First American Chamber
of Commerce Abroad

Technical Report

INVESTMENT CLIMATE IMPROVEMENT PROJECT (ICIP) Phase II Final Report for March-June 2007

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Prepared for

**The American Chamber of Commerce
of the Philippines**

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EMERGE
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Preface

This report is the result of technical assistance provided by the Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE) Activity, under contract with the CARANA Corporation, Nathan Associates Inc. and The Peoples Group (TRG) to the United States Agency for International Development, Manila, Philippines (USAID/Philippines) (Contract No. AFP-I-00-03-00020-00, Delivery Order 800). The EMERGE Activity is intended to contribute towards the Government of the Republic of the Philippines (GRP) Medium Term Philippine Development Plan (MTPDP) and USAID/Philippines' Strategic Objective 2, "Investment Climate Less Constrained by Corruption and Poor Governance." The purpose of the activity is to provide technical assistance to support economic policy reforms that will cause sustainable economic growth and enhance the competitiveness of the Philippine economy by augmenting the efforts of Philippine pro-reform partners and stakeholders.

The American Chamber of Commerce in the Philippines (AmCham) submitted a second unsolicited proposal to EMERGE on February 14, 2007, for a follow-on grant to continue identifying and communicating to the Philippine Government activities that will generate additional investments and jobs in the country. It was approved by USAID on February 28, 2007. This was the Investment Climate Improvement Project (ICIP), Phase II, and the key actors were Mr. Robert M. Sears, AmCham Executive Director, Mr. John D. Forbes, AmCham Legislative Committee Chairman, Mr. Robert W. Blume, AmCham Desk Officer at the Philippine Board of Investments (BOI), and Mr. Richard Umali as Project Assistant. This is the final report of that activity.

Because of their cumulative size, most of the appendices to this report are published in separate volumes:
Appendices 8-23: Letters & Statements on Economic Legislation and Policy;
Appendices 24-42: Other Documents; and
Selected Press Clippings

The views expressed and opinions contained in this publication are those of the authors and are not necessarily those of USAID, the GRP, EMERGE or the latter's parent organizations.

THE AMERICAN CHAMBER OF COMMERCE OF THE PHILIPPINES, INC.

(Website: http://www.amchamphilippines.com)

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INVESTMENT CLIMATE IMPROVEMENT PROJECT (ICIP) Phase II FINAL REPORT MARCH – JUNE 2007

ABBREVIATIONS

ACM	Automated Counting Machines
ADB	Asian Development Bank
AEV	Aboitiz Equity Ventures
AFP	Agence France Press
AFP	Armed Forces of the Philippines
AFTA	ASEAN Free Trade Area
AI	Amnesty International
AIM	Asian Institute of Management
AMCHAM	American Chamber of Commerce of the Philippines
AMDESK	American Desk at the BOI
AMLA	Anti-Money Laundering Act
AMLC	Anti-Money Laundering Council
ANZCHAM	Australian-New Zealand Chamber of Commerce
AO	Administrative Order
APCAC	Asia Pacific Council of American Chambers
APEC	Asia-Pacific Economic Cooperation
APMI	Australian Philippines Mining, Inc.
ARMM	Autonomous Region in Muslim Mindanao
ARTTF	Anti-Red Tape Task Force
ASEAN	Association of Southeast Asian Nations
ASEP	Association of Structural Engineers of the Philippines
ASG	Abu Sayyaf Group
AWSJ	Asian Wall Street Journal
BAC	Bids and Awards Committee
BAC	Business Advisory Council
BAP	Bankers' Association of the Philippines
BCC	British Chamber of Commerce of the Philippines
BCDA	Bases Conversion Development Authority
BFAD	Bureau of Food and Drugs
BI	Bureau of Immigration
BIR	Bureau of Internal Revenue
BM	Business Mirror
BNPP	Bataan Nuclear Power Plant
BOC	Bureau of Customs
BOI	Board of Investment
BOT	Build-Operate-Transfer
BPA/P	Business Processing Association of the Philippines
BPO	Business Process Outsourcing
BSP	Bangko Sentral Ng Pilipinas
BW	BusinessWorld
CAB	Civil Aeronautics Board
CALABARZON	Cavite, Laguna, Batangas, Rizal, Quezon
CAMPI	Chamber of Automotive Manufacturers of the Philippines, Inc.
CANCHAM	Canadian Chamber Of Commerce of the Philippines
CBCP	Catholic Bishops' Conference of the Philippines
CCAP	Contact Center Association of the Philippines
CDC	Clark Development Corporation
CELC	Computerized English Language Center
CHED	Commission on Higher Education
CIAC	Clark International Airport Corporation
CICT	Commission on Information and Communications Technology
CIIF	Coconut Industry Investment Fund
CIPC	Cebu Investments Promotion Center
CME	Coco-Methyl Ester

COC NYC	Phil-American Chamber of Commerce - New York
COMELEC	Commission on Elections
COPW	Consumer and Oil Price Watch
COS	Chief of Staff
CPBD	Congressional Planning and Budget Department
CPP	Communist Party of the Philippines
CPSD	Consolidated Public Sector Deficit
CRA	Corporate Recovery Act
CSR	Corporate Social Responsibility
CTS	Continuous Trial System
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DBM	Department of Budget and Management
DBP	Development Bank of the Philippines
DENR	Department of Environment and Natural Resources
DEPED	Department of Education
DG	Director-General
DICT	Department of Information and Communications Technology
DILG	Department of Interior and Local Government
DLSU-AKI	De La Salle University-Angelo King Institute
DMIA	Diosdado Macapagal International Airport
DND	Department of National Defense
DOE	Department of Energy
DOF	Department of Finance
DOH	Department of Health
DOLE	Department of Labor and Employment
DOT	Department of Tourism
DOTC	Department of Transportation and Communication
DPWH	Department of Public Works and Highways
DST	Documentary Stamp Tax
DSWD	Department of Social Welfare and Development
DTI	Department of Trade and Industry
ECC	Environmental Compliance Certificate
ECCP	European Chamber of Commerce of the Philippines
ECOP	Employers Confederation of the Philippines
ED	Executive Director
EDC	Export Development Council
EDSA	Epifanio Delos Santos Avenue
EMERGE	Economic Modernization through Efficient Reforms and Governance Enhancement
EO	Executive Order
EPIRA	Electric Power Industry Reform Act
EPRA	Economic Policy Reform & Advocacy
EPZ	Export Processing Zone
ERC	Energy Regulatory Commission
EUMB	Energy Utilization Management Bureau
EVAT	Expanded Value Added Tax
FCS	Foreign Commercial Service
FDI	Foreign Direct Investment
FEU	Far Eastern University
FFCCCI	Federation of Filipino-Chinese Chamber of Commerce and Industry
FIA	Foreign Investment Act
FIAS	Foreign Investment Advisory Service
FINEX	Financial Executives of the Philippines
FINL	Foreign Investment Negative List

FOCAP	Foreign Correspondents Association of the Philippines
FPHC	First Philippines Holdings Corporation
FPI	Federation of Philippine Industries
FTA	Free Trade Agreement
FTAA	Financial or Technical Assistance Agreement
GAA	General Appropriations Act
GDP	Gross Domestic Product
GEM	Growth with Equity in Mindanao
GENCO	Generating Company
GILAS	Gearing Up Internet Literacy and Access for Students
GM	General Manager
GOCC	Government Owned and Controlled Corporation
GOJ	Government of Japan
GRP	Government of the Republic of the Philippines
GSIS	Government Service Insurance System
GSP	Generalized System of Preferences
HB	House Bill
HCICT	House Committee on ICT
HCTI	House Committee on Trade and Industry
ICC	Investment Coordination Council
ICIP	Investment Climate Improvement Project
ICT	Information and Communications Technology
IEF	Index of Economic Freedom
IIF	Institute of International Finance
IFC	International Finance Corporation
IHT	International Herald Tribune
IMF	International Monetary Fund
IMD	International Institute for Management Development
IMTF	Infrastructure Monitoring Task Force
IPO	Intellectual Property Office
IPP	Independent Power Producer
IPR	Intellectual Property Rights
IPT-3	International Passenger Terminal 3
IRA	Internal Revenue Allotment
IRMA	Internal Revenue Management Authority
IRR	Implementing Rules and Regulations
ISM	International School Manila
IT	Information Technology
ITAP	Information Technology Association of the Philippines
ITES	IT-Enabled Services
ITFP	Information Technology Foundation of the Philippines
ITH	Income Tax Holidays
JBIC	Japan Bank for International Cooperation
JCCIPI	Japanese Chamber of Commerce & Industry of the Philippines, Inc.
JCRA	Japan Credit Rating Agency
JETRO	Japan External Trade Organization
JFC	Joint Foreign Chambers
JI	Jemaah Islamiyah
JICA	Japan International Cooperation Agency
KCCP	Korean Chamber of Commerce of the Philippines
KEPCO	Korea Electric Power Corporation
KMU	Kilusang Mayo Uno
KOICA	Korean International Cooperation Agency
KW	Kilowatt
KWH	Kilowatt-hour

LCF	League of Corporate Foundations
LEDAC	Legislative-Executive Development Advisory Council
LEGCOM	Legislative Committee
LHDC	Lanao Hydropower Development Corporation
LNG	Liquefied Natural Gas
LRT	Light Railway Transit
LRTA	Light Railway Transit Authority
LTFRB	Land Transportation Franchising and Regulatory Board
LTO	Land Transportation Office
MAP	Management Association of the Philippines
MAR	Maximum Allowable Revenue
MBC	Makati Business Club
MCC	Millennium Challenge Corporation
MERALCO	Manila Electric Company
MGB	Mines and Geosciences Bureau
MIAA	Manila International Airport Authority
MILF	Moro Islamic Liberation Front
MISSI	Monthly Integrated Survey of Selected Industries
MMDA	Metro Manila Development Authority
MNC	Multinational Corporation
MNTC	Manila North Tollways Corporation
MOA	Memorandum of Agreement
MOU	Memorandum of Understanding
MPSA	Mineral Production Sharing Agreement
MRR	Mandated Rate Reduction
MRT	Metro Rail Transit
MRTA	Metro Rail Transit Authority
MTDP	Medium-Term Philippine Development Plan
MTPIP	Medium-Term Public Investment Program
MW	Megawatt
MWSS	Metropolitan Waterworks and Sewerage System
NAIA	Ninoy Aquino International Airport
NAKTAF	National Anti-Kidnapping Task Force
NAPOCOR	National Power Corporation
NARA	National Authority for Revenue Administration
NASTF	National Anti-Smuggling Task Force
NASSCOM	National Association of Software & Service Companies
NAT	National Achievement Test
NCC	National Competitiveness Council
NCR	National Capital Region
NCS	National Competitiveness Summit
NDC	National Development Corporation
NEDA	National Economic and Development Authority
NEDA-INFRACOM	National Economic and Development Authority-Infrastructure Committee
NIRA	National Internal Revenue Authority
NGO	Non-Governmental Organization
NLEX	North Luzon Expressway
NLRC	National Labor Relations Commission
NOLCO	Net Operating Loss Carryover
NPA	New People's Army
NRMDC	Natural Resources Mining Development Corporation
NTRC	National Tax Research Center
NYT	New York Times
ODA	Official Development Assistance
ODPS	One Day Power Sale

OMB	Office of the Ombudsman
OP	Office of the President
PAGCOR	Philippine Amusement and Gaming Corporation
PAL	Philippine Airlines
PASG	Presidential Anti-Smuggling Group
PBEC	Philippine Business Environment Committee
PBEd	Philippine Business for Education
PCAEO	Philippine Chamber of Air Express Operators
PCCI	Philippine Chamber of Commerce and Industry
PCIJ	Philippine Center for Investigative Journalism
PDF	Philippine Development Forum
PDI	Philippine Daily Inquirer
PDR	Philippine Defense Reform
PEMC	Philippine Electricity Market Corporation
PEP	Promoting English Proficiency
PERA	Personal Equity Retirement Account
PES	Philippine Economics Society
PEZA	Philippine Export Zone Authority
PFA	Philippine Franchise Association
PHAP	Pharmaceutical & Healthcare Association of the Philippines
PHILEXPORT	Philippine Exporters Confederation
PHILHEALTH	Philippine Health Insurance Corporation
PIATCO	Philippine International Airport Terminal Corporation
PIC	Philippine Infrastructure Corporation
PIDS	Philippine Institute for Development Studies
PIPA	Philippine Investment Promotion Administration
PIRMA	People’s Initiative for Reform, Modernization and Action
PLLO	Presidential Legislative Liaison Office
PMAP	Personnel Management Association of the Philippines
PMS	Presidential Management Staff
PN	Philippine Navy
PNOC	Philippine National Oil Company
PNOC-AFC	Philippine National Oil Company-Alternative Fuels Corp.
PNCC	Philippine National Construction Corporation
PNP	Philippine National Police
PNR	Philippine National Railways
PPA	Philippine Ports Authority
PPP	Public-Private Partnerships
PRA	Philippine Retirement Authority
PRC	People’s Republic of China
PRC	Professional Regulation Commission
PRI	Philippine Retirement, Inc.
PSALM	Power Sector Assets and Liabilities Management Corp.
PSC	Philippine Services Coalition
PSE	Philippine Stock Exchange
R&D	Research and Development
RA	Republic Act
RATE	Run After Tax Evaders
RATS	Run After The Smugglers
RED	Retention, Expansion, and Diversification
RFP	Request For Proposal
RIPS	Revenue Integrity Protection Service
ROK	Republic of Korea
RORO	Roll-On-Roll-Off
RP	Republic of the Philippines
RRFFC	Rapu-Rapu Fact Finding Commission

RTA	Retail Trade Act
RTC	Regional Trial Court
RTWPB	Regional Tripartite Wage and Productivity Board
SALN	Statement of Assets, Liabilities and Net Worth
SB	Senate Bill
SBMA	Subic Bay Metropolitan Authority
SBFZ	Subic Bay Freeport Zone
SC	Supreme Court
SCTEX	Subic-Clark-Tarlac Expressway
SEAIR	South East Asian Airlines
SEC	Securities and Exchange Commission
SEIPI	Semiconductor and Electronics Industries in the Phils., Inc.
SEPO	Senate Economic Planning Office
SEZ	Special Economic Zone
SGV	Sycip, Gorres, Velayo & Company
SLEX	South Luzon Expressway
SLTC	Southern Luzon Tollways Corporation
SM	Shoemart
SMDC	SM Development Corporation
SME	Small and Medium Enterprises
SNITS	Simplified Net Income Tax System
SONA	State of the Nation Address
SPAV	Special Purpose Asset Vehicle
SRNH	Strong Republic Nautical Highway
SSS	Social Security System
STA	Subtransmission Asset
SWMC	Senate Ways and Means Committee
SWS	Social Weather Stations
TCF	Transaction Costs and Flows
TEPCO	Tokyo Electric Power Corporation
TESDA	Technical Education and Skills Development Authority
TI	Transparency International
TMA	Truck Manufacturers Association
TOEIC	Test of English for International Communication
TOU	Time-Of-Use
TRANSCO	National Transmission Corporation
TRB	Tollways Regulatory Board
TRO	Temporary Restraining Order
UA&P	University of Asia & the Pacific
UP	University of the Philippines
UPS	United Parcel Services
US	United States
USA	United States of America
USAID	United States Agency for International Development
USG	United States Government
USTR	United States Trade Representative
VAT	Value Added Tax
VOA	Voice of America
WB	World Bank
WBF	Wallace Business Forum
WCO	World Customs Organization
WCY	World Competitiveness Yearbook
WEF	World Economic Forum
WESM	Wholesale Electricity Spot Market
WQMA	Water Quality Management Areas
WTO	World Trade Organization

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I. PROJECT BACKGROUND: Roadmap II, ICIP Advocacy Plan and ICIP Phase I

The Investment Climate Improvement Project (ICIP) began in March 2006 with a comprehensive Advocacy Plan[1] modeled on AmCham's *Roadmap II More Foreign Investment,* released in mid-2004 coincident with the inauguration of President Gloria Macapagal-Arroyo in expectation of strong presidential leadership for fiscal and other reforms to improve the country's business climate.

The Advocacy Plan outlined the following six Reform Clusters and five Reform Sectors of most concern and potential for investment which ICIP activities would target:

Reform Clusters	*Reform Sectors*
1. Bureaucracy/Corruption 2. Education and English 3A. Infrastructure: Power 3B. Infrastructure: Transportation – Subic-Batangas Corridor 4. Judicial/Regulatory/Enforcement 5. Legislation 6. Security/Political Stability	1. Health/Retirement 2. Information and Communications Technology 3. Manufacturing 4. Mining 5. Tourism

In her 2006 State of the Nation Address (SONA), President of the Philippines Gloria Macapagal-Arroyo adopted several of the priorities identified in the ICIP Advocacy Plan, particularly the reduction of red tape and corruption, the lowering of the cost of electricity, and the accelerated implementation of major infrastructure projects in the Subic-Batangas Transport Corridor.

The activities, public sector milestones and other important events prioritized under AmCham ICIP are listed in an extensive Final Report dated May 2007 (see Final Report Table of Contents at Appendix 24) and include hundreds of meetings with government officials, four workshops, dozens of media interviews and hundreds of articles in the press based on ICIP interviews and press releases. The ICIP Senior Advisor often used public sessions to advance ICIP reform advocacies through statements and questioning. More than ever before, the voice of the international investment community has resounded in the chaotic Philippine policy advocacy scene as a result of AmCham ICIP.

Between March 2006 and February 2007, AmCham ICIP in collaboration with the Joint Foreign Chambers (JFC) issued statements on: corrective legislation for Clark investors, the Philippine population growth rate, the Biofuels bill, mining sector reform, the House-legislated minimum wage increase, the proposed Senate Ways and Means Committee bill on the rationalization of fiscal incentives, the 70% input cap on value-added tax (VAT), politically-motivated killings, Philippine national competitiveness, the increase in net foreign direct investment (FDI) inflow to the Philippines in 2006 and the National Tourism Policy bill.

[1] *ICIP Advocacy Plan*. Makati City: AmCham Philippines. April 2006.

As part of its advocacy, AmCham ICIP also wrote national government officials to communicate positions and seek dialogue on urgent business concerns, including letters to Senate Ways and Means Committee (SWMC) Chair Recto on the rationalization of fiscal incentives; Senate President Drilon on the passage of corrective legislation for Clark investors; Finance Secretary Teves and Bureau of Internal Revenue (BIR) Commissioner Buñag on the removal of the 70% input VAT cap; National Economic and Development Authority (NEDA) Director-General (DG) Neri on reviewing the Foreign Investment Negative List, the liberalization of professions to allow foreigners to practice, and the rationalization of foreign investment restrictions; Education Secretary Lapus on the Promoting English Proficiency (PEP) project; Trade Secretary Favila on red tape; Congressman Cua on a legislative agenda for competitiveness; Senator Recto on the anti-smuggling bill; Senate Committee on Civil Service and Government Reorganization Chair Lacson on the anti-red tape bill; House Speaker De Venecia on the credit information system bill; Philippine National Construction Corporation (PNCC) chair Aguilar on the PNCC franchise extension; Senate President Villar and House Speaker De Venecia on Pre-need and Personal Equity Retirement Account (PERA) bills; and President Macapagal-Arroyo on the government's priority infrastructure projects and the special session of Congress.

ICIP also conducted a survey on "Worst Red Tape" in August 2006 among AmCham member companies and a survey on Fiscal Incentives and the Recto bill in September among members of the JFC. The results of the Worst Red Tape Survey were communicated to Trade Secretary Favila as the head of the government's Anti-Red Tape Task Force, while the results of the Fiscal Incentives Survey were used in discussions on the pending bill on fiscal incentives rationalization.

ICIP co-sponsored a Workshop on the Energy Sector with the Department of Energy and other members of the JFC, co-sponsored a Workshop on Anti-Red Tape and Corruption with the Philippine Chamber of Commerce and Industry (PCCI), and co-sponsored a Seminar on the Investment Climate in the Philippines by the Japanese Chamber of Commerce and Industry of the Philippines, Inc. (JCCIPI) with the support from the Japan Bank for International Cooperation (JBIC).

ICIP took the lead in preparing and advocating a list of priority infrastructure projects, emphasizing achievement of a smooth-flowing Subic-Clark-Manila-Batangas ground transportation corridor with light rail links and competing modern international airport and port options at Batangas, Clark, Manila and Subic. These projects had been listed in the 2004 *Roadmap II More Foreign Investment*.[2] With adjustments, the list is receiving support by government (President Macapagal-Arroyo with her Infrastructure Monitoring Task Force (IMTF)), the World Bank, the business community and the National Competitiveness Council (NCC).

Under the sponsorship of United States Agency for International Development (USAID), the JFC, Business Processing Association of the Philippines (BPA/P), Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI), Federation of Filipino-

[2] *Roadmap II More Foreign Investment* (2004). Makati City: AmCham Philippines. Pages 22-39.

Chinese Chamber of Commerce, Inc. (FFCCCI), Makati Business Club (MBC), Management Association of the Philippines (MAP), PCCI, Confederation of Philippine Exporters (PhilExport), Semiconductor and Electronics Industries in the Philippines, Inc. (SEIPI), Coca-Cola Philippines and Quezon Power, AmCham ICIP organized a highly-successful Workshop on Foreign Direct Investment on the theme “How the Philippines Can Attract $3 Billion a Year” on October 5, 2006 in Makati with 400 participants and the keynote speech delivered by former president Fidel V. Ramos and a statement given by President Macapagal-Arroyo. The Workshop on FDI showed that significant improvement in the foreign investment climate would bring enormous benefits to the country, estimated at nearly $36 billion in potential FDI from 2007 to 2010, which could create some 12 million direct and indirect jobs, thereby contributing significantly to poverty reduction, government revenue and creation of a “virtuous cycle” of economic growth.

II. PROJECT DESCRIPTION: ICIP Phase II

In Phase II, AmCham ICIP continued to work in accordance with the April 2006 ICIP Advocacy Plan, the *Roadmap II More Foreign Investment*, and the Workshop on FDI recommendations made in October 2006. In addition, ICIP worked extensively with the NCC, which was created and tasked to improve Philippine competitiveness, in coordination with local and foreign chambers of commerce, by implementing the National Competitiveness Summit Action Agenda adopted with President Macapagal-Arroyo on October 6, 2006, which incorporated, inter alia, the Workshop on FDI recommendations.

ICIP Phase II focused on reform advocacy of several of the unresolved issues in the ICIP Advocacy Plan. It conducted and coordinated activities to identify problems in the Philippine investment environment and worked toward implementation of effective policy, procedural, organizational or legal solutions through improved communication and cooperation among appropriate government agencies and members of the private sector/business community. This included refinement in implementing rules and regulations, new legislation, streamlined business procedures and other measures needed to correct business policy distortions, improve governance, reduce transaction costs and increase investor confidence in the ability of the Philippines to honor contracts and protect property rights.

ICIP issued statements, position papers and other materials on short and medium term actions that the Government of the Republic of the Philippines (GRP) should implement to improve the Philippine investment climate. Meetings with officials of the Philippine Government were also held as a venue to raise concerns and conduct dialogue. (See Appendices 8 to 21.)

A matrix of information comparing FDI laws, incentives and related data on business costs and international competitive rankings of the Philippines and its regional competitors was also developed. During the intense debate in 2006 over fiscal incentives, little attention was paid to what conditions in competing economies seeking to attract the same FDI flows as the Philippines offered and disparate but relevant data was not collated in a form usable by legislators and policy-makers. The matrix will be used in the continued debate over the Rationalization of Fiscal Incentives legislation expected in the 14th Congress. (See Appendix 7.)

ICIP also crafted questions on the investment climate, which would be included in AmCham's Corporate Survey in 2007, its first survey of member companies in a decade (see Appendix 6).

III. PROJECT ACTIONS and STATUS OF REFORMS: ICIP Phase II

Reduce Bureaucracy and Corruption

Red Tape

ICIP continued working to reduce bureaucracy in government regulation of business, which has long created inefficiencies for the Philippine investment climate, raising the costs of doing business, reducing competitiveness and providing opportunity for corruption.

During ICIP I, the GRP mounted efforts to reduce bureaucracy and corruption, following further decline in the country's rankings in the International Institute for Management Development (IMD) World Competitiveness Yearbook (WCY), the World Economic Forum (WEF) Global Competitiveness Report and the World Bank (WB) Doing Business report.

In her July 2006 SONA, President Macapagal-Arroyo identified the "reduction of red tape in all agencies to cut business costs" as one of the government's five comprehensive strategies for global competitiveness. After issuing in May 2006 Executive Order (EO) 428 instructing all GRP offices to simplify rules and regulations and reduce reporting requirements to facilitate business and encourage investment, President Macapagal-Arroyo organized in August an Anti-Red Tape Task Force (ARTTF) through EO 557.

