to protect the sector from foreign competition. While fixed line penetration is lowest of the ASEAN-6, mobile phone penetration is high (104.5%), and digital fiber connections are robust. However, the percentage of Internet use, which stood at 37% of the population in 2013, remains a challenge. Broadband Internet is also very limited, with fixed broadband penetration at only 3 per 100 persons. Only 47% of cities and municipalities in the country have broadband access (*Broadband Commission, 2013*). 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 and 4G mobile phones. The benefit for national competitiveness of these changes could be considerable. 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 (*ITU statistics, 2012*). In the UN E-Governance Readiness Survey, Philippine ranking has been declining (*from 78 in 2010 to 95 in 2014*) (*UN E-Government Survey, 2014*). For ICT, two non-fiscal laws (*Data Privacy and Anti-Cybercrime*) have been enacted but the IRR is not yet in force. The DICT law, despite advancing near final passage, failed to pass in the 15<sup>th</sup> Congress. There were indications at the end of 2014 that administration opposition to a DICT may be easing.



Source: Net Ookla Index; presented at July 9 ICTO Stakeholder’s consultation; data covers Mar. 7 to Apr. 4, 2014

## Recommendation 1



Pass important legislation to update telecommunications policy with an overhaul of RA 7925 (*Public Telecommunications Policy Act*), updating it to authorize full convergence (telecommunications and broadcast) and make amendments strengthening the pricing methodologies and competition-related provisions.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★ Not Ongoing

There has been no significant development on the “*Magna Carta for Philippine Internet Freedom (MCPIF)*” bill filed by Sen. Miriam Defensor-Santiago, Sen. Bam Aquino, and Rep. Kimi Cojuangco, apart from one committee hearing at the House of Representatives. The MCPIF is a rights-based holistic policy framework for Philippine ICT development that proposes, among other things, amendments to key sections of RA 7925 (*Public Telecommunications Policy Act*) and the creation of a Department of ICT. There are a number of initiatives on amending RA 7925, but all are still at the consultation stage. There has been no movement in Senate Bill 1660 or the “*Convergence Policy Act*” filed by Sen. Jinggoy Estrada since 2013.

Access to Information and Communication Technology Indicators, Selected Countries, 2013

	Popula- tion, in mn	Main fixed tel lines, mn	Main fixed tel lines per 100 in- habitants	Mobile phone subscrip- tion, mn <sup>1</sup>	Mobile phone subs per 100 in- habitants	Propor- tion of house- holds with computer	Propor- tion of house- holds with internet	Estimated total internet users, mn	Internet users per 100 in- habitants
China	1357.4	267.0	19.3	1229.1	88.7	86%	86%	621.7	45.8
India	1252.1	28.9	2.3	886.3	70.8	65%	65%	189.1	15.1
Indonesia	249.9	40.2	16.1	303.7	121.5	44%	44%	39.5	15.8
Malaysia	29.7	4.5	15.3	43.0	144.7	29%	23%	19.9	67.0
Philippines	98.4	3.1	3.2	102.8	104.5	19%	17%	36.4	37.0
Singapore	5.4	2.0	36.4	8.4	155.6	19%	23%	3.9	73.0
Thailand	67.0	6.1	9.0	92.5	138.0	16%	6%	19.4	28.9
Vietnam	89.7	10.1	10.1	120.0	130.9	12%	13%	39.4	43.9

Sources: ITU and World Bank (population)

Notes: 1 - Includes both pre-paid and post-paid accounts

## Recommendation 2



Pass the long-overdue bill to create a DICT in order to deliver the full benefits of information technology and the Internet to Filipinos.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

There are four bills proposing to establish a Department of ICT pending in the Senate, basically the same that were passed in the 15<sup>th</sup> Congress. None has passed committee level in the current Congress. The ICT Office

under DOST continues to oversee this function, including the implementation of e-Government and universal internet access projects. In late November the House ICT and the Government Reorganization Committees held a joint hearing on the DICT bills and moved into a TWG. While there is no indication of support from the Office of the President for an added department-level bureaucracy, there is more discussion about the need to address ICT line functions, many of which are not within the mandate of the current agency. The business community, which has long backed a DICT, in late November raised its advocacy with House Speaker Belmonte, who committed to pass a DICT bill in the 16<sup>th</sup> Congress. Senate President Drilon has made the same commitment. In December 2014, the DOST changed its position on a DICT from opposition to support the House ICT Committee moved to a TWG on the bills after a single hearing.

### Recommendation 3

 **Develop a national plan to double computer penetration in Philippine households and triple Internet penetration. Study how other ASEAN-6 economies have raised their penetration data more successfully than the Philippines.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started

In 2013, the national government allocated Php9 billion for the Digital Empowerment Fund (*DEF*) for the procurement of digital devices, such as laptops and desktop computers, for government use. This amount was on top of the e-Government Fund which totaled Php2.7 billion in 2014. However, the DEF distribution was delayed in 2014 due to the controversy that surrounded its funding source. Efforts to initiate a National Broadband Plan last year were halted due supposedly to the rationalization plan within the ICTO. But sans a plan, the ICTO is set to implement the free public Wi-Fi project that aims to provide internet access in 4<sup>th</sup>, 5<sup>th</sup>, and 6<sup>th</sup> class municipalities nationwide. It will receive Php1 billion from the 2015 GAA.

### Recommendation 4

 **Such a national plan should include a National Broadband Roadmap.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

Efforts to develop a national broadband policy and roadmap were put to a halt this year, supposedly due to rationalization within ICTO.

## Recommendation 5



Establish targets to upgrade the speed of broadband and expand coverage. Provide fiscal or other incentives to private firms in order to accelerate achievement of targets and develop and implement a public sector program for last mile service in remote, missionary areas of the country. Any government procurement of broadband infrastructure should be transparent. Achieve targets for faster and expanded broadband.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started

The government has not set any official targets for the speed and coverage of broadband, other than those stated in the Philippine Digital Strategy 2011-2016. However, public hearings and consultations were held to investigate the poor state of internet service, reportedly one of the slowest in ASEAN. The Senate has conducted three public hearings while the National Telecommunications Commission has held one hearing to update its rules on minimum broadband speed connections. No resolution or proposed bill has been pushed to committee level. ICTO has secured P1 billion from the 2015 GAA to fund the implementation of the free public Wi-Fi project for underserved and unserved areas. Certain areas will use TV White Space technology, which is based on unutilized VHF and UHF bands.

## Recommendation 6

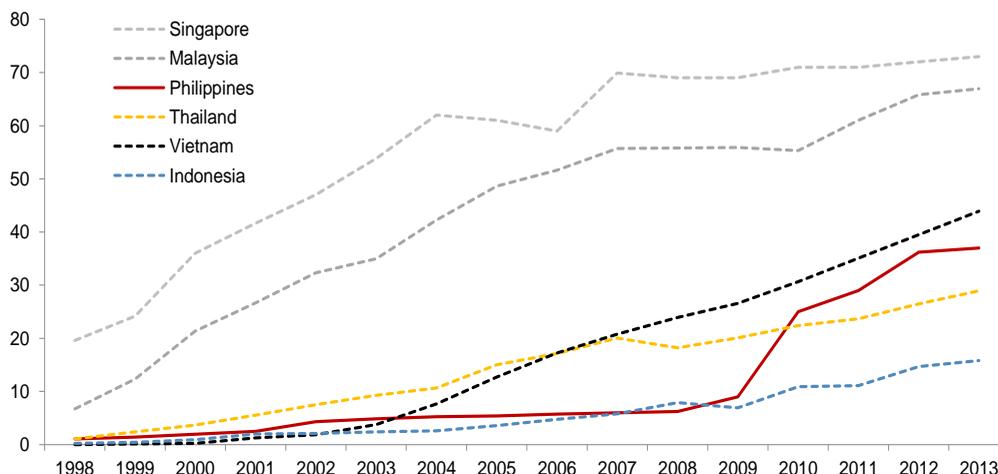


Create a plan for free wireless Internet services in public high schools and in densely populated areas of the country's largest cities. This will enable future digital access for students with laptops, Internet-enabled mobile phones, and mobile digital reading devices. Implement the plan expeditiously.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★ Not Ongoing	★★★★★ Started

Apart from ICTO's free public Wi-Fi project, the provision of free wireless internet services in public schools and densely populated areas is being tackled by Congress. Senate Bill (SB) No. 2232 "Free Public Wireless Internet Access in Public Buildings, Parks and National Roads in NCR" bill is pending in committee since May 2014. House Bill (HB) No. 4926 "Online Network Establishment (ONE) Policy for the Philippines" bill, which seeks to establish an ICT hub in every legislative district, has passed third reading in the HoR. HB 1550 "Free Public Wireless Internet Accessibility in National Government Offices" has been pending with the ICT committee.

**Estimated Number of Internet Users, per 100 Inhabitants, 1998-2013**



Sources: UN and ITU

## Recommendation 7

**—** Create a national government data center and website to improve storage of and public access to government information and to centralize the growing number of government websites, creating more uniformity, and improving their quality. Digitally link the databases of government agencies. This will enable the government to be more efficient and effective.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★★ Started	★★★★★ Started	★★★★★ Started

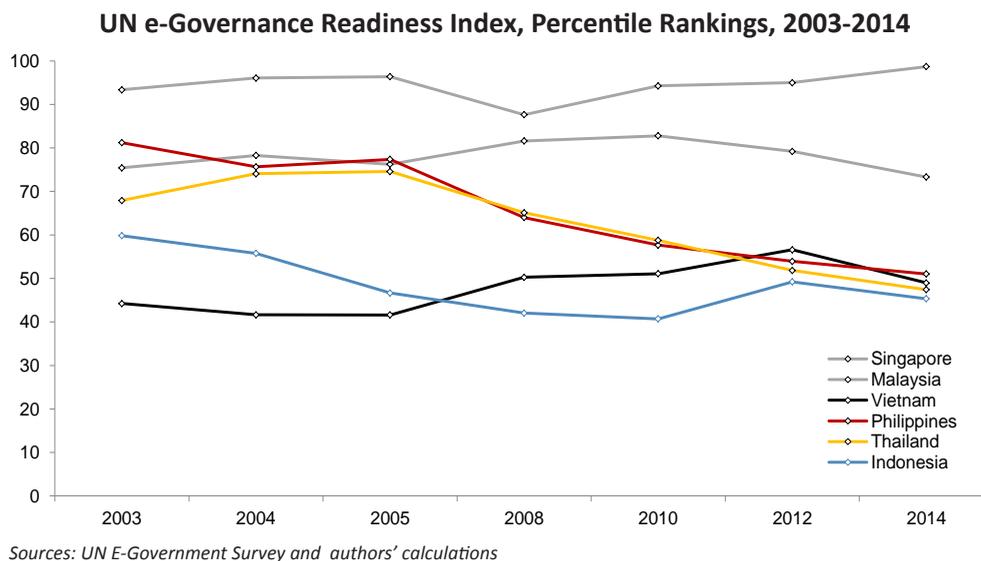
ICTO, through iGovPhil, established the first national data center at a government-owned facility and awarded a second contract to Globe Telecom in December 2014. After the completion of this facility, government agencies will be required to co-locate to the National Government Data Center. Simultaneously, a third data center is being built at a government facility. In 2014, ICTO issued MC 2014-002 or the rules and regulations on migrating to the DOST’s government web hosting service (*GWHS*). It has started conducting training and the migration of government websites with simple features.

## Recommendation 8

**—** Make e-governance a reality for most Filipinos. Enable easy access via the Internet for as many interactions with government as possible and many other government services now requiring inefficient paper processing. Appoint by executive order a public-private sector Task Force reporting to the Executive Secretary that will make recommendations within six months and issue the recommendations by executive order.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

Still no executive order has been issued, but the ICTO issued the e-Government Master Plan for 2013-2016. To integrate and synthesize e-government services, the Department of Budget and Management (*DBM*), the National Economic Development Authority (*NEDA*), and the ICTO issued Joint Memorandum Circular (*JMC*) No. 2012-01 to create the Government-Wide Medium-Term Information and Communications Technology Harmonization Initiative (*MITHI*) for FY 2014 to 2016. The initiative aims to harmonize all ICT resources, programs and projects of the whole government by developing inter-operable ICT systems. In January 2014, MITHI issued JMC 2014-01 on the ICT plan and budget for 2015.



## Recommendation 9

**—** As part of the e-governance report and program, study and use digital fund transfer technology for various government payments to citizens, such as conditional cash transfers, GSIS, SSS, and Philhealth benefits, as well as payments to the government, such as immigration, licensing, permit fees, duties, and taxes.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

In 2013, the government announced PhPay, an online payment system that will enable citizens and businesses to remit payments to government agencies electronically. It allows for various modes of payment including credit and debit cards, online banking, bank and non-bank over-the-counter payments, and mobile banking. Tied to PhPay is the automatic generation of electronic official receipts called ProgRESIBO. In June 2014, ICTO issued Memorandum Circular No. 2014-001 on the PhPay procedure and guidelines. To date, five pilot agencies (*CDA, NBI, DOE, NPDC, and NTC*) have been identified. No other updates have been publicized.

## Recommendation 10

**—** Install a national GPS mapping and information system to enable Filipinos using the next generation of wireless-equipped mobile phones, as well as tourists, to quickly obtain directions and practical information. A land traffic data capability should be included.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

The Philippine Geoportal Project, which started in 2011, is a three-year e-Government funded project sponsored by the Department of Environment and Natural Resources (*DENR*) with the National Mapping and Resource Information Authority (*NAMRIA*) as lead implementing agency. It aims to provide ICT-and GIS-based projects, collaboration, resource optimization and R&D initiatives. The project upholds the “*One Nation, One Map*” policy, which means one common basemap provided by NAMRIA to be used by everybody. In NAMRIA’s physical performance report, however, all items under the Philippine Geoportal Project have accomplished only less than 7% of target.

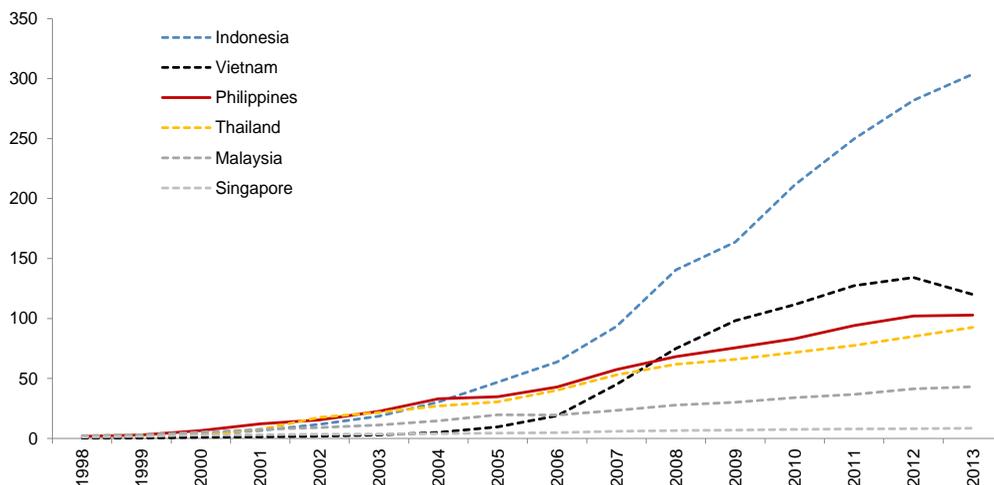
## Recommendation 11

**Expand mobile phone service in remote areas with more cellular sites to benefit economic development and tourism. Provide fiscal or other appropriate incentives to accelerate installation in areas that are not commercially profitable.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★ Not Ongoing	★★★ Not Ongoing

The growing number of affordable smartphones is allowing more Filipinos to access the internet sans computers or tablets. However, telcos have yet to translate potential demand to actual commercial interest. There are potential catalysts for expanded mobile phone service in remote areas. Telcos announced that 3G coverage nationwide will be completed by end-2014. ICTO has launched the TV White Space (*TVWS*) initiative which will tap unused TV spectrum for internet access in unserved/underserved areas. NTC has begun conducting public hearings for the issuance of an MC on TVWS use. Meanwhile, ICTO’s free public Wi-fi project is set to provide incentives to access providers to build out infrastructure in less profitable areas.

**Mobile Phone Subscriptions, in Millions, 1998-2013**



Sources: UN and ITU

# PART 3

## SEVEN BIG WINNER SECTORS - INFRASTRUCTURE

# Water



### Recommendations: 9



### Progress:

1 Declined      7 Steady      1 Improved      0 Neutral

### Rating:

0	☆ No Longer Relevant	0	★★ Backward/Regression	2	★★★ Not Ongoing
6	★★★★★ Started	1	★★★★★ Substantial Progress	0	★★★★★★ Completed

# PART 3

## SEVEN BIG WINNER SECTORS

### INFRASTRUCTURE:

# WATER

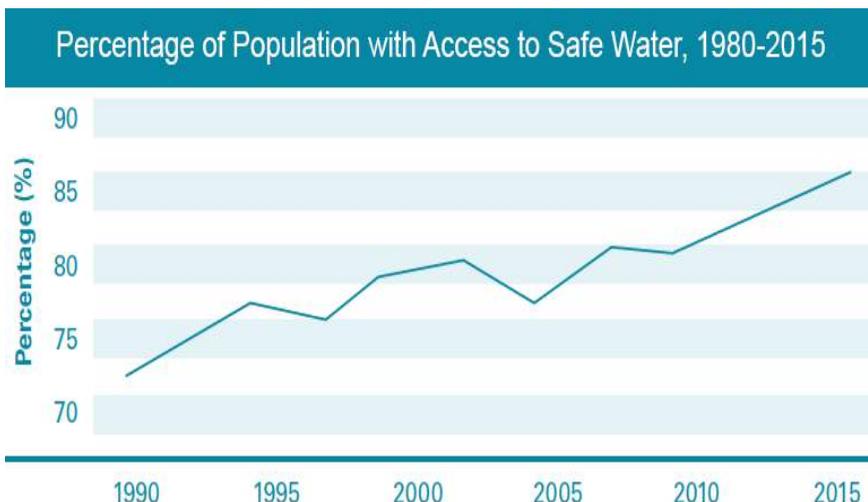
“Water, water, everywhere... Nor any drop to drink.” - *Samuel Taylor Coleridge, The Rime of the Ancient Mariner*

“Freshwater needs will grow by 20% in mature economies and by 50% in new economies by 2025. As populations grow and cities expand, it is essential to prevent flooding and provide clean and affordable water or consumption. Cities are where water is not always available but where people need it. Cities need to make their water smarter, more efficient, safe, and available.” - *Schneider Electric, 2013*

“The Philippines is endowed with abundant water resources, but is currently confronted with difficulties in meeting its water needs, expansion of capacity, and connecting poor households to water supply systems. Rapid population growth, economic development, urbanization, and industrialization have taken their toll on the country’s water services and resource base. The problem, moreover, extends to other quality of life dimensions: deficiencies in water resource management, water supply and sanitation services, solid waste and wastewater management impact on water quality and people’s health.” - *Philippine Water Supply Sector Roadmap*

“Like the water sector, the flood and wastewater sectors are fragmented, with no single coordinating body to ensure alignment on policy and project implementation. There is a need for a more systemic approach to flood and wastewater management. The strengthening of NWRB into NWRMB may be one institution properly positioned to ensure that the country’s water resources are properly managed from ridge to reef, ensuring proper utilization and disposal of water throughout the entire water cycle.” - *Christopher Ilagan, Arangkada expert*

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 the environment and public health. Prospective investors note the lack of an economic regulator and the inadequate capacity of the resource regulator. There is a need for an Executive Order and eventually a 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 as well as water for irrigation and power. Additional dams are needed very soon. The ideal option is to bid out such projects. Progress is expected in 2015 if the New Centennial Water Source Project and the Bulacan Bulk Water Supply Project are bid and awarded. DPWH has a long-term PhP350 billion flood control plan for the NCR. Despite being the biggest consumer of water, the agriculture sector does not pay irrigation fees. Public sector irrigation systems, while poorly maintained and inadequate, are being improved, but privatization is impractical in the absence of increased farmer productivity. Flooding is common in deforested and low-lying areas of the archipelago and is worsening with uncontrolled urbanization and climate change.



Source: *Philippines Progress Report on the Millennium Development Goals 2010*  
 Published in “Infrastructure In-depth: Philippines,” KPMG in the Philippines, 2015. Accessed in Feb. 2015.

## Recommendation 1



The NWRB's efforts towards adopting an integrated water resource management framework should be pursued and encouraged. Central to this is the establishment of an independent water regulator. A Department of Water (*similar to the DOE*) should be created to develop the country's water system.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

Since taking office in 2010, the Administration's thrust towards reforming the structure of the water sector has been in decline. Despite initial efforts in 2011 – through the passage of EO 62, which created the Inter-Agency Committee on the Water Sector (*IACWS*) – there has been little movement. It will be recalled that as an offshoot of EO 62, the IACWS (*headed by "Water Czar" DPWH Secretary Rogelio L. Singson*) in partnership with the World Bank commissioned a study to understand the current institutional arrangements within the water sector and to propose a new governance framework for the same. The main recommendations of the study were:

- 1) the establishment of a National Water Resources Management Board (*NWRMB*), which is really just a strengthened NWRB with more financial resources and backed by a larger plantilla (*certain water resource-related government offices, such as DPWH-BRS, DPWH-PMO-MFCP, DPWH-BOD, DPWH-PMO-SWIM, MGB AND DENR-RBCO, would be consolidated under NWRB*) to carry out its envisioned functions under the 1976 Water Code;
- 2) the consolidation of DPWH's oversight over agencies involved in municipal water supply and wastewater services (*i.e. MWSS and LWUA*); and
- 3) the introduction of new consultative bodies (*i.e. Inter-Agency and Multi-Stakeholder Panel*) to serve as platforms for policy coordination and alignment.

The outputs of the study have undergone numerous stakeholder dialogues. A proposed executive order (*including its IRRs*) was submitted to the Office of the President in October 2012. The EO proposes the fashioning of the NWRMO from the current National Water Resources Board and allocating more resources to the agency in order that it may effectively manage the country's natural resources. Unfortunately, the order has yet to be signed after more than two years. On the legislative front, numerous bills have been filed supporting the IWRM concept, the establishment of a Department of Water and the introduction of an independent regulator for the water sector, these bills remain aspirational. Little priority has been given to them.

## Recommendation 2



Legislate a Water Reform Act that will establish the institutional and legal framework to guide cooperation by on private and government entities in developing water sources throughout the country as well as a separate government agency for water regulation. The proposed industry regulator ideally should be empowered to set water tariffs; set and monitor compliance with service levels; set policies, rules, and standards; enforce competition policy; and approve proposed investment in the sector. The proposed legislation would include the institutional framework for sustainable water resource development, require the formation of a long-term management plan, and establish river basin organizations. The budget should provide funding for a realistic capacity building program.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★ Started	★★★★ Started

The list summarizes all water sector reform-related bills currently pending in both houses of Congress. They are not moving at a pace that will enable early passage. The most comprehensive water reform bill in Congress is the proposed Water Sector Reform Act (*SB No. 98 by Sen. Loren Legarda*), which proposes the strong involvement of the private sector in the development and management of water systems across the country. A reading of the bill's introductory statement gives a good summary of the reforms it wishes to introduce.

By institutionalizing sustainable water resource management, this bill seeks to do the following:

1. to institute reforms in the water industry;
2. to improve the rationalization, allocation and distribution of service areas;
3. to provide incentives for infrastructure development, or for new, clean, efficient and ecological technologies;
4. to re-organize the national water resources board; and
5. to create local water supply and sanitation companies.

Unfortunately, a public hearing has not even been conducted for the bill in the 16th Congress although the measure is listed in the NEDA legislative reform list (*January 2015*). In relation to enhancing private sector participation in the water sector, a related legislative agenda item which may have some spillover effect if pursued is amendment of the BOT Law, which has been deemed a priority legislation by both Houses of Congress and is in a TWG in the House as of January 2015.

HOUSE/SENATE BILL NO.	HOUSE/SENATE BILL TITLE	AUTHOR
<b>SB No. 9</b>	An Act Adopting the Integrated River Basin Management Approach as a Comprehensive Framework in Developing and Managing the Country's River Basin Systems	Sen. Legarda
<b>SB No. 98</b>	An Act Instituting Reforms in the Water Industry, Providing for the Rationalization, Allocation and Distribution of Service Areas, Provision of Incentives for Infrastructure Development or for New, Clean, Efficient and Ecological Technologies, Reorganizing the NWRB and Creation of Local Water Supply and Sanitation Companies, Amending for the purpose PD 1067 and other Laws	Sen. Legarda
<b>SB No. 267</b>	An Act to Address the National Water Crisis Providing for a Comprehensive Water Resources Management	Sen. Lapid
<b>SB No. 299</b>	An Act Mandating each City or Municipality to Create a River Development Authority for the Preservation, Protection and Development of all Rivers, River Systems, and Natural Waterways within its Jurisdiction, Defining its Powers and Functions and Appropriating Funds Therefore	Sen. Villar
<b>SB No. 1585</b>	An Act Rationalizing the Financial Regulation of Water Utilities, Creating the Water Regulatory Commission	Sen. Estrada
<b>SB No. 1824</b>	An Act repealing Section 17(B), Paragraph (V) of RA 7160, also known as the LG Code of 1991, on the obligation of LGUs to maintain barangay roads, bridges and water supply systems	Sen. Santiago
<b>HB No. 38</b>	An Act Rationalizing the Resource Management of the Water Sector, Creating the Department of Water, Sewage and Sanitation	Rep. Teodoro
<b>HB No. 1195</b>	An Act mandating each city or municipality to create a River Development Authority for the preservation, protection and development of all rivers, riversystems and natural waterways within its jurisdiction, defining its power and functions and appropriating funds therefore	Rep. Teodoro
<b>HB No. 2555</b>	An Act mandating each city or municipality to create a River Development Authority for the preservation, protection and development of all rivers, riversystems and natural waterways within its jurisdiction, defining its power and functions and appropriating funds therefore	Rep. Rufus Rodriguez Rep. Max Rodriguez
<b>HB No. 2857</b>	An Act Renaming the Water Code of the Philippines into National Water Security Act of 2013 thereby Revising and Consolidating the Laws governing the ownership, appropriation, utilization exploitation, development, conservation and protection of water resources and regulation of waterworks/water supply and sewerage systems and services	Rep. Umali
<b>HB No. 3303</b>	An Act Rationalizing the Financial Regulation of Water Utilities, Creating the Water Regulatory Commission	Rep. Rufus Rodriguez Rep. Max Rodriguez

### Recommendation 3



The Water Reform Act should lead to a master plan and integrated water policy on how to develop each water source, the capacity each source creates taking into account future demand supported by technical feasibility studies, as well as policies to attract large investors and lenders. The Water Reform Act should clarify the limits of LGU authority regarding national projects.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★ Not Ongoing

Among the various reform efforts for the water sector currently in the pipeline, the one perhaps closest to being realized is that embodied in the draft executive order proposing the NWRMB. Legislature-wise, no water-related bills are expected to move forward with the approach of elections. Water is not among the priority policy areas of the 16<sup>th</sup> Congress. If the NWRMB can be established in early 2015, it may be possible to see renewed efforts to develop a master plan for the entire water sector, as this would fall within the agency's functions and powers. Such an effort would allow the government to prioritize its limited budget for water-related infrastructure and deciding which projects are most viable and can attract private finance. When such a master plan is available, NEDA and the PPP Center should be tapped to fast-track bidding of projects. One noteworthy effort with regard to master planning for the water sector is currently being pursued by the DENR-RBCO. Under the 2010-2016 PDP, RBCO has been tasked to complete master plans for the 18 major river basins in the country. This would include an investment roadmap for the development of water-related infrastructure within each. Given that RBCO is proposed to be subsumed under the proposed NWRMB, these master plans would serve as strong starting points to identify and pursue key water infrastructure throughout the country. It may also ignite renewed calls for LGUs to recognize that water knows no political boundaries and, thus, a rethinking of LGU power over water resources and development is in order, laying the basis for eventual legislation redefining the role of LGUs insofar as the water sector is concerned.

### Recommendation 4

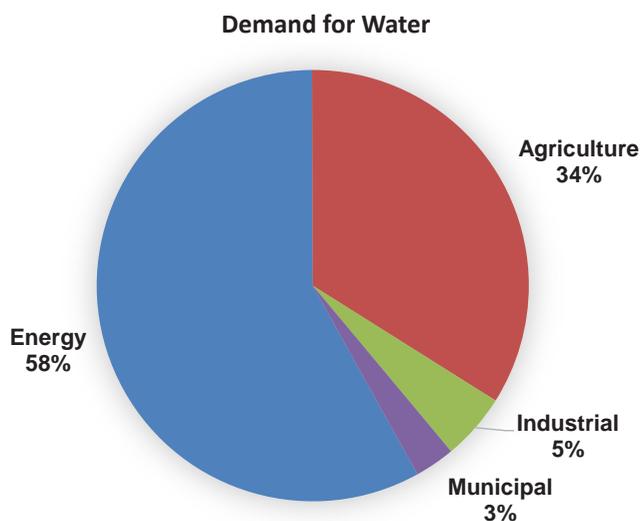


Until such legislation is enacted and implemented, the executive branch should continue its current policy of strengthening the NWRB. The agency's capacity to address water pricing or tariff issues and to establish and safeguard service standards should be supported. The present direction and mandate of the Local Water Utilities Administration (*LWUA*) should also be revisited.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

The Executive has been pursuing the strengthening of the NWRB, however, the executive order that would start this process has stalled at the Office of the President for over two years. The proposed NWRMB would continue its economic regulation over municipal water supply and sanitation services, with exception to areas whose utilities have their own charters or licenses which grant them rate-setting powers (*e.g. MWSS, LWUA,*

TIEZA, CDC, PEZA, etc.). Over the long term, however, establishing a regulatory entity outside the NWRB must be considered to handle such economic regulation because NWRB's primary duty is to regulate the resource side of the water sector (*i.e. resource regulation*) and, only secondarily, the distribution side of the sector (*i.e. economic regulation*). Furthermore, economic regulation is primarily confined to municipal water supply (*comprising only 3% of total water consumption by sector*), while the water sector is much larger and involves various other uses, such as agriculture (34% of total consumption), energy (57%), and industrial (5%). Insofar as LWUA is concerned, a latest development is the recent funding by the ADB for the Water District Sector Development Program. The said project, worth US\$60 million, aims to expand coverage and improve health conditions in identified localities served by water districts. A revisiting of LWUA's role in the sector is required from a more strategic, long-term perspective, as its dual function of financing and regulating WDs are at split-ends with each other. Often, this schizophrenic mandate has led to mission-drift, wherein rather than financing those areas that are in need of such resources, focus is instead given to the larger, better performing utilities because repayment of loans is at its highest probability, despite these better performers being capable of raising their own financing through commercial banks. The revisiting of LWUA's direction and mandate may be better pursued under the reform initiatives focused mainly on reforming the municipal water supply sub-sector rather than the larger water sector.



Source: National Water Resources Board

## Recommendation 5

 Allow the market to determine the wholesale price of water.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★ Started	★★★★ Started	★★★★ Started

Raw water pricing is still mainly done via administrative fiat by resource regulators, such as NWRB and LLDA. The price of water itself is not determined by any scientific method and is imposed normally as a flat fee rather than on a volumetric basis. Raw water pricing is better conducted by taking into account all opportunity costs associated with the diversion of water from its natural courses and pricing according to said costs. One step further is to allow the market to define these opportunity costs and prices. Such a market-led approach would allocate water according to those who will use the resources most efficiently. In terms of municipal water supply, wholesale pricing of water by market forces is most evident in the water PPP projects across the

country. Two large ones currently being pursued are MWSS' New Centennial Water Source Project (*NCWSP*) and the Bulacan Bulk Water Supply Project (*BBWSP*). The former entails the development of a new source for Metro Manila, while the latter involves the distribution of treated bulk water to the cities and municipalities of Bulacan province. As these will be bid out by the national government, market forces will be allowed to determine the most efficient price for the water to be delivered. Currently, these projects are in their pre-qualification stage and look to be awarded in 2015.

## Recommendation 6

 For PPP water projects, the GRP should revisit its policy disallowing “*take-or-pay*” or sovereign guarantees, in the light of what makes sound economic sense. Various PPP models (*BOT, JV, or concession*) may be used. A publicly tendered or solicited project is usually preferable. Whichever model is chosen will depend on the government’s policy to attract investments and ensure contractual stability.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

The two large PPP projects currently being pursued by the government – the NCWSP and BBWSP – are necessary to observe insofar as “*take-or-pay*” provisions or sovereign guarantees are concerned. With respect to NCWSP, which is a Build-Transfer project, a sovereign guarantee seems to be necessary to ensure that the winning proponent will receive its amortization payments over a fixed long-term period. For BBWSP, “*take-or-pay*” provisions would likely be reflected in the Water Purchase Agreements with the water districts or LGUs to be served. If these are pursued as stated, then the government would clearly have illustrated its policy position on “*take-or-pay*” provisions and sovereign guarantees. Such mechanisms give investors the comfort that rules will not change midstream, thus, permitting more competitive bids which need not put a premium on market or political-regulatory risk. On the matter of regulatory and contractual stability, the current Government has been sending mixed signals to investors. The rescinding of past contracts (*e.g. the Laguna Lake dredging*) and the transplanting of former regulatory rules with new ones (*e.g. the MWSS Rate Rebasing exercises*) run contrary to the government’s desire to portray an image that the country is “*open for business.*” Policy consistency is necessary over time, otherwise the PPP market may either demand higher returns to offset the higher political-regulatory risk or not be willing to bid.

## Recommendation 7

 While the GRP remains unable to resolve issues relating to developing the Laiban project, it must begin working on plans for other alternatives – such as the water supply projects of Sierra Madre and Wawa, which can be completed at reasonable cost.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Substantial Progress

The MWSS has already kicked off bidding for a new water source for Metro Manila – the Kaliwa Dam – under its NCWSP. This project will deliver an additional 600 MLD to MWSS’ concessionaires by 2021. The additional volumes are expected to be sufficient in the medium-term as a main source and provide a level of redundancy to Angat Dam, to which Metro Manila has been over-reliant for too long. A second phase of NCWSP is included in the MWSS Water Source Roadmap and envisions developing Laiban Dam for an additional 1,800 MLD on top of Kaliwa’s 600 MLD. Initial projections place late-2020’s as the delivery date for this second phase. The timely development and completion of both these large infrastructure projects are keys to ensuring water security for the NCR region and its adjacent areas for the long-haul. Although under arbitration, the two MWSS concessionaires have also proposed the development of smaller water sources for their respective areas. Manila Water has proposed the tapping of Laguna Lake for 50 to 100 MLD as well as a Rizal water source that could deliver an additional 175 MLD. Maynilad Water, on the other hand, seeks to expand its current Putatan Water Treatment Plant by an additional 100 MLD. The pursuit of these projects, however, is dependent on the outcome of their respective Rate Rebasing arbitrations, which are currently in process.

## Recommendation 8

 To better maintain and improve irrigation systems, encourage private sector investment through privatization of irrigation.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

The privatization of irrigation is not among the policy proposals encountered in a scan of water sector reform proposals currently in the public domain. Opportunities may exist in large projects, such as the proposed Jalaur Dam Project in Iloilo, to showcase the possibility of such a privatization arrangement, but no official pronouncements have been made on this front. The irrigation sector does have a certain level of private sector involvement, particularly for smaller irrigation facilities where farmer cooperatives sometimes construct, operate, and maintain said infrastructure for the benefit of their end-users, but this model is overshadowed by the more dominant mode wherein government, through the National Irrigation Administration (*NIA*), develops and manages irrigation facilities. A potential area for initial private sector involvement in irrigation may be in the reduction of systems losses in the distribution systems of irrigation facilities. NWRB may consider getting involved to ensure wastage is reduced, while the private sector can be invited to introduce new management techniques to control such losses. Irrigation’s inefficiencies are especially of concern where water is scarce and its availability competes with other uses in the area (*municipal supply, hydropower, industrial, etc.*). NWRB has a key role to play in striking the right balance of irrigation’s inefficient water use against other uses of water. Finally, it is also worth mentioning that a bill has been filed in Congress, which seeks to introduce a board seat for the private sector in NIA. If passed (*though highly unlikely given other priorities of Congress*), the said representative may potentially provide new perspective on the role that private sector can play, not only as an end-user of irrigation facilities, but also as a developer or operator of such facilities.

## Recommendation 9

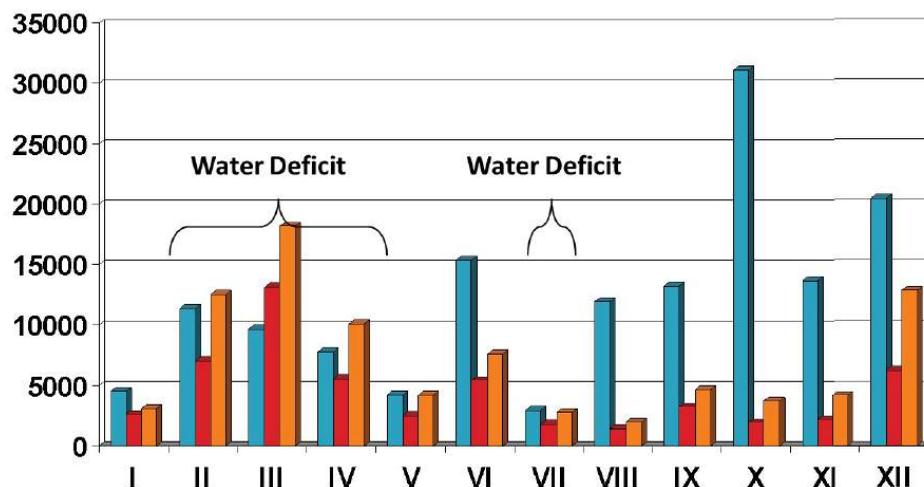


Implement measures to reduce silt and garbage in waterways and prevent flooding, including better drainage, sewage, dikes, spillways, and planting trees.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

Flood mitigation and resilience has been receiving some attention in terms of DPWH and LGU-led drainage projects. In terms of wastewater management, MWSS, through its concessionaires, is the only major government office, which is endeavoring to expand sewerage and sanitation coverage. There was an attempt of DPWH to also pursue expanded wastewater coverage outside Metro Manila through the National Sewerage and Septage Management Program, which sought to provide up to 60% national government subsidy for the development and management of wastewater systems in 17 highly-urbanized cities across the country. However, this effort has been stalled due to the lack of LGU interest (*the identified LGUs either found it impossible or were unwilling to raise counterpart funding for the remaining 40% of the project cost*). A major flood management project currently in the government's PPP pipeline is the Laguna Lake Expressway and Dike, which envisions the construction of a dike to better manage the surge in lake levels during major downpours over the Laguna Lake Basin coupled with an expressway to assist in the decongestion of southbound traffic. However, questions have arisen on whether such a project would in fact allow for better flood management along the shores of Laguna Lake since the dike would likely only shift the water to other parts of the lake's shores where no dikes will be constructed (*i.e. the eastern portions of the lake*). As such, technical feasibility studies are required to ensure that the project will deliver its envisioned outcomes. Like the water sector, the flood and wastewater sectors are fragmented, with no single coordinating body to ensure alignment on policy and project implementation. There is a need for a more systemic approach to flood and wastewater management. The strengthening of NWRB into NWRMB may be one institution properly positioned to ensure that the country's water resources are properly managed from ridge to reef, ensuring proper utilization and disposal of water throughout the entire water cycle.

Regional Water Supply/Demand Situation: 2005-2025 (in TCM)

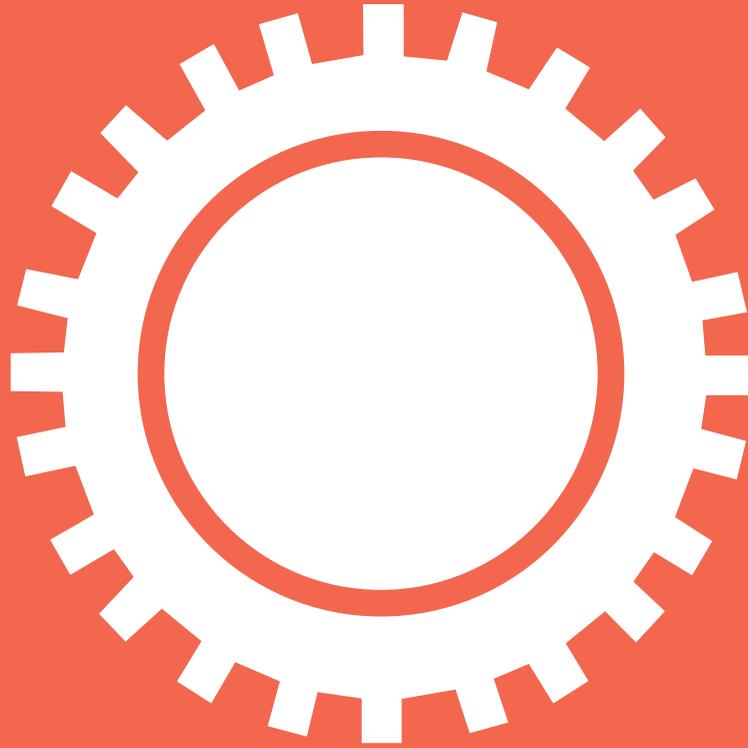


Source: Tabios, G and R. Villaluna. (2011). Status, Challenges and Proposed National Water Management Superbody for the Philippine Water Resources Sector Development Plan.

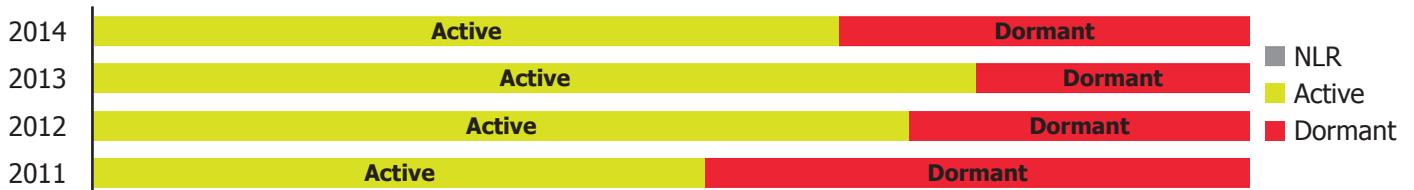


**PART 3**  
SEVEN BIG WINNER SECTORS

# Manufacturing



## Recommendations: 17



### Progress:

3 Declined      12 Steady      2 Improved      0 Neutral

### Rating:

0	☆ No Longer Relevant	3	★★ Backward/Regression	3	★★★ Not Ongoing
7	★★★★★ Started	4	★★★★★ Substantial Progress	0	★★★★★ Completed

# PART 3

## SEVEN BIG WINNER SECTORS

### INFRASTRUCTURE:

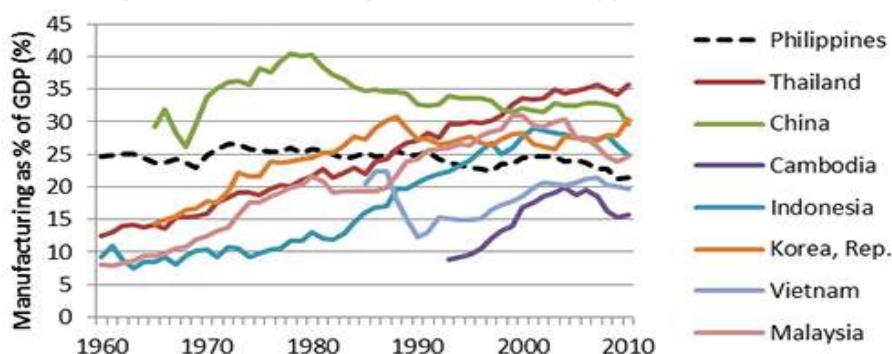
# MANUFACTURING

“From a lackluster average annual growth 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.” - *Dr. Cielito F. Habito, Economist and former NEDA Secretary, Philippine Daily Inquirer, February 5, 2014*

“Rebalancing the Philippine economy requires shifting from consumer-driven to manufacturing and exports... Manufacturing is crucial.” - *NEDA Secretary Arsenio Balicasan, Ayala-University of the Philippine School of Economics Forum, Makati, January 28, 2015*

Asia’s developed economies historically 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 benefitted less than Malaysia, Singapore, Thailand, and Vietnam from the globalization of trade and manufacturing. Unlike these four economies, which are strong exporters, in the Philippines exports as a percentage of GDP has been falling, from 51% in 2000 to 47% in 2014. Without electronics, exports of manufactured goods would have grown very slowly, as garments exports have severely contracted following the expiration of quota marked access. Another industry subsector declining in recent years is automotive manufacturing, undermined by used car imports and the higher cost of local car assembly. 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. In fact, Philippine electronics exports is losing rather than increasing its global market share. Domestic manufacturing faces many challenges, such as high business costs, low import duties, and extensive technical smuggling. When smuggling provides better profits than manufacturing, the economy encourages 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. Since then, some 45 industry roadmaps have been completed or drafted, and DTI has made a major commitment to their success through the Manufacturing Resurgence Program.

**Stagnant Manufacturing Sector in the Philippines, 1960-2010**



Source: World Development Indicators

**Fastest growth in ASEAN-6**

Last 3 years  
Manufacturing productivity index

**24th largest manufacturer in the world**

Manufacturing value added

For more info: Philippine Manufacturing Revisited  
<https://philippinemanufacturing.wordpress.com>

January 2015

## Recommendation 1

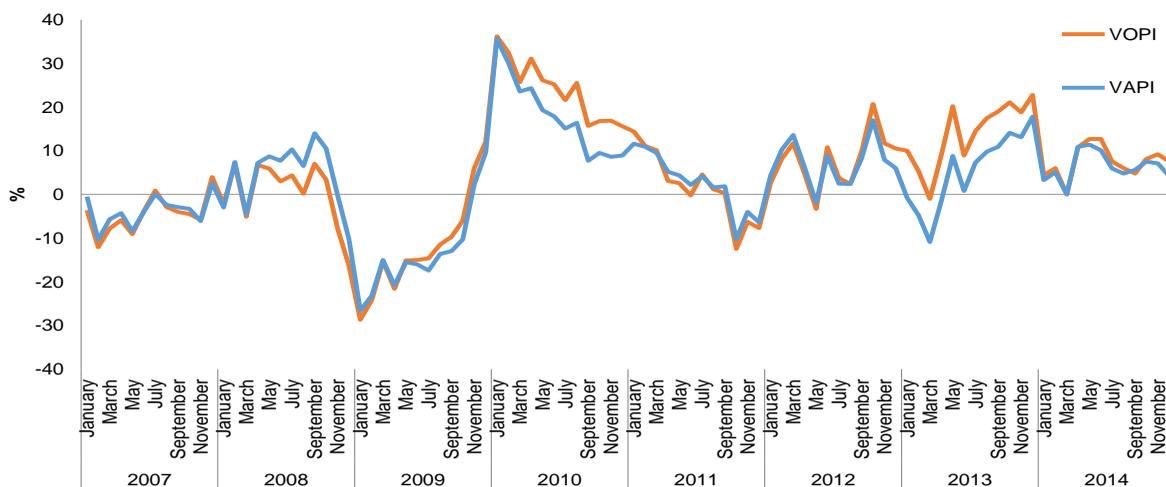


The private sector should make a strong, collective statement to the government that reforms are needed for global manufacturing companies to remain in the country. The private sector should urge an end to corruption and smuggling, an end to inconsistent rules, and an end to tolerating “businessmen” circumventing laws to earn money. In the absence of reforms, more companies will close and more jobs and potential revenue will be lost.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Not Ongoing - Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

There has been a sustained call for action to the government from many sectors including local and foreign business groups. There is significantly more public awareness on the importance of manufacturing. Economic numbers show that the sector led growth in 2014. The private sector continues to push for more inclusive growth. More industries are getting involved. There are 25 industry roadmaps and 19 technical working groups for different sub-sectors organized with DTI, with a few more groups planning to organize. Over 20 more roadmaps are expected in 2015. The Integrity Initiative continues after 4 years to campaign against corrupt practices in both firms and government agencies.

Manufacturing Volume and Value of Production Indices, YoY Growth, 2007-2014



Source: PSA

## Recommendation 2

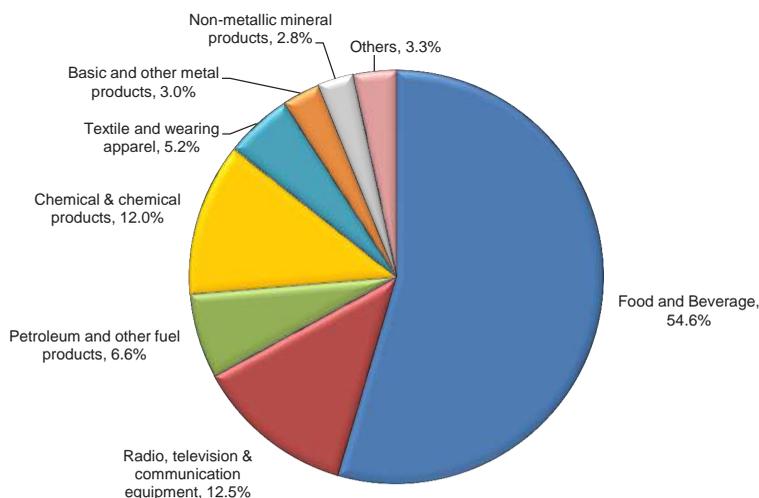


The Philippines must be prepared to increase the priority given to manufacturing and to make serious efforts to offer a competitive business environment to be able to keep existing companies and to attract new investors into the country.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★★ Started	★★★★★★ Started	★★★★★★ Substantial Progress

Manufacturing enjoys increased priority in the government. 2014 is the 1<sup>st</sup> year implementation of the MRP (*Manufacturing Resurgence Program*). MRP is anchored on the manufacturing industry roadmap and is a convergence of all government agencies involved in manufacturing. DTI serves as the chairman, with DOLE as the co-chairman; participating agencies are: DOST-PCRIEED, NPC, TESDA, CHED, DOE, NEA, DA and PCA. MRP has a budget PhP183 billion for 2014, while for 2015 the allocated budget is PhP240 billion. This huge budget is not new funding but represents the budgets of multiple government agencies that have been identified as supporting the manufacturing sector. Many manufacturing sectors have been included in the 2014 IPP. Significant challenges on power and infrastructure remain unresolved.

**Distribution of Manufacturing GVA by Subsector, 2014**



Source: PSA

### Recommendation 3

— There should be a clear overall policy supportive of the manufacturing sector from the president. There should be high level, dynamic collaboration between priority industries and the government. There should be a solid commitment from all government agencies to implement such policy.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

The Manufacturing Resurgence Program and the new IPP shows the support of the sector by the government and the president.

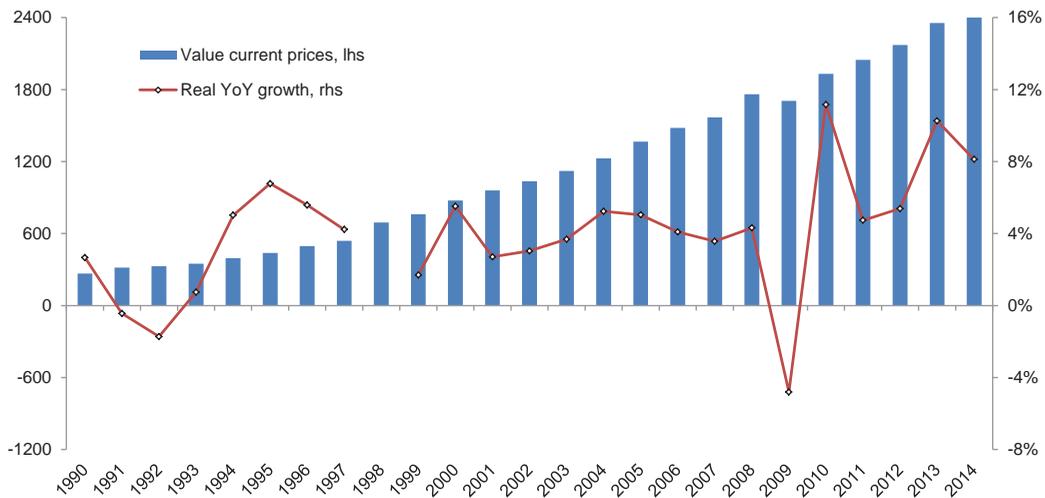
### Recommendation 4

— Working with private industry, the next administration should: 1) develop an industrial master plan, identifying the best opportunity sectors for the export of goods and services to global markets created by FTAs; 2) support the plan with consistent policies, fiscal incentives, legal, administrative, and other reforms; and 3) put a strong economic team in the Cabinet that works in tandem with designated private sector leaders of the targeted global industries to implement the plan.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

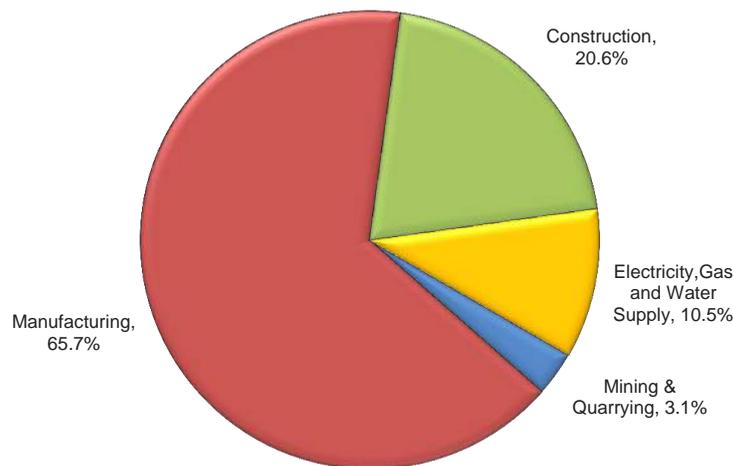
The Manufacturing Roadmap is completed, and a Comprehensive National Industrial Strategy is in progress. It is essential that these remain in place and are continuously implemented by the next administration. Continuous implementation efforts through institutionalization and reactivation of the Industry Development Council (IDC), which has started meeting. E.O. 380 (*Creating the Industry Development Council, December 2, 1986*) has been enhanced to cover inclusions such as the advisory council, eminent persons group, and the institutionalization of technical working groups. The Executive Committee convened in November 2014 to undertake operations for the council. The EO establishes the legal basis for the existence of the two entities and serves as a more structured mechanism.

