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Local Implementation of National Competitiveness for Economic Growth (LINC- EG) Project

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Acronyms and Abbreviations

| | |
|---------|---|
| ACERD | Ateneo Center for Economic Research and Development |
| ADS | Automated Directives System |
| AER | Action for Economic Reforms |
| AIMPC | Asian Institute of Management Policy Center |
| AmCham | American Chamber of Commerce - Philippines |
| ARMM | Autonomous Region of Muslim Mindanao |
| BFOPC | Blas F. Ople Policy Center |
| BIR | Bureau of Internal Revenue |
| BOC | Bureau of Customs |
| CDO | Cagayan de Oro City |
| COTR | Contracting Officer's Technical Representative |
| CRC | Center for Research and Communication |
| DBM | Department of Budget Management |
| DOT | Department of Tourism |
| DMF | Design and Monitoring Framework |
| EPWG | Electoral Process Working Group |
| EDC | Export Development Council |
| e-LAMP | Electronic Lump-Sum Appropriations Management Program |
| FGD | Focus Group Discussion |
| FOG | Fixed Obligation Grant |
| ODA-GAD | Overseas Development Assistance - Gender and Development |
| GDA | Global Development Alliance |
| GTZ | Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation) |
| ICIP | Investment Climate Improvement Project |
| IFC | International Finance Corporation |
| IRA | Internal Revenue Allotment |
| IRR | Implementing Rules and Regulations |
| JFC | Joint Foreign Chambers |
| LGU | Local Government Unit |
| | Local Implementation of National Competitiveness for |
| LINC-EG | Economic Growth |
| LSIG | De La Salle University's Institute of Governance |
| MCC | Millennium Challenge Corporation |
| MEDCO | Mindanao Economic Development Council |
| MinBC | Mindanao Business Council |
| M&E | Monitoring and Evaluation |

| | |
|------------|--|
| NEDA | National Economic Development Authority |
| NERBAC | National Economic Research & Business Assistance Center |
| ODA-GAD | Overseas Development Assistance - Gender and Development |
| ONETTT | One Time Tax Transaction |
| PCCRP | Philippine City Competitiveness Ranking Project |
| PEZA | Philippine Economic Zone Authority |
| PhilExport | Philippine Exporters Confederation Incorporated |
| Phividec | Philippine Veterans Investment Corporation |
| PIA | Phividec Industrial Authority |
| PIP | Petroleum Institute of the Philippines |
| PMS-SMG | Presidential Management Staff's Strategic Monitoring Group |
| PLDT | Philippine Long Distance Telephone, Inc. |
| PPP | Public-Private Partnership |
| RCO | Revenue Collection Officer |
| RDO | Revenue District Office |
| RKC | Revised Kyoto Convention |
| RR | Revenue Region |
| SAF | Special Activities Fund |
| SDB | Subnational Doing Business Survey |
| SEC | Securities and Exchange Commission |
| SEPO | Senate Economic Planning Office |
| STTA | Short-term Technical Assistance |
| STE | Short-term experts |
| TAF | The Asia Foundation |
| TAP | Technical Assistance Package(s) |
| USAID | United States Agency for International Development |

INTRODUCTION

The Local Implementation of National Competitiveness for Economic Growth (LINC-EG) program is a United States Agency for International Development (USAID) and Government of the Republic of the Philippines (GRP) collaboration to promote local and national economic competitiveness to improve prospects for economic growth and fiscal sustainability.

Along seven technical program areas, LINC-EG focuses on the Mindanao region as an important new component of the US Government's efforts to promote economic prosperity and security in Southern Philippines. LINC-EG assistance is delivered through discrete technical assistance packages (TAPs) and the project is implemented by Nathan Associates Inc. through the DNG, a joint venture between Development Alternatives Inc. and Nathan Associates Inc.

LINC-EG began on October 1, 2008 and this quarterly performance report documents the Project's key activities during the period from October 1, 2009 through December 31, 2009. The key activities during this period cover (i) counterpart consultations and design of new TAPs arising from those consultations and; (ii) implementation and monitoring of TAPs already approved by USAID's Contracting Officer (CO) and Contracting Officer's Technical Representative (COTR) responsible for LINC-EG. The discussion in the report is laid out in 4 sections and an Annex.

Section 1 reports the Project's main technical activities for the quarter and includes summaries of progress toward the designing and submission of TAPs by the COP Daniel Fitzpatrick for COTR John Avila's approval. In addition to the fifteen (15) TAPs that were already under implementation from LINC-EG's first year, seventeen (17) draft TAPs were submitted during this quarter as part of the work plan for the Project's second year.

Section 2 reports on the key program management and administrative events during the quarter and Sections 3 and 4 provide summary data on labor utilization and the amount of financial resources expended during the quarter. A Design and Monitoring Framework (DMF) for tracking and evaluating ongoing progress and accomplishments of TAPs is in Annex 2.

Technical Program Areas

1. Measuring Factors of Competitiveness
 2. Supporting the Competitiveness Policy Agenda
 3. Streamlining Business Permitting & Licensing
 4. Improving Property Rights Administration
 5. Improving Tax Collections Efficiency
 6. Improving Trade Facilitation & Customs Administration
 7. Facilitating Access & Availability of Infrastructure
-

SECTION 1 - PROGRAM TECHNICAL ACTIVITIES

Approved TAPs specify the period of implementation, budget, technical resources and counterpart commitment needed to achieve a particular set of project deliverables, outcomes and impact. Grant funding, either as part of the overall package of a TAP or as a “Special Activity” that falls outside of the seven technical program areas is another mode for LINC-EG assistance. This section of the report focuses on the results of specific TAPs or Special Activities but also covers the key processes and management of project resources leading up to the achievement of results.

Program Area 1: Measuring Factors of Competitiveness

This program area provides the empirical bases for improving competitiveness by supporting targeted national and sub-national initiatives that promote evidence-based policy advocacy and reform. In year one, LINC-EG focused on collaborations with the business climate efforts of the International Finance Corporation (IFC) and the Asian Institute of Management Policy Center (AIMPC) in their Sub-national Doing Business (SDB) and Philippine Cities Competitiveness projects respectively. The IFC’s survey is a regulatory cost survey while AIMPC’s is an enterprise level survey. These surveys as well as LINC-EG’s funded support of a transport logistics study will be completed in the middle of 2010, in time for the results to be used in advocacy efforts with incoming administrations at the national and local levels after the presidential elections in May 2010. As necessary in year two, LINC-EG may fund other data gathering efforts to improve advocacy and investment climate reform in specific productive sectors of the Philippine economy.

Key Activities Accomplished:

TAP 1.1(a): Support to IFC’s Subnational Doing Business in the Philippines 2010 Project

During the quarter, the main research and data gathering instruments and questionnaires were finalized and surveying was formally rolled out. In October, the IFC and its subcontractors conducted road tours to Iloilo and Pasig cities as part of a sensitization plan to explain the SDB project to city mayors. The creation of respondent pools commenced early in the quarter and 249 out of the required 288 required respondents had been screened and approved by the end of October. The remaining 39 were approved in November. The selection criteria included experience in business law and registration with the Philippines Securities and Exchange Commission. Surveying began in Cebu and Lapu-Lapu and by the end of the quarter all interviews had commenced or had been completed for all 24 cities except for logistical constraints in 5 cities, among them General Santos and Zamboanga.

The implementation problems that were faced in these 5 cities concerned difficulties in securing interviews. These difficulties are related to the Christmas holiday period in December and are not expected to significantly affect implementation next quarter. However, the IFC made some minor changes to the dates in the overall calendar for the SDB. The target date of mid-June 2010 for the public release of the SDB report was retained.

A team from the Doing Business Project in Washington, DC traveled to Manila from December 1-11th to train IFC's local SDB team to conduct data coding. Complete data coding for the first surveyed cities was achieved at the end of December and will be completed for the remaining cities next quarter.

TAP 1.1(b): Support to the Philippine City Competitiveness Ranking Project (PCCRP)

Donor coordination has been a strong component of this TAP and the quality of the PCCRP's methodology continues to benefit from advice to AIMPC by USAID/LINC-EG and the German Technical Cooperation (GTZ), a co-funder of the activity.

The survey sample size was finalized and comprised 1800 enterprises. Interviewing began in late September and proceeded as planned for all of the 30 cities except Marawi in Mindanao, where an unstable and deteriorating security environment prevented the PCCRP survey team from traveling there. In view of this unexpected development, AIMPC recommended to LINC-EG that Marawi city be dropped and benchmarking in the PCCRP be conducted amongst the remaining 29 cities only. LINC-EG¹ and GTZ reviewed AIMPC's recommendation and concluded that there wasn't enough time at this stage of the activity to substitute another city for Marawi. After receiving assurances that the methodological considerations in the scoring and ranking of 29 cities instead of 30 will be sufficiently addressed, LINC-EG gave approval for this course of action but recommended that an analysis of Marawi from desktop data already collected- be included in a separate section of the final PCCRP report that is due at the completion of the TAP. At the end of the December, all of the expected 1740 interviews for 29 cities had been completed.