In October 2006, the GRP organized the National Competitiveness Summit, calling on the expertise of the private sector to work with government in addressing six areas to improve national competitiveness: (1) competitive human resources, (2) efficient public and private sector management, (3) effective access to financing, (4) improved transaction flows and costs, (5) seamless infrastructure network and (6) energy cost-competitiveness and self-sufficiency. Under EO 571, the NCC was organized. In addition to having recommendations of the Workshop on FDI incorporated into the National Competitiveness Summit Action Agenda, a role for the JFC was established in EO 571. The AmCham ED, the ICIP Senior Advisor and Amdesk BOI subsequently became involved as participants.

After conducting a Worst Red Tape Survey of government agencies among AmCham member companies and organizing a whole-day forum on Anti-Red Tape and Corruption with PCCI in August 2006 (the results of both were forwarded to Trade Secretary Favila who chairs the ARTTF and widely covered by the press), ICIP continued writing and meeting with legislators and government officials to implement their recommendations. One recommendation was the enactment of an Anti-Red Tape bill that was approved on 3rd reading in the House and was pending in committee at the Senate. The ICIP Senior Advisor appeared in a Senate pubic hearing on the bill in January 2007. By February, the bill was passed by Congress.

The Anti-Red Tape bill was signed into law as Republic Act (RA) 9485 (An Act to Improve Efficiency in the Delivery of Government Service to the Public by Reducing Bureaucratic Red Tape, Preventing Graft and Corruption and Providing Penalties Therefor) by President Macapagal-Arroyo on June 2, 2007. RA 9485 requires government offices, including local government units (LGUs) and government-owned and –controlled corporations (GOCCs), to expedite transactions and assess regularly as well as upgrade their frontline services. It also requires agencies concerned to act upon applications and/or requests within five working days in the case of simple transactions and ten working days for complex transactions from the date the application or request is received. The number of signatories in any document is also limited to a maximum of five officials directly supervising the office or agency concerned. The Implementing Rules and Regulations (IRR) of RA 9485 was still being drafted as of end of ICIP II on June 30, 2007.

Aside from advocating for passage of the Anti-Red Tape legislation, ICIP worked with the NCC-Transaction Costs and Flows (NCC-TCF) working group, to reduce bureaucratic red tape and the cost of doing business. The NCC-TCF identified six priority projects: (1) improve the procedure for the entry and exit of business persons, (2) enhance the procedures for the import and export of goods, (3) improve the processes in starting, maintaining, and closing a business, (4) institutionalization of regulatory impact assessment (RIA) on existing/new government requirements, (5) streamlining the application of investment incentives, and (6) the Investment Ombudsman to resolve economic sabotage issues.

The NCC-TCF is headed by Department of Trade and Industry (DTI) Undersecretary Zenaida Maglaya[3] and by Private Sector Champion David Balangue, chairman and managing partner of AmCham member SGV & Co. The AmCham Executive Director (ED) and the ICIP Senior Advisor accepted the invitation to be "co-champions" of Project 1 (on the entry and exit of business persons), and Project 5 (on streamlining incentives). AmCham ICIP also participated in the other NCC-TCF projects, particularly Projects 2 (on imports and exports) and 3 (on doing business). (See Appendix 38.)

In a March 5 NCC-TCF organizational meeting of co-champions with Private Sector Champion Balangue and Export Development Council (EDC) ED Cala, the ICIP Senior Advisor:

- as Co-Champion for Priority Project on "Harmonization of Incentives" (with ECCP Executive Vice President (EVP) Schumacher and AmCham ED Sears), requested the NCC Secretariat to organize a meeting at undersecretary level for the Department of Finance (DOF) and DTI to meet with JFC and business association representatives to discuss harmonization of incentives with respect to the National Tourism bill and Senate Bill (SB) 2411 on the Rationalization of Fiscal Incentives;

- raised the issue of rampantly corrupt auto smuggling at Subic and pointed out that Customs is acting in defiance of the Supreme Court (SC), a RA, a presidential executive order and an order by the Customs Commissioner;

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[3] Undersecretary Maglaya was usually represented by lower ranking DTI officers at the NCC-TCF meetings held at Mr. Balangue's office, sending the signal that perhaps the public sector was not as serious as the private sector about improving competitiveness.

- suggested the Philippine Chamber of Air Express Operators (PCAEO) be represented for the priority project on "Enhanced Procedures for Entry and Exit of Goods" in order to advocate raising the de minimus entry level to the Association of Southeast Asian Nations (ASEAN) standard of $100 from its current P10;

- in discussion of monitoring of agency performance in reducing red tape and transaction costs, he described the suggestion of an AmCham member for a Customer Satisfaction Survey of selected agencies by a private polling firm, which would be independent of existing and future monitoring and report cards by the government.

The ICIP Senior Advisor also communicated with the Board of Investments-One-Stop Action Center (BOI-OSAC) Director Tess Santiago, who serves as the NCC-TCF secretariat, various issues including the burden of filing for Tax Credit Certificates (TCC) and outstanding TCC claims; charging of taxes by local government units to regional operating headquarters of multinational corporations (MNCs); modernization of the labor code for female employees of call centers working at night; and burdensome requirements for dismissal of employee after six months of employment. ICIP Senior Advisor also suggested the inclusion of a JCCIPI representative in the NCC-TCF "Business Rules" group. In addition, the ICIP staff sent to the office of the BOI-OSAC director the results of the August 2006 AmCham "Worst Red Tape" survey and a copy of the latest Japan External Trade Organization (JETRO) survey of Investment-Related Cost Comparison in Major Cities and Regions in Asia.

Also sent to the NCC-TCF Secretariat was an informal list of suggested projects for the NCC-TCF, which included the elimination of the requirement for companies receiving BOI incentives to list shares on the PSE, as indicated in Rule VIII Section 1 of EO 226 IRR; the recent DOJ ruling on anti-dummy law; increasing de minimus level to regional standard of $100; reforming the TCC process to eliminate backlog and claims; drafting a clear and implementable IRR for the Anti-Red Tape Act by mid-2007; the proposal to conduct a Consumer Satisfaction Survey; modernization of the labor code; and ending used vehicle smuggling at the Subic Bay Freeport Zone (SBFZ). As these suggestions were solicited by DTI and provided on an informal basis, no formal written response was received. (See Appendix 25 for copy of correspondence.)

ICIP conceptualized a Consumer Satisfaction Survey of key government agencies with which foreign investors deal as a means of evaluating the efficiency and effectiveness of these agencies in facilitating business transactions (see Appendix 5). A memo recommending the conduct of such a survey was sent to the NCC-TCF in May (see Appendix 28).

A success during ICIP Phase II was the issuance by the Bureau of Immigration (BI) of Memorandum Order No. RMA-2007-001 extending the validity of the Alien Certificate of Registration identity card (ACR I-Card) to five years at the original cost of US$50 per family member, which culminated a 3-year long dialogue between the JFC represented by AmCham and ECCP with the BI to make the ACR I-Card a useful reform rather than a costly red tape annoyance to alien residents of the Philippines. The ACR I-Card is a priority project of the NCC-TCF "Entry and Exit of Business Persons" working group, in which the AmCham ED is a co-champion. (See Appendix 32.)

The BOI and members of its Investment Promotion Unit Network (IPU Net) composed of 27 government agencies also signed a memorandum of agreement (MOA) to enhance the country's investment and business climate by eliminating and/or minimizing administrative barriers to investments through speedy and easy transactions with various government agencies. Amdesk BOI attended the MOA signing at the BOI.

Evaluation. At the end of Phase II, one year after the initial call by President Macapagal-Arroyo to reduce red tape, there were some reforms (e.g., ACR I-Card extension and the signing of the Anti-Red Tape Act), but the overall prevailing bureaucratic behavior and mindset remains unaltered. The considerable cost of excessive bureaucratic procedures represents a continuing drag on business efficiency in the country.

Corruption

In March 2007, Hong Kong-based Political & Economic Risk Consultancy (PERC) released its annual Corruption in Asia report**,** which showed the Philippines as the most corrupt among 13 countries (see Table 1). The ICIP Senior Advisor was quoted in BusinessWorld, which ran a headline story on the PERC report. (See Press Clippings #9.)

Table 1. Country rankings
PERC Corruption in Asia[4]

Country	2007
China	6.29
Hong Kong	1.87
India	6.67
Indonesia	8.03
Japan	2.10
Macao	5.18
Malaysia	6.25
Philippines	***9.40***
Singapore	1.20
South Korea	6.30
Taiwan	6.23
Thailand	8.03
Vietnam	7.54

In June, the ICIP Senior Advisor and staff attended the Social Weather Stations (SWS) 7th Survey of Businesses on Corruption sponsored by The Asia Foundation. Among others, the survey showed the scale of corruption in the public sector remains high, with 17 of 29 government agencies receiving negative ratings for their sincerity in fighting corruption,

[4] Grades range from zero to 10, with zero being the best grade possible and 10 the worst. PERC Asian Intelligence No. 726 – Corruption in Asia (March 14, 2007).

while in the private sector, only a minority of companies always follow such basic honest business practices of demanding receipts, issuing receipts, keeping only one set of books and paying taxes honestly.

Evaluation. Political will to reduce corruption significantly continues to be in short supply. Until major corruption involving vested interests as well as prominent government officials are punished, perceptions of the Philippines as one of the most corrupt countries in Asia will persist.

Smuggling

The smuggling of used vehicles remains widespread in the country despite a SC decision that affirmed the legality of the ban on used car importations into Philippine customs territory and a Bureau of Customs (BOC) memorandum order that enforces the said decision.

In the annual Philippine Development Forum (PDF) in Cebu in March 2007, the ICIP Senior Advisor discussed privately with BIR Commisioner Buñag auto smuggling at the SBFZ and elsewhere, informing him of our estimate that illicit trade in imported used cars is worth \$150-\$200 million per annum, largely escaping taxation. Former DOF Undersecretary Bernardo in the Breakout Session on Fiscal Issues told the group (chaired by DOF Secretary Teves) that the DOF and the BIR should crosscheck government data, in this case by looking at the excess of new vehicle registrations (177,000 in 2006) over new vehicles produced (100,000) in the country to understand the magnitude of possible lost revenues from used cars smuggled in through Subic, the Cagayan Economic Zone (CEZ) and other ports.

ICIP drafted a JFC letter to be sent to DTI Secretary Favila proposing a statement calling on the government to renew efforts to stop rampant used vehicle smuggling at Subic and other ports. The letter encourages the DTI to request foreign governments to arrange for documentary certification of value and environmental and safety quality of used cars exported to the Philippines and will be sent in August. (See Appendix 33.)

ICIP also sent a memo to the NCC-TCF 'Exports and Imports' Working Sub-Group to consider requesting from Philippine Development Partners funding for research and advocacy to deter rampant used-car smuggling at SBFZ. No reply was received as of June 30, 2007. (See Appendix 29.)

In May 2007, President Macapagal-Arroyo issued Executive Order 624, creating the Presidential Anti-Smuggling Group (PASG) under the Office of the President, to be headed by a former Pangasinan mayor to apprehend, investigate and prosecute smugglers and propose measures to deter smuggling and speed up seizure proceedings. It has the power to adopt appropriate measures in preventing smuggling and other similar acts in violation of existing laws, to effect searches, seizures and arrests in conformity with the provisions of the Tariff and Customs Code of the Philippines. Similar efforts in the past have had little success against smuggling; influential smugglers and their accomplices in government are rarely arrested and successfully prosecuted.

Evaluation. Smuggling with the involvement of government officials remains a lucrative and widespread illegal activity, which has proven difficult to eradicate and seriously erodes needed public revenues. Political will to stop smuggling is needed.

Education and English

An important advocacy of ICIP is to reverse declining English proficiency, which is considered the principal competitive attraction of the Philippines for foreign investors, especially those engaged in export manufacturing and services. In the first quarter of 2006, AmCham's PEP project commissioned SWS to conduct a survey on Filipinos' English proficiency. It revealed an alarming drop in Filipinos' self-assessed proficiency in all aspects of English proficiency over the previous twelve years (compared to surveys in 1993 and 2000), most notably in spoken English.

Serious challenges in Philippine basic education are better recognized and received more attention from government and various advocates. GRP remedial efforts are underway, in partnership with NGOs, the World Bank, USAID and the business sector. Under a new management-oriented Secretary of Education who declared Philippine education to be in a state of crisis and called for broad reforms, the Department of Education (DepEd) hoped to raise steadily public sector investment in education in the 2006-2010 period. TESDA implemented a P500 million remedial training program for 100,000 "near-hire" beneficiaries for the ICT sector, where the government ambitiously projects employment quadrupling to 1 million by 2010. The government sought to remediate skills including English of new graduates to match the needs of industry, especially agriculture, IT and tourism and to avail of foreign employment opportunities. In the business sector, the League of Corporate Foundations (LCF) approved a roadmap to improve basic education and prominent businessmen launched the Philippine Business for Education (PBEd).

In ICIP Phase II, PEP accomplished the following:

- ICIP Senior Advisor and PEP Co-Chair submitted to the AmCham Cebu chapter president a proposal for AmCham members in Cebu to contribute $100,000 to support Computerized English Language Centers (CELCs) for eight Cebu colleges.

- PEP and Philamlife inaugurated CELCs at Aurelio University in Cabanatuan, Nueva Ecija, De la Salle University (Lipa, Batangas), Cebu Normal University, Cagayan de Oro University and Far Eastern University. All will provide remedial training for education majors and teachers. AIG chair Martin Sullivan, visiting from New York, and Philamlife President and CEO Jose Cuisia turned over a P5 million donation to PEP represented by AmCham Vice President Johnson and Makati Business Club ED Lim. A sixth CELEC at the University of Mindanao in Davao is operating and will be inaugurated in September 2007.

- PEP signed a MOA with Rotary Manila to provide English software for two schools in Metro Manila using a grant of P300,000.

- PEP team met with representatives of AmCham members Texas Instruments, Moog Controls, Client Logic and People Support at the Baguio Export Processing Zone to discuss Baguio PEP. A CSR budget of $40,000 was agreed to fund CELCs at five Baguio universities.

- PEP co-chair signed a MOA with Pasig Mayor Eusebio and Pamantasan ng Lunsod ng Pasig president Raymundo for a CELC donated by the UPS Foundation.

- PEP co-chair sent a revised proposal to the Mirant Philippines Foundation for $20,000 for two CELCs at schools near the company's main power plants in Pangasinan and Quezon provinces. Mirant donated a check for this amount in late July.

During Phase II, the PEP co-chair, together with PBEd, English-is-Cool and Coca-Cola, also organized a meeting with the country's top advertisers and media executives on creating a partnership to promote English proficiency in the Philippines. Suggestions discussed include: reinstalling English block programming, putting subtitles in Filipino when showing feature-length English films on Sunday nights and support by advertisers for shows with more English content (see Appendix 1a).

In addition, AmCham, together with MAP, MBC and PCCI, wrote NCC co-chairs DTI Secretary Favila and former Amb. Cesar Bautista recommending the adoption of the Test of English for International Communication (TOEIC) as a national benchmarking test for English in the country by administering 2,000 tests a year to teachers and graduating students in different areas of the country. The test would measure the effectiveness of actions ordered by President Macapagal-Arroyo to improve English of high school students by 30% by 2010 under Presidential Memorandum dated October 6, 2006. Copies of the letter were sent to NCC Competitive Human Resources Group private sector champion Atty. De Guzman, DepEd Secretary Lapus and directors of the DepEd National English Proficiency Program. A meeting to discuss the proposal was held by DepEd Undersecretary Bacani on July 24, at which DepEd committed to consider procurement with an estimated $100,000 budget and also advised that TOEIC would be an excellent test to use to screen English language competence for 20,000 new teacher applicants each year. (See Appendix 17.)

Evaluation. The PEP project has made solid progress towards its three goals of advocacy, certification and training. (See charts at Appendices 39 and 40.)

Infrastructure: Power

ICIP continued to urge the GRP to hasten implementing the reforms needed to improve power infrastructure to improve national competitiveness.

One major reform continues to be reducing the high cost of power. In 2006, among GRP efforts to lower the cost of power was offering lower power prices through (a) the National Power Corporation's (NAPOCOR) time-of-use program, allowing lower pricing during periods of low demand, (b) the Manila Electric Company's (MERALCO) customer choice program (CCP) for commercial and industrial consumers using 1MW+ monthly, and (c) the start of the Wholesale Electricity Spot Market (WESM) trading operations. Unfortunately, MERALCO's CCP program was slow to recruit users because the add-ons to rates kept final prices too high to make the program attractive. As for WESM, by the end of 2006, it had 23 suppliers and 157 customers trading power at reduced rates.

Progress towards privatization of NAPOCOR-owned generation companies (GENCOs) and the National Transmission Corporation (TRANSCO) concession remained limited. By end of 2006, only 11% of the power plant assets had been sold – far short of the required 70% threshold under EPIRA to allow open access. Biddings for the large Calaca and Masinloc plants failed during 2006, primarily because both lacked offtake commitments.

On April 23, 2007, in response to repeated appeals for lower electricity costs, the Philippine Economic Zone Authority (PEZA) issued Memorandum Circular No. 2007-010, stating that the PEZA Board shall implement a program to rationalize the provision of electric power in ecozones. Ecozone locator enterprises shall have choices of suppliers with regard to electric power generation, metering and/or billing in the exercise of freedom to access reasonably-priced electric power supply and services. The PEZA, on its own or through contract, franchise or joint venture, shall ensure reliable power supply in the quality and volume required by ecozone locator enterprises. (See Appendix 41.)

The ICIP staff attended a "consultation" by PEZA DG Lilia de Lima on Memorandum Circular No. 2007-010. The presidents of JCCIPI, PCCI and SEIPI and many large ecozone locators (including large US firms) were present. DG de Lima explained the legal authority for PEZA to provide for and regulate power and other utilities in ecozones, an authority confirmed by the Secretary of Justice, and the PEZA Board resolution reaffirming this authority and the PEZA intention to give locators more choice of power providers and lower rates. She predicted that rates could be reduced by around P1/kwh by late 2007. PEZA established a Technical Working Group (TWG) to draw up guidelines and invited ecozones, locators and business associations to participate. AmCham nominated Energy Committee Co-chairman Dan Chalmers as its representative in the TWG. (See Appendix 12.)

Earlier in March, the AmCham ED sent a letter to President Macapagal-Arroyo expressing appreciation for her support to reduce the cost of power for manufacturing locators in economic zones by following the recommendation to expand the applicability of PEZA regulatory authority to all economic zones, both public and private (see Appendix 9). The letter was covered in major newspapers including, BusinessWorld, BusinessMirror, the Philippine Star and the Philippine Daily Inquirer (see Press Clippings #2-8).

On behalf of the JFC, AmCham ICIP also organized in May 2007 a JFC Briefing at the Renaissance Hotel attended by some 200 participants with the Department of Energy (DOE) Team, which included Secretary Lotilla, Undersecretary De Ocampo, Undersecretary Salazar, Director Balce, Director Oca, Power Sector Assets and Liabilities Management Corporation (PSALM) President Ibazeta, NAPOCOR President Del Callar, TRANSCO President Aguilar and Philippine Electricity Market Corporation (PEMC) President Holopainen. DOE Secretary Lotilla presented milestones in restructuring the power sector for competition and achieving energy independence and policy directions of the DOE (see DOE Energy Team presentations at Appendix 4a).

PSALM president Jose Ibazeta briefed the AmCham Energy Committee on the "PSALM Vision for 2007 and 2008 and How Can Industry Help it Become a Success." Ibazeta was optimistic the privatization of NAPOCOR assets would reach targets of 50% in 2007 and 70-75% by the end of 2008. He also reported that TRANSCO would be rebid in December 2007 and announced an investor forum in July to facilitate the sale of the country's power assets. In late July, Masinloc was successfully bidded-out to a US power firm nearly $1 billion, with only 25% of capacity covered by a transition supply contract with NPC. This sale brings the percentage of GENCOs privatized up to 25%.

In June, the JFC wrote to DOE Secretary Lotilla and Energy Regulatory Commission (ERC) chair Albano expressing concern over MERALCO's generation cost underrecoveries and requesting information regarding the government's plan and timetable for the resolution of the issue (see Appendix 15).

Evaluation. Philippine power prices remain among the highest in Asia. Export locators in PEZA zones strongly welcome the promised reduction. Privatization of 70% of NAPOCOR GENCOs to reach the legal requirement to allow open access remains a serious, unrealized hurdle.

Infrastructure: Transportation – Subic-Batangas Corridor

Since 2004, AmCham has advocated completion of a list of high priority infrastructure projects for the Philippines, which are listed in the *Roadmap II More Foreign Investment*.[5] Many of these projects were included in the President's SONA in July 2006, in which she promised heavy public investment in airport, rail, roads and Ro-Ro infrastructure projects spread throughout five "super-regions." The program was estimated to cost nearly P2 trillion over four years and would raise future total infrastructure spending to 5% of GDP following several years of an anemic public sector infrastructure budget. President Macapagal-Arroyo organized the IMTF chaired by a cabinet member especially close to her, although shortly thereafter she moved the responsible official to another cabinet position. In addition, the president designated close advisors to monitor infrastructure projects in each "super-region", although their institutional capacity to do so is uncertain. AmCham will continue to advocate the need for an "Infrastructure Czar" recruited from the private sector with solid experience in major project management work.

In February 2007, ICIP staff attended the PDF-NCC-IMTF Tripartite Coordination Meeting on Infrastructure, in preparation for the March PDF meeting in Cebu. EDC Director Cala noted the NCC had expanded its recommended list of 9 priority infrastructure projects (which include Ninoy Aquino International Airport (NAIA) International Passenger Terminal (IPT)-3; the Light Rail Transit (LRT) North Transit Extension (Metro Rail Transit (MRT)-3 to LRT-1 Loop); C5 (North Luzon Expressway (NLEX) to South Luzon Expressway (SLEX) Connection); SLEX 1, 2, and 3; Subic-Clark-Tarlac Expressway (SCTEX); Southern Tagalog Arterial Road (STAR) 2 (Lipa to Batangas Port); Diosdado Macapagal International Airport (DMIA); and Roll On-Roll Off (RoRo) Ports (Central Nautical Hi-way)) to 11 by including the LRT-1 Extension to Bacoor, Cavite and the MRT-7 in response to a JFC letter. (The PDF has a similar list, except it includes the Cavite-Laguna Toll Road and not the Northrail/Southrail projects.) (See Appendix 37 for the NCC and PDF lists.)

In April 2007, ICIP staff attended the AmCham Joint Philippine Business Environment and Transportation and Infrastructure Committees briefing with NEDA DG Neri on the so-called "GRP Top 10 Ready-To-Go Infrastructure Projects." The ICIP Senior Advisor made several remarks urging early completion of the 11 key infrastructure projects identified in the letters to President Macapagal-Arroyo from the NCC. He urged DG Neri to provide firm dates when these projects would operate. There was considerable discussion questioning the openness of the bidding process for a $300 million National Broadband Network (NBN) project signed with a Chinese proponent. The US Ambassador had written with concerns about the process to DG Neri. Neri thanked AmCham for supporting NEDA's advocacies, including liberalizing aviation policies and port competition. ICIP also provided DG Neri with a copy of the October 2006 Workshop on FDI draft final report and recommendations. NEDA subsequently issued a press release about the priority infrastructure projects presented in the briefing. (See Appendix 42).

[5] *Roadmap II More Foreign Investment* (2004). Makati City: AmCham Philippines. Pages 22-39.

In May, the AmCham ED, Amdesk BOI, ICIP Senior Advisor and staff attended the 2nd National Government Infrastructure Forum organized by the IMTF. Government spokespersons presented so-called "Ready-to-Go" projects in search of Official Development Assistance (ODA) and/or PPP funding. In the open forum, the ICIP Senior Advisor raised several concerns: emphasized the importance of transparency in and implementation of all infrastructure projects; regretted the reputation of the GRP for corruption in infrastructure projects; cited the urgency of increasing the national budget for education to P300 billion by 2010 in order to increase per capita spending on education from its current lowest ranking in ASEAN; and advocated an open skies policy for Clark and Subic and more competition by more operators among ports. He also enquired when project documents would be available for interested private sector investors in PPP projects, but this question was left unanswered.[6]

Evaluation. Several projects (Subic-Clark and SLEX rehabilitation) are under construction and are expected to be competed before the end of the president's term in 2010. Financing for the other nine projects remains to be closed and construction started.