**Manufacturing GVA, Bn PhP, 1990-2014**



Source: PSA; Old series (1997-back) New series (1998-onwards)

**Industry sector distribution per segment, 2014**



Source: PSA

## Recommendation 5

- Professionalize the bureaucracy by limiting political appointees. Public officials dealing with priority industry sectors should be highly qualified and competitively compensated. They must create long-term consistency in regulation and policy and in their application to manufacturers.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Substantial Progress	★★★★★ Substantial Progress

There are some concerns about recent appointments as compared to previous ones. BOC has had some very positive developments with its change in leadership. DTI has brought in more expert staff personnel. But DOE lacks technical experts. Politicians and lawyers at DOTC have been slow to meet numerous growing challenges in air, land, and sea transportation. DILG has been sympathetic to LGU officials who do not follow national priorities or national laws. This year, issues on PDAF that affected a number of political leaders could impact recent or future appointees. Too often government agencies fail to coordinate in advance on matters impacting on the manufacturing sector, especially logistics. There has been regression relative to last year's performance. In spite of the progress in manufacturing, because of these political noises, sentiment is lower than last year.

## Recommendation 6

- Diversify Philippine exports by giving priority to developing manufacturing export sectors (*in addition to electronics*) where the Philippines enjoys competitive advantage, such as creative industry products, manufactured goods, minerals, and processed foods.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

Diversification is occurring mostly due to the relative decline of exports of the electronics sector. It would have been better if diversification occurred while electronics was also growing. Diversification is important preferentially gearing it towards high technology/high value-added products or services embedded in manufacturing such as internet of things, smart infrastructure, etc. There is a need for product and technology holistic strategies in order to define the test and assembly expertise needed within the next three to five years. Unfortunately, the mineral sector suffered a huge setback in 2012 as new regulations impede its development. The mineral as well as agricultural sectors, have high potential to diversify exports, which are still highly dependent on manufacturing. EU approval of GSP + for the Philippines by reducing tariffs on many Philippine exports will increase trade with Europe.

## Recommendation 7



Reduce costs of doing business, where possible, including corruption, high electricity prices, inefficient domestic logistics, holiday overtime pay, red tape, and inefficient transport infrastructure.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★ Backward/Regression

Domestic logistics costs have gone up significantly as the result of port congestion. Electricity/power costs remain high. A proposed four-day work week might not be beneficial to the sector (*see ILS Policy Brief Vol 1. No. 2*). Over 20 non-working holidays, above the ASEAN average of 15, reduces Philippine competitiveness.

## Recommendation 8



Consider removing or reducing the EVAT on electricity and fuel for domestic manufacturers who can establish domestic market loss from foreign imported goods. This 12% tax is not applied to export manufacturing because the products would be less competitive in export markets.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★ Not Ongoing

There has been no progress on this recommendation. Power costs for manufacturing remain much higher than competing regional countries, most of whom subsidize power for manufacturing. In the Philippines, domestic manufactures pay VAT on fuel and electricity and jobs of Filipinos are thus lost to cheaper foreign imports.

## Recommendation 9



Increase E2M coverage for customs. The E2M program should be applied to all customs offices.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★ Backward/Regression	★★ Backward/Regression

While the BOC partially implemented this in 2012, the overall perception of corruption in the Customs mitigates its perceived benefits. The new Customs Commissioner committed to complete the E2M system in mid-2015, implement the National Single Window, and create paperless processing of customs forms.

## Recommendation 10



Reduce unwarranted government interference in industry matters, such as price controls. Experience everywhere demonstrates that populist price control policies harm the intended beneficiaries more than they help.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★ Backward/Regression	★★★ Not Ongoing

The 1982 Price Act (*RA 7581*) is still on the books and was amended in RA 10623 which added bottled water to the list of basic necessities subject to price controls during a state of calamity.

## Recommendation 11



Link minimum wage policies to productivity enhancements. Study the experience of Malaysia in exempting key global industries from minimum wages. Resolve wage policies in tripartite discussions with labor groups, the private sector, and government and not by legislation.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★↓ Not Ongoing - Started	★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

RA 10395, signed by the President March 14, 2013, strengthened tripartism and has institutionalized the reform. The two-tier wage system with regular and predictable minimum wage reviews is being adopted. Productivity wages will be added for selected sectors. In recent years increases to the minimum wage have been below competing countries. (*see Part 4: Labor*) JFC and other business groups have proposed a reformed apprenticeship program, TESDA scholarships, and domestic labor zones (*DEEZ*) in the Manufacturing Policy Brief. Recommendation to have three levels of minimum wage tailored to the specific industry which recognizes the need of the different sectors and enables structural change, which in turn becomes an incentive for employees.

## Recommendation 12



On the issue of labor contracting and security of tenure, government should continue to engage in tripartite discussions with labor groups and the private sector to address the issue of abuses in the law rather than adopt arbitrary legislation. Regularization of employees should not be made at the expense of meeting labor quality and productivity standards. Contractual arrangements, when they comply with the existing law, should meet both business and employee needs.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

The New Labor Law Compliance System under DOLE Department Order 131 seeks to foster a culture of voluntary compliance with labor laws. The network of tripartite industrial peace councils also serves as a clearing house for bills on labor and employment being deliberated in both chambers of Congress.

## Recommendation 13

 Rationalize holidays.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★ Not Ongoing	★★ Backward/Regression	★★ Backward/Regression

Increase in holidays from 17 in 2013 to 19 in 2014 with December 26 and 31 being special holidays in 2014, makes the Philippines among the countries with the highest number of public holidays. The country also experiences frequent work interruptions due to climate related events. Every new holiday destroys jobs of marginal firms. There is no effort in the government to rationalize holidays and reduce them to the ASEAN average of 15.

## Recommendation 14

 Fight smuggling vigorously; send smugglers and corrupt officials engaged in smuggling to jail. End official protection of smuggling syndicates. The private sector should lobby strongly against smuggling, emphasizing that it destroys jobs. Identify Congressional allies in districts where smuggling is creating unemployment. Expose smuggling syndicates and their protectors.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Not Ongoing - Started	★★ Backward/Regression	★★★★ Started	★★★★ Started

The Federation of Philippine Industries and foreign chambers continued their strong advocacy against smuggling. There have been investigations on smuggling. The BOC was revamped and the Commissioner replaced. The BOC is beginning to demonstrate transparency by posting all importation records (*except those coursed through PEZA and parcel couriers*) on a new BOC website. Smuggling is being reduced but could easily return because of the huge illegal profits. No major only a few minor smugglers have been convicted, primarily because of DOJ's weakness in investigating and prosecuting cases.

## Recommendation 15

- Pass the Rationalization of Fiscal Incentives bill, maintaining incentives to stimulate investments that produce multiple benefits of job creation, exports, and technology transfer. The private sector should show strong support for the legislation in the Congress.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★ Not Ongoing	★★★ Not Ongoing

During 2014, there continued to be a lack of consensus between the DOF and the DTI on this legislation. The DOF is prioritizing the bill in 2015. Business groups have been very active in supporting continued incentives that allow the Philippines to attract investors who have choices to locate elsewhere.

## Recommendation 16

- Allow duty and VAT-free importation of capital equipment for manufacturing in priority industries. Revisit the 70% output to export requirement for capital equipment to be imported duty free.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

Proposed universalization of CAPEX underwent a public hearing in August 2013 and is with the Tariff Commission for further study. The security bond requirement for equipment for trade shows should be done away with.

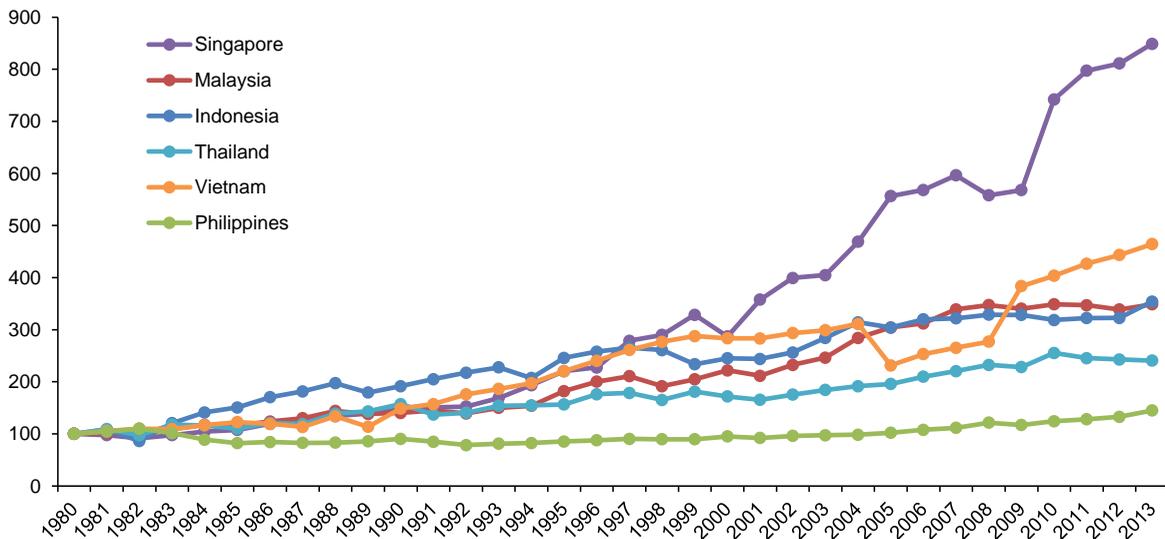
## Recommendation 17

- Increase funding for and promotion of Philippine exports, inward foreign investment, and tourism. Establish an Export Development Fund to promote exports. Aggressively promote the Philippines at international trade fairs as recommended by industry associations. Increase the DTI budget for investment promotion and the DOT budget for tourism promotion. Target the major traditional markets of Europe, Japan, and the US, and new markets in China and India.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

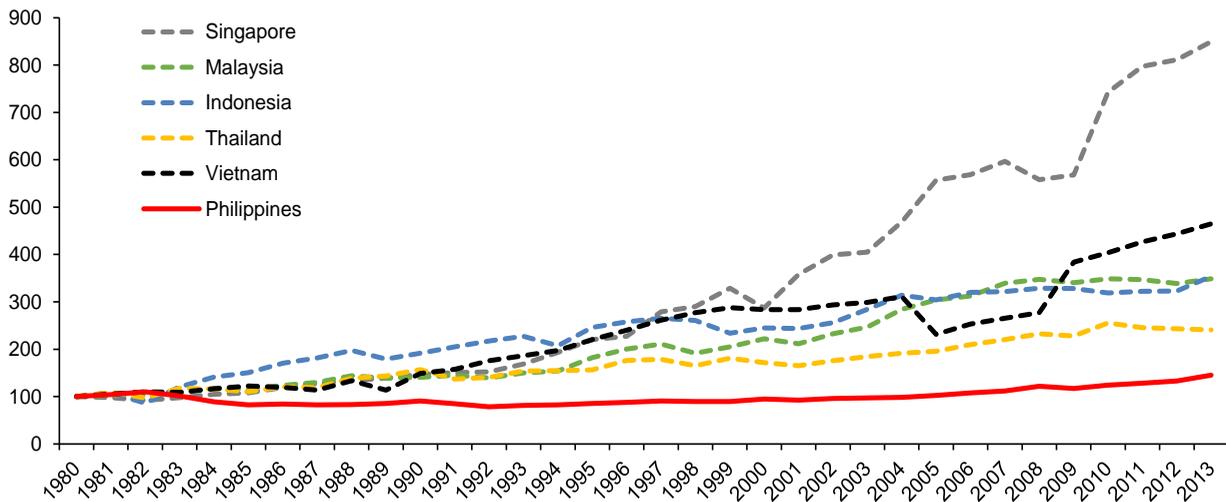
There is an increase in funding and in numbers of missions for investment promotion. The increase in inbound and outbound missions in 2013 confirmed in 2014. The steering committees for the IPAs, PEZA, DFA, and BOI should work together more closely.

### Manufacturing Labor Productivity Index, ASEAN-6, (1980=100), 1960-2013



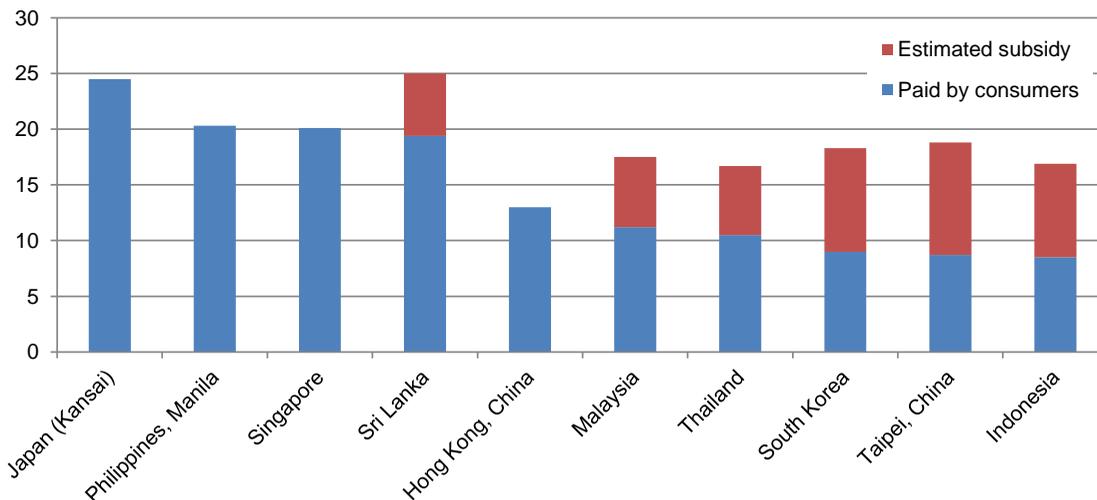
Source: ILO, UNSD, ADB and author's calculations. Notes: This is based on Mfg GVA per person engaged at constant 2005 \$US. This measure shows the level of productivity changed relative to 1980 level.

### Manufacturing Labor Productivity Index (1980=100)



Source: Author's calculations using IMF WEO Oct 2014 Data

### Average Retail Electricity Tariffs, Select Asian Countries, USc/kWh, 2012



Source: International Energy Consultants, June 2012

# Manufacturing

Policy Brief No. 2  
December 2013



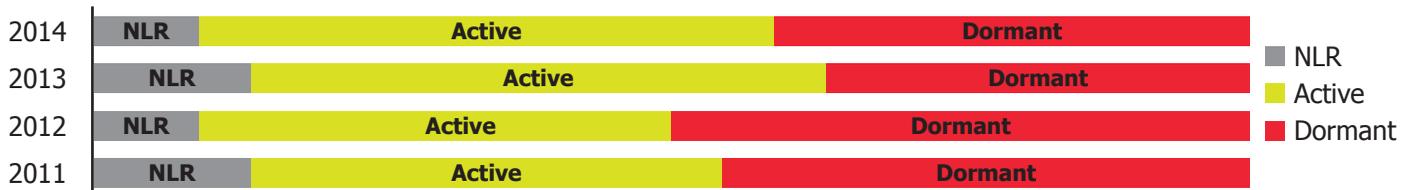
<http://www.investphilippines.info/Arangkada/manufacturing-policy-brief/>

**PART 3**  
SEVEN BIG WINNER SECTORS

# Logistics



## Recommendations: 22



### Progress:

1 Declined      12 Steady      7 Improved      2 Neutral

### Rating:

2	☆ No Longer Relevant	2	★★ Backward/Regression	7	★★★ Not Ongoing
2	★★★★★ Started	8	★★★★★ Substantial Progress	1	★★★★★ Completed

# PART 3

## SEVEN BIG WINNER SECTORS

### INFRASTRUCTURE:

# LOGISTICS

“Coordination is always a major challenge in a government that... too often easily lends itself to political gridlock. Further exacerbating this is the frequent incidence of conflict between national policies and the authority asserted by local governments, and the lack of a definitive arbiter to settle such inconsistencies when they arise. Name the issue - port congestion, streets that get flooded at the slightest downpour, lousy international airport terminal facilities and services, breakdown-prone mass transit systems, and so on - lack of coordination among government entities invariably lies behind them.” - *Dr. Cielito F. Habito, “No Free Lunch,” Philippine Daily Inquirer, October 21, 2014*

Batangas and Subic have highly underutilized port infrastructure that can lower international shipping costs for CALABARZON and support an Asian regional freeport at Subic, respectively. Batangas is slowly being connected to the feeder ports of Singapore and Kaohsiung. The country is well located for storage and distribution of goods to Asia, North America, and to 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 and port congestion in Manila. A GPH decision is needed to cap international cargo at Manila. 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. Customs, Immigration, and Quarantine (CIQ) overtime charges have been removed, while other logistic costs should be rationalized and reduced. Logistics operations should be opened more to international investors. Cargo deconsolidation should be allowed at 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 to ship directly from Manila. Foreign companies are not allowed to provide domestic maritime transport services. The domestic shipping industry is not competitive due to the predominant use of small ships and heavy taxes and regulatory restrictions.

## Recommendation 1A

- Invite feeder vessel operators to call at Batangas and Subic to take on CALABARZON manufactured exports, linking them through Singapore, Kaohsiung, and Hong Kong to worldwide shipping.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

The congestion of the Manila ports caused by restrictions imposed to the free flow of cargo through Metro Manila has led to better utilization of both the Batangas port as well as the Subic port. Because Batangas has only 10% and Subic about 20% of the capacity of Manila, there should be an immediate expansion of Batangas by adding port equipment and reserving its whole area for port operations. ATI, which operates Batangas, has added yard equipment, but the port needs additional gantry cranes for efficient operations and handling two vessels at the same time. The regional shipping line MCC/Maersk is using Batangas as its main gateway into the Philippines with 3-5 calls per week. SITC and RCL have weekly services. CMA/CGM, K-Line, NYK, and APL started servicing Batangas but stopped due to long queues and waiting times. It is important to have some of these feeder come back. Subic ship calls are still few with APL/NYK, Huan Hei, and MCC providing a weekly service each. Direct subsidies may however not be required anymore. Subic continues to be in need of support for inviting more lines to call, considering the shift of some import/export towards Subic. Furthermore the port suffers from large freight increases imposed by the operating lines to twice the rates of shipping to the Manila ports, which indicates more competition is needed. It is noteworthy that, for deliveries to Batangas, MCC now has two dedicated vessels which do not call in Manila anymore (*after stopping at Batangas*), while all feeders calling at Subic call at Manila as well, at much lower rates.

TEU Capacity and Utilization, BCT, CSH, MICT, and SBITC, 2014

	Capacity (TEU)	Traffic (TEU)	Utilization Rate, %
Batangas Container Terminal	300,000	98,309	32.77%
Container South Harbor	1,200,000	889,529	74.13%
Manila International Container Terminal (pre-berth 7)	2,430,000	1,899,000	78.15%
Subic Bay International Terminal Corp.*	628,000	77,000	12.26%

\*capacity with rubber tired gantry cranes

Sources: Iris Logistics, Inc. and International Container Terminal Services, Inc.

## Recommendation 1B

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

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★★ Substantial Progress	★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

Feeder vessels are now calling at both ports due to the increased demand. In the case of Subic, lines are imposing high freight rates, therefore no such subsidies are needed anymore.

## Recommendation 1C



Promote the use of both ports with PEZA and SBMA.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

For reasons given under 1A, Batangas has to regain the trust of operators who have started but stopped operations there, while Subic needs more operators to drive down freight rates to realistic levels. To sustain service, PEZA, NEDA, or DOTC/PPA or a cluster of government departments including local governments should urgently agree on a land use plan for the Batangas areas within a certain radius from the port. This is a challenge because there is still no land use law. However, with the improvements made in the Star Highway, there is an opportunity to promote a planned Batangas/Laguna corridor to potential manufacturers and agricultural processors and storage facilities. Simultaneously, a master plan for an expanded Batangas Port with a land area that can accommodate future demand should be made and implemented. This process should also be undertaken for the Subic/Clark/Tarlac Corridor. This assumes that the Subic Port can be expanded (*requiring reclamation*) since it is adjacent to the airport, or relocated.

## Recommendation 1D



PEZA should organize a meeting of export companies from CALABARZON, shipping lines, customs, PPA, and the operators of Batangas port to coordinate actions to increase export cargo volume at Batangas.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★★ Completed

Such meetings have been done several times but should be continued. To sustain the use of Batangas and Subic, more substantial investors in manufacturing and agriculture processing should be attracted to locate to create the scale needed. See comments to 1C. It is important for a Master Plan with an expanded port facility to be available to gain the trust of investors that infrastructure will be available.

## Recommendation 2



Modernize port operations in Batangas to serve automotive companies in CALABARZON in order to significantly reduce the competitiveness gap in automotive production costs between the Philippines and Thailand, Asia's third largest automotive industry. Automotive materials and parts should be imported through the port of Batangas instead of the port of Manila.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
☆ No Longer Relevant	★★★★★ Substantial Progress	☆ No Longer Relevant	★★★ Not Ongoing

A modern car handling facility was de-activated at the Batangas port in 2013 for lack of market acceptance. Car imports are increasing but are using ICD (*Inland Container Depot*) facilities which appear to be more cost effective. If the government prioritizes the manufacturing of cars, it is important to have a clear strategy for cars made for domestic use and cars made for export. If Batangas becomes a car port (*imported and exported assembled cars*), the port must allocate a separate car port with ramps for car carriers. These cannot be mixed with container or bulk cargoes.

### Recommendation 3



Create a plan to eventually phase out international cargo at the port of Manila over five years. The government should have the political will to implement the plan. Study the possibility of making it more expensive for ships to use Manila to encourage a shift to Batangas and Subic.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

This recommendation should be revised in favor of an independent master-plan to assess present and future port capacities and volume demands to steer the future efficient development of all ports, all in connection with their effects on traffic and connectivity to road networks in their respective areas. All restrictions to the free flow of cargo should be removed. All truck bans should be banned to avoid port congestion and its enormous cost to the economy of the Philippines. Many large cities with their millions of consumers have a close-in port. For example, Tokyo, Vancouver, New York (*through New Jersey*), Shanghai (*through Ningpo*) all within an hour from destinations of imported containers. To decongest the port of Manila, a sensible strategy should first be implemented to decongest Manila for example with the JICA “*Dream Plan*.” One solution would be to build infrastructure to and from the Manila Port free from interference of any local government and free of local traffic, for example a tunnel under Roxas Boulevard. The plan to promote Manila as a cruise port instead of expanding container handling in that port should not be abandoned. The expansion of the Manila berth 7 should be carefully considered and, if pursued, made conditional on a direct connection to the SLEX-NLEX inter-connector access road and 24 x 7 free truck lanes, to avoid traffic congestion.

### Recommendation 4A



Allow cargoes to freely enter uncontrolled assigned “*to-order*” of bearer as long as goods will not leave the freeport.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★ Backward/Regression	★★★ Not Ongoing

SBMA has apparently rejected the idea of promoting a true Freeport zone within its jurisdiction. However, a logistics port works if it is strategically located (*for example Singapore, Panama, and Rotterdam*) or if there is a very large volume of manufacturing in the vicinity. Subic is a diversion for most trade routes, except perhaps for ships coming from Australia on their way to Japan. For most ships, stopping at Subic requires extra sailing time. The Philippine national goal should be to develop a very aggressive manufacturing agenda in order to stop being a feeder economy. To be credible with this goal, there must be reforms: port infrastructure, road infrastructure, and energy subsidies until high volumes are achieved. In addition, one way to address land acquisition is to ensure rule of law for long-term land leases. Government should never sell land but offer long-term land leases. Banks should finance buildings and facilities on leased land and give the contracts value that can serve as security.

## Recommendation 4B



Move customs out of the Subic freeport to a perimeter defined by SBMA.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★ Backward/Regression	★★★ Not Ongoing

The BOC has not been given any directive to plan removing itself to such a zone's perimeter once established. The Philippines should set an example with the national Customs Single Window as soon as possible in 2015 when it hosts APEC.

## Recommendation 4C



Before allowing goods to enter the port uncontrolled, put in place tight safeguards against smuggling.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★ Started	★★★★★ Substantial Progress

Car smuggling in Subic has stopped. The Bureau of Customs is performing much better after its leadership changes, slowly implementing reforms down the chain of command.

## Recommendation 4D



Organize and convene a public-private planning group to promote an Asian Distribution Center of Goods.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★ Started	★★★★ Started	★★★★ Started

Private initiatives in the Clark area and, to a lesser degree, at Subic have created some facilities for region-wide distribution. The lack of progress defining the Subic port as a “true” Freeport, as well as the so-far failed bidding to operate the break bulk section of the Subic port is, however, limiting progress.

## Recommendation 5

 Allow transshipment of cargo in various modes, air-air, sea-air, and air-sea by requiring the BOC to implement relevant transshipment rules: 1) to capitalize on the capacity of Middle East carriers delivering cargoes from surrounding countries to Europe and Africa, 2) to invite additional carriers to the Philippines, and 3) to develop a trans-shipment industry similar to Dubai and Singapore.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★ Backward/Regression	★★★★★ Started	★★★★★ Started

This issue has been discussed in Senate hearings about the new Customs Code; the BOC new leadership promised to allow this kind of transaction as “transfer cargo” designating facilities at airports for such purposes. This is in differentiation from “transshipments,” which may be even further regulated and controlled in the future. In other words, domestic transshipments should be more tightly controlled and international transshipments allowed and facilitated. Transshipment services need a huge added value to warrant the added cost of shipping in and out of the Philippines to make the country a strategic location. Having a very large manufacturing base would be helpful. Government policy should strongly support and develop manufacturing and processing then support logistics opportunities that emerge.

## Recommendation 6

 The government should provide CIQ services whenever needed; overtime charges should not be paid by carriers.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

There was considerable progress in 2014 in applying the reforms in CIQ services achieved at the airports to marine freight and ports. The new leadership of the BOC is providing free overtime work at the Manila port, but this reform needs to be rolled out to all facilities nationwide. Customs should be open 24/7, even on holidays.

## Recommendation 7

-  Open the door to foreign investment along the entire multi-modal transportation chain, including domestic forwarding and distribution to: 1) reduce domestic distribution cost and 2) increase service levels. In domestic distribution there are some grey areas. Review to what extent these restrictions make sense in the age of multi-modalism and international service supply chains.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★ Not Ongoing	★★ Backward/Regression	★★ Backward/Regression

Customs brokers still charge fees based on a government sanctioned, if not mandated, “tariff.” Port charges are still set by the PPA, which itself operates ports. Bonded warehouses charge government mandated/sanctioned tariffs as well. All these are not subject to a free market and competition. The definition of what is a “public utility” is based on obsolete 78-year old legislation not in step with the modern world and terminology. The drawing line of what is allowed and what is not has become hazy. The case against Federal Express is clearly backward regression, and speedy clarification by the Supreme Court is needed.

## Recommendation 8

-  Allow direct deconsolidation of cargoes to PEZA bonded warehouses instead of using non-PEZA CY/CFS150 operators, thereby: 1) reducing shipping cost of less container load shipments for manufacturers, 2) increasing competition, and 3) decreasing red tape and protection for a few operators.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★★ Substantial Progress	★★★ Not Ongoing	★★ Backward/Regression	★★★ Not Ongoing

The BOC has effectively blocked implementation of PEZA’s authority by denying access to its computer systems to PEZA-approved service providers. There was no improvement in 2014.

## Recommendation 9

-  Take advantage of quick turnaround cycles and local BPO capability to develop new export products and labor-intensive business processing jobs.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	☆ No Longer Relevant	☆ No Longer Relevant	☆ No Longer Relevant

This point may be removed. The BPO industry is doing well, and the development of logistics services as a subpart of this activity can be handled in the BPO section of Arangkada.

## Recommendation 10



Facilitate IOR services to develop expanded access to Internet trade. Clarify EVAT rules as points of sales are abroad, but shipments IORs handle are subject to VAT on entry without domestic resale.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★ Backward/Regression

The BIR through its circulars has made the operation of importers of record as enablers of internet trade more difficult, by requiring actual ownership of cargo by the importer.

## Recommendation 11



Continue to implement recent reforms in customs practices (*ratified Kyoto Protocol, E2M, and national single window*) that will make Philippine logistics more competitive. Extend E2M to all customs offices. Pass the Customs and Tariff Modernization Act (*CTMA*) as early as possible in the 15<sup>th</sup> Congress. Remove the de minimus limit in the law and allow it to be set by the Executive Branch.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★★ Substantial Progress

Leaders of both chambers in Congress include the CMTA among their top economic reform bills for 2015. Many hearings on the bill were held in the House in 2014. The HWMC TWG draft committee report was near final form in early 2015. The new Commissioner of Customs has indicated that a completely new computer system has to be put in place to replace the present one, which is plagued by frequent shutdowns, deliberate or otherwise.

## Recommendation 12A



Liberalize rules that do not allow foreign companies to operate in order to provide cheaper and better quality transportation services. Encourage more joint ventures between foreign and domestic shipping firms.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★ Not Ongoing	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

MCC remains the only such JV. Various proposed cabotage revisions were subject to several hearings of the Senate and may be passed by Congress within the term of this administration, providing a limited lifting of cabotage for international cargo on its domestic leg. The Senate bill was prepared to be reported out in 2015. The concerns of the domestic shipping industry, which have been identified as a driver of high cost as well, have not been addressed by the government. The domestic shipping industry clamors for a reduction of government imposed high costs, such as excessive sulfur content regulations on its fuel, prohibition of bareboat chartering, mandatory use of Philippine shipyards for Philippine flag vessels, and mandatory Marina-imposed overcrewing, and taxes on shipping services and fuel and clamor for modern port infrastructure.

## Recommendation 12B

 Introduce more reliable new ships with larger TEU capacity that are less expensive to operate.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
☆ No Longer Relevant	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

Some domestic lines are placing into operation bigger ships, but, as mentioned in 12A, the cost drivers towards domestic shipping have not been addressed. The ships are marginally larger and nowhere near the size of international feeders. In order for sizes of ships to become larger, trade patterns must change. (See *Infrastructure: Seaports*).

## Recommendation 12C

 Limit the age of ships that can be imported to operate in the Philippines.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

No changes were made to the age requirements of imported vessels. This has not been addressed by government at all. The BOI has promoted the purchase of younger ships below 10 years of age and now new ships with incentives.

## Recommendation 13



Groups of importing companies should explore chartering ships and pooling container shipments in order to save international transportation costs.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
☆ No Longer Relevant	☆ No Longer Relevant	☆ No Longer Relevant	☆ No Longer Relevant

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 in order to be able to chart and analyze its growth.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

No improvements have been reported.

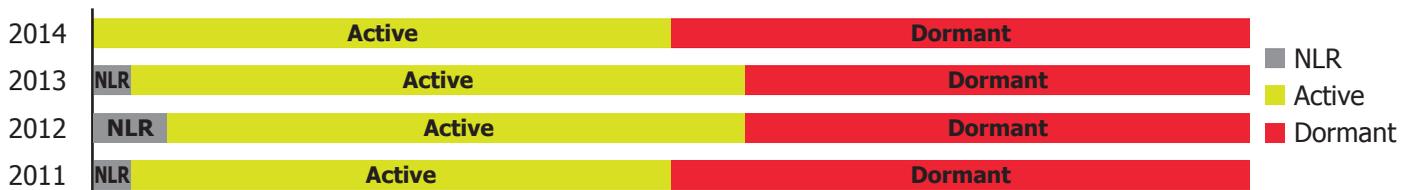


**PART 3**  
SEVEN BIG WINNER SECTORS

# Mining



## Recommendations: 32



### Progress:

5 Declined      26 Steady      1 Improved      0 Neutral

### Rating:

0	☆ No Longer Relevant	4	★★ Backward/Regression	12	★★★ Not Ongoing
10	★★★★★ Started	4	★★★★★ Substantial Progress	2	★★★★★★ Completed

# PART 3

## SEVEN BIG WINNER SECTORS

### INFRASTRUCTURE:

# MINING

“SECTION 4. Grant of Mineral Agreements Pending New Legislation. No new mineral agreements shall be entered into until a legislation rationalizing existing revenue sharing schemes and mechanisms shall have taken effect. The DENR may continue to grant and issue Exploration Permits under existing laws, rules and guidelines.” - *Executive Order No. 79, July 6, 2012*

With an estimated US\$1.4 trillion in reserves, Philippine mining potential ranks fifth in the world, covering an estimated 9 million hectares, but less than 2% of these have mining permits. After long stagnation, the sector began coming back after a 2005 SC decision affirming RA 7942, considered a world-class legal framework for sustainable mining development. With its high potential for jobs and revenue, minerals development should be a government priority. Government has identified over 60 priority PPP mining 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 has more than doubled to PhP21.9 billion in 2013 from 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. The administration has yet introduce a draft bill. Designation of numerous “*NO-GO*” zones may undervalue promising areas closed to mining for minor tourist or agricultural use. The immediate future for the growth of the mining sector is not positive.

## Recommendation 1A



Further streamline the exploration permit approval process. Exploration and similar permits should be granted transparently at the regional level within six weeks and renewed in one day at one-stop shops. Impose and enforce a deadline at the regional level for EP approvals, with close coordination among agencies. The issuance of EPs and the grant of a mineral agreement for initial exploitation should be reduced from four months to six weeks. Renewals should take one day, subject to submission of all pertinent requirements needed within 15 days from receipt of a renewed EP.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★ Not Ongoing	★★★ Not Ongoing	★★ Backward/Regression

While the MGB has been active in removing redundant approvals and non-performing claims this has not led to the intended result of speeding up growth in the mining sector. In fact growth has been stifled and the result of the MGB's cleansing process 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. There has been no progress on streamlining exploration permit approvals. In fact approvals have stalled pending approval of the contentious fiscal regime revisions and NO-GO zone categorization. Few companies will invest without knowing the fiscal regime that will apply.

## Recommendation 1B



At the same time, applicants should be vetted strictly to ensure they have both the required funding and the technical staff to undertake the work.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

The MGB has a process for such vetting and in recent years was applying it to new applicants. But since there are no new tenements being granted under this Administration, it is not possible to gauge the agency's performance at this time.

## Recommendation 1C



Reduce ECC processing time and certificates of non-coverage. Strengthen implementation of DENR environmental responsibilities under the Mining Act for environmental protection, and the enhancement program for progressive rehabilitation and the mine rehabilitation/decommissioning plan for mine closure.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

Few ECCs have been processed or signed. Some of those have taken excessively long times to be processed and approved. Whereas the ECC is supposed to be a purely technical process, there has been political interference by the Administration.

### Recommendation 1D

 Allow pre-permitting access by firm to potential project lands to conduct initial geological studies, mapping, soil sampling, and limited testing. R1D: Doing this gives the company confidence in raising capital and trains local people in mining-related skills.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★ Backward/Regression	★★★ Not Ongoing	★★★ Not Ongoing

The grant of new permits has been limited therefore there currently appears to be no pre-permitting process ongoing. The issuance of temporary EPs has been stopped.

### Recommendation 1E

 Continue processing of mining applications involved in mining cases or subject to protests or oppositions, subject to certain conditions.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★ Backward/Regression

Processing of mining applications involved in mining cases has stalled pending approval of the contentious fiscal regime revisions and NO-GO zone categorization.

### Recommendation 1F

 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. Permits specify Php500/hectare minimum expenditure. Failure to implement three-year development program for two consecutive years should be cancellation grounds, as should failure to present proof of FPIC. Strictly implement three letters of notice policy against inactive applicants. There should be a comprehensive field inspection to confirm compliance prior to commissioning a mining project.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★ Started	★★★ Not Ongoing

It seems the MGB is actively seeking to monitor compliance however implementation has been minor and slow pending approval of the contentious fiscal regime revisions and NO-GO zone categorization.

## Recommendation 2



Establish regional level one-stop shops to process applications.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

This is not ongoing.

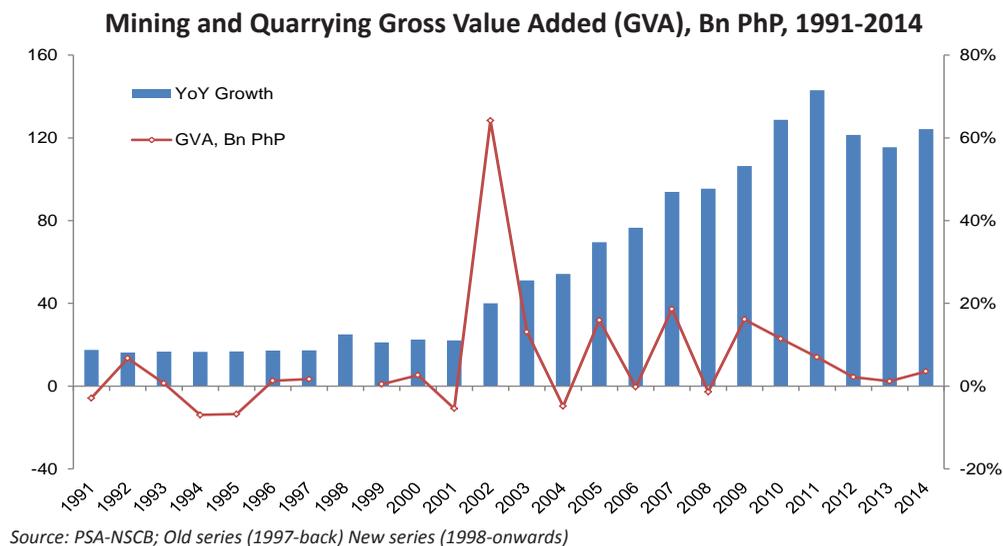
## Recommendation 3



Develop model best practice regions. Look for model regions to showcase best practices for LGUs working with the mining industry. Strengthen mining regulatory oversight in several key regions and encourage development therein of three to five world-class mines as showcase for best practices. Their success and economic growth should impress other regions.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

This is not ongoing.



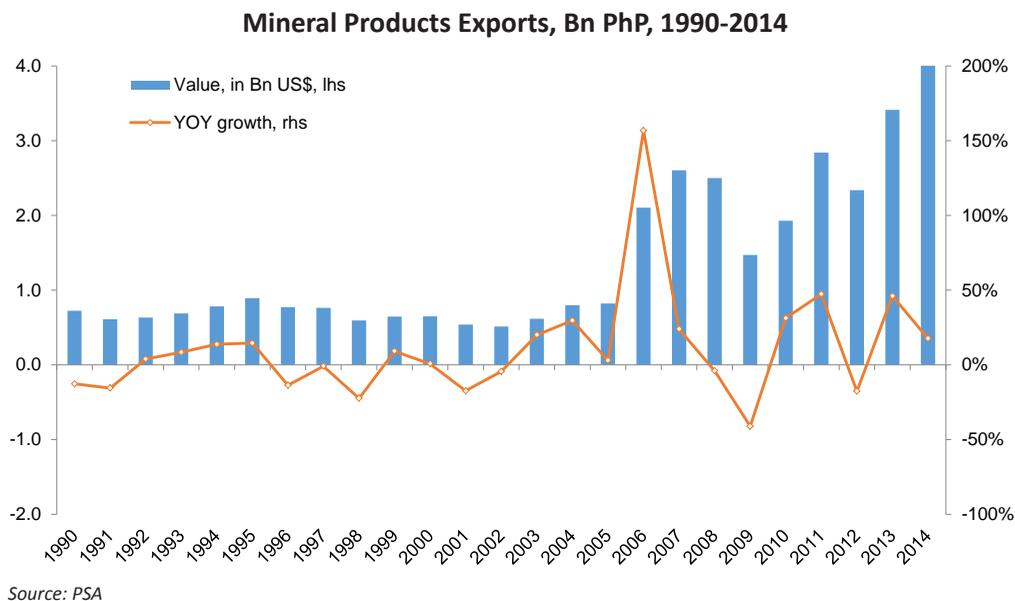
## Recommendation 4



MGB should adopt Philippine Mineral Ore Resources Reserve Reporting Code patterned after Australia's Joint Ore Reserves Committee (JORC) guidelines.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★★ Completed	★★★★★★ Completed

The PMORRRC has been adopted by the MGB and the SEC.



## Recommendation 5



Seek to end LGU mining moratoriums. The private sector should request the Solicitor General to file a case against any LGU that declares mining moratorium. According to a DOJ order, LGUs cannot stop or go against a national policy.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★ Backward/Regression	★★★ Not Ongoing	★★ Backward/Regression

Nothing is happening to stop LGU mining moratoriums. EO 79 made a statement, and the DILG issued a letter to LGUs. But both have been ignored by LGUs, and the national government has been doing nothing about it; there is no legal action and not even any political action that can be discerned. The number of provinces attempting to ban mining and exploration activities continues to increase. In the Congress, there are more bills that pass the House that ban mining in certain provinces and cities, but none have passed the Senate.

## Recommendation 6



Provide LGUs with additional funds for community projects by implementing the simplified joint circular regarding release of mining taxes to LGUs.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★ Not Ongoing

The government has made provisions for more timely issuance of funds due the LGUs, but there has been no information made available as to how well it is working. There have been various bills in Congress over time addressing this, but they seem to get to an advanced stage and stop. EO 79 directs the “timely release” of the LGU shares and “to study the possibility of increasing the LGU’s share.” A joint circular was issued, but no one is tasked to monitor how well it is working.

## Recommendation 7



Continue dialogue with the various local government leagues, the religious sector, and non-government organizations to find common-ground solutions to issues being raised against specific mining and exploration projects.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

The initiatives associated with the EITI represent the most significant effort of the government to work with stakeholders on mining issues. The industry is putting a major effort into the EITI and is continuing to provide mine tours at various mines to demonstrate responsible mining to stakeholders.

## Recommendation 8



As a stakeholder, the industry should actively monitor developments in the Congress and judiciary, such as the Rules of Procedure on Environmental Cases and the Alternative Mining Bill. The industry should present its positions and appear at committee hearings and other public consultations.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★★ Substantial Progress	★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

The Chamber of Mines, the Philippine Mining and Exploration Association, and the member chambers of the Joint Foreign Chambers have all devoted considerable effort to monitoring policy developments and providing information and advice to government and Congress. The industry is also improving in its efforts at communicating to the public and media.

## Recommendation 9



Continue to support revision of the 60-40 equity restriction provision in the Constitution with respect to land ownership and water, forest and mining rights, when an appropriate occasion arises.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

It appears the Executive is still unwilling to address these specific issues. However, the House Speaker passed a resolution in committee to amend the foreign ownership restrictions in the Constitution to allow them to be legislated and is seeking passage in the House early in 2014.

## Recommendation 10



Continue implementation of the MAP. Continue active private sector participation in the MDC. The government needs to be proactive in supporting responsible mining with stakeholders in local communities.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
☆ No Longer Relevant	★★ Backward/Regression	★★ Backward/Regression	★★ Backward/Regression

The MDC was abolished and replaced by the Mining Industry Coordinating Council (MICC) of the Cabinet, whose lone private sector representative is not from the mining industry. The MICC has been reactive and has not supported the development of responsible mining and has proven reluctant to meet with industry.

## Recommendation 11

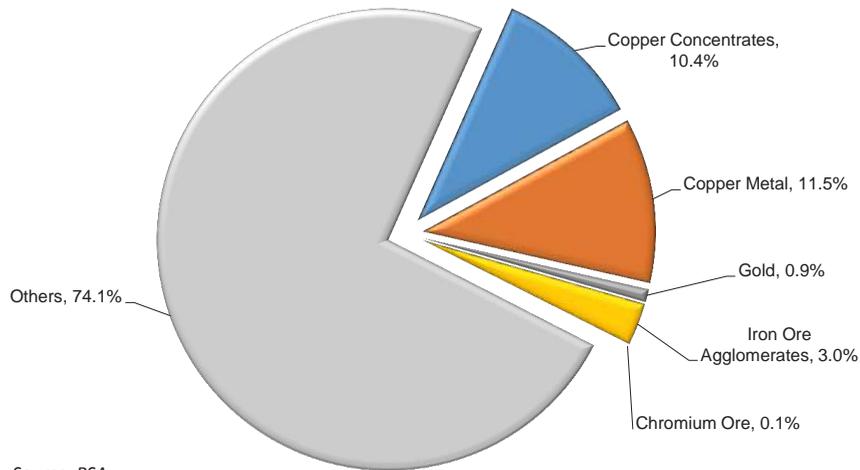


Government should work on four programs to move mining industry up the ladder of industrialization: 1) promote downstream processing and manufacturing for copper, nickel, gold, and chromite; 2) develop community-based supplier industries and services; 3) improve government benefits from mining; and 4)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

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★ Not Ongoing	★★★ Not Ongoing

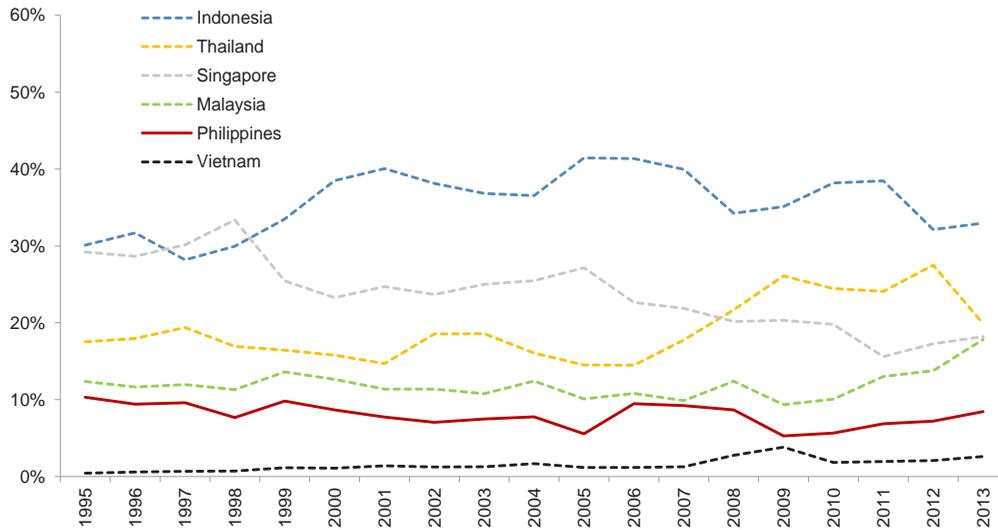
EO 79 addresses some of these issues, but overall, there was no progress in 2014. In 2014, bills were introduced regarding downstream processing and bans on exports of certain ores. However, they do not appear to take into account the practical implications of such processing including those related to lack of infrastructure and other technical considerations.

### Mining Goods Exports Distribution, 2014



Source: PSA

### Share in ASEAN-6 Total Mineral Products Exports, 1995-2013



Source: UNCTAD; Includes ores, metals, precious stones and non-monetary gold

## Recommendation 12



Community building should commence from the first day a company takes interest in an area for mining. It should inform local people about the company and what it plans to do on their land. Bring IPs into the mining project as partners from day one.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

Responsible mining companies do these things. If there were more companies being allowed to move projects forward, it could be said that there would be substantial progress.

## Recommendation 13

- Mining firms should support labor intensive, community-run enterprises such as fish farms and vegetable gardens for the IPs.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress

Responsible operating companies and exploration companies are doing these things utilizing worldwide best practices.

## Recommendation 14

- Complete the MGB review of regulations (*DAO 2000-99*) to increase the allocation of direct mining and milling costs for community development from 1% to 1.5%. The DAO also permits the use of these funds for information, education and communication campaigns, and the development of mining and processing technology and geosciences.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	☆ No Longer Relevant	★★★★★★ Completed	★★★★★★ Completed

Operating companies are required to devote an amount equal to 1.5% of mining and milling costs to the Social Development and Management Plans (*SMDP*).

## Recommendation 15

- The private sector should help build the capacity of IPs. Help them understand and exercise their rights, what their claims are, and how investors should interact with them.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★ Started	★★★★ Started

There are numerous initiatives in this area, but not enough. Some embassies have sponsored technical assistance programs, and there are organizations such as the Diwata Women's group that are attempting to further empower IPs.

## Recommendation 16

- Increase the budget and technical capacity of the NCIP.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★ Backward/Regression	★★★ Not Ongoing	★★★ Not Ongoing

There has been no progress.

## Recommendation 17



When resettling people living in an area to be included in mining operations, find a site that allows habitation as close as possible to their traditional lands, without endangering the safety requirements of the mining operation.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	☆ No Longer Relevant	☆ No Longer Relevant	★★★★★ Started

The World Bank and International Council on Mining and Metals (ICMM) has issued clear guidelines for this process.

## Recommendation 18



Companies should not pay stipends or occupation fees to local NPA but instead partner with the IP community.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

Most companies attempt to do this, but it is reported that small miners and illegal miners and some renegade companies pay such illegal “*revolutionary taxes*.”

## Recommendation 19



The private sector should work closely with the MDC committee on mining security, the DILG undersecretary for peace and order, and the AFP to establish a joint mining security protocol to guide mining companies in dealing with local security threats and to formulate short and long-term preventive measures that can be implemented by companies.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

The MDC no longer exists and has been replaced by the MICC. There was no progress this year.

## Recommendation 20

- Exploration companies should conduct security and social assessments in their areas of operations. Mining security and assessment seminars were organized in most regions in 2009.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★ Started	★★★★ Started

Responsible mining companies typically do this.

## Recommendation 21

- The mining industry should work closely with the MGB, providing regional offices with appropriate technical as well as financial support (*if permitted*), including assisting MGB staff to attend industry workshops to increase their skills, without leaving the MGB.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★ Started	★★★★ Started	★★★★ Started

There is some activity in this area. Unfortunately, the industry continues to be excluded from the MICC.

## Recommendation 22

- Geology and mining engineering students following graduation who enter government service should be assigned to work with a local exploration or mining company to gain further practical experience, after which they should be offered sufficient incentives to return to the MGB.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

This is not ongoing.

## Recommendation 23

- Government, in partnership with exploration and mining companies, should encourage more students to study subjects needed in the mining community, such as environmental management, social infrastructure management, geology, and community development, including agribusiness venture building.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★ Started	★★★★★ Started

Some limited programs are under way, sponsored by private organizations and embassies.

## Recommendation 24



Encourage mergers of local mining companies and list more local companies on the Philippine Stock Exchange (PSE).

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

There was minor activity in 2014. The PSE still seems to be a relatively immature market for mining companies, particularly those still at the exploration stage.

## Recommendation 25



Carry out a public information campaign regarding mining and increase dialogue with concerned groups. Inform public about responsible mining that minimizes environmental impact.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

There were useful information campaigns carried out by the Chamber of Mines and individual mining companies in 2014, as well as letters from the JFC and other associations. The communications efforts by all participants in mining are improving.