TAP 1.2: Assessing Transport Costs and Competitiveness in Northern Mindanao

Progress under this TAP centered on reaching agreement with PhilExport-10 (the grantee) on a schedule of deliverables for the grant, securing USAID's approval of STTA to support implementation of the TAP, and monitoring of the initial phases of the activity.

¹ LINC-EG's overall technical advice on the methodological soundness of the survey was informed by assessments in briefing notes prepared by two contracted STEs.

A request to USAID to hire Lynn Sisson as short term expert (STE) was submitted on October 9th and approval received on November 18th. She supported PhilExport-10 in the preparation of a draft questionnaire that was incorporated in a progress briefing note submitted to LINC-EG in November. In the note, PhilExport-10 reported on the initial findings of their desktop review of past government and donor funded initiatives that sought to understand the key logistical costs contributing to the high cost of exporting from Mindanao. In view of the findings of the desktop review, PhilExport-10 recommended to LINC-EG that the export destinations of Mindanao products that will be studied in this TAP be limited to Manila and Cebu². Additional design aspects of the study are expected in an Inception Report that will be submitted to LINC-EG next quarter.

Activities Planned Next Quarter

TAP 1.1(a):

- Coding and data verification will be completed. “Right of reply” workshops and necessary data verifications will be conducted.

TAP 1.1(b):

- Monitoring of the ongoing survey will continue. LINC-EG will actively participate in the data review at a PCCRP donor-review workshop planned for February 2010. The workshop will focus on the initial findings from the combination of desktop and survey data.

TAP 1.2:

- A review will be conducted of the overall design aspects and the findings of the Inception report due in January. Roundtables and other information gathering and advocacy with shippers, freight forwarders and port operators will be completed and LINC-EG will provide support to the assessment of the initial results of the study.

Program Area 2. Supporting the Competitiveness Policy Agenda

Through financial and technical support for key influential Filipino institutions in their policy advocacy efforts, this program area sought to increase public awareness and attention to a range

² The original TOR for this TAP considered a wider set of export destination but left the final decision to be based on a review of desktop data after the actual commencement of the assistance to PhilExport-10. PhilExport-10’s recommendation is based on considerations of shipping volumes.

of competitiveness policy issues. The recommendations from several documents produced by LINC-EG in project Year I, such as a report on the effects of the current global financial downturn on the Philippines, will still be relevant in coming years of the Project. Several of the new TAPs proposed under this program area are directly intended at supporting reform programs of incoming governments at the national and LGU levels after the national elections next year.

Key Activities Accomplished:

TAP 2.1: Investment Climate Improvement Project (ICIP) – Phase V

During the final quarter of its grant, ICIP V contributed to a successful advocacy effort by segments of the private sector to reverse two special government policies deemed anti-business. ICIP V also successfully organized six focus group discussions for the “Big Winner Sectors” deemed to be promising for the Philippines in the future, and completed a “Red Tape Survey” as one of its final deliverables.

Box 1. Reversal of Two Special Government Measures

1. In mid October, President Arroyo issued an amended proclamation that declared the *Eid'l Adha* Muslim feast a regional holiday to be observed in the Autonomous Region of Muslim Mindanao (ARMM) only. In the rest of the country, granting a holiday was left as a decision between employers and employees. President Arroyo’s announcement in October was a reversal from a proclamation earlier in the year that had announced *Eid L’Adha* as a two-day holiday nationwide and that was in conflict with Republic Act 9492, which declared it a regional holiday only.
2. After the typhoons that swept Luzon in late September and early October the government imposed price controls on basic goods and services (using authority under the Price Act) and ordered oil companies to roll back prices to pre-storm levels (using authority under the Oil Deregulation Act). ICIP worked with the foreign chambers as well as domestic chambers and other business associations to oppose these measures. President rescinded the controls late in November, well before they were due to expire.

Pursuing milestones that were established in the previous quarter (to replace the infrastructure workshop originally called for in the grant award) ICIP organized six of the seven ‘Big Winner Sector’ focus group discussions (FGD). The FGDs came up with implementable solutions to remaining challenges faced by each industry, and identified the next or last mile for various

reforms. High level participation was observed in each FGD. The conducted FGDs, the number of participants and completion dates are as follows³:

- Creative Industries (16 experts) November 5th
- Roads and Rails (60 experts)-November 12th
- Power and Water (94 experts)-November 17th
- Mining (35 experts)-November 20th
- Airports and Seaports (65 experts)-November 26th
- Agribusiness (30 experts)-December 3rd

Lastly, on November 19th, ICIP submitted its report on the results of the Red Tape Survey that it started in the previous quarter. The 2009 Red Tape Survey received 30 responses and identified many bureaucratic procedures respondents found burdensome in their interaction with a number of government institutions among them the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC). The survey also revealed that 26 out of 30 surveyed business establishments were not aware of RA 9485, otherwise known as the Anti-Red Tape Act of 2007. The findings of the Red Tape Survey justify LINC-EG's work under program areas 3, 5 and 6.

TAP 2.2: Liberalizing and facilitating foreign participation in the Philippine economy

AYC Consultants, one of two organizations receiving a grant from LINC-EG to advocate for foreign participation in the Philippine economy submitted its list of priority economic policy reform issues. These were:

- Ownership of Private Land and Condominiums
- Corruption
- Beyond the Borders: Barriers Relating to Legal System – Contract Sanctity Violations, SC Decisions Against Business, Regulatory Interpretation Risk
- Excise Tax Differential Situations
- Operation and Management of Public Utilities
- Beyond the Borders: Barriers Relating to Local Government – Interference by LGU officials, Local Government Taxes and Fees
- Practice of Professions
- Ownership/Establishment of Educational Institutions

³ Highlights for each of these FGDs can be found in the monthly reports submitted to USAID.

The prioritization of these economic issues was based on 4 criteria – (1) economic and social (based on secondary research and review of literature); (2) legal (takes into account possible legal remedies and the feasibility of reform through legal means); (3) Investors’ sentiment (based on a survey of CEO respondents); and (4) AYC’s team ratings (based on the experiences and sentiment of team members).

AYC’s contract’s required the firm to submit to LINC-EG at least eight briefing papers (corresponding to the identified priority areas) that would provide details of how an advocacy campaign can be mounted. The contract also called for AYC to explore the legal basis for the barrier to foreign investment specific to the priority issues noted above. The briefing papers were submitted on December 23rd and were reviewed by the program area team leader.

LINC-EG received CO approval on October 22nd for Action for Economic Reform (AER), the other grantee under this TAP, to proceed with hiring of consultants. AER’s technical approach calls for three consultative roundtable discussions (RTD) with three distinct audiences (local businessmen, foreign chambers of commerce, and civil society). The first RTD was successfully conducted on November 16th and the second was held on December 7th. Local businessmen that participated in the first roundtable discussion emphasized the need for a country plan that has private sector participation, rebuilding of institutions, creation of infrastructure, and elimination of corruption. Ineffective governance was seen by most as the main barrier to investments, with some participants noting that good execution of plans and policies by the government will reflect well on the economy, as much as would the political will to reform and a good justice system.

Among other points, the foreign chambers also noted the lack of effective governance, and recognized the “image problem” of the Philippines - both in terms of security, and as a country with anti-foreign investor sentiments. In particular, there was concern over the undue involvement of the courts in economic matters, which results in the unreliability and inconsistency of enforcement of contracts as a basis for investment decisions.

At the end of the reporting quarter, LINC-EG is awaiting receipt from AER of more complete documentation on the points raised during the RTDs, as well as a schedule for the third RTD that will involve representatives from civil society.

TAP 2.3. Technical assistance to the Philippine Veterans Investment Corporation (Phividec) Industrial Authority (PIA) to enhance Competitiveness

On November 15th, STE Ellen Tan submitted her draft report containing the financial analysis of Phividec and recommendations to help mitigate the adverse financial impact of a unified administration of incentives for the Phividec Estate. Following feedback from Phividec’s Administrator Albania, as well as additional inputs from an Appraisal Report provided by Vitale Valuation Services under a separate STTA contract, Ellen Tan submitted her final report

and recommendations on December 4th. A presentation and discussion was scheduled for January 8th.