Airports and Aviation Policy

NAIA IPT-3 remained an embarrassing white elephant in the first half of 2007. The GRP commissioned local firm TCGI Engineers and the prominent international engineering firm Ove Arup to evaluate the terminal's structural design and construction. Their report stated that "the structure of Terminal 3, as constructed, has not fully complied with the original design intent developed by the structural designer… there are violations of code requirements on life-safety issues, specifically on the capacity of the facility to prevent structural collapse and loss of lives in the event of a major earthquake" and warned that "the use of the facility at this time, even on a limited scale, is not advisable as this will expose users of the facility to life-safety risks." Subsequently, the Manila International Airport Authority (MIAA) requested the terminal contractor Takenaka Corporation to rectify defects, which Takenaka disputed.

AmCham wrote MIAA General Manager (GM) Alfonso Cusi to request a copy of the above report on the structural integrity of NAIA IPT-3, to better understand the reasons for the continued delay in the airport's opening. (See Appendix 11.) A copy was made available. During the 2nd National Government Infrastructure Forum, the ICIP Senior Advisor discussed the NAIA IPT-3 situation with Cusi, informing him that the airport has a "terminals crisis" and is unable to properly handle passengers whose numbers are growing. Cusi agreed and described interim measures. He said all gates at Terminal 1 are being used, making it impractical to implement the suggestion that PAL international flights be moved back from Terminal 2 (which was intended only for domestic flights under the NAIA master plan). Cusi could state no target date for the opening of Terminal 3, which he said depended on repairing defects identified by the Ove Arup assessment and which the contractor does not recognize.

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[6] Except for NAPOCOR during the Ramos administration, line agencies have long resisted transparent bidding of BOT projects preferring unsolicited projects which involve no professional preparation by agencies with their inadequately trained staff and also allow more opportunity for corruption.

ICIP continued its support for an open skies policy, calling for the reversal of EO 500-A. In March, the JFC issued a statement urging the GRP to follow a liberal aviation policy, by repealing EO 500-A and approving the NCC-drafted EO 500-B (see Appendix 21). The statement was covered in major broadsheets, including BusinessWorld, BusinessMirror, Manila Bulletin, the Philippine Star, the Philippine Daily Inquirer and ManilaStandardToday (see Press Clippings #10-18).

In April, a full-page ad sponsored by several Philippine domestic airlines (excluding South East Asian Airlines (SEAIR)) appeared calling EO 500-B a "threat to the national interest" and urging that liberalization of Philippine aviation be based on reciprocity. The AmCham ED signed a full-page advertisement in leading newspapers in support of EO 500-B, asserting that it is a key to promoting the national interest, defined broadly as increasing investment and jobs. The ad was signed by Central Luzon business organizations, MBC, AmCham, PCCI, and EDC Task Force on Transport and Logistics chair Meneleo Carlos. (See Appendices 34 and 35.)

The AmCham Philippine Business Environment and Transportation & Infrastructure Committees hosted a luncheon briefing on EO 500/EO 500-A and EO 500-B and the NAIA IPT-3 with Department of Transportation and Communication (DOTC) Undersecretary Lontoc, Civil Aeronautics Board (CAB) ED Arcilla and NAIA Assistant GM Montalbo. The CAB reiterated its position that EO 500-A clarified and put some "rationality" into EO 500 and that liberalizing RP aviation policies should be based on strict reciprocity under bilateral aviation agreements. The NAIA Assistant GM presented some details on alleged construction faults and expressed optimism that IPT-3 could be opened by 2008.

In June, the JFC released a follow-on "Statement on Philippine Aviation Policy: Korea and EO 500-B," to re-emphasize the March JFC statement calling for a liberal aviation policy for the development of DMIA (see Appendix 22). Later, ICIP released a major JFC Statement on Tourism and Major Airports in Central Luzon, which included a call to open NAIA IPT-3 with equal access for all international operators, highlighted the increasing congestion and inadequacy of the old terminals at the Manila and Clark airports, emphasized the need to operate NAIA Terminal 2 as an exclusive domestic terminal and open Terminal 3 for all international carriers and called for the development of new terminals at Clark and the building of a high-speed train between Manila and Clark (see Appendix 23). The statement was drawn on in press columns by Boo Chanco in the Philippine Star and former President Ramos in the Manila Bulletin (see Press Clippings #29 and 34). EO 500-A remained nominally in effect as of the end of Phase II, but "liberalized" charters are allowed for low-cost carriers serving Clark.

Evaluation. Protectionist local airlines remain highly influential on GRP policy, with the result that the country is forsaking jobs and investment that would occur if more tourists were able to visit using low-cost carriers.

Shipping Costs and Ports Competition

The ICIP Senior Advisor and staff met with NCC co-champion for infrastructure Henry Basilio regarding the state of competition in Philippine ports and discussed possible strategies to advocate reducing the costs of shipping. ICIP prepared a rough draft of a JFC statement calling for full and fair competition in Philippine ports to reduce shipping costs (see Appendix 1f).

Legislation

During most of the period of ICIP Phase II, the legislative process slowed to a crawl, although bills which had earlier received final Congressional passage advanced to the desk of the president for her approval (or rare disapproval) and subsequent drafting of their IRR.

During this period, ICIP worked on legislation in three ways:

- advocating final passage of priority economic reform measures well-advanced in the legislative process in the final session of the 13th Congress, which met in early June;
- following-up with GRP agencies responsible for drafting IRR for new legislation impacting on the investment climate, commenting on proposed amendments to the BOT law IRR and drafting a letter to DTI Secretary Favila proposing changes to EO 226 concerning the BOI program for investors; and
- organizing a series of briefings and meetings to prepare a priority investment climate legislative reform agenda for the 14th Congress for adoption by leading foreign and domestic business associations.

Final Passage During the 13th Congress. In May, the JFC sent a letter (drafted by ICIP) to House Speaker Jose De Venecia and Senate President Manuel Villar urging the passage of bills important for economic growth and national competitiveness when Congress met the week of June 4 after the May elections (see Appendix 14; see Press Clippings #23-24). These bills were the Credit Information System bill, Amendment to the Customs Brokers Act, bill on National Tourism Policy and Renewable Energy bill, all of which were extremely close to final approval. The letter was reported in the Philippine Star and Philippine Daily Inquirer. Unfortunately, all four bills were not enacted because of the failure of the House to achieve the required quorum of members to pass legislation.

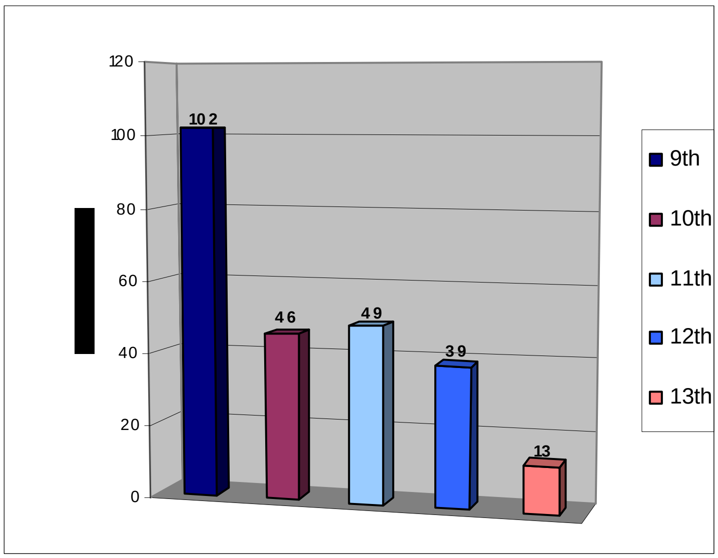
In the absence of final passage of the bills in the foregoing paragraph, by its final adjournment in June, the significant investment climate laws enacted by the 13th Congress only included:

1. RA 9334 (Alcohol Cigarette Tobacco Excise Tax Act)
2. RA 9335 (Lateral Attrition Act)
3. RA 9337 (VAT Expanded Coverage/VAT Increase Act)
4. RA 9343 (SPV Extension Act)
5. RA 9361 (EVAT Amendment removing 70% cap on creditable income tax)
6. RA 9367 (Biofuels Act)
7. RA 9369 (Automated Elections Act)
8. RA 9372 (anti-terrorism law officially called the Human Security Act)

9. RA 9399 and RA 9400 (Bases Conversion Development Act (BCDA) Amendments granting tax amnesty and incentives to Clark and other ecozone locators)
10. RA 9474 (Lending Company Regulation Act)
11. RA 9485 (Anti-Red Tape Act)

This low number continues the downtrend in legislative "productivity" over the 15-year history of the last five Congresses. Although our data is incomplete for the last 13^{th} Congress, the trend is illustrated in the following chart adopted from the AmCham *Roadmap*.[7]

Chart 1. Investment Climate Legislation, 9^{th}-13^{th} Congress



Old and New Implementing Rules and Regulations (IRR). Apart from legislation, ICIP also submitted in May comments to the draft IRR of the Biofuels Act. DOE Energy Utilization Management Bureau Director Mario Marasigan responded by saying DOE would look into the merits of comments for possible inclusion in the IRR (see Appendix 13).

AmCham Legislative Committee (LEGCOM) staff regularly followed-up with responsible GRP agencies to obtain copies of other draft IRR in order to review and comment. Laws included in this follow-up canvassing exercise included the Anti-Red Tape Act, Anti-Terrorism/Human Security Act and the Clark BCDA Amendment and Amnesty Acts. However, no additional draft IRR after that of the Biofuels Act were made available for comment as of June 30, 2007.

[7] *Roadmap II More Foreign Investment* (2004). Makati City: AmCham Philippines. Page 66.

ICIP also reviewed a new set of proposed amendments to the IRR for the Build-Operate-Transfer law[8], which were presented in a public hearing by NEDA in May 2006. Prior to the hearing, the ICIP Senior Advisor and staff met with experts on the BOT law regarding proposals would remove the oversight functions of the Investment Coordination Committee (ICC). During the hearing, the ICIP Senior Advisor recommended increasing the capacity of government agencies to formulate and develop BOT projects through technical assistance from international donors such as the WB and the International Finance Corporation (IFC). He noted his exposure to GRP BOT policy over nearly 20 years and argued for the correct administration of the program in order to harness the great potential of PPP, which is long overdue. Earlier, the World Bank speaker stated the commitment of the WB to provide technical assistance to improve BOT project preparation and implementation.

NEDA collected comments on the proposed BOT IRR amendments, including a letter from the Economic Policy Reform and Advocacy (EPRA) co-signed by the AmCham ED to NEDA DG Neri expressing opinions of stakeholders present in the public hearing (see Appendix 19).

The JFC sent a letter (drafted by ICIP) to President Macapagal-Arroyo regarding the proposed amendments to the BOT IRR, which urged greater transparency, strengthening of the BOT Center and continued oversight by the Investment Coordination Committee and cautioned against too much authority being given to line agencies and LGUs to contract for unsolicited projects. A copy of the letter was also sent to concerned government agencies, the National Competitiveness Council, other business associations, international donor institutions and development partners, but was not released to the press (see Appendix 16).

Looking Ahead to the 14th Congress; 18 Business Groups Back a Single Investment Climate Priority Legislative Reform Agenda. ICIP and the AmCham LEGCOM organized three separate meetings with the legislative staff of the Office of the President, the Senate and the House to research, discuss, prioritize and coordinate priorities for legislation of the foreign and domestic business sectors. Nearly twenty domestic and foreign business groups were invited to participate in this process, which culminated in a meeting of the groups with the GRP Economic Secretaries on July 11, organized by ICIP.

At the first meeting on May 23, the Presidential Legislative Liaison Office (PLLO) was represented by Senior Deputy Executive Secretary Jake Lagonera, Assistant Secretary Ron Salo and Undersecretary Bernardino Sayo. The speakers discussed the Legislative-Executive Development Advisory Council (LEDAC) process, the role of the PLLO, the accomplishments of the 13th Congress and the legislative agenda for the 14th Congress. PCCI, MBC, Canadian Chamber (CanCham) and Australian-New Zealand Chamber

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[8] AmCham has been involved with the BOT law since its inception in the early 1990s. In recent years, AmCham participated in consultations organized by the DTI to propose amendments to the IRR. These amendments were consolidated and forwarded to President Macapagal-Arroyo by NEDA; however, in December 2006, the president did not approve them. She was reportedly frustrated by the slow progress of the BOT program and ordered amendments to strengthen the authority of implementing agencies to decide on contracts resulting from unsolicited proposals, as well as bidded-out projects.

(AnzCham) representatives attended. The ICIP Senior Advisor presented AmCham/JFC legislative priorities (see Appendix 26). At the end of the meeting, the PLLO identified the Customs Brokers Act amendment, amendments to the Magna Carta for SMEs Act, bills providing for cheaper medicines, the National Tourism Policy bill, the Renewable Energy bill and the bill creating a credit information bureau as realistic priorities for the remaining session days of the 13th Congress in June (see PLLO presentation at Appendix 4b).

A second meeting was held on April 25 with the Congressional Planning and Budget Department (CPBD) with CPBD DG Rodolfo Vicerra and ED Manuel Aquino, who discussed CPBD's priority legislative agenda. Representatives from the JFC, PCCI, Bankers Association of the Philippines (BAP), MBC ED Alberto Lim, and Capital Markets Development Council (CMDC) chair Melito Salazar attended. CPBD DG Vicerra said the legislative agenda for the 14th Congress would be clustered into four areas: those raising rural income, improving provision of public services, enhancing standards of governance, and increasing direct investments. CPBD ED Aquino noted that AmCham's priority legislation has a high probability of being included in the CPBD proposed legislative agenda for the 14th Congress (see CPBD presentation at Appendix 4b). The CPBD subsequently published a compendium of policy proposals entitled *Gearing Up the Nation for Growth and Competitiveness: Perspectives from the Secretariat in Support of Legislative Agenda Setting for the 14th Congress*.

The third meeting was on May 31 with the Senate Economic Planning Office (SEPO), with SEPO DG Susana Bulan and EPRA Project Director and former NEDA DG Cielito Habito, who presented their respective proposed legislation for the 14th Congress (see SEPO and EPRA presentations at Appendix 4b).

In parallel with the above three meetings with presidential and congressional legislative staff, ICIP organized the foreign chambers of commerce and major domestic business groups to prepare an investment climate improvement legislative agenda for the 14th Congress, to send to President Macapagal-Arroyo before the SONA on July 23.

AmCham began consulting with the PCCI (represented by Chairman Donald Dee), MBC (represented by ED Alberto Lim), CMDC (represented by chair Melito Salazar and ED Noemi Javier), BPA/P (represented by President Karen Batungbacal), and BAP (represented by ED Leonilo Coronel). At the same time, AmCham also consulted with members of the JFC by circulating its draft list of priority legislation for the 14th Congress.

A follow-up meeting was organized to refine the legislative proposals of the business groups and the foreign chambers. By the end of June, ICIP/LEGCOM prepared a draft letter to President Macapagal-Arroyo proposing a legislative agenda for the 14th Congress and calling for the establishment of a congressional ad hoc committee on Philippine competitiveness. The draft included the following 47 proposed bills in five categories:

Enhanced Competitiveness

- Competition Policy/Anti-Trust Act
- Constitutional Amendments on Foreign Investment
- Customs Code Amendment to raise *de minimus*

- Foreign Investment Restrictions Rationalization Act
- Foreign Professionals Partners in Development Act
- Immigration Code Reform
- Labor Code Amendments
- Magna Carta for SMEs Amendments
- Tax Code Amendment to remove 5-year recovery of input tax paid on capital equipment

Governance and Transparency

- Anti-Graft and Corrupt Practices Act Amendments
- Anti-Smuggling Act
- Flag Law Amendment
- Freedom of Access to Information Act (especially contract transparency)
- Government Employees Lifestyle Check Act Amendments
- Local Government Code Amendments
- Ombudsman Act Amendments
- Omnibus Reengineering Act
- Regulation of Issuance of Implementing Rules and Regulations Act
- Whistle Blower's Protection Act

Improved Infrastructure

- BOT Law Amendments
- Convergence Policy Act
- Subic and Clark as Logistics Hub Act
- Department of Information and Communications Technology Act
- Voice Over the Internet Protocol Act

Restructuring the Financial Sector

- Bank Secrecy Law Amendment
- BSP Charter Amendments
- Collateralization of Movable Property Act
- Corporation Code/ Securities Regulation Code Amendments
- Corporate Recovery (Bankruptcy) Act
- Credit Information System Act
- Insurance Code Amendments
- Investment Advisory Act
- Personal Equity Retirement Account (PERA) Act
- Pre-Need Code Act
- Revised Investment Company Act

Fiscal Reforms

- Financial Sector Taxes Rationalization Act
- Fiscal Incentives Rationalization Act
- Fiscal Responsibility Act
- Simplified Net Income Taxation Act

Others

- Clean Air Act Amendment
- Customs Brokers Act Amendment
- Cybercrime Prevention Act
- Farm Land as Loan Collateral Act

- Land Administration Reform Act
- National Tourism Policy Act
- Renewable Energy Act
- Reproductive Health Act

The groups who expressed willingness to sign the letter included the American Chamber of Commerce, the Australian-New Zealand Chamber of Commerce, the British Chamber of Commerce, the Bankers Association of the Philippines, the Business Processing Association of the Philippines, the Canadian Chamber of Commerce, the Capital Market Development Council, the Employers Confederation of the Philippines, the European Chamber of Commerce, the Japanese Chamber of Commerce & Industry, the Korean Chamber of Commerce, the Makati Business Club, the Management Association of the Philippines, the Philippine Association of Multinational Companies Regional Headquarters, Inc., the Philippine Chamber of Commerce and Industry, and the Semiconductor and Electronics Industries in the Philippines, Inc. The Chamber of Automotive Manufacturers of the Philippines was invited to join but did not respond in time.

During a meeting held at AmCham on July 3 of the sponsoring groups it was agreed: (1) to conduct a poll to arrange the list into four categories: Pending Priority Reforms, Most Important Priority Reforms, Very Important Priority Reforms, and Other Important Priority Reforms, and (2) to meet with the Economic Secretaries to request their input and advice before forwarding the letter to the president. The results of the poll are shown at Appendix 27.

On July 11, the list of priority legislative reforms was further shortened to an initial group of 12 priority bills, followed by a second tier group of 4 priority bills, with an understanding that RA 9481 (Strengthening the Rights of Workers to Self-Organization Act), which lapsed into law in May without presidential signature, will be rectified. This final list of 17 investment climate priorities was decided during a breakfast meeting of representatives of the foreign and domestic business groups with DOF Secretary Teves, DTI Secretary Favila, and NEDA Deputy DG Maragarita Songco (NEDA DG Neri being unable to attend).

The final letter sent to President Macapagal-Arroyo dated July 12 (see Appendix 18) recommended the following 12 priority reform bills for the 14th Congress:

- BOT Law Amendments
- Credit Information System Act
- Customs Brokers Act Amendment
- Financial Sector Taxes Rationalization Act
- Fiscal Incentives Rationalization Act
- Foreign Investment Restrictions Rationalization Act
- Freedom of Access to Information Act (especially contract transparency)
- Land Administration Reform Act
- Local Government Code Amendments (clarify role re investment)
- Magna Carta for Small and Medium Enterprises Act Amendments
- Renewable Energy Act
- Simplified Net Income Taxation Act

The second tier priority reform measures which the group agreed to advocate early passage of includes:

- Foreign Professional Partners in Development Act
- National Tourism Policy
- Personal Equity Retirement Account (PERA) Act
- Pre-Need Code Act

After the letter was sent to the president, ICIP followed-up with DOF Secretary Teves and DTI Secretary Favila and also contacted PLLO Deputy Executive Secretary Lagonera, Presidential Management Staff (PMS) Head Remonde and NEDA DG Neri to advocate presidential support for the proposed measures, eight of which were certified as Administration priority bills for passage in the 13th Congress.

In her July 23 SONA, President Macapagal-Arroyo cited 10 bills which she asked Congress to pass, as follows:

- Law creating the Civil Aviation Authority of the Philippines
- EPIRA amendments
- Cheaper Medicines Act
- Improved long-term care for senior citizens
- Law to protect witnesses from lawbreakers and law enforcers
- Law to guarantee swift justice from more empowered special courts
- Law to impose harsher penalties for political killings
- Law reserving the harshest penalties for the rogue elements in the uniformed services who betray public trust and bring shame to the greater number of their colleagues who are patriotic
- Law to fund poll watchdogs
- Stronger law against election-related violence

The day following the SONA, the ICIP Senior Advisor spoke with SDES Lagonera who explained that the measures cited in the SONA comprised only a portion of her agenda. He subsequently wrote AmCham to reiterate that at least eight of the investment climate reform bills are President Macapagal-Arroyo Administration certified bills and requesting details for the exact legislative measures supported in the letter to the president (see Appendix 36).

Also following the SONA, AmCham released the full letter to the president to the media, resulting in an editorial, an editorial cartoon and otherwise prominent coverage (see Press Clippings #30-35).

A Note on Fiscal Incentives Rationalization. The 13th Congress failed to pass legislation seeking to reform the complex investment incentives built up over the years in nearly 50 separate laws. While the House passed a bill supported by the JFC, the Senate version was radically different and was successfully opposed by a broad group of domestic and foreign business groups.[9]

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[9] For details, see ICIP Final Report dated May 2007, pages 45-47 and Appendix 50.

In an effort to move the debate forward, the GRP requested technical assistance from the WB, IFC, Financial Investment Advisory Service (FIAS) and Multilateral Investment Guarantee Agency (MIGA) affiliated agencies in 2006. Results of the work of these agencies were presented in a preliminary workshop in June and in text form[10] in late July, preparatory to a formal presentation to the GRP Economic Team in mid-August.

ICIP participated in a June 15 NCC-IFC-PDF roundtable consultation with the private sector on the country's investment incentives policies and investment promotion institutions (see Appendix 3). Participants included the private sector, including MAP, MBC, BPA/P, SEIPI, CAMPI, JFC and key GRP officials, including PEZA DG De Lima, CMDC chair Salazar, BOI Director Reyes, SEPO Director Bulan and CPBD Director Aquino, and ODA partners, including USAID. Among the key comments made during the open forum included:

- There was agreement/support for the proposal to clearly define the mandates of the BOI and PEZA, with the former focusing on investment promotion and the latter concentrating on investment regulation and administration.

- The private sector reiterated the importance of income tax holidays (ITH) as an investment incentive which compensates for the lack of other more important factors that investors consider in making investment decisions (e.g., stable political and legal environment, honest governance, ease of doing business, quality infrastructure, inexpensive power and labor cost). Any decision to remove ITH should only be done after these factors are present.

- The incentives to be made available may vary, depending on the industry/sector concerned. A menu-based approach was regarded as desirable for this purpose.

- Political will and leadership are crucial. CMDC chair Salazar shared how the LEDAC, under former President Ramos, was instrumental in implementing reforms, and proposed that the private sector must be included in a similar set-up under the current administration. ECCP EVP Schumacher added that perhaps the judiciary can also be included.

The ICIP Senior Advisor has been designated as a Private Sector Representative to the NCC-TCF “Harmonization of Incentives” working group chaired by DTI/BOI and attended one meeting with the DTI team which decided to wait for the documentation of the WB technical experts to be presented. The ICIP Senior Advisor also proposed benchmarking RP incentives with global best-practice and in comparison with regional competitors.

[10] WB/IFC/FIAS – (1) Guiding Principles in the Use of Investment Incentives; (2) Transition Issues in Investment Incentive Reform; (3) Exploring Richer Options for Industrial Policy-Led Human Resource Development in the Philippines; (4) VAT: Administrative Options for Exporters; (5) Institutional arrangements for investment promotion: Options for reform. June 2007. A sixth overall strategy paper is still in preparation as of this writing.

Others

AmCham Washington Doorknock

- ✓ The AmCham ED and ICIP Senior Advisor joined the annual AmCham Doorknock with the US Congress in Washington, DC, which is accompanied by Asia-related briefings by senior United States Government (USG) officials and other prominent personalities. Philippine issues were discussed with State Department Deputy Assistant Secretary Eric John, National Security Council Senior East Asia Advisor to the President Dennis Wilder and Assistant US Trade Representative Barbara Weisel. Progress in the Philippine economy and intellectual property rights (IPR) enforcement were recognized but concern was expressed over the poor rule of law and human rights. Extrajudicial killings and Subic smuggling issues were raised in a meeting with the senior staff of Senator Richard Lugar, ranking minority member of the Senate Foreign Relations Committee. Extrajudicial killings were discussed with Senator Bond at a reception hosted by the Singapore Ambassador. Issues discussed in other meetings at the Congress were Asia-wide and not Philippine-specific.
- ✓ The AmCham ED and ICIP Senior Advisor called on the Millennium Challenge Corporation Threshold Review Office Director to discuss the status of the RP program. They raised concerns about continuing corruption, including recent controversial non-competed contracts by DOTC and DepEd with the People's Republic of China, major smuggling problems at Subic which involve the BOC, the continuing GRP failure to successfully prosecute "big fish" and the Ombudsman handling of the Commission on Elections investigation. They expressed the view that a COMPACT program should include strong emphasis on education and election reform, in addition to strengthening the anti-corruption and tax revenue collection campaigns.
- ✓ The AmCham ED and ICIP Senior Advisor met with the Philippine Embassy Deputy Chief of Mission, trade and economic officers to discuss a range of issues. They agreed to support efforts to expand USG Medicare coverage to accredited hospitals in the Philippines, first for enrollees residing in the Philippines and secondly for any enrollee traveling from outside to the Philippines for medical care.