## Recommendation 26



Support the Mining Museum project in Baguio to establish a museum to educate Filipinos on the importance and uses of mining. Establish smaller museums in other regions where mining is concentrated.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★ Started	★★★★★ Started

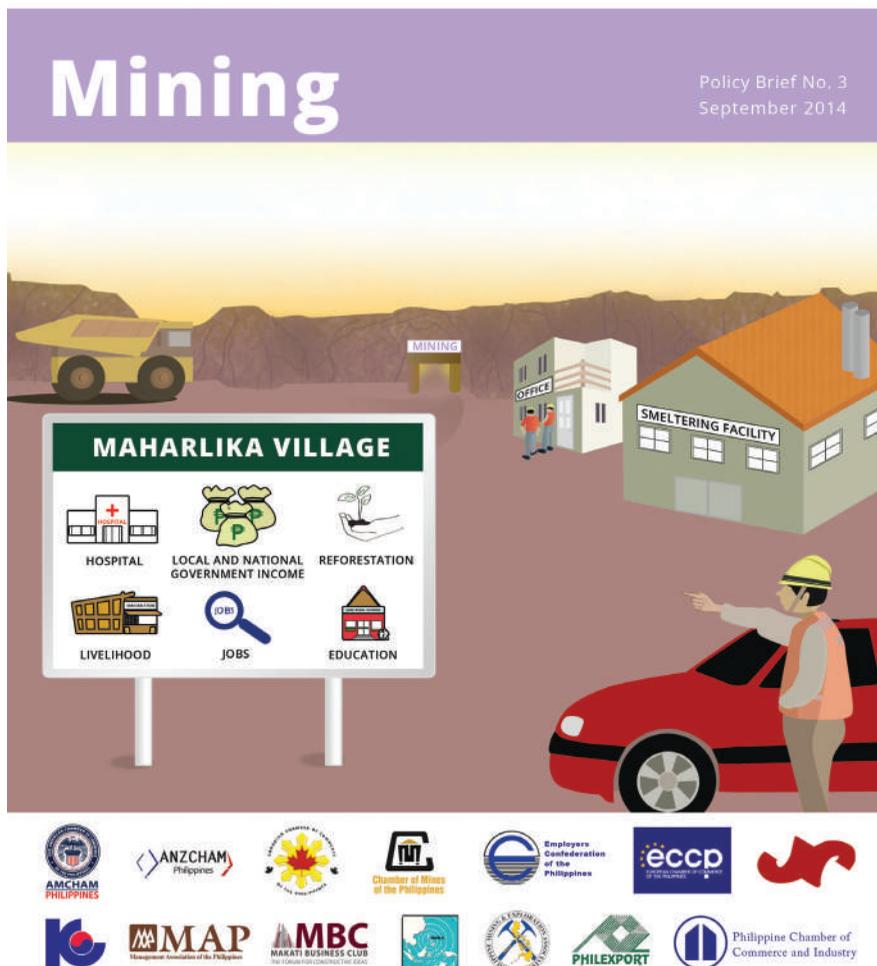
There has been some progress.

## Recommendation 27

- Mining companies in the Philippines should endorse the Extractive Industries Transparency Initiative (EITI). Eventually, the Philippines should apply to become an EIT Compliant Country. Mining companies operating in the Philippines, mining associations, and EITI supporting countries should explain the initiative to the Philippine public.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

The Philippines became a candidate for EITI membership in May 2013. There has been a high level of activity by government, industry, and sectors of civil society to advance the application. A comprehensive 419 page “1<sup>st</sup> Philippine Extractive Industries Transparency Initiative (PH-EITI) Country Report” was submitted in December 2014. The Philippines will next go through a validation process to determine if its implementation of EITI complies with EITI standards.



<http://www.investphilippines.info/Arangkada/mining-policy-brief/>

**PART 3**  
SEVEN BIG WINNER SECTORS

# Tourism, Medical Travel, and Retirement



## Recommendations: 32



### Progress:

4 Declined      20 Steady      8 Improved      0 Neutral

### Rating:

0	★	0	★★	8	★★★
	No Longer Relevant		Backward/Regression		Not Ongoing
12	★★★★★	9	★★★★★	3	★★★★★
	Started		Substantial Progress		Completed

# PART 3

## SEVEN BIG WINNER SECTORS

### INFRASTRUCTURE:

# TOURISM, MEDICAL TRAVEL, AND RETIREMENT

“Domestic tourism is thriving in Vigan, but this gem of the Philippines—a Unesco World Heritage site recently picked in an online poll as one of the “New Seven Wonders of the World”—isn’t attracting anywhere near the number of big-spending foreign tourists that local officials would like. At the start of tourism season in “Visit the Philippines Year 2015”, the challenges facing Vigan are replicated nationwide, effectively capping the Philippines’ tourism growth. Shortages of modern airports and hotel rooms are seen as the main barriers, while a spate of severe natural disasters and a Chinese travel advisory portraying the Philippines as dangerous have also deterred some potential guests.” - *Trefor Moss, Asian Wall Street Journal, February 12, 2015*

“You don’t get on the radar unless you dress up for the party...This is the paradigm shift in tourism. We are determined to be competitive.” - *DOT Secretary Ramon R. Jimenez, Jr. at the 2013 Arangkada Philippines Forum, Makati City, February 26, 2013*

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 in the Philippines. International arrivals to the Philippines grew by 2.28% in January to October 2014, reaching a record 3,955,399 arrivals for the same period in 2013, and posting 358,876 arrivals for the October 2014 alone. Hopefully, this means the Philippines cornered a larger share of tourist arrivals to Southeast Asia compared to 2011 when only about 5% of 81 million international tourists visited the Philippines. Domestic travel, the backbone of Philippine tourism, is resilient during times of external vulnerabilities and reached 44.1 million in 2013 and is expected to increase to 44.7 million in 2014. Medical travel and retirement by foreign nationals are subsectors where the Philippines has high potential for 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 each year doubled to 4,766 in 2014. The low cost of living, excellent weather, world-class medical care in more cities, recreational options, and the warmth of Filipinos are plus factors supporting the high potential of the retirement subsector. One key to unlocking the job creation potential of tourism is investment mobilization by both public and private sectors.



## Recommendation 1

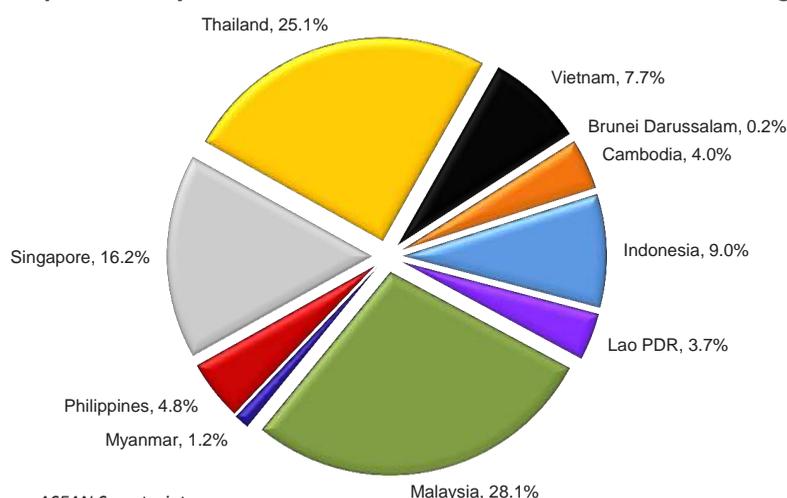


Property rights should be facilitated for the new Tourism Enterprise Zones (TEZs) that will be designated under the Tourism Act of 2009 through pre-zoning and titling of lands for tourism development. Existing land titles within designated TEZs should be digitized at LGU registry offices. These actions will help investors avoid otherwise lengthy process of land acquisition and conversion.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★ Backward/Regression	★★★ Not Ongoing

There is no improvement for investors in TIEZA TEZs. No ownership is allowed for foreign firms beyond 40% of a landowning corporation. Thus joint ventures or long-term leases (50+25 years) are the available options.

Distribution per Country of International Tourist Arrivals in the ASEAN Region, 2012



## 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, such as medicine and nursing. Until the constitutional limit on foreign ownership of land can be reformed, joint ventures with reputable Philippine corporations as well as GRP agencies and LGUs should be encouraged; the rules and regulations for JVs with government should be reviewed accordingly.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

Replacing the ban on foreign ownership of land by limited ownership for residential and commercial purposes is discussed periodically. The House is considering JHR1 of Speaker Belmonte, which amends the land ownership restriction in the Constitution by allowing a law to be passed that will provide for foreign ownership. Forty-one of the 46 laws governing professions have reciprocity provisions allowing foreign nationals to practice with the approval of Professional Regulation Commission. Draft amendments, including reciprocity, to four remaining laws with nationality restrictions will be heard in the 16<sup>th</sup> Congress. Law is also restricted to Philippine nationals. The PRC issued new guidelines on foreign professionals in 2012. Lowering the high minimum foreign equity investment of US\$2.5 million in retail is being considered by the Executive. Horizontal application of the condominium law is being considered in Congress.

### Recommendation 3

 Rules in the new TEZs should be consistent, simple, and stable and shielded from unnecessary intervention from LGUs. All agencies must share the vision of tourism as a driver for job creation and poverty reduction. There should be One-Stop Shops in each TEZ with all relevant government agencies represented, along the lines of the PEZA model, which works closely with the private sector to reduce the time and cost of doing business.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★ Not Ongoing	★★★ Not Ongoing

To date, TIEZA has designated 6 TEZs. Three are managed by private sector developers: 1) Resorts World Manila opposite NAIA-Terminal 3; 2) Ciudad de Victoria in Bocaue and Sta. Maria, Bulacan where the Iglesia ni Cristo arena and stadium have been built; and 3) Queen’s Castle in Medellin, Cebu. Three others are initiated and managed through joint ventures with TIEZA: 1) the 14-km beachfront area in San Vicente, Palawan; 2) the Rizal Park Complex in the Manila; and 3) Mt. Samat Shrine of Valor, Bataan. No cases of unnecessary LGU intervention have been reported. According to TIEZA, two more TEZs are being identified in the Visayas and two more in Mindanao.

### Recommendation 4A

 Amend the National Internal Revenue Code of 1997 (*RA 8424*) to eliminate the discriminatory Common Carriers Tax (*CCT*) and the Gross Philippine Billings (*GPB*) 166 which are not imposed by other countries and contravene the principles of the International Civil Aviation Organization to which the Philippines is a signatory.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★★ Completed

The Common Carriers Tax and GPB were removed via RA10378 in 2013 for the transport of passengers only by air and by sea, and its IRRIs were issued. The new law, however, excluded freight and shipping from the exemption. Excise Taxes and VAT on jet fuel for international flights are still issues that need to be effectively resolved.

## Recommendation 4B



Cease overtime CIQ charges to airlines by declaring 24/7 operations at NAIA, requiring CIQ personnel to work shifts and be paid proper overtime from their departmental budgets. Support exemption of CIQ personnel from the salary standardization law.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★★ Substantial Progress	★★★★★★ Completed	★★★★★★ Completed

The CIQ charges have been removed, and international airports have 24/7 CIQ staffing. However, for domestic airports seeking to attract charter air traffic, the BI may charge a service fee. This charge is contrary to the goal of the DOT to increase foreign tourist arrivals.

### Recommendation 4B.1



Amend the 2010 Immigration Act to remove airlines and passengers from the enumeration of sources of overtime charges.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★ Not Ongoing	★★★★★ Substantial Progress

Unnecessary overtime fees were removed thru executive action; However, there are moves to legislate overtime fees thru the CMTA and Immigration Act amendments. The Immigration Act was enacted in 1940. An EO issued in 2012 removed the CIQ overtime charges at international airports. Bills in the 16<sup>th</sup> Congress to update the current Immigration Act retain the authority of the Commissioner to charge overtime. 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. However, the House TWG committee report no longer contains authority to charge overtime.

### Recommendation 4B.2



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

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★ Backward/Regression	★★★★★ Started	★★★★★ Substantial Progress

Unnecessary overtime fees were removed thru executive action; However, there are moves to legislate overtime fees thru the CMTA and Immigration Act amendments. There should be opposition. The versions

of the Customs Modernization and Tariff Act (CMTA) introduced in the 16<sup>th</sup> Congress in both the House and the Senate retain language authorizing the BOC to charge overtime.

## Recommendation 4B.3

 Amend the IRRs of the 2004 Quarantine Act to remove overtime charges for Quarantine personnel.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

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

## Recommendation 4C

 Review the need for the travel tax as revenue for public sector tourism and ease the burden of travel tax collection and administration on airlines and travel agencies.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
☆ No Longer Relevant	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

This was subjected to a regulatory impact assessment. The NAIA Administration is getting all the airport fees and travel tax included in tickets. The NAIA domestic airport tax was included in tickets in 2013 and the international airport tax will be in 2015, although there are court cases filed against this on behalf of OFWs.

**Travel and Tourism Competitiveness Indicators, Philippines, Rank, 2007-2013**

Category	2007	2008	2009	2011	2013
Overall country ranking	86	81	86	94	82
T&T regulatory framework	80	83	85	98	79
Policy rules and regulations	61	58	72	70	53
Property rights	70	75	92	99	83
Business impact of rules on FDI	78	92	97	98	103
Time required to start a business	--	106	114	111	94
Cost to start a business	--	83	94	101	15
T&T Business environment and infrastructure	79	84	89	95	89
Air transport infrastructure	72	72	73	90	69
Quality of airport infrastructure	76	62	89	112	110
Airport density	94	79	86	87	88
International air transport network	62	65	76	83	88
Ground transport infrastructure	91	85	90	114	89
Quality of roads	86	91	94	114	86
Quality of railroad infrastructure	96	86	85	97	92
Quality of port infrastructure	87	102	100	131	118
Quality of ground transport network	92	74	115	131	115
Tourism infrastructure	93	97	96	98	92
Price competitiveness	7	9	16	20	24
Tickets and airport charges	14	17	17	20	17
Extent and effect of taxation	40	57	65	77	54
Hotel price index	--	9	12	15	36
<b>Total Number of countries evaluated</b>	<b>124</b>	<b>130</b>	<b>133</b>	<b>139</b>	<b>140</b>

Source: WEF, Travel and Tourism Competitiveness Reports

## Recommendation 4D

- For the wellness sector, work at the DOH to amend the Sanitation Code (*PD 856*) so that spa owners are not required to send their massage therapists to DOH regional centers for monthly venereal disease check up. Amendments should also include a correct definition of wellness spa and massaging techniques. Currently wellness spas are classified as massage parlors and spa owners are required to allocate Php1,000 per month per therapist for transport and medical test.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

This has been brought up with DOH again and again, but we are not aware whether DOH has moved on it.

## Recommendation 5A

- Increase the mobility of international business travelers/passengers/medical travelers and retirees: Review and reduce the cost in time and money of bureaucratic immigration policies and procedures. Foreign executives and staff based in the Philippines are required to pay fees for Special Return Certificate, Emigration Clearance Certificate, and Certificate of Exemption before each departure, head tax, legal research fees, special lane fees, etc. These same fees are also charged to family members. Such fees (*about Php2,170 for each departure*) and the time spent to secure clearance for travel are not conducive to placement of regional staff and their employment generating support teams.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ 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. Although a Round Table Discussion was sponsored by the JFC in July 2013 on these issues and some initiatives put in place by BI such as the Long Stay Visitor's Visa Extension (*LSVVE*), these initiatives have been ad hoc in nature and need to be placed in a comprehensive framework to fully address the issues cited above. A new issue arose at the end of 2013 with a BI requirement that all foreigners appear in person in the first two months of 2014 to submit a lengthy form and be fingerprinted. Also, there is confusion over a BI requirement for foreigners to obtain an exit clearance to leave the country. In 2014 BI placed a notice on its website and in newspapers asking citizens to report illegal aliens, a direction that could result in "*harassment*" reports. The BI has issued visa on arrival for cruise passengers last October 2014. To facilitate entry and exit of passengers, particularly the legitimate and bona fide travellers, the BI, DOT, BAR and AOC supported the draft EO for the implementation of the Advance Passenger Information System. The EO is for signature of the President.

## Recommendation 5B

- Introduce long term stay visa for two new categories of foreign nationals: foreigners undergoing lengthy medical treatment and foreigners who are potential retirees who have not yet decided on joining the retirement program.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★★★ Completed	★★★★★★★ Completed

The Long Stay Visitors Visa Extension (*LSVVE*) has been implemented by the Bureau of Immigration. Fees have not been reduced. Online visa extension application is not yet being used. The Retirement and Health Coalition (*RHC*) has not been successful in having the fees for the LSVVE lowered. The Bureau of Immigration is still charging Express Lane Fees of PhP3,000.

## Recommendation 6

- Develop the meetings, conventions and exhibits market with improved air transport infrastructure and hotels by promoting key tourist regions with infrastructure and direct international flights, including Bicol, Cagayan de Oro, Cebu/Bohol, Clark/Subic, Davao, General Santos, Laoag, and Palawan. Road networks to and from tourism sites must be improved and expanded. Access to/from tourism economic zones must be part of the overall development plans of investors and LGUs. This will facilitate the movement of tourists within and outside of the TEZs. Such infrastructure is also crucial in linking neighboring communities with the TEZs to generate business partnerships between TEZ locators and local enterprises (*e.g. catering, laundry services*) and helps to reduce poverty.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★★ Substantial Progress	★★★★★ Started	★★★★★★★ Substantial Progress

Thru the DOT-DOTC-CAAP partnership, the Philippine government has prioritized the development of infrastructure in the international gateway tourism development areas under the National Tourism Development Plan 2011-2016. Infrastructure at key areas is being upgraded with adequate funding appropriated in recent years. Airports like Legaspi and Puerto Princesa already accommodate international charter flights; Cagayan de Oro has night landing capability at last. Thru the DOT-DPWH Convergence Program the government has improved the tourism road network across the country since its formation on January 2012. ( *See Part 3: Infrastructure Airports*) The MICE market is strong for domestic participants and more international capacity is being established in Manila, Cebu, and Iloilo. During the 2015 APEC year, the Philippines is hosting some 200 international meetings.

## Recommendation 7



Reduce differential and discriminatory charges that are higher for tourists than local residents by issuing ordinances to prevent exploitation of tourists and implementing accreditation rules under the Tourism Act.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★ Not Ongoing	★★★★★ Started

We are not aware of serious efforts to regulate or discourage differential pricing found, for example, in hotels that have weekend-only specials only available to local residents. Roll out of accreditation for hotels has started in pilot cities.

## Recommendation 8



Correct human resource competitive disadvantages identified in the WEF TCR in lack of local tourism research and training services, hiring and firing practices, and ease of hiring foreign labor.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★ Not Ongoing	★★★★★★ Substantial Progress

DOT And ADB are working together to address this under an ADB project facility. This is emphasized in the National Tourism Development Plan for 2011-2016. The “*techvoc*” training path of DepEd for high school students not advancing to college and TESDA training programs both emphasize training for tourism skills development. The Philippines has been working on the implementation of the Mutual Recognition Agreement for Tourism Professionals in ASEAN.

## Recommendation 9



Increase efforts to meet the manpower demand of hotels and restaurants. Encourage more training providers and more dual training, apprenticeship, and on-the-job training. Promote worker certification in food and beverage safety. Make local examination standards for massage therapists appropriate to high school graduates, rather than for medical schools as is the current practice.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★ Not Ongoing	★★★★★ Started

Although a large number of new entrants to the hospitality industry have received education and training, the quality of education and training remains inadequate resulting in many trainees being unable to secure a position in the industry at the level they desire. On-the-job training is ongoing and apprenticeship schemes are increasing. We are not aware of any certification in F & B safety being undertaken. The DOT is being assisted by the ADB-CIDA in implementing training programs through provision of grants in pilot areas such as Cebu, Davao, Bohol, and Palawan. The RHC will start with the implementation of a GTZ financed PPP Project to develop a geriatric curriculum for registered nurses in the Philippines by March 2015.

## Recommendation 10

- Provide technical and marketing training for LGU tourism officers who are required under the Tourism Act to meet certain criteria. Improve services of tourism workers, especially guides, in local destinations.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

This has been included in the National Tourism Development Plan for 2011-2016. DOT has a program of training for LGU officials, but its scope is limited. CIDA, through its Local Government Support Program has been actively training selected LGUs. The ADB-CIDA grant to the DOT has a provision for training LGU officials in gateway tourism cluster destinations. Several initiatives by LGUs, the private sector, development partners like GTZ, CIDA, and USAID on product development and marketing are being implemented in a number of areas.

## Recommendation 11

- Improve quality of data on tourism sector, especially at the LGU level, by hiring qualified personnel and implementing sustained training for data collection, analysis, utilization, and dissemination.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

This is included in the National Tourism Development Plan for 2011-2016. The LGU database has improved and enabled a better reporting system. However, data needs to be processed for better use by investors and the business sector.

## Recommendation 12

- Improve sanitation and waste management in local communities, especially at world heritage natural and cultural sites. LGUs should lead in environmental protection by issuing and enforcing local protective ordinances.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

This continues to be a critical destination infrastructure requirement in local destinations and is included in the National Tourism Development Plan for 2011-2016. Although there are isolated examples of LGUs that have improved sanitation and waste management, there is no comprehensive program to address this critical issue in tourism development areas.

### Recommendation 13

- Encourage the Professional Regulation Commission (PRC) and Philippine health sector professionals to allow more foreign dentists, doctors, medical technologists, nursing, optometrists, physical therapists, and teachers to practice their professions in the Philippines, in line with but not limited to the reciprocity provisions of RA 9484, RA 5527 (*as amended*), RA 2382 (*as amended*), RA 7164, RA 5680 and RA 7836.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

Discussions with the PRC are moving toward more liberal approaches to the practice of foreign professionals, provided there is reciprocity. Only 4 of 46 professions regulated by laws on professions contain restrictions to Philippine nationals.

### Recommendation 14

- Improve the transparency of medical tourism packages by unbundling and standardizing hospital and doctor fees. In competing providers India, Malaysia, Singapore, and Thailand foreign patients can easily access published information, which they cannot do in the Philippines, where they often “negotiate” physician fees. Create a quality management system that involves both hospital and physician services.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

A working group composed of DOT, DOH, and JCI accredited hospitals came up with price ranges for medical travel packages and will be marketed through DOT by early 2015. The Philippine Healthcare Initiative (PHI) also markets medical packages that include the doctors’ fee through its new website.

## Recommendation 15



Increase availability and capacity of hospital services for medical tourism through incentives and investment promotion.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Started	★★★★★ Started	★★★★★ Substantial Progress

The DOT plans to come up with a marketing campaign for the niche market of medical tourism. The PHI website philippinehealthcare.com is up and is marketing international accredited healthcare facilities. This is expected to create more awareness of the local healthcare sector and lead to more services. More hospitals are being upgraded by the Metropacific group, and the Ayala group is investing PhP5 million in a chain of 10 new hospitals with satellite clinics.

## Recommendation 16



Improve modern technology-driven documentation systems in hospitals serving medical tourists, including centralizing patient information for sharing by various hospitals and doctors.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★ Not Ongoing

RHC was not able to drive initiatives for EMR systems forward.

## Recommendation 17



A system of accreditation of tourist, medical travel, and wellness facilities (*both physical and human resources*) should be developed under the Tourism Act. In the past accreditation has been voluntary, but in the future will be mandatory for primary tourism enterprises. The Philippine Council on the Accreditation of Healthcare Organizations (*PCAHO*) and international accreditation should be used for medical facilities. The private sector should be involved in monitoring compliance. The capabilities of LGUs, which also issue permits and licenses, should be strengthened.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

An accreditation system for tourism enterprises is ongoing. The DOT has a pool of external and third party assessors for hotels and resorts. A system for accreditation of nursing homes has been developed and will

be fully implemented in participating facilities in 2015. The RHC not been able to convince the DOH to use the system as the basis for a regulatory environment. Talks between the DOT and PCAHO for certification of medical facilities have started.

## Recommendation 18

- ➡ Non-controversial medical procedures should be promoted (*health screening, executive check-ups, eye care, dental treatment, aesthetic, reconstructive, and other surgeries, cancer treatment, and the like*) to overcome the image of the Philippines as a primary destination for organ transplantation.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress

This is being done through the website of the Philippines Healthcare Initiative.

## Recommendation 19

- ➡ Pursue negotiations of public insurance portability, lack of which is a major barrier to international medical travel and retirement.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

The GPH is well-aware of this issue. While there is private insurance portability, in the US public sector insurance remains limited to beneficiaries present in the US. Efforts continue to extend this coverage to Philippine-Americans and American residents in the Philippines. A study for the portability of US Medicare to the Philippines is being eyed by the CFO, DOT, PRA, and AIM.

## Recommendation 20

- ⬇ Encourage partnerships between Philippine hospitals and leading hospitals in target medical travel markets. Partnerships should involve joint research, exchange of doctors and nurses and, eventually, patients. 180 Immigration rules should facilitate exchanges.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Substantial Progress	★★★★★ Started

PHI has not been able to create partnerships between international hospitals and clinics yet. However partnerships between German nursing home providers and Philippine-based nursing homes are being established under the PPP Geriatric Curriculum for the education of geriatric nurses.

## Recommendation 21



Develop Philippines as regional medical center of excellence with research, tele-health, and health sciences education.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

This is being addressed under PHI.

## Recommendation 22

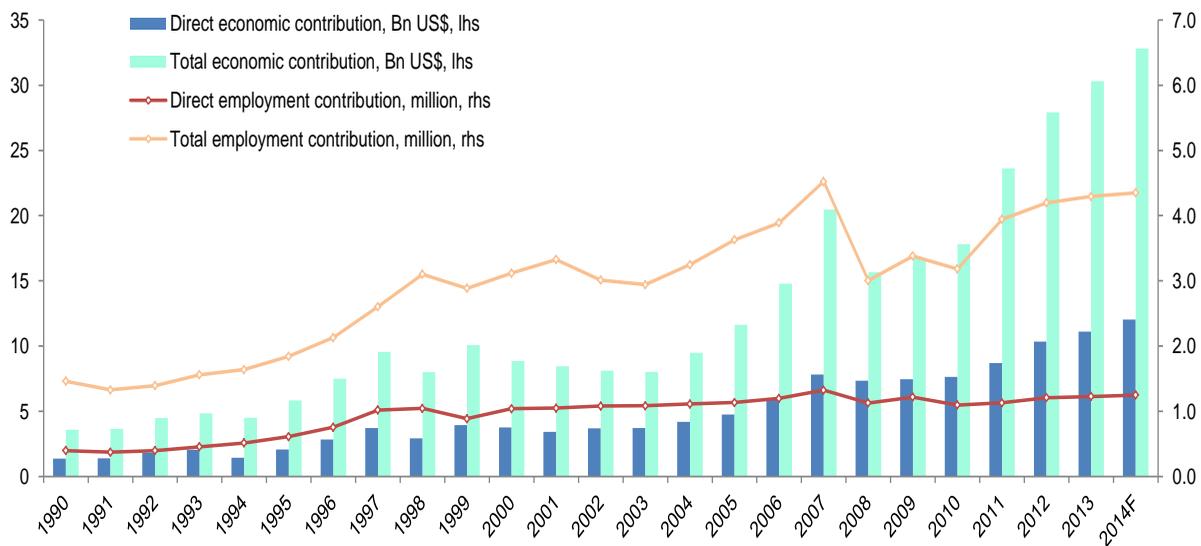


Develop commercially viable local wellness products for tourism enterprises and export.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

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

Estimated Economic and Employment Contribution of Travel and Tourism Industry, 1990-2014F



Source: WTTC; Updated and revised series

## Recommendation 23

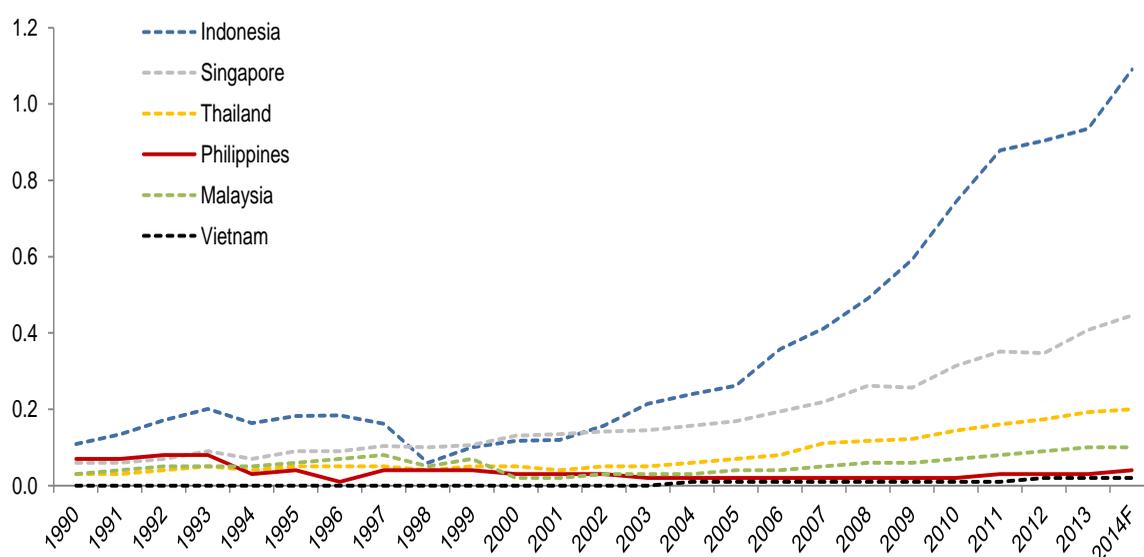


Develop horizontal condominium projects where foreign retirees can own residences.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★ Not Ongoing

The first projects have been implemented without legal issues. More models for investment are under discussion but are still not finalized.

Government's Travel & Tourism Expenditure, ASEAN-6, Bn US\$, 1990-2014F



Source: WTTC; Updated and revised series

## Recommendation 24



Develop assisted-living facilities for retirees to meet international standards. Current programs focus on independent living retirees.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

Nursing Homes are mushrooming in urban areas; the number of beds quintupled within the last 4 years. However most facilities cater to local patients. The CCRC developer was not able to get the proposed project off the ground yet.

## Recommendation 25



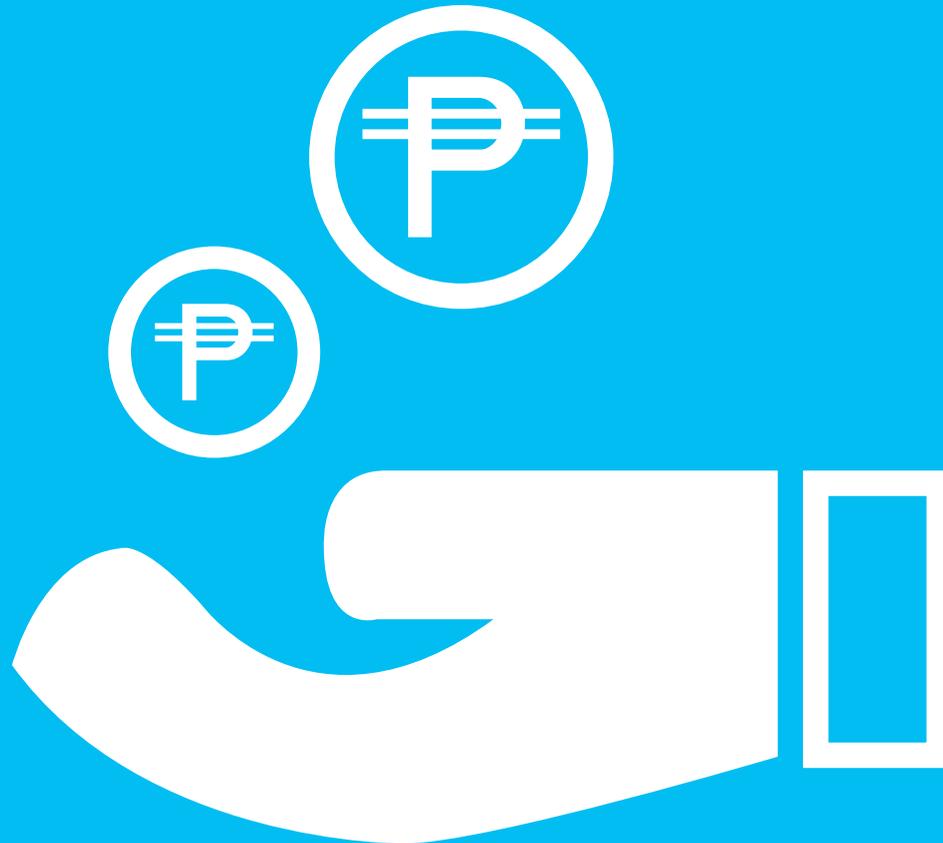
Develop integrated retirement facilities that meet international standards. Current facilities cannot compete with retirement villages in competing countries.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

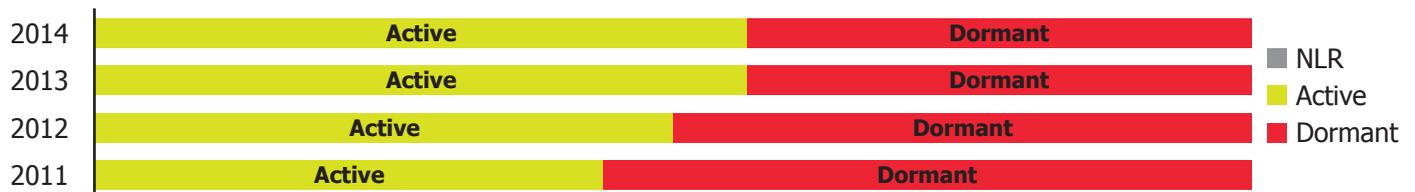
The Philippines still does not have facilities of international standards. Investors are still looking, and one investment in Tagaytay, a developer from the US who was to start a CCRC in Subic 2014 has not yet got it going. This will combine an integrated retirement community with an assisted living facility.

**PART 4**  
GENERAL BUSINESS ENVIRONMENT

# Business Costs



## Recommendations: 16



### Progress:

2 Declined      13 Steady      1 Improved      0 Neutral

### Rating:

0	☆ No Longer Relevant	5	★★ Backward/Regression	2	★★★ Not Ongoing
7	★★★★★ Started	2	★★★★★ Substantial Progress	0	★★★★★★ Completed

# PART 4

## GENERAL BUSINESS ENVIRONMENT:

# BUSINESS COSTS

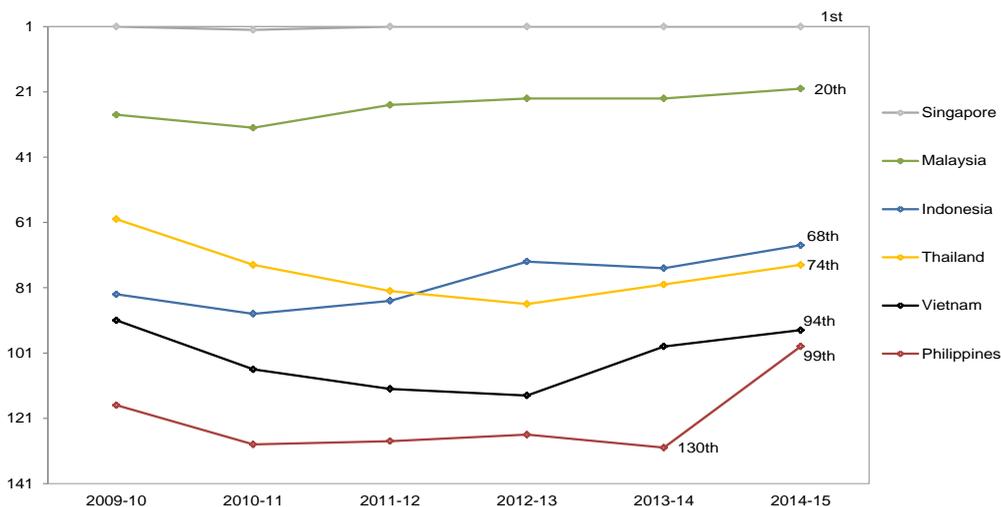
“Ill-conceived was President Aquino’s declaration today, Chinese New Year, as a public holiday. Congress already set the national holidays in a 2007 law. There are already too many in that RA 9492: 16 days a year. That’s 16 days of no-work-no-pay for majority daily-wage earners, while factory owners must pay employees double for the same work. That’s 16 stay-home days for school children, apart from when there’s storm, flood, or local holiday.”  
 - *Jarius Bondoc, The Philippine Star, January 31, 2014*

“According to a recent USAID study, the fastest growing component of electricity rates is taxes -- zoomed by a compound annual growth rate of 65% from 2004-11. Once stripped of this and other adjustments, electricity rates only grew by 5.3% annually during this period, around the same as general inflation and cost of fuel. That is to say, tariffs net of taxes stayed constant in real terms, and for many under open access, actually dropped.”

“For example, Indonesia, Malaysia and Thailand have large oil and natural gas deposits and do not charge royalty on local sales. In contrast, the Philippines collects a royalty of about PhP1.46 per KWH of our own natural gas.... Boo Chanco estimated that around P3 of the average Meralco electricity charge is on account of government take.” - *Romeo L. Bernardo, BusinessWorld, January 26, 2014*

Competitive business costs in the Philippines are important to both domestic and foreign investors, more so with globalization and the approach of the AEC. Since 2006, the IFC has ranked global economies on factors related to the ease of doing business. Of the ASEAN-6, the Philippines was the lowest ranked for five years but has moved up to pass Indonesia to just below Vietnam. This subsection includes the following. 1) Minimum wages: they are higher in the Philippines than in some competing regional economies. 2) Holidays: the Philippines has the highest number among the ASEAN-6 economies. 3) Office rentals: Manila is a relative bargain. 4) Power costs: at least twice as much as competing economies, which subsidize electricity. 5) Telecommunications costs: including broadband are higher than other ASEAN-6 economies, China, and India. 6) Transportation: poor public transport, heavy traffic, congested main airport, congested main port, government taxes and rules, and small ships make ground and inland marine transport inefficient and costly; domestic air for passengers and cargo is inexpensive. 7) Red tape: the Philippines has a reputation for excessive and corrupt bureaucratic impositions. In the 2014-2015 WEF Global Competitiveness Report’s measure of the Burden of Government Regulation, the Philippines ranked 73<sup>rd</sup> of 144 countries, 4<sup>th</sup> of the ASEAN-6 and ahead of Thailand (88<sup>th</sup>) and Vietnam (101<sup>st</sup>). For Burden of Customs procedures, it ranked 99<sup>th</sup> of 144 countries and the lowest of the ASEAN-6 but improved 31 places in the latest WEF GCI report. 8) Expatriate living costs: the Philippines compares well. Manila is one of the least expensive major cities in Asia.

**Burden of Customs Procedures, ASEAN-6, Percentile Rankings, 2009-2014**



Source: World Economic Forum Global Competitiveness Reports  
 Note: Total number of countries evaluated: 2009 (133), 2010 (139), 2011 (143); 2012 (144); 2013 (148); 2014 (144)

## Recommendation 1

- 
 The most senior levels of government and the private sector should create a national culture to improve Filipino competitiveness. The leadership could make citizens more aware of the competitive environment in which the nation exists, calling for behavioral reforms that will enable the Philippines to become more competitive. Improving cost competitiveness should be an important public sector priority because of its close relationship to employment creation.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★ Started	★★★★ Started

While the Aquino administration is making strong efforts to improve governance, which has raised its WEF, TI, and other global ratings, there is no national motivational campaign for competitiveness. The average Filipino adult or student is not highly inculcated with motivation to be among the best in the world, despite the higher numbers of OFWs, who are respected everywhere for their sacrifice and hardwork. More should be done to encourage higher achievement. The NCC has organized competitiveness councils in most regions outside Manila. (See Part 2: *Becoming More Competitive*)

## Recommendation 2

- 
 Continue and strengthen the National Competitive Council following a review of its mandate. Provide the NCC with adequate resources and authority to direct government agencies to take actions to improve competitiveness. The NCC could be asked to draft an annual comprehensive State of National Competitiveness Report for the president to submit to the Congress.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

Despite its revitalization under the current administration, the NCC has no authority to direct government agencies, as in some countries. Its working groups, comprised of senior public and private sector experts, monitor implementation of 12 selected reform policies and programs and recommend reforms to the cabinet clusters. The NCC has strategically identified competitiveness rankings with high potential for improvement. NCC targets the Philippines moving the top 1/3 by 2016 in WEF, IMD, Doing Business, and other global ratings. This ambitious goal will require strengthening, coordinating, and incentivizing the public sector bureaucracy as well as high level political will. There has been no annual competitiveness report to the Congress, but the NCC did brief the media at the end of 2014. Planning by the public sector is uneven. There is no long-term master plan, as in Indonesia, Malaysia, and Vietnam. The Philippine Development Plan does not go beyond 2016. Its chapters vary in comprehensiveness and detail. GPH planning varies by agency. Sectoral or departmental plans are available for Energy, Labor, the National Tourism Development Plan, the Public Infrastructure Plan, and the eGovernment Master Plan (2014-2016) on gov.ph. The National Transportation Plan has been in draft for years and has been promised for release in 2015. The Presidential Legislative Liaison Office (PLLO) maintains the LEDAC Legislative Priority List.

## Recommendation 3

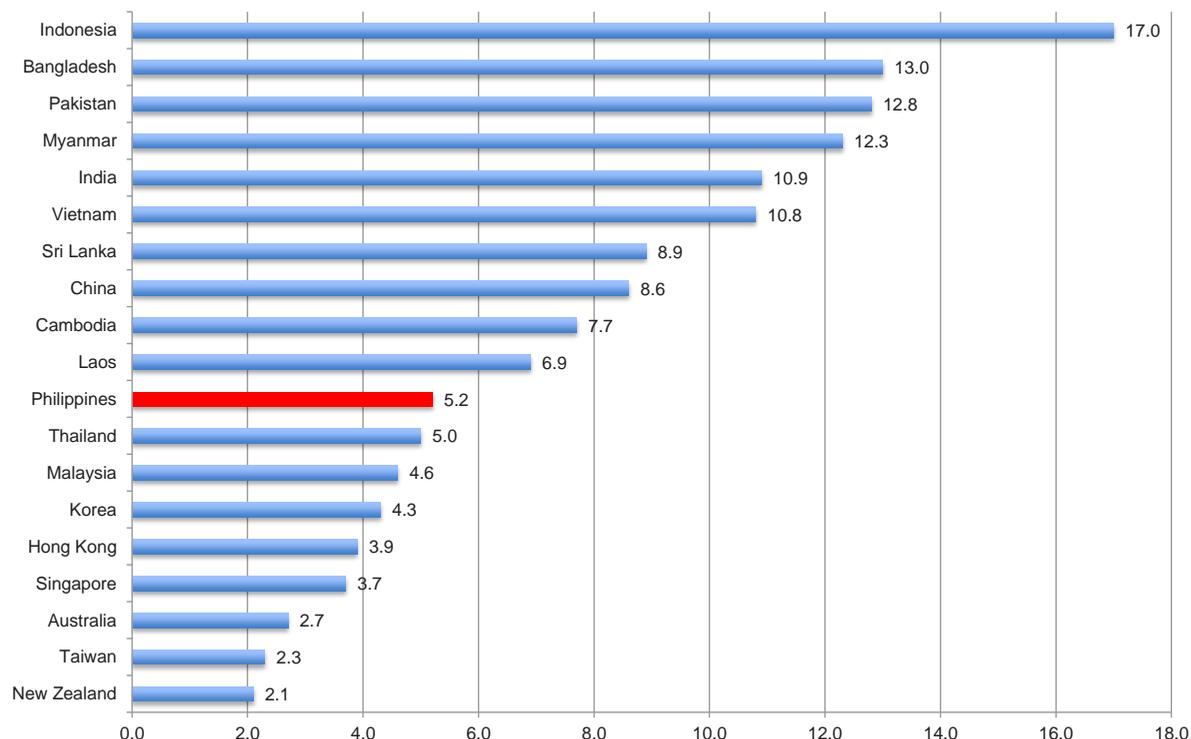


Introduce a more flexible minimum wage and/or piecework policy for distressed industries, in jeopardy due to foreign competition, to be more globally competitive. Such new policies may be able to slow and perhaps reverse the decline of the garment, footwear, and other export industries threatened by more efficient foreign competitors. Consider using the provision to exempt “*distressed industries*” from the minimum wage. Develop new industrial zones with infrastructure that offer lower minimum wage rates. Any new policies should be long-term and not short-term measures.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★ Not Ongoing	★★★★ Not Ongoing	★★★★ Not Ongoing

The two-tiered wage policy being introduced by DOLE (see *Labor Recommendation D*) is an important reform that can gradually make Philippine minimum wages more competitive, since minimum wages are rising in Bangladesh, Cambodia, China, Indonesia, Malaysia, and Thailand. The following figure shows the average annual wage increase of the Philippines 2011-14 at 5.4% was the second lowest of 12 South and Southeast Asian economies. Although there are millions of jobless Filipinos, the GPH is not considering making exceptions to the minimum wage in order to attract low labor cost investors to set up operations. FDI in low labor cost export manufacturing has expanded in countries where labor (*wages and holidays*) and other business costs (*e.g. power rates*) are lower than in the Philippines. These countries are receiving most of the labor intensive manufacturing firms relocating out of China. Recommendations to create export zones with minimum wage holidays to attract investors such as garment and footwear export firms are being considered slowly by government, despite their potential to create millions of jobs.

Total Wage Increase Rates (%), 2013-2014



Source: JETRO

Average Wage Increases, Selected Asian Economies, 2011-2014

Countries	2011-2012	2012-2013	2013-2014	Average
Indonesia	14.7	24.7	17.0	18.8
Vietnam	19.7	12.1	10.8	14.2
Pakistan	13.6	12.3	12.8	12.9
Myanmar	13.3	12.8	12.3	12.8
Bangladesh	13.0	10.4	13.0	12.1
India	12.4	11.5	10.9	11.6
Sri Lanka	11.3	9.1	8.9	9.8
China	11.0	9.2	8.6	9.6
Thailand	10.9	6.4	5.0	7.4
Cambodia	5.1	9.0	7.7	7.3
Philippines	5.9	5.0	5.2	5.4
Malaysia	4.7	5.4	4.6	4.9

Source: JETRO

## Recommendation 4



There should be an absolute moratorium on new non-working holidays. The president could announce his intention not to proclaim any special non-working holidays and to veto any legislation creating any new non-working holidays. He could direct DTI, NEDA, and the NCC to make a study of the effect of non-working holidays on national competitiveness and to make recommendations on how to rationalize non-working holidays. Some non-working holidays should be changed to working holidays to improve national competitiveness.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★★ Started	★★ Backward/Regression	★★ Backward/Regression

Employers in the Philippines absorb more costs of holiday 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 choosing Bangladesh, Cambodia, Indonesia, and Vietnam. The number of paid holidays increased in 2014 with Chinese New Year and the INC centennial holidays. There has been no serious effort to reduce holidays 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. On July 17, 2014, the President issued Presidential Proclamation 831, declaring the Chinese New Year a non-working holiday on February 19, 2015. However, earlier in the year the Administration had firmly opposed a bill in the Senate that would legislate this same paid holiday. In addition, on December 23, 2014 Proclamation 936 declared January 15, 16, 17 special non-working holidays for the NCR during the visit of Pope Francis. In the Lower House, a large number of national and local holidays and additional mandated leave days have been proposed. Rationalization of non-working holidays remains a priority in order to increase competitiveness and create more jobs.

## Recommendation 5

- Implement the open access provision of EPIRA to allow more competition among generating firms in the provision of electric.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

Open access is at the core of the EPIRA Act signed in 2001; the five pre-conditions to implement open access 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 the ERC. The commercial implementation of retail competition and open access (RCOA) began on June 26, 2013. Expansion of the contestable market from 1 MW per month to 750 KW should begin in 2015, 500 KW in 2017 should be moved forward. Properly implemented in a corporate market, open access should stimulate lower power prices from new, more efficient baseload power plants.

## Recommendation 6

- As part of industrial policy, consider expanding power cost relief/discounts that are being provided for certain strategic investors, possibly using Malampaya gas royalties received by the government.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★ Backward/Regression	★★ Backward/Regression	★★ Backward/Regression

The current Administration did not extend the previous government program providing power rate discounts to three large foreign manufacturing investors and 250 large export manufacturers. The current GPH position is to wait for open access to reduce the cost of electricity. Over-generous holiday/leave benefits, high power costs, and transportation inefficiencies are weakening competitiveness of Philippine manufacturing. One power plant bidding for Central Luzon cooperatives yielded a generation price of PhP3.4/kwh. VAT of 12% on electricity and oil reduces the competitiveness of domestic manufacturers with goods imported (and smuggled) from economies that subsidize power and have fewer holidays and lower minimum wages. In the same fashion, VAT of 12% on domestic shipping, services, and fuel increases the long-criticized high cost of domestic shipping.

## Recommendation 7

- Continue and intensify the ARTFF and projects to improve the WB/IFC Doing Business ratings.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

Anti-Red tape efforts and reducing business costs are important goals of the NCC WG on Transaction Costs and Flows, including the Business Process and Licensing System (BPLS). There are ongoing efforts to improve processes that encumber small business and result in persistent low rankings of the country in the IFC Doing Business survey. Nonetheless, the Philippine government at all levels overregulates, thereby increasing business costs. From 138<sup>th</sup> in 2013, the country improved 43 ranks to 95<sup>th</sup> in 2015, ahead of Indonesia but 5<sup>th</sup> in ASEAN-6.

## Recommendation 8

 Continue aggressive efforts to reduce red tape by assiduously implementing the anti-Red Tape Act. Undertake a national campaign to inform the public of the law and to change gradually the culture of civil servants so that they become better public servants for the Filipino people.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

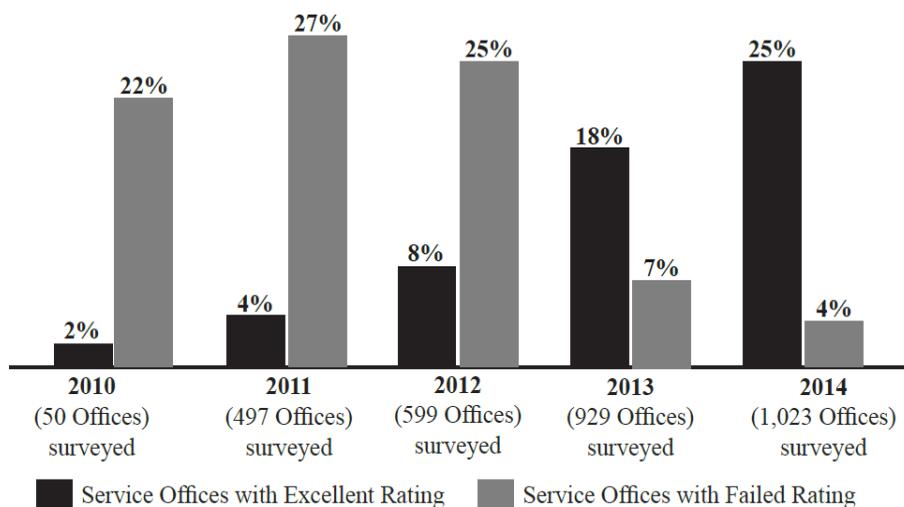
The Civil Service Commission, chaired by a former Health Secretary, has worked hard to enforce compliance with the ARTA and reports increased compliance by almost 1,000 government offices. Its efforts are largely unpublicized. However, a full page ad appeared in leading newspapers in January 2015 reporting 984 “government service offices” passes its Anti-Red Tape survey, while 39 failed. The survey’s scoring was Failed, Acceptable, Good, Outstanding, and Excellent. E-governance should be ramped up to take advantage of new technologies and improve transaction efficiency for citizens in dealing with government. Access online to information and forms is improving, but submitting forms and payments is still largely manual. Most government agencies cannot even accept credit cards. Much work remains to be done in this area.

**Anti-Red Tape Act-Report Card Survey (ARTA-RCS), 2014**

AGENCY	RATINGS				
	Excellent	Outstanding	Good	Acceptable	Failed
BIR	20.97 %	0.81 %	64.52 %	8.87 %	4.84 %
GSIS	66.67 %	0.00 %	33.33 %	0.00 %	0.00 %
HDMF	35.14 %	0.00 %	63.51 %	1.35 %	0.00 %
LRA	15.22 %	0.72 %	73.19 %	7.97 %	2.90 %
LTO	14.86 %	1.09 %	61.96 %	14.49 %	7.61 %
PHIC	47.83 %	2.90 %	44.93 %	2.17 %	2.17 %
PRC	9.09 %	0.00 %	63.64 %	9.09 %	18.18 %
PSA-NSO	17.74 %	0.00 %	67.74 %	11.29 %	3.23 %
SSS	19.58 %	0.70 %	74.83 %	4.20 %	0.70 %
<b>TOTAL</b>	<b>25.22%</b>	<b>0.98%</b>	<b>62.17%</b>	<b>7.82%</b>	<b>3.81%</b>

Source: 2014 Civil Service Commission’s (CSC) Anti-Red Tape Survey

### Key ARTA RCS Performance Indicators, 2014



Source: 2014 Civil Service Commission's (CSC) Anti-Red Tape Survey

## Recommendation 9

 Encourage citizen feedback over the internet and through call centers at all major government agencies. Implement the Civil Service Commission (CSC) proposal for a central government hotline connected to frontline government agencies for persons and firms to obtain information and follow-up.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

The quality and transparency of information on the websites of many major government agencies has improved in recent years. These services should 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 received a large number of reports. However, the government lacks sufficient investigators and prosecutors to follow-up, undermining the credibility of the program. The Open Government Initiative has placed details of government procurement and other information at [data.gov.ph](http://data.gov.ph).