In discussions in December, Phividec requested additional assistance to update its internal rules to ensure consistency with the rules of the Philippine Economic Zone Authority (PEZA). Pursuant to this request, LINC-EG submitted to USAID on December 15th a request for a no-cost extension of TAP 2.3 and to hire Atty. Follosco to provide the additional technical assistance requested by Phividec.

TAP 2.4. Analyzing the Impact of the Global Financial Crisis on the Philippine Economy

The main activities under this TAP focused on coordination of a planned workshop that would place, in a Mindanao context, the findings of LINC-EG's report on the global financial crisis. The Center for Research and Communication (CRC)⁴ was selected as the natural LINC-EG technical partner for this workshop and will work in conjunction with the main institutional beneficiaries, the Mindanao Economic Development Council and the Mindanao Business Council.

The date for the Forum and workshop in Mindanao was agreed for January 26th and it will be held in Davao City.

Activities Planned Next Quarter

TAP 2.1:

- ICIP V completed its activities at the end of the quarter. A final review and close out assessment will be documented in a memo and submitted to the COTR. Activities in the first quarter of 2010 will be under ICIP VI, which goes into effect on January 1st.

TAP 2.2:

- Oversight and implementation of the grants to AYC and AER will continue. Key deliverables for AER include a RTD with representatives from NGOs and civil society and a peer review workshop. For AYC, deliverables include draft briefing papers and strategic communications. Both organizations will submit communication and advocacy plans.

TAP 2.3:

- A presentation and discussion will be held on January 8th and STE Ellen Tan will present her report to Phividec officials.

⁴ CRC is LINC-EG's original grantee for the research and writing of the report on the effects of the global financial crises on the Philippines.

- Upon USAID's approval of a LINC-EG request for a no-cost extension of TAP 2.3, assistance will be provided to Phividec to revise and update their implementing rules and regulations to ensure consistency with PEZA rules and procedures.

TAP 2.4:

- The forum and workshop to discuss the impact of the global financial crises on Mindanao will be held in January and the conclusions assessed by LINC-EG for possible areas of support.

Program Area 3. Streamlining Business Permitting and Licensing

Efforts to reduce regulatory compliance costs facing Filipino enterprises are addressed through this program area. The design of activities for this program area was finalized in the later part of LINC-EG's first year after agreements were reached with USAID and with counterparts on viable strategic approaches. In project year two, LINC-EG will support initiatives in Cagayan de Oro city and in a select number of LGUs in other parts of the country.

There is a great demand from national and local stakeholders for technical assistance that falls under this program area. LINC-EG will continue to be selective and support target activities that fall within the Project's strategic approach of streamlining the interface between business and government which in turn reduces the cost to comply with regulations and increases the number of formally registered enterprises and job growth.

Key Activities Accomplished:

TAP 3.1. Obtaining a local validation of the urgency for the one-stop capability enhancement for business start-up through NERBAC

Several consultations were held between LINC-EG and Under Secretary Cruz of DTI to further clarify the type of support that the Project can provide to the NERBACs. DTI have expressed preference for technical assistance on knowledge management in the context of market support services to enterprises. The operational details of a TAP were agreed and will complement but not focus on support to the NERBACs in the area of business registration.⁵ A TAP was developed and submitted for USAID approval as one of the activities planned for the second year of the Project. The title of the TAP was changed to reflect the technical direction of the proposed support to the NERBACs.

⁵ Reform of the business registration policies and procedures is the direct objective of TAP 3.2.

TAP 3.2: Support to Streamlining of processes for Business Permits and Licenses issuances in Cagayan de Oro City.

The COTR's comments on the draft of the proposed TAP were received on October 20th and a revised submission on November 5th was approved on December 2nd. Recruitment of short-term experts to support implementation commenced soon thereafter.

As part of the overall objective of reducing the regulatory constraints to starting a business in CDO, LINC-EG supported a 2-day workshop of the Growth and Investment Climate Working Group of the Philippine Development Forum. The workshop was held in CDO on December 3rd - 4th and well attended by senior regional directors of the DTI and Undersecretary Zeny Maglaya. Over 60 senior staff from 10 LGUs received training on registration reform practices of other Philippine LGUs. LINC-EG's DCOP Alid Camara delivered a presentation on international good practices on reforming business permits and licensing systems and discussed their application in the Philippine context. In the breakout sessions, the LGUs developed detailed plans for streamlining specific procedures and processes in time for the annual business registration renewal period from January 1st to 20th. Opportunities for direct implementation of some of these plans as they relate to the specific work of TAP 3.2 will be monitored as implementation of the TAP gets underway next quarter.

Activities Planned Next Quarter

TAP 3.1:

- USAID's approval of the TAP is expected. The initial phases of implementation will begin.

TAP 3.2:

- STEs will be selected, hired and mobilized. The design phases of the TAP will be completed and a technical working group composed of senior representatives from CDO will be established.

Program Area 4. Improving Property Rights and Land Use

In the context of improved property rights regime in specific jurisdictions, this program area focuses on strengthening security of registration and transfer of title, appraisal, taxation, and adjudication.

During the quarter, LINC-EG achieved a substantial milestone with respect to its support for efforts to establish an administrative method of titling through free patent to residential lands. (TAP 4.2). In late December, the Philippine House and Senate passed the Residential Free Patent

Bill just hours before adjourning for the holiday break. This came about partly as the result of tireless efforts by a small group of property rights advocates supported by LINC-EG.

Key Activities Accomplished:

TAP 4.1. Complete the Digital Land Title Registry in Cebu City – An improved Title verification process

Over the course of the reporting quarter, the STTA team has suggested to LINC-EG management that the primary goals of the TAP—to develop a working concept of a desktop based title verification system—was premature and may need redirection. Instead, the focus of the team shifted to devising a graphical interface system that centered on the tax assessor as either the *de jure* or *de facto* manager of both recorded boundaries of land and the rights of persons within those boundaries.

On December 21st, after several meetings with LINC-EG, the Ateneo Center for Economic Reform and Development (ACERD) submitted a grant proposal. The proposal reflected the new thinking, as mentioned above, on how to accomplish the goals of the TAP. Nonetheless, initial reviews of the grant indicated that still more work and refinement are needed to be done.

TAP 4.2. Extend the administrative method of titling through free patent to residential lands

On October 12th, the Senate passed the Residential Free Patent Bill on its third and final reading. As the House version of the bill had already passed months before, Senate passage led to the formation of a bicameral committee, which met for the first time in early December, to discuss the bill. After several rounds of negotiation and adjustment, the bicameral committee endorsed a compromise bill on December 16th. Two days later, just hours before Congress adjourned for the long Christmas/ New Year recess, both houses passed the bicameral version of the bill.

In accordance with the initial design of the TAP, the La Salle Institute of Governance (LSIG) submitted in October a grant proposal to complement the STTA. However, in view of the stage of this activity, LSIG's extreme delay in submitting its proposal, and the unfavorable results of a USAID audit of LSIG's administration of a previous grant under a different USAID project, LINC-EG will decide early next quarter the need to still involve LSIG in this activity.

Activities Planned Next Quarter

TAP 4.1:

- LINC-EG will submit detailed comments and guidance to ACERD on its proposal, with the goal of reconciling the current thinking regarding the methodology of this TAP with what was originally conceived. LINC-EG will evaluate the practicality of the team's new approach

on whether to seek an extension of this TAP beyond the current expiration date of March 30th.

TAP 4.2:

- Once Congress resumes session in mid January 2010, the bill will be formally transmitted to President Arroyo, who is expected to sign it. Thereafter LINC-EG may consider assisting the Department of Natural Resources issue a set of implementing rules and regulations under the new law.

Program Area 5. Improving Income Tax Collection Efficiency and Reducing Tax Leakages

Work in this program area has been devoted mainly to finalization of a report from a diagnostic assessment completed last quarter of the tax administration practices of selected regional offices of the BIR. A separate activity under this program area involves support to the Department of Budget and Management (DBM) (aka, e-Lamp program) . This had been discussed in earlier reporting quarters.

Late in the quarter, LINC-EG recommended that this latter activity be deferred to the second or third quarter of LINC-EG's Year II. The program area Team Leader resigned his position effective December 15th.

Key Activities Accomplished:

TAP 5.1. A diagnostic to determine the key issues and priorities for tax administration reform to improve tax revenue collection efficiency and reduce tax leakages at the BIR Revenue Regions and Revenue District Offices in Mindanao

The recommendations from the diagnostic report (explained in detail in LINC-EG's last two quarterly reports) were presented to counterparts on October 15th as part of consultations with the Electoral Process Working Group. The BIR was represented as were invited representatives of the Millennium Challenge Corporation of the US government. In preparation for final submission to USAID and closeout of the TAP, the tax diagnostic report was under final editing toward the end of the quarter. Three proposals for TAPs resulting from the diagnostic assessment were included as part of LINC-EG's work plan for Year II. These were for (i) Process improvements in Revenue Collection Officer (RCO) collection, (ii) improvements in Transfer Pricing Rules and (iii) the roll-out and enhancement of the One Time Tax Transaction (ONETT).