Media Interviews

- ✓ Aside from news reports on ICIP advocacy activities, the AmCham ED and the ICIP Senior Advisor were often asked by local and foreign press representatives to comment on-the-record on investment issues. During the ICIP II grant period, this included interviews by Straits Times correspondent Alastair McIndoe on the significance of the Texas Instruments $1 billion new plant expansion at Clark for the overall investment climate in the Philippines; Mr. Greg Rushford, author of the Rushford report and occasional columnist in the Wall Street Journal, on the background of EO 500-B; filmed interview by CBS News on the RP BPO industry; BusinessWorld on the prospects for a US-RP Free Trade Agreement, the ASEAN trade ministers' discussions to harmonize investment sectors for the region, ABS-CBN regarding business sentiment on the May national elections. Themes often reiterated were business concerns regarding governance, infrastructure, the investment climate, education, and security.

Appendix 1a - Position paper-More English usage on television

	Ad Agencies	Media	Advertisers	PBEd	PEP/EIC
STRATEGY	Agree on message and target audience. Take into consideration the market - future OFWs (nurses, teachers), IT/ITES workers, workers in hospitality industry, etc. Consider parents of future workforce. Their purchasing decisions will affect directions and decisions of the education community.				
	Agree on desired outcomes (preferably with metrics and timetables).				
	Agree on a timeline for the concerted media efforts, e.g, one year pilot, as well as how to monitor success.				
	Agree on roles and responsibilities and obtain commitment from stakeholders.				
PLAN & DESIGN	Develop a unified advertising campaign from the TVC and print ads of the Creative Guild, the radio ad of D.Guerrero, as well as the initiatives of English is Cool, for greater impact and better recall.			Develop programs and projects in coordination with the educational system so that there is consistency with the campaign and someone "catches the ball" when target audience responds to calls for action.	
	Develop a visually impactful logo for the advocacy that can be applied to the different advertising materials and will serve as the campaign symbol.				
	Design the website and suggest content that keeps the campaign "cool" and focused on target.				Prepare website so that it responds to actions taken as a result of campaign

Appendix 1a - Position paper-More English usage on television

IMPLEMENTMAJORINITIATIVES	Produce the TVC pro bono or at cost with the help of its suppliers. (See how the winning entries at the Ad Guild can be used).	Create buzz on the advocacy through talk shows (Korina) and work in the issue into scripts of local programming, ideally tying this up with the ad campaign for recall.	Make the advocacy's advertising campaign integral to their advertising plan (e.g., for every x # of spots, x% goes to the advocacy)		Sponsor a press launch to include all supporters and publish press releases
	Design other types of advertising that can complement the TVC.	Donate TV spots in primetime and off peak segments, or offer them at reduced rates.	Agree to support PEP projects		Act as Secretariat coordinating all efforts
		Retain English language in movies and TV series (currently dubbed in Tagalog) with subtitles in Tagalog.	Commit to avoiding Taglish in their advertising materials and increasing the number of materials in English		Manage the website
		Minimize use of Taglish and move towards using English in more TV programs.			Continue with fund raising activities.
		Include a portion in their programs promoting the advocacy, e.g., a 5 minute slot that is in all English.			
		Solicit help of the newspaper editors to create buzz on the advocacy. Donate print ad space.			

Appendix 1a - Position paper-More English usage on television

IMPLEMENTQUICKWINS	Include names of sponsors in the advertising materials (e.g., in TVC, CBB/last frame to contain "This is brought to you by...) to create mileage for the sponsors.	Show the campaign logo in their TV programs (the same way advertisers' logos pop up in programs).	Carry the logo of the campaign in their advertising materials, such as print ads, TVCs' CBB, and products if possible, promoting themselves as supporters of the campaign	Carry the logo of the campaign in relevant corporate material.	Encourage industry and professional associations to include improving English proficiency in their career talks. Prepare material that can be included in their slides.
		Allow use of billboards in between leases for the campaign.	Sponsor the cost of posters and put these up in their offices, plants, organizations they have partnerships with (they may be able to have the posters printed for free if they seek the support of their suppliers)	Encourage schools to use the logo.	
		Print the logo and website of the campaign in the ear ads of the newspapers and other unutilized space.	Encourage their talents to endorse the campaign		
		Sponsor infrastructure costs of the website (referring to the line/subscription).			
		Distribute the posters in their offices nationwide.		Distribute posters to schools and post in member companies offices.	Distribute posters to schools and post in member companies offices.
MONITOR	Monitor & report on ad campaigns.			Monitor & report on progress of education programs/projects.	Consolidate & report on whole initiative.

Appendix 1f. Position paper—Port Competition to Reduce Shipping Costs

DRAFT STATEMENT ON PORTS COMPETITION

The Joint Foreign Chambers of Commerce of the Philippines (JFC) expresses its support for full and fair competition among the ports in Manila and across the country.

Competition is still limited in the ports of Manila among International Container Terminal Services, Inc. (ICTSI), which operates the Manila International Container Terminal (MIC), Asian Terminals, Inc. (ATI), which operates South Harbor, the Philippine Ports Authority (PPA), as owner and operator of Manila North Harbor, and Harbor Centre, which operates the privately-owned Harbor Centre Port Terminal (HCPT). The Manila North Harbor remains to be privatized almost a decade since former President Estrada issued EO 308 directing the PPA to divide it into two terminals and subject it to competitive and transparent public bidding.

Fair competition in the handling of foreign containerized cargoes, which is handled by ICTSI and ATI, is hampered by the PPA not issuing the permit to Harbor Center to compete in the market, despite satisfying PPA's requirements for the issuance of a permit.

Inter-port competition between those in Manila and other parts of the country is also restricted. MICT and the Subic Bay Freeport are operated by ICTSI, while the terminal operator at South Harbor is also the cargo handling operator at the Port of Batangas.

The consequences of this kind of competition in Philippine ports are reflected in the rankings of the country in international competitiveness surveys. The Trading Across Borders section in the latest World Bank Doing Business report shows that the port and terminal handling costs for a 20-foot container is unreasonably high ($1336) compared to other ports in the region ($335 in China, $382 in Singapore and $848 in Thailand). The efficiency of Philippine ports, according to the World Economic Forum's Global Competitiveness Report, is also comparatively low.

In line with the position taken by NEDA Director-General Neri that the Philippine port industry is suffering from regulatory capture, the JFC supports the proposal to amend the PPA charter to separate its regulatory functions from its development function in order to avoid conflict of interest and ensure a level-playing field for port owners and operators.

In addition, the JFC calls on full transparency and competition in (1) the bidding procedures on granting or extending cargo handling contracts and (2) the accounting and reporting standards for the enforcement of port charges and shipping rates. These will ensure that port costs are fair and competitive.

The JFC also supports the recommendations endorsed to President Arroyo by the National Competitiveness Council (NCC) Private Sector Champion for Infrastructure to (1) implement EO 308 as the legal framework for the privatization of Manila North Harbor, and (2) issue a permit to Harbor Centre to handle foreign containerized cargoes in order to promote full competition in the ports of Manila. We also appeal for the reduction of security fees for scanning containerized cargoes, currently at $50 per 40-ft and $25 per 20-ft container).

Full and fair competition among Philippine ports will increase the efficiency of moving goods to and from the country, thereby decreasing the costs of doing business and improving Philippine competitiveness.

As of June 29, 2007

Appendix 3a. Minutes-documentation of focus group discussion for WB-IFC-FIAS consultant

The NCC-IFC-PDF held a roundtable consultation with the private sector on the country's investment promotion policies and institutions on Friday, June 15 at the Hotel Intercontinental.

It was a well-attended forum. The organizers were represented by Euan Marshall and Jesse Ang of IFC, NCC co-chair Amb Cesar Bautista, NCC-TCF private sector champion David Balangue, and Ruy Moreno. The presentors included FIAS consultants (Geoffrey Walton, Robert Whyte, Ross Chapman), Dr Renato Reside from UP, and Ben Eijbergen of The World Bank.

Key members of the private sector were present, among them: MAP (Amb Albert del Rosario, Peter Wallace), MBC (Bertie Lim), BPAP (Karen Batungbacal, Mitch Locsin), SEIPI (Ernie Santiago), CAMPI (Sec Gen Homer Maranan) and JFC (reps from ECCP Henry Schumacher, Korean, Japanese, and Candian chambers). The Asia Foundation (Ky Johnson, Jaime Faustino) USAID (Bob Wuertz, John Avila), Dr Cielito Habito of EPRA and Henry Basilio of CRC were also there.

Also present were representatives from the BOI foreign desks (Amdesk - Bob Blume and Japanese desk), and key government officials (PEZA DG De Lima, CMDC chair Melito Salazar, BOI Director Lucita Reyes, BOI-OSAC Tess Santiago, SEPO Director Susana Bulan, CPBD Director Aquino).

Among the key comments made during the open forum were:

1. There was agreement/support for the proposal to clearly define the mandates of BOI and PEZA, with the former focusing on investment promotion while the latter concentrates on investment regulation and administration.

2. Members of the private sector reiterated the importance of ITH as an investment incentive that compensates for the lack of other more important factors that investors consider in making investment decisions (stable political and legal environment, ease of doing business, quality infrastructure, level of corruption, cost of labor, etc; see slide 7 of the pdf file). As such, the decision to remove ITH should only be done until after these factors are present.

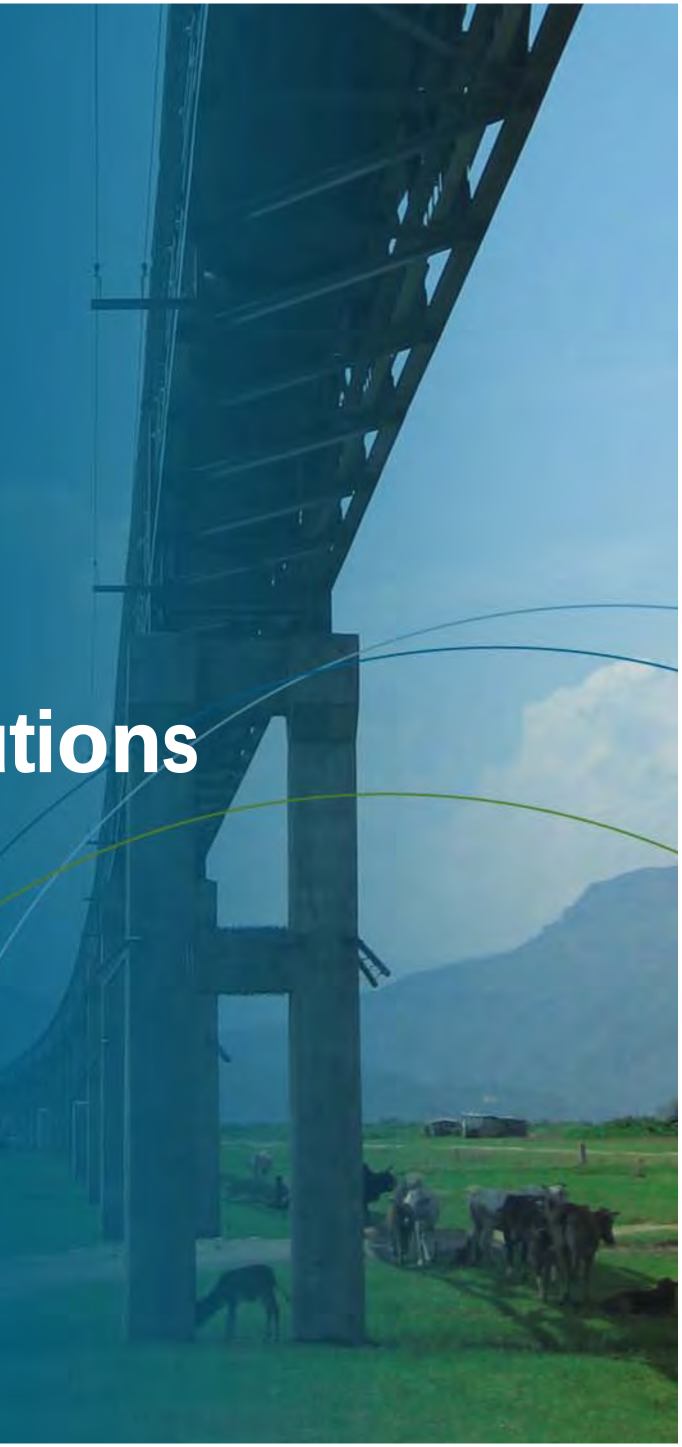
3. The incentives to be made available may vary, depending on the industry/sector concerned. A menu-based approach was regarded as desirable for this purpose.

4. Political will and leadership are crucial to make these things happen. CMDC chair Salazar shared how the LEDAC, under former President Ramos, was instrumental in implementing reforms, and proposed that perhaps the private sector can be included in a similar set-up under the PGMA administration. Schumacher added that perhaps the judiciary can also be included, citing the results of the JFC meetings with the SC chief justice.

According to IFC, there will be six papers to be written (in two months time) as a result of the ongoing consultations with the private and public sectors, which will be submitted to the DOF. The topics of the six papers are identified in slide 3 of the attached pdf file.

Appendix 3b

International Finance Corporation
World Bank Group



Sustaining Growth through Competitive Investment Promotion Policies and Institutions

A PDF - NCC Consultation with the Private Sector

THE WORLD BANK

FIAS
A multidonor service of the World Bank Group

A World Bank Group Project
15 June 2007
Manila, Philippines

Investment Imperatives for RP

- Strategic approach to investment contributes to growth
  - Knowledge-based economy spanning all industries
  - Fresh and innovative look at incentives as part of an overall package
  - Re-engineer institutions to be consistent with new investment environment
- Opportune time to take new direction
  - Policy focus
  - Implementation within next Congress is feasible and necessary
- Unified voice from government sought by private sector

Policy and institutional issues addressed

1. Investment incentives guiding principles (incl global lessons of experience)
2. Incentive options for human resource development
3. Infrastructure incentives
4. VAT: Administrative options for exporters
5. Transition issues in investment incentive reform
6. Investment promotion institutions: Options for reform

Key Messages

1. There is scope to develop a more responsive, growth-enhancing and revenue-sensitive incentives framework that departs from an ITH platform

2. Performance-based incentives, including those to support HR development, should be adopted to underpin growth

3. Exporters drive growth, and should be treated equitably in relation to their VAT obligations

Key Messages (cont'd)

4. Develop a strategic infrastructure programming, prioritization and regulatory framework to remove impediments to investment and growth

5. To minimize policy uncertainty, grandfathering will be a critical feature of any transitional arrangement– credibility milestones for government are also necessary

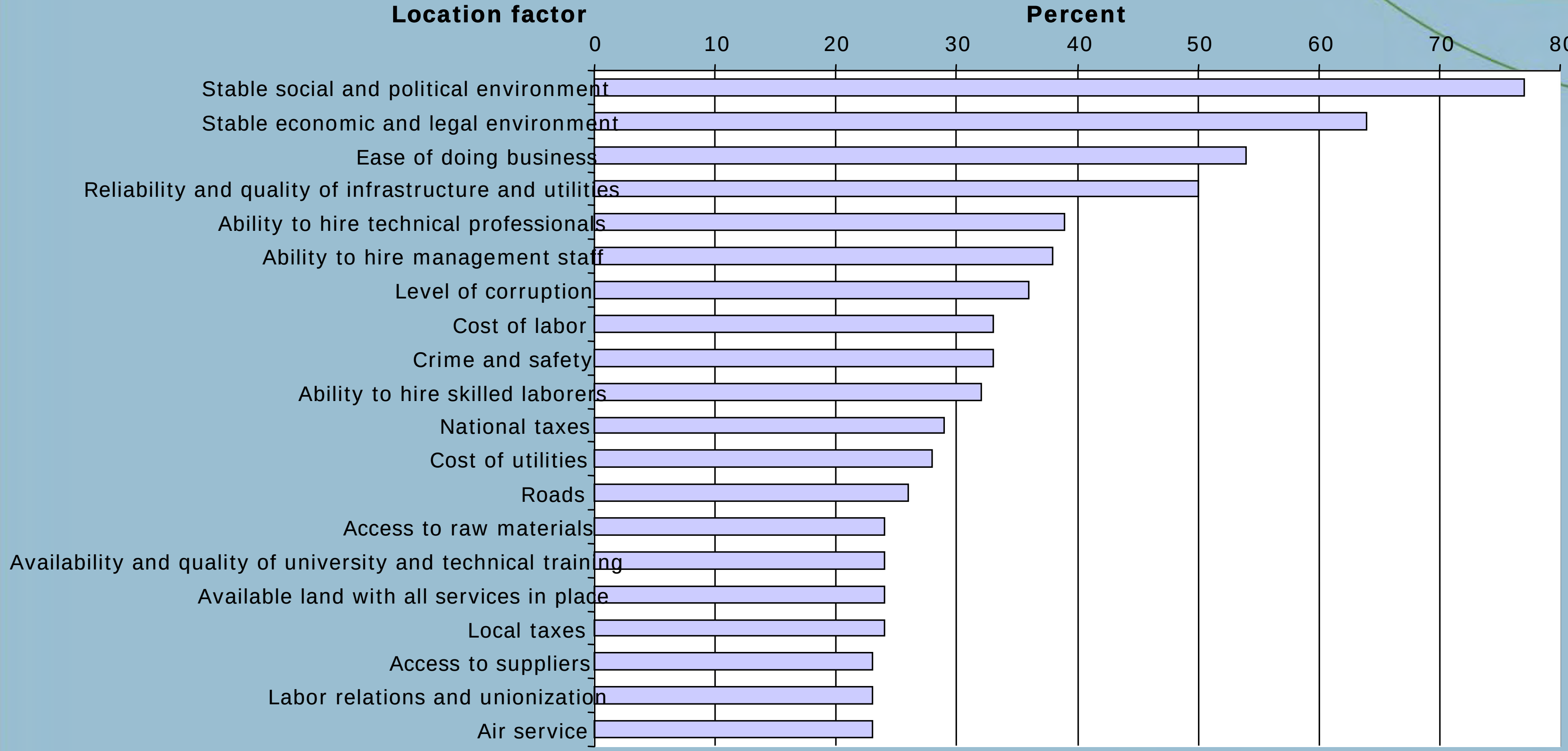
6. The separation of regulation and investment promotion functions is necessary for the delivery of an efficient and effective govt investment strategy

Incentives are widely used but have hidden economic costs

- When delivered through the tax system they necessarily forego revenue, with uncertain impact on investment behavior
- There is a *redundancy* problem, placing a drag on public expenditure possibilities - health, education, infrastructure
- Not to mention putting upward pressure on other tax rates
- Investors consider the whole array of relevant characteristics (political stability, economic fundamentals, access to markets, infrastructure, skilled labor and finance) of a country before investing
  - Fiscal incentives do not rank in the top factors cited in surveys of investors on key location determinants (e.g., MIGA 2002 Study)

Appendix 3b

Top 20 critical location factors, percent cited as "very influential"



Source: Multilateral Investment Guarantee Agency (MIGA), *Foreign direct investment survey*, January 2002

A sound incentives regime would have the following broad principles

- **Limited number, clearly-defined, and measurable policy objectives**
- ***Rules-based*** **to strengthen the government's reputation for consistent, even-handed behaviour**
- **Simple, transparent, performance-based qualifying criteria**
- **Equal treatment, assessable cost to revenue**
- **Strongest justification for govt intervention thru incentives is to exploit favorable externalities**

There is an apparent preference for tax holidays but there are better policy choices

- Because tax holidays target profits, they:
  - Encourage transfer-pricing
  - Favor short-term footloose investment
  - Cancel out effects of other more efficient incentives
  - Have uncertain and difficult-to-measure revenue consequences
- Preferable policy instruments target investment directly
  - Accelerated depreciation (or other write-offs)
    - Simply delay revenue collection rather than forego it completely
  - Investment allowances
    - Better targeted
    - Better aligned to revenue requirements

RP should opt out of the "race to the bottom" to get ahead

- In practice, countries in the region employ a range of different incentive regimes (Thailand, Malaysia, Vietnam)
- But not all make use of tax holidays (China)
- And some countries prefer broad-based, low-rate tax systems over discriminatory incentives-based systems (Ireland, HK, EU)
- No evidence on correlation between generosity of incentives and investment performance

RP can get ahead by becoming a knowledge-based economy

- To do that, HR development requires attention, esp because of presence of favorable externalities
- Shortage of skilled labor, especially in strategic industries (e.g., electronics and BPO) contribute to reduced RP international competitiveness constraining investment and growth
- Access to a large pool of skilled human capital attracts all types of investments, enabling RP to better innovate, absorb technology, create linkages & move to higher value-added production

The case for government intervention in stimulating HR

- Some HR activities generate positive spillovers (e.g., transfer of knowledge across firms)
- Other activities and conditions impede HR (e.g., migration, poaching, uncertainty about returns to education and training, low productivity of training, credit constraints)
- Unexploited HR development opportunities exist and we must consider different forms of support

But ITH don’t stimulate HR development

- ITH nullify targeted HR incentives
- More targeted instruments are more cost-effective – there is less subsidy per unit investment generated
- Tax allowances for HR dev’t used worldwide to stimulate strategic investments
- Tax allowances are more powerful than ITH in encouraging continuous HR development

Besides HR incentives there is an industrial policy approach

- Encouraging collective, industry-led & -coordinated initiatives to stimulate development of the "supply of human capital"
- Recent experience in Malaysia (Penang Skills Development Center) and RP (ARCDI) are good examples of industry-led initiatives.
- They encourage training and interaction between academe, local & foreign firms, facilitate sharing of knowledge, linkage creation and technology transfer
- Consider mechanisms to enhance quantity and quality of training (e.g., skill certification, strengthening general education system, faculty development, greater use of IT)

Appendix 3b

Overview: Infrastructure

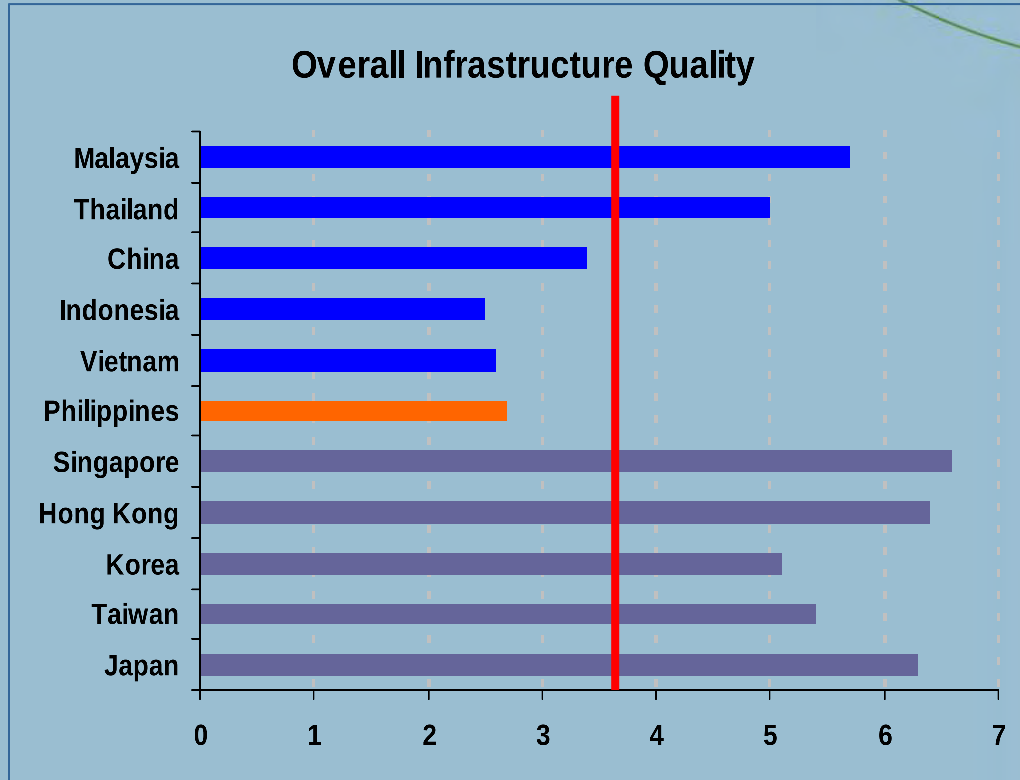
- **Infrastructure matters to**
  - **Growth and competitiveness**
  - **Poverty reduction**

- **State of infrastructure:**
  - **Uneven access**
  - **Low quality and high cost**

- **Target infrastructure spending to 5% of GDP**

- **Encourage PSP**

Infrastructure Quality: Quality ranking
World Competitiveness Report 2006-2007



Note: Rankings are shown for developing East Asian economies (darker bars), and advanced East Asian economies (lighter bars). Vertical line is the average for all 125 surveyed countries, both within and outside of East Asia.