## Recommendation 10

 Anonymously validate the effectiveness of implementation of the anti-Red Tape Act by assigning a team of checkers (*perhaps from a consumer rating agency*) who visit frontline agencies acting as ordinary citizens and rate their experiences. The ratings would be published on the agency website and in newspapers. Media could be encouraged to publicize the best and the worst agencies.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Substantial Progress

The Civil Service Commission prepares report cards on different agencies. Their effectiveness in correcting poor behavior is unclear. By 2014 the CSC planned to inspect a total of almost 4,000 agencies. As explained in R8, the CSC prepared report cards on 1,023 national government offices in 2014. Full-page ads appeared in January 2015. CSC runs a weekly one-hour radio show on ARTA. It has text, phone, and website contacts for citizens to provide feedback.

## Recommendation 11

 **Apply computer and internet technology to increase the provision of government services through e-governance, following the example of the BIR and DTI.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★ Started	★★★★ Started

The Philippines was ranked 99<sup>th</sup> of 190 countries in the UN e-Government Survey for 2014, a drop of 21 positions lower than 2010 but still ahead of Indonesia, Thailand, and Vietnam among the ASEAN-6. However the Philippines in 2003 was second to Singapore in ASEAN-6. The business community strongly supports creation of a DICT, a measure which was far advanced in the 15<sup>th</sup> Congress, but the bicameral conference committee never met, reportedly because the Executive opposed creation of another department. In the absence of a department to promote e-governance, OMB and DOST are putting several programs in place. Two examples are the new government debit card for “cashless” purchases and the open data portal: data.gov.ph. The DOST e-Governance Master Plan recognizes past failures and aspires “to provide efficient, responsive, and transparent online services for the Filipino people through the integrated and optimized use of information systems and technologies throughout the government.” In 2014, however, e-Government in the country remained in a basic. Most government services still require physical visits to relevant offices. The BIR set a bad example by requiring manual reaccreditation of all BOC importers and exporters. The private sector still prefers paper invoices, receipts, and checks to their digital equivalent, worsening traffic.

## Recommendation 12

 **New rules and regulations of the national government should not be issued without the approval of a central office (e.g. the ARTTF and/or the CSC) and many of them should contain a sunset provision to expire within a set number of years unless rejustified.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

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

## Recommendation 13



Exemptions from salary standardization could be made for more critical frontline agencies, such as the BIR, BOC, and LTO. As revenue collections improve and rationalization of government agencies advances, civil service salaries may be brought more into line with the private sector.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

Salaries of policemen and teachers have been raised in recent years to more acceptable levels, recognizing the importance of their services. PEZA and NPC were exempted from salary standardization, resulting in improved performance. There continues to be a need to raise salaries of employees in revenue critical and critical regulatory agencies, such as the BOC, BIR, BI, COA, CAAP, COA, and DPWH District Offices. Some of these agencies bring in new hires at higher rating, with higher salaries.

## Recommendation 14



Reduce ground transport costs.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★ Not Ongoing	★★★★ Not Ongoing	★★ Backward/Regression

There has been no apparent progress in reducing ground transportation costs. Traffic is getting much worse in Manila and many other regions. In 2014 long delays in containerized shipments in Manila Port followed new limitations on when trucks can move containers in the NCR. The Philippine auto industry projects new car sales will reach 300,000 by 2015 and 500,000 a few years later. Worsening traffic costs the economy PhP2.4 billion a day in lost potential income, according to JICA. Projects for upgraded or new urban light rail, rapid bus lanes, and toll roads, remain to be implemented. These projects will not be finished by the end of the current administration. A JICA US\$60 billion “*Dream Plan*” to move commuters from road to rail was presented in 2013 and is “*under study.*”

## Recommendation 15



Reduce telecommunications costs, especially for mobile telephones and broadband, in order to better avail of modern communications and internet technologies.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★ Not Ongoing	★★★★ Not Ongoing	★★ Backward/Regression

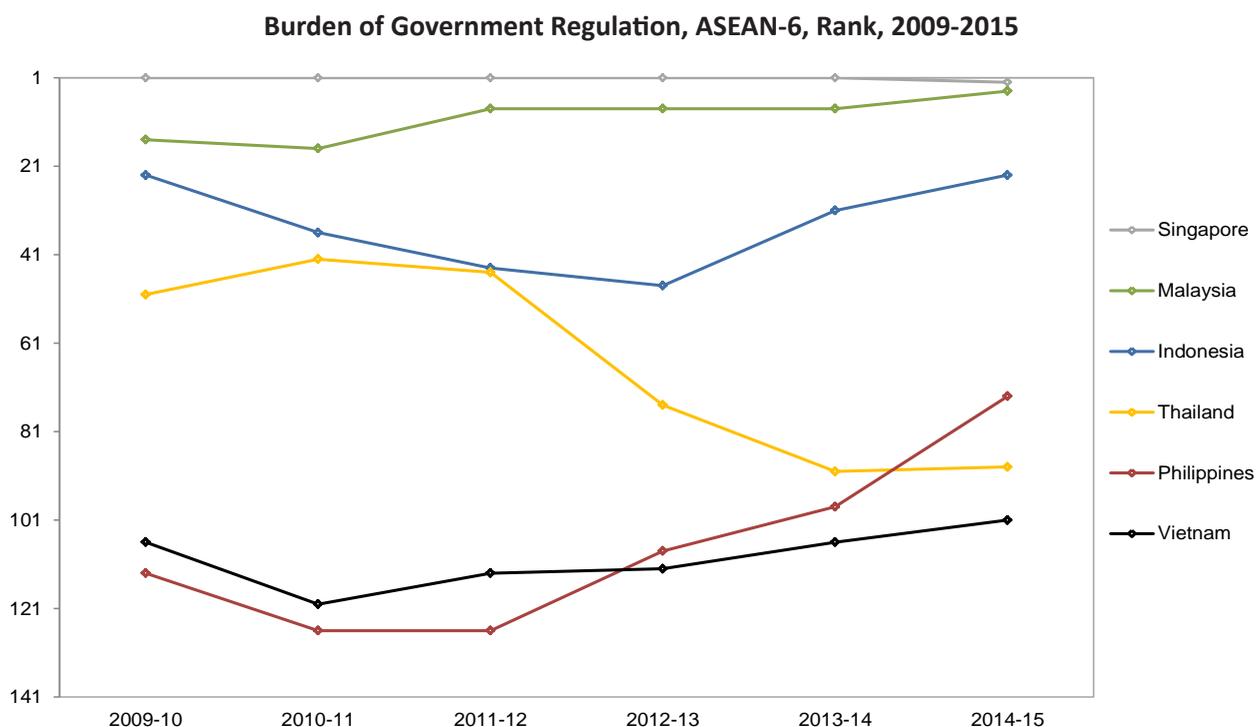
There has been no progress in recent years in reducing the cost of traditional telecommunications (*although services such as Skype and Whatsapp are increasingly used*) and accelerating spending on faster broadband. Both major private telcos are spending on modernization projects. Yet the country ranks 167<sup>th</sup> in world internet speed (*Net Ookla Index showed of ASEAN-6*), behind other Asian countries. This is much too slow to enable the planned eGovernance system.

## Recommendation 16

 Reduce marine transport costs.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★ Not Ongoing	★★ Backward/Regression	★★ Backward/Regression

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 PPA have been ineffective and virtually deaf to the advocacy of the people of Mindanao. Government taxes and regulators raise the costs of domestic shipping. A concerted effort to produce results is overdue. (*See Part 3: Seaports and also Logistics*)



Source: WEF; Total number of countries evaluated: 133 (2009), 139 (2010), 143 (2011), 144 (2012), 148 (2013), 144 (2014)

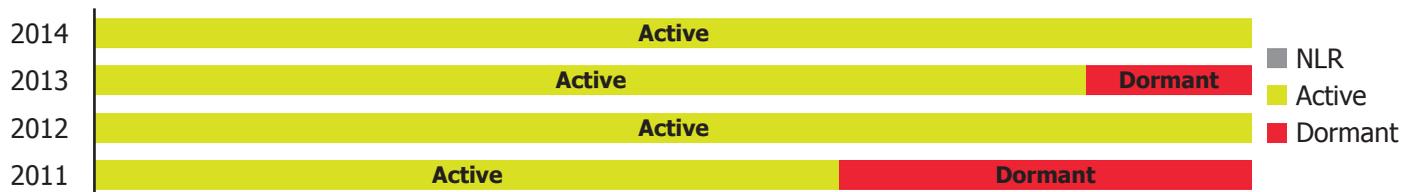


**PART 4**  
GENERAL BUSINESS ENVIRONMENT

# Environment and Natural Disasters



## Recommendations: 14



## Progress:

0 Declined      11 Steady      3 Improved      0 Neutral

## Rating:

0	☆ No Longer Relevant	0	★★ Backward/Regression	0	★★★ Not Ongoing
13	★★★★★ Started	1	★★★★★ Substantial Progress	0	★★★★★ Completed

# PART 4

## GENERAL BUSINESS ENVIRONMENT:

# ENVIRONMENT AND NATURAL DISASTERS

“...This country, more than many others, is likely to be seriously affected by climate change... I don’t know if it is all (*man’s fault*) but the majority is, for the most part, it is man who continuously slaps down nature... I think man has gone too far... Thank God that today there are voices that are speaking out about this.” – *Pope Francis on the Environment, January 2015 Papal Visit to the Philippines*

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 bad environmental habits have created and an increasing desire to introduce sound practices. Metro Manila has 70% of the country’s urban population, 11.8 million in 2010 and increasing at 3% a year. 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. However, over half of the 30,000+ taxis in Metro Manila have converted to LPG, La Mesa watershed has been reforested, and the introduction of e-vehicles is beginning. 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 became worse in terms of frequency and number of people affected as shown dramatically in 2009 (*Ondoy in Manila*), 2011 (*Sedong in N. Mindanao*), 2012 (*Pablo in E. Mindanao*), and 2013 (*Yolanda in the Visayas*). Earthquakes and volcanic eruptions have been less frequent except for the Bohol/Cebu earthquake in 2013. As the world’s second largest archipelago, the country’s shores and estuaries are predicted to be inundated gradually 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.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★ Not Ongoing	★★★★★ Started

The 12-year old RA 9003 should be fully implemented. The PDP calls for improved environmental quality for a cleaner and healthier environment. The GPH has programs to reduce plastic bags and segregate solid waste to recycle, but they need expansion, more funding, and better implementation. Over 1,000 landfills around the country are holding increasing amounts of garbage for an increasing population. The 2011 fatal Baguio landfill disaster could be repeated. A bill to amend the Clean Air Act to allow incineration has been heard in the House but is unlikely to pass in the 16<sup>th</sup> Congress. The Philippines can learn from best practices elsewhere in the world. For example, in the US, sanitary landfills are converted to golf courses, and in Singapore, incinerators produce paving blocks for sidewalks. The sustainable focus should be on avoiding and reducing waste--resulting in zero or minimal waste to treat and dispose of. This requires having a “*Blue Economy*,” a system-based, rather than a product-based, economy, where the waste of one product serves as raw material for the production of another. The Committee on Climate Change, Disaster Prevention and Sustainability at the MAP has been promoting this system. It includes, but is not limited to, the “*blue economy*” that both the 2015 APEC and ASEAN meetings to be held in the Philippines will focus on. That “blue economy” revolves around blue ecosystems--the marine and freshwater ecosystems.

## Recommendation 2



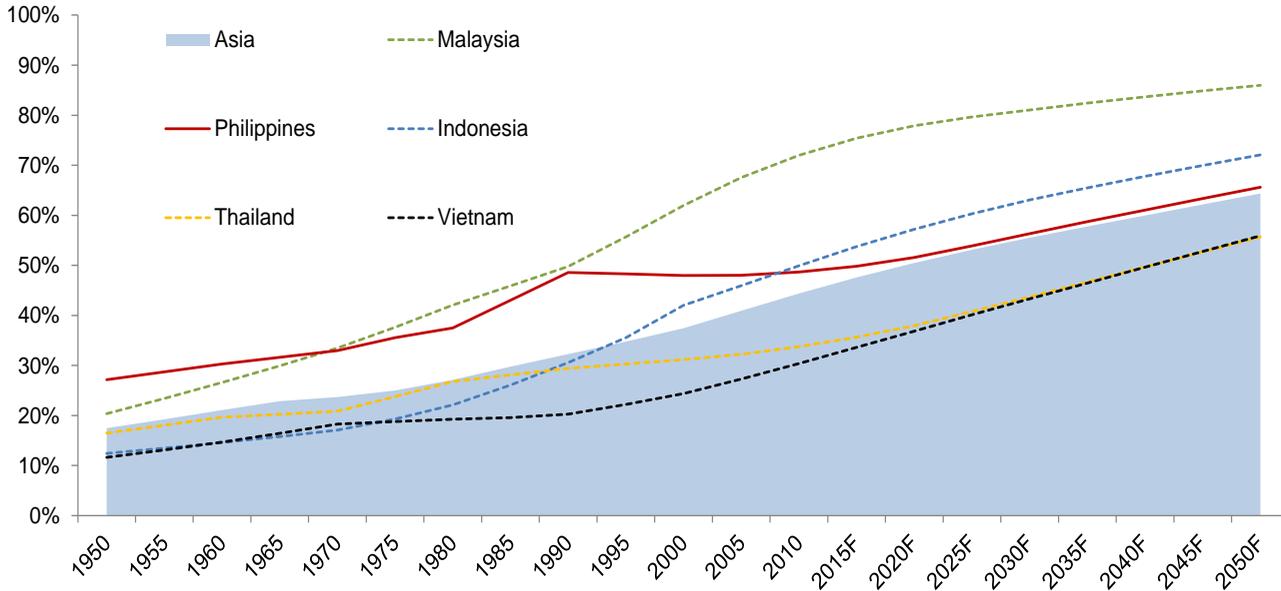
**Environment: Air.** Implement the Clean Air Act (*RA 8749*). Clean Manila’s air faster by removing all vehicles that fail to meet pollution standards. Crack down on corrupt emission stations. Replace 2-stroke with 4-stroke engines. Convert jeepneys and buses from diesel to natural gas.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

President Aquino has instructed DENR to raise Manila’s air quality to international standards by 2016. The 14-year old RA 8749 should be fully implemented. DENR reports that Metro Manila air pollution, while improving from 163 in 2004 to 118 in 2012, then reversed to 136 in 2014, remains too much above the WHO standard of 90 micrograms per normal cubic meter ( $\mu\text{g}/\text{ncm}$ ). Smokebelching vehicles may be fewer, but are still too many, and traffic is rapidly worsening. Conversion of two-stroke tricycle engines and public utility vehicles to cleaner fuels is just beginning, except for the conversion of taxis in Manila where some 50% of taxis already run on LPG. DENR is adding more air monitoring stations. ADB has funded a project for 100,000 e-vehicles. Expanded MRT

and LRT systems and more expressways expected in the next 2-5 years can help reduce the number of vehicles in heavy traffic and therefore pollution. Industrial sources of emission should also be controlled. Potentially, Manila’s air can be as clean as Los Angeles, a city known for bad smog. Reform should include improving the transport infrastructure, including the selection of vehicular systems that are environment-friendly and cost-effective and efficient, the operation of the regulatory and monitoring systems that control the public and private transport systems, and the promotion of efficient work scheduling and use of the Internet and modern communication technologies that can avoid or reduce commuting of employees, *e.g., teleworking*.

**Urban Population, % of Total Population, ASEAN-6, 1950-2050F (Forecast)**



Source: UN World Urbanization Prospects 2011 Revised

### 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.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

The implementation of the Act has been ongoing, but there is urgency to reduce water pollution due to the increasing scarcity of good water in several cities for domestic and industrial uses. The reform should not only focus on establishing sewage systems and water treatment plants. It should also include overall water resource management. Sewage and water treatment should be a top priority as the lack or absence of these facilities worsens pollution of rivers, lakes, and waterways for future sources of potable water supply. Treated sewage can be recycled to irrigate farms and gardens. The Clean Water Act requires 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 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 (KBPIP) project to clean and restore the Pasig River for other polluted waterways.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★ Started	★★★★ Started

The replication process has been initiated, but it requires public-private partnership and community participation to move it forward in a significant way and faster. The Philippines has more than 400 rivers; 180 are reportedly dead. The 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 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 help monitor. The PhP39 GAA billion budget in 2015 for water management and flood control is 69% more than the 2012 budget of PhP23 billion.

## 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.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★ Started	★★★★ Started	★★★★ Started

This initiative must be accompanied by improvement of the water distribution system. Some experts say that there is enough water so that no municipality should be “waterless.” The issue is improved water distribution. The design of water and sanitation facilities should consider the scarcity of water and the culture and norms of the communities. The environmentally sound Ecosan toilet should be considered. The PDP calls for improved conservation, protection, and rehabilitation of natural resources. The DENR has assessed the water in rivers and esteros in most major urban areas as unfit for human activity. A small start has been made cleaning them on a national basis. The water concessions operated in the NCR by Manila Water and Maynilad have brought water and sanitation to millions of citizens. If reports are true that in 7 years, there will be a water crisis in Metro Manila and in 30 years the whole country, these concerns must be given top priority.

## Recommendation 6

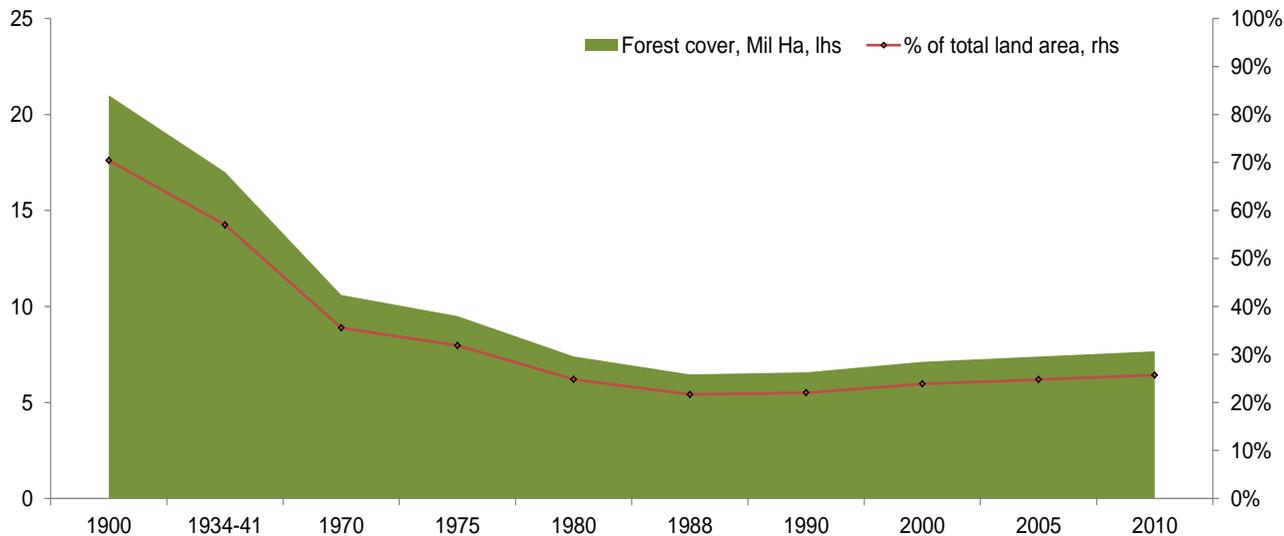


**Environment: Reforestation.** Reduce the rate of deforestation to zero. Protect remaining forests effectively and increase reforestation of damaged watersheds.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

These initiatives have been ongoing, but there is urgency in moving them forward to reduce the adverse impact of climate change. Communities must be enjoined to participate actively in reforestation and forest protection. Conduct of information, communication, and education activities is needed to get public involvement. The 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, but it is not fully enforced and several dozen forest guards have been killed by illegal loggers. EO 26 established the National Greening Program to plant 1.5 billion trees on 1.5 million hectares in six years. DENR claims to have planted 397 million seedlings during 2011-2013 on 683,000 hectares. For 2014, 2015, and 2016, DENR plans to plant 300,000 hectares each year with an annual budget of Php6.2 million. Tragic flash floods caused by Typhoons Sedong and Pablo in Mindanao highlight the critical need to restore destroyed and denuded watersheds. Protecting forests should be a national security issue with many disastrous events attributable to flash floods due to lack of vegetation.

**Philippines' Forest Cover, 1900 to 2010**



Sources: DENR, WB CEA 2009 and 2010 FAO Global Forest Resources Assessment Philippines Country Report

## Recommendation 7



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

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

The private sector, civil society, and international agencies must be encouraged to become more actively involved in these activities, which should be related to the economic impact on the communities of both the positive and negative actions. The 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. Efforts on this should be related to livelihood generation, e.g. nurturing and protecting mangroves must be promoted as habitat for fish and protection from storm surges. Developers should be taught improved practices that protect the coast and their properties. Mangroves can protect better than concrete infrastructure. The Philippines is number 1 in the world in marine biodiversity. Initiatives to protect our reefs must be sustained to protect marine resources.

## 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.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★★ Substantial Progress

Local governments and malls have been actively involved. Public cooperation and support have been growing. There is a need, however, to identify more and better environment friendly substitutes to plastic bags and to study the environmental impact and cost-effectiveness of using paper bags as substitutes. Recycled carton packaging that groceries would normally sell directly to recyclers have served as good substitutes to plastic bags then recycled or sold to recyclers by their buying customers. An increasing number of LGUs have banned plastic containers, which pollute streams, canals, and littoral waters. HB 4840, the Plastic Bag Regulation Act, was approved on Third Reading in the House by the 15<sup>th</sup> Congress, but was not passed in the Senate. In the 16<sup>th</sup> Congress hearings have been held in the House in 2013 and 2014 and will be held in the Senate in early 2015. DENR encourages reusable bags. 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.

## Recommendation 9



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

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

The operative phrase has been disaster preparedness. “Disaster Prevention” is a more proactive term. But it requires understanding “risk,” and the uncertainty of adverse consequence (*the disaster*) that it stands for. Uncertainty or probability or likelihood is a technical term that has a deep scientific meaning and application. Risk and its handling through an Integrated Risk Communication, Assessment and Management (*IRCAM*) strategy should be taught from the secondary level in formal education. Development of a Risk Profile for each local community is essential to disaster prevention. MAP’s CDS Committee has a project to demonstrate how to do so using the Google Platform. The 2015 budget has PhP39 billion DPWH spending for flood control and management services, including 119 flood mitigation facilities on major rivers. The Philippines is the 3<sup>rd</sup> most vulnerable country to disasters. There are 18 kinds of hazards and disasters; 8 are natural and 10 manmade. Hazards should be addressed before they become disasters through good urban planning, architecture, engineering, and the sciences.

## Recommendation 10



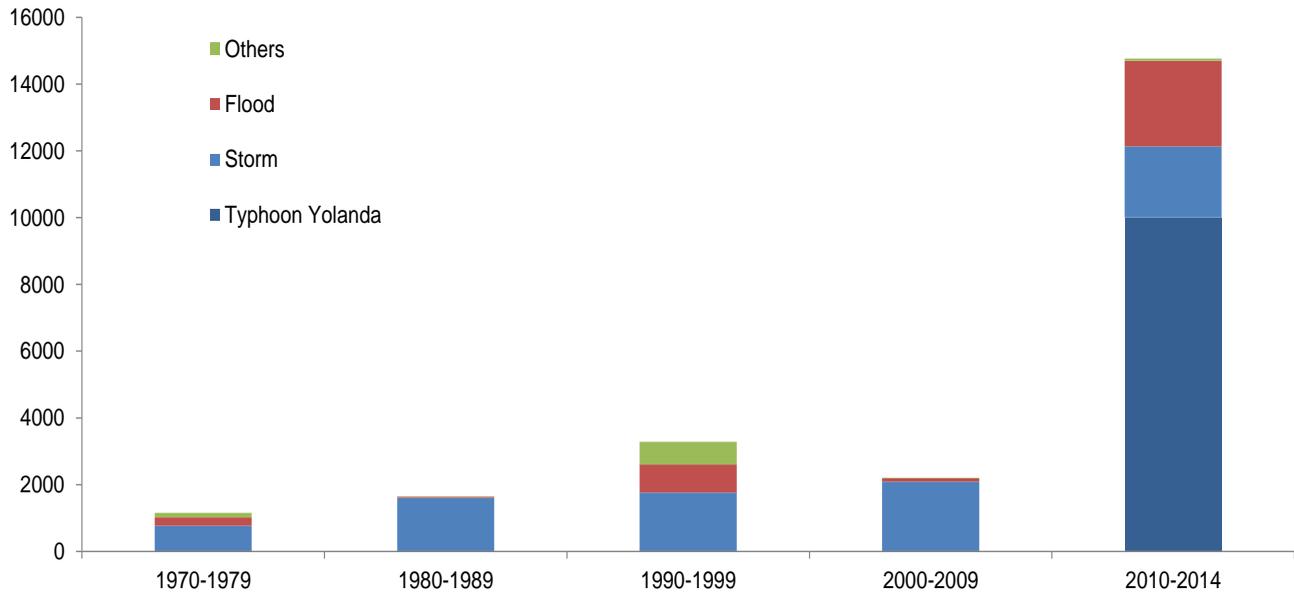
**Disasters: Typhoon Warning Systems.** Install Doppler radars, capable of predicting rainfall, with coverage of Luzon and Visayas. Improve alert systems when typhoons are approaching and when full dams need to spill water.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

Much work has to be done here to include participation of local communities in the design and operation of the warning/alert system, which should be a combination of men, machines, and systems that is communicated and explained to all concerned. These warning systems must be updated/upgraded to save lives, properties, infrastructure and billions of man-hours lost every time typhoons, floods, landslides, and other disasters hit the Philippines. 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. This effort should be localized. National systems are not as useful as local ones, especially on crop protection that requires warning farmers. The Nationwide Operational Assessment of Hazards (*NOAH*) was launched by the Department of Science and Technology to provide a 6-hour lead-time warning to vulnerable communities against impending floods and to use advanced technology to enhance current geo-hazard vulnerability maps. There are 9 component projects under the NOAH program: hydromet sensors development, DREAM-LIDAR 3-D mapping project, Flood NET-Flood Modelling Project, Hazards Information Media, Enhancing Geo-hazards Mapping through LIDAR, Doppler System Development, Landslide Sensors Development Project,

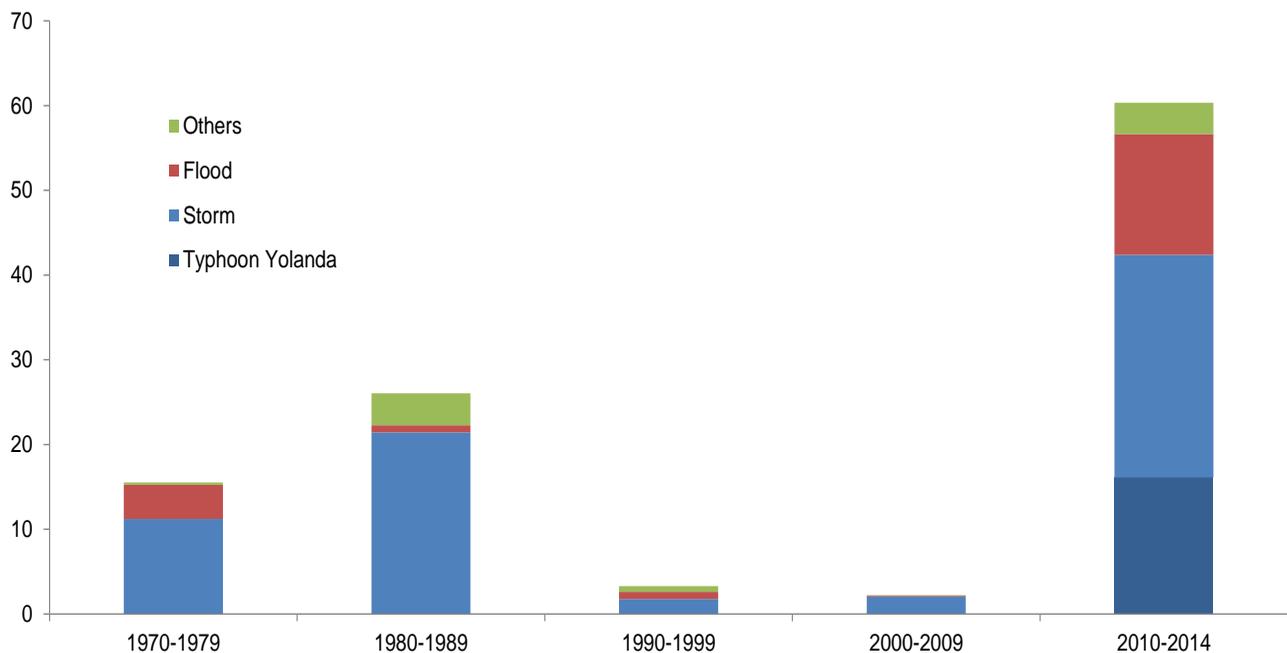
Storm Surge Inundation Mapping Project, and Weather Information – Integration for System Enhancement (WISE). Within two years, NOAA shall provide high-resolution flood hazard maps and install 600 automated rain gauges and 400 water level measuring stations for 18 major river basins of the Philippines. The other river basins of the Philippines will follow soon after the work on the 18 major river basins is completed. PAGASA has 8 Doppler radars operational in 2014, which will assist in forecasting rain intensity and better predict severe flooding. There is a good view of them at [noah.dost.gov.ph](http://noah.dost.gov.ph).

**Total Damage of Natural Disasters, Philippines, US\$ Million, 1970-2014**



Source: EM-DAT, The International Disaster Database; Note: Others include earthquakes, epidemics, extreme temp incidents, insect infestations, wet & dry mass movements, volcanic eruptions, and wildfires. Typhoon Yolanda struck PH on 8 Nov 2013.

**Total Number of People Affected by Natural Disasters, Philippines, in Million, 1970-2014**



Source: EM-DAT, The International Disaster Database; Note: Data include people injured, rendered homeless, displaced, evacuated and given external assistance. Others include earthquakes, epidemics, extreme temp incidents, insect infestations, wet & dry mass movements, volcanic eruptions, and wildfires. Typhoon Yolanda struck PH on 8 Nov 2013.

## 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.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★ Started	★★★★ Started	★★★★ Started

Although programs to control floods and improve drainage have started, much work has to be done yet. There is also a need to control the growth and expansion of cities to avoid building more in areas that are highly vulnerable to flooding. Another is to design innovative flood-proof buildings. Low-lying inhabited areas are still 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 the 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. This must not be limited to mitigation measures but should also include adaptation measures such as adaptive architecture, urban planning, and engineering.

## 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.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★ Started	★★★ Not Ongoing	★★★★ Started

A lot of work is still needed to be done to prepare for earthquakes. Each family must be encouraged to have an emergency kit (*which MAP is now giving priority to*). Many Philippine urban areas remain exposed to severe risks from earthquakes, as shown in the 2013 earthquake in Bohol and Cebu. Integrated Risk Communication, Assessment, and Management (*IRCAM*) should be followed. There must be full and constant risk communication. The starting point of risk management is the result of risk assessment. Numerous recommendations have been submitted to the government to prepare for earthquakes, including by Architect Jun Palafox and the Metro Manila Earthquake Impact Reduction Study (2004) of PHILVOCS with JICA and MMDA. Its findings and recommendations must be updated and addressed before the big earthquake that could happen anytime. Metro Manila is not prepared.

## 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.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

Efforts on this recommendation must be coordinated to ensure that the correct maps are used. The GPH 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 baranggay 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 than floods, storm surges, and earthquakes. 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 they 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.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

To speed up the implementation of this recommendation, it is best for the PCCC to call on the active participation of the academic, NGO, corporate, and other sectors. The PCCC should design and provide the set of teaching materials in electronic and hard copy so that the message of all trainers is consistent. 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 (2011-2028) 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 2012 book by DENR, *“Climate Change Adaptation: Best Practices in the Philippines”* provides ideas from 100 public and private organizations. Climate change must be a major national priority because it can inundate low-lying populated areas of the Philippines. The PCCC should have more staff and funding.

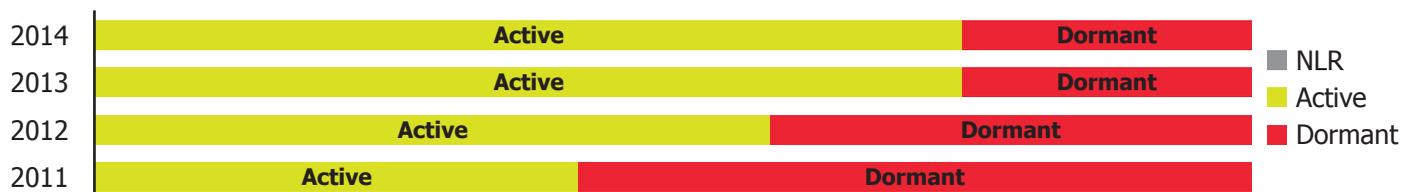


**PART 4**  
GENERAL BUSINESS ENVIRONMENT

# Foreign Equity and Professionals



## Recommendations: 12



## Progress:

1 Declined      10 Steady      1 Improved      0 Neutral

## Rating:

0	☆ No Longer Relevant	0	★★ Backward/Regression	3	★★★ Not Ongoing
7	★★★★★ Started	2	★★★★★ Substantial Progress	0	★★★★★★ Completed

# PART 4

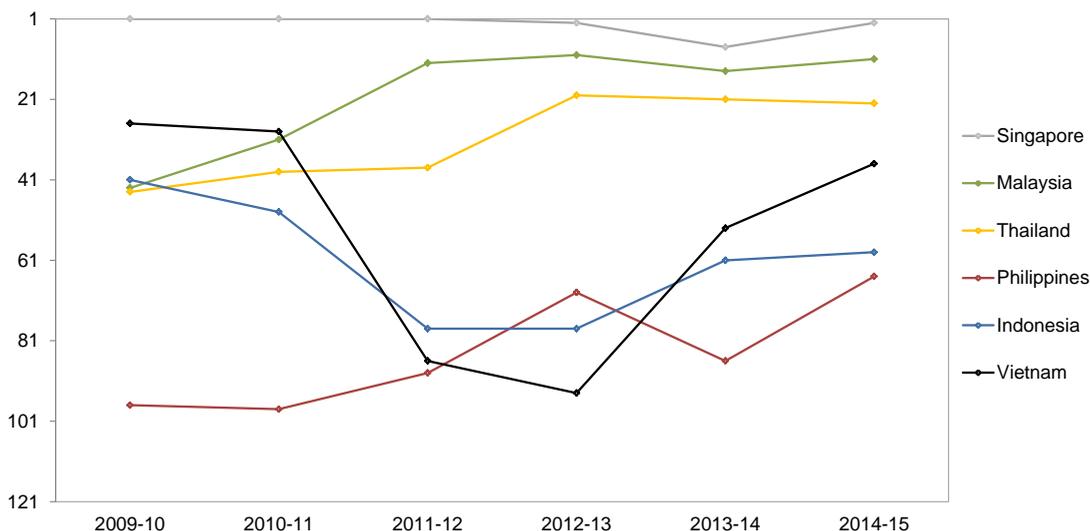
## GENERAL BUSINESS ENVIRONMENT:

# FOREIGN EQUITY AND PROFESSIONALS

“There is a fundamental logic to foreign investment, both from the UK into the Philippines, where we are the No. 1 from the EU, and from the Philippines to the UK. The high tide of foreign investment enables the ships of all flags to rise in the water. Those ships move trade, they create jobs, and that in turn leads to better lives.” - *Asif Ahmad, British Ambassador, The Philippine Star, September 18, 2014*

Reforms allowing more foreign equity participation in restricted sectors of the economy were not a government priority until 2013. The Philippines significantly lags behind the ASEAN-6 in openness to foreign investment and ranks at the bottom third of all countries surveyed by the WB in having a regulatory regime favorable to foreign investment. The Philippine Constitution is quite unique in containing foreign equity restrictions on certain business activities; two presidential commissions have recommended their removal, as have Congressional leaders and leading business groups. 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 casinos to majority foreign equity in 2010. The Philippines also restricts foreign professionals practicing in the country. 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 42 contain “*reciprocity*” provisions allowing foreigners to practice. A SC rule limits legal practice to Philippine nationals, but only four of the 46 laws limit their professions to nationals. Few foreign professionals take exams or apply to the PRC, thus few are approved. It should be in the Philippine interest to seek reduced restrictions on professionals in other countries, e.g. in the WTO General Agreement on Trade in Services and the ASEAN Framework Agreement on Services, and to have more foreign professionals work in the Philippines since they 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.

**Business Impact of Rules on FDI, ASEAN-6, Rank, 2009-2015**



Source: WEF; Total number of countries evaluated: 133 (2009), 139 (2010), 143 (2011), 144 (2012), 148 (2013), 144 (2014)

## Recommendation 1

- 
 Create a commission, with NEDA as its secretariat, to review various restrictions on the participation in the Philippine economy of foreign equity and professionals, taking into consideration whether the restrictions impede job creation and competitiveness. The commission should consider the recommendations of the 1999 and 2005 constitutional review commissions, study the current FINL and banking laws, consult with stakeholders, and make recommendations to the president for reforms within six months.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

An inter-agency group composed of the NEDA, DOF, and DTI organized to look into amendments to the FINL met once in 2013. The JFC submitted priority reforms to make the FINL less negative. Senate President Drilon pronounced in September that the Senate will deliberate on amendment or repeal of provisions in existing laws limiting foreign equity in areas such as: retail trade enterprises; private radio communications network; private recruitment; contracts for the construction and repair of locally-funded public works; rice and corn production, among others. While FINL reform is one of the priority legislative measures of the Economic Cluster of the Cabinet, as well as Congressional leaders, no significant progress has been made by the Executive and Legislative branches to legislate proposed FINL amendments in Congress as of end of 2014.

## Recommendation 2

- 
 At the appropriate time, support practicable efforts to remove all economic restrictions from the 1987 Philippine Constitution. To achieve a level playing field, consider zero or minimal successor restrictions, after their removal from the constitution.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

Plenary deliberation on Resolution of Both Houses No. 1 (*RBH 1*) filed by Speaker Belmonte, which seeks to allow Congress to amend the economic restrictions in the Constitution, is ongoing. Senate President Drilon is awaiting the passage of RBH 1 in the House before taking up the counterpart resolution filed in the Senate. There is wide support for this reform from the business community, economists, and others with supportive statements from MAP, MBC, and PCCI. The commitment by the GPH to relaxing these restrictions in the future is considered important to joining the TPP and an EU-Philippine FTA possibly in a few years.

### Recommendation 3

-  In order to develop the country as an education hub, especially for English, encourage foreign investment in education and more foreign teachers and researchers to practice in the Philippines. Find a way to do this in a legal and practicable manner. Grant longer single-entry visas for tourists and students coming to the Philippines for short-term study purposes.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

The liberalization of education is part of constitutional reform advocacy proposed in the Senate version of RBH 1 filed by Sen. Recto but not the House version. However, Speaker Belmonte has otherwise expressed his support for its inclusion among his proposed constitutional reforms. RA 7836 allows foreigners to teach in the Philippines subject to reciprocity and PRC approval.

### Recommendation 4

-  Anticipating that foreign ownership of land will be allowed when the constitutional restriction is removed, prepare a list of principles governing future foreign ownership of agricultural, commercial, and residential land to be followed in enabling legislation.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★ Not Ongoing	★★★ Not Ongoing

The 2005 Commission that prepared recommendations for 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 UA&P Roundtable Conference in 2011. A draft bill resulted from the Roundtable Conference. Apart from this private sector initiative, there is no counterpart government initiative.

However, Senate deliberation on amendments to Foreign Investor Long-Term Lease Act (*SB 1731 filed by Sen. Trillanes*) is ongoing. SB 1731 seeks to simplify leases by foreigners of private lands and to extend the maximum period of lease to 80 years and 99 years in the case of leases for the purpose of building residential or office condominium. This is an effort to level the playing field short of constitutional amendment and will encourage more investment in the country, if enacted.

### Recommendation 5

-  Adjust the FINL to make explicit that foreign ownership of land in horizontal condominiums, industrial estates, tourism estates, retirement villages, and similar real estate arrangements is allowed.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★★ Started	★★★ Not Ongoing	★★★★★ Started

Recommendations to NEDA and DTI to conform the FINL with a broad definition of condominium in RA 4726 and the 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, retirement villages, but the bill was taken up too late to advance in the 15<sup>th</sup> Congress. The bill was re-filed in the House in the 16<sup>th</sup> Congress by Deputy Speaker Giorgidi Aggabao (*HB 4401*).

## Recommendation 6



The commission should also conduct a review of laws and IRRs for all regulatory agencies to determine the extent to which each can authorize exceptions to 60-40 public utility equity rules (*as in the MARINA special permit authority*).

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★ Not Ongoing	★★★★★ Started	★★★ Not Ongoing

We are unaware of any comprehensive list let alone a serious review for contemporary relevance of the many 60-40 restrictions scattered throughout Philippine laws. The BOI has started reviewing the IRR of EO 226 or the Omnibus Investments Code of 1987 to refine the criteria that govern the grant of tax incentives to investors and industries as the BOI tries to craft a more focused and longer-term Investment Priorities Plan. No study or review of all 60-40 restrictions in various laws has taken place in the government.

## Recommendation 7



Maintain the “control test” not “grandfather rule” in respect to the 60-40 rule for equity in public utilities. Consider language for regulated public utility sectors similar to Section six of the EPIRA (*RA 9136*), which clearly states that power generation shall be competitive, not be considered a public utility, and not require a franchise.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★★ Started	★★★★★ Started	★★★★★ Started

The SEC issued its guidelines for registration of nationalized and partly nationalized corporations with ownership requirements in the constitution and existing laws in 2013. It maintains the “control test” as applicable in respect to the 60-40 rule for equity in public utilities. There has been no significant development in respect to introducing amendments for regulated public utility sectors similar to Section 6 of the EPIRA, which allows up to 100% foreign equity in power generation.

## Recommendation 8

- Remove the practice of professions from the FINL, where it is not a germane provision in a document created by the Foreign Investment Act and intended to catalogue limitations on foreign equity in non-banking business sectors. Clarity is also needed to distinguish ownership of companies that provide professional services and the execution of medical services.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

Conversations in 2014 with NEDA DG Balisacan have confirmed that the forthcoming FINL will be shorter (*by virtue of removing professions*). Senate deliberation on SB 1424 filed by Sen. Ejercito, which seeks to clarify that the Foreign Investment Act does not apply to the professions is ongoing. The number of professions restricted by law to Philippine nationals has been reduced from five to four (*i.e. Criminology, Forestry, Pharmacy, and Radio and X-ray Technology*) with the passage of the amendments to the Environmental Planning Law (*RA 10587 enacted May 27, 2013*), including a provision on foreign reciprocity. Bills on Criminology, Forestry, and Pharmacy, which AmCham recommend for passage at the start of the 16<sup>th</sup> Congress, are advancing in both chambers of Congress. The practice of law, regulated by the Supreme Court, remains closed to foreigners. In a JFC meeting with DOLE Sec. Baldoz, the PRC stated a draft omnibus bill to remove reciprocity provisions is being prepared.

## Recommendation 9

- Encourage the PRC to relax its interpretation of reciprocity provisions and announce a new policy to invite foreign nationals in professions that are needed to support the Seven Big Winner sectors to apply to work in the Philippines.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

The issuance in 2013 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 the PRC and the 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 (*criminology, environmental planning, foresters, pharmacists, radio, and x-ray technology*).

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

With the passage of the Environmental Planning bill, including a provision on foreign reciprocity, only Criminology, Forestry, Pharmacy and Radio and X-ray Technology, and Law – a total of five – are professions restricted solely to Filipinos. Bills on Criminology, Forestry and Pharmacy, which AmCham recommend for passage at the start of the 16<sup>th</sup> Congress, are advancing in both Houses of Congress.

## Recommendation 11



Encourage Philippine legal associations and the Supreme Court to support changing the rule of the court limiting the practice of law to Philippine nationals to allow foreign lawyers to practice.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

Little advocacy for this reform has taken place but many progressive Philippine lawyers have said they could support it.

## Recommendation 12



Consistent with the current role of Philippine professionals in the global workplace, Philippine diplomacy should seek increased opportunities for Philippine professionals to work abroad, pursuing these in negotiations on the GATS and AFAS.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

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 mutual recognition program to allow cross border practice for selected professions.

Maximum Share of Foreign Equity Ownership Allowed

SECTOR	India	Indonesia	Japan	Korea, Rep.	Malaysia	Philippines	Singapore	Thailand	United Kingdom	United States	Vietnam	Average
<b>TELECOM</b>												
Fixed-line Infrastructure	74	49	100	49	30	40	100	49	100	100	49	67
Fixed-line Telephony	74	49	100	49	49	40	100	49	100	100	51	69
Wireless/Mobile Infrastructure	74	65	33	49	30	40	100	49	100	100	49	63
Wireless/Mobile Services	74	65	100	49	49	40	100	49	100	100	51	71
<b>ELECTRICITY</b>												
Power Generation-Coal	100	95	100	100	30	100	100	49	100	100	100	89
Power Generation-Hydro	100	95	100	100	30	100	100	49	100	100	100	89
Power Generation-Biomass	100	95	100	100	30	100	100	49	100	100	100	89
Power Generation-Solar	100	95	100	100	30	40	100	49	100	100	100	83
Power Generation-Wind	100	95	100	100	30	40	100	49	100	100	100	83
Power Transmission	100	95	100	49	30	40	100	49	100	100	0	69
Power Distribution	100	95	100	49	30	40	100	49	100	100	0	69
<b>MINING, OIL, AND GAS</b>												
Mining	100	100	100	100	70	40	100	49	100	100	100	87
Oil and Gas	100	95	100	100	70	40	100	49	100	100	0	78
<b>TRANSPORT</b>												
Railway Freight	0	49	33	100	100	40	100	49	100	100	49	65
Domestic Air	49	49	33	49	100	40	100	49	49	25	49	54
International Air	49	49	33	49	100	40	49	49	49	49	49	56
Airport Operation	100	49	100	100	100	40	5	49	100	100	100	77
Port Operation	100	49	0	100	100	40	5	49	100	100	100	68
<b>MEDIA</b>												
Television Broadcasting	100	0	20	49	30	0	49	25	100	25	0	36
Newspaper	26	0	100	30	100	0	5	30	100	100	0	45

Source: Investing Across Borders Database (World Bank, 2010)

# PART 4 GENERAL BUSINESS ENVIRONMENT

## Governance



### Recommendations: 16



### Progress:

1 Declined      12 Steady      2 Improved      1 Neutral

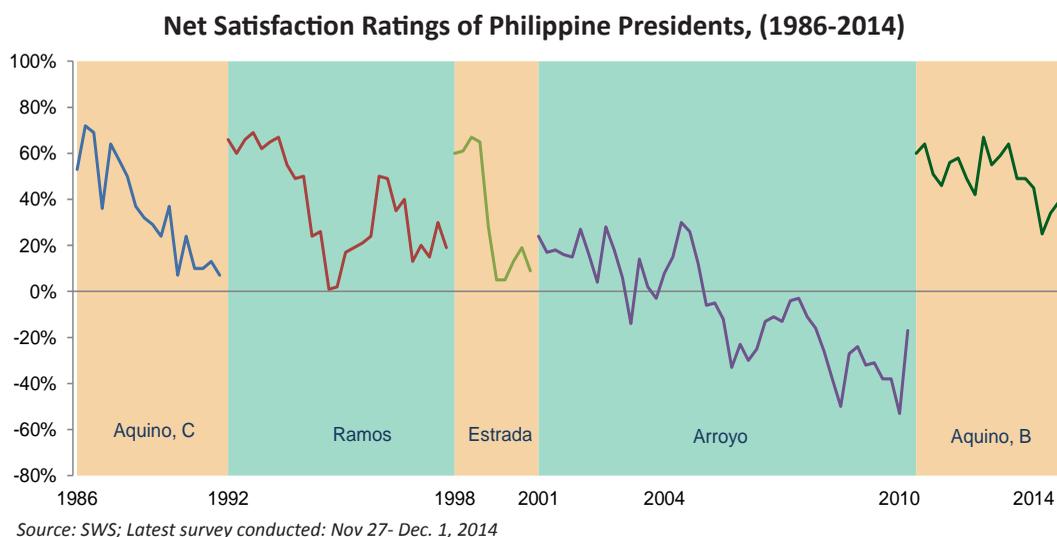
### Rating:

1	☆ No Longer Relevant	1	★★ Backward/Regression	1	★★★ Not Ongoing
12	★★★★★ Started	1	★★★★★ Substantial Progress	0	★★★★★ Completed

# PART 4

## GENERAL BUSINESS ENVIRONMENT: GOVERNANCE

“The people are not here to be at the mercy of processes, especially when these processes have already become obsolete and counterproductive. After all, government exists precisely to improve the lot of the people they swore to serve and from whom they received their mandate. And so, we continue to ask ourselves these questions: How do we further plug leaks in systems to prevent graft and corruption? How do we make our processes that much more efficient?” – *President Benigno S.C. Aquino III at the Good Governance Summit 2014, Pasay City, January 15, 2014*



“Napoles was a fixer who made corruption nearly invisible, shielded from liability by her powerful clients. But greed and arrogance led her to take for granted the small people who assisted her. They are the whistle-blowers.” - *Randy David, Philippine Daily Inquirer, February 9, 2014*

“... In this country, the corrupt always have their cake and eat it, too. Politics, which when used properly should empower the masses and lead to inclusive growth, in our case empowers only a miniscule few. In our society, one rises by birthright rather than merit.” - *Ana Marie Pamintuan, Philippine Star, February 10, 2014*

“The government must make signing the pledge and, ultimately, full integrity certification a requirement for bidders of government projects. If an SME has signed the pledge, local government units must give them fast-track lanes for permits and licenses. Export and import processes must be simplified for firms that achieve full integrity certification. Least priority audit status may be offered by the Bureau of Internal Revenue to fully compliant companies.” - *Peter Angelo V. Perfecto, “Business Matters,” Philippine Daily Inquirer, February 14, 2015*

“Today the Philippines... faces the challenge of... a society... ready to confront new and complex political and ethical questions...[I]t is now, more than ever, necessary that political leaders be outstanding for honesty, integrity and commitment to the common good...(and to) reject every form of corruption which diverts resources from the poor.” - *Pope Francis, address at Malacañang Palace, January 16, 2015*

Filipinos and foreigners agree that many problems of the country could be turned around with better governance. The reputation for political instability and widespread corruption lingers. Of the ASEAN-6, the Philippines ranks 5<sup>th</sup> for Political Stability and Absence of Violence. After a decade of falling, the Philippines Transparency International rating bottomed out at 134<sup>th</sup> place out of 178 countries in 2010—placing it second to the last of 14 Asian and South Asian Countries—before rebounding to 105<sup>th</sup> in 2012 and then 85<sup>th</sup> in 2014 for a 49-position advance during the Aquino Administration. In global competitive surveys, corruption is often 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 and robs the government of revenue. Domestic automotive production was undercut for a decade during the Macapagal-Arroyo Administration by illegal used car imports. Huge sums that could build roads and schools and provide better health care have been stolen by government officials and their private sector co-conspirators through under-declaration of import volumes of various products, notably oil and rice. The Philippines has move ahead in protecting intellectual property rights (IPR) and in 2014 sale of counterfeit goods remains a challenge despite increase GPH efforts. Government procurement practices should be more transparent. GOCCs are beginning to be reformed and rationalized.