TAP 5.2. Support to enhancing the Electronic Lump-Sum Appropriation Management Program (e-LAMP) System of the DBM

A revised TAP that was based on discussions with senior officials of DBM was submitted to COTR on October 22nd. However, further due diligence and coordination with DBM suggested that implementation of this TAP would be affected by the upcoming national elections and the associated uncertainties connected with the expected level of counterpart buy-in and prioritization for this activity. LINC-EG therefore formally requested to the COTR on November 17th that this proposed TAP be designated inactive until the post election environment is clarified.

Activities Planned Next Quarter

TAP 5.1:

- Upon approval of the TAPs proposed in the Year II work plan, plans will be put into place for rapid implementation. A Program Area Team Leader will be hired.

TAP 5.2:

- No major developments are anticipated pending clarification of the level of counterpart buy-in that could be achieved for this proposed TAP.

Program Area 6. Improving Trade Facilitation and Customs Administration

This program area supports improvements in customs efficiency and reductions in the time and cost of exporting and importing. Two TAPs are close to completion; these include LINC-EG's support to passage of the Revised Kyoto Convention (RKC) which recorded some successes and suffered some setbacks this quarter. To compliment successful work in the area of customs administration, LINC-EG will seek, in project Year II, to support the broader institutional environment for trade policy and will target specific bilateral and multilateral trade agreements.

Key Activities Accomplished:

TAP 6.1. Assisting the Philippines accede to the Revised Kyoto Convention (RKC)

Following the direct advocacy efforts at the Philippine Senate by LINC-EG's STE, former BOC Commissioner Parayno, and representatives from major private sector Filipino exporter organizations such as PhilExport and the Export Development Council, the Committee Report on the RKC was signed by all of the 16 members of the Senate Committee and filed on October

14th - just before the Congress went on recess on October 17th. However, Senator Santiago, Chairman of the Senate Committee on Foreign Relations, reported that passage of a general appropriations bill was her top priority, not the RKC. Toward the end of the quarter, LINC-EG and the exporters associations have developed a strong advocacy plan that would be put in place early next quarter involving discussions with Senator Santiago.

TAP 6.2. A diagnostic assessment to determine key issues and priorities for customs administration in Mindanao

Following the field visits to the BOC district ports of Davao, Cagayan de Oro, Cebu, Batangas and the sub port of General Santos last quarter, STE Alano submitted a progress report and delivered a presentation of his initial findings to the COTR on October 13th. A last field visit to the district port Zamboanga was conducted on October 20th to 21st. At a presentation to the BOC, Deputy Commissioner Nicolas agreed with the general findings of the report (see previous quarterly report for details). Some of the findings have been developed as potential TAPs and submitted as part of the work plan for Year II.

A draft of the final report was reviewed by LINC-EG's senior management in late December. The report will be finalized early next quarter and submitted to USAID; thereafter the TAP will be closed.

TAP 6.3 Working with the Private Sector to Reduce Smuggling

USAID approved the grant proposal of the Philippine Institute of Petroleum (PIP) in October 22nd. The TAP aims to combat oil smuggling through training of BOC and the Presidential Anti-Smuggling Group (PASG) enforcement units on evidence handling and case build-up.

Building on knowledge gaps identified at a LINC-EG funded training for PIP last quarter, PIP conducted additional training this quarter using its own funds and as part of its counterpart contribution to the activities of the TAP. The training modules that were covered included seizure and interdiction tactics as they involve large oil transporting vehicles. In accordance with the design of the TAP, a Global Development Alliance (GDA) agreement was drafted and envisioned as a vehicle that would enable leveraging of LINC-EG funds with PIP's contribution on a 1:1 ratio. The GDA agreement will be finalized and signed early next quarter.

TAP 6.4. Standardization of Export Clearance Procedures

On November 17th, LINC-EG submitted a request for approval to withdraw this TAP from LINC-EG's current work plan. Rather than a complete removal for the entire life of the LINC-EG contract, LINC-EG proposed to designate this TAP as inactive and to revisit this activity as conditions and counterparts evolve in subsequent years of the Project.

Activities Planned Next Quarter

TAP 6.1:

- Senator Santiago will be hosted as a guest of honor in a special event organized by exporter associations that are in favor of the RKC. The event will be defined and possibly supported with LINC-EG funds.

TAP 6.2:

- The final report of STE Alana will be submitted for COTR approval and the TAP will be closed out.

TAP 6.3:

- A proposed TAP covering the reconciliation of data and records on oil imports between the BOC and the Department of Energy is under consideration for inclusion in the 2010 plan of activities for this program area. The objective is to strengthen the data base that could arm post entry audits of the BOC and provide numerical evidence in oil smuggling cases that could be filed in courts.

TAP 6.4:

- No major developments planned pending changed circumstances in LINC-EG's assessment of stakeholder readiness, and the progress of other activities in this program area.

Program Area 7. Expanding Infrastructure

This program area supports regulatory reform as well as public and private investments that will improve access and the facilitative role of infrastructure in transport and competitiveness.

This reporting period, LINC-EG concentrated on addressing contractual issues to the implementation of the grant to The Asia Foundation (TAF). Initial recommendations and proposals were discussed with the grantee. LINC-EG expects to settle outstanding accounts by the early part of the following quarter.

Key Activities Accomplished:

TAP 7.1 Infrastructure Diagnostic and Strategy:

LINC-EG and TAF continued to clarify the main issues and were able to reach a preliminary agreement with respect to the core deliverables of the TAP. In this preliminary agreement,

LINC-EG determined that milestones 2 and 4 (concerning the activities connected to development of action plans for the Philippine Development Forum and National Competitiveness Council) were in compliance with the grant's requirements. Milestone 3 (concerning strategic approaches and technical assistance proposals to USAID and LINC-EG) will be revalued at 50% of the original value of the tranche. Such revaluation was deemed justified by the fact that full value could not be delivered to the Project at the time the grant was being performed due to a fluid environment regarding LINC-EG's leadership in the summer of 2009. As of the end of the quarter, TAF was considering formal acceptance of this proposal.

TAP 7.2. Strengthen the monitoring capacity of the Presidential Management Staff's Strategic Monitoring Group (PMS-SMG) on existing infra projects

On November 17th, LINC-EG submitted a request for approval to withdraw this TAP from the Project's work plan. Rather than a complete removal for the entire life of the LINC-EG contract, LINC-EG proposed to designate this TAP as inactive and to revisit this activity as conditions and counterpart commitments evolve in subsequent years of the Project.

TAP 7.3. Increasing air access to regional gateways: Clark and Davao

On November 17th, LINC-EG submitted a request for approval to USAID to withdraw this TAP from the Project's work plan. Rather than a complete removal for the entire life of the LINC-EG contract, LINC-EG proposed to designate this TAP as inactive and to revisit this activity as conditions and counterpart commitments evolve in subsequent years of the Project.

Activities Planned Next Quarter

TAP 7.1:

- TAF is expected to respond to LINC-EG's proposals to (a) revalue Milestone 3 and (b) to submit a revised final report. Upon acceptance of these two documents, the TAP will be closed out.

TAP 7.2:

- LINC-EG expects to receive the COTR's approval of the request to withdraw this TAP from its work plan for Year 1.

TAP 7.3:

- LINC-EG expects to receive the COTR's approval of the request to withdraw this TAP from its work plan for Year 1.

Key “Special” and other Technical Activities

This section reports on technical areas supported through the special activities fund (SAF) as well as other technical activities that fall outside of the main seven technical program areas.

A. National Dialogue on Enhancing Philippine Competitiveness in Tourism – October 23rd

As part of discussions with stakeholders, particularly the Tourism Association of the Philippine Chamber of Commerce and the Department of Tourism, LINC-EG provided limited sponsorship ((\$3,191.00) for a national forum of over 150 attendees aimed at analyzing the recently passed Tourism Act and to seek public reaction to it.

B. The Mindanao Power Summit – December 2nd – 3rd

As part of TAP development in the electricity generation and power sector, LINC-EG provided limited sponsorship (PhP 50,000) for a public-private summit in CDO city that discussed and sort to address the status and expected shortages of electricity and power supply in Mindanao.