Prerequisites for reducing impediments to infrastructure investments

- **Sustain and deepen fiscal reforms**
  - Leverage private investments
  - Scope for incentives is fiscally-constrained
- **Improve economic governance**
- **Sustain policy reforms in key areas**
  - Power, roads, water, PPP/BOT framework
  - Foster cost recovery
- **Improve investment programming and prioritization**
- **Enhance project preparation for PSP**
  - Lack of rigorous project preparation more a constraint than financing
  - Technical and financial design
  - Key for effective competitive and transparent bidding

Better risk management will reduce reliance on incentives

- GOP needs the pvt. sector --- 33% of CIIP under the MTDP is to come from private sources.
- PPI inhibited by fundamental risk factors that cannot be fully compensated by investment incentives.
- Risk-adjusted rates of return can be adequate without incentives – most infrastructure sectors (telecom, power, toll roads, urban) are inherently profitable if broader risks are addressed.
- Improved supply of long-term domestic financing will benefit all infrastructure sectors.

Options for Increasing PSP in Infrastructure

- Deliver on existing committed infrastructure projects
- Establish a uniform approach to project preparation with adequate public resources
- Develop risk sharing principles for PPP and PSP
- Develop a cost recovery framework, which may include financial assistance to low income groups to pay for connections that can add to demand thus increasing commercial viability
- Improve economic governance by separating regulation from operations

Open Forum

Current "dual-track" VAT system discriminates between PEZA and other exporters

- VAT system in RP diverges significantly from global best practice in relation to its treatment of exporters
  - Some exporters have a blanket exemption from VAT (mainly PEZA exporters)
  - Other exporters must pay input VAT and are compelled to claim input tax credits through the Tax Credit Certificate (TCC) system
- Exporters operating under the TCC system are further handicapped because:
  - TCC's are difficult to redeem
  - TCC's are often sold at a discount

Current administrative arrangements are overly complex

- There is a divergence from global best practice
  - Rather than a single agency, there are four separate government interfaces for exporters: PEZA—BIR—BoI—OSS
- PEZA exporters benefit from more streamlined administrative procedures - their compliance costs are minimal
- Other exporters face complex and costly procedures to obtain TCC's
  - Not only are TCC's difficult to redeem but they are difficult to obtain

TCC system strongly disadvantages non zone exporters

- The process of obtaining TCC's is tedious, costly, and time consuming
- BIR—Mandatory audits to verify all refund claims for both large, small, existing, and new exporters—multiple procedures—special unit for redemption of TCC's—issuance of Tax Debit Memos (TDMs)
- BoI—numerous registration requirements to avail of incentives (incl. VAT zero-rating) involving nomination and certification of suppliers
- OSS—further paperwork needed once registered with BoI to obtain TCC's and TDM's

Systems are needed to forecast and monitor anticipated VAT refund claims

- **Moving over time to a refund system will require capacity building within BIR to be able to accurately forecast refund claims**
- **Modern tax administrations use VAT refund processing systems that:**
  - **Distinguish between refund claimants with a strong history of good compliance and those with poor or unknown compliance histories—risk management approach**
  - **Use pre-refund audits where the risk is high and post-refund audits where the risk is low**
  - **Apply pre-determined criteria to determine the risk associated with different types of refund claims**

VAT options to improve export competitiveness

- **Unify administrative arrangements and introduce statutory deadlines for the payment of VAT refunds, with interest to be paid on delayed refunds**
- **Interim options:**
  - **Streamline TCC treatment to exporters with good compliance history - the "green lane" approach - look for ways to speed up processes, reduce steps**
  - **Gradually move to a refund system by increasing appropriations for refunds over time and allowing exporters with a good compliance history to opt out of the TCC system**
  - **Forming a Trust Liability Account has merit**

Regardless of incentives regime, tracking revenue impact is imperative

- Recent debate about redundancy demonstrate the lack of coordination, data-sharing and common methodology
- Encouraging first steps have been taken to coordinate BOI-PEZA-BIR requirements for firms to follow in ITH availment
- DOF and all implementing agencies should develop a common methodology for calculating revenue impact
- Annual reporting must be uniform in content and include number and value of applications received, approved, implemented

‘Grandfathering’ is needed to minimize policy uncertainty and maintain credibility

- Automatically honor time bound obligations to approved investors, incl those who have not yet availed
- Establish a date for the introduction of the new incentive regime. Existing enterprises that undertake expansion can continue to have access to ITH during the phase-out period
- Any incentives which are *not* time-bound need to be reviewed
- Should the IPP be removed, tax treaty obligations must be renegotiated

A menu-based approach to future incentives may have some merit but increases administrative complexity

- Some choice among these instruments could be offered (accelerated depreciation, investment allowances, training allowances etc)
- Export sector could be a main target and beneficiary of this choice
- Existing '5% option' on Gross Income Earned should remain an option for exporters, at least for the present
- Choice increases administrative complexity and entails additional resources for BIR and the implementing agencies

Credibility milestones for government should be part of the incentives reform program

- Need to mitigate business skepticism about the benefits of incentive reform
- Govt needs to demonstrate specific and time-bound commitments to redirect savings to education, training and infrastructure
- And report progress on achievement and use of savings and expenditure against these ‘milestones’
- Private sector needs to help identify specific actions contributing to cost-reduction/productivity-improvement

Opportunity to strengthen institutional landscape to support growth agenda

- Assessment of key national institutions involved in incentives administration and investment promotion

- Institutional system works, but sub-optimal
  - Incentives administration operating in silos, with minimal interaction (if at all) with the DOF and BIR
  - Lack of functional clarity across IPAs
  - Complex and (often) unpredictable institutional environment
  - Communication and coordination is weak
  - Significant inertia has developed in the system

- There is opportunity to build on existing strengths

Key elements critical to a national investment promotion system should be developed

- Clarify institutional leadership
- Develop national investment promotion strategy
- Augment resources for investment generation
- Implement investment policy advocacy – public-private dialogue

Regardless of institutional reform option chosen, the current institutional set up can be improved

- Clarify institutional mandates and roles
- Improve communications and coordination
- Strengthen functional capabilities
- Address HR shortcomings and review allocation of manpower resources
- Institute a process to develop a national investment promotion strategy
- Develop and implement a national investor aftercare and policy advocacy system

International experience points to separation of regulation from promotion

- Refocus, strengthen BOI to be the national IPA leading the coordination with all other IPAs
- Consolidate PEZA as the national body responsible for incentives administration and supervision
- Establish a clear role within well-defined parameters for the DOF in incentives policy and oversight of incentives administration
- Clarify respective roles in investment promotion strategy, e.g., NEDA on industrial policy, BOI on IP strategy and implementation

Open Forum

Sustaining Growth through Competitive Investment Promotion Policies and Institutions

A PDF - NCC Consultation with the Private Sector

A World Bank Group Project
15 June 2007
Manila, Philippines

The Foreign Chambers of the Philippines

Appendix 4a

American Chamber of Commerce of the Phils., Inc. ◆ Australian-New Zealand Chamber of Commerce (Phils.), Inc.
Canadian Chamber of Commerce of the Phils., Inc. ◆ European Chamber of Commerce of the Phils., Inc.
Japanese Chamber of Commerce & Industry of the Phils., Inc. ◆ Korean Chamber of Commerce of the Phils., Inc.
Philippine Association of Multinational Companies Regional Headquarters, Inc.

ANZCHAM

eccp
EUROPEAN CHAMBER OF COMMERCE OF THE PHILIPPINES

JOINT FOREIGN CHAMBERS
BRIEFING with DOE SECRETARY LOTILLA

Tuesday, May 22, 2007, 3:00-5:30 pm
Ballroom 1 & 2, Renaissance Hotel Makati

≈≈

P R O G R A M

3:00 pm	NETWORKING	
3:15 pm	OPENING REMARKS	HUBERT d'ABOVILLE President, European Chamber of Commerce
	INTRODUCTION OF THE SPEAKER	ROGER DALLAS President, Mead Johnson President, American Chamber of Commerce
3:30 pm	GUEST SPEAKER **HON. RAPHAEL LOTILLA** Secretary, Department of Energy **DOE Energy Team**	
4:30 pm	OPEN FORUM	DAN CHALMERS President & CEO, GN Power Ltd. Co. Chairman, Energy Committee
5:25 pm	CLOSING REMARKS	TOSHIFUMI INAMI President, Japanese Chamber of Commerce General Manager, Mitsubishi Corp.

Appendix 4a. Minutes-documentation of Power Sector Review of GENCO

JFC Briefing with DOE, May 22 2007

Sec Lotilla
Usec De Ocampo
Usec Salazar
Director Balce
Director Oca
PSALM president Ibazeta
NAPOCOR president Del Callar
TRANSCO president Aguilar
PEMC president Holopainen

Open Forum

Q: Are power prices reflective of the true cost of power?
A: (Holopainen) There's no true cost; prices reflect the state of competition in the power industry. (Del Callar) Spot prices reflect hourly trading, as well as the changing mix of power generation.

Q: How do we achieve open access given the slow progress in privatizing government power assets?
A: (Ibazeta) Government targets to sell power assets as fast as possible, 50% this year and up to 70% by 2008. There's a lot of interest from buyers, and bundling plants makes them more attractive. Attaching a power supply contract also helps.

Q: How can the government ensure that the sale of Masinloc will happen?
A: (Ibazeta) There had been 20 groups who participated in the pre-bid conference, down to 8 to 9 big groups expressing keen interest in Masinloc. There will be no failure of bidding this time around, as technical and financial requirements for pre-qualification are being addressed. A supply contract is also being considered to make Masinloc more attractive to investors.

Q: What are government's plans for giving incentives to the biofuels industry?
A: (Usec Salazar) Incentives are stated in the Biofuels Act, which include no VAT in the sale of biofuels.

Q: What is the timetable for the bidding of TRANSCO? Has the government addressed the concerns raised in previous bids?
A: (Ibazeta) TRANSCO will be bid out in December this year, or even earlier in November. It is difficult to provide the franchise before bidding it out. The real issue with regard to its sale is the 60-40 rule in the Constitution.

Q: How can the government bring down the cost of power to improve the country's competitiveness?

A: (Lotilla) We have approved the 1-megawatt Customer Choice Program of Meralco, since March 2006. Locating in PEZA is also an alternative, in order to enjoy low cost of power.

Q: How can we grow the economy in an environment of high power prices?
A: (Aguilar) We have to build structures that can withstand natural disasters. We have to remain open to technologies, renewables for debt swaps, and nuclear power as an option.

Q: How can the DOE serve as a catalyst to small distribution utilities?
A: (Lotilla) The government supports electric cooperatives, which serves as aggregators of demand. The National Electrification Administration assist electric cooperatives in terms of creditworthiness.

Where Are We Now?

LUZON

19,903
--------- = 97.20%
20,476

573

Unelectrified Barangays

VISAYAS

11,087
--------- = 96.89%
11,443

356

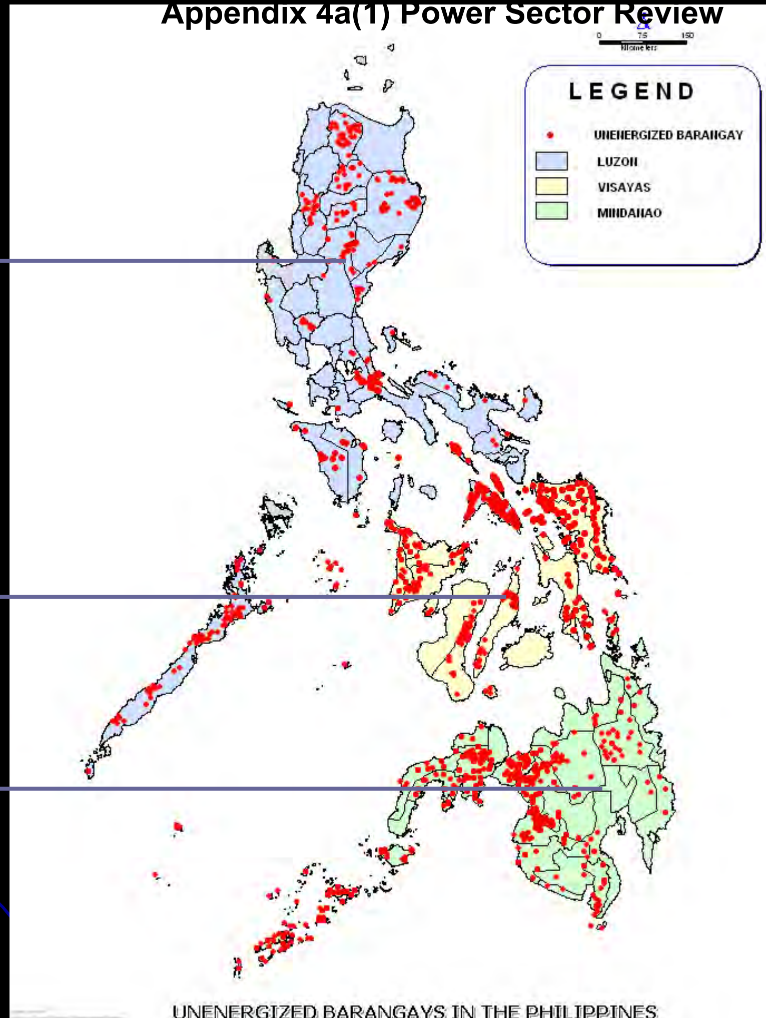
Unelectrified Barangays

MINDANAO

8,965
--------- = 89.42%
10,026

1,061

Unelectrified Barangays



PHILIPPINES

39,955
--------- = 95.26%
41,945

41,945
Potential Barangays Based on 2000 NCSO

From 9,718 unelectrified villages in 1999, the remaining unelectrified barangays by end of 1Q 2007 is …

1,990

Unelectrified Barangays

Barangay Electrification Situationer

(As of 31 March 2007)

14 First Wave SPUG Areas and ECs

Luzon

- Mindoro
  - OMECO
  - ORMECO**
- Marinduque
  - MARELCO
- Palawan
  - PALECO **
- Catanduanes
  - FICELCO **
- Masbate
  - MASELCO
- Tablas
  - TIELCO
- Romblon
  - ROMELCO

Visayas

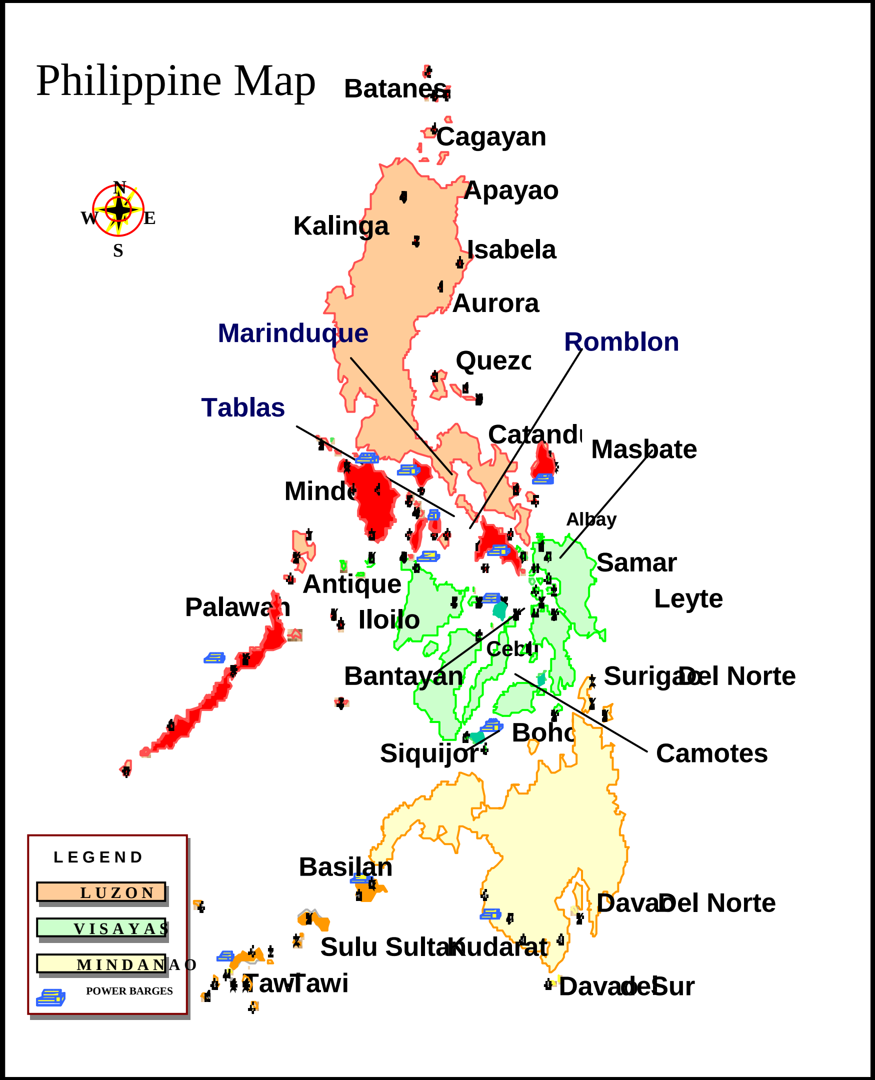
- Bantayan
  - BANELCO **
- Camotes
  - CELCO**
- Siquijor
  - PROSIELCO**

Mindanao

- Tawi-Tawi
  - TAWELCO
- Basilan
  - BASELCO
- Sulu
  - SULECO

Awarded

Under Preparation



** ECs managing their own NPP Selection

PNOC

The Government of the
Philippine Republic

Briefing for the Joint Foreign Chambers of Commerce in the Philippines

Secretary Raphael P. M. Lotilla
Department of Energy

Renaissance Hotel
May 22, 2007

Appendix 4a. Power Sector Review on GENCO

The Government of the Philippine Republic

Presentation Outline

I. Where We Are Now

- Policy Developments and Reform Milestones

II. Where We Are Headed

- Outlook and Policy Directions

The Government of the Philippine Republic

I. Where We Are Now

The Government of the
Philippine Republic

I. Reform Milestones

- **Restructuring the Power Sector for Competition**
  - **Privatization of 11% of generation capacity in Luzon and Visayas**
    - **Successful bid out of 8 hydroelectric plants**
    - **Signing of the World Bank Amendment Agreements**
  - **NPC privatized 66 MW in NPC-SPUG areas**
  - **Achieved 95% Barangay Electrification**
  - **WESM commercial operation in June 2006**

The Government of the
Philippine Republic

I. Reform Milestones (cont'd)

- **Restructuring the Power Sector for Competition**
  - Conclusion of MECO Transition Supply Contracts (TSC) with NPC
  - Introduction of Customer Choice Program (CCP)
  - Successful IPO of PNOC-EDC
  - Sustained NPC fiscal performance
  - Approval of TransCo's MAR under the 2nd regulatory period
    - Enhances privatization of TransCo
    - Compliance of TransCo on standards set by ERC

The Government of the
Philippine Republic

I. Reform Milestones (cont'd)

- **Achieving Energy Independence**
  - Launching of the Philippine Energy Contracting Round 2006
  - Award of 7 service contracts for oil and gas, with US$201.3 M in committed funds
  - Passage of the Bio-fuels Act
  - New investments in bio-fuels
  - House approval of the Renewable Energy Bill

The Government of the Philippine Republic

II. Where We Are Headed

II. Policy Directions

- Continue Power Sector Reforms
  - Accelerate sale of transmission and generation assets
  - Appointment of IPPA
  - Continue working on transfer of assets from National Power to PSALM & Transco
  - Manage debts and liabilities transferred from National Power to PSALM
  - Ensure the completion of critical transmission projects

The Government of the
Philippine Republic

II. Policy Directions

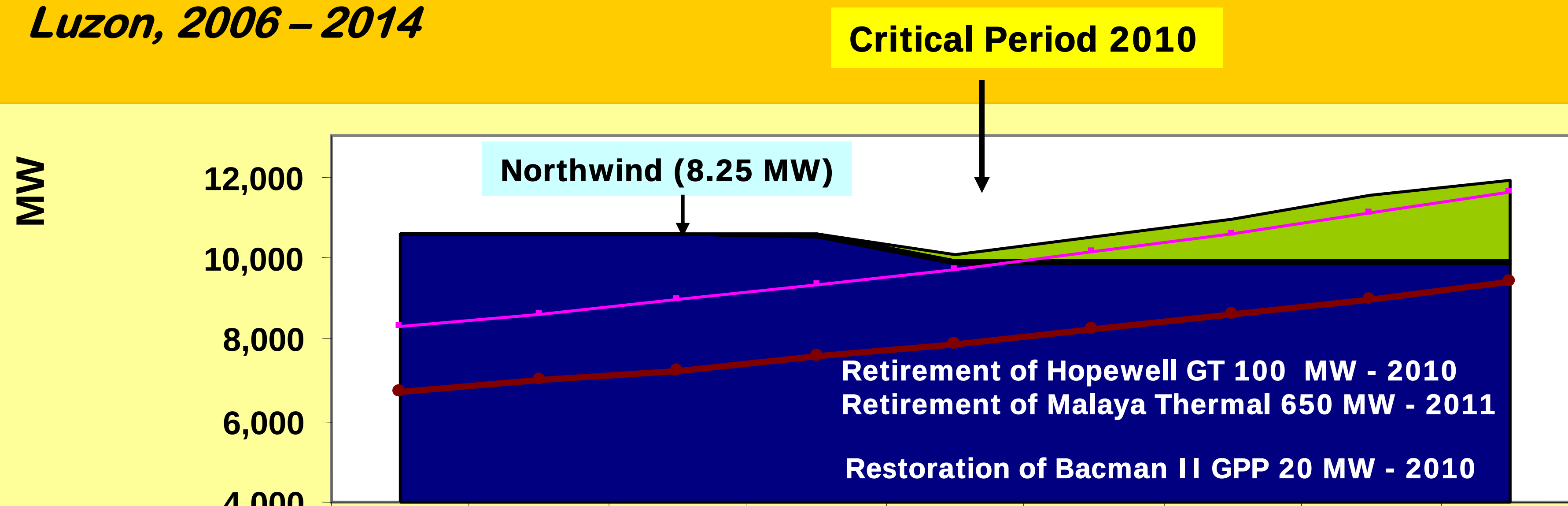
- **Continue Power Sector Reforms (cont'd)**
  - **Establishment of special rates to PEZA registered industries**
  - **Encourage construction of new and additional capacities by private investors***
  - **Pursue capacity expansion of existing power plants initiated by private investors***

** See power development plan on next slide*

- **Implementation of Time-of-Use (TOU) pricing at the distribution level (<1 MW industrial/commercial users) may defer the critical period**
- **Distribution Utilities and large industrial/commercial users can facilitate investments in new capacity by:**
  - **firming up and indicating their energy requirements**
  - **signing up for bilateral contracts with power providers to provide stable market**