**Transparency International Corruption Perceptions Index, Selected East and South Asian Countries, 2001-2014**

2001			2005			2010		
Rank	Country/Territory	CPI Score	Rank	Country/Territory	CPI Score	Rank	Country/Territory	CPI Score
4	Singapore	9.2	5	Singapore	9.4	1	Singapore	9.3
14	Hongkong	7.9	15	Hongkong	8.3	13	Hongkong	8.4
21	Japan	7.1	21	Japan	7.3	17	Japan	7.8
27	Taiwan	5.9	32	Taiwan	5.9	33	Taiwan	5.8
36	Malaysia	5.0	39	Malaysia	5.1	39	South Korea	5.4
42	South Korea	4.2	40	South Korea	5.0	56	Malaysia	4.4
57	China	3.5	59	Thailand	3.8	78	China	3.5
61	Thailand	3.2	78	China	3.2	78	Thailand	3.5
<b>65</b>	<b>Philippines</b>	<b>2.9</b>	88	India	2.9	87	India	3.3
71	India	2.7	107	Vietnam	2.6	110	Indonesia	2.8
75	Vietnam	2.6	<b>117</b>	<b>Philippines</b>	<b>2.5</b>	116	Vietnam	2.7
79	Pakistan	2.3	137	Indonesia	2.2	134	Bangladesh	2.4
88	Indonesia	1.9	144	Pakistan	2.1	<b>134</b>	<b>Philippines</b>	<b>2.4</b>
91	Bangladesh	0.4	158	Bangladesh	1.7	143	Pakistan	2.3

2012			2013			2014		
Rank	Country/Territory	CPI Score	Rank	Country/Territory	CPI Score	Rank	Country/Territory	CPI Score
5	Singapore	87	5	Singapore	86	7	Singapore	84
14	Hongkong	77	15	Hongkong	75	15	Japan	76
17	Japan	74	18	Japan	74	17	Hongkong	74
37	Taiwan	61	36	Taiwan	61	35	Taiwan	61
45	South Korea	56	46	South Korea	55	43	South Korea	55
54	Malaysia	49	53	Malaysia	50	50	Malaysia	52
80	China	39	80	China	40	85	India	38
88	Thailand	37	<b>94</b>	<b>Philippines</b>	36	<b>85</b>	<b>Philippines</b>	<b>38</b>
94	India	36	94	India	36	85	Thailand	38
<b>105</b>	<b>Philippines</b>	<b>34</b>	102	Thailand	35	100	China	36
115	Indonesia	32	114	Indonesia	32	107	Indonesia	34
123	Vietnam	31	116	Vietnam	31	119	Vietnam	31
139	Pakistan	27	127	Pakistan	28	126	Pakistan	29
144	Bangladesh	26	136	Bangladesh	27	145	Bangladesh	25

Source: Transparency International; Number of countries: 2001=91; 2005=158; 2010=178; 2012=176; 2013=177; 2014=175

## Recommendation 1

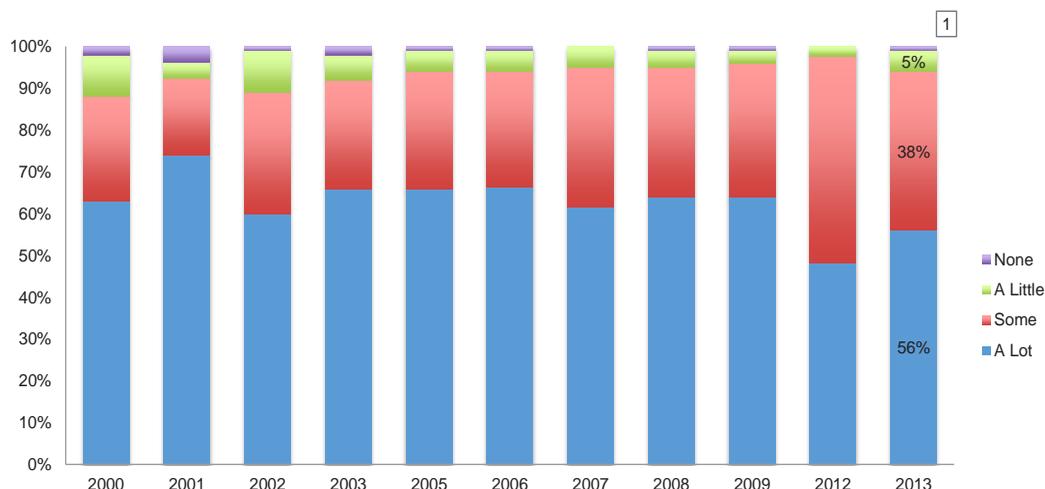


The government must demonstrate through consistent example that it has the political will to greatly reduce corruption. Example includes regular application of lifestyle check programs and investigations of government officials in agencies that collect revenues and approve large expenditures and their suspension and prosecution, when warranted. Example includes investigating, bringing charges against, and successfully prosecuting private sector persons and corporations guilty of not paying proper taxes, bribery, and other major corrupt acts. The government should join the Integrity Initiative of the private sector and submit government departments and agencies to the same tools, control mechanisms, and integrity circles as the private sector.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Started	★★★★★ Started	★★★★★ Started

International competitiveness surveys show that the Philippines has made a significant improvement in its war against corruption. The Transparency International Survey for 2014 ranked the Philippines from 94<sup>th</sup> in 2013 to 85<sup>th</sup> out of 177 countries. This was also confirmed by the 2014 World Bank survey where the Philippine percentile score in “control of corruption” rose from 33.5% to 43.5%. However, to sustain such progress in the fight against corruption, the necessary financial resources and legal tools should be granted soonest to the oversight institutions, particularly to the Office of the Ombudsman (“OMB”).

Extent of Corruption in the Public Sector, 2000-14



Source: 2013 SWS Survey of Enterprises on Corruption

Note: 2014 SWS Survey of Enterprises on Corruption will be released in March 2015

## Recommendation 2



Public officials, in all branches and all levels of government, and private persons found guilty of major corrupt activities should, after a fair trial, be punished with heavy sentences, including imprisonment and seizure of assets. The cases against them should be widely publicized. Laws should be amended periodically to assure that penalties are sufficiently heavy to serve as a deterrent to corruption when enforced.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★ Not Ongoing	★★★★★ Started

A swift and forthcoming punishment is the most effective deterrent and not the gravity of the penalty. Prodded by the public, the OMB, with the crucial help of the Commission on Audit (COA), has vigorously investigated and prosecuted the PDAF cases. However, case proceedings at the Sandiganbayan (SB) now take on the average 8 years to complete. The primary reason is that there are not enough justices to handle the cases. In this connection, both Congressional leaders have committed to pass bills proposed a decade ago that will expedite cases at the SB prior to the end of this legislative session. Both the Senate and the House have passed the bill.

### Recommendation 3



The Ombudsman must be impartial and willing to investigate thoroughly all major allegations of official corruption, without favoritism or political considerations. The resources of the Office of the Ombudsman should be substantially increased in terms of salaries, staff, and operating budget.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

It cannot be seriously disputed that our Ombudsman is impartial. She put under preventive suspension the head of the Philippine National Police despite the fact that the latter is allegedly very close to the president. However, the increase of PhP66 Million in its 2015 budget is clearly inadequate to financially sustain continuous recruitment, development and training of its Field Investigators and Prosecutors. In the short term, OMB should be authorized by law to deputize private lawyers, even just on a pro bono basis, for the purpose of handling, on its behalf, corruption cases in the Sandiganbayan.

### Recommendation 4



Government agencies, including the Congress, should establish websites where citizens can anonymously email information about suspect or known corrupt activity for investigation.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

Apart from the OMB, which now has Facebook and Twitter accounts that can be used by the public for reporting suspected corrupt activities for investigation, there are also several agencies, like Department of Agriculture, Department of Foreign Affairs, Department of Justice, and the Office of the President, with websites, which can receive e-mail information on corrupt activities and their alleged perpetrators for investigation. In this

connection, a Whistleblower’s Act should be enacted to provide incentives, protection, and benefits to persons, who disclose acts constituting graft and corruption. Further, the OMB should be granted necessary funds to recruit and train additional competent Field Investigators.

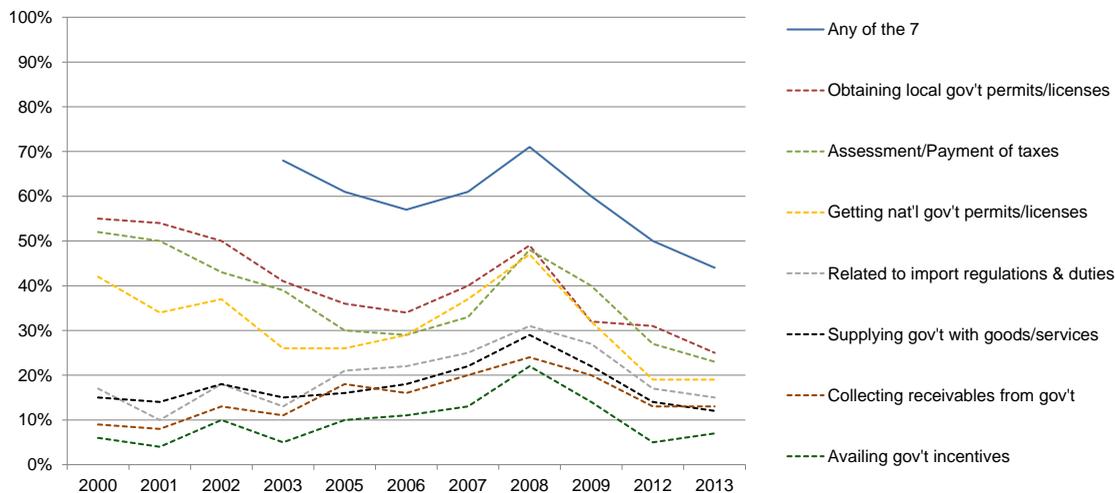
## Recommendation 5

**—** The private sector should do more to police its ranks to discourage corrupt relations with government agencies, in revenue collection and procurement. Compliance and integrity programs for businesses to pledge not to bribe public officials, to report corruption, and to embed such behavior as standard corporate practice should be undertaken.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

The Makati Business Club and the European Chamber of Commerce spearheaded several projects involving the business community with the purpose of making integrity embedded in their corporate DNA. Yearly, these groups conduct annual Integrity Summits, which brought together hundreds of members of the business community, as well as members of civil society and government. Though not involving corporations, the 2013 National Household Survey on Experience with Corruption showed that only 5% (*down from 10%*) of those from whom bribes were solicited gave “grease money.” Hopefully, the just-mentioned projects on good governance will have the same effect on corporations.

Enterprises Solicited for a Bribe, by Type of Transaction, 2000-2013



Source: SWS Surveys of Corruption Presentation, January 15, 2015

## Recommendation 6

**—** Smuggling must be vigorously countered to protect legitimate businesses and collect tens of billions of pesos of public revenue that is being lost, especially in the petroleum sector. The RATS program should be properly implemented to correctly prosecute and convict smugglers. Suppliers of unmarked oil (*which has not paid taxes*) should be convicted for tax evasion.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

The DOF does not have a sufficient number of competent and honest investigators, who can gather adequate evidence to secure the conviction of smugglers and their corrupt cohorts at the BOC. Neither can the DOF rely on the OMB nor the NBI because they also have the same problem. BOC Commissioner Sevilla has been tackling the problem of smuggling by suspending the trade permits of some companies and import brokers, clamping down on illegal shipments, and setting up a public price database of frequently imported goods to make it easier to spot irregularities. Despite his initial success, some local business groups, however, complained that the progress to eliminate corruption at the BOC has stalled.

## Recommendation 7

- Further reform public sector procurement. Expand the public sector e-procurement system. Reform the project selection process and bidding procedures to reduce potential corruption. Otherwise intensify efforts to reduce waste in public expenditures, estimated as high as 30% of total discretionary spending.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Started	★★★★★ Started	★★★★★ Started

Transparent and effective procurement practices help eradicate corruption in the country. However, the public is only vaguely aware of any serious efforts from the Government Procurement Policy Board to continue the public sector procurement reforms that were started about a decade ago. Certainly the PDAF scandal has set this rating back, but there are more efforts to end public procurement corruption, certainly under Sec. Singson at DPWH and under Sec. Abad at DBM with the Open Governance projects. BOC Commissioner Sunny Sevilla is putting almost every importation on the web, and DBM under Open Data will put most public sector purchases on the web for citizens to monitor.

## Recommendation 8

- Increase public sector transparency. Issue an executive order instructing all government agencies to release appropriate information on government policies and procurement, when requested by the public; support passage of the Freedom to Information Act in the Congress. Expand e-governance.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★↓ Not Ongoing-Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

The House Committee on Public Information approved the Freedom of Information (*FOI*) Bill in November 2014. Following the approval of the FOI bill, the measure will be deliberated on by the Appropriations Committee. Unfortunately, some sectors complained that the Committee’s approved FOI bill is “*full of restrictions*” and obviously “*watered-down*”. The Senate approved earlier in March 2014 its version of the FOI Bill on third and final reading. In the meantime, it should be noted that the President himself has sufficient authority and thus, should issue an order to dramatically increase transparency in government policies, procurement activities, and financial transactions. The use of e-governance should be encouraged for widespread use and made mandatory for all appropriate government units.

## Recommendation 9

 Reduce the fiscal burden of GOCCs by setting and enforcing limits on their salaries, fees, and perquisites, rationalizing their continued operations, privatizing where the private sector can perform their function better and closing those which no longer serve a public purpose.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Started	★★★★★ Started	★★★★★ Started

The Governance Commission for GOCCs (*GCG*) achieved its quality management system certification based on ISO 9001:2008 Standards on July 4, 2014. Since its establishment as the government’s central advisory and oversight body over the public corporate sector in 2011, the GCG, as of October 22, 2014, has abolished 20 dormant or nonperforming GOCCs and has classified 20 more as inactive or nonoperational. Of the abolished GOCCs, 3 were among those linked to the Priority Development Assistance Fund (*PDAF*) controversy, namely: NABCOR, ZREC and PFC. A more robust implementation of the functions of GCG is drastically needed to ensure that the sector becomes a significant tool for economic growth and development.

## Recommendation 10

 Focus congressional CDF more on priority social infrastructure needs by require a higher percentage of each CDF to be spent on education (*e.g. classrooms, computer centers with English software*) and public health (*e.g. nutrition, essential medicines, operations*).

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	☆ No Longer Relevant	☆ No Longer Relevant

This question is already moot and academic since PDAF was declared null and void by the Supreme Court. However, the remaining and maybe more difficult actions to take are to swiftly punish the legislators and their legislators, who stole from their PDAF. Three senators were arrested in 2014 for not accounting for PDAF funds.

## Recommendation 11

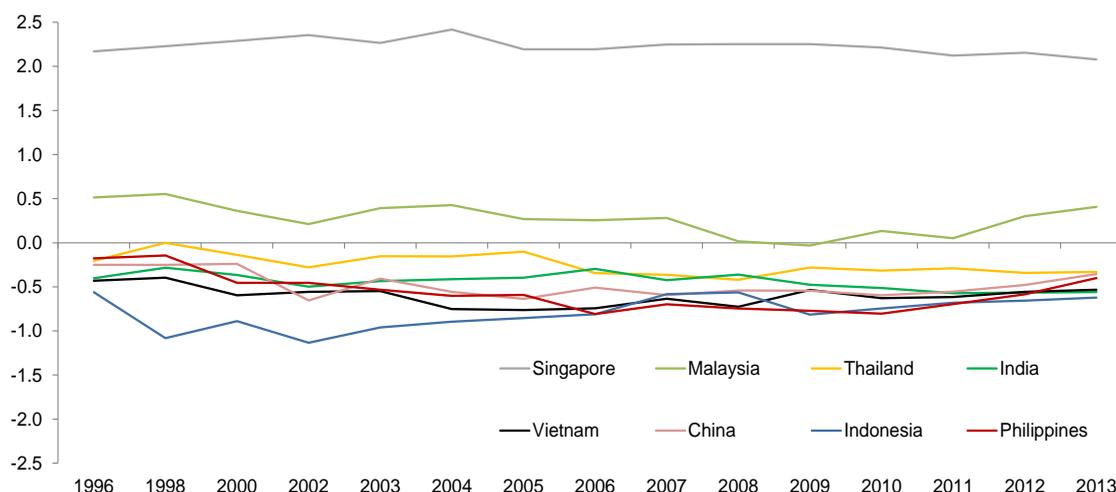


Undertake civil service reforms, reducing the number of political appointments and strengthening career civil service professionals in more senior positions. Pay competitive salaries to employees of critical agencies and improve all public sector salaries when budgets allow, while rationalizing positions.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★ Backward/Regression

Aside for its Anti-Red Tape report card of over 1,000 government offices, there are no published current reforms being initiated by the Civil Service Commission (CSC). Worse, under the recently released World Bank's Worldwide Governance Indicators for 2013, Philippine "government effectiveness," which includes the "quality of civil service" and "independence from political pressures," declined from 57.9 to 56.9 percent.

Control of Corruption, ASEAN-6, Point Estimates, 1996-2013



Source: World Bank's Worldwide Governance Indicators, 2014 Update; 0 (vertical axis) represent the mean point estimate of all countries evaluated

## Recommendation 12



Continue programs to reduce red tape and speed up bureaucratic decisions. Implement the anti-Red Tape Act that establishes deadlines for bureaucratic actions under the Citizens Charter.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Not Ongoing-Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

More than seven (7) years ago, Republic Act (RA) No. 9485, also known as the Anti-Red Tape Act of 2007 was passed into law to reduce bureaucratic red tape. Section 10 of RA 9485 mandates the CSC, in coordination with

the Development Academy of the Philippines (*DAP*), to conduct an Anti-Red Tape Act Report Card Survey (*ARTA RCS*). However, ARTA RCS was granted clearance by Philippine Statistics Authority (*PSA*) through the Statistical Survey Review and Clearance System (*SSRCS*) only on February 19, 2014. The results of the 2014 ARTA RCS were released in January 2015. Old habits are hard to break. Much of the bureaucracy remains predisposed to over-regulate by paperwork, which adds to business costs. Sunset provisions do not exist. The NCC has had success in speeding up some processes leading to improvements in the Philippines ranking in the IFC Doing Business survey.

## Recommendation 13

 **Strengthen Corporate Governance.** Intensify reforms in recent years to improve corporate governance through training directors, requiring independent directors and compliance with higher standards of corporate governance.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

It would appear that the program to strengthen Corporate Governance is continuing. The Securities and Exchange Commission issued Memorandum Circular No. 9, Series of 2014. It expanded the definition of “*Corporate Governance*,” by making the Board of Directors and Management responsible not only towards the corporation, but also to stockholders and other stakeholders, which include, among others, customers, employees, suppliers, financiers, government and the community in which it operates. Consequently, the Board of Directors is now responsible to foster the long-term success of the corporation in a manner that is not only consistent with its corporate objectives, but also in the best interest of its stockholders and other stakeholders.

## Recommendation 14

 **Reduce abuse of intellectual property rights, including brand name forgery.** This will encourage more FDI and eventually will remove the Philippines from the US Section 301 priority “*watch list*.” Enforcement is most effective when it focuses on cutting off supply of contraband goods by destroying illegal copying machines, confiscating smuggled products, and quickly sentencing criminal offenders.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Not Ongoing-Started	★★★★★ Started	★★★★★ Started	★★★★★ Substantial Progress

The Philippines, after 25 years was finally removed from the Watch List of the Special 301 Report of the Office of the United States Trade Representative (*USTR*) in 2014, based on sustained actions that the Philippine Government has undertaken to improve intellectual property rights (*IPR*) protection and civil and administrative enforcement in the Philippines. The USTR notes the collective weight of a series of significant legislative reforms,

a move toward more effective civil and administrative enforcement efforts, IP authorities uses sustained and constructive engagement with the USG and members of the private sector, and commitments to continue to address remaining concerns (*cf. page 11, 2014 Special 301 Report*).

## Recommendation 15

 **Legalize jueteng.** Making the popular numbers game legal would eliminate a major source of corruption for local police and politicians and could increase government revenues by taxing transactions.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

There seems to be no real effort to legalize jueteng. However, legalizing jueteng may increase government tax revenues and remove a major source of corruption. Similarly, it will enable the Philippine National Police to focus on much graver crimes like drug trafficking, human trafficking, carnapping, robbery, etc.

## 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.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

The appointment of Ombudsman Carpio-Morales over three years ago has vastly enhanced the institutional reputation and integrity of the OMB. However, the continuing lack of adequate funding adversely affects the effectiveness of the OMB. In this connection, the OMB drafted, with the assistance of some legislators, the following bills in 2014, viz: 1) An Act Strengthening the Institutional Capacity of the Office of the Ombudsman; 2) An Act Allowing The Office Of The Ombudsman To Deputize Private Lawyers To Assist In The Prosecution Of Its Cases; and 3) An Act to Allow The Office Of The Ombudsman To Have Access To Bank Documents At The Fact-Finding Stage.



**PART 4**  
GENERAL BUSINESS ENVIRONMENT

**Judicial**



**Recommendations: 12**



**Progress:**

1 Declined      5 Steady      6 Improved      0 Neutral

**Rating:**

0  No Longer Relevant	0  Backward/Regression	2  Not Ongoing
5  Started	5  Substantial Progress	0  Completed

# PART 4

## GENERAL BUSINESS ENVIRONMENT:

# JUDICIAL

“If the wheels of justice are to grind faster in this country, reforms should start at the top. The Supreme Court, which has supervision over the judiciary, should lead the way and set the pace....The system is broken and in dire need of fixing. Repair work must start at the top.” – *Philippine Star Editorial, January 9, 2014*

Reforms in administration of justice should be intensified. Among challenges are clogged dockets, rulings that negatively impact on the business climate, the use of courts for legal harassment, and questionable TROs. While, the caseload for all courts is somewhat declining, the burden is very unevenly distributed. The Alternative Dispute Resolution Act of 2004 encouraged more parties to arbitrate. The volume of new cases is down, and there is a 54.2% increase in their resolution. Caseload per judge has declined by 4.5%. 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 Philippine ranking in the Global Competitiveness Report for efficiency of legal settlement has improved to 68<sup>th</sup> in 2014-15 from 123<sup>rd</sup> in 2009-10, but it is still the second lowest of the ASEAN-6. The Supreme Court appears to have become more cautious about its decisions harming the business climate. Its rulings supportive of the economy should be recognized. 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. Greater selectivity would decrease the caseload and help the SC meet the constitutional requirement to reach decisions within 24 months. The US SC only accepts some 150 of 10,000 petitions it receives each year. Many needed reforms in the administration of justice are underway.

### Supreme Court Decisions with Negative Impact on Business

Year	Case	Impact
2014	Narra Nickel Mining Case	Supreme Court reiterated the two tests in determining the nationality of a corporation: the control test and the grandfather rule. When the nationality of a corporation is in doubt, the grandfather rule shall be applied. Determining the actual participation of MBMI Resources, Inc. through the grandfather rule, the SC concluded that Nara, Tesoro and McArthur are not Filipino corporations, since MBMI owned 60% or more of their equity.
2013	Meralco price hike TRO	A 60-day TRO declared on December 23, 2013 against the country's largest DU passing on to consumers high WESM clearing price rates, induced by unanticipated generation shortages, created uncertainty over the reliability of Philippine power policy.
2013	San Roque TCC refund	Supreme Court denied a motion for reconsideration by a large foreign hydropower operator that had applied prematurely for refund of PHP 560 million in taxes and duties paid on imported capital equipment otherwise eligible for government refund. This decision adds to uncertainty about the country's investment climate.
2011	Gamboa/PCSI	Supreme Court reversed 75 years of Philippine jurisprudence on foreign ownership in a case involving PLDT shareholders. The high court upheld in October 2012 this decision despite an appeal from PLDT.
2008	Manulife	Supreme Court ruled that an agent of a life insurance company was an employee and not an independent contractor, which is the standard practice internationally. Upon the motion for reconsideration by Manulife the court changed its decision.
2008	Pandacan terminal LGU spot zoning	Supreme Court sustained an LGU decision rezoning an oil storage area from industrial to commercial and forcing its relocation.
2003/05	Subic Shipyard	Supreme Court reversed its 2000 decision that a shipyard is a public utility; in a 2003 SC Resolution it upheld that a shipyard is not a public utility and reaffirmed this decision in 2005.
2004	Mining Act of 1995	1 <sup>st</sup> decision prevented needed foreign capital from investing; 2 <sup>nd</sup> decision in Dec. 2004 reversed previous decision and allowed foreign investment in large-scale mining via FTAA.
2003	Meralco	Disallowed a 20-year old accounting practice; ordered retroactive refunds that impair creditworthiness of the country's largest distribution utility; discouraged foreign bank lending to power projects.

2003	PIATCO	Voided a government contract of a consortium, involving US\$350 million German investment, which built the new passenger terminal, leaving it largely unused and deteriorating.
2002	International School Manila	Asserted foreign-hired and local-hired employees should receive same salaries, citing UN Universal Declaration of Human Rights.
2000	Subic Shipyard	Declared a shipyard a public utility and awarded contract to losing bidder 5 years after it awarded to Singaporean-led Keppel group ( <i>with foreign equity above 40% minimum for public utilities</i> ).
1997	Manila Hotel	Nullified a competitive tender for the privatization of a government-owned hotel awarded to a foreign investor, declared the hotel national patrimony, leaving the award of the contract to the only domestic bidder.
1991	Taiwan Naptha Cracker Plant	Overruled the approval by the Board of Investments of foreign investor group project originally in Bataan then moved to Batangas; the proponents abandoned the US\$1 billion project losing US\$25 million.

## Recommendation 1



Continue to increase judicial salaries and hire more judges, encouraging new judges to reduce the case backlog even more. Steadily raise the budget for the judicial branch from the present 0.008% of the national budget.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★ Backward/Regression	★★★ Not Ongoing	★★★★★ Substantial Progress

In December 2014, President Aquino directed Budget Secretary Abad and Senate President Drilon and House Speaker Belmonte to immediately attend to the budgetary needs of the Judiciary, allotting an additional PhP 715M by way of supplement to the regular budget of the courts. Previously, the budget for the judiciary had never exceeded 1% of the national budget, and many felt it should be doubled. The Supreme Court had to source funds itself for the judges' benefits, including the mandated Special Allowance for the Judiciary (SAJ). Judges have had to rely partly on local government assistance for many things: monetary allowances, supplies, repairs of facilities, and equipment like computers. But the budget request for 2016 will need to show a much larger increase to be a long-term fix to the underfunding issue.

## Recommendation 2



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

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Substantial Progress

The dismissal of Sandiganbayan Justice Gregory Ong sent a very clear message to all members of the bench that unethical conduct will not be countenanced. Moreover, in mid-2014, the Supreme Court referred for formal investigation to the Court of Appeals administrative charges against 4 Regional Trial Court judges linked to the Arlene Lerma controversy (*reputed to be the Janet Napoles of the Judiciary*). However, concern arises from the fact that the vote of the Supreme Court in the Gregory Ong case was very close. The procedure for handling administrative cases against judges leaves much to be desired - from the Office of the Court Administrator (OCA) everything goes to the Supreme Court adding to case congestion in the highest court of the land, judges should be able to police their own ranks. OCA's lawyers lack court experience and this results in unreasonable and impractical recommendations which are usually onerous for judges and court personnel.

## Recommendation 3



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

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

The way that Rule 58 is presently worded ensures that no TRO may be issued ex parte and without a summary hearing. The only exception is the 72-hour TRO, which only the Executive Judge of a multi-sala station or the Presiding Judge of a single sala court may issue to prevent irreparable injury. Moreover, by way of administrative circular effective as early as December 2007, a judge who issues a writ of preliminary injunction is obligated to finish the case and decide it on the merits within 6 months from issuance of the writ. This addresses the common complaint that once a writ is issued in a case, the party favored does everything to delay the case and make it sleep.

## Recommendation 4



The Supreme Court should request amicus curiae expert advice in cases impacting on the business environment.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started

The Supreme Court has routinely secured the assistance of amici curiae not only in cases impacting on the business environment. The problem is that amici is more urgently needed by trial courts, which are sorely in need of expert advice. Trial courts unfortunately have no funds for this. That is why they've had to make do with experts presented by the parties.

## Recommendation 5



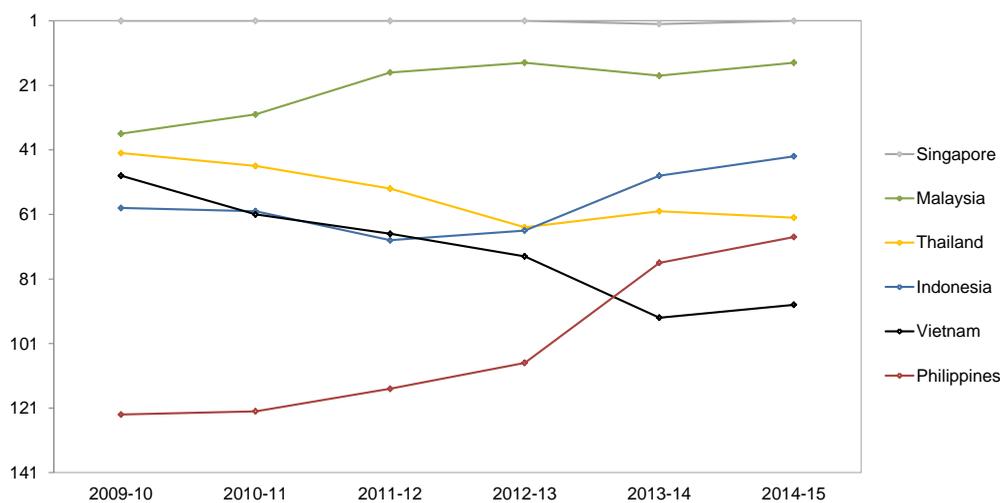
Make greater use of alternative dispute resolution and arbitration to resolve civil disputes outside of courts, which should reduce the backlog of cases and hasten justice.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

The Supreme Court's Court-Annexed Mediation (CAM) and the Judicial Dispute Resolution (JDR) programs have made significant inroads into convincing the public that ADR is an attractive viable option. Success rates of both programs are consistently high. The 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.

**Efficiency of Legal Framework in Settling Disputes, ASEAN-6, Rankings, 2009-2015**



Source: WEF; Total number of countries evaluated: 133 (2009), 139 (2010), 143 (2011), 144 (2012), 148 (2013), 144 (2014)

## Recommendation 6

**—** In order to strengthen foreign arbitration it will be essential to change the “*rules of the court.*” While Philippine law provides that all arbitration awards have to be confirmed by Philippine courts for execution, it is necessary that the courts not reopen the cases but just confirm them. Reopening of cases should be limited to proven gross negligence of the arbiters.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

Rule 39 already provides for enforcement of foreign judgments, and jurisprudence has established beyond question that only the foreign judgment and foreign law under which the judgment was rendered should be introduced as evidence. No other issue is to be tackled. This can be the model for enforcement of arbitral awards.

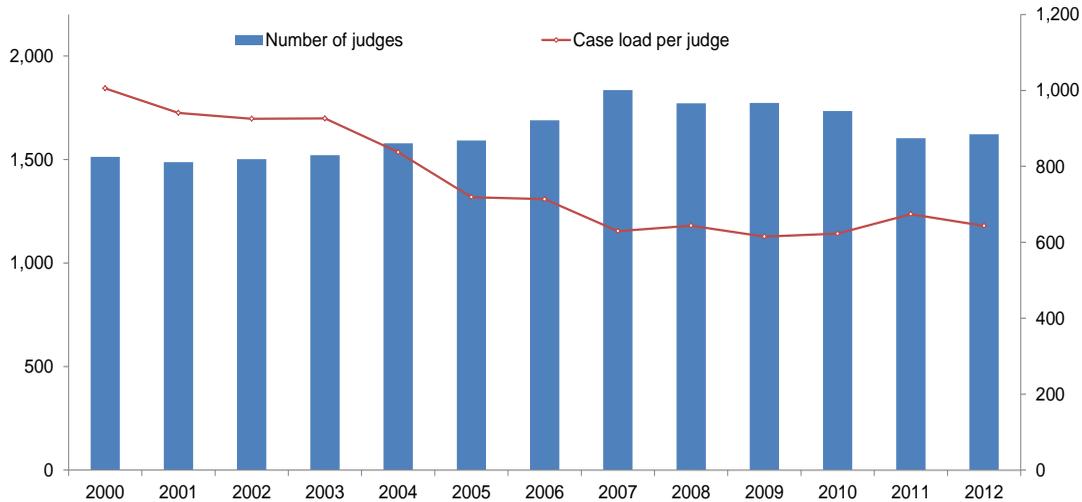
## Recommendation 7

**—** Reduce the caseload of the Supreme Court by limiting acceptance of cases largely to cases involving national issues.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

This will require an amendment of the Constitution. A big portion of the Supreme Court’s caseload comprises administrative disciplinary proceedings against members of the bench and the bar, as well as against court personnel. There is an urgent need for the Supreme Court to limit its caseload to novel legal issues and those of national interest. The SC routinely exercises jurisdiction in reviewing cases which do NOT present new legal issues at all, so it ends up just repeating itself over and over again. The rules should be rationalized to free up important time for the Supreme Court to focus on more high impact cases.

**Number of Judges and Average Case Load per Judge, 2000-2012**



Sources: Supreme Court of the Philippines Annual Reports, NSCB and author’s calculations

## Recommendation 8



Create a special court for Strategic Investment Issues where the justices have been chosen based on familiarity with international investment and business issues and laws.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started

There already are Supreme Court-designated Special Commercial Courts which handle intra-corporate, intellectual property, and securities transactions cases. These special courts are regularly trained. However, for commercial or business transactions that do not fall within these categories, ordinary courts exercising regular jurisdiction handle the cases. Perhaps training should be extended to these courts.

## 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 socioeconomic benefits for the Philippines.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★★ Started	★★★★★ Started	★★★★★ Substantial Progress

The passage of the new Special Rules on Environmental Cases and the intensive training of judges of special environmental courts should answer this concern.

## Recommendation 10

 The Ombudsman 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 convictions.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

The proposed law increasing the number of divisions and justices of the Sandiganbayan will greatly address this problem. This bill has passed the Senate and House as of December 2014 and is close to enactment.

## Recommendation 11

 The legal divisions of the BOC and BIR should be given the resources and management leadership to prepare smuggling and tax cases more thoroughly to increase the chances for successful prosecution and conviction.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★ Backward/Regression	★★★ Not Ongoing	★★★★★ Started

The Justice Sector Coordinating Council led by the 3 principals, Chief Justice Sereno, Secretary of Justice De Lima, and Secretary of Interior and Local Government Roxas have spearheaded a collaborative approach to the investigation, prosecution and adjudication of cases. Hopefully, this particular concern will be addressed through the JSCC.

BIR and BOC both missed their targets for 2014, but both agencies topped their 2013 collections. This can partly be attributed to increased efforts to file cases against tax evaders and smugglers and media publicity by the BIR. However, actual prosecutions remain rare. In BIR's case, for instance, only 10 of about 200 complaints filed by the agency during the three years since Commissioner Henares was appointed have been cleared by the DOJ for filing with the courts. Both agencies should not only be tasked with investigation, but should have special prosecutors to build-up the cases and prosecute them in court.

The Justice Sector Coordinating Council led by the 3 principals, Chief Justice Sereno, Secretary of Justice De Lima, and Secretary of Interior and Local Government Roxas have spearheaded a collaborative approach to the investigation, prosecution and adjudication of cases. Hopefully, this particular concern will be addressed through the JSCC.

## Recommendation 12



End harassment seizures of private businesses by sheriffs.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★ Not Ongoing	★★★★★ Started	★★★ Not Ongoing

This is a misapprehension. Sheriffs can only implement writs issued by the judges. Sheriffs have no discretion as to which writ to enforce. Once a writ is issued by a court, the Sheriff has no choice but to implement it. It is ministerial on his part. The Rules of Court provide safeguards against such harassment tactics. Parties should be apprised of these safeguards. Erring sheriffs should also be reported so that they can be disciplined. We had no reports of seizures of property of foreign businesses by sheriffs in 2014.

# PART 4 GENERAL BUSINESS ENVIRONMENT

## Labor



### Recommendations: 9



### Progress:

0 Declined      7 Steady      2 Improved      0 Neutral

### Rating:

0	☆ No Longer Relevant	2	★★ Backward/Regression	0	★★★ Not Ongoing
0	★★★★★ Started	6	★★★★★ Substantial Progress	1	★★★★★★ Completed

# PART 4

## GENERAL BUSINESS ENVIRONMENT:

# LABOR

“Job generation is truly the key to fighting poverty. The focus should be on sectors where many of the poor are, particularly agriculture, as well as sectors such as tourism where the Philippines enjoys an advantage over other countries. However, the participation of the private sector is vital because it has the money to put up businesses and factories that will hire those people. The government, for its part, can direct its limited funding to infrastructure support such as roads.” - *“Still a Huge Problem,” Editorial, Philippine Daily Inquirer, February 17, 2015*

“From a government that treats its people as an export commodity and a means to earn foreign exchange, disregarding the social cost to Filipino families to a government that creates jobs at home, so that working abroad will be a choice rather than a necessity; and when its citizens do choose to become OFWs, their welfare and protection will be the government’s priority.” - *President Benigno Aquino III, “A Social Contract with the Filipino People,” Official Gazette [<http://www.gov.ph/about/gov/exec/bsaiii/platform-of-government/>], July 25, 2010*

“A record 868,700 people did apprenticeships in Britain last year, up 77 percent from three years ago. The government committed £1.57 billion to the training last year, about half of that to programs for 16- to 18-year-olds.” - *Kimiko de Freytas-Tamura, The New York Times, January 21, 2014*

The Philippine economy does not create enough high quality jobs for the growing population and to improve economic growth. Of a labor force of more than 41 million, unemployment stood at 6.0% and underemployment at 18.7% as of October 2014. In 2014 about 1 million new jobs were created, enough to cause the underemployment rate to drop. Some 7 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 763,500 persons entered the workforce. As the economy does not create enough jobs, many go abroad while others remain unemployed. Without the overseas market, unemployment and underemployment rates would be much higher. With the highest unemployment rate of the ASEAN-6, it is not surprising that the Philippines also has the fastest rate of brain drain among the ASEAN-6 nations. There has been progress to match educational and training curricula to available jobs. More young Filipinos need to acquire specialized fields related to the Seven Big Winner sectors proposed by the JFC. DOLE is undertaking Project Jobs Fit to identify the new and emerging employment sectors as well as the skills needed. The 40-year old Philippine Labor Code is old and out of tune with regional developments. Disruptive labor action, however, is extremely infrequent. The two-tiered wage system is in its fourth year and is widely accepted. Minimum wage increases are tied to inflation and becoming more competitive in the region. Of the ASEAN-6, only the Philippines has not significantly increased labor productivity over the last three decades.

# Recommendation 1

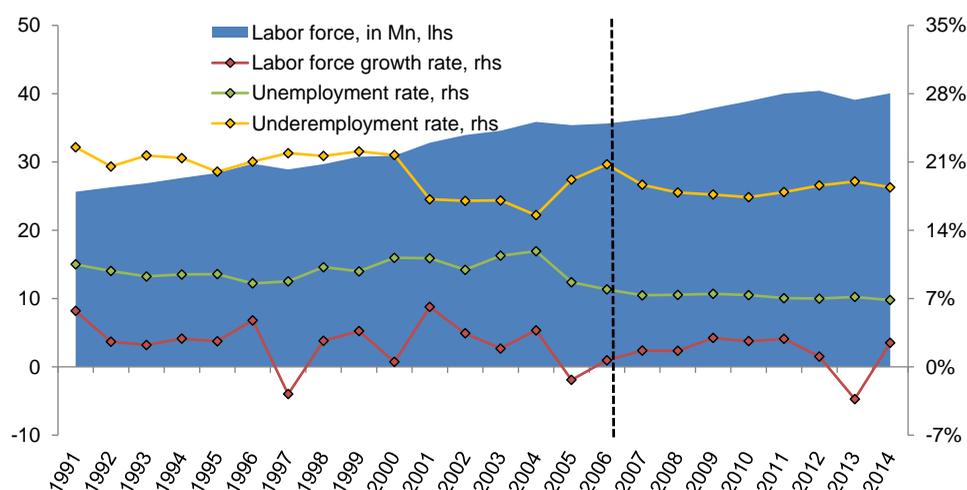


Modernize the 36-year old Labor Code to end the disadvantage it has created for the Philippines with regional competitors. Areas for possible amendment include allowing night work for women, making it easier to dismiss employees for sound business reasons and poor performance, non-diminution clause of wages and benefits and revising rules on labor contracting.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

While a one-time revision of the seven books of the Labor Code of the Philippines will not be possible or productive for business. Four labor bills revising the Labor Code were enacted in 2013 and were implemented in 2014. These include laws strengthening Tripartism and Conciliation-Mediation, lifting an existing prohibition on night work, and affording protection to domestic workers. The Manual on the Department Order on the Labor Law Compliance System was issued in August 2014 to enhance the developmental approach, streamline the legal procedures for compliance, and lessen the regulatory approach in labor law compliance. By the end of 2014, there were 16 regional Tripartite Industrial Peace Councils (*TIPCs*), 65 provincial *TIPCs*, and 47 municipal *TIPCs*. In addition, there are also 264 Industry *TIPCs*. These mechanisms help ensure proper dialogues and clarification of labor issues not covered by the Labor Code. The DOLE also issues advisories to help the social partners reach agreements on issues not currently covered by legislation or the Labor Code. The National *TIPC*, through the DOLE's *RIA (Regulatory Impact Assessment)* that reviews Labor Code provisions has endorsed to the 16<sup>th</sup> Congress bills that aim to respond to the demand for skilled labor in emerging industries, including the Labor Market Test bill, PESO bill, SPES bill, Apprenticeship bill, Labor Law Compliance System, NWPC bill, OSH Standards bill, and Productivity Incentives bill.

**Labor Market Key Indicators, 1991-2014**



Source: PSA; Definition changed in April 2005 and estimates for 2013 and 2014 do not include Eastern Visayas

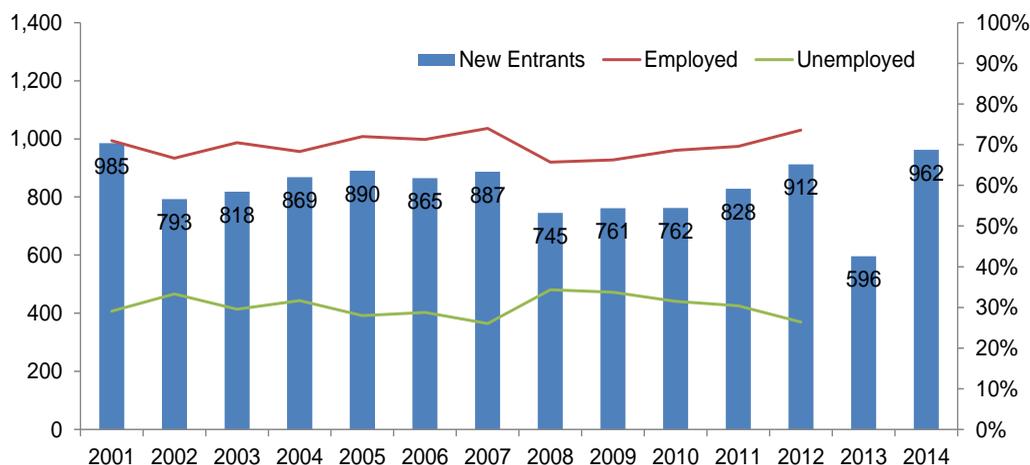
## Recommendation 2

- 
**Rationalize holidays to approach ASEAN average of 15 paid days without reducing income of full time employees and increasing income of casual workers.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★ Backward/Regression	★★ Backward/Regression	★★ Backward/Regression

While DOLE has been consistent with its advocacy to maintain existing regular holidays at 12, and special days to three, the Philippines continue to have more paid regular and special holidays than many ASEAN countries. The recommendations to reduce paid holidays to the ASEAN average of 15 has yet to be taken seriously by the Executive or Legislative branches. While 70 bills creating more non-working holidays were filed in Congress in 2014, including the popular Iglesia ni Cristo and Chinese New Year bills, only the INC Holiday law was passed but was observed only in 2014, a Sunday to celebrate the church's centennial. This was done through the vigilance of various business organizations and professional associations. To its credit, the DOLE does not favor additional non-working holidays, as they would adversely affect incomes of workers on the no work-no pay basis that applies to special non-working holidays. However, the President proclaimed Chinese New Year as an additional non-working holiday and three other non-working holidays, as well as six working holidays. These brought to 20 the total non-working holidays affecting business operations. To ensure predictability, the President issued a list of 19 holidays for 2015 in mid-2014.

**New Entrants to the Labor Force, in '000 except rates, 2001 to 2014**



Source: DOLE-BLES

## Recommendation 3

- 
**In order to increase competitiveness, continue to allow firms providing same day services to overseas clients to provide employees, who have to work on Philippine holidays, substitute days off with pay in lieu of paying holiday premium.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★★ Completed	★★★★★★ Completed	★★★★★★ Completed	★★★★★★ Completed

The DOLE continues to honor its 2009 Department Advisory on Flexible Work Arrangement, which allows employees to work during non-working holidays without premium pay. They shall, however, be allowed to take a corresponding day-off at a date to be mutually agreed between the employees and their employer. This has effectively reduced interruption of business operations, improved productivity, and enhanced work life balance.

## Recommendation 4

 **Make wage increase consistent with inflation and productivity. Redefine the basis for the minimum wage to take into account smaller families and more than one wage earner. Create industry-specific minimum wages.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

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 a performance-based wage competent 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. The most recent poverty threshold estimates are used as a major reference for determining the regional floor wage. During 2014, 14 Productivity Advisories were issued in various regions as a benchmark productivity incentive, on top of the regular wage increases that serve as safety nets for minimum wage earners. The concept of a two-tiered wage system is already accepted by the tripartite partners. In 2014, wage increases were noticeably tempered, compared with those of earlier years (*see Business Costs*). To sustain compliance with labor laws, enterprises are assisted by the labor law compliance officers to implement productivity enhancement measures, using the Productivity Tool Box. DOLE has now 200 trained productivity specialists from government and private sector.

## Recommendation 5

 **Further narrow the skill-jobs mismatch by revising curricula and training and retraining the workforce and older students better for the hard-to-fill jobs of the present and future economy. Ensure that skills required for the successful growth of the Seven Big Winner Sectors are included in the curricula; involve the private sector in curriculum development and re-promote dual technical training. Support greater interaction between TESDA and the private sector.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★★ Substantial Progress

Labor Market Information was enhanced with Philjobnet, the government portal for job search and matching where 9,500 employers have registered 653,700 jobs in 2014, up from 2,300 employers in 2009. In 2006 to 2009, 2.4 million jobs were listed, and increased to 4.3 million jobs in 2010 to 2013. In partnership with business and academe, DOLE has also set up a career guidance network nationwide, with 62 networks in 2011.

By 2014, the network grew to 104, with 4,300 members. The network, together with other labor market information services, has benefited an estimated 2.9 million individuals. To shorten the job search period and enhance employability, the JobStart program was piloted in 2014 in five areas in NCR and Regions 3 and 4-A. The SPES (*Special Program for Employment of Students*) short-term and transition employment of young workers has also helped bridged the gap between academe and industry and helped 180,000 individuals in 2014, up from 85,000 in 2010. In 2014, there were 390 Public Employment Service Offices (*PESOs*) (up from 65 in 2010) institutionalized in local governments, schools, and universities to expand employment assistance. To make workers' skills competitive in the ASEAN, government has aligned the qualifications framework with regional and international benchmarks.

## Recommendation 6

 Create millions of new jobs, many of higher quality, through increased investment. Reduce the annual shortage of jobs and give Filipinos better choices of domestic and overseas employment.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★ Backward/Regression	★★ Backward/Regression	★★★★★ Substantial Progress

In 2014, unemployment decreased to 6.0%, the lowest in over a decade. To help enhance the investment climate, DOLE continues to help develop more investor-friendly policies. Compliance with labor laws and regulations is more development than regulatory. Labor dispute settlement is enhanced with the SEEnA, or the Single Entry Approach, which offers a less litigious, no-cost, faster way of settling labor disputes at all offices of DOLE – NLRC, DOLE Regional Offices, POEA, and ECC. Waged and salaried workers have increased in number, while the number of vulnerable workers (*e.g., self-employed and own-account workers*) has declined.

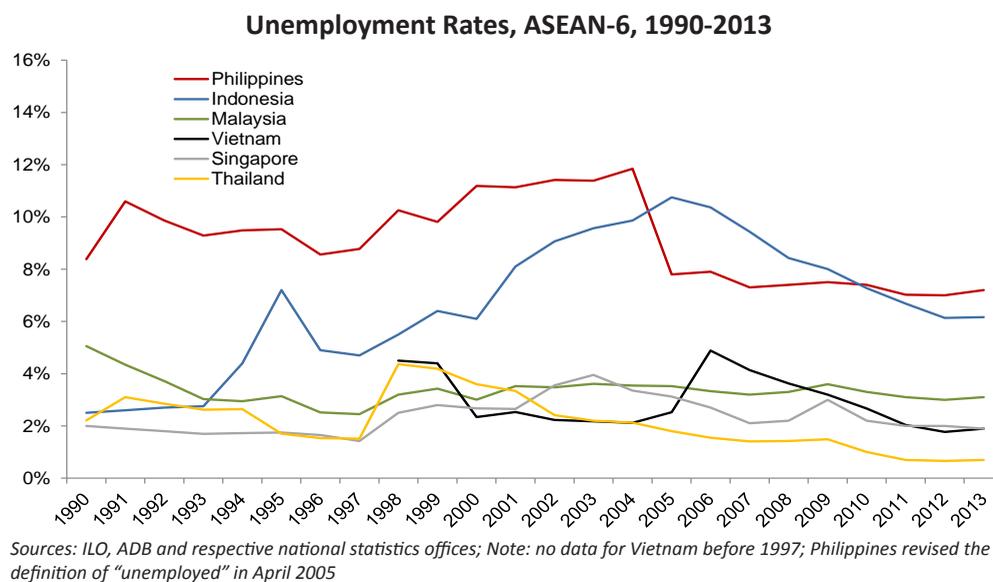
## Recommendation 7

 Develop a package of incentives to attract manufacturers relocating from China, with a target of creating several hundred thousand new jobs within five years. Promote the package to potential investors.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Not Ongoing	★★ Backward/Regression	★★ Backward/Regression	★★ Backward/Regression

The Philippines could be in a sweet spot as many export manufacturers in China consider relocating their manufacturing operations. While the Philippines has available manpower and is attracting investors in electronics and higher-value manufacturing, the country is not a competitive destination for low-cost and consumer product manufacturers due to factors such as high electricity costs, a small domestic market compared to Indonesia, higher minimum wages, numerous paid holidays, and port congestion. The Philippines should continue to benchmark against ASEAN, improve its infrastructure, lower business costs for labor-intensive manufacturing, create domestic economic zones in poorer provinces, 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 is not competitive with ASEAN economies such as Vietnam or Indonesia, where many manufacturers are relocating their production from China. The Joint Foreign Chambers with 14 other business groups proposed a strategy to create four million new jobs in manufacturing, particularly in poorer labor-rich regions where wages are low, in order to compete with Bangladesh, Cambodia, Indonesia, and Vietnam, in attracting labor intensive jobs. The responsibility to attract manufacturers leaving China does not primarily rest with DOLE. For its part, however, DOLE has initiated programs to help entice foreign firms to invest in the Philippines by improving its labor policies, ensuring faster and fairer dispute settlement mechanisms, and lessening work disruptions in enterprises through proactive interventions. DOLE has also started rewards and recognition programs. Firms who receive such recognitions are guaranteed lesser government interference in the enforcement of labor laws and regulations. These efforts can help attract investors looking for more labor-friendly destinations.



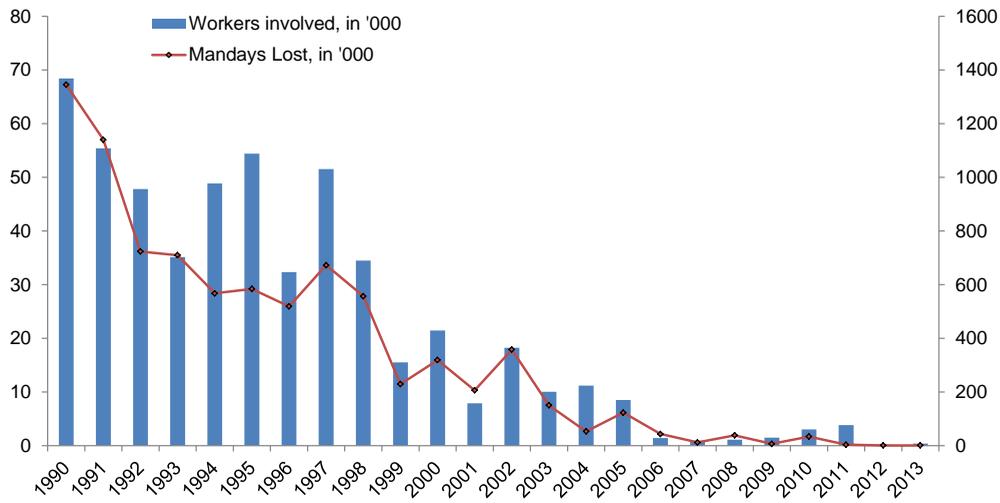
## Recommendation 8

**—** Maintain the low level of labor disruption of business operations through good communications and cooperation between labor and management. Allow self-regulation of companies with the support of chambers of commerce and industry associations.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

Only 159 Notices of Strikes were filed in 2014, higher than the 149 in 2013. Only two of these materialized into actual strikes, one higher than in 2013. The Secretary assumed jurisdiction over one dispute in 2014, lower than the two in 2013. Requests for assistance from employers or employees for the intervention of DOLE through the single entry approach numbered 34,400 in 2014, some 26,600 cases of which were immediately settled and did not develop into actual labor disputes. This expeditious settlement of disputes benefited 44,000 workers who received PhP1.6 billion in monetary benefits, and saved employers hundreds of thousands of working days of possible work disruption. In contrast, some competitor countries- China, Indonesia, and Vietnam - have frequent strikes. And worse, on May 13, 2014 about 20,000 protesters stormed foreign factories at industrial parks in Binh Duong province in Vietnam, setting some on fire.