C. Workshop on the Streamlining of Processes for Business Permit Renewals in Mindanao-December 3rd - 4th

As part of complimentary activities pending USAID’s approval of the proposed TAP 3.2, and working with stakeholders, particularly the PDF working groups on Decentralization and Growth & Investment Climate, LINC-EG provided limited sponsorship (\$15,312.50) for a large 2-day workshop aimed at knowledge sharing amongst LGUs and generating concrete plans for improvements in the processing of business permit renewals in time for the legally mandated renewal period of January 1st – 20th.

Cross Cutting Components: Gender and Public Private Alliances

Gender:

Working with Team Leaders, the Project’s Gender Specialist, Jeanne Illo, ensured that gender considerations were incorporated into the TAP development process, monitored that these considerations were addressed during implementation (TAPs 2.3 and 6.3), and reviewed STTA and TAP final reports. In addition to providing guidance to grantees on the overall gender strategy of the Project, she prepared Gender Statements for a total of 16 TAPs that were drafted for possible inclusion in the 2009-2010 Work Plan, and reviewed the AER grant document under TAP 2.2.

Under Program Area 6, the Project actively sorted the input of women’s groups involved in trade issues during the early stages of the TAP’s implementation. The notable absence of

women's groups among the protesters during the congressional deliberations over the RKC may have been a partial reflection of successful consultations with women stakeholders by LINC-EG.

Plans for the Next Quarter:

- In the context of development of additional TAPs for LINC-EG's Year 2, the Specialist will continue to review draft TAPs and provide Gender Statements or gender inputs to proposed TAPs and implementation instruments.

Public Private Partnership (PPP):

As part of ongoing efforts to develop PPPs and leverage project funds, consultations have been had with the Philippine Long Distance Telephone Company (PLDT) Group and "8Layer" (a programming vendor of PLDT) and Cisco Systems. A possible partnership with Microsoft and the Blas Ople Policy Center to provide business skills trainings for Overseas Filipino Workers (OFWs) and their dependents was drafted and proposed in LINC-EG's work plan for Year II.

Plans for the Next Quarter:

- LINC-EG will continue to explore possible partnerships with public and private sector organizations and institutions.

TAP Concepts under Development:

For this quarter, all seventeen (17) TAPs under development have been included as part of the work plan for the Project's second year and submitted on December 13th (see work plan).

SECTION 2 - MAJOR MANAGEMENT & ADMINISTRATIVE EVENTS

The key management and administrative tasks for the quarter cover (i) key day-to-day office administration activities⁶ including negotiations, contracting and mobilization of personnel and (ii) managing the design and submission as well as ongoing implementation of TAPs.

The new COP completed familiarization and introductory consultations with counterparts early in the quarter. USAID/Philippines welcomed a new Contracting Officer, Michael Rossman, and

⁶ Includes Mindanao Office where applicable

he met with the relevant staff of LINC-EG to provide guidance on amendments to USAID's Automatic Directives System (ADS) Regulations that are relevant to the LINC-EG contract.

The preparation and writing of LINC-EG's work plan for the second year was a key management task during the reporting quarter. The COTR was invited to planning workshops where Team Leaders discussed concepts and ideas for TAPs in the context of possible changes in the political landscape at both the national and LGU levels after the elections in June 2010. A total of twenty-two (22) concepts were considered to have sufficient stakeholder buy-in and other conditions to be proposed as possible TAPs, and was submitted for COTR and CO approval on December 13th.

The Project's accountant and Office Manager both resigned their positions effective October 15th. The Grants and Training Coordinator began serving as interim office manager in November and after a public advertisement, a new accountant was hired early in October and commenced work on October 16th. Recruiting for a Team Leader for the Project's property rights program area was also concluded after an interview and selection process for 9 candidates. The selected candidate, Atty. Deogracias Custodio, was approved for the position by USAID on December 17th and was scheduled to commence work in January. Other proposed changes to the Project team and to procedures to improve implementation efficiency will be put in place next quarter in accordance with the approved work plan for Year II.

The office in Mindanao continues to be instrumental in field coordinating of the Project's activities for strategic outreach to counterparts and have provided logistical assistance to the stakeholder consultations of the wider US government's presence in the Philippines. On October 23rd, the Project facilitated the Mindanao visit of the COTR and the Deputy Chief of Mission of the US Embassy, Ms. Leslie Bassett. The delegation was briefed about LINC-EG's activities involving ports and infrastructure and they visited the Phividec development estate and the Mindanao Container Terminal (see TAP 2.3).

Box 2 provides a summary of other key management and administrative events during the quarter.

Box 2. Key Program Management Events in the Quarter:

- October 2nd, 9th, and 16th - Technical staff hold brainstorming sessions in preparation for TAP development for Project Year II.
- October 13th - USAID approval for new project accountant is received.
- October 15th - Office Manager resigns.
- October 16th - New project accountant commences work.
- October 14th to 15th - COP and DCOP/Mindanao hold counterpart consultations in Davao City.
- October 23rd - US Embassy's DCM Leslie Bassetts visits Cagayan de Oro and tours the Mindanao Container Terminal (MCT).
- December 15th - The Team Leader for Program Area 5 resigns.
- December 17th - LINC-EG and new CO Officer, Michael Rossman, meet on ADS Rules and Regulations and issues arising under the ICIP VI grant proposal.
- December 3rd to 4th - CDO office plays key role as organizer of a workshop on streamlining of the processes for renewal of the local business permit.
- December 15th -21st - Interviewing of candidates for the position of grants assistant commences.
- December 17th - USAID approval is received for Mr. Deo Custodio, Team Leader for Property Rights, program area 4.

Administration of Grants and Special Activities Fund (SAF)

Working with Team Leaders and directly with counterparts and USAID/ORP as necessary, LINC-EG's administrative team for Grants and SAF (Manager Cecille Robles and Coordinator Muriel Toledo) led the review and processing of four (4) unsolicited grants totaling \$649,663.00 this quarter. The grants applications were from the Petroleum Institute of the Philippines (PIP), the American Chamber of Commerce (AMCHAM), the Ateneo Center for Economic Research and Development (ACERD), and the International Center for Innovation, Transformation and Excellence on Governance (INCITEGOV).

The grants to AMCHAM for the ICIP VI (TAP 2.1) and to the PIP (TAP 6.3) were processed and approved by USAID on December 22nd and October 22nd, respectively and were expected to be awarded early in the next quarter. The other two applications were under review as of the end of the reporting quarter.

The SAF was used this quarter to provide partial funding for three activities: a public forum titled “National Dialogue on Enhancing Philippine Competitiveness in Tourism” and conducted on October 23rd (\$3,191.00); “The Mindanao Power Summit” in Cagayan de Oro City on December 2nd-3rd (\$1,063.00) and the workshop on “Nationwide Streamlining of Business Permit and Licensing System (BPLS) in the Philippines” on December 3rd-4th (\$15,312.50).

Performance Monitoring and Evaluation (M&E)

The Design and Monitoring Framework (DMF) was revised with the inclusion of newly approved TAPs and the exclusion of discontinued ones (Annex 2). A logical and monitoring scheme was created to track results of the advocacy efforts of the American Chamber of Commerce in the Philippines for the extension of TAP 2.1 Investment Climate Improvement Project (ICIP) to a Phase VI (Annex 3). As part of the monitoring function, summary reports were produced on the focus group discussions organized by the Joint Foreign Chambers under ICIP 5 (Annex 4 and 5). An independent evaluation of all TAPs under implementation is scheduled for the third quarter of the Project’s second year.

SECTION 3 - TIME INPUTS

At the end of the reporting quarter (December 31, 2009), out of a contract budget total of 8,006 person-days, LINC-EG had expended 1,961 person-days, or 24.5 percent.

SECTION 4 - FINANCIAL PERFORMANCE

At the end of the reporting quarter (December 31, 2009), out of a total contract budget ceiling of \$14,403,515.30 total expenditures of \$2,322,675.84 had been incurred. This amounts to about 16.1 percent of the total budget ceiling. This is expected to increase substantially next quarter as the work plan activities are rolled out.