SUPPLY DEMAND PROFILE

Luzon, 2006 – 2014

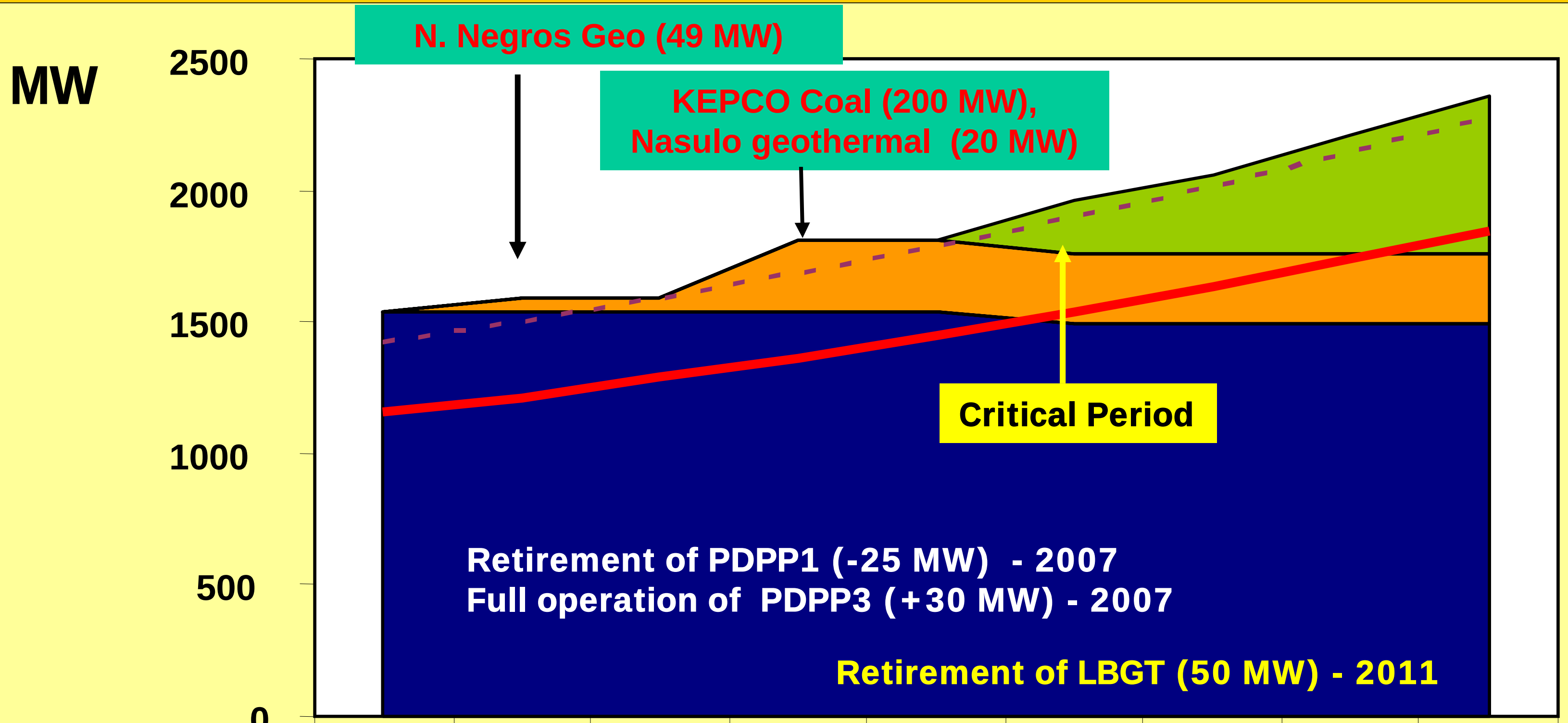


	2006	2007	2008	2009	2010	2011	2012	2013	2014
Indicative					150	450	450	600	300
Committed			8.3	30.0					
Dep. Capacity	10,576	10,576	10,576	10,584	10,534	9,884	9,884	9,884	9,884
Required Capacity	8,302	8,614	8,949	9,319	9,721	10,150	10,607	11,093	11,596
Peak Demand	6,728	6,981	7,252	7,552	7,878	8,225	8,596	8,990	9,397
Surplus	3,848	3,595	3,333	2,962	2,157	2,260	2,338	2,545	2,438
Reserve Margin	57.2%	51.5%	46.0%	39.2%	27.4%	27.5%	27.2%	28.3%	25.9%

Note: Required Capacity refers to the peak demand plus the ERC-approved reserve margin above the peak demand of 23.4 % (2.8 % Load Following and Frequency Regulation, 10.3 % Spinning Reserve, 10.3 % Back-Up)

SUPPLY DEMAND PROFILE

Visayas, 2006 – 2014

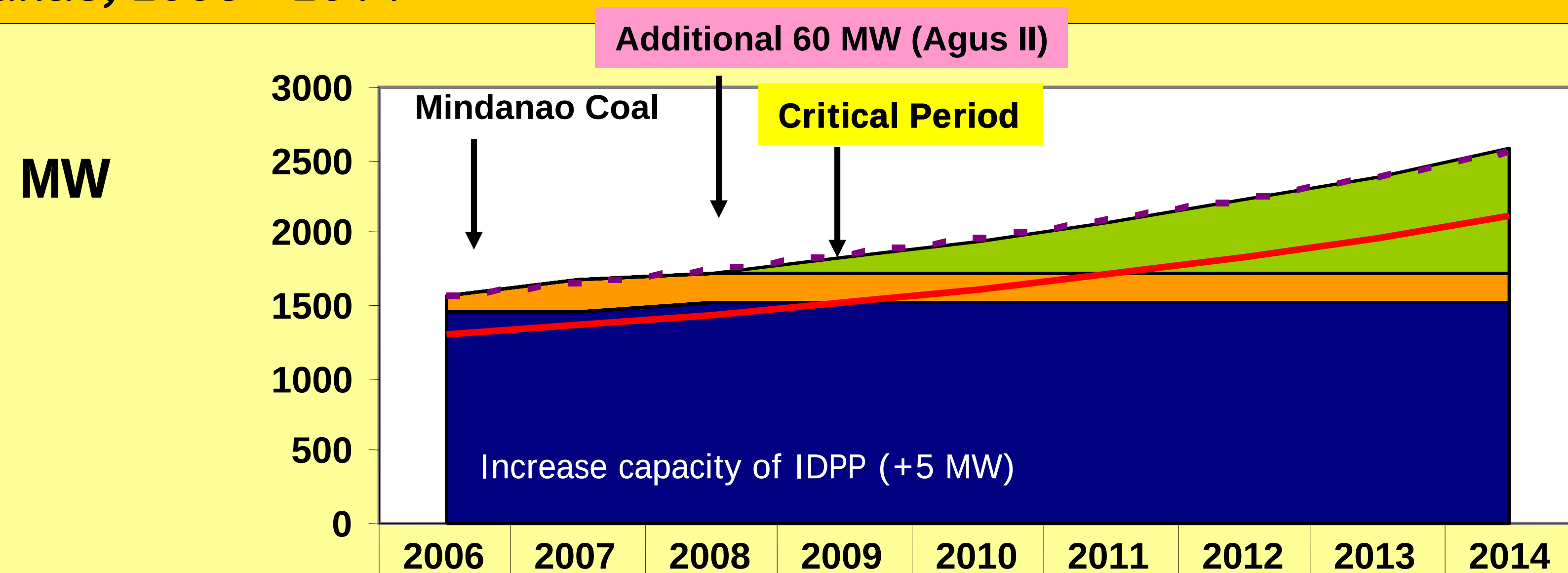


	2006	2007	2008	2009	2010	2011	2012	2013	2014
Indicative, MW	-	-	-	-	-	200	100	150	150
Committed, MW	-	49		220					
Dep. Capacity, MW	1,536	1,541	1,590	1,590	1,810	1,760	1,760	1,760	1,760
Required Capacity, MW	1,424	1,498	1,591	1,683	1,787	1,895	2,014	2,143	2,283
Peak Demand, MW	1,154	1,214	1,289	1,364	1,448	1,536	1,632	1,737	1,850

Note: Required Capacity refers to the peak demand plus the ERC-approved reserve margin above the peak demand of 23.4% (2.8% Load Following and Frequency Regulation, 10.3% Spinning Reserve, 10.3% Back-Up)

SUPPLY DEMAND PROFILE

Mindanao, 2006 – 2014



	2006	2007	2008	2009	2010	2011	2012	2013	2014
Cumm Req'd cap. Add				100	100	150	150	150	200
Committed, MW	210								
Dependable, MW	1455	1670	1730	1730	1730	1730	1730	1730	1730
Required Capacity, MW	1565	1649	1742	1845	1960	2087	2228	2382	2556
Peak Demand, MW	1293	1363	1440	1525	1620	1725	1841	1969	2112
Surplus/deficit	372	307	290	305	310	355	389	411	468
% RM	28.8%	22.5%	20.2%	20.0%	19.1%	20.6%	21.1%	20.9%	22.2%

Note: Required Capacity refers to the peak demand plus the ERC-approved reserve margin above the peak demand of 21.0 (2.8% Load Following and Frequency Regulation, 9.1% Spinning Reserve, 9.1% Back-Up)

The Government of the Philippine Republic

II. Policy Directions (cont'd)

- **Increase indigenous & alternative energy use**
  - **Push for widespread use of alternative fuels**
  - **Jumpstart the Natural Gas industry**
  - **Privatization of EDC by another 20%**
  - **PNOC to provide support through RE**
  - **Intensify search for oil and gas through continued public bid rounds and improved service contracting schemes**
    - **Possible sale of EC shares**

The Government of the
Philippine Republic

Thank You
and
Mabuhay!

Appendix 4b. Meetings with LEDAC Staff on priorities

CONGRESS OF THE PHILIPPINES

Some Notes on Agenda and Performance

No. of Bills Filed and Passed into Law, 13th Congress

	1st Session July 2004 to June 2005	2nd Session July 2005 to June 2006	3rd Session July 2006 to June 2007 (as of 9 February 2007)
House Bills	1,189	322	151
Senate Bills	2,159	337	159
Total	3,348	659	310
Bills passed into law of national implication	4	5	7

No. of Laws of National Implication

	President Ramos	President Estrada	President Arroyo
Second Session	20	15	17
Third Session	53	35	43

CPBD DEVELOPMENT FRAMEWORK

MAJOR DEVELOPMENT CONSTRAINTS

Weak Long-term Economic Performance
- Long regime of Industrial protectionism & discriminatory policies
- Episodes of political instability
- Boom-Bust cycle

High Population Growth

Low Levels of Productivity

Fiscal Deficit & Low National Savings Rate

Huge Debt Overhang

Unfavorable Investment Climate

Weak Entrepreneurial Culture

Weak Governance

Peace & Order Problem

POLICIES AND PROGRAMS

Macro-economic Stability
- Resource Mobilization
- Debt Management
- Public Expenditure Mgt

Infrastructure Development

Outward Orientation
- Trade Arrangements
- Exchange Rate
- Tariffs

Competition Policy

R & D Program/ Technology

Education & Health Programs

Improved Governance
- Law and Order
- Good, predictable policies & regulations
- Reduced red tape/corruption
- Government Re-engineering

Political Reforms
- Constitutional Reforms
- Political Party System
- Electoral Reforms

GROWTH FUNCTIONS

High Savings

High Investment

Technological Progress

Human Capital Development

Productivity and Global Competitiveness

DESIRED OUTCOMES

Robust and Broad-Based Economic Growth

Employment

Reduced Poverty

Improved Well-Being

CPBD's proposed priority legislative agenda:

Macroeconomic stability

Strengthening anti-smuggling strategies

Rationalizing fiscal incentives

Removing automatic guarantees to GOCCs

Creating a Central Appraisal Authority

Amending the Bases Conversion and Development Act

Corporate Recovery Act

Pre-Need Code of the Philippines

Personal Equity Retirement Account

Countrywide Development

Amending the Build-Operate-Transfer Law

National Land Use Code

Farmland as collateral

Water Resources Management Act

Improving Governance

Re-engineering the bureaucracy

Deputizing private lawyers to act as prosecutors on behalf of the Ombudsman

Political Reforms

Campaign Finance Act

Ensuring automation of electoral process

Amending the 1987 Constitution

Social Development

Pre-School Development Act

Responsible Parenthood and Population Management Act

Ameding the law on Government Assistance to Students and Teachers in Private Education (GASTPE)

LEGISLATIVE OVERSIGHT

Action/	Congress/Legislative	Agencies/Executive	"the People"
Legislation	**Formulation of Policies, Programs Grant of Resources, Authorizations, Creation of Agency Organization, Mandates**	**Policy Implementation Program Execution, Agreed Targets and Performance Indicators**	**Program and Policy Impact Quality of Life Improvements**
Oversight	**Legislation-related Budget Authorizations "Blue Ribbon" Investigations Secretariat: *Policy Studies* *Staff Review of the President's Budget* *Specialized Oversight Studies***	**Regular and Annual Reports Agency Plans and Proposed Budgets Reports on key incidents**	**Direct and indirect feedback Participation in bill deliberations**
Oversight Support Efforts		**Reports of Oversight Agencies in the Executive, e.g. COA NEDA, DBCC**	**Survey reports, e.g. SWS and Pulse Asia Policy Studies/White Papers Expert Opinion Civil Society Advocacies**


Legislative Update

(March 28, 2007)

Undersecretary Bernardino E. Sayo
Presidential Legislative Liaison Office

Accomplishment

NEW LAWS (July 2004 – present) : 109

- NATIONAL IMPORT : 27
- LOCAL IMPORT : 82

Summary of Laws Passed in the 13th Congress

CATEGORY	TOTAL
Laws of National Importance	27
Granting of various Franchises	18
Creating Cities	15
Creating Legislative Districts	3
Creating Provinces	1
Renaming / Converting Local Roads	12
Creating Additional Court Branches	11
Converting Colleges into State Universities	7
Establishing Protected Areas	2
Land Reclassification	3
Establishing Airports	1
Declaration of Local Holidays	2
Naming Other Offices	2
Granting Filipino Citizenship	4
Amending Local Charters	1

Accomplishment

Statistical Analysis:

- Of the National Laws, 70% originates from the President's Legislative Agenda and/or LEDAC

Laws of National Importance
13th Congress

- Promoting the Development of Overseas Shipping (RA 9301)
- Amending the Charter of PDIC (RA 9392)
- Fixing the Date of the ARMM Elections (RA 9333)
- Increasing Excise Tax on Alcohol & Tobacco Products (RA 9334)
- Lateral Attrition Law (RA 9335)
- 2005 General Appropriations Act (RA 9336)
- Value-Added Tax Restructuring (RA 9337)
- Resetting the Barangay & SK Elections (RA 9340)
- Regulating Rent of Residential Units (RA 9341)
- Amending the Special Purpose Vehicle law (RA 9343)
- Juvenile Justice System (RA 9343)
- Prohibiting the Imposition of Death Penalty (RA 9346)
- Rationalizing the Functions & Composition of the NLRC (RA 9347)
- Supplemental Appropriation for FY 2006 (RA 9358)
- Standby Fund for Oil Spill, Mayon & OFW Repatriation (RA 9359)

Laws of National Importance
13th Congress

- Removing the Cap on Input VAT (RA 9361)***
- Creating the Rank of First Chief master Sergeant/First Master Chief Officer in the AFP (RA 9365)
- Biofuels Act (RA 9367)
- Automated Elections Act (RA 9369)***
- Anti-Terrorism Act (RA 9372)***
- Defining Handline Fishing (RA 9379)
- Redefining the Term Veteran (RA 9396)
- No-Bidding Sale of Gov't Owned Properties to its Occupants for Socialized Housing (RA 9397)
- Granting One-Time Tax Amnesty (RA 9399)
- Amending the BCDA Law (RA 9400)***
- 2007 General Appropriations Act
- Strengthening the Public Attorney's Office (PAO) (RA 9406)

For Presidential Consideration
13th Congress

- Anti-Cheating Law
- Strengthening the Office of the Solicitor General
- Strengthening the Regulatory Functions of the POEA
- Magna Carta for Public Social Workers
- Granting Privileges to Persons with Disabilities
- Volunteerism Act
- One-Time Tax Amnesty for all Unpaid National Internal Revenue Taxes
- Anti-Red Tape Act of 2007***
- Regulating the Practice of Dentistry, Dental Hygiene & Dental Technology
- Anti-Rabies Act
- New-Born Hepatitis-B Immunization Act
- Oil Pollution Compensation Act
- Personal Equity Retirement Account (PERA)***
- Lending Company Act
- Strengthening Workers' Right of Self-Organization
- Extending the Franchise of PAGCOR
- Rationalizing Holidays
- Congressional Commission to Review & Assess the State of Competitiveness of Science & Technology in the Country

Priority Bills in Advance Stage
13th Congress

- **Bicam Report for Ratification**
  - Compensation to Human Rights Victims

- **For Bicam Deliberation**
  - Customs Brokers Act Amendments***
  - Amendments to UP Charter
  - Extension of the Agricultural Competitiveness Enhancement Fund (ACEF)

- **Approved on Third Reading in Either Chamber**
  - Rationalization of Fiscal Incentives***
  - National Tourism Policy***
  - Simplified Net Income Taxation Scheme (SNITS) for individuals
  - Amendments t Magna Carta for SMEs
  - Billion Trees Act
  - Providing for Cheaper Medicines
  - Strengthening the Political Party System
  - Development of Renewable Energy***
  - Anti-Smuggling***
  - Amendments to Ombudsman Charter
  - Omnibus Housing and Urban Development Act
  - Pre-Need Code***

Remaining Priority Measures
13th Congress

ANTI-POVERTY MEASURES

- Agricultural Land as Collateral Act***
- National Land Use Policy
- Land Administration Reform
- Idle land tax
- Compensation to Human Rights Victims
- Health Sector Reform Implementation Act
- Hospital Corporatization

Remaining Priority Measures
13th Congress

ANTI-CORRUPTION MEASURES

- Amendments to the Ombudsman Act (R.A. 6770) re: requiring the creation of an investigation (case build-up) unit that would include not only graft cases but also lifestyle check/creation of a new institution patterned after the ICAC
- Amendments to R.A. 1379 (to be patterned after the US RICO law by integrating attachment proceedings with the filing of lifestyle check cases)
- Amendments to R.A. 3019 and R.A. 6713 increasing the penalties
- Whistleblower's Protection Act14.Requiring waiver of secrecy of bank deposits of officials charged with corruption (after finding of probable cause by OMB)

Remaining Priority Measures
13th Congress

SUSTAINING MACRO-ECONOMIC STABILITY

- Simplified Net Income Taxation for businesses***
- Gross Income Tax System For Corporation and Self Employed
- Rationalization of fiscal incentives***
- Increase excise tax on petroleum products
- Franchise tax on telecommunications to replace VAT
- Fiscal Responsibility Bill
- Omnibus Reengineering Law***
- Rationalize existing pension/retirement schemes of all uniformed personnel and veterans
- Restructuring Income Taxation for Individuals***
- Remove automatic guarantee provisions in certain GOCCs

Remaining Priority Measures
13th Congress

RESTRUCTURING AND REFORMING THE FINANCIAL SECTOR

- Amendments to the BSP Charter to strengthen its supervisory capacity
- Amendments to the Corporation Code (to include stronger provision on governance)
- Corporate Recovery***
- Revised Investment Company Act

Remaining Priority Measures
13th Congress

INCREASING EXPORTS, INVESTMENTS AN EMPLOYMENT

- Revitalize the mining industry
- Declare Subic and Clark as logistics hubs
- Declare Southern Mindanao as Halal food production area
- Declare Palawan as an eco-tourism zone

Remaining Priority Measures
13th Congress

EDUCATION AND YOUTH PRIORITY MEASURES

- Standardization of day care instruction to provide appropriate early childhood education (amendments to the early childhood act) (institutionalizes day care and making it part of primary education under the regulation of the DeEd)
- Amendments to Magna Carta for Public School Teachers (RA 4670) re: transfer of teachers to underserved schools (based on the student-teacher ration of 1:30)
- Amendments to RA 7880 (Roxas Law) or the Fair and Equitable Allocation of the DECS' Budget for Capital Outlay
- Removal of election duties from teachers
- Amendments of education provisions in Local Government Code
- Upgrading the Madrasah Education
- Inclusion of mandatory air-time allocation for educational instruction for elementary, high school and college for all radio and television franchises
- Making certification of 29 priority occupations
- Allowing TESDA schools to use income generated from the production projects
- Institutionalization of night classes

Remaining Priority Measures
13th Congress

ENERGY AND ENVIRONMENT MEASURES

- TRANSCO Franchise Bill (enhancement of value of transmission assets to potential concessionaires)
- Natural Gas Bill
- LPG Bill (provision of more stringent safety standards/provision of stringent penalty/sanctions to violators)
- Alternative Fuels Utilization Bill (promotion of wider utilization of alternative fuels)

STRATEGIC
POINTS OF INTERVENTIONS
IN THE
LEGISLATIVE PROCESS

DRAFTING STAGE

- Inclusion in the State of the Nation Address (SONA)
- Consensus-Building with concerned agencies
- Coordination with the Bills and Index of both Chambers

COMMITTEE HEARING

- Written expression of support or opposition on bills
- Direct participation during hearings
- Close monitoring of progress of bills
- Seek PLLO’s tactical and technical advise

PLENARY DEBATE

- President’s certification of urgency
- Ensure quorum during deliberations
- Presence of sponsors and technical support to address issues
- PLLO intervention, if necessary, even after the bill has been approved on 3rd Reading

BICAMERAL CONFERENCE

- Penultimate stage in the legislative process
- Last chance for perfecting amendments in form and substance

DO NOT LET THE BICAM CONFERENCE ADJOURN IF RECONCILED VERSION IS STILL NOT ACCEPTABLE. PRESIDENTIAL VETO SHOULD NEVER BE AN OPTION TO CONSERVE GOOD WILL AND PRESERVE COLLABORATIVE RELATIONSHIP WITH CONGRESS

END

OF PRESENTATION

Appendix 4b. Meetings with LEDAC Staff on Priorities

SENATE LEGISLATIVE AGENDA

Prepared by the Senate Economic Planning Office (SEPO)

Appendix 4a. Power Sector Review on GENCO

SEPO PROPOSED FRAMEWORK

1. Macro Economic Stability
   - Addressing fiscal deficits
   - Maintaining stable monetary indicators
   - Strengthening the financial sector

2. Creating a Business Environment
   - Infrastructure development
   - Power sector development
   - Regulatory concerns
   - Technology management

SEPO PROPOSED FRAMEWORK

3. Establishing Good Governance and Strong Institutions

4. Instituting Social Reforms to Improve Equity
   - Education sector
   - Health sector
   - Housing sector
   - Access to land and employment opportunities

5. Managing the Environment

SENATOR'S PLANNING RESULTS

1. 71 measures under the proposed legislative agenda agreed upon in November 2004

2. Areas of Legislation

   (29) Fiscal and financial reform

   (15) Jobs and income generation

   (6) Security

   (10) Good governance and strong institutions

   (5) Education and health

   (6) Environment

SENATORS' PLANNING RESULTS

# of Bills	Status	Bill
7	Passed into law	Alcohol/Tobacco Products Excise Tax Rates Increase Attrition Act of 2005 Rental Reform Act of 2004 SPAV Amendatory Act Automated Election System Human Security Act VAT Amendments
1	Pending signature of the President	Lending Companies Act
4	Pending in Bicam	Credit Information System Act Tourism Act of 2005 PERA Customs Broker Act
4	Pending 2nd Reading	New Central Bank Act, amendments EPIRA Law, amendments Consolidated Investments and Incentives Code of the Philippines Magna Carta for SMEs

ADDITIONAL BILLS ACTED UPON

National	Status	Bill
20	Enacted into law	Juvenile Justice System Abolishing the Death Penalty Act Biofuels Act Handline Fishing Law of 2006 One Time Tax Amnesty BCDA Amendments Magna Carta for Disabled Magna Carta for Public Social Workers Anti – Red Tape Patient Detention Resetting the Date of Regular Elections in ARMM Resetting Barangay Election Rationalizing the Composition & Functions of NLRC Creating AFP First Chief Master Ranks No Bidding Sale of Lands owned by the NG Reorganizing and Strengthening the Public Attorney's Office (PAO) Declaring Cheating in CSC Exams as Unlawful

ADDITIONAL BILLS ACTED UPON

National	Status	Bill
9	Pending signature of the President	Redefining the term Veteran Compensation Allowance, Government Personnel Strengthening the OSG Worker's Constitutional Right to Self-Organization Strengthening the Functions of POEA for the Welfare of Migrant Workers Anti-Rabies Act Dental Act Oil Pollution Compensation Act of 2006 Anti – Red Tape Act of 2007
2	Approved Bi-Cam Report	Human Rights Victims Compensation Act of 2004 Fixed Term for AFP Chief of Staff and Major Service Commanders

ADDITIONAL BILLS ACTED UPON

National	Status	Bill
7	Pending Bi-Cam	The U.P. Charter of 2004 Extending Utilization Period of the ACEF Mandatory Hepatitis-B Immunization for Infants Patented Medicines Motor Vehicles / Lemon Law of 2006 Breastfeeding Promotion Act of 2006 Additional Retirement Benefits to the Judiciary
9	Approved on 3rd Reading	Right of Reply Act Health Worker's Day Act Anti-Billboard Blight Act Additional Benefits and Protection to Househelpers (Kasambahay)

Local	Status	
37	Enacted into law	
70	Pending signature of the President	

PROPOSED LEGISLATION

- *Macroeconomic Stability*
  - Rationalization of Fiscal Incentives
  - Anti-Smuggling Law
  - Financial Sector Tax Reform
  - Valuation Reform Act
  - New Central Bank Act, amendments
  - Pre-Need Code of 2005
  - Amendments to the RICA
  - Corporate Recovery and Insolvency Act

- *Creating a Business Environment*
  - EPIRA Law, amendments
  - Renewable Energy Bill
  - Magna Carta for SMEs, amendments
  - Labor Code, amendments

PROPOSED LEGISLATION

- ***Establishing Good Governance and Strong Institutions***
  Political Parties / Campaign Finance Reform
  Professionalization of Civil Service / SSL Review
  Freedom to Information Act
  Amend the Ombudsman Law
  Re-Engineer the Bureaucracy

- ***Instituting Social Reforms to Improve Equity***
  Health Sector Reform Act
  Regulation of Health Maintenance Organizations (HMOs)

- ***Managing the Environment***
  Watershed Management Bill
  National Land Use Policy
  Land Administration Reform Act (LARA)

OTHER ISSUES FOR STUDY

- Inequality:
  - income
  - access to education / basic services

- Targeting Needs of Basic Sectors:
  - women
  - farmers
  - fisherfolk
  - children

POVERTY INCIDENCE BY SECTOR, PHILIPPINES, 2006

Basic Sector	Poverty Incidence
Fisherfolk	50.8
Farmers	46.6
Children	42.5
Women	32.3
Senior Citizens	28.0
Youth	24.5
Migrant & Formal Sector Workers	18.7
Urban Poor	17.3

Source: Development of Poverty Statistics for the Basic Sectors, NSCB

MEASURES / LEGISLATION

- Local Government Code, Review
  - move to greater decentralization
- Alternative Learning System
- Child Pornography
- Foster Care Act
- Small Farmers’ Representative in the NIA Board
- Reproductive Health Policy
- Magna Carta for Women

Appendix 4b. Meetings with LEDAC Staff on Priorities

Obstacles to Broad-Based Development in the Philippines: Implications for Legislation

Cielito F. Habito
Ateneo de Manila University

Where are we now?