**Workers involved in Actual Strikes and Mandays Lost, 1990-2013, in '000**



Source: BLES-DOLE

## Recommendation 9

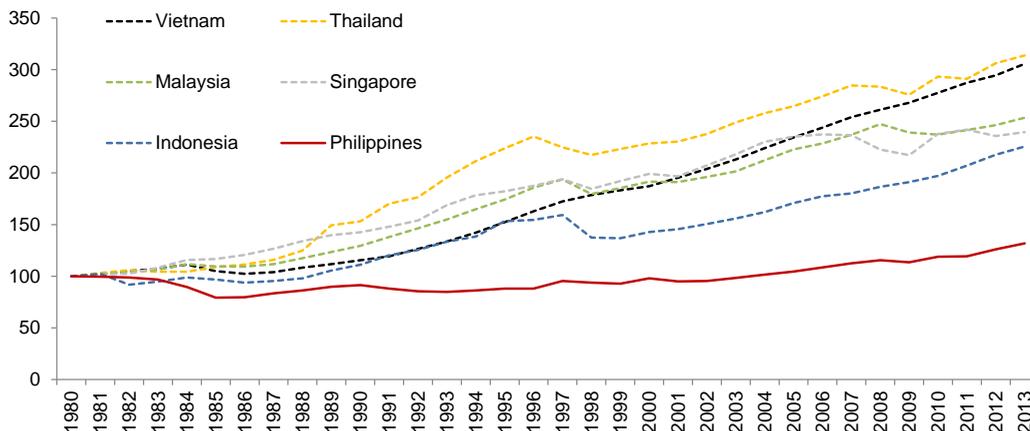


Improve the speed and fairness of the adjudication of labor cases before the National Labor Relations Commission (NLRC).

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

DOLE continued to pursue its 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 NLRC has streamlined the labor arbitration and adjudication system, resulting in faster disposition of labor cases. It has eliminated procedural technicalities, ensured transparency, provided reasonable remedy, and shortened the procedural cycle time in the adjudication process. The Efficiency and Integrity Boards, electronic feedback mechanism, and electronic raffling of cases, and hidden CCTV cameras helped enhance transparency in the agency. The 2011 NLRC Revised Rules of Procedures also helped improved the adjudication process. Overall, the disposition rate for all agencies under DOLE is 90% for 2014.

**Labor Productivity Index, ASEAN-6, 1980-2013**



Source: The Conference Board; Note: Labor productivity per person employed is defined as GDP per person in constant 1990 US\$ converted at GKŞ PPP. "GK" stands for the originators of this PPP formula, Geary Khamis.

# PART 4 GENERAL BUSINESS ENVIRONMENT

## Legislation



### Recommendations: 13



### Progress:

3 Declined      9 Steady      1 Improved      0 Neutral

### Rating:

0	☆ No Longer Relevant	1	★★ Backward/Regression	4	★★★★ Not Ongoing
5	★★★★★ Started	3	★★★★★ Substantial Progress	0	★★★★★★ Completed

# PART 4

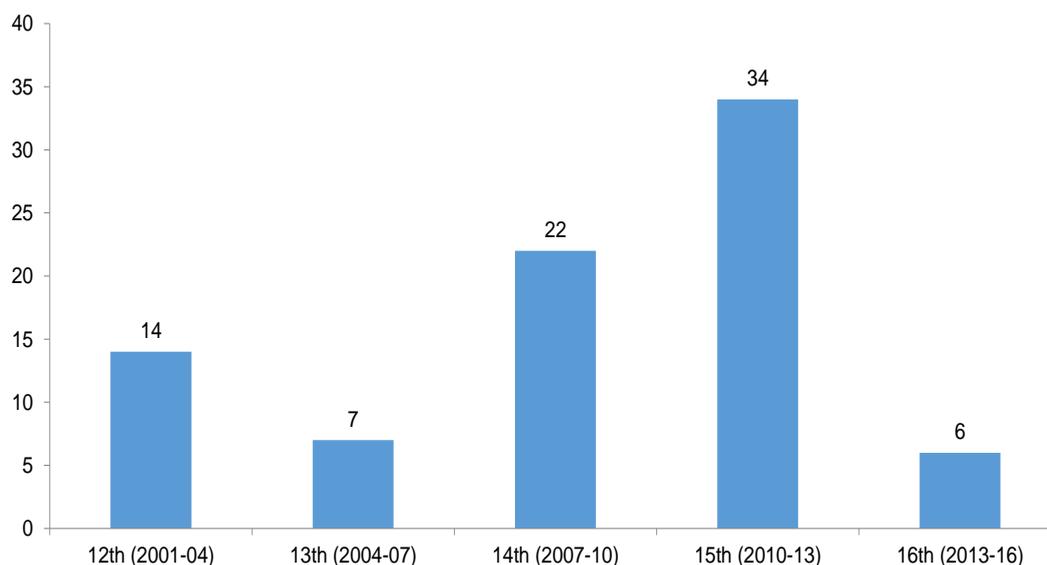
## GENERAL BUSINESS ENVIRONMENT: LEGISLATION

“Proposed legislation to create a Department of Information and Communications Technology is considered a critical enabler for this #1 industry of the Philippines.... Almost all of Asean economies have a similar agency.” - Roberto R. Romulo, “Filipino Worldview,” *The Philippine Star*, February 13, 2014

“The priority list of legislative measures drawn up by the Joint Foreign Chambers, the Philippine Business Groups, and the House of Representatives are almost the same. I do not think that we are here to argue... but to map out directions and strengthen our collaboration for the passage of legislations that would uplift the lives of the people.” - House Speaker Feliciano R. Belmonte, Jr., meeting with JFC and PBG, November 26, 2014

While the Philippines has many excellent laws, there is continual need to update old ones and legislate for new developments. Usually, the legislative process moves very slowly. There were 42 significant business and economic reforms enacted in the 12<sup>th</sup>, 13<sup>th</sup>, and 14<sup>th</sup> Congresses. In the 15<sup>th</sup> Congress alone, there were 34 such laws. Speeding the enactment of new laws and amending old ones should be a higher priority for the Executive Branch. With strong leadership, the 15<sup>th</sup> and 16<sup>th</sup> Congresses can move twice as fast and pass many bills that improve the Philippine economy and competitiveness. A group of Philippine business groups and JFC members recommended to the president and Congress 41 reforms for consideration in the 15<sup>th</sup> and 16<sup>th</sup> Congress. The list is organized into eight categories according to the Seven Big Winners and General Business Environment of Arangkada. Ten were enacted in the 15<sup>th</sup> Congress. The private sector must be vigilant and oppose market-unfriendly legislative proposals early in the legislative process. LEDAC was used very effectively only during the Ramos Administration but can be an excellent management tool for achieving the legislative agenda.

**Business and Economic Reforms Laws, by Congress, 2001-2016**



Source: TAPP Compilation (As of February 2015)

## Recommendation 1



The president should hold regular LEDAC meetings of executive and congressional leaders. LEDAC should prioritize the administration's legislative agenda and monitor its progress throughout the legislative process.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

Republic Act 7640, or the LEDAC Law, provides that the Council meets at least quarterly. Since 2010, only two LEDAC meetings have been convened and none in 2013 and 2014. In lieu of the LEDAC, House Speaker Feliciano Belmonte, Jr. confirmed that the House and Senate leaders hold a regular monthly dialogue to identify and update the status of their respective priority legislative agenda. It seems President Aquino is disinclined to hold them.

## Recommendation 2



Prioritize bills that improve competitiveness, increase investment and revenue, and create jobs, in order to accelerate economic growth. The chairs of the committees to which such bills are referred can be asked to conduct hearings and complete their committee reports in the early months of the 15<sup>th</sup> Congress. Deter market-inimical bills.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★ Started

Deliberations on bills that improve competitiveness, increase investment and revenue, and create jobs moved more slowly in 2014, covering the first half of the 16<sup>th</sup> Congress. Only 6 business and economic laws were enacted in 2014. At this pace, it is less likely that this Congress will surpass the record of the 15<sup>th</sup> Congress which enacted a total of 34 such reform laws. A number of market-inimical bills, including declaration of new non-working national and local holidays and mining free zones have advanced in Congress, especially in the House, but none were enacted.

**Business and Economic Reforms Laws, by Congress, Philippines**

	LAW TITLE	LAW NO.	DATE ENACTED
<b>12<sup>th</sup> Congress (2001-2004)</b>			
1	Alternative Dispute Resolution	RA 9285	2-Apr-04
2	Anti-Money Laundering Act of 2001 (AMLA)	RA 9160	29-Sept
3	AMLA Amendments	RA9194	7-Mar-03
4	Clean Water Act	RA 9275	22-Mar-04
5	Documentary Stamp Tax Rationalization	RA 9243	17-Feb-04
6	Domestic Shipping Development Act	RA 9295	3-May-04
7	Dual-Citizenship Act	RA 9225	29-Aug-03
8	Electric Power Industry Reform Act	RA 9136	8-Jun-01
9	Government Procurement Reform Act	RA 9184	10-Jan-03
10	Judiciary Compensation Rationalization Act	RA 9227	23-Oct-03
11	Optical Medical Act	RA 9239	10-Feb-04

	LAW TITLE	LAW NO.	DATE ENACTED
<b>12<sup>th</sup> Congress (2001-2004)</b>			
12	Restructuring Exercise Tax on Automobiles	RA 9224	28-Aug-03
13	Securitization Act	RA 9267	19-Mar-04
14	Special Purpose Vehicle Act	RA 9182	23-Dec-02
<b>13<sup>th</sup> Congress (2004-2007)</b>			
1	Anti-Red Tape Act	RA 9337	2-Jun-07
2	Automated Election Law amendments	RA 9369	23-Jan-07
3a	Bases Conversion and Development Authority (BCDA) amendments	RA 9400	20-Mar-07
3b	Amnesty for Businesses in Special Economic Zones and Freeports	RA 9399	20-Mar-07
4	Biofuels Act	RA 9367	12-Jan-07
5	Expanded Value Added Tax	RA 9337	24-May-05
6	Lateral Attrition Act	RA 9335	25-Jan-05
7	Special Purpose Vehicle Act extension	RA 9343	25-Jul-05
<b>14<sup>th</sup> Congress (2007-2010)</b>			
1	Anti-Camcording Act	RA 10088	13-May-10
2	Bureau of Food and Drugs Act amendments	RA 9711	18-Aug-09
3	Civil Aviation Authority of the Philippines Act	RA 9497	4-Mar-08
4	Cooperatives Code	RA 9520	17-Feb-09
5	Credit Information System Act	RA 9510	31-Oct-08
6	Customs Brokers Act amendments	RA 9853	15-Dec-09
7	Documentary Stamp Tax Exemption (PSE)	RA 9648	30-Jun-09
8	Financial Rehabilitation and Insolvency Act	RA 10124	18-Jul-10
9	Individual Income Taxes Rate Exemption	RA 9504	17-Jun-08
10	JPEPA Ratification		8-Oct-08
11	Magna Carta for MSMEs Act amendments	RA 9501	23-May-08
12	National Grid Corporation Franchise	RA 9511	1-Dec-08
13	National Tourism Policy Act	RA 9593	12-May-09
14	Personal Equity Retirement Account (PERA) Act	RA 9505	22-Aug-08
15	Philippine Deposit Insurance Corp. amendments	RA 9576	29-Apr-09
16	Pre-need Code	RA 9829	3-Dec-09
17	Real Estate Investment Trust (REIT) Act	RA 9856	17-Dec-09
18	Renewable Energy Act	RA 9513	16-Dec-08
19	Residential Free Patent Act	RA 10023	9-Mar-10
20	Revised Kyoto Convention (RKC) Ratification		1-Feb-10
21	Tax Information Exchange Act	RA 10021	8-Mar-10
22	Tax on Life Insurance Premiums	RA 10001	23-Feb-10
<b>15<sup>th</sup> Congress (2010-2013)</b>			
1	Agricultural and Fisheries Mechanization Law	RA 10601	5-Jun-13
2	Anti-Enforced or Involuntary Disappearance Act	RA 10353	21-Dec-12
3	Anti-Money Laundering Act amendments	RA 10167	18-Jun-12
4	Anti-Money Laundering Act amendments	RA 10365	15-Feb-13
5	Common Carriers Tax/ Gross Philippine Billings Tax	RA 10378	7-Mar-13
6	Conciliation-Mediation for Dispute Settlement	RA 10396	16-Mar-13
7	Cybercrime Prevention Act	RA 10175	9-Sept-12
8	Data Privacy Act	RA 10173	15-Aug-12
9	Domestic Workers Act	RA 10361	18-Jan-13
10	Early Years Act of 2013	RA 10410	26-Mar-13
11	Enhanced Basic Education Act of 2013	RA 10533	15-May-13
12	Excise Tax on Alcohol, Cigarettes, and Tobacco	RA 10351	20-Dec-12
13	Expanded Anti-trafficking in Persons Act	RA 10364	6-Feb-13
14	Extending Implementation of the Lifeline Rate	RA 10150	20-Jun-11
15	Financial Rehabilitation and Insolvency Act	RA 10142	18-Jul-10
16	Firearms and Ammunition Regulation Act	RA 10591	29-May-13
17	GOCC Governance Act	RA 10149	6-Jun-11
18	Intellectual Property Code amendments	RA 10372	28-Feb-13
19	Kindergarten Education Act	RA 10157	20-Jan-12
20	National Health Insurance Act of 2013	RA 10606	19-June-13
21	People Survival Fund	RA 10174	16-Aug-12
22	Philippine Design Competitiveness Act	RA 10557	15-May-13
23	Regulating Profession - Environmental Planning	RA 10587	27-May-13
24	Repeal of Nightwork Prohibition for Women	RA 10151	21-Jun-11
25	Responsible Parenthood and Reproductive Health Act	RA 10354	21-Dec-12
26	Revised AFP Modernization Act amendments	RA 10349	11-Dec-12
27	Rural Bank Act amendments	RA 10574	24-May-13
28	Strengthening Tripartism	RA 10395	14-Mar-13

	LAW TITLE	LAW NO.	DATE ENACTED
<b>15<sup>th</sup> Congress (2010-2013)</b>			
29	Terrorism Financing Prevention and Suppression Act	RA 10168	18-Jun-12
30	Philippine Statistical Act	RA 10625	12-Sep-13
31	Insurance Code Amendments	RA 10607	15-Aug-13
32	Food Safety	RA 10611	23-Aug-13
33	Fast-Tracked S&T Scholarship Act of 2013	RA 10612	23-Aug-13
34	Rural Farm Schools Act	RA 10618	3-Sep-13
<b>16<sup>th</sup> Congress (2013-2016)</b>			
1	Full Entry of Foreign Banks Act	RA 10641	15-Jul-14
2	Philippine Lemon Law	RA 10642	15-Jul-14
3	Go Negosyo Act	RA 10644	15-Jul-14
4	Ladderized Education Act	RA 10647	21-Nov-14
5	Scholarship for top ten public high school students of graduating class	RA 10648	27-Nov-14
6	Open Distance Learning Act	RA 10650	9-Dec-14

Source: TAPP Compilation (as of February 2015)

### Recommendation 3

- Pass legislation much more rapidly, especially for business and economic reforms. Prioritize “low-hanging fruit” legislation that was close to final passage in the 14<sup>th</sup> Congress or that reached second or third reading in either the House or the Senate.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

Passage of investment climate reform bills was slow in 2014, covering the first half (18 months) of the 16<sup>th</sup> Congress (A likely cause of this was Congress was distracted for months by the PDAF corruption, which led to the arrest of three senators.) However, out of the “low-hanging fruit” legislation from the 15<sup>th</sup> Congress, deliberations started on many measures close to final passage for several Congresses: Anti-smuggling, CMTA, DICT creation, Fiscal Incentives Rationalization, Freedom of Information, LPG Industry Safety and Regulation, Plastic Bag Regulation, National Land Use Policy, Real Property Valuation, Sustainable Forest Management, Whistleblowers Benefits, and Witness Protection and Benefits. Out of the “low-hanging fruit” legislation, only the Lemon Law was enacted.

### Recommendation 4

- Set a target to pass many more investment climate reform bills in the 15<sup>th</sup> and 16<sup>th</sup> Congress.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

34 investment climate reform bills were enacted in the 15<sup>th</sup> Congress. An additional six were enacted during the first half of the 16<sup>th</sup> Congress. The Executive has identified priority measures for the 16<sup>th</sup> Congress, in

addition to many other investment climate reform bills identified in the Medium Term Philippine Development Plan, but no specific targets are set for their passage and some have yet to be introduced as bills. The House and Senate set targets for their priority reform measures and updates them during their regular monthly meeting.

## Recommendation 5



Use executive orders to introduce reforms quickly. Follow-up as needed with laws to make the reforms more permanent.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★ Backward/Regression

Use of an executive order or a departmental administrative order can hasten introduction of a reform as was the case with pocket open skies in 2011 using EOs 28 and 29. Within months of approval, a new policy can be implemented by the bureaucracy. However, a presidential proclamation can also harm the investment climate. For instance, the market inimical proclamation declaring Chinese New Year as a non-working holiday in 2011, 2014 and 2015.

## Recommendation 6



Revising Implementing Rules and Regulations (IRRs) of laws and executive orders is another way to achieve reform. For example, removing the 60-40 equity provision of the Renewable Energy Act and completing the amendments of the BOT Act can encourage more investment in renewable energy projects and public-private partnerships

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★ Not Ongoing

Enactment of a law does not mean its actual implementation if the issuance of IRRs is delayed or if opponents obtain judicial restraining orders. Among significant reform laws that remain unimplemented due to bureaucratic delay are Real Estate Investment Trust (*enacted in 2009 and delayed by DOF*), Data Privacy Act (*awaiting presidential appointment of commissioners*), and Personal Equity Retirement Account Act. The 60-40 provision in the IRRs of the Renewable Energy Act (*RA 9513*) remains unamended despite its debatable interpretation of the Constitution. 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. The assessment should be made public.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

The Executive Secretary is not mandated to review bills passed by Congress. An Executive Order 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 the Foreign Investment Negative List (*FINL*) more positive, thereby leveling the playing field for foreign investors. Review all restrictions in the FINL to determine which continue in the national interest and recommend changes in those considered to be out of date. Implement the recommended changes.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★ Backward/Regression	★★★★★ Started	★★★★★ Started

An inter-agency group composed of the NEDA, DOF and DTI organized to look into amendments to the FINL met once in 2013. While the FINL reform is listed in the priority legislative agenda of the Economic Development Cluster of the Cabinet, as well as Congressional leaders, no significant progress has been made by the Executive and Legislative branches to introduce proposed amendments in Congress. An initial plan to introduce an omnibus amendatory bill was changed to support for individual amendatory bills, none of which have been introduced by the administration. However, some bills have been introduced in the Congress: Retail Trade Act amendments, Foreign Investment Act amendments, and Condominium Law amendments, and Government Procurement Act amendments, and Removing/Amending Investment Restrictions in Specific Laws Governing Adjustment Companies, Lending Companies, and Financing Companies Cited in the Foreign Investment Negative List.

## Recommendation 9

- Simplify the present 45 laws regulating 46 professions to relax restrictions on foreign professionals and redefine reciprocity. Draft and seek passage of an omnibus law amending the present restrictions and establishing a uniform policy consistent with the current role of Philippine professionals in the global workplace.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

With the passage of the Environmental Planning bill, only Criminology, Forestry, Pharmacy and Radio and X-ray Technology and Law – a total of five – are professions restricted solely to Filipinos. Bills on Criminology, Forestry and Pharmacy, which AmCham recommend for passage at the start of the 16<sup>th</sup> Congress, are advancing in both Houses of Congress. The legal profession is regulated by the Supreme Court.

## Recommendation 10

- Clarify that foreign investors can own firms providing services of PRC-certified professionals as long as the requirements of the Foreign Investments Act of 1991 (*RA 7042*) are met (*US\$100,000 paid-in capital and 50 employees*).

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

AJFC-recommended bill amending the Foreign Investments Act to lower the employment threshold requirement from 50 to 15 employees and to clarify that the FIA does not apply to the professions was filed in the Senate and House by Senator Ejercito (*SB 1424*) and Rep. Villar (*HB 2818*). Deliberation on SB 1424 reached the TWG stage in 2014.

## Recommendation 11

- Seek to reduce and remove discrimination against foreign firms in Philippine government procurement laws, regulations, and practices, bringing them into conformity with international best practice. Encourage the GRP to adhere to the WTO Agreement on Procurement.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started

A JFC-recommended bill amending the Government Procurement Act to remove discriminatory provision against foreign firms was filed in the Senate and House by Senator Osmena (*SB 2120*) and Rep. Rodriguez (*HB 3986*). Indonesia, Malaysia, and Vietnam have joined the WTO GPA as observers while Singapore became a member as of April 2014. Hearings have not been held. The Philippines will be hindered in joining the TPP and an EU-Philippine FTA if it maintains the current 15% discrimination favoring Philippine national providers.

## Recommendation 12

- Encourage new investment in selected regulated public utility activities by using language similar to Section six of the EPIRA (*RA 9136*), which clearly states that power generation shall be competitive, not be considered a public utility, and not require a franchise.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

There has been no significant development, but some studies are being made. The constitution does not define public utility, but the 1936 Public Service Act, which does, could be amended to remove from its long listing of specific public utilities where more competition would benefit Philippine consumers and improve economic competitiveness by allowing foreign investors to own more than 50% equity.

## Recommendation 13

 Develop a comprehensive Philippine Legal Code and Code of Regulations to create an inventory of laws and regulations. Make the inventory accessible on the internet. The Civil Code (*RA 386*) was signed in 1949.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

The DOJ-recommended New Criminal Code has been filed in Congress. It will codify many laws enacted after the Revised Penal Code of 1930. There are pending bills to create a Civil Code Commission to review and re-codify all substantive civil laws of the Philippines, but they have not advanced this Congress. Development of a comprehensive Philippine Legal Code and Code of Regulations is not underway.

# Legislation

Policy Brief No. 1  
September 2013

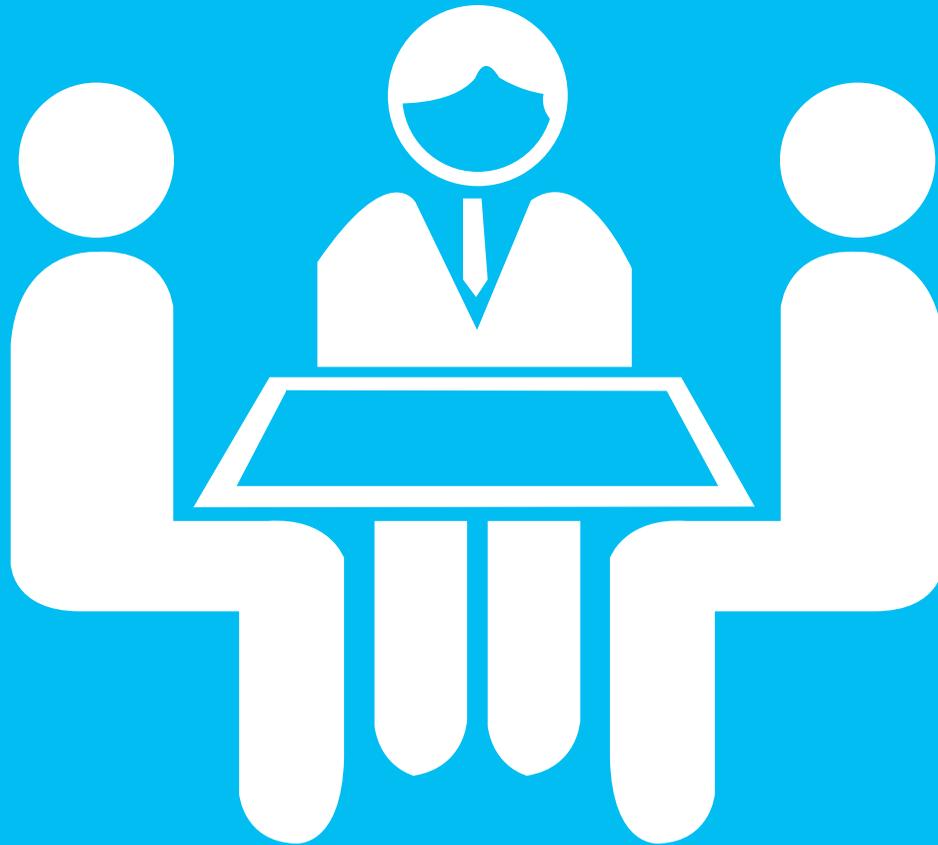


<http://www.investphilippines.info/arangkada/arangkada-legislation-policy-brief/>

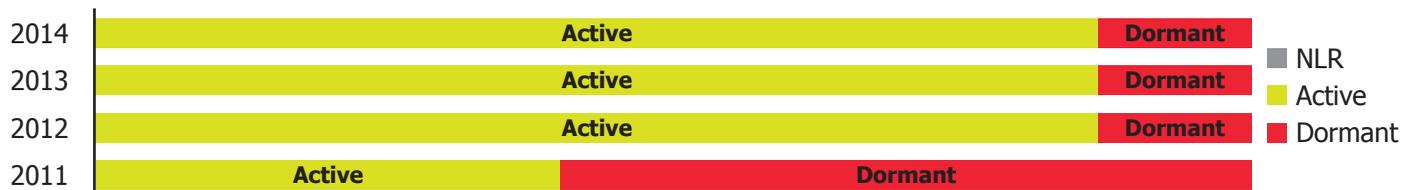
# PART 4

## GENERAL BUSINESS ENVIRONMENT

### Local Government



### Recommendations: 15



### Progress:

0 Declined      14 Steady      1 Improved      0 Neutral

### Rating:

0	☆ No Longer Relevant	1	★★ Backward/Regression	1	★★★ Not Ongoing
5	★★★★★ Started	8	★★★★★★ Substantial Progress	0	★★★★★★★ Completed

# PART 4

## GENERAL BUSINESS ENVIRONMENT: LOCAL GOVERNMENT

“I believe [tracking LGU competitiveness] will, aside from providing businessmen with information about a city or municipality, also transform the way LGUs will manage themselves. Data collection will now provide cities with a means of regularly measuring their performance. Measurement, in turn, will enable local governments to better manage themselves. It will enable them to focus on the things that matter to their constituents and to develop ways of improving city performance.” - *National Competitiveness Council Co-Chair Guillermo Luz, Philippine Daily Inquirer, July 26, 2013, Business Matter: Introducing the City/Municipality Competitiveness Index*

LGUs, should be supportive of investors who bring jobs and revenue to their communities. Complaints are rare when LGU processes are transparent, efficient, fast, honest, and do not burden investors. When they are not, investors complain, and the image of the Philippines is harmed. Surveys of domestic and foreign investors have often 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 the using of e-governance. Ratings of LGU competitiveness can encourage cities and provinces to improve themselves. When LGUs apply taxes or fees or permitting contrary to national policy or ban mining or power plants, they can harm investment climate. This is a serious issue.

**Most Competitive Cities and Municipalities in the Philippines, 2014**

Top 10 Cities- Overall Competitiveness			
Rank	LGU	Region	Score
1	Makati City	NCR	53.24
2	Cagayan de Oro City	Misamis Oriental	49.36
3	Naga City	Camarines Sur	49.08
4	Davao City	Davao del Sur	47.71
5	Marikina City	NCR	45.46
6	Iloilo City	Western Visayas	45.00
7	Cebu City	Central Visayas	43.68
8	Manila City	NCR	43.15
9	Valenzuela City	NCR	43.02
10	Paranaque City	NCR	42.70
Top 10 Municipalities-Overall Competitiveness			
Rank	LGU	Region	Score
1	Daet	Bicol Region	43.24
2	General Trias	CALABARZON	42.50
3	Kalibo	Western Visayas	42.17
4	Carmona	CALABARZON	41.79
5	Nabunturan	Davao Region	41.11
6	Lubao	Central Luzon	40.10
7	Isulan	SOCKSARGEN	38.88
8	Polomolok	SOCKSARGEN	38.84
9	Manolo Fortich	Northern Mindanao	38.36
10	Taytay	CALABARZON	38.05

Source: Cities and Municipalities Competitiveness Index 2014

## Recommendation 1

- Programs to make LGUs (*provinces and cities*) more efficient and competitive in attracting investment should be continued and even intensified. Develop model LGUs – with better management, governance, and reduced red tape – that are transparent and investor-friendly.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

Please see narrative for Recommendation 4.

## Recommendation 2

- Such programs should give priority to the fastest-growing regions, while allowing for the encouragement of model cities in other regions.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

It is often a delicate balancing act between prioritizing the fastest-growing economically dynamic localities and is spreading out government attention to other areas both to reduce too much urban congestion and to encourage inclusive growth. Infrastructure often prioritizes core urban areas, but recent improvements in government budgeting and planning processes means that other localities are able to access much needed roads and other facilities encourage growth.

## Recommendation 3

- LGU websites in the Philippines are well-developed, colorful, and varied. LGUs should expand e-governance services on their websites from providing information to enabling routine transactions and to providing information on budgets and procurement. A basic template should be available so that similar information and services are provided on most websites throughout the country.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

Many LGUs have started to develop and update their websites to include details in compliance with the Full Disclosure Policy of the DILG. Compliance with 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. In January 2014, the Department of Interior and Local Government launched a Seal of Good Local Governance (*SGLG*). Originally called Seal of Good Housekeeping (*SGH*), it measures compliance to Full Disclosure Policy of DILG including the area of public financial management. The SGLG encourages local governments to promote and sustain practices that: promote transparency and accountability. In the past years, many LGUs have started to develop and update websites to provide information to their citizens, with increasing numbers complying with disclosure requirements. However, updating can be sporadic. In addition, documents that are uploaded are often in raw forms, not being machine searchable. This makes comparison among LGUs difficult.

## Recommendation 4

 LGUs should increase efforts to correct the issues identified in the IFC Doing Business ratings, in order to improve efficiency and reduce business costs and also to improve Philippine competitiveness rankings within ASEAN-6 economies.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

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. A localized initiative to improve competitiveness is The Cities and Municipalities Competitiveness Index, an annual ranking of Philippine cities and municipalities developed by the National Competitiveness Council through the Regional Competitiveness Committees (*RCCs*) with the assistance of the United States Agency for International Development. The RCCs collect data and then rank LGUs on economic dynamism, government efficiency, and infrastructure. This regular scoring and ranking encourages continuous improvement.

## Recommendation 5

 Through improved governance, LGUs should achieve a steady reduction in the solicitation of bribes for bureaucratic services, as recorded in the annual SWS survey.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★★ Started	★★★★★ Started	★★★★★ Started

In 2013 SWS Survey of Enterprises by the NCC, Integrity Initiative, the Asia Foundation, and Australia's Department of Foreign Affairs and Trade, solicitation of a bribe for getting local government permits/licenses was at a record low of 25% of enterprises (*down from a peak of 40% some years ago*). Data from the next round of surveys will be available after the first quarter of 2015, so this rating is maintained as constant.

## Recommendation 6

- 
 LGUs should observe incentives, such as exemption from local taxes, awarded by the national government to investors under national laws. A mechanism should be created to coordinate the approval and implementation process of investment projects between the national government and LGUs, including tax incentives, right-of-way acquisition, and the like.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

Local governments tend to jealously guard their autonomy and freedom of action, whether in response to localized constituent demands or fiscal realities. There is no formal mechanism, nor any prospect of one to ensure respect of national government investor incentives by local governments. Even if the investor shows proof, of for instance tax exemption issued by the national government, any incentives still need to be negotiated separately by investor with the local governments. In extremis the investor can go to court, but that is a long arduous process with no guarantee of a substantial outcome, or the investor can invest elsewhere.

## Recommendation 7

- 
 When the LGU Code is amended, language should be included to make the foregoing application of national laws clear. Declare certain investments, such as mining and power plants, as strategic to take them out of the influence of LGUs. LGUs should model their support for investors on PEZA; a major reason investors prefer PEZA registration is the insulation provided against LGU corruption, as well as more efficient bureaucratic interface with multiple government agencies.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★ Started	★★★★ Started	★★★★ Started

A legislative review of the 1991 Local Government Code was mandated in the Code itself to take place after five years; more than 20 years on there is little prospect of successful amendments of the Code before the 2016 elections. There are ongoing technical studies of the costs and benefits of various aspects of the code, including the obstacles to business of varying local interpretations of laws, incentives, and exemptions. However, the main obstacles remain political.

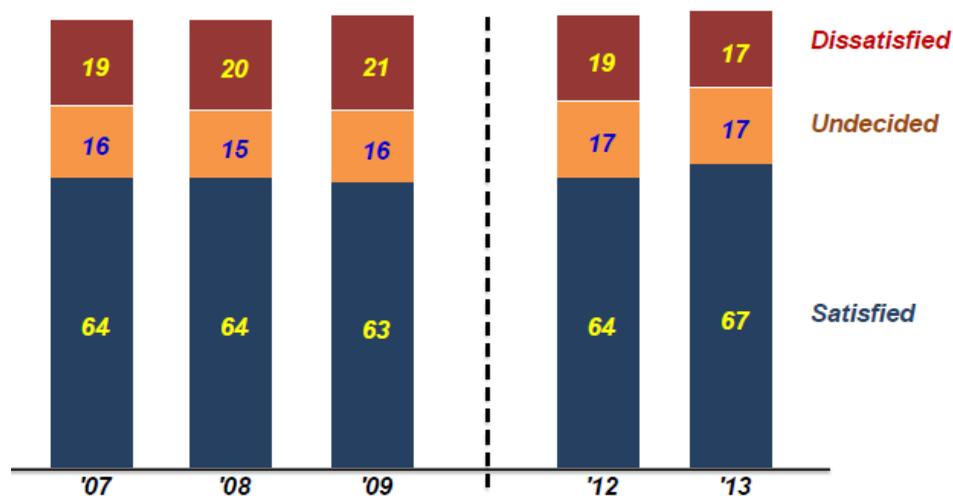
## Recommendation 8

**—** DILG and other departments should intensify programs for LGU capacity building (*e.g. data collection and analysis*), streamline and set standards for business permits and licenses, and implement its Working Group on Local Investment Reform (*regulatory processes, governance, investment promotion, information and data support, and consumer welfare*).

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

The GPH through Joint Memorandum Circular 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 requirements under the Anti-Red Tape Act, 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 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: 1) a critical mass of establishments, and 2) good potential for generating investment in the four priority sectors of government—BPO, Tourism, Mining, and Agribusiness. The DTI and DILG continue to encourage LGUs to cut red tape through standardization. Other departments respond positively to LGU attempts at rationalized planning and attempts to involve and promote the private sector. In recent years the SWS Survey of Enterprises has shown (*through 2013*) increased satisfaction with LGU promotion of a good business climate. Data from the next round of surveys will be available after the first quarter of 2015, so this rating is maintained as constant.

Satisfaction with City Government in Promoting a Good Business Climate, 2007-2013



Source: SWS 2013 Survey of Enterprises on Corruption.  
Note: No data for 2010-2011

## Recommendation 9A

- 
**Agribusiness.** LGUs in key agricultural areas should strengthen their agricultural extension and training services for farmers and improve farm-to-market roads.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Not Ongoing-Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

There is a general widespread understanding that agribusiness is one way to promote inclusive growth. However, in the competition for resources at the local level, since extension services are devolved, there can be under-investment in technical assistance to farmers and agri-business entrepreneurs. In addition, short-term fiscal pressures may lead to a lack of incentives for pioneer enterprises. There is funding in the national budget for DPWH to build farm-to-market roads to improve access and transport for agriculture products.

## Recommendation 9B

- 
**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.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

PEZA continues to work to support BPO enterprises and their relationship to local governments. However, local revenue codes are often enforced without regard to PEZA incentives being offered. 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. Often, a non-corrupt modus vivendi must be arranged between the investor and the LGU.

## Recommendation 9C

- 
**Creative Industries.** LGUs should fully support the development of the creative industries in their locality and encourage them to export their products/services.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started- Substantial Progress	★★★★★ Started	★★★★★ Started	★★★★★ Started

The coming institution of Senior High School, with possible tie-ups between LGUs and DepEd in enriching curricula, offers in the near term the possibility of considerable progress on this indicator.

## Recommendation 9D



**Infrastructure.** LGUs should strongly support rapid implementation of priority infrastructure projects, including PPP projects, that will develop their regions, *e.g. for tourism.*

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★★ Substantial Progress

The DPWH has demonstrated a willingness to listen to the involvement of LGUs and their communities (*particularly in the private sector*), while the latter are acquiring skills in tracking the budgeting and actual implementation of priority projects. Such initiatives are spreading up to the regional level (*for greater networking*), and among regions.

## Recommendation 9E



**Manufacturing and Logistics.** LGUs should fully support manufacturing, and logistics, which provide local jobs, procurement, and 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 that LGUs maintain the rules long-term too and that LGUs avoid rezoning developed industrial zones.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Not Ongoing-Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

LGUs continue to have little capacity for analysis in these areas, but the industry roadmaps being prepared by the DTI offer resources to increase their understanding.

## Recommendation 9F



**Mining.** LGUs should help develop local community support for national government policy to develop mining projects that observe social and environmental regulations.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★ Backward/Regression	★★ Backward/Regression	★★ Backward/Regression

Anti-mining initiatives, through LGUs and by congressmen, continued in 2013 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. Mining is widely unpopular in local communities and with LGUs; thus the potential for this sector to contribute to employment and economic growth in the near term will continue to be constrained.

## Recommendation 9G



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.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

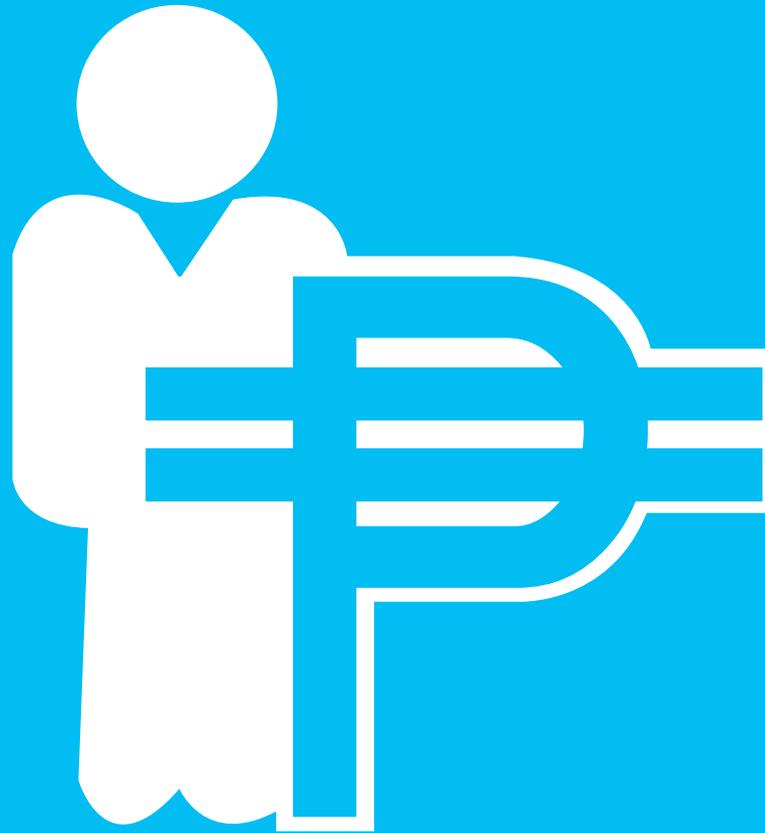
Local private sector bodies and LGUs have been able to work with the DOT and the DPWH to identify and implement priority infrastructure and manpower projects to help boost tourism potential. In the run-up to the implementation of Senior High Schools, some localities with vibrant tourism sectors are investing in curricula, facilities, and tie-ups between their high schools and local enterprises.



# PART 4

## GENERAL BUSINESS ENVIRONMENT

# Macroeconomic Policy



### Recommendations: 27



### Progress:

1 Declined      21 Steady      5 Improved      0 Neutral

### Rating:

0	☆ No Longer Relevant	1	★★ Backward/Regression	2	★★★ Not Ongoing
13	★★★★★ Started	10	★★★★★ Substantial Progress	1	★★★★★★ Completed

# PART 4

## GENERAL BUSINESS ENVIRONMENT:

# MACROECONOMIC POLICY

“The Philippines’ economic performance has entered a structural shift to higher growth, accompanied by low inflation... The positive outlook reflects the expectation of continued economic outperformance by the Philippines relative to peers.” – *Moody’s Investor Service on its decision to upgrade the Philippines’ credit rating, October 3, 2013*

“We also discussed the Trans-Pacific Partnership, which is a high standard trade arrangement that will shape the global and the regional economic architecture in the 21<sup>st</sup> century. The Philippines is working to ascertain how participatio in TPP can be realized.” - *Statement of H.E. President Benigno S. Aquino III, during press conference with U.S. President Obama, April 28, 2014*

“TPP is by aspiration, not invitation. The United States wants the Philippines to be part of TPP, but membership involves taking on obligations to implement market liberalizing measures. It will take a resolute commitment by the Philippine Government to meet the agreement’s standards.” - *US Ambassador Philip S. Godberg, Joint membership meeting of the Makati Business Club and the Management Association of the Philippines, Makati, February 5, 2014*

“The complexity of the tax system, where small and micro enterprises have to file and pay a multitude of taxes almost every month, means that they spend a considerable amount of time and money falling in line and complying with tax rules, instead of doing more productive things and earning more. The tax system needs to be reformed so that it promotes rather than hinders, job creation. It needs to be reformed so that Filipinos have an easier time paying taxes. it needs to be reformed so that poor people pay much less and rich people pay much more.” - *Dr. Karl Kendrick Chua, Senior County Economist of the World Bank for the Philippines, Philippines: Why We Need to Invest in the Poor, August 6, 2014*

Macroeconomic management of the economy has generally been sound after 1986 with the exception of short periods of very large deficits and high inflation. Since the 2008 to 2009 financial crisis, the biggest fiscal challenges have been deficits and weak tax collection. The tax effort peaked in 1997 at 17% and was only 14.1 in 2014. In the WEF Global Competiveness Report, among the ASEAN-6, the Philippines has moved from 5<sup>th</sup> in 2013 to 3<sup>rd</sup> in 2014 in the rankings for overall macroeconomic environment; at 26<sup>th</sup> of 144 countries or global top 1/5<sup>th</sup>. In recognition of sound management, Philippine sovereign ratings have steadily advanced to investment grade. Within the ASEAN-6, the Philippines has one of the highest corporate income tax. In WEF’s 2014-15 rankings for the category Burden of Government Regulation, the Philippines placed 73<sup>rd</sup> of 144 countries, the third lowest among ASEAN-6. Investors seek a stable and predictable policy environment with low risk. New FTAs are creating great opportunities to develop new export markets. The Philippine economy could be disadvantaged if not included in the EU bilateral FTAs in ASEAN or in the TransPacific Partnership (TPP), both of which will bring new opportunities but also challenges to the Philippine economy.

# Recommendation 1

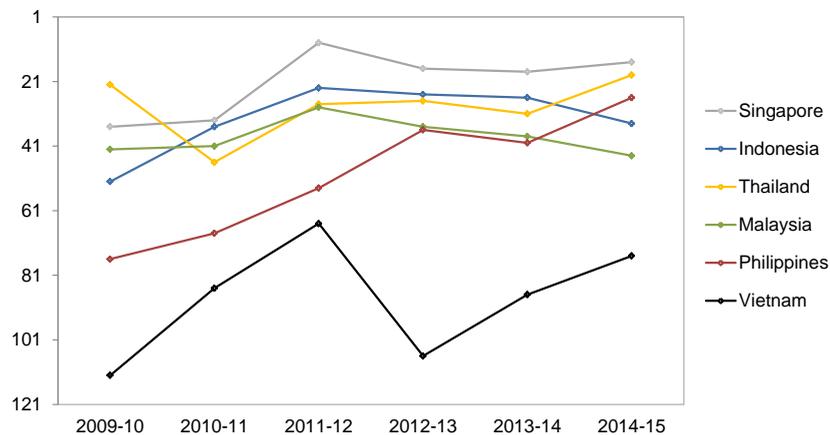


Improve macroeconomic policy management and raise sovereign credit rankings. Seek to maintain relatively stable inflation and foreign exchange rates.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

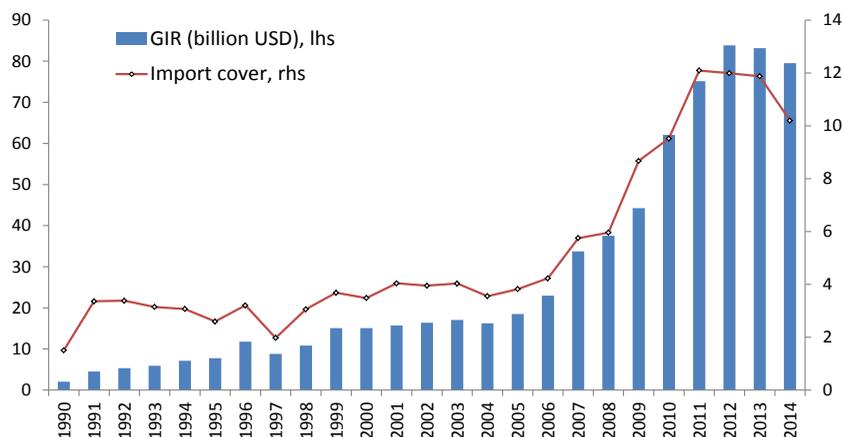
In 2013, the Philippines finally earned the coveted investment grade status from the three major international rating agencies on the back of improved macro-economic position and reforms undertaken across a broad front. Two of these rating agencies further upgraded the country above the minimum investment grade and have assigned a stable outlook. Macroeconomic fundamentals are on solid footing as inflation is kept within 3-5% target and the volatilities in the exchange rate mitigated judiciously by the BSP. The Department of Finance has also continued its policy of reducing the foreign component of the national government's debt. By November 2014, the DOF had successfully brought down the foreign component to a third of the debt stock. While measures have been taken to increase collections, strengthening the revenue base remains to be a work-in-progress. In the WEF Global Competitiveness Report for 2014-2015, the Philippines was ranked 26th for overall macroeconomic environment in the top 1/5<sup>th</sup> of 144 countries, and 3rd of the ASEAN-6 behind Singapore and Thailand.

Macroeconomic Environment/Stability, ASEAN-6, Rank, 2009-2015



Source: WEF; Total number of countries evaluated: 133 (2009), 139 (2010), 143 (2011), 144 (2012), 148 (2013), 144 (2014)

Gross International Reserves, 1990-2014, US\$ Billion



Source: BSP

## 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.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

Like in 2013, the government in 2014 brought down the deficit level to below 2% of GDP due to under-spending. The consolidated public sector balance has remained below 3% since 2011. Revenue collections during the first eleven months of 2014 are about 11% more than that of the same period in 2013 on the back of BOC's surge in collections by nearly 16%. The BIR has embarked on a number of administrative reforms. It is expected to improve its collections following its implementation of the Internal Revenue Stamp Integrated System (*IRSIS*) which has required that locally manufactured cigarettes bear a stamp tax starting October 1, 2014 and imported ones in February 2015. The IRSIS is a web-based application system for ordering and distributing stamps and allows for real-time monitoring of said stamps and generating reports thereof. Administrative reforms should be coupled with new tax legislation, chief among them the reform of fiscal incentives.

## 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.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

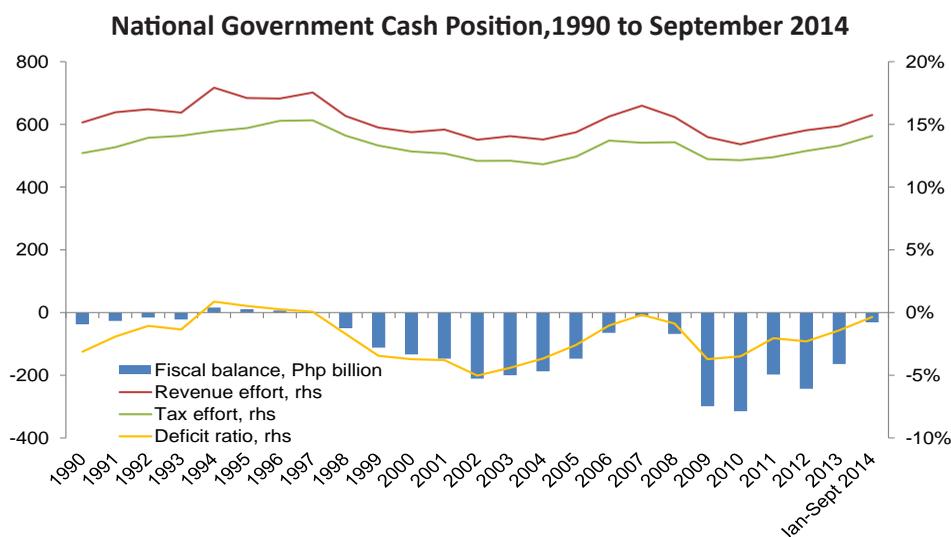
As of Q1 2014 external debt as a percentage of GDP stood at 21.5%, far lower than 37.1% in 2007 and 30.1% in 2010. In 2013, the national government's external debt was reduced to 16.9%. This was partly brought about by the reduction in the stock of foreign borrowings since 2012. Interest payments in 2013 as a percentage of government expenditure were reduced from 18% to 17% of budget and the ratio was expected to be maintained in 2014. This is a reflection not only of the under-spending that has plagued government agencies, but also good debt management through debt swaps, stretching of maturities, and reforms in cash management to reduce the amount of government float deposits through the implementation of a single national treasury account, for instance.

## Recommendation 4

-  The political leadership, with strong multisectoral support, should convey an austerity message, in word and by example. The political leadership should establish its credibility for following taxing and spending politics that are frugal and avoid waste and difficult to sustain populist policies.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

Expenditure priorities have been in order. They have focused on education, public health, social inclusiveness (*via CCT*), infrastructure, and national defense. While the President has adopted a much more frugal lifestyle than his two predecessors, state subsidies, for example to the NFA, still continue to drain government coffers. In 2014 PDAF was ended very unexpectedly as the result of major corruption scandal involving some members of Congress. On a positive note, the DOTC has made a politically difficult move to increase LRT and MRT fares effective in January 2015. To some extent, this will ease the fiscal burden due to subsidies by an estimated Php2 billion.



## Recommendation 5

- 
**Privatize more state assets.** While major privatizations have been made over two decades (*e.g. PAL, MWSS NCR water, NPC power plants, TRANSCO, and PNOC-EDC*), many government assets remain to be sold or leased (*e.g. Food Terminal Incorporated (FTI) in Taguig, military facilities in NCR, SMC 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*).

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress

Revenue from privatization for the past few years has continued to be insignificant in terms of its contribution to non-tax revenues and its absolute values. Preliminary data for the first eleven months of 2014, for example, reveals that privatization earned less than Php2 billion for the government, down from the nearly Php3 billion earned in 2013 and Php8.3 billion in 2012. This decreasing trend in privatization revenues means that the government should ramp up its efforts in selling its assets that the private sector is better equipped to run.

The closing of PSALM's sale of the 218-megawatt Angat hydroelectric power plant to a Korean firm in the final quarter of 2014, however, will add nearly PhP20 billion. PSALM still has to sell powerplants with over 1,500 MW capacity to complete its mandate under the EPIRA. Critical issues that need to be addressed include de-monopolization and regulatory reform in the case of NFA, PAGCOR, and the PPA, among others. Nevertheless, the more encompassing public-private partnership has awarded more projects. The government has awarded the largest project to date, the PhP65-billion LRT Line 1 Cavite Extension and O&M project. To date, nine projects have been awarded. The controversial decision by the government to re-bid CALAX, however, could have a chilling effect on the future of the PPP program.

## 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.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

To date, there has been no major technological breakthrough in the BOC to address under-invoicing of imports. The technology should be able to plug revenue leakages by data analytics and risk-based interventions applied either before goods arrive at ports or during post-entry audits. So far, the BOC has not initiated the procurement of these technologies. The BOC, however, is pushing for implementation of the integrated Enhanced Customs Processing System (*IECPS*), aimed at making processing transactions at the BOC paperless. Newspaper advertisements showing ludicrously low price declarations for various categories of imports and identifying the importer have appeared, but it is unclear whether the ads are an effective deterrent to under-invoicing in the absence of prosecution in courts. The BIR has undertaken a major effort to undertake VAT audits based on newly defined selection criteria. The BIR is completely connected to the NSW. The BIR has issued a new guideline that requires that every application for an Electronic Authority to Release Imported Goods (*eATRIG*) would be done through the NSW. For the 4<sup>th</sup> straight year, the national budget was passed on time. Part of the improved discipline is also reflected in the disaggregation of lump-sum funds and the one-year validity of all spending. Broader reforms include the roll out of the Government Integrated Financial Management Information, development of a Unified Account Code Structure, and greater involvement of civil society in the budget process through a bottom up process. The big headline issues of the PDAF and the Supreme Court decisions on PDAF and DAP should also herald greater disciplines and reforms moving forward.