ANNEXES

Annex 1. Summary of the Status of TAPs (as of December 31, 2009)

| TECHNICAL ASSISTANCE PACKAGES (TAPS) | | PERIOD OF PERFORMANCE | | APPROVAL STATUS (dates include actual receipt of COTR/ORP approvals) | | IMPLEMENTATION MECHANISM(S) (Grant, STTA, PO, etc.) | IMPLEMENTATION MECHANISM APPROVAL STATUS (dates include actual receipt of COTR/ORP approvals) | | | | | | |
|--------------------------------------|--|-----------------------|-----------|---|---|--|--|---|--------------|------------------|---|------------------|----------------|
| | | | | | | | Grant | | STTA | | Purchase Order | | |
| No. | Short Title | Start Date | End Date | Submission dates | Approval Dates | | Submission dates | Approval dates | Date awarded | Submission dates | Approval dates | Submission dates | Approval dates |
| 1.1 (a) | Subnational <i>Doing Business</i> with the IFC | 03-Dec-09 | 30-Apr-10 | 02-Oct-09 30-Sep-09 (revised TAP) 11-Jun-09 22-May-09 21-May-09 | COTR: 03-Dec-09 (CO Approval relegated to COTR) 11-Jun-09 11-Jun-09 (revised TAP) 22-May-09 | Grant: IFC ODC: 2 RTDs with PSAG and other stakeholders | | | | | | | |
| 1.1 (b) | Support to PCCRP | 15-Jul-09 | 31-May-10 | 30-Jun-09 | COTR: 1-Jul-09 ORP: 15-Jul-09 | Grant: AIMPC STTA: 2 consultants | 12-Aug-09 11-Aug-09 29-Jul-09 | COTR: 31-Jul-09 ORP: 19-Aug-09 | 10-Sep-09 | 30-Jul-09 | COTR: 17-Aug-09 ORP: 18-Aug-09 | | |
| 1.2 | Mindanao transport competitiveness | 23-Jul-09 | 22-Feb-10 | 10-Jun-09 29-May-09 27-May-09 08-May-09 | COTR: 9-Jul-09 ORP: 23-Jul-09 | Grant: Philexport-10 STTA: 1 consultant | 18-Aug-09 7-Aug-09 30-Jul-09 | COTR: 30-Jul-09 ORP: 2-Sep-09 | 05-Oct-09 | 09-Oct-09 | 18-Nov-09 | | |
| 2.1 | Investment Climate Improvement Project-5 | 20-Jan-09 | 19-Nov-09 | 17-Dec-08 18-Dec-08 | COTR: 07-Jan-09 ORP: 20-Jan-09 | Grant: AmCham | 10-Nov-08 | COTR: 7-Jan-09 ORP: 20-Jan-09 | 21-Jan-09 | | | | |
| 2.1(b) | Investment Climate Improvement Project-6 | 01-Jan-10 | 31-Dec-10 | 25-Nov-09 05-Nov-09 | COTR: 8-Dec-09 ORP: 22-Dec-09 | Grant : AmCham | 25-Nov-09 05-Nov-09 | COTR: 8-Dec-09 ORP: 22-Dec-09 | | | | | |

| TECHNICAL ASSISTANCE PACKAGES (TAPS) | | PERIOD OF PERFORMANCE | | APPROVAL STATUS (dates include actual receipt of COTR/ORP approvals) | | IMPLEMENTATION MECHANISM(S) | IMPLEMENTATION MECHANISM APPROVAL STATUS (dates include actual receipt of COTR/ORP approvals) | | | | | | |
|--------------------------------------|--|-----------------------|-----------|---|--|---|--|---|---|------------------|---|--|--|
| No. | Short Title | Start Date | End Date | Submission dates | Approval Dates | (Grant, STTA, PO, etc.) | Grant | | STTA | | Purchase Order | | |
| | | | | | | | Submission dates | Approval dates | Date awarded | Submission dates | Approval dates | Submission dates | Approval dates |
| 2.2 | Barriers to Philippines FDI | 01-Apr-09 | 30-Sep-10 | 13-Jan-09 12-Jan-09 07-Jan-09 | COTR: 14-Jan-09 ORP: 4-Feb-09 | Grant: AYC Consultants Grant: AER | 23-Sep-09 (AER STTAs) 26-Aug-09 (AER resubmission) 10-Jun-09 | (AYC) COTR: 10-Jun-09 ORP: 30-Jul-09 (AER) ORP: 2-Sep-09 | (AYC) 4-Aug-09 (AER) 30-Oct-09 | | | | |
| 2.3 | Phividec | 15-Feb-09 | 30-Apr-10 | 22-Jan-09 17-Jan-09 | COTR: 23-Jan-09 ORP: 18-Aug-09 | STTA: 2 consultants PO: Vitale Valuations Services, Inc. | | | | 22-Jan-09 | COTR: 23-Jan-09 ORP: 06-Feb-09 | 17-Aug-09 (resubmission) 22-Jul-09 | COTR: 17-Aug-09 ORP: 18-Aug-09 |
| 2.4 | Global crisis impact | 12-Feb-09 | 31-Jul-09 | 10-Feb-09 06-Feb-09 20-Jan-09 13-Jan-09 | COTR: 11-Feb-09 ORP: 12-Feb-09 | PO: CRC Others: Meeting Venue for PCCI-UACT FGD | | | | | | 27-Jun-09 (extension) 18-Feb-09 | COTR: 29-Jun-09 (extension) 19-Feb-09 |
| 3.2 | Streamlining business permitting - CDO | 03-Dec-09 | 31-Dec-10 | 09-Nov-09 | COTR: 03-Dec-09 ORP: 03-Dec-09 (relegated to COTR) | STTA: TBD ODC: Workshops, Travels, etc. | | | | | | | |
| 4.1 | Completion of land title digitization - Cebu | 22-Jul-09 | 28-Feb-10 | 2-Jul-09 8-Jun-09 24-May-09 11-May-09 | COTR: 08-Jun-09 ORP: 22-Jul-09 | Grant: ACERD STTA: 3 consultants PO: TAF | | | | 1-Jul-09 | COTR: 1-Jul-09 ORP: 22-Jul-09 | | |
| 4.2 | Support for residential Free Patent Act | 20-Apr-09 | 31-Dec-09 | 18-Mar-09 | COTR: 24-Mar-09 ORP: 20-Apr-09 | Grant: LSIG STTA: 3 consultants | 27-Oct-09 (resent) 13-Oct-09 7-Aug-09 13-Jul-09 | COTR: 26-Oct-09 | | 18-Mar-09 | COTR: 24-Mar-09 ORP: 20-Apr-09 | | |

| TECHNICAL ASSISTANCE PACKAGES (TAPS) | | PERIOD OF PERFORMANCE | | APPROVAL STATUS (dates include actual receipt of COTR/ORP approvals) | | IMPLEMENTATION MECHANISM(S) (Grant, STTA, PO, etc.) | IMPLEMENTATION MECHANISM APPROVAL STATUS (dates include actual receipt of COTR/ORP approvals) | | | | | | |
|---|--------------------------------------|--------------------------------------|--------------------------------------|---|-----------------|--|--|----------------|--------------|------------------|----------------|------------------|----------------|
| | | | | | | | Grant | | STTA | | Purchase Order | | |
| No. | Short Title | Start Date | End Date | Submission dates | Approval Dates | | Submission dates | Approval dates | Date awarded | Submission dates | Approval dates | Submission dates | Approval dates |
| <i>Special Activities Fund (SAF)</i> | | | | | | | | | | | | | |
| SAF # 1 | Mindanao Field Office Launch | 20-Aug-09 | 20-Aug-09 | 18-Aug-09 | COTR: 19-Aug-09 | SAF | | | | | | | |
| SAF #2 | Support to National Tourism Dialogue | 26-Oct-09 | 27-Oct-09 | 23-Oct-09 | COTR: 26-Oct-09 | SAF | | | | | | | |
| SAF #3 | Support to Mindanao Power Summit | 2-Dec-09 (revised from 11-Nov-09) | 3-Dec-09 (revised from 12-Nov-09) | 28-Oct-09 | COTR: 4-Nov-09 | SAF | | | | | | | |
| SAF #4 | BPLS Training | 03-Dec-09 | 04-Dec-09 | 24-Nov-09 | COTR: 27-Nov-09 | SAF | | | | | | | |
| <p>Note: LINC-EG deferred formulation and/or implementation of TAPs 3.1, 3.3, 6.4, and 7.2 to Year II, as suggested by USAID. Early in November, TAP 5.2 approval request has been withdrawn and accepted by USAID. TAP 7.3 has been regarded as inactive, as requested to USAID.</p> | | | | | | | | | | | | | |