- Economic growth remains narrow, shallow, and hollow
  - →concentrated in a few industries
  - →mostly Metro Manila-based

Unsustainable growth?

- **Narrow:** growth is coming from very few leading sectors (real estate, ICT including telecoms, electronic components) and geographic areas (NCR, III & IV)
- **Shallow:** bulk of exports from low domestic value added sectors with little linkage to rest of economy
- **Hollow:** jobless growth; unemployment rate rose even with 5.4% economic growth

Where is the growth coming from?

INDUSTRY	Growth Rate (%)	Contrib to Growth (%)	Contrib to Growth Rate (%)	Jobs	Percent of Jobs
AGRI/FISHERY/FOR	1.9	8.3	0.4	12,164	36.7
INDUSTRY SECTOR	3.3	22.4	1.1	4,895	14.8
Mining & Quarrying	-24.7	-8.1	-0.4	116	0.3
Manufacturing	4.4	22.3	1.1	3,052	9.2
Construction	4.7	3.5	0.2	1,619	4.9
Elect, Gas & Water	8.3	4.6	0.2	108	0.3
SERVICE SECTOR	7.0	69.3	3.3	16,126	48.6
Trans, Comm & Stor	8.0	14.5	0.7	2,471	7.4
Trade	6.1	22.5	1.1	6,226	18.8
Finance	8.3	8.5	0.4	372	1.1
Own Dwell & R Est	6.7	6.0	0.3	815	2.5
Private Services	8.3	13.6	0.7	4,700	14.2
Govt Services	5.2	4.2	0.2	1,542	4.6
GROSS DOM PROD	4.8	100.0	4.8	33,185	100.0

Where is the growth coming from?

Metro Manila and Surrounding Provinces

REGION	GRDP Growth Rate		Share to Total	Contrib to Growth
	2004	2005		
RP	6.2	5.0	100.0	100.0
NCR	8.4	7.1	31.9	44.7
CAR	3.7	1.1	[illegible]	[illegible]
I	5.4	6.0	[illegible]	[illegible]
II	10.4	-5.4	[illegible]	[illegible]
III	1.8	2.9	[illegible]	[illegible]
IVA	4.0	3.0	[illegible]	[illegible]
IVB	4.1	6.5	2.8	3.6
V	5.7	5.0	2.8	2.8
VI	7.6	5.9	7.3	8.6
VII	6.9	6.0	7.1	8.5
VIII	5.2	4.0	2.2	1.8
IX	4.1	7.2	2.6	3.7
X	7.2	3.8	4.8	3.7
XI	6.5	5.0	4.6	4.6
XII	5.8	2.3	3.5	1.6
ARMM	5.2	3.9	0.9	0.7
XIII	3.1	3.5	1.3	0.9

55.7%

61.2%

Growth for whom?

- Agriculture: 36.7% of workers, but only 8.2% of the growth in Q4 '06
- Manufacturing & Trading: 45% of GDP growth, but only 28% of workers
- The 3 fastest-growing regions (NCR, VI & VII): 62% of GDP growth; only 29% of the jobs
- Metro Manila and nearby provinces: 61% of growth, but only 39 percent of the jobs

→**Growth is not occurring where jobs are needed most.**

Where are we now?

- Income gap had widened since 1988; now improving?
- Worsening indicators of education, health & nutrition, especially for children
- Stresses on families due to overseas employment

Where are we now?

- Children growing up malnourished and mal-educated in a culture of violence and misplaced values – hope in the next generation slipping away?
- Governance weaknesses cons-tantly undermine development initiatives

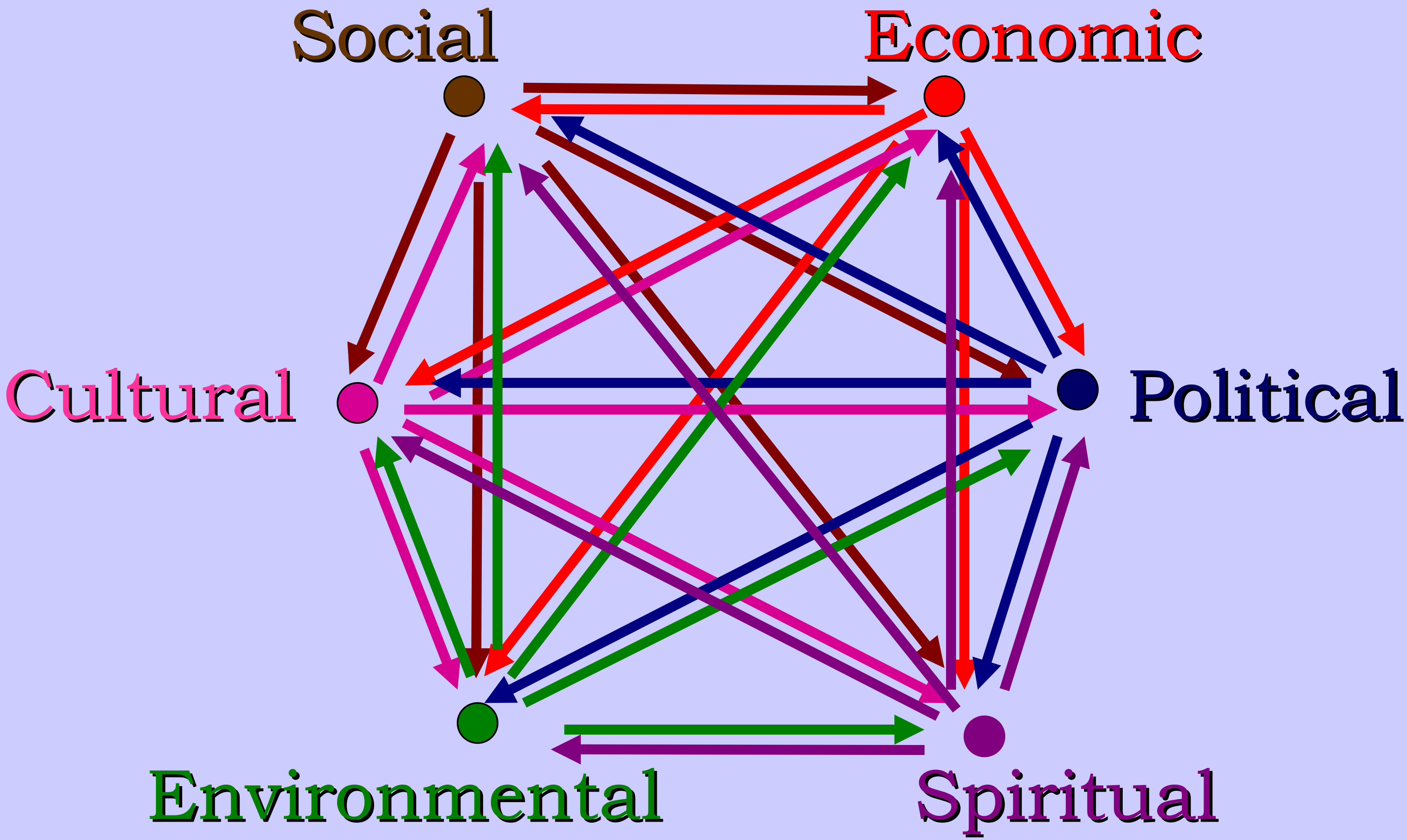
Where do we want to go/ what do we want to be?

- Goal: sustained and broad-based development
- Countryside as equal participant and beneficiary of development
- Efficient, productive and competitive enterprises

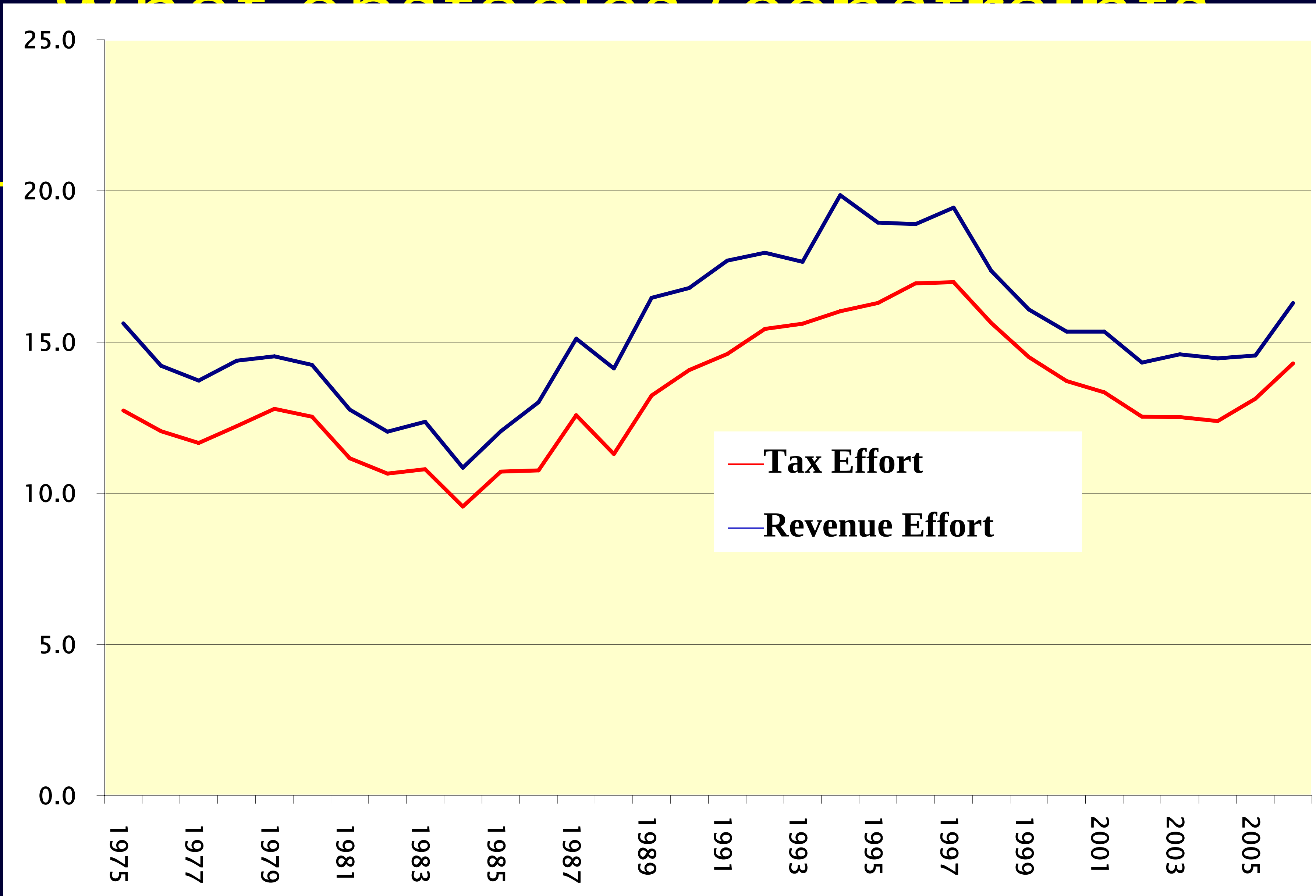
Where do we want to go/ what do we want to be?

- Well-educated, healthy and empowered citizens
- Clean and healthy environment; ample natural resources
- Sustainable development in six dimensions: social, economic, political, cultural, ecological, spiritual

Sustainable Development is Holistic Development



What obstacles / constraints



What obstacles/constraints lie in the way?

- Public resources perennially lacking in quantity and quality
- Weak LGU capabilities in the face of devolution/decentralization
- Continued lack of competition in key economic sectors, e.g. port services, agricultural marketing; civil aviation

What obstacles/constraints lie in the way?

- Ineffective & politicized agricultural bureaucracy
- High fertility rate/population growth rate
- Political system fosters personality politics, patronage, corruption, dependency, rent-seeking

What are the most strategic/ critical interventions?

- Address inadequacies in the education system (quantity and quality), including public support for private education
- Health and nutrition services, including measures to address growing protein-energy malnutrition

What are the most strategic/ critical interventions?

- Tax administration reforms; tighten controls against double books and tax evasion; prosecute and convict tax evaders ("big fish")
- Improve LGU capacity for development management, including local finance
- Decentralize agricultural development initiatives (DA to "steer," not "row")

What are the most strategic/ critical interventions?

- Strengthen enabling environment for SME development
- Fix land administration system
- Adopt/codify a comprehensive competition policy
- Strengthen technological base thru increased R&D investments

What are the most strategic/ critical interventions?

- Define a population management policy with clear goals, strategies and targets
- Governance, political and electoral reforms (including political party reform, public campaign finance, strengthened transparency and accountability)

What are the most strategic/ critical interventions?

- Promote wider and deeper development roles of civil society and private sector (i.e. corporate social responsibility, corporate philanthropy)
  - Ateneo is currently assisting in strengthening CS role in economic reform via EPRA project

Economic Policy Reform and Advocacy

- Strengthen civil society's capability and role in economic policy reform
- Establish mechanisms for participatory policy reform
- Help ensure that economic policy reforms enjoy broad support

Imperatives: Economy

- Safety nets against persistently high joblessness, inflation
- Sustain improvements in tax effort (e.g. fiscal incentives rationalization, SNITS)
- Strategic infrastructure investments (improve PSP rules; contract transparency)
- Intensify SME promotion & development
- Restore investor confidence, especially domestic
- Mobilize savings (esp. remittances) toward productive investments

Imperatives: Politics & Governance

- Achieve satisfactory closure on leadership legitimacy question
- Reform political & electoral process; restore confidence in COMELEC
- Put aside Cha-Cha distractions
- Effective NG-LGU collaboration in delivering development
- Sincere, determined and convincing efforts vs. graft & corruption
- Wider, deeper participatory mechanisms for reform and governance

Elements of a Legislative Agenda for 14th Congress

Towards improved revenue effort and fiscal health:

- Fiscal Incentives Rationalization
- Income Tax Reforms
- Fiscal Responsibility Bill

Towards improved infrastructure:

- BOT Law Improvements
- Freedom of Access to Information (esp. contract transparency)

Elements of a Legislative Agenda for 14th Congress

Towards broad-based development:

- Agricultural Devolution & Decentralization
- Sustainable Agriculture Policy
- LGU Code Improvements (including IRA reforms; local taxation improvements, e.g. situs rules)
- Land Administration Reform Act
- Free Patent Law Amendments
- Valuation Reform Act
- Valuation Professionalization Act

Elements of a Legislative Agenda for 14th Congress

Towards wider & deeper capital markets:

- Equitable taxation of financial instruments

Towards political & governance reform:

- Political party reform
- Public campaign financing
- Regulation of political dynasties
- People participation in governance

In the end…

- Most crucial reforms don’t require legislation
- Many good laws now in place; problem is enforcement and implementation
- Government doesn’t have all the answers – we all need to do our share!

Mabuhay!

Proposed Customer Satisfaction Rating System for Front Line Government Agencies (draft)

April 1, 2007

Objectives

- Improve the performance of front line government institutions by…
- providing a simple and low cost Customer Satisfaction survey process that will rate the customer satisfaction performance of each target agency.

Concept 1/3

- Pilot with a limited number of cooperative agencies for six months.
- Start with max of 3 agencies
- Survey respondents should cover both individuals and business
- Phase 1 survey structure should be as simple as possible.
- Progress to Phase 2 (a more sophisticated survey) as the program gains traction and public support.

Concept 2/3

- Quarterly survey
- Should be presented as a joint project of the foreign and local business chambers
- Results published in major dailies and presented to task force on competitiveness/ red tape and to the Pres.
- Recognition of top performers by the Pres. and business chambers
- Funding by the business chambers?

Concept 3/3

- Survey should include actionable recommendations.
- At start the Survey should only cover the basics of customer satisfaction.
- Subsequent enhancement can include questions specific to the agency being surveyed.

Survey Outline 1/3

- Overall Satisfaction (single number representing performance)
- People
  - Friendly, courteous and properly acknowledged customer
  - Appearance and dress
  - Eagerness to serve, helpful
  - Efficient and professional
  - Knowledge of pertinent regulation and procedure.
  - Honesty
  - Returned my call as promised (telephone transaction)

Survey Outline 2/3

- Process
  - Reasonable waiting time before customer was attended to
  - Service done in a reasonable amount of time/ done as promised
  - Clear documentation of requirement and procedure
  - Reasonable charges for service

Survey Outline 3/3

- Facilities
  - Convenient location and opening hours
  - Comfort and cleanliness
  - Clear signs and outline of procedures
  - IT enabled service

Rating System

- There will be five levels for Overall Customer Satisfaction
  - Very Satisfied
  - Satisfied
  - Somewhat Satisfied (or Fair)
  - Very Dissatisfied (or Poor)
- Percent Overall Customer Satisfaction will be the single number representing performance.
  - % of customers completely satisfied less % very dissatisfied plus % very satisfied.

Next Steps

- Get a professional Customer Satisfaction agency to provide a detailed proposal for survey design and execution.
- Get buy in from major foreign and local chambers
- Get the support of task force on red tape/ competitiveness
- Explore funding options.

Appendix 6. AmCham Corporate Survey Questionnaire

INVESTMENT CLIMATE

1. EASE OF DOING BUSINESS. On a scale of 0 (worst) to 10 (best), how do you rate the ease of doing business in the Philippines compared to foreign economies in which your company operates? _______________

2. POSITIVE FACTORS. What are the best reasons for your company to have invested in the Philippines? Please rank numerically with "1" highest. If you choose "other", please explain each briefly.

Location in Asia _____
Labor Quality _____
Labor Cost _____
Market Size _____
Other ____
Other ____
Other ____

3. NEGATIVE FACTORS. What characteristics of the investment climate in your opinion are major deterrents to more foreign investment, either by your company or by others you are familiar with? Please rank numerically with "1" assigned to the biggest deterrent.

Business costs: bureaucracy/red tape ______
Business costs: labor ______
Business costs: power ______
Business costs: transportation ______
Fiscal incentives ______
Judicial system ______
Market size ______
Political instability ______
Policy inconsistency ______
Poor governance (corruption) ______
Sanctity of contracts ______
Security ______
Other ____
Other ____
Other ____

4. EXPLANATION (Please use the space below for any explanations related to your answers above and any specific suggestions you may have for AmCham's Investment Climate Improvement Project (ICIP) to include in its work.

Regional Comparison of Government Investment Incentives, Business Costs, Economic Indicators, and Competitiveness Rankings

	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	India	China	Taiwan
Investment Incentives									
Fiscal									
Corporate income tax (standard rate)	30% for income exceeding Rp 100M; 15% for income between Rp 50-100M; 10% for income between Rp 0-50M;	28%	35% (down to 30% in 2009)	20% (down to 18% in 2008)	30%	28%	41.82%	33% (down to 25% in 2008)	25%
Tax reduction		"Pioneer" firms pay tax on 30% of statutory income for 5 years. Unabsorbed losses cannot be carried forward to post pioneer period. For strategic projects (e.g. high tech industries, R&D activities, strengthening industrial linkages and multimedia industries, full income tax exemption and/or tax relief of 5-10 years can be considered. Investors in poorer regions pay tax on only 15% of their income for 5 years.	For firms in export processing zones, 5% tax on gross income after tax holidays have lapsed. Tax credit of 25% of equivalent duties for substituting domestic for imported raw material or equipment.	None	50% reduction of CIT for projects located in industrial estates or promoted industrial zones (PIZs) for 5 years after the tax holiday exemption period.	Investments which are encouraged or promoted pay 10, 15 or 20%. In certain industries and regions, 2 year tax holiday from first profitable year and possible 50% tax reduction for two successive years. Investors satisfying a high number of investment promotion criteria shall be exempted from CIT for maximum 4 years starting from first profitable year and possible 50% tax reduction for two successive years.	30% reduction of net (total) income for 10 years for new industrial undertakings. 50% reduction on foreign exchange earnings	20% for small-scale and thin-profit enterprises. 15% reduced tax rate for locators in SEZs (NOTE: New China CIT Law passed in March 2007 will pave way for increase of income tax to 25% for general manufaturing and export-oriented activities.)	
Income Tax Holidays	3 to 8 years tax holiday for new enterprises in 22 specific sectors	Full tax holiday for 10 years for strategic projects (e.g. heavy capital investment, high levels of technology, or extensive linkages and with a significant impact on the economy), Operational HQ, Regional Distribution Centres and Int'l Procurement Centres. Full tax holiday for 5 years for high-tech, R&D, "strategic knowledge-based" companies and those in the Industrial Linkages Programme or investing in the MSC. 70% exemption for 5 years for some environment-related companies and approved service projects and those providing manufacturing-related.	Pioneer projects for 6 years and non-pioneer projects for 4 years, with a possible 1 year extension for both under certain conditions. Expansion projects: 3 years (limited to incremental sales revenue/volume). New or expansion projects in less developed regions (except mining and related products): 6 years. Modernization projects: 3 years. Exporters may receive a tax holiday for exports of new products or to new markets.	5 to 15 years for pioneer status, particularly for new strategic projects/activities	Since 12/01, tax holidays are capped at 100% of investment capital. Priority activities enjoy an 8 year exemption and other privileges according to location. Other activities are offered tax holidays by zone: Zone 1: 3 year exemption for projects that export 80% of total sales or that are located in industrial estates or PIZs. Zone 2: 3 year exemption extendable to 7 years for projects in industrial estates or PIZs. Zone 3: same as priority activities.	In certain industries and regions, 2 year tax holiday from first profitable year and possible 50% tax reduction for two successive years. Investors satisfying a high number of investment promotion criteria shall be exempted from CIT for maximum 4 years starting from first profitable year and possible 50% tax reduction for two successive years.	5-years for power projects, firms engaged in export, new industries in notified states and in electronic hardware/software parks, and zone enterprises. 10 years for certain infrastructure projects.	Foreign-Invested Enterprieses (FIEs) in state level SEZs can enjoy total income tax holidays for the first 2 profitable years (0 tax), half tax holidays for the following 3 years (7.5% tax), and a lowered rate of 15% from the 6th profitable year onwards. (NOTE: New China CIT Law passed in March 2007, removes tax holidays for general manufacturing and export oriented activities.)	5 years for companies in important, emerging or strategic industries