## Recommendation 7

 Continue the BOC's National Single Window Program interconnecting 40 government agencies involved in licenses, clearances, and permits for import/export transactions and the E2M Project, which will fully automate import/export processing at all major ports in the country.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★ Not Ongoing	★★★★★ Started

As of October 2014, only 20 of the 38 agencies are compliant with the NSW, according to the BOC, with only 6 completely connected. Phase 2 of the NSW is slated for procurement. The BOC is also pushing for the implementation of the integrated Enhanced Customs Processing System (*IECPS*), aimed at making processing transactions at the BOC paperless, costing PhP650 million. Bidding of both projects by DBW was ongoing in early 2015. The NSW aspiration to have a seamless transmittal to the regulatory office of imports and exports needing permits, authorizations, and clearances for their fully automated processing and issuance as well as direct feedback to the BOC system is far from realization. The Philippines is lagging behind other customs administrations in this field.

## Recommendation 8

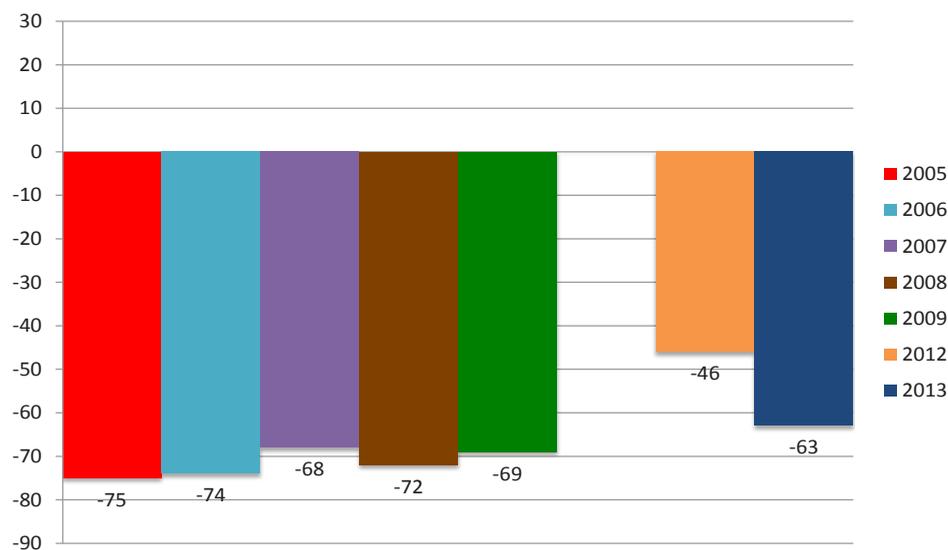


**Reduce and rationalize congressional pork barrel. Persuade Congress to do its part to control waste in government by reducing pork barrel and spending it better on national priority projects.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★★ Completed	★★★★★★ Completed

After signing the 2015 GAA, the President declared that the PhP2.6 trillion 2015 national budget no longer contained the highly unpopular pork barrel. This issue exploded into national prominence in 2013 with accusations against Janet Napoles for running a multi-billion peso pork barrel scam. Napoles was arrested and investigations against dozens of sitting and former legislators, members of their staffs, executive branch officials, and private sector persons were initiated by the Ombudsman and NBI. Reacting to horrific public condemnation, the Congress and the Executive after some delay terminated the PDAF program, bolstered by the game-changing Supreme Court decision that ruled Congressional PDAF was unconstitutional. While not a reform that was self-initiated but a positive result of an expose of large-scale abuse of the pork barrel system, following the wide public indignation, the administration embraced the opportunity to introduce reforms to make the system not just compliant with the decision but also make the budget process even more transparent and accountable. Three sitting senators were arrested in 2014 and may wait years for trial. A controversial DAP budget to reprogram “savings” to projects in other line items was challenged successfully in the Supreme Court.

**The 2013 SWS Survey of Enterprises on Corruption:  
Sincerity Ratings (%) of Bureau of Customs in Fighting Corruption, 2005-2013**



## Recommendation 9A

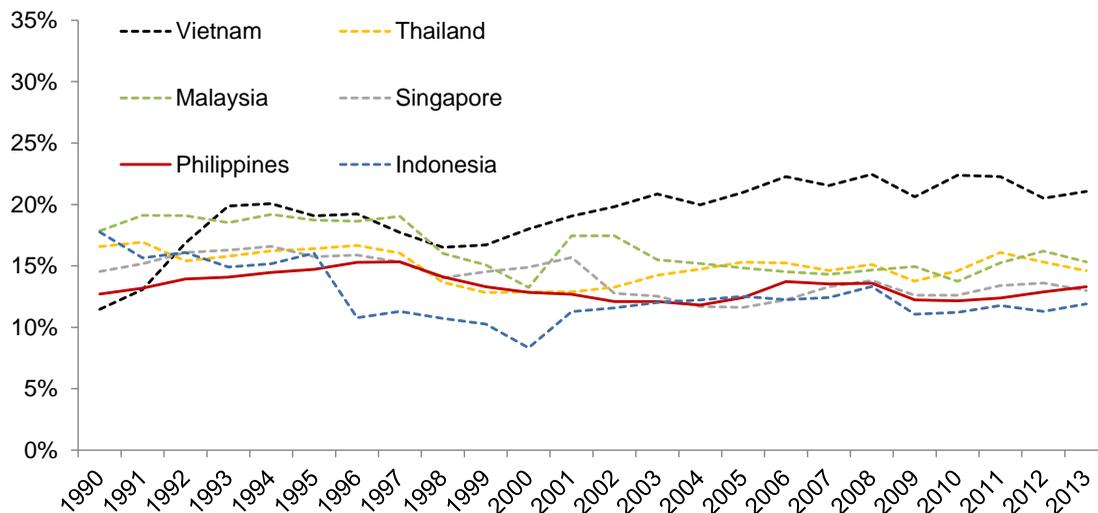


All taxes due to the national government should be collected from all taxpayers to reduce the huge losses from smuggling and tax evasion.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★★ Substantial Progress

Revenue collections are expected to increase and targets met as a result of good governance. BIR annual revenue collection have been increasing by double digits following increased excise tax for tobacco and alcohol, but preliminary figures show that revenue targets for 2014 may not have been achieved, against an ambitious 16% increase goal. BIR's estimated collections for fiscal year 2014 might be 5.8% short of the target PhP1.5 trillion. The BOC is also expected to miss its target. Increases were made possible by enforcement activities such as audits and investigations as well as an extensive tax information campaign to shame low-paying groups. Arbitrary changes of rules and excessive use of technicalities by BIR harm the predictability of the investment climate for major firms, especially multinationals. There are good developments at the BIR that promise to at least significantly reduce tax gaps. For one, the RATE and the RATS programs are clearly creating significant deterrence to would-be tax evaders despite few convictions. Another is that the close supervision by the BIR Commissioner of operations coupled with her success at insulating the BIR's officialdom from political interference/patronage has improved morale, esprit de corps, sense of duty, and loyalty to institution. All these augur well for a much more potent workforce at BIR. The Internal Revenue Stamps Integrated System (IRSIS) on the use of secured stamps for cigarettes is already operational. The new leadership at the BOC comes with the breaking of unholy alliances and saw BOC collections surge.

Tax Effort, ASEAN-6, 1990-2013



Sources: ADB, and Country Statistics Offices (PSA, NESDB, Singstat)

## Recommendation 9B



Increase computerization of relevant data to enable BIR and BOC to better estimate taxpayer liabilities.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★ Started	★★★★ Started

With the creation of special offices separate from the Policy and Planning Office, the DOF is more involved in the effort to capture relevant data to better estimate tax payer liabilities. The BIR's IT modernization is on-going. Among the projects is the Electronic Tax Information System (*e-TIS*) which is being implemented in phases with rollouts at pilot sites in the final quarter of 2014; it will eventually replace the BIR's outdated Integrated Tax System (*ITS*). The e-TIS is a web-based application which can perform numerous functions like taxpayer registration and audit and should eventually lead to greater transparency.

## Recommendation 9C

- Enable more e-transactions to reduce direct interaction between taxpayers and BIR personnel, especially outside BIR offices.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress

While the advances of information technology have allowed faceless transactions, the government, has proved slow to seize these opportunities. Nevertheless, the BIR has made strides in reducing direct interaction between its personnel and taxpayers. It has already mandated the use of eBIRForms by non-EFPS filers. It has also integrated the eSales system into the eAccReg system. The latter is a system for online registration and accreditation applications for cash register machines (*CRM*), point of sales (*POS*), and other business machines, while the former monitors monthly sales of business who use such machines. The BOC should be able to activate its new computer systems in 2015 and could achieve major strides towards on-line paperless operations with the public.

## Recommendation 9D

- 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.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress

Publicity campaigns are ongoing to create more awareness among the public about the pervasiveness of tax evasion and smuggling. Both agencies are regularly filing cases of smuggling and tax evasion at the DOJ. While these filing of cases undoubtedly made good media events, they have not, however, been matched by convictions. Aside from RATE, the BIR also implements the Oplan Kandado Program where business operations of non-compliant taxpayers are suspended and their establishments temporarily closed.

## Recommendation 9E

 Pass Simplified Net Income Taxation (*SNITS*) legislation.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

There are still no concrete actions to start the administrative and process to actualize this.

## Recommendation 10

 LGUs should be more efficient in updating and collecting local real estate and other taxes to improve their revenue base.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

With the general enhancement of governance in the Aquino administration, LGUs are beginning to reform their revenue base and collection. As part of improving governance at the local level, the DOF has set standards for LGU treasurers and assistant treasurers and the Bureau of Local Government Finance (*BLGF*) would be undertaking full performance appraisals on them. The DBM has also authorized the hiring of more BLGF personnel.

## 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, Tariff and Customs Modernization Act, and slow down if not cease the passage of unwarranted tax-eroding measures.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

The administration has been vigilant in ensuring no new laws are passed that will add to leakages. The Administration has listed Fiscal Incentives Rationalization (*FIR*) and the Customs Modernization and Tariff Act (*CMTA*) as priority legislation. CMTA ended 2014 in a TWG in the HWMC, while FIR was still quite controversial with disagreements between the DOF seeking more revenue and DTI and PEZA seeking more investors and jobs.

## Recommendation 12A



Taxes and fees and their collection should be greatly simplified.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★ Backward/Regression	★★★★★ Started

The Philippines is regarded as a tax unfriendly place for business. The WEF 2014 Global Competitiveness Report cites tax regulations and tax rates among the top five problems for doing business in the Philippines. The IFC-World Bank Paying Taxes survey ranks the Philippines among those in the bottom 70<sup>th</sup> percentile. On average, there are 36 payments a year that have to be made by the average business entity to the Philippine government. With this number of payments compounded by the inefficient collection of taxes and fees, cost of doing business has increased. Also, documentary requirements as attachments to the returns are impractical, redundant, and costly. The BIR, however, has made the filing of Annual Information Return (AIR) optional for 2014 after receiving much criticism. There are also problems faced by individuals in paying fees when they travel by air or by sea. At NAIA, for example, there are many fees to be paid which require lining up for queues several times. However, airport fees at NAIA may be included in tickets, eliminating one line for passengers. 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. The BIR is struggling to improve tax filing and payments from manual to on-line. 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.

**Ease in Paying Taxes, Overall and Per Sub-Category, ASEAN-6, Rankings, 2014-2015**

Country/Year	Overall ease of paying taxes		Tax Payments		Time to Comply		Total Tax Rate	
	14	15	14	15	14	15	14	15
Indonesia	158	160	186	187	115	116	55	54
Malaysia	31	32	56	59	38	38	99	100
Philippines	121	127	136	142	75	79	117	120
Singapore	5	5	6	6	15	14	15	15
Thailand	63	62	82	87	117	121	45	34
Vietnam	171	173	113	118	185	185	109	111

Source: Paying Taxes series by World Bank, Price Waterhouse Coopers and IFC 2014 and 2015 rankings are based on new methodology.  
Total number of economies evaluated: 189

## Recommendation 12B

-  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*).

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress

There has been further progress on this with the expansion of the CCT program to cover the poorest families in almost the entire country including youth aged 15-18 to complete high school. There have been intensified efforts to collect tax from the self-employed, including highly paid professionals like doctors, lawyers, and businessmen. A bill was passed in 2014 to raise the amount of worker's bonuses that is tax-exempt.

## Recommendation 12C

-  Taxes on corporate and personal income should be reduced (*eventually to 25%*) to incentivize working and compliance.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★★ Started

The two chairmen of the House and Senate tax committees have initiated studies and legislative drafts to restructure taxes for the first time since 1997.

## Recommendation 12D

-  Taxes on consumption should be increased (*eventually to a 15% EVAT*). Other consumption taxes including alcohol, cigarettes, tobacco (*ACT*) and fuel excise taxes should be increased.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★ Started	★★★★★ Substantial Progress	★★★★ Started

ACT is now being implemented. New measures have been adopted to improve compliance, notably a security stamp system. There should be increases in fuel taxes while petroleum prices are low. Little consideration is being given to raising VAT.

## Recommendation 12E

- 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, GPB, and port charges).

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

The CCT and GPBT bill was enacted in 2013 to remove taxes on passengers of airlines and ships. 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

- BIR and BOC Reform. Exemption of BIR and BOC employees from the Salary Standardization Act should be implemented.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ 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, efficient, and honest staff, while reducing complement despite expanding volume of locators. However, recruiting personnel at higher pay ratings can make government agencies more competitiveness with the private sector in having the best quality graduates.

## Recommendation 14

- Settle TCC arrears due foreign investors who have paid taxes that were to be credited to subsequent tax liabilities or to be refunded and for which sufficient funds have not been appropriated. Allow the cross-application of TCCs of the BOC and the BIR. Design policies that will address future TCC refunds.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★ Backward/Regression	★★ Backward/Regression

RMO 54-120 has made VAT refunds more problematic, especially as its application is retroactive. 20 business organizations are up in arms against the BIR and the DOF, trying to have the RMO cancelled and reach agreement that future RMOs are prospective. The 20 business organizations are grateful that HWMC Chair Quimbo has organized a hearing on the VAT refunds issue. A House Resolution can solve the issue and lead to an amended legislation. Prior to RMO 54-120 there had been considerable backsliding, in part due to a SC decision in the case of the San Roque and similar other VAT refund disallowances on technical rather than substantive grounds. More funds have been budgeted, a procedure for refunds set up, and applications accepted, but the GPH has been painfully slow to pay refund claims. VAT refund and TCC refund remain disincentives for investors; technicalities in refund processes appear to be more important than meeting the commitments made by government to foreign investors. The complicated refund process is a serious problem. Large foreign investors continue to wait for refunds, despite repeated promises from DBM, DOF, BIR, and BOC to jointly issue one set of guidelines to implement the provisions of EO 68-A dated January 14, 2014. Stricter limitations have been imposed on the issuance, utilization and transferrability of TCCs. New rules and EO 68 limits claims for input VAT refunds to cash refunds on a scheduled payment basis and issuance and use of TCCs is no longer allowed.

## Recommendation 15

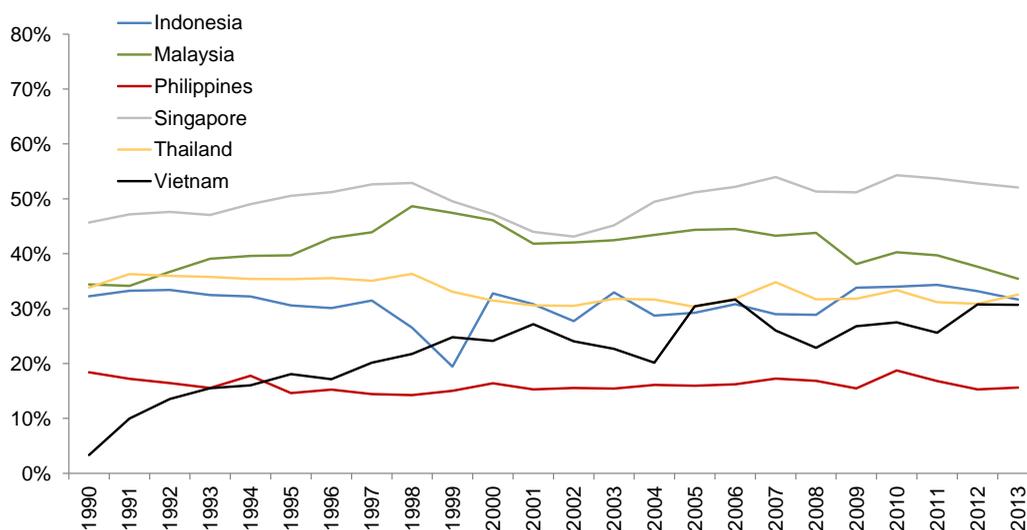


Increase the savings rate and strengthen domestic capital markets.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★ Started	★★★★ Started

By far, Philippine gross domestic savings rate is the lowest among the ASEAN-6, at 15.6% in 2013, half that of its neighbors (*Vietnam (30.7)*, *Indonesia (31.6)*, *Thailand (32.5)*, *Malaysia (35.4)*, and *Singapore (52.1)*). Links between firms and capital markets remain weak. While the equity market is rather large (*about 106% of GDP and comparable to Thailand's*), the bond markets are yet to be deepened. As of end-2014, local corporate bonds amounted to 6% of GDP. Nevertheless, the BSP has programs to ease the burden of SME access to finance and the PSE is encouraging more smaller players to list in the PSE's SME Board. The local bond market is also attracting more issuers to take advantage of the regime of lower interest rates. The tenor for local bonds is also longer.

Gross Domestic Savings Ratio, ASEAN-6, 1990-2013



Source: World Bank

## Recommendation 16

-  Increase the independence of regulatory agencies. To increase competition in regulated industries, reduce the “capture” of regulatory agencies by the appointment of independent directors and managers, with transparent agency decision-making and strict monitoring by the public.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

While the appointments on GOCC boards and the framework for governance have improved, some milestone decisions affecting the water and power sectors have caused concern and are now subject to international arbitration and judicial proceedings. This can have a chilling effect depending on how the courts decide. The GOCC Governance Act of 2011 when fully 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 the reorganization and abolishment of these and other GOCCs. In January 2014 President Aquino approved the GOCC recommendation to abolish three GOCCs as non-performing and having little social impact. Two were used as conduits for corrupt PDAF projects.

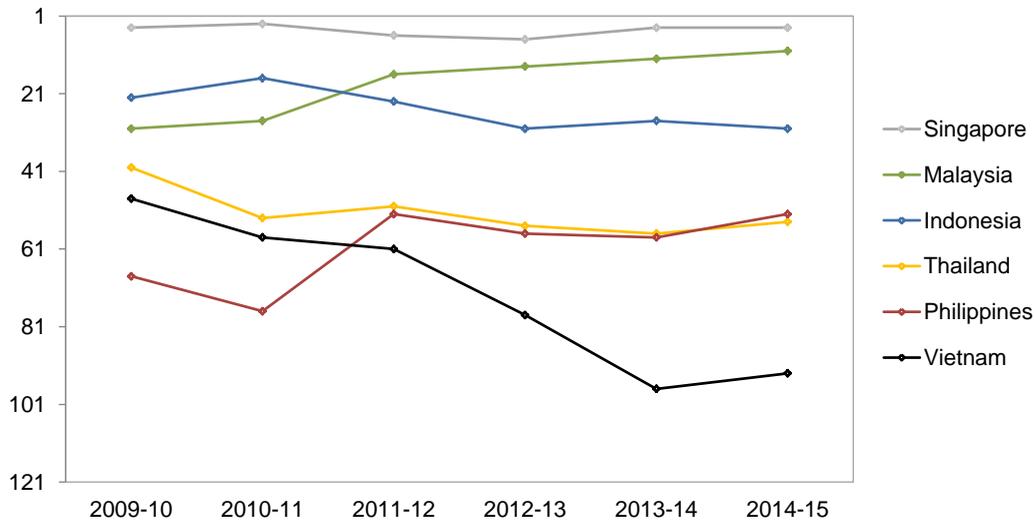
## Recommendation 17

-  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.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

To balance government regulations and their impact is quite a difficult task, even in sophisticated developed economies. For instance, while authorities intend to make the business climate as attractive and least expensive as possible, they also have to deal with immediate fiscal needs, consumer concerns, etc. 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 more business-friendly officials at CSC, DOH, DOT, DOLE, DTI, NCC, the FDA, and elsewhere. The Philippines is improving in the 2014 Ease of Doing Business global rankings of the WB/IFC. The NCC has organized national and local government agencies to further reduce red tape and attendance opportunities or corruption. However, the burden of tax regulations in the Philippines is rated poorly by the WB and the WEF. On the 2014 Global Competitiveness Most Problematic Factors for Doing Business, corruption was 17.6% of responses, inadequate infrastructure 15.9% (highest in ASEAN), and tax regulations 13.3% and tax rates (9.7%) both also highest in ASEAN.

Extent and Effect of Taxation, ASEAN-6, Rankings, 2009-2015



Source: WEF; Total number of countries evaluated: 133 (2009), 139 (2010), 143 (2011), 144 (2012), 148 (2013), 144 (2014)

## Recommendation 18



**Maintain policy predictability and stability.** Once policies are well-established through debate and implementation, maintaining them in a predictable and stable fashion creates a more positive climate for investors, who prefer that unpredictable risks are minimized.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★★ Started

A long-term (20-25 year) plan for national development, similar to those of Indonesia and Malaysia, and reduced corruption may help minimize the pattern of incoming elected officials undoing the work of predecessors. Performance bonuses at government agencies are being linked to reduced red tape. However, the current PDP, like its predecessors is only for 6 years and does not extend beyond 2016. Judicial risk in the Philippines remains high. Several decisions by the Court of Tax Appeals, Court of Appeals, the Supreme Court, and MWSS in 2013 created uncertainties for major investors in aviation, freight, power generation, telecommunications, and water.

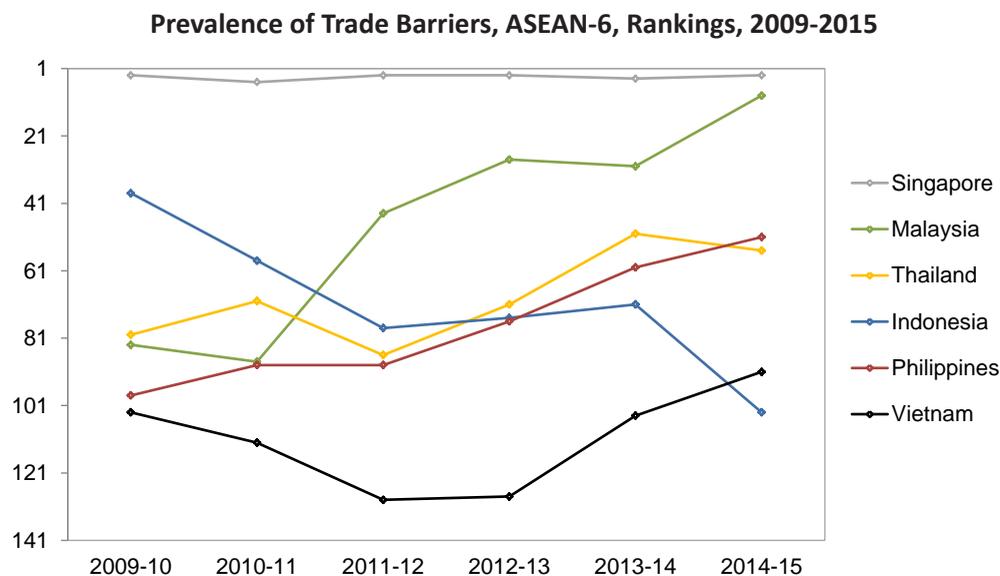
## Recommendation 19



**Take advantage of new trading opportunities under the various new Asian regional free trade agreements.** Negotiate new free trade agreements with Europe and the US. Study changes needed to be able to conclude these agreements, organize workshops about their expected benefits, otherwise educate local leaders about changes the Philippines should make for compliance.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★ Started	★★★★ Started

Philippine businesses are increasingly aware of the opportunities presented by the many FTAs the country has entered into, particularly with the approach of the ASEAN Economic Community in 2015. In almost all industries, the production chain is incomplete, reducing the ability of firms to capture economies of scale, while the cost of capital, labor, and intermediate materials is relatively high. GSP+ was approved by the European Parliament in December 2014 and makes a large number of additional Philippine exports duty-free (e.g. pineapple juice (28.5%), garments (5-9%), tuna (20.5%), and footwear (11.9%)). European investors will be more attracted to invest in the Philippines in exports that have become duty-free. Looking ahead, discussions for a bilateral FTA with the EU continue. Since the first round of TransPacific Partnership (TPP) negotiations is restricted to the 12 economies in the final stages of their talks in early 2015, the Philippines can only apply for membership later and has stated it plans to do so. The TPP economies comprise 40% of global GDP; not becoming a member of the TPP can restrict future economic growth of the Philippines, according to a 2014 study of UP School of Economics.



Source: WEF; Total number of countries evaluated: 133 (2009), 139 (2010), 143 (2011), 144 (2012), 148 (2013), 144 (2014)



**PART 4**  
GENERAL BUSINESS ENVIRONMENT

# Security



## Recommendations: 15



### Progress:

0 Declined      14 Steady      1 Improved      0 Neutral

### Rating:

0	☆ No Longer Relevant	0	★★ Backward/Regression	1	★★★ Not Ongoing
8	★★★★★ Started	6	★★★★★ Substantial Progress	0	★★★★★ Completed

# PART 4

## GENERAL BUSINESS ENVIRONMENT:

# SECURITY

“In 1986, there were an estimated 250,000 policemen and soldiers protecting a total of 55 million Filipinos. Today, we still have an estimated 250,000 policemen and soldiers, who protect 95 million Filipinos. Our population has almost doubled, while the number of our protectors has not changed.” – *President Benigno S.C. Aquino III, State of the Nation Address, Quezon City, July 22, 2013*

“Investing in peace is so much cheaper than waging war.” - *DBM Secretary Florencio Abad, JFC Luncheon, February 6, 2014*

“What breeds insurgencies? Poverty and inequality, the lack of opportunities, social injustice. The government, if it puts its mind to it, has the resources and mechanisms to address these problems in the conflict zones of Mindanao. People everywhere need good governance for the effective delivery of basic services including education, health care, sanitation and law enforcement. Mindanao’s conflict zones have rich resources that can provide livelihood opportunities. The ARMM government has been working on these tasks, and it can use more help.” - *Ana Marie Pamintuan, “Shared Aspirations,” Opinion, The Philippine Star, February 18, 2015*

“I continue to believe that the MILF is a group that has made the difficult leap from sheer rebellion to accountable political leadership in a place that historically has been rent by anarchy and patrimonial warlordism. We can encourage them as partners in a novel experiment in modern autonomous government. Or, we can dismiss them as an incorrigible bunch of treacherous bandits and terrorists. We can continue to silence our guns as we try to hold the peace in the face of tough challenges. or, we can resume the war of pacification and subjugation that previous governments, colonial and Filipino alike, began in Mindanao in the name of law and order. The choice is ours.” - *Randy David, Public Lives, The Philippine Daily Inquirer, February 12, 2015*

“It is important for the public to listen to what Iqbal and his fellows have to say. They are Filipinos who, at one point, had felt the need to wage war to press their claims for justice and recognition in their own land, but are now willing to submit to the legislative process—with a Congress such as ours—for a law that could allow them a measure of peace at last. Their eventual peace is ours, too. It’s not us versus them. In the search for peace, Iqbal’s demonstration of earnestness deserves consideration, not hostility.” - *“Not Us vs Them,” Editorial, Philippine Daily Inquirer, February 14, 2015*

Security issues are a serious investment climate concern, especially in some rural areas, for the mining and tourism sectors, and in parts of Mindanao. This section contains recommendations concerning: external security, internal security (*insurgency, terrorism, and warlordism*), 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 Absence of Violence and Terrorism, shows the Philippines is no longer the lowest-ranked among ASEAN-6; Thailand is ranked lower. In the WEF Reliability of Police Services, the Philippines showed improvement. In the WEF Business Costs of Crime and Violence, the Philippines has moved ahead of Indonesia and Thailand. For Business Costs of Terrorism, the Philippines also ranks close to Indonesia and ahead of Thailand. At 1.3% of GDP, military spending in 2013 was the second lowest of the ASEAN-6. Challenges facing Mindanao/Sulu include: 1) better civilian governance and economic growth that reduce the popular appeal of local combatants, 2) implementation of the political settlement with the Moro Islamic Liberation Front (*MILF*) accompanied by increased public and private sector investment, and 3) sustained military/police action against the Abu Sayyaf Group (*ASG*) and the Bangsamoro Islamic Freedom Figures (*BIFF*). Mindanao infrastructure, the unreliable power supply, and high domestic shipping costs, need continuing improvement.

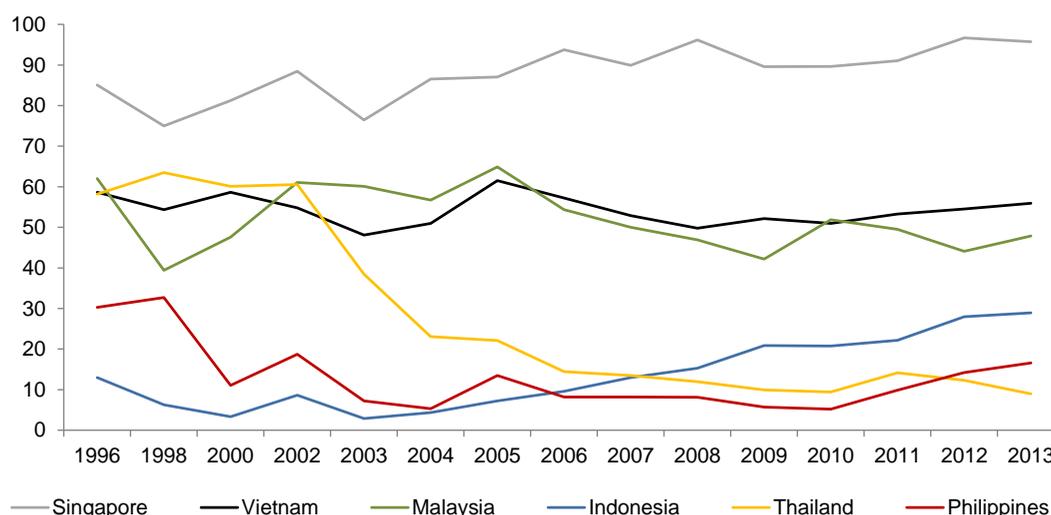
## Recommendation 1

- Improve the Philippine country rating in the World Bank measure Political Stability and the Absence of Violence and Terrorism, presently lowest among the ASEAN-6, to be ahead of Indonesia and Thailand. Also improve the Philippine country rating in the WEF category Business costs of terrorism, where the country is last among the ASEAN-6.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★ Not Ongoing	★★★★★ Started	★★★★★ Started

The Philippines is showing slow improvement in the WB and WEF security rankings but remains ranked 5th among the ASEAN-6, a little ahead of Thailand but far behind Indonesia and others. While there has been steady improvement in the country's political stability, reducing crime, violence, and terrorism and their costs to business remains a serious challenge, especially in Mindanao. On several security ratings, the Philippines is comparable to Indonesia and Thailand; catching up with Malaysia, Singapore, and Vietnam is unlikely in the medium term. FDI will continue to avoid some provinces due to security concerns.

Political Stability and Absence of Violence, % Rank, ASEAN-6, 1996-2013



Source: World Bank's Worldwide Governance Indicators, 2014 Update

## Recommendation 2

- Minimize conflict in Mindanao with the MILF and negotiate a settlement agreement consistent with the Philippine Constitution and supported by the Congress and local communities in Mindanao.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

After 15 years of negotiation, the October 15, 2012 signing of the Framework Agreement between the GPH and MILF represents a major achievement toward long-term settlement of the 41-year long rebellion. The parties completed in January 2014 negotiation of annexes on power-sharing, wealth-sharing, normalization, transition arrangements, and water. The Transition Commission was organized and drafted the Bangsamoro Basic Law, passage of which has been prioritized in the 16<sup>th</sup> Congress. Once enacted and approved in a plebiscite in affected communities, a Transition Authority will replace the ARMM government and the new Bangsamoro Political Entity will be elected and created in the May 2016 national elections. Major clashes involving MILF units have been avoided for many years. Integration of many 12,000 armed MILF members into local police is planned to enhance security. Several thousand MILF fighters could be offered employment in new agribusiness ventures in the Bangsamoro. An inventory of MILF army commenced in late 2014. In pace with BBL implementation, 65% of the MILF forces are scheduled for decommissioning in 2015. The MILF is expected to organize itself into a political party to seek office in the new autonomous region to follow the ARMM. *(Note: This assessment was written before the controversial January 25, 2015 battle between PNP SAF commandos and BIFF and MILF rebels in Mamasapano, Maguindanao in which 44 police were killed. The incident resulted in Congressional suspension of hearings on the BBL).*

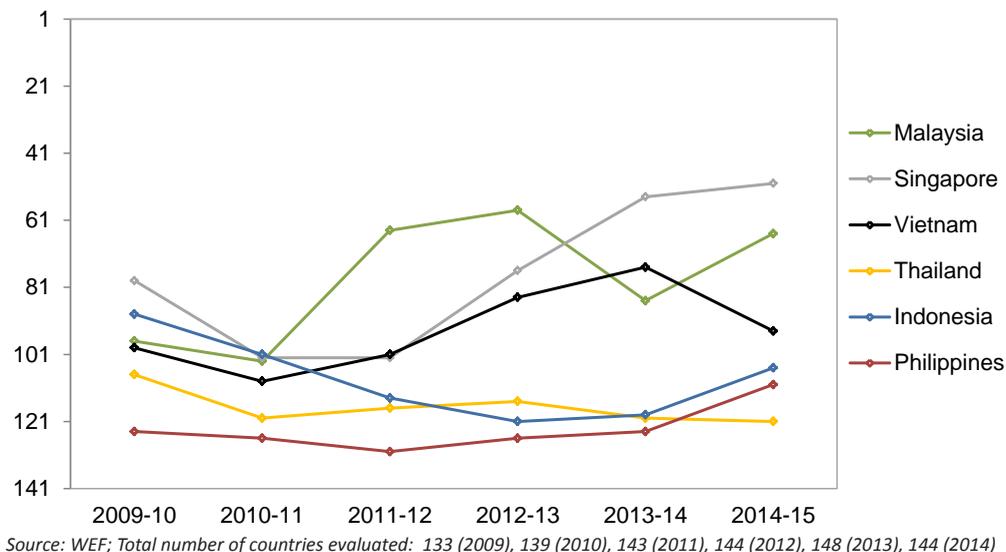
### Recommendation 3

 Continue aggressive military action to contain and eliminate the ASG and minimize/prevent any presence of JI militants in the country. Maintain training and intelligence cooperation with friendly foreign military forces.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
 <b>Not Ongoing-Started</b>	 <b>Substantial Progress</b>	 <b>Substantial Progress</b>	 <b>Substantial Progress</b>

After decades of GPH military action, the militant Islamist terrorist ASG has been attrited and contained but not eliminated in its strongholds in Basilan and Sulu. In 2011 in the Al-Barka, Basilan incident 19 soldiers were brutally killed. In November 2014, 10 soldiers were killed while the AFP claimed 9 ASG fatalities in two incidents. These incidents demonstrate the remaining capability of the most radical Philippine rebel group in its home base. The few hundred adherents of the ASG can still carry out limited ambushes, bombings, and kidnappings but are less able to repeat major incidents like the 2000 Sipidan, Malaysia kidnapping, 2001 Dos Palmos kidnappings, and 2004 Superferry bombing. Foreign advisory support for AFP anti-ASG operations continues. Meanwhile, the MILF-breakaway Bangsamoro Islamic Freedom Fighters (*BIFF*) in Maguindanao who oppose the MILF-GPH settlement and have initiated attacks on government forces and civilians are subject to Philippine army counter-operations.

**Business Costs of Terrorism, Rank, ASEAN-6, 2009-2014**



## Recommendation 4

**Reduce poverty faster in the poorest provinces in Mindanao. Increase the national government allocation of resources to Mindanao to at least 30%.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

Both Muslim and many non-Muslim provinces in Mindanao remain among the very poorest in the country. The national government is spending significantly more than ever in Mindanao on health, schools, roads, and other infrastructure. The CCT program also helps. Private investment has largely avoided the most severe conflict-affected areas because of continuing peace and order issues (*Islamist, communist, political warlords, extortion, kidnapping, and banditry*). Agribusiness, light industry, mining, and tourism have excellent potential that could create high numbers of jobs and reduce poverty when confidence in a secure investment climate is achieved. ARMM reports investment levels above Php 1 billion in 2011, 2013, and 2015 (*forecast*) in nickel in Tawi-Tawi, banana plantations, real estate, biomass, and an oil depot. Regions around Cagayan de Oro, Davao, and General Santos are growing strongly.

## Recommendation 5

**Complete and implement the Mindanao 2020 Peace and Development Plan containing a Master Plan for prioritized infrastructure projects that will provide reliable power supply, integrated road and port transportation, and less expensive transport costs to and from Mindanao. The Plan(s) must have a champion in Manila.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

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. The Executive Summary can be viewed at <http://www.minda.gov.ph/site/About-Minda/Mindanao-2020/Executive-Summary>. It remains to be seen whether there will be sufficient political will and financial resources to implement the plan. A strong commitment to do so through several 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. An Anti-Private Armies Act should be passed. Local police and armed civilian auxiliary units should be better managed by the national government, so that they do not commit abuses and become “captured” by local warlord politicians. Over time the local auxiliaries should be reduced.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

A PNP list of 86 private armies in late 2012 identified 43 led by mayors, 6 by Congressmen, and 6 by governors. The PNP definition of the term is an organized group of two or more persons, legally or illegally armed, who use their weapons to intimidate for political or economic purposes (*source Rappler*). The PNP in May 2013 reported it was monitoring 10 private armed groups in the ARMM and another 10 in Region 12 (*SOCCSKSARGEN*). Almost all private armed groups are associated with local politicians who use them as body guards and to influence elections. The largest group of some 3,000 men under command of the Ampatuan clan was once used as a “force multiplier” of the Philippine Army but has largely been disbanded following the infamous Ampatuan-ordered massacre of 58 persons, including 32 journalists accompanying a political rival on November 23, 2009 in Maguindanao. 246 persons have been charged in the massacre, including military and police and local officials in addition to Ampatuan family members. 109 of the suspected killers have been arrested without bail (3 subsequently died), 88 remain at large, and 3 witnesses have been murdered. The trial of Ampatuan family warlords at the Quezon City RTC entered its 6th year in 2014. In December 2013, the Supreme Court issued a resolution with five guidelines intended to speed up the trial. However, the trial is held only two days a week and could move much faster if the court met continuously.

## Recommendation 7

 Hold talks and negotiate with Philippine communist political representatives and seek longer cease-fire periods but do not expect success in view of the historical goals of the CPP/NPA.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★★ Started	★★★★★ Started	★★★★★ Started

Intermittent GPH “preliminary” negotiations with civilian leaders of the 44-year old NPA/NDF have made little or no progress in ending the “protracted people’s war” of the Maoist Filipino communists. However, in late

December 2014 during a one month ceasefire period aging CCP founder Jose Maria Sison (*exiled in Utrecht, Netherlands*) stated in a podcast that peace talks could begin in mid-January and result in a “*comprehensive agreement on economic reforms and an agreement on truce and cooperation.*” The GPH confirmed exploratory talks through intermediaries in Q4 2014. However, Sison also demanded release of 500 political prisoners. More radical elements of the CCP/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. In parts of Mindanao the NPA are believed to be regularly funded by illegal small scale gold mining. Destructive raids have been made in recent years against a Japanese mining firm Sumitomo in NE Mindanao and against a Del Monte plantation in Bukidnon. 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 an implementable peace agreement.

## Recommendation 8

 To counter the appeal of the communists in rural areas, extend government services, including health and education, and improve infrastructure and livelihood programs. Increase the conditional cash transfer program. Better governance and economic growth will undermine the appeal of local combatants who use violence.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

Spending on social services is budgeted to reach PhP968 billion or 37% of the 2015 budget. A key Aquino Administration policy and program thrust is to improve the lives of all poor Filipinos. K+12, ending shortfalls in books, classrooms, and teachers, Universal Health Care, and Reproductive Health are intended to improve national education and health programs. Higher infrastructure spending on roads, irrigation, and disaster/flood control also reduces poverty. The CCT program targets assisting 4.4 million families by 2015, up from 3 million in 2012. The 2015 budget increases CCT spending to PhP65 billion from PhP45 billion in 2013 and adds 10.2 million children aged 15-18. But missing - 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, a more competitive economy, and more support for the agriculture and mining sectors.

## Recommendation 9

 Successfully investigate and prosecute human rights abuses in order to reduce such violations and improve the international image of the Philippines. Financial rewards for information leading to arrests should be adequate. The witness protection should be strengthened and applied effectively. The Ampatuan massacre trial, which is under close international scrutiny, must be conducted in an expeditious and legally correct manner and be a model of rule of law in the country.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

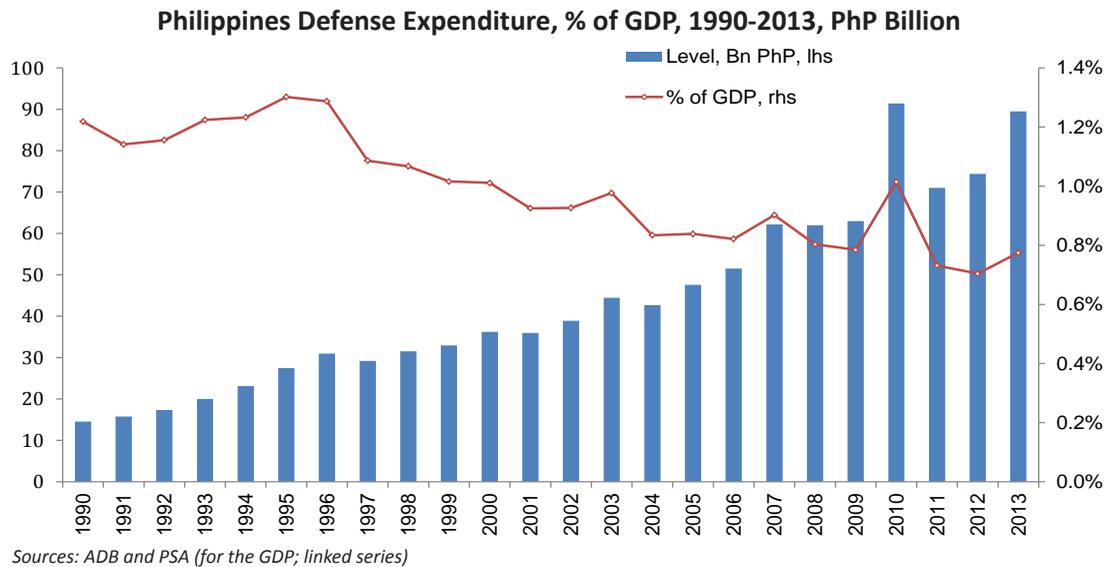
Human rights abuses by suspected government agents and insurgents continue due to a culture of impunity and weak rule of law. Extra-judicial killings prevalent in the PGMA Administration have greatly declined but have not ended. The Philippines has the 3<sup>rd</sup> highest number (78) of journalists killed (since 1992) after Iraq and Syria according to the Committee for the Protection of Journalists. Eight Philippine journalists have been murdered since President Aquino took office. Prosecutions are rare. The killer of broadcaster Gerard Ortega in Palawan was sentenced to life in prison. Charges of enforced disappearance and murder have been brought against a former army general and a former Palawan governor; the general was arrested in 2014, but the governor remains at large. Kidnapping of Chinese-Filipinos for ransom are less common. In 1993 there was a kidnapping every other day. But prosecutions and convictions take a long time, often ten years. The case of Genevieve Sy, who was kidnapped in 2014, only has a hearing once a year. Nineteen were reported in 2014 by the Movement for the Restoration of Peace and Order. The Commission on Human Rights (CHR) has a very large backlog of some cases stuck in its regional offices. In December 2012, President Aquino signed RA10350, Asia's first law punishing disappearances as a distinct crime. The US State Department annual human rights reports describes continuing human rights infractions in the country. In November 2014 Amnesty International released a report "Above the Law: Police Torture in the Philippines." The report found that hundreds of detainees has been tortured in recent years.

## Recommendation 10

 **Implement defense modernization faster. The extensive Philippine coastal seas, vulnerable to smuggling of weapons, terrorists, and goods, need more patrol and interdiction activities by Philippine or regional patrol forces.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Started	★★★★★ Started	★★★★★ Started

After decades of neglecting external defense capabilities following the 1982 departure of US air and naval forces - during which much equipment became inoperable (e.g. a PAF with no jet fighters and only 2 more C-130 transports) - the Aquino Administration has begun to procure limited new equipment, including 12 Korean F/A-50 intermediate jet fighters, 18 training aircraft, new and used helicopters, 2 used C-130 transports, coastal radar, small ships, and vehicles. US\$1.2 billion in defense acquisition projects has been awarded in the 2011-14 period. A successor law to the unimplemented 1995 PhP331 billion AFP modernization plan, RA 10349 allocating PhP85 billion over 5 years for equipment was signed in 2012. Some limited new and surplus equipment and training is provided free or at low cost by the USG and others. Vigorous PRC claims on disputed maritime areas close to the Philippines have heightened the country's awareness that it faces a huge challenge to patrol let alone defend its extensive coastal waters and air space. Aquino Administration defense budgets for 2011-15 total over PhP400 billion, substantially more per year than the PhP50 billion average for 2001-2010, but at 0.7-0.8% of GDP has steadily fallen over the last two decades.

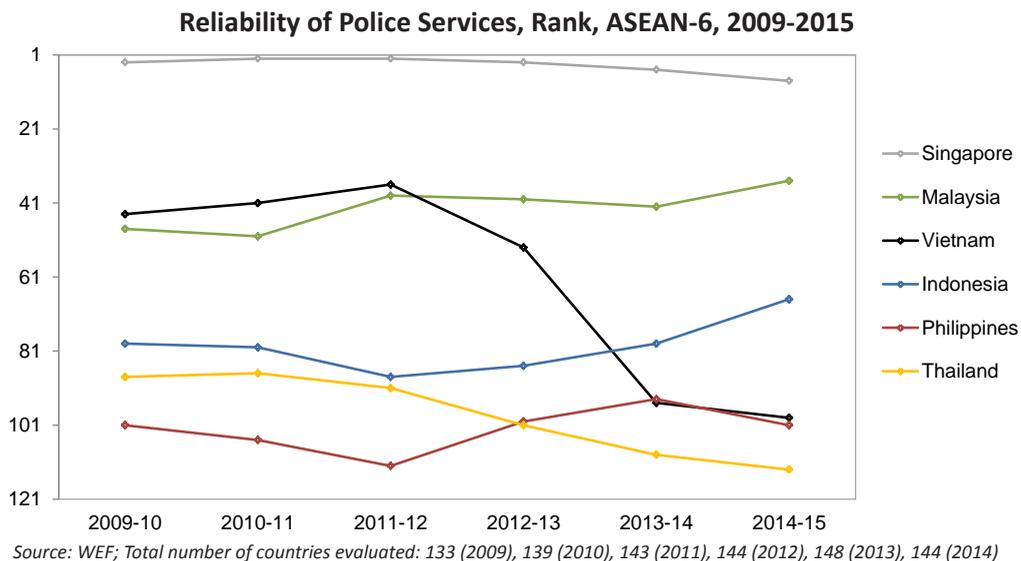


## Recommendation 11

**—** Increase the size of and better equip the national and local police forces.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★	★★★	★★★★★	★★★★★
<b>Not Ongoing-Started</b>	<b>Not Ongoing</b>	<b>Substantial Progress</b>	<b>Substantial Progress</b>

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 and increased by 31% to a total 153,814 in 2014. It needs 61,542 more to reach the 1:500 ratio. Spending on police services has also increased. The budget allocation for PNP modernization, including weapons and other equipment, increased from PhP12.6 billion in 2010 to PhP16.3 billion in 2014. The budget for operations, including salaries, services, police relations, intelligence, and investigation, grew by 63% from PhP42 billion in 2010 to PhP70 billion in 2014. PhP2 billion 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 PhP25,000 per month. In the WEF Reliability of Police Services rating, the Philippines has improved from 6 of 6 to move ahead of Thailand and very close to Vietnam.



## Recommendation 12

-  End extra-constitutional actions by any military units through reducing military corruption, meeting equipment concerns especially in Mindanao, maintaining chain-of-command discipline, and promoting military professionalism. Court martial and otherwise deal firmly with all military mutinies.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

Motivating factors have waned for the mutinous actions and coup d'état scheming that contributed to political instability from the 1985 RAM plan to topple President Marcos to the bizarre 2007 Peninsula Manila takeover by now Senator Trillanes and ex-BOC official retired Philippine Army BG Danilo Lim. The Aquino Administration has reduced corruption in the AFP and is beginning to acquire new equipment for the military. The lessons of past incidents that they fail, weaken the economy, and harm careers also appear to have sunk in. However, coup scheming is not a political liability as shown by three current senators with a history of plotting and extraconstitutional military actions.

## Recommendation 13

-  Limit firearms in civilian hands and reduce loose firearms. Purchase loose firearms, repeat amnesty, and increase penalties for unlicensed possession. Pass Anti-Deadly Weapons Act.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★★★ Substantial Progress	★★★★★ Started	★★★★★ Started

As in the US, sensational shootings stir debate over tightening laws and restricting gun ownership. There are nearly 1 million licensed privately-owned firearms in the country and over 300,000 owned by private security agencies, according to the PNP. Unlicensed firearms are numerous and easily obtained by criminals and insurgents. The current administration has not repeated the previous administration's successful amnesty program but has encouraged owners to license rather than surrender their weapons. The Comprehensive Firearms and Ammunition Regulation Act that should tighten ownership screening was passed by the 15th Congress and become law as RA 10591 on May 29, 2013. There are some 12,000 homicides a year, 56% from firearms; the trend is fewer each year.

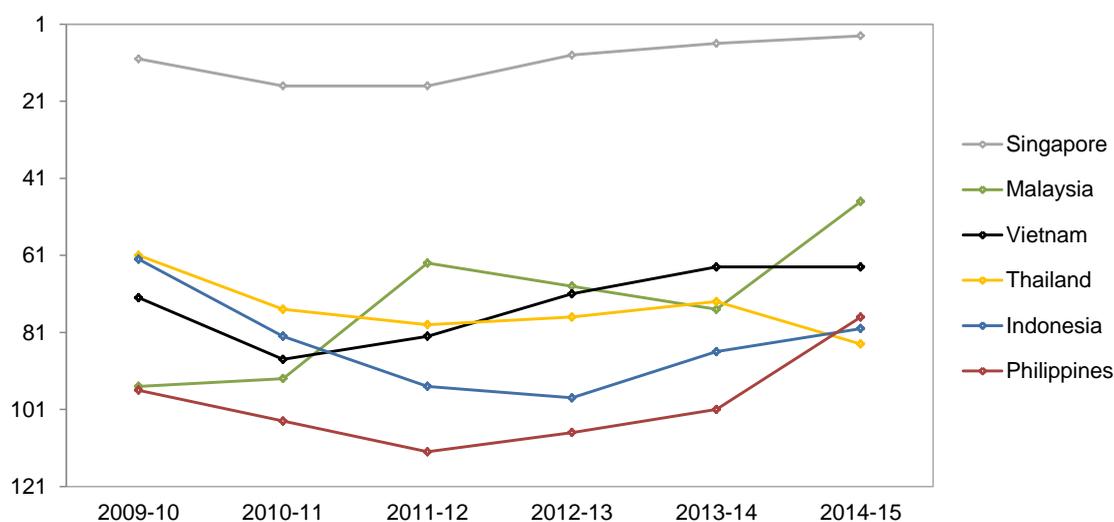
## Recommendation 14

-  Do more to discourage kidnapping through breaking up kidnapping syndicates and arresting, prosecuting, and sentencing kidnappers.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started	★★★★★ Substantial Progress

Criminal kidnapping has a long history as an extortion activity in the Philippines, especially against Chinese Filipinos and in Muslim provinces. A majority of reported kidnappings in 2014 were in Muslim areas; Filipinos were usually the victims. Incidents of kidnapping for ransom in major urban areas have become infrequent. Kidnapping of foreigners, usually for ransom are infrequent, but receive considerable international news coverage. A kidnapped Swiss birdwatcher was rescued in Sulu in 2014, while his Dutch companion remains a captive of the ASG. 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, BIFF, and former military and police. A leading security firm estimated around 100 kidnappings occurred in the country in 2013.

Business Costs of Crime and Violence, Rank, ASEAN-6, 2009-2015



Source: WEF; Total number of countries evaluated: 133 (2009), 139 (2010), 143 (2011), 144 (2012), 148 (2013), 144 (2014)

## Recommendation 15



Encourage more balance in foreign government travel advisories, so that the wording recognizes that most foreign residents of the Philippines live safely and peacefully in the country. The warnings are useful for both residents and newcomers to be aware of different threats, but the threats should not be described in alarmist tones.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

Cautious foreign government travel advisories written for domestic constituencies dramatize risks of visiting the Philippines, contribute to lower tourist arrivals, and may discourage FDI. In a review of travel advisories of six countries, only the UK gave balance by stating around 122,759 British nationals visited in 2013 and “most visits are trouble free.” The Hong Kong Special Administrative Region Security Bureau which in 2013 classified the Philippines with Egypt and Syria under its worst category: “severe threat... avoid all travel” in 2014 increased the Philippines to “yellow,” a category including 17 countries such as India, Indonesia, Malaysia, Myanmar Thailand, and Vietnam. The Government of Australia stated “terrorist attacks could occur anytime, anywhere...”