Annex 2. Design and Monitoring Framework (as of 31 December 2009)

| Technical Assistance Packages (TAPs) | Expected Outcomes - TAP Form (EO-T) | Expected Outcomes - Proposed (EO-P) | Intended Impact - TAP Form (II-T) | Intended Impact - Proposed (II-P) | Success Indicators (SC) | Cut-off Between Moderate & Highly Successful Impact | Data Source | F Indicators | Cut-off Between Moderate & Highly Successful Impact | USAID - FASP Equivalent |
|--|--|---|--|---|--|---|------------------------------|--------------|---|---|
| TAP 1.1 Expanding coverage of IFC Subnational Doing Business Survey | Enable the IFC to add five new cities to the SDB: Cagayan de Oro, Zamboanga City, General Santos, Iloilo, and Batangas. | Obtain new information on competitive standing of five new cities relative to other cities in the country and the world | Discernible improvement in subject component areas | Discernable improvement in program component areas for cities covered in the new survey | Higher rankings relative to RP cities in select component areas? | Five (5) component areas among 5 cities | IFC-AIM Policy Center | | | 4.6.1 Business Enabling Environment |
| TAP 1.1b Support to AIMPC's Philippine City Competitiveness Ranking Project 2009 | Enable the PCCR 2009 to adequately cover 11 port or port-accessible cities in Mindanao and Batangas City in Luzon. | Obtain enterprise level information about the costs and conditions of competitiveness that can form the basis of a dialogue with public and private sector counterparts on reform initiatives for 11 port or port accessible cities in Mindanao | Discernible improvement in competitiveness drivers | Discernable improvement in competitiveness drivers of port cities covered in the survey | No. of improved competitiveness drivers | Four or more out of the six competitiveness drivers | AIMPC | | | 4.6.1 Business Enabling Environment |
| TAP 1.2 Assessment of Transportation and Logistics Costs in Northern Mindanao conducted | Development of a robust inventory of shipping costs that form the basis of future targeted reform initiatives in the shipping and transport cost area. | Increased knowledge in identifying potential high-cost bottlenecks in supply chain from Northern Mindanao | Discernible reductions in shipping / logistics costs | Discernable reductions in shipping / logistics costs of specific itemized costs identified in study | Specific description still to be determined | 20% reduction in costs | To be identified in study | | | 4.6.1 Business Enabling Environment |
| TAP 2.1 Investment Climate Improvement Program | ? | Increased political and public interest in improving the investment climate | ? | Mustering sufficient political support for key policy reform | Higher no. of favorable media exposures? | 100 | American Chamber of Commerce | | | 4.2.2.1: Trade and Investment Promotion |

| Technical Assistance Packages (TAPs) | Expected Outcomes - TAP Form (EO-T) | Expected Outcomes - Proposed (EO-P) | Intended Impact - TAP Form (II-T) | Intended Impact - Proposed (II-P) | Success Indicators (SC) | Cut-off Between Moderate & Highly Successful Impact | Data Source | F Indicators | Cut-off Between Moderate & Highly Successful Impact | USAID - FASP Equivalent |
|---|---|---|--|---|---|---|------------------------------------|------------------------------------|---|--|
| <p>Phase V</p> <p style="text-align: center;">areas</p> <p style="text-align: right;">ce</p> <p>Favorable shift in official government policy in select reform areas</p> <p>Share of global foreign investment into RP</p> <p>1(?)</p> <p>?</p> <p>American Chamber of Commerce</p> <p>UNCTAD</p> | | | | | | | | | | |
| <p>TAP 2.2 Formulating Policy Reforms to Address Barriers to the Entry of Investments</p> | <p>Increased political and public interest in addressing barriers to foreign investment</p> <p>Legal, Policy and Regulatory Reforms enacted leading to increased FDI into the Philippines</p> | <p>Increased political and public interest in addressing barriers to foreign investment</p> | <p>Share of the Philippines to regional FDI going to ASEAN increased</p> | <p>Enactment of legal, policy and regulatory reforms in easing constitutional restrictions on new investments</p> | <p>Higher share of RP in FDIs for ASEAN</p> <p>No. of official requests for assistance from government agencies on implementation of recommendations in study</p> | <p>+ 5 percent</p> <p>?</p> | <p>UNCTAD</p> <p>PhilExport 10</p> | <p>To be determined by grantee</p> | | <p>4.2.2.1: Trade and Investment Promotion</p> |

| Technical Assistance Packages (TAPs) | Expected Outcomes - TAP Form (EO-T) | Expected Outcomes - Proposed (EO-P) | Intended Impact - TAP Form (II-T) | Intended Impact - Proposed (II-P) | Success Indicators (SC) | Cut-off Between Moderate & Highly Successful Impact | Data Source | F Indicators | Cut-off Between Moderate & Highly Successful Impact | USAID - FASP Equivalent |
|---|---|--|--|--|---|---|----------------------------|--|---|---|
| TAP 2.3 Enhancing the Capacity and Competitiveness of the Philippine Veterans Investment and Development Corporation (Phividec) Industrial Authority (PIA) to Administer and Attract Investments | PIA secures PEZA and LGU cooperation and agreement, | Establishment of PIA as the unified administrator of the facility and incentives for Hanjin or any other future locator at the Industrial Estate in Misamis Oriental | Entry of new investments into the PIA Industrial Estate | Raise attractiveness of PIA as a special economic zone for incoming foreign investments | Significant increase in foreign investments into PIA Industrial Estate | US\$ 1 billion | PIA thru Avalin Cahulogan; | list of mfg + service firms; end of year; registered = submitted reg agreement + business plan; not yet lease contract; do not keep track of actual; end of calendar year (e.g. Jan 15); aacahulugan@yahoo.com; aacahulugan@phividecauthority.com.ph | | 4.2.2.1: Trade and Investment Promotion |
| TAP 2.4 Assessing the Impact of the Global Financial Crisis on the Philippines | Raise broad understanding on the impact of the financial crisis | Identification of critical risk areas in select sectors vulnerable to the Global Financial Crisis | Greater support for reforms to improve competitiveness leads to more successful implementation and a more robust recovery. | Formal adoption and implementation of select policy recommendations by major stakeholders of studied sectors | No. of official requests for assistance from government agencies on implementation of recommendations in study Positive incremental effect on sectoral economic growth | ? ? | CRC NSCB | | | ? |

| Technical Assistance Packages (TAPs) | Expected Outcomes - TAP Form (EO-T) | Expected Outcomes - Proposed (EO-P) | Intended Impact - TAP Form (II-T) | Intended Impact - Proposed (II-P) | Success Indicators (SC) | Cut-off Between Moderate & Highly Successful Impact | Data Source | F Indicators | Cut-off Between Moderate & Highly Successful Impact | USAID - FASP Equivalent |
|--|--|---|---|---|--|---|--|--------------|---|---|
| TAP 3.2 Streamlining Business Entry Permitting in Cagayan de Oro City | Carry out the reform beyond design stage to improve processes | Reduction in time and cost of registering businesses (data from IFC SDB 2010) | Increases of 10% and 5% in nos. of total registered business enterprises and business registration fees collected one or more years after TAP completion | Improved compliance among businessmen in formalizing businesses | No. of registered enterprises <hr/> Revenue from business registration fees | 20% or more 10% or more | SEC, DTI, City Hall City Hall | | | 4.7.2.1 Reduce Barriers to Registering Micro and Small Enterprises |
| TAP 4.1 Developing a digital Land Title Query System in Cebu City | Official acceptance from government stakeholders (city government, registrar of deeds, BSP) on the adoption and continued future use of the system | Develop a desktop-based land title query system in Cebu that links authentic digital image of property titles, parcel maps and records of LGU real property tax payments to strengthen property rights and promote increased real estate-based lending. | Faster verification of land properties in Cebu City used as collateral for proposed loans thereby lowering the cost of access to financing for investments in terms of the length of time required to verify the title and risk | Same | No. of banks using the system No. of days for verification No. of banks offering risk discounts No. of verifications using the system as % of total verifications No. of loan applications processed | 10% or more Significant reduction (?) one or more 10% or more Increased (?) | Registry of Deed Registry of Deed BAP / BSP(?) Registry of Deed BAP / BSP(?) | | | 4.6.1.1: Property Rights |

| Technical Assistance Packages (TAPs) | Expected Outcomes - TAP Form (EO-T) | Expected Outcomes - Proposed (EO-P) | Intended Impact - TAP Form (II-T) | Intended Impact - Proposed (II-P) | Success Indicators (SC) | Cut-off Between Moderate & Highly Successful Impact | Data Source | F Indicators | Cut-off Between Moderate & Highly Successful Impact | USAID - FASP Equivalent |
|--|---|---|---|--|---|--|---|---|---|---|
| TAP 4.2 Supporting the enactment of Residential Free Patent Act | The Free Patent Act is passed into law | Passage into law and supplemented with issuance of implementing rules and regulations on administrative mode of titling lands | Improved land market through increased number of titled lands in the formal market. | Improved land market thru Establishment of Digital Land Registry | No. of residential lands titled in formal market | +4.9% increase in 2 years following establishment of Digital Land Registry | Administrative office still to be determined in IRR (Land Mngt Buruea of DENR); Binondo | No. of legal, regulatory, or institutional actions taken to improve implementation or compliance with international trade and investment agreements due to support from USG assisted organizations. | | 4.6.1.1: Property Rights |
| TAP 5.1 Diagnostic on Tax Administration Reform | Recommendations from the final report observed or demonstrably shown as being pursued or adopted by the Mindanao Revenue Regions. | Identification of select tax measures raising operational efficiency of administration systems in Mindanao Revenue Regions (MRRs) | Increased share of the MRRs to total collection | Raise tax collection efficiency | No. of official requests for assistance from government agencies on implementation of recommendations in study No. of implemented TAPs Greater regional tax effort Increased share of MRR to total BIR collections | 70% of recommendations | Mindanao Revenue Regions and Operations Group of the BIR LINC-EG BIR BIR | | | 4.1.1.1: Revenue Structure and Administration |