Loss Carry-Over/Forward	Up to 10 years for priority sectors and in Integrated Economic Development Areas	A company is allowed to carry forward its accumulated tax losses and unutilised tax depreciation to be set off against its future business income provided that there is no change of more than 50% of its shareholding. Exemption from the above provision (i.e. the 50% continuity of shareholding requirement) may be obtained by the Minister of Finance under special circumstances. Unutilised tax depreciation may also be carried forward indefinitely, subject to the 50% shareholding requirement, but can only be used to offset against future income of the same business source.	10 years in Special Economic Zones; 3 years elsewhere under tax code	Unlimited net opertaing loss carry forward. Companies can carryback losses of up to $100,000 from one year back (with effect from year of assessment 2006)	Carry over up to 5 years.	Carry forward of up to 5 years. Carryback is not allowed.			Up to 5 years under the Taiwan Income Tax Act
Tax allowances and credits	In priority sectors or certain areas, reduction of taxable income by up to 30% of investment.	As alternative to pioneer status, a company may apply for an ITA which provides an allowance of 60% or 100% for qualifying capital expenditure incurred within first 5 years (10 years for R&D companies). The ITA can be offset against 70% or 100% of income in each year. Unused allowances can be carried forward until finished. Companies in certain regions will be granted an allowance of 80% of qualified capital expenditure incurred. The allowance can be used to offset against 85% of income in the year of assessment. Also reinvestment allowance (RA) of 60% of qualified capital expenditure for 15 years to be offset against 70% of income in that year, with carry forward.	Tax credits for incremental export revenue.	For industrial buildings and certain other types of buildings: 25 years (comprising 25% initial allowance and 3% annual allowance). Plant and machinery: 3 years (1 year for certain assets) on a straight lines basis. Companies can opt for a slower write-off over 5 to 16 years (comprising a 20% initial allowance and equal annual allowances over the prescribed useful life of the asset). The allowance is in addition to the right of every corporation to annually depreciate the cost of a fixed asset and set off the amount of depreciation against taxable profits. The allowance is granted as an alternative and not in addition to pioneer status and export incentives.	Allowance of 25% for investment in infrastructure	If profits reinvested for consecutive years, a portion or all corporate income tax maybe refunded.	10 - year exemption from tax for entrepreneurs (in SEZ) who supply infrastructure resources and companies carrying scientific research. Subsidies and concessional credits also given in the interest of developing backward areas, exports or some specific industries. Reduced rates for water and power and a transport subsidy granted to enterprises in backward zones.	Income tax exemption for projects in agricultural, infrastructural, environmental, and technological sectors. Credit for certain environmental protection, conservation, and production safety machinery expenditures.	credits and deductions for investments in rural areas

Import duty and VAT exemptions	All approved projects receive full exemption for main machinery and spare parts and 50% for supplementary machinery and a 2-year exemption for raw materials. Duty drawback for goods and materials needed for exports (for companies with an export ratio over 65%), regardless of availability of comparable local products.	All approved projects receive full exemption for main machinery and spare parts and 50% for supplementary machinery and a 2-year exemption for raw materials. Duty drawback for goods and materials needed for exports (for companies with an export ratio over 65%), regardless of availability of comparable local products.	Tax & duty free importation of capital equipment & raw materials for zone enterprises; tax credit on raw materials & supplies for BOI-registered firms.		For priority activities, full exemption of import duty on machinery, regardless of location: Zones 1 and 2: For all investors, 50% exemption on machinery where the duty is over 10%; full exemption on raw and essential materials used in export products for 1 year. Zone 3: Exemption of import duty on machinery; exemption on raw or essential materials used in exports for 5 years.	Exemption for machinery and equipment and for specialised means of transport imported as part of the fixed assets of the enterprise.	Up to 10 years reduced import tax if production is intended for export.	Manufacturers in the SEZs are exempt from VAT if they re-export their products produced in the zone.	2% VAT (5% is standard) for enterprises engaged in banking, insurance, investment trust, securities, futures, commercial paper and pawnshops. Site specific companies qualified under the definition of Science-Based industries are exempted from customs duty and VAT on imported self-use machinery and equipment not produced domestically
Accelerated depreciation	Doubling of depreciation rates in favored zones & sectors	Accelerated depreciation for computer technology and environmental protection industries and, for a 3-year period, for firms for which the RA has expired.	Immediate expensing of major infrastructure investments by export enterprises in less developed areas (except in mining and forestry).	Generally, plant and equipment (except motor vehicles) qualify for accelerated depreciation at 33 1/3% per year on a straight-line basis. Alternatively, a company may choose to claim an initial allowance of 20% and annual allowances ranging from 6 years to 16 years on a straight-line basis. Automated equipment and computers may be fully written off in the year of purchase. Initial allowances of 25% and annual allowances of 3% are available for industrial buildings.	25% of asset value is allowed as initial allowances and the remaining can be deducted for over 20 years for the purchase or acquisition of building used in carrying out the operation of ROH.	Depreciation of fixed assets in accordance with the prevailing regulations (currently Decision 206). Enterprises are allowed to apply accelerated depreciation if certain conditions are met.	Accelerated depreciation of equipment and facilities	Accelerated depreciation for certain assets. Where depreciation of any fixed assets is accelerated due to technology advancement or any other cause, it may shorten depreciation period or apply accelerated depreciaion method.	Accelerated depreciation of equipment and facilities
Dividend Withholding Taxes	10-20% for non-residents (50% reduction in favoured sectors or zones)	no withholding tax on dividends; 15% applies on certain interest and annuities and 10% on royalties, subject to tax treaty relief	10-25% on dividends remitted abroad	None	10% on dividends remitted abroad; domestic intercompany dividends are partly or wholly exempt	3, 5 or 7% on dividends remitted abroad		20% for non-residents	25%, reduced to 20% within the framework of the Status for Investment by Foreign Nationals

Regional Comparison of Government Investment Incentives, Business Costs, Economic Indicators, and Competitiveness Rankings

Others		Numerous incentives exist to promote specific sectors or areas and for e.g. R&D or training, SMEs, firms which increase exports.	Deduction of 50% of wages for first 5 years subject to certain conditions. Incentives for Regional Headquarters and Regional Operating HQ. Other deductions in SEZs.	Development & **Expansion scheme status** is available to companies whose pioneer status has expired and which are engaged in capital investment to upgrade or modernize production capacity (Income relating to "qualifying activities" is subject to a corporate income tax rate of not less than 10% (usually 13%) for a period of 10 years (extendable on application for a further period of 10 years). "Non-qualifying activities" are taxed at the normal corporate income tax rate of 20%). **Expansion incentives** are fiscal benefits aimed at encouraging companies to boost productivity through increased mechanization and automation (All income which exceeds the level of income earned prior to the expansion plan being put into operation is	In Zone 3, various deductions for transport, electricity and water costs, as well as for infrastructure and construction costs for 10 years. Incentives for Regional Headquarters and Regional Operating HQ.	Exemption from prevailing export duty.			
Costs of Doing Business									
Power rates, industrial (US$ per kwh)	0.059	0.056	0.081	0.073	-	-	-	0.044	0.055
Wages, capital city	$100-250	$100-250	US$250-500	more than $500	$100-250	$100-250	$100-250	$100-250	more than $500
Office rent (total occupation cost, US$/sq. m. per year)	143	143	145	363	176	n/a	447	366	518
Number of procedures to start a business	12	9	11	6	8	11	11	13	8
Number of days to start a business	97	30	48	6	33	50	35	35	48
Time to clear customs, exports (days)	25	20	18	6	24	35	27	18	14
Cost to export (US$ per container)	546	481	1336	382	848	701	864	335	747
Time to clear customs, imports (days)	30	22	20	3	22	36	41	22	14
Cost to import (US$ per container)	675	428	1336	333	1042	887	1244	375	747
De minimus level, US$	50	140	0.18	260	30	none	50	-	90
Trade union activity / Industrial Disputes (Working days lost per 1000 inhabitants	0.34	0.07	2.34	0	0.26	n/a	22.29	0	0
Labor regulatory regime	2.61	6.72	3.52	7.89	6.45	-	3.75	6.51	5.75
Unemployment rate	9.86	3.5	8.1	3.2	1.72	-	9.53	4.2	4.13
Labor productivity (GDP (PPP) per person employes per hour, US$)	3.83	12.89	5.53	26.56	6.97	-	3.54	5.42	25.19
Average number of working hours per year	2175	2152	2301	2056	2184	-	2347	2000	2327
Political stability	4.27	8.03	2.08	9.11	5.03	-	6.9	5.04	3.23
Economic Indicators, 2006									
FDI approvals (US$B)	13.88	5.86	2.35	31.9	7.9	10.2		70	
GDP (current prices, US$B)	287.2	130	98.3	117.0	177	53	786	2200	
GDP growth rate year-on-year	5.5%	5.9%	5.4%	7.9%	5.0%	8.2%	9.2%	10.7%	4.6%
Population (M)	220	25.3	83	4.4	65	83	1100	1300	22.7
GDP per capita (current prices, US$)	1306	5138	1184	26590	2723	639	715	1692	
FDI per capita (US$)	63	231	28	7250	122	123		54	
FDI approvals as % of GDP	5%	5%	2%	27%	4%	19%	0%	3%	
International Tourist Arrivals (M)	3.98 M	17.54 M	2.84 M	9.7 M	13.8 M	3.6 M			
Exports (current prices, US$B)	77.5	142	41.3	232	109	32	105	762	188
Exports as % of GDP	27	109	42	199	62	60	13.1	34.3	54.4
ADB Asian Development Outlook 2007, GDP growth rate 2007	6	5.4	5.4	6.00	4	8.3	8	10	4.3
Others									

Major equity restrictions on FDI	Indonesia continues to prohibit foreign investment in the following areas: germ plasm cultivation; purchase of or investment in natural forests; logging; taxi/bus services; small-scale sailing; film production; and trading and trade-support services, except large-scale retailers, wholesale trading and exhibition/convention service providers.	One of the government's racial preference policies is a requirement that foreign and domestic non-manufacturing firms take on bumiputera partners (with a minimum of 30% of share capital). If a company seeks public listing on the Bursa Malaysia (formerly Kuala Lumpur Stock Exchange), it is required to reserve at least 30% of its initial public offering (IPO) for purchase by bumiputera. In 2003 the GOM ended a formal requirement that corporations issue additional stock to bring bumiputera equity back up to 30% if those shareholders had sold their stock. However, bumiputera equity remains a consideration when companies apply for an array of required permits and licenses -- many of which must be	The **1991 Foreign Investment Act** (FIA) contains two "negative lists" that outline areas in which foreign investment is restricted or limited. These lists are normally updated every two years. The restrictions stem from a constitutional provision, Section 10 of Article XII, which permits Congress to reserve to Philippine citizens certain areas of investment. The Regular Foreign Investment Negative List was last updated through an executive order that was signed on December 20, 2006. These restrictions are viewed as a significant contributing factor to the Philippines' weak record in attracting foreign investment relative to competing Asian economies. Waivers are not available under the Foreign Investment	Singapore's legal framework and public policies are generally favorable toward foreign investors; foreign investors are not required to enter into joint ventures or cede management control to local interests, and local and foreign investors are subject to the same basic laws. Apart from regulatory requirements in some sectors, the government screens investment proposals only to determine eligibility for various incentive regimes. Singapore places no restrictions on reinvestment or repatriation of earnings or capital. The judicial system upholds the sanctity of contracts, and decisions are effectively enforced. **Limits on National Treatment and Other Restrictions**: Exceptions to	Replacing the 1972 National Executive Council Announcement Number 281, otherwise known as the Alien Business Law, the Alien Business Act of 1999 governs most investment activity by non-Thai nationals and opened limited additional business sectors to foreign investment. Nevertheless, foreign investment in most service sectors is limited to 49 percent ownership.	The **new Investment Law** stipulates that projects on the list of sectors where investment is subject to conditions, or projects with invested capital of 300 billion Vietnamese Dong (currently equivalent to approximately USD 19 million) or more must be evaluated for licensing. The list of sectors in which investment is conditional only applies to foreign investors and includes: broadcasting and television; production, publishing and distribution of cultural products; minerals explorations and processing; telecommunication infrastructure, signal transmission, telecommunication and internet services; public post network and post services, delivery services; construction	Sector-Specific Guidelines for FDI in key industries: -- Advertising and Films: 100 percent FDI with automatic approval is allowed, but certain conditions apply in film industry. -- Agriculture: No FDI is permitted in farming, nor may foreigners or OCBs own farmland. FDI in the seed industry is permitted without any limits. FDI up to 100 percent is also permitted in tea plantations, but proposals require prior government approval. There is compulsory divestment of 26 percent equity of the company in favor of an Indian partner or the Indian public within five years. -- Airport Infrastructure: 100 percent FDI allowed for fresh projects through automatic route. FDI up to 74 percent is allowed in existing projects	The **Foreign Investment Catalogue** outlines sectors where foreign investment is encouraged, permitted, restricted, and prohibited. Investment in unlisted sectors is considered "permitted." China "encourages" investment in sectors where it believes it benefits from foreign assistance or technology. Investment is "restricted" in sectors that do not meet "the needs of China's national economic development." Even in encouraged and permitted sectors, regulations specify specific forms of investment that are allowed. In all restricted sectors, foreign firms wishing to invest must form a joint venture with a Chinese company, restricting their equity to a minority share. China	
Foreign ownership of land	**Foreign investors, who have formed a PT PMA, meaning a company incorporated under Indonesian law in Indonesia**, can obtain and hold a Hak Guna Bangunan (entitles its owner to build and possess buildings on the land which is initially granted for 30 years and can be extended for further 20 years and can be renewed upon expiration), a Hak Guna Usaha (entitles its owner to cultivate state-owned land of a minimum size of 5 ha., which is initially granted for 25 or 35 years, at the most, but can be extended for another 25 years and can be renewed upon expiration of that time period), a Hak Pakai (grants the permission to use the land for a specific purpose which is negotiated in advance, can only be made the	Under the **National Land Code 1965**, a non-citizen or a foreign company is not allowed to acquire any land (other than industrial land) in West Malaysia unless the prior approval of the relevant State Authority has been obtained. In addition to the State Authority, any acquisition of property by foreign interests (including permanent residents of Malaysia), requires the approval of the Foreign Investment Committee (FIC) unless they are exempted. The FIC is acommittee within the Economic Planning Unit of the Prime Minister's Department, which, amongst others, reviews and regulates the acquisitions by foreign interests of assets and interests in Malaysian companies and businesses. There are currently 2 FIC	The **1987 Constitution** bans foreigners from owning land in the Philippines. The **Investors' Lease Act** (R.A. 7652, 1994) allows foreign companies investing in the Philippines to lease land for 50 years, renewable once for another 25 years, for a maximum 75 years. Deeds of ownership are difficult to establish, poorly reported, and poorly regulated. Deeds are full of ambiguities, which make it difficult to establish clear ownership. The court system is not able to settle cases in a timely manner.	In July 2005, the government relaxed certain restrictions on foreign ownership of real estate. Under the **Residential Property Act**, foreigners are now allowed to purchase condominiums or any unit within a building of six or more levels without the need to obtain prior approval from the Singapore Land Authority. For landed homes (houses) and apartments in buildings of fewer than six stories, prior approval is required. Under a new option to the EDB's Global Investor Program, up to 50 percent of the S$2 million (US$1. 2 million) investment required by a foreigner to qualify for Permanent Resident status can be in private residential properties. There are no restrictions on foreign ownership of industrial	In general, non-Thai businesses and citizens are not permitted to own land in Thailand unless the land is on government-approved industrial estates. Under the **1999 amendment to the Land Code**, foreigners who invest a minimum of 40 million baht (around $1 million) are permitted to buy up to 1,600 square meters of land for residential use with the permission of the Ministry of Interior. Petroleum concessionaires may own land necessary for their activities. Many foreign businesses instead sign long-term leases, and then construct buildings on the leased land. Under the 1999 Property Leasing Bill, non-Thais are allowed to own up to 100 percent of a condominium building, although other	Foreign investors in Vietnam are categorized as foreigners who do not permanently reside in the country, but in practice, they enjoy a particular status in respect to ownership of real property in the country notwithstanding the absence of specific provisions of Vietnamese law. In particular, foreign investors are entitled to joint ownership in respect to factories, enterprises, warehouses and other types of real property that they contribute to the capital of joint venture enterprises. The ownership of foreign investors in these cases is proportionate to their capital contribution to the joint venture, and, as a matter of course, they are also entitled to joint ownership in respect of the products produced	Prohibits foreign ownership of land.	Document 171 restricts foreign investors in China's property market. Specifically, it prohibiting offshore direct ownership of property; requires foreign real estate investments of at least USD10 million to have a registered capital of at least 50 percent of the total investment; limits the access to debt financing on investments with a minimum capital investment of 35 percent of the total project investment amount; eliminates guaranteed fixed returns as part of a real estate investment transaction; increases government scrutiny and oversight.	

Practice of foreign professionals		**Foreign lawyers** may not practice Malaysian law, nor may they affiliate with local firms or use their international firm's name. Foreign law firms may not operate in Malaysia except as minority partners with local law firms, and their stake in any partnership is limited to 30 percent. Under the Legal Profession Act of 1976, the practice of Malaysian law normally is restricted to Malaysian citizens or permanent residents who have apprenticed with a Malaysian lawyer, are competent in Bahasa Malaysia (the official language), and have a local law degree or are accredited British Barristers at Law. **A foreign architectural firm** may operate in Malaysia only as a joint-venture participant in a specific project with the approval of the Board of Architects. Malaysian	Article XVII Section 14 of the **1987 Philippine Constitution** states that "[t]he practice of all professions in the Philippines shall be limited to Filipino citizens, save in cases prescribed by law." Philippine law (R.A. 8182) also required that preference be given to Philippine citizens in the hiring of consultants and other professionals necessary for the implementation of projects funded by foreign assistance. Legislation signed in February 1998 (R.A. 8555) gives the Philippine President the authority to waive this and other preferences applicable to the procurement of goods and services funded with foreign assistance.	As of November 2006, 64 **foreign law firms** operated in Singapore, among them 16 U.S. firms. Foreign law firms face certain restrictions. They cannot practice Singapore law, employ Singapore lawyers to practice Singapore law or litigate in local courts. Since June 2004, U.S. and foreign attorneys have been allowed to represent parties in arbitration without the need for a Singapore attorney to be present. U.S. law firms can provide legal services in relation to Singapore law only through a Joint Law Venture or Formal Law Alliance with a Singapore law firm, subject to the Guidelines for Registration of Foreign Lawyers in Joint Law Ventures to Practice Singapore Law. The FTA has relaxed some of these guidelines for U.S. law firms. Currently	The **Alien Occupation Law of 1972** (Decree Number 322) lists occupations reserved exclusively for Thais, including professional services such as accounting, architecture, law, engineering, the manufacture of traditional Thai handicrafts, and manual labor. The Law also states that all non-Thais working in Thailand, with limited exceptions, must possess a work permit issued at the discretion of the Ministry of Labor, although some foreigners already working in Thailand were exempted through a "grandfather" clause. Factors that influence the granting of work permits include the degree of specialization required by the position; the size of the firm in terms of number of employees and registered capitalization;				
Annual expenditure on education (all levels) per student (US$)	219	3031	565		3170		586		
Public expenditure on education (all levels) as % of total public expenditure		28	17.2		40		10.7		
Public expenditure on education (all levels) as % of GDP	1	7.4	3.3		4		3.3		
	Indonesia	**Malaysia**	**Philippines**	**Singapore**	**Thailand**	**Vietnam**	**India**	**China**	**Taiwan**
Competitiveness Rankings									
IMD World Competitiveness Yearbook 2006 (61 countries)	60	23	49	3	32	n/a	29	19	18
Economic Performance	**61**	**11**	**52**	**4**	**21**	n/a	**7**	**3**	**27**
Domestic Economy	52	43	59	13	55	n/a	10	2	26
Internaional Trade	59	4	53	1	15	n/a	22	6	32
International Investment	61	32	58	13	47	n/a	18	27	49
Employment	45	26	49	3	6	n/a	10	1	23
Prices	59	1	13	10	9	n/a	3	12	33
Government Efficiency	**51**	**20**	**45**	**2**	**21**	n/a	**35**	**17**	**24**
Public Finance	45	39	58	12	21	n/a	42	1	27
Fiscal Policy	7	13	15	3	4	n/a	12	10	9
Institutional Framework	55	13	54	2	25	n/a	36	24	35
Business Legislation	59	31	49	2	33	n/a	41	43	34
Societal Framework	55	41	28	22	39	n/a	45	30	42
Business Efficiency	**57**	**20**	**44**	**7**	**28**	n/a	**19**	**30**	**14**
Productivity	61	39	46	27	48	n/a	38	29	17
Labor Market	32	4	15	3	6	n/a	1	5	10
Finance	59	33	55	19	41	n/a	26	51	16
Management Practices	57	22	50	9	26	n/a	23	37	19
Attitudes and Values	52	17	39	4	20	n/a	11	24	8
Infrastructure	**61**	**31**	**56**	**5**	**48**	n/a	**54**	**37**	**20**
Basic Infrastructure	53	35	61	1	38	n/a	33	20	24
Technological Infrastructure	61	21	37	3	48	n/a	43	33	4
Scientific Infrastructure	47	38	58	16	53	n/a	26	17	5
Health and Environment	61	39	53	15	48	n/a	57	51	38
Education	61	30	57	13	48	n/a	59	51	19
WEF Global Competitiveness Report 2006-2007 (125 countries)	50	26	71	5	35	77	43	54	13
Institutions	52	18	88	4	40	74	34	80	32
Infrastructure	89	23	88	6	38	83	62	60	16
Macroeconomy	57	31	62	8	28	53	88	6	27
Health and Primary Education	72	42	82	20	84	56	93	55	25
Higher Education and Training	53	32	63	10	42	90	49	77	7
Market Efficiency	27	9	57	4	31	73	21	56	22
Technological Readiness	72	28	61	2	48	85	55	75	14
Business Sophistication	42	20	59	23	40	86	25	65	15
Innovation	37	21	79	9	33	75	26	46	8
WB Doing Business - Ease of Doing Business 2007 (175 countries)	**135**	**25**	**126**	**1**	**18**	**104**	**134**	**93**	**47**
Starting a business	161	71	108	11	28	97	88	128	94
Dealing with licenses	131	137	113	8	3	25	155	153	148
Employing workers	140	38	118	3	46	104	112	78	154
Registering property	120	66	98	12	18	34	110	21	24
Getting credit	83	3	101	7	33	83	65	101	48

Regional Comparison of Government Investment Incentives, Business Costs, Economic Indicators, and Competitiveness Rankings

Protecting investors	60	4	151	2	33	170	33	83	60
Paying taxes	133	49	106	8	57	120	158	168	78
Trading across borders	60	46	63	4	103	75	139	38	42
Enforcing contracts	145	81	59	23	44	94	173	63	62
Closing a business	136	51	147	2	38	116	133	75	4
WEF Travel & Tourism Competitiveness Report 2007 (124 countries)	**60**	**31**	**86**	**8**	**43**	**87**	**65**	**71**	**30**
T&T Regulatory Framework	**54**	**27**	**80**	**1**	**41**	**84**	**62**	**78**	**45**
Policy rules and regulation	43	26	61	1	55	104	86	97	8
Environmental regulation	81	20	83	6	39	84	41	88	21
Safety and security	50	26	96	7	42	51	39	83	32
Health and hygiene	103	62	77	29	59	94	100	84	85
Prioritization of travel and tourism	6	21	74	2	25	76	48	33	78
T&T Business Environment and Infrastructure	**68**	**27**	**79**	**11**	**35**	**95**	**55**	**61**	**28**
Air transport	64	31	72	10	25	90	33	36	52
Ground transport	89	15	91	3	28	85	40	45	14
Tourism infra	87	60	93	44	53	121	96	113	74
ICT infra	80	37	83	18	58	88	75	63	14
Price competitiveness in T&T industry	1	2	7	26	4	10	6	11	15
T&T Human, Cultural, and Natural Resources	**56**	**57**	**100**	**42**	**59**	**76**	**81**	**93**	**23**
Human resources	62	34	93	2	75	81	85	74	15
education and training	43	29	50	14	48	82	46	72	17
availability of qualified labor	42	45	93	1	81	52	74	58	47
workforce wellness	92	73	98	25	90	83	97	79	41
National tourism perception	57	26	83	47	35	51	81	120	17
Natural and cultural resources	58	101	95	79	77	84	70	60	63
Global Indicators									
FP Globalization Index, 2006 (62 countries)	60	19	31	1	45	n.a.	61	51	35
HF Index of Economic Freedom, 2007 (157 countries)	110	48	97	2	50	138	104	119	26
PERC Corruption in Asia report, March 2007 (13 countries)	3	8	1	10	2	4	5	7	9
TI Corruption Perceptions Index, 2006 (163 countries)	130	44	121	5	63	111	70	70	34
UNCTAD FDI Inward Performance Index (WIR2006, 141 countries)	112	62	115	5	96	53	119	55	126
UNCTAD FDI Inward Potential Index (WIR2006, 141 countries)	92	32	61	5	59	74	82	33	19
UNDP Human Development Index (177 countries)	108	61	84	25	74	109	126	81	n.a.