# PART 4 GENERAL BUSINESS ENVIRONMENT

## SOCIAL SERVICES: Education



### Recommendations: 12



### Progress:

0 Declined      12 Steady      0 Improved      0 Neutral

### Rating:

0	☆ No Longer Relevant	0	★★ Backward/Regression	2	★★★ Not Ongoing
8	★★★★★ Started	2	★★★★★ Substantial Progress	0	★★★★★ Completed

# PART 4

## GENERAL BUSINESS ENVIRONMENT:

### SOCIAL SERVICES:

# EDUCATION

“The inherited backlog in books, chairs, and classrooms: erased; while we are working to fulfill the new needs brought about by the implementation of K to 12.” - *President Benigno “Noynoy” Aquino III, Fifth State of the Nation Address, July 28, 2014*

Education is a long-term enabler of development, productivity and competitiveness. This becomes more important as a country’s growth is linked more dynamically to the global economy and the virtual world of knowledge. As a middle-income country, the well-being of the Philippines will be based on the quality of its labor force and this is a reflection of how educated its citizens are.

After decades of slow decline in the quality of the education system particularly at the basic education level (*e.g. elementary and secondary education*), the PNOY Administration has invested significantly in education to turn this around. As a testament to this, the budget for education – already the largest departmental share in the national budget – has grown faster than the national budget. The key to these investments has been to introduce structural change in the system, particularly universal kindergarten (*introduced in 2011*) and the additional two years that will constitute senior high school (*to be rolled out in 2016*). How these reforms will be sustained is critical to turning around the long-term decline in the quality of the system and helping the country regain competitiveness in the long run.

Since 2010, there has been an appreciable upgrade in the country’s standing as per the WEF Global Competitiveness Report (*GCR, 2014-15*). The quality of primary education is ranked 60 out of 144 rated countries (*by executives’ opinion survey*) in the 2014-15 GCR versus a previous 69 out of 139 countries in 2010. This rating, however, is only fourth highest among the ASEAN-6 behind Singapore, Malaysia and Indonesia but ahead of Thailand and Vietnam.

The quality of higher education (*through executive opinion survey*) ranks higher at 29 out of 144 countries with a rating of 4.5 (*on a 7.0 point scale*) behind Singapore (*5.8 rating; #4*) and Malaysia (*5.3 rating; #10*) but ahead of Indonesia (*#32*), Thailand (*#87*) and Vietnam (*#94*). (*GCR, 2013-14*)

Major education reforms have been legislated including universal kindergarten (*77 percent enrolment rate in 2012 versus a target of 100 percent in 2015*) and the addition of senior high school (*Grades 11 and 12*) starting school year 2016-17 with full implementation by 2018 (*DBM, 2014*). The risk with the late introduction of senior high school is that full implementation will not happen until after the 2016 national elections. Barring any hitches due to political considerations, the addition of senior high school will put the country on par with the global norm of 12 years for basic education before university.

Enrollment rates at all levels remain relatively low versus ASEAN-6 neighbors. Primary (*elementary*) enrolment is at 88.2 percent (*last among ASEAN-6 neighbors*). Secondary enrollment is 84.6 percent (*third behind Singapore and Thailand*). Tertiary enrolment is low at 28.2 percent (*fifth behind Singapore, Thailand, Malaysia and Indonesia*). (*UNESCO, cited in GCR, 2013-14*)

The PNOY Administration has ramped up education spending in peso value considerably since 2010 though this is still only at 2.92 per cent of GDP, well below that of Malaysia, Thailand and Singapore. (ADB, 2014)

Infrastructure spending has been significantly increased by the PNOY Administration to deal with the classroom shortages through direct contracting and an aggressive build-transfer-lease program with the private sector. This should address the classroom shortage situation by 2016. The size of schools, however, has grown unabated and will have an impact on quality if not addressed. This is more acute at the secondary level where a large number of high schools have enrolments larger than most colleges in the country.

The WEF-GCR rating for quality of math and science shows some perceived improvement in 2014 versus previous years though the rating is still low compared to the global sample. Executives surveyed rate the country 4.1 on a 7.0-point scale for quality of science and math education (#70 of 144) versus the ASEAN-6: Singapore (6.3 rating; #1), Malaysia (5.2, #16), Indonesia (4.6, #36), Thailand (3.9, #81) and Vietnam (3.9, #82).

## Recommendation 1

 Commit to a large increase in the public education budget over several years to at least PhP400 billion and 3.5 to 4% of GDP to build, repair, and equip new and old classrooms, eliminate the teacher shortage, raise teacher salaries, and reduce the teacher/student ratio. Double the average spending per student to be closer to other ASEAN economies.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★★ Substantial Progress	★★★★★★ Substantial Progress

The PNOY Administration has significantly raised the budget for education since it took office in mid-2010. It has effectively reached the peso value target but is still behind on the percent to GDP ratio.

In 2014, the Government just fell short of the target of PhP400 billion in terms of annual public spending for education at all three levels of primary, secondary and tertiary education. This target will be attained in 2015 when the General Appropriations Act (GAA) will allocate a total of PhP410.97 billion for education broken down as follows:

- Department of Education (DepED) – PhP373.11 billion (of which PhP319.23 billion is in new funds plus PhP53.88 billion for infrastructure spending)
- State universities and colleges (SUC) – PhP43.3 billion
- Commission on Higher Education (CHED) - PhP3.56 billion (of which PhP2.2 billion are for scholarships)

The 2015 budget reflects an 18.6 percent increase over 2014 for DepED and a 16.8% increase for SUCs. In addition, the DepED budget constitutes 14.1 percent of the National Budget or an increase of 2.23 percentage points over the share of budget in 2009 or before the start of the PNOY Administration. (Sources: dbm.gov.ph; Luz, 2012)

A significant portion of the DepED budget (14.4 percent) is allocated for infrastructure spending to cut down on classroom and school furniture shortages. The new risk, however, is that addressing the shortages does not scale down the large school sizes which have a direct hit on quality.

In 2014, DepED also hired over 39,000 teachers to address the estimated shortage of teachers in the public school system. This rate is over 400 percent the annual hiring rate prior to the PNOY Administration. Over that four-year period, close to 110,000 new teachers have been hired. This has had little effect on the teacher-student ratio, however, because of the large student population entering basic education. Since the enactment

into law of universal Kindergarten, an additional two million children now enter the system every year. On top of this, the improved student retention rates (*i.e. lower dropout rates*) means more students in the system. Hence, minimal improvement in the teacher-student ratio. This also means that the per student spending rate at all levels of education in the country has remained flat at around PhP9,500.

TESDA's budget for 2014 was PhP3.7 billion. This will be increased to PhP5.32 billion in 2015 of which PhP4.6 billion will be for technical-vocational education and training services.

As of 2012, public spending on education as a percent of GDP was 2.92, up from 2.6% in 2009 but still below the spending rates of Malaysia (5.82%), Thailand (4.32%) and Singapore (3.83%). (*Asian Development Bank, 2012 except for Thailand [2011]*)

## Recommendation 2

 Over a period of several years, extend basic education by two years and add one year before elementary school (*the K+12 model*). Students should graduate high school at age 18 prepared either to enter the workforce or college. Increase technical/vocational skills training in the high school curriculum.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★ Started	★★★★ Started

The first of the structural reforms – introduction of universal kindergarten (*K*) was enacted into law in 2011 and is now a prerequisite for Grade 1 starting in SY 2011-12. DBM reports that kindergarten enrollment is at 77% nationwide as of 2012 (*General Appropriations Act, 2015*). The target is to attain 100% by school year 2015-16.

The Enhanced Basic Education Law was passed on September 4, 2013 effectively adding two years for senior high school (*SHS; i.e. Grades 11 and 12*) though this will not be rolled out until SY 2016-17. (*Note: New risks are introduced by the manner by which DepED has decided to roll out senior high school. In SY 2016-17 and 2017-18, the introduction of Grades 11 and 12 in successive years means that there will effectively be no freshmen intake in colleges and universities nationwide. This will put tremendous strain on the financial position of universities and colleges and may lead to a shakedown in the sector. In 2020 and 2021, the lack of freshman intake four to five years earlier will result in no or very minimal college graduates for these two years.*)

The proposed SHS will introduce three main tracks for students to pursue: a) STEM (*science, technology, engineering, mathematics*); b) HAB (*humanities, arts, business*); and c) Tech-Voc (*technical-vocational education*).

With the additional two years of SHS added to the basic education cycle, high schools students will graduate with 12 years of basic education at the age of 18, thus matching the global norm.

## Recommendation 3

 Empower teachers by constantly improving their quality and their curriculum to help students acquire the knowledge and skills required to enable them to get higher quality jobs. Apply competency-based standards for teachers and provide more in-service training, while maintaining their welfare and morale.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

National competency standards for teachers and principals have been introduced by DepED though work on this has slowed as the concentration of efforts has shifted to K-12 implementation. A new initiative on teacher, principal and supervisor readiness for the K-12 rollout will take priority throughout 2015.

Salary standardization enacted in 2009 has seen all three stages implemented. This has raised teacher salaries by around 90 percent. The downside to this is that a new law will be required to increase teacher salaries in the future which could take any number of years (*the last salary standardization law took 9 years after the previous law*).

## Recommendation 4



Basic education and college curricula should be adjusted to increase the study of math and science. Encourage more college students to study fields needed for specialized positions in the economy (*e.g. agribusiness, computer science, engineering, environmental science, mining, and physics*). Teach more foreign languages in colleges to support the BPO and tourism sectors.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

The improvement on math and science is still prospective and linked to the STEM (*science, technology, engineering, math*) track proposed for senior high school which will not be rolled out until SY 2016-17. Nevertheless, there are existing individual school and association efforts to enhance science and math education in both public and private high schools. The Mathematics Teachers Association of the Philippines (*MTAP*) has expanded its math enhancement programs in public schools in cooperation with private sector support to address math gaps in the basic curriculum. A similar association – the Mathematics Trainers Guild – does similar work and is particularly active in international competitions where it has shown some success.

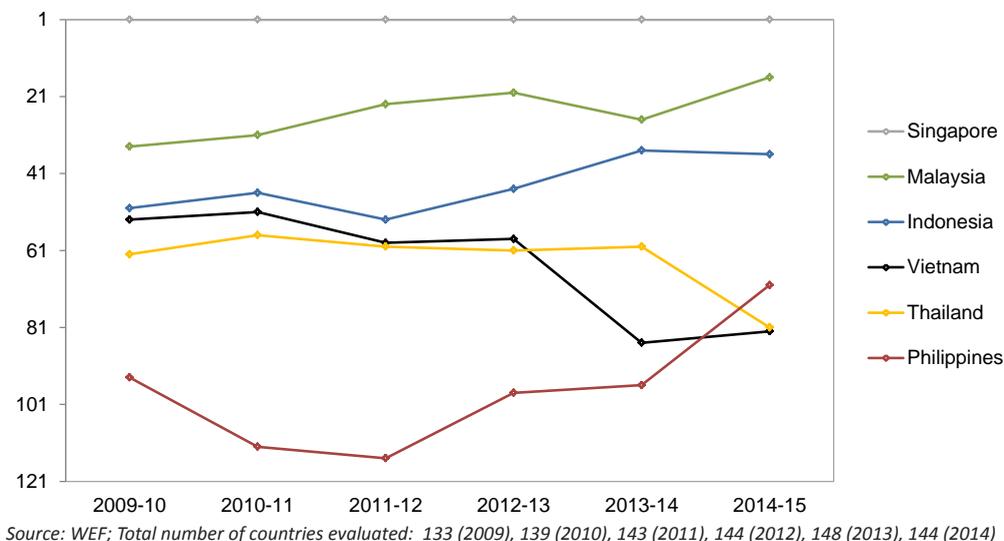
One particular group – Philippine Business for Education (*PBE*) has embarked on work to study and address the perceived and actual mismatches between higher education offerings and industry manpower needs. This work is still in its early stages.

The BPO Industry through its industry association, IBPAP (*Information Technology-Business Process Association of the Philippines*), has been particularly active in establishing industry-academe linkages to address its talent requirements with higher education institutions through the Commission on Higher Education.

Latest ratings of the quality of mathematics and science education in the ASEAN-6 (*World Economic Forum, Global Competitiveness Report, 2014*):

- Singapore      6.3 (*on a 7.0 scale*)      1 – Global Ranking
- Malaysia        5.2                                      16
- Indonesia       4.6                                      36
- **PHILIPPINES**    **4.1**                                    **70**
- Thailand        3.9                                      81
- Vietnam         3.9                                      82

Quality of Math and Science education, ASEAN-6, Ranking, 2009-2015



## Recommendation 5

**—** Intensify investment in technology for high school education. Complete the private sector Gearing Up Internet Literacy and Access for Students (*GILAS*) program to connect high schools to the Internet (*of 6,786 high schools, 3,892 remain to be connected*). Equip high school teachers with notebook computers and students with e-readers. Place more computers in high schools using grants, donations, and purchases.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

DepED has been the main driver of IT investment in schools after it took over GILAS starting in 2010. In 2014, the Department spent PhP4.0 billion in providing computers, software and internet connectivity to a targeted 15,966 schools. The 2015 budget will more than double this to PhP8.5 billion. The major part of the program is till computer laboratories. Equipping teachers with notebook computers and students with e-readers is still a very minimal part of the investment and requires a major retraining at the school and division levels.

At the tertiary level, Congress enacted RA 10650 – An Act expanding access to education services by institutionalizing open distance learning in levels of tertiary education – In December 2014. This new law recognizes the importance of online courses though the implementing rules and regulations have yet to be drafted. One institution that has began major work on online courseware is the University of the Philippines Open University (*UP-OU*) in Los Banos.

## Recommendation 6

**—** Strengthen higher education by providing more resources for world class centers of excellence and expanding scholarships and loans for higher education, while reducing national government subsidies for low quality state and local universities/colleges. Make government student loans available through SSS, GSIS or banks to be repaid after employment for tertiary and technical/vocational education students to enroll in accredited public and private higher education institutions.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★ Started	★★★★ Started

The Commission on Higher Education continues to provide support to 87 recognized centers of excellence housed in different universities in all regions of the country.

In August 2013, Congress passed into law RA 10612 – An Act expanding the coverage of science and technology scholarships and the strengthening the teaching of science and mathematics in secondary schools. The law targets university students majoring in STEM subjects who are inclined to become secondary science teachers. By the end of 2014, 500 college juniors have been qualified and funded as DOST-SEI (*Department of Science & Technology-Science Education Institute*) scholars.

In November 2014, Congress passed a new law – RA 10648 (*An Act providing scholarship grants to top graduates of all public high schools in state universities and college*). This law attempts to provide incentives for high-standing public school graduates to enter state universities across the country.

Student loan proposals, however, continue to be mired in committee in both the Senate and the House of Representatives. SB 2848 to enact a national student loan program and SB 2169 and HB 3617 to provide bank-led student loan programs have yet to be reported out of committee and do not appear to be priorities of either House of Congress.

## Recommendation 7



**Encourage qualified foreign schools to operate and foreigners to teach in the Philippines. Solutions to the educational deficit should include foreign as well as domestic resources.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★ Started	★★★★ Started	★★★★ Started

There has been no appreciable change from the 2013 assessment.

From the 2013 report:

*“At the basic education level, a few (international) schools have been licensed to operate in the country (by the Department of Education). In addition, some Philippine high 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. The global movement towards the internationalization of education requires the Philippines to facilitate mobility of academic programs, students, faculty and staff. However, the Constitution and prevailing laws do not encourage this mobility. At both the basic and tertiary levels, the hiring of foreigners has been limited. This is not because DepED or CHED regulations prohibit the hiring of foreign faculty. This is more a financial issue as foreign faculty command higher hiring salaries than local teachers. In summary, the Government of the Philippines has been relatively liberal in terms of policy but the take-up has been slow largely because of affordability. CHED established a task force on internationalization in 2013 to review issues and formulate recommendations... CHED’s concern has been to uphold the Philippine education brand and improve the quality of the higher education system... Schools (however) are more concerned with operational matters, including Bureau of Immigration (BI) processes for the issuance of visas to foreign students and with DOLE (Department of Labor & Employment) restrictions on the hiring of foreign faculty.”*

Three universities – University of the Philippines, Ateneo de Manila University and De La Salle University – are actively engaged with the ASEAN University Network which is preparing for ASEAN Integration at the end of 2015 initially through the Academic Credit Transfer system and faculty, student exchange mechanisms, though this is not yet system-wide.

## Recommendation 8

 Install English language computer training labs in high schools, supplementing teacher resources with English training software. Each lab should have ten computers. The private sector can donate large numbers of used computers, while the government can purchase the software and handle logistics.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★★ Started	★★★★★ Started	★★★★★ Started

DepED reports the same number of high schools that have at least one computer laboratory of at least 20 PCs (97% of all public high schools nationwide) with 68% having internet access. The recurring concern now is replacement of hardware and software. For this, DepED has allocated Php8.5 billion in its 2015 budget. In the past few years, computer donations from the private sector plus investments in computer and speech labs by local government units (LGUs) is making computers more accessible to public school students and teachers.

## Recommendation 9

 To advance bilingualism, undertake a vigorous public campaign to emphasize the importance of English competency to entering and existing workforce members. Such a campaign should point out that mastery of English enables access to global knowledge and wider economic opportunities. Encourage television and radio stations to use more English in their programs.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

English proficiency has admittedly suffered over the past decade as the education system has moved to improve mother tongue instruction from Grades 1 to 3 so as to improve learning. This is consistent with research undertaken by UNESCO on the role of mother tongue instruction. Where the country needs to improve is on English instruction in the higher grades starting Grade 4 through high school. Note: English is introduced as a subject as early as Grade 1 but not used as the medium of instruction until the higher elementary grades.

There is no explicit policy to encourage television and radio stations to use more English in their daily programming.

## Recommendation 10

- Recognize high schools and tertiary schools and students who score well on English tests. Schools should be assessed for their capacity to deliver quality English-language instruction given quality scores based on test results of their graduates.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

There is no recognition program at the high school or tertiary levels for students who score well in English language tests. One industry that is working on helping universities improve on English language training is IBPAP for the business process/knowledge process outsourcing industry. IBPAP continues to work with CHED on its university-based program on English and critical thinking processes. One major program is AdEPT (*Advanced English Proficiency Training*), a 100-hour/2-week English proficiency course using industry-developed courseware for university students interested in working in the BPO industry.

## Recommendation 11

- Strengthen the Dual Education/Dual Technical System by expanding scholarships and involving the private sector in curriculum development and internships.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★ Started

The Dualtech system remains a limited arrangement between industry and individuals interested in working at the technician level. Efforts to expand the system continue to be driven by private firms and with little incentive other than the current internship arrangements that have limited modalities. Congress has recognized this limitation and enacted into law RA 10647 (*An Act strengthening the ladderized interface between technical vocational education and training and higher education*) in November 2014.

In the BPO sector, TESDA is offering the Industry Training for Work Scholarship Program (*I-TWSP*) composed of courses designed by industry to prepare trainees for jobs in call centers, software development, medical transcription, and animation. (*IBPAP, 2014*)

## Recommendation 12



Universities and Colleges should allow students in the second half of their studies to spend longer periods in companies (*expand the internship period*) to prepare them better for employment.

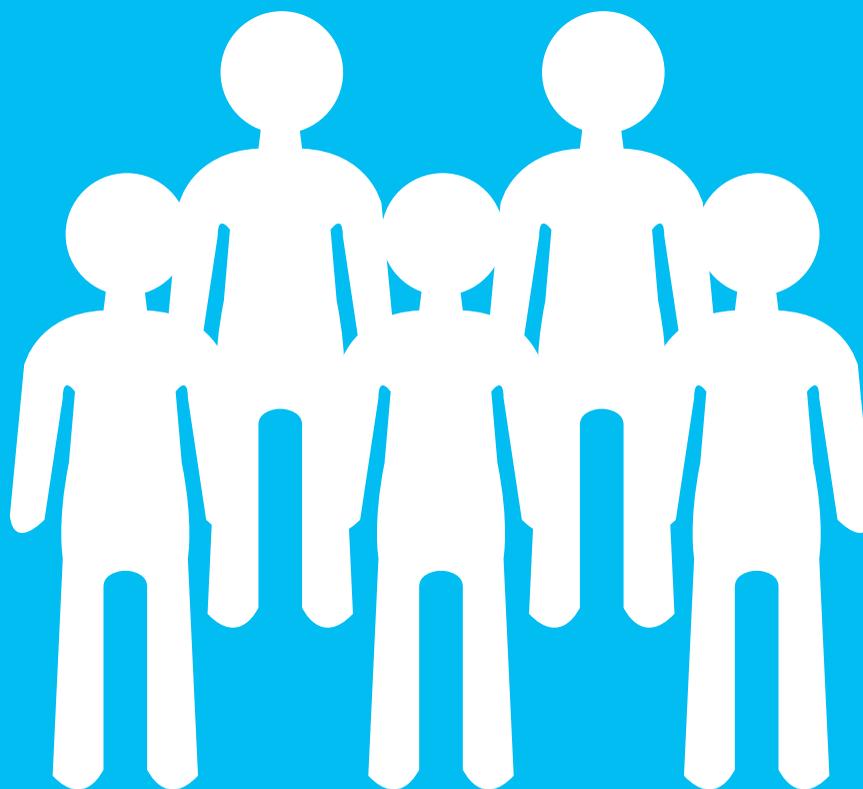
2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★★ Started	★★★★ Started	★★★★ Started

There have been no major changes in the internship (*OJT*) arrangements approved by CHED. As in the 2013 report: *“Internship programs continue to be university-driven as a requisite for graduation...(varying) from university to university and (occurring) throughout the year. The number of hours of internship is determined by the university and not by the company or industry.”*

IBPAP is the one industry that has an industry-wide OJT sanctioned under CHED Memorandum Order (*CMO*) No. 6 (2012) that provides up to 600 hours of internship with university credit.

# PART 4 GENERAL BUSINESS ENVIRONMENT

## SOCIAL SERVICES: Health and Population



### Recommendations: 9



### Progress:

0 Declined      4 Steady      4 Improved      1 Neutral

### Rating:

1	☆ No Longer Relevant	0	★★ Backward/Regression	2	★★★ Not Ongoing
1	★★★★★ Started	3	★★★★★ Substantial Progress	2	★★★★★★ Completed

# PART 4

## GENERAL BUSINESS ENVIRONMENT:

### SOCIAL SERVICES:

# HEALTH AND POPULATION

“Universal Health Care (*UHC*) is a government mandate aiming to ensure that every Filipino shall receive affordable and quality health benefits. This involves providing adequate resources – health human resources, health facilities, and health financing.” - *DOH website, taken February 15, 2015*

“From 2010 to 2014, the approved budget of our Department of Health more than tripled, going from PhP24.65 billion to PhP83.72 billion, and the 2015 budget has increased this even further, to PhP86.97 billion... We are also providing free healthcare to those identified to be the poorest sectors of our society. Now, they can simply walk into any government hospital, show their PhilHealth card, and receive medical treatment, free of charge.” - *President Benigno S. Aquino III, Philippine Physicians in America – Philippine Medical Association Joint Congress 2015, Manila Hotel, January 8, 2015*

“The RH (*Reproductive Health*) law is 14 years too late but its enactment is giving us a chance to stop maternal deaths and put an end to an epidemic of ignorance that disempowers women and men alike.” – *Risa Hontiveros, Former Akbayan Representative, March 25, 2013*

Good public health is a significant concern for the business community. Healthy employees are more productive, have lower absenteeism, and incur lower healthcare expenses. Healthier children are more 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 Universal Health Care. 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 resource base, environment, and government can support remains intense. A large, well-educated, and healthy population will provide a “*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. The RH Act will assist parents to be well-informed in exercising their right to choose among alternative methods of determining family size and will provide contraceptives.

# Recommendation 1

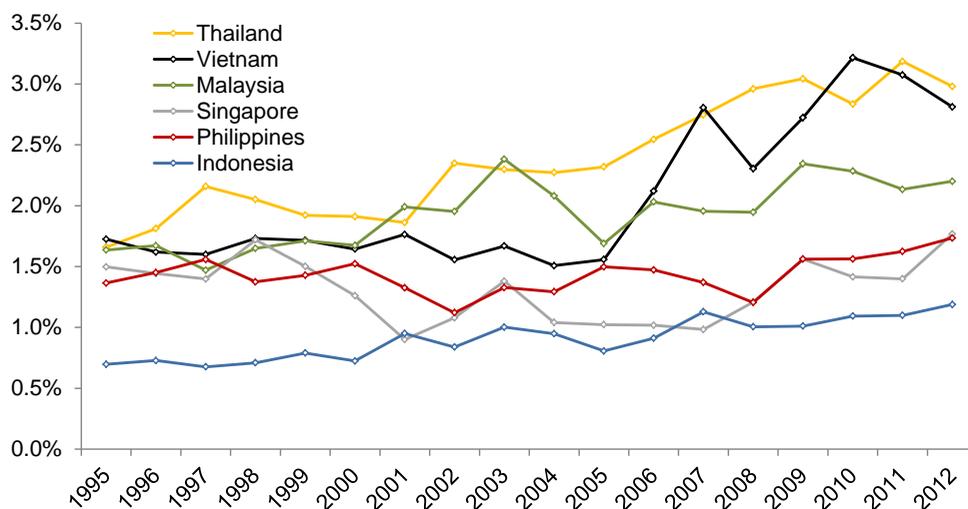


The Philippine Government should double national spending on healthcare to 2.5 to 3% of GDP. Direct spending to poorest Filipinos, who cannot afford any healthcare. Government hospitals should be modernized, rationalized, and expanded, and many thousands of additional village health centers built. Better equipment and staff are also needed.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress

From 1.2% in 2008, National Government Health Spending as a percent of GDP is slowly increasing, reaching 1.7% in 2012, some 40% higher. The annual DOH budget has grown significantly from a low of PhP9.9 billion (or 0.9% of GAA) in 2003 to its present PhP85 billion (or 3.8% of GAA). It is projected to be at PhP88 billion in 2015, a 252% increase from PhP25 billion in 2010. Its program on Health Facility Enhancement will receive more than a third of its funds. However, per capita spending on health is less than half of Thailand's. The proportion of health spending that is out-of-pocket was 56% in 2010. Government spending should increase to reduce this amount by 20% to 30%. Government health spending should be through universal social health insurance (*PhilHealth*) as well as direct programs and facilities subsidies. Spending on public hospitals and clinics is also increasing. RA 10351, Excise Tax on Alcohol, Cigarettes, and Tobacco, effective January 2013, is creating large new revenues for PhilHealth, particularly aimed at the poor. From 2010 to 2014, the GPH has spent a cumulative total of PhP46.39 billion upgrading more than 6,900 health facilities nationwide.

National Government Health Spending as % of GDP, ASEAN-6, 1995-2012



Source: WHO

## Recommendation 2

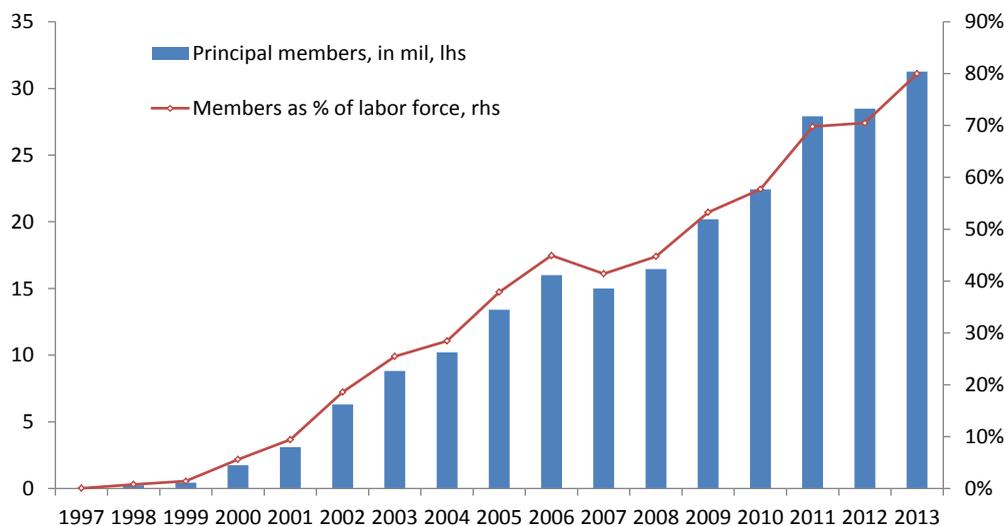


PhilHealth should be expanded to become Universal Health Care (*UHC*). Enrollment in Philhealth should be made mandatory so that more professionals, domestics, and informal workers are included. The poorest Filipinos should be enrolled with no co-payments for services required. Outpatient services and free medicines should be added. Premiums should be progressive with income.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Started	★★★★★ Started	★★★★★★ Substantial Progress

Universal Health Care continues to be a significant program of the Aquino Administration, with membership increased from 2010 to 2014 by 40% to 32 million. Counting dependents, total beneficiaries in early 2014 exceeded 81 million out of 100 million Filipinos. Major progress has been made with the enrollment of the National Household Targeting System (*NHTS*) and benefit improvement and expansion such as the Z Benefits and the No Balance Billing. Amendments to the PhilHealth law, along with the IRR, were completed in 2013. This will impact on enrollment, which will become more mandatory. Under the NHTS, 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. Improvement of the primary care benefit package is a priority for 2014.

PhilHealth Membership, 1997-2013



Source: PSA-BLES, PhilHealth Insurance Corporation

## Recommendation 3



Cease healthcare legislation that does not achieve desired policy goals of improving health of the poorest. The cheaper medicine law has lowered prices for better-off Filipinos, but prices remain out of reach for the poor. Proposed stringent milk code amendments would limit women's right to choose and do nothing to reduce malnutrition.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Completed

This administration has substantial achievements in the passage of landmark health legislation such as the increase in Alcohol, Cigarette, and Tobacco Taxes and the RH Bill in the 15<sup>th</sup> Congress. In the 16<sup>th</sup> Congress, health is not a top priority in the legislative agenda although new bills and amendments to several policies still should be passed. Proposal to reduce drug prices further and to go beyond the 1987 Milk Code regulating infant formula have not advanced in the 15<sup>th</sup> and 16<sup>th</sup> Congresses.

## Recommendation 4

- Use the PPP model to improve public sector health services. Opportunities include information technology services (*including telemedicine*), patient and staff lodging, and air ambulance services.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★ Started	★★★★ Started

The Department of Health continues to express interest in using the PPP model for healthcare projects. The modernization of the Philippine Orthopedic Center, one of its landmark projects, was awarded to Megawide-World Citi Consortium in late 2013. Other hospital projects are in the NEDA PPP hospital pipeline. The DOH official in charge of PPP has estimated the value of government hospital expansion, modernization, and operation projects at PhP40 billion for PPP projects for 20 government “*flagship*” hospitals. The DOH targets to triple the number of beds in public hospitals.

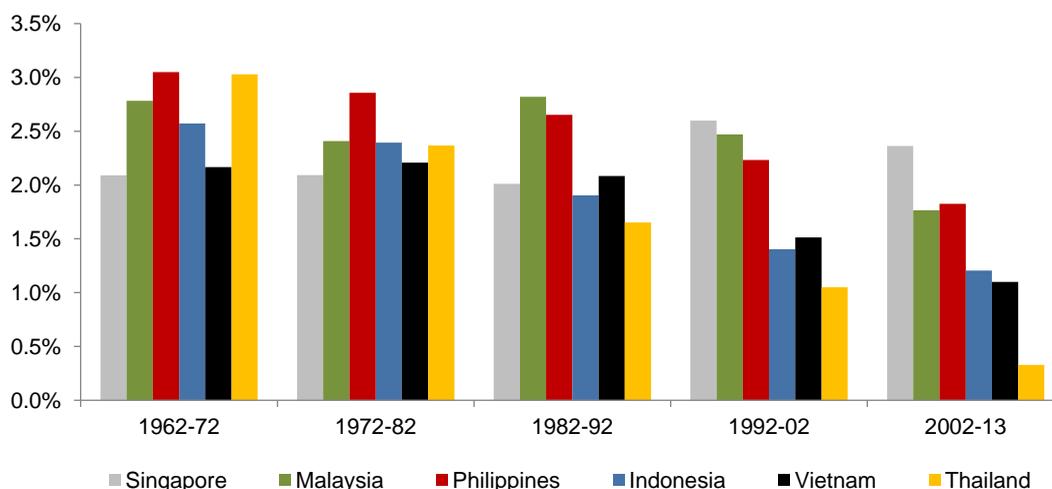
## Recommendation 5

- Government should set a target for an achievable population growth rate (*e.g. 1.5% by 2016*), set a parallel target for increasing the contraception prevalence rate (*e.g. 70% by 2016*) and lowering the fertility rate (*e.g. to 2.5% by 2016*), and design and implement a reproductive health program to achieve the targets.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

The long years before passage and implementation of the RH Bill have been weak in terms of programs for reducing population growth rate, programs for increasing the contraception prevalence rate, lowering the fertility rate, and designing and implementing a reproductive health program to achieve targets. The Commission on Population (*PopCom*) targets the fertility rate to fall from 3 to 2.1 children per woman. The population growth of 1.9% is declining very slowly. The 2015 National Budget is the first that includes funds for contraceptives.

Average Annual Population Growth, ASEAN-6, 1962-2013



Source: World Bank and author's calculations

## Recommendation 6



The private sector should support reproductive health policy legislation and assist employees to have smaller families. The business community should be vocal and visible in the public arena to support government when it acts vigorously to manage population.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress	★★★★★ Substantial Progress

The private sector was crucial to the passage of the Responsible Parenthood and Reproductive Health Act of 2012. Businesses continue to follow requirements of the Labor Code in the provision of contraceptives in the workplace.

## Recommendation 7

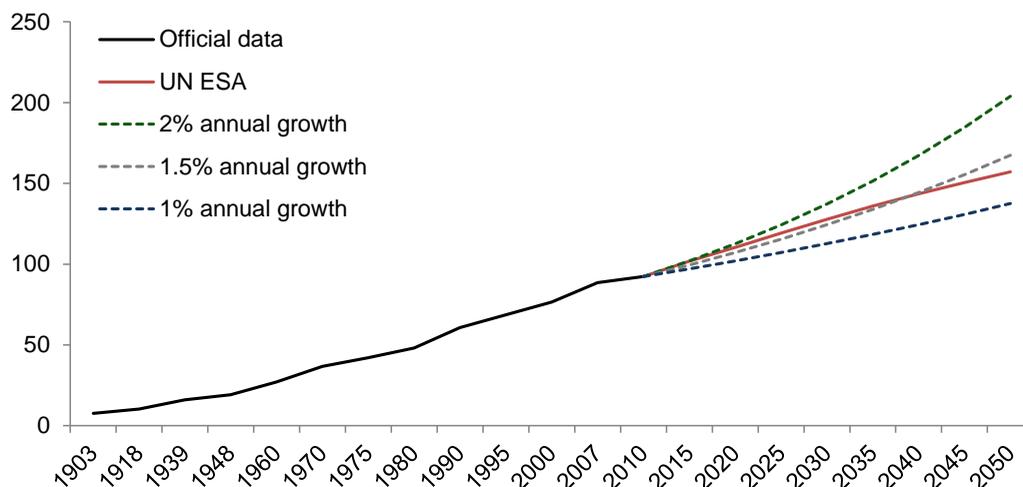


Congress should pass a version of the Reproductive Health bill that mandates human sexuality education in schools and provide information and materials for family planning in all government clinics.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★ Started	★★★★★ Substantial Progress	★★★ Backward/Regression	★★★★★ Completed

On December 21, 2012, President Aquino signed into a law the Responsible Parenthood and Reproductive Health Act of 2012. However, the Supreme Court issued a status quo ante order March 19, 2013 and halted implementation due to petitions challenging its constitutionality. In April 2014 the Supreme Court issued its decision, which upheld the RH Act while ruling against a number of its provisions. In the 2015 Budget, the Department of Health has included PhP1.7 billion for implementation of the RH Act, including educating LGUs on the Act and working with DepEd on the law's educational provisions.

**Philippine Population Projections, in Mn, Various Rates, 2011-2050**



Sources: PSA, UN ESA and author's calculations

**Reproductive Health Indicators, Selected Asian Countries**

	Contraceptive prevalence (%)	Period	Unmet need for family planning (%)	Period
Cambodia	50.5	2011/2010	17.0	2011/2005
China	84.6	2006/2012	2.3	2001
India	54.8	2008/2006	20.5	2008/2006
Indonesia	62.0	2012/2008	11.0	2012/2007
Korea, Rep of.	80.0	2009		2009
Malaysia		2004		2010
Pakistan	27.0	2008/2012	25.2	2007
Philippines	48.9	2011	22.0	2008
Singapore				2010
Thailand	79.6	2009	3.1	2006
Vietnam	77.8	2011	4.3	2011/2002

Source: WHO

## Recommendation 8



Government should reward poor families who have fewer children, perhaps by adding an amount to monthly CCT payments after the birth of a second child that would be forfeited if a third child is born.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	☆ No Longer Relevant	☆ No Longer Relevant	☆ No Longer Relevant

This may not be necessary since most couples intend to have fewer children. This is also implied in the Conditional Cash Transfer program that limits cash grants to a maximum of three children-i.e. 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. Accredited hospitals would have to make available to parents a full range of legal family planning methods.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing	★★★ Not Ongoing

PhilHealth has accredited over 1,800 hospitals. Under DOH AO No. 2010-0036 December 16, 2010 family planning services are provided.

# PART 4 GENERAL BUSINESS ENVIRONMENT

## SOCIAL SERVICES: Poverty

### Recommendations: 4



### Progress:

0 Declined      2 Steady      2 Improved      0 Neutral

### Rating:

0	☆ No Longer Relevant	0	★★ Backward/Regression	0	★★★ Not Ongoing
2	★★★★★ Started	2	★★★★★★ Substantial Progress	0	★★★★★★★ Completed

# PART 4

## GENERAL BUSINESS ENVIRONMENT:

### SOCIAL SERVICES:

# POVERTY

“The economic situation has caused families to be separated by migration and the search for employment, and financial problems strain many households.... All too many people live in dire poverty...” - *Pope Francis, Speech on Meeting with Families at the Mall of Asia Arena, January 16, 2015*

“It bids us break the bonds of injustice and oppression which give rise to glaring, and indeed scandalous, social inequalities. Reforming the social structures which perpetuate poverty and the exclusion of the poor first requires a conversion of mind and heart.” - *Pope Francis, Speech in Malacañan Palace, January 16, 2015*

“Philippines could be the next economic miracle in Asia. It would help if growth were felt by the poorest residents; at the moment, poverty rates remain stubbornly high.” - *Jim Yong Kim, World Bank President, “The Philippine Economy: Coming Up Jasmin,” The Economist, August 23, 2014*

As a percent of total population, poverty has begun to decline recently. After almost no decrease for a decade, poverty incidence fell 3 points to 24.9 percent from 2011 to 2013, putting the GPH target of 18-20% by 2016 in reach. Yet the figures remain staggering: one of every five Filipinos is below the official poverty line. Twenty-two million Filipinos live on less than the PhP52 a day. Among the ASEAN-5, the Philippines has had the most persistent incidence of poverty (< \$1.25 a day). While Malaysia and Thailand have almost eliminated the poverty of this low cohort and Indonesia and Vietnam have reduced theirs by two thirds in the last two decades, the Philippines has been less successful, primarily due to frequent natural disasters, high population growth rate, and slow economic growth. The poor are often hungry, their diet inadequate, their children malnourished, and their access to family planning limited. A 2014 SWS poll counted 14.8% of families as experiencing “moderate” and 3.5% “severe” hunger. In 2009, the Philippines had the highest percentage (40%) of slum population as a percent of urban population among six Asian countries. With Universal Healthcare, the poor are beginning to have PhilHealth insurance and improved access to health care. CCTs as a means of reducing poverty have been greatly expanded in the Aquino Administration.

## Recommendation 1

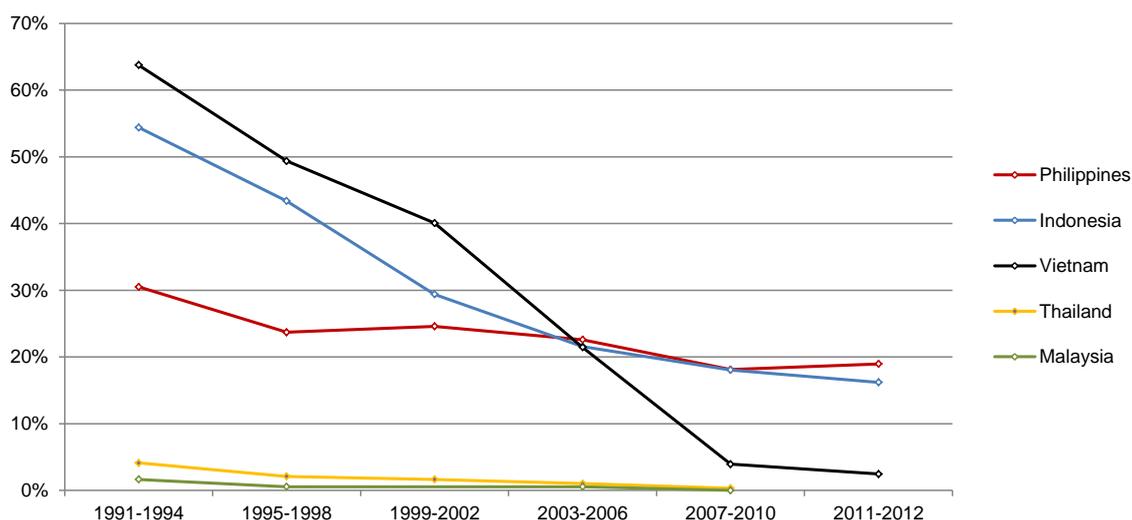


Steadily reduce number of poor and poor as percentage of population.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★ Backward/Regression	★★★ Not Ongoing	★★★★★ Started

The government in 2013 announced it will release poverty estimates annually rather than every three years. Thus new data became available in 2013. This showed that the country's poverty incidence is falling, showing the effects of higher economic growth and the CCT transfers to poor families. Per the 2013 results, the poverty incidence fell to 24.9% from 27.9% in 2011 or roughly 3 million persons. In its January 2015 Philippine Economic Update, the World Bank noted that if high economic growth is sustained it is likely the government will achieve its poverty target of 18-20% by 2016. The SWS Self-Rated Poverty annual average in 2014 stood at 52%, up from 48% in 2010. This was a slight increase of four points from 2010 but down 10+ points from two decades ago.

Poverty rate at \$1.25 a day (PPP) Benchmark, % of Population, ASEAN-5, 1991-2012



Source: World Bank; The plotted data represent the latest data given the indicated time interval. Gaps indicate absence of data

## Recommendation 2



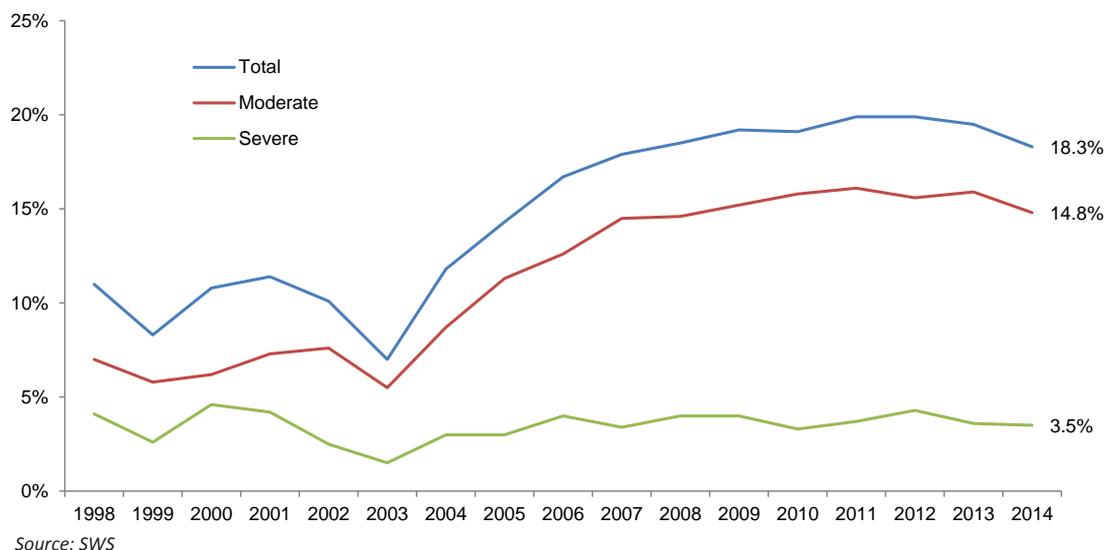
Reduce the incidence of hunger.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★ Backward/Regression	★★★ Not Ongoing	★★★ Not Ongoing	★★★★★ Started

The Global Hunger Index rated the Philippines in 2014 as "serious" in the same category as Indonesia and Cambodia but lower than the "moderate" rankings of Malaysia, Thailand, and Vietnam. Large number of Filipino children are stunted, underweight, and suffer acute malnutrition, threatening their human development

potential. Feeding and CCT programs are providing vitamins, immunizations and checkup at health centers to reduce these problems. The last official figure is for 2011 where 6.3% of families in the Philippines reported to have experienced hunger anytime in three months prior to the poll. Although this poverty indicator has been included more frequently in the government's Annual Poverty Indicators Survey (ie. in 2008, 2010, and 2011), data gathering itself is only conducted for years when the separate Family Income and Expenditure Survey is not released and when there is enough funding. Household-reported hunger from SWS is available quarterly from 1998 up to the present. SWS self-rated hunger data shows that hunger has fallen to 18.1% or 3.9 million families in December 2014 from 19.9% recorded end-2012.

**Degree of Self-Rated Hunger in Households, Philippines, 1998-2014**

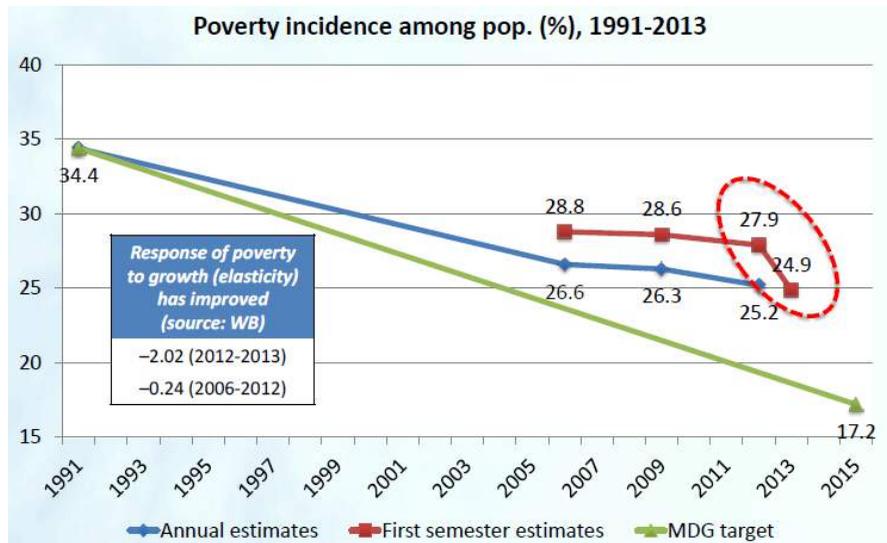


### Recommendation 3

 **Expand insurance coverage to include more poor.**

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★ Started	★★★★ Started	★★★★★ Substantial Progress	★★★★★ Substantial Progress

For the first time, a program to expand Philhealth coverage to the neediest cohorts of the population is underway following the passage of the Universal Healthcare Act in the 15<sup>th</sup> Congress. The 2015 Budget provides PhP37 billion to fund Philhealth premiums for 15.4 million poor and non-poor households. The Social Security System and Government Service Insurance System are both expanding their services.



Source: PSA

Note: The 2014 1st Semester estimates will be released in March 2014.

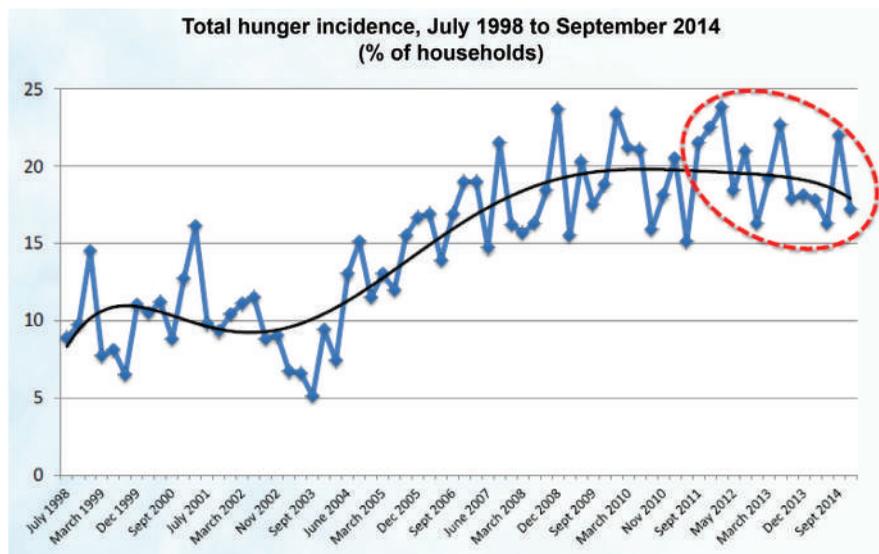
## Recommendation 4



Successfully implement the expanded CCT program to include all 6.9 million poor Filipino families.

2011 Rating	2012 Rating	2013 Rating	2014 Rating
★★★★★	★★★★★	★★★★★	★★★★★
Substantial Progress	Substantial Progress	Substantial Progress	Substantial Progress

The CCT program has doubled since 2011 and is accompanied by ongoing independent spot-checking of field operations and independent research on implementation and evaluation. In 2015 the CCT program will have 4.6 million beneficiary households, increasing from 2.3 million in 2011. The budget allocation for the CCT program increased by 122% from 2010.



Source: SWS



# ACKNOWLEDGEMENTS

This Fourth Anniversary Assessment is a collaborative effort of 33 different experts who generously gave their time because they believe passionately that the *Philippines can Realize the Potential!, Move Twice as Fast!, and More Reforms=More Jobs!* – the themes of the JFC *Arangkada* fora held in 2012, 2013, and 2014. This year, 23 agreed to be identified in the list below, while the remainder preferred to remain anonymous. The ratings and narratives published in this documents reflect qualified evaluations from these experts based on their years of professional immersion in their respective sectors. Taken together, they produced a document rich in current information about the business and investment climate of the country, which can continue to inform planners, researchers, and—most of all—policy makers in the three branches of government in the ambitious goal of higher, sustainable, and more inclusive economic growth, especially when the Philippines is consistently hitting its growth target. Hence, the theme of the 2015 *Arangkada* Anniversary Forum is calling investors to “*Invest NOW for Inclusive Growth!*”

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The staff of The *Arangkada* Philippines Project (*TAPP*) worked tirelessly over a period of several months to compile the assessment into a handsome document, adding graphics and data.

Of particular note were the contributions of **Froland Magallanes Tajale**, who coordinated and co-edited the assessments, together with **Vina Alissandra P. Santos** and **Loven Felix S. Opiana**; **Angeli Juani**, who prepared most of the data figures; and **Mary Grace Dilag-Mojica**, who laid out the document. *TAPP* Chief of Party **John D. Forbes** edited the submission of assessments for consistency.

Thank you also to our interns **Paula Jude R. Almazora**, **Celaine Angeline D. Cabrera**, **Ricardo Gabriel C. Nery**, **Eric Rosales**, **Millet Santos**, and **Sean Gabrielle D. Torroba**.

Finally, the Fourth *Arangkada* Anniversary Forum would not have been possible if not for the hardwork and efforts of **John Vincent Cruz Pimentel**, **Carolyn T. Singson**, **Jannica Anne H. Gaisano**, **Caleb L. Lauredo**, and **Philip Mariano**.

The views expressed in the Fourth *Anniversary* Assessment are those of the experts who cooperated with The *Arangkada* Philippines Project administered by the American Chamber of Commerce of the Philippines, and not necessarily those of the many private and public sector sponsors listed elsewhere in the document. Some of the activities reviewed in this assessment are made possible by the support of the American People through the United States Agency for International Development (*USAID*). The contents of the document represent the opinion of the persons who drafted the Fourth Anniversary Assessment as organized under The *Arangkada* Philippines Project administered by the American Chamber of Commerce of the Philippines and do not necessarily reflect the views of *USAID* or the United States Government.

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