| Technical Assistance Packages (TAPs) | Expected Outcomes - TAP Form (EO-T) | Expected Outcomes - Proposed (EO-P) | Intended Impact - TAP Form (II-T) | Intended Impact - Proposed (II-P) | Success Indicators (SC) | Cut-off Between Moderate & Highly Successful Impact | Data Source | F Indicators | Cut-off Between Moderate & Highly Successful Impact | USAID - FASP Equivalent |
|--|--|---|---|--------------------------------------|---|---|--|---|---|--|
| TAP 5.2. Enhancing the Electronic Lump-Sum Appropriation Management Program (e-LAMP) System of the DBM | Successful launch and roll out the enhanced e-LAMP system to the local DBM offices, which covers the four additional modules | Successful expansion of e-LAMP to regional DBM offices with new program enhancements including 4 additional modules | Discernable improvement in the transparency of budget allocations | Same | Open Budget Index | +10% increase in overall country score | World Bank | | | 4.1.1.2: Expenditure Structure and Management |
| TAP 6.1. Assisting the Philippines accede to the Revised Kyoto Convention (RKC) | Philippines accedes to the Revised Kyoto Convention | Passage into law and supplemented with issuance of implementing rules and regulations that are aligned with RKC global best practices on customs administration | Significant reduction in trade transaction costs | Same | Reduce cost to import across borders Higher country ranking in ASEAN | -19% one notch higher in country ranking | IFC Cost of Doing Business IFC Cost of Doing Business | no. of customs procedures passed in line with international standards and best practices no. of participants in trade and investment trainings | 20 Senate staff trained | 4.1.1.1: Revenue Structure and Administration + 4.2.1.3: Trade Facilitation + 4.2.1.4: Support for International Standards |
| TAP 6.2 A diagnostic assessment to determine key issues and priorities for customs administration in Mindanao | To better understand the potentials and weaknesses of collection districts in Mindanao and to identify actionable measures to improve customs administrations and operations | Identification of select measures to improve customs collection efficiency | Improvement in performance measures of BOC collection districts | Raise Customs collections efficiency | No. of official requests for assistance from government agencies on implementation of recommendations in study No. of implemented TAPs | | BOC BOC | | | 4.1.1.1: Revenue Structure and Administration |

| Technical Assistance Packages (TAPs) | Expected Outcomes - TAP Form (EO-T) | Expected Outcomes - Proposed (EO-P) | Intended Impact - TAP Form (II-T) | Intended Impact - Proposed (II-P) | Success Indicators (SC) | Cut-off Between Moderate & Highly Successful Impact | Data Source | F Indicators | Cut-off Between Moderate & Highly Successful Impact | USAID - FASP Equivalent | |
|--|--|--|---|---|---|---|---|-------------------------------------|---|---|--|
| | | | | | Higher share of respective CDs to total BOC collections | | BOC | | | | |
| TAP 6.3 Working with the Private Sector to Reduce Smuggling | Development of cases on fuel smuggling and subsequent filing in court | Same | Higher revenues on imported oil with reduction in oil smuggling | Same | No. of oil smuggling cases filed in court Increase in share of oil and fuel taxes and duties to total BOC collections Lower estimates on oil smuggling | 2 or more "significantly" "strongly" | PIP, BOC, PASG PIP, BOC PIP, PASG | No. of government personnel trained | 10 PASG + 23 BOC-IEG + 5 DOJ trained | 4.1.1.1: Revenue Structure and Administration | |
| TAP 7.1. Infrastructure Diagnostics and Strategy | Identify acceptable strategies and priorities on infrastructure development in time for the Philippine Development Forum | Successful adoption of strategic approaches to address constraints to infrastructure development | Policy agenda of the 12 component areas is influenced | Significant improvement in infrastructure policies and implementation | No. of policy agendas influenced No. of official requests for assistance from government agencies on implementation of recommendations in study No. of implemented TAPs | 6 out of 12 policy areas | TAF LINC-EG | | | | 4.4.3.2: Legal and Regulatory Restructuring and Governance in transport services |

Annex 3. Logical Framework for TAP 2.1 Grant to AmCham - Investment Climate Improvement Project - Phase 6 (as of 31 December 2009)

| Design Summary | Performance Indicators / Target ⁷ | Data Sources / Reporting Mechanisms | Assumptions |
|---|---|-------------------------------------|---|
| <p>INTENDED IMPACT: Attractiveness of the country as an investment site improved</p> | <p>Increase in share of FDI for ASEAN from 3% in 2008 by 2012 HS: 5% MS: maintain 3% share</p> | <p>UNCTAD, BSP</p> | <ul style="list-style-type: none"> ▪ Successful elections in May 2010 with minimal disruption to business environment ▪ Stabilization of tensions in international financial system ▪ The target is set for 2012 which is at the end of the LINC-EG project. |
| | <p>Higher Net FDI (US\$) from \$1.5B in 2008 by 2012 HS: \$3.0B MS: \$2.0B</p> | <p>BSP</p> | |
| | <p>Raise membership of AmCham as proxy for no. of investors interested in RP by 2012 from existing 595 as of Nov 2009 HS: 700 MS: 600</p> | <p>AmCham</p> | |

⁷ (HS) Highly Successful, (MS) Moderately Successful, The Not Successful scenario is the non-attainment of the HS and MS targets.

| Design Summary | Performance Indicators / Target ⁷ | Data Sources / Reporting Mechanisms | Assumptions |
|---|--|--|--|
| <p>EXPECTED OUTCOME: Policy issues raised are utilized by policymakers in formulating sound policies to improve local and national competitiveness</p> | <p>Number of Policy Issues with favorable response through legislation out of 14 priority IRRs and bills⁸ HS: 16 stages which is a third of 49 for 2008 MS: 12 stages which is a quarter of 49 for 2008</p> | <p>AmCham Legislative Tracker (separate sheet)</p> | <ul style="list-style-type: none"> Targets are subject to change until the policy priorities are identified and set by the new leadership elected in May 2010 |
| | <p>Number of Policy Issues with favorable response involving legislation and/or executive / administrative orders apart from 14 priority IRRs and bills HS: 2 or more MS: 1</p> | <p>AmCham Legislative Tracker (separate sheet)</p> | <ul style="list-style-type: none"> Targets are conservative due to arbitrary nature of event. |
| | <p>Number of Policy Initiatives not favorable to business that are prevented apart from 14 priority IRRs and bills HS: 2 or more MS: 1</p> | <p>AmCham Legislative Tracker (separate sheet)</p> | <ul style="list-style-type: none"> Targets are conservative due to arbitrary nature of event. |

⁸ The **14 priority legislative issues** consists of **9 Pending bills** (Customs Brokers Act Amendment, new Department of Information Communications Technology, Freedom of Access to Administration, National Tourism Policy, Pre-Need Code, Rationalization of Fiscal Incentives, Real Estate Investment Trust, Residential Free Patent, Revised Kyoto Convention ratification) + **issuance of 3 IRRs** (Credit Information Systems, Personal Equity Retirement Account, Renewable Energy Act) + **1 special concern on the Foreign Investment Negative List** (for liberalization of legal restrictions on foreign equity and foreign professions). Advancement is measured in counting the number of steps in progression of the bill through the **15 stages of the legislative process**: 10 (crafting of bill, sponsorship and 1st to 3rd readings in both houses of Congress) + 1 (passing thru Bicameral Committee) + 1 (enactment into law) + 3 (consultation, drafting and finalization of IRRs). The Amcham Legislative Tracker lists the progression of the listed priority bills to 49 and 36 stages for 2008 and 2009 respectively so far as of 27 October 2009. These stages exclude the stages for crafting of bills whose completion dates are not listed in the Legislative Tracker. Note that the legislative window is limited to only 3-4 months following the May elections and the SONA in July when the major policy initiatives of the new administration is traditionally made known until the end of Phase VI in November 2010. Historically, few bills if any pass in the initial months of a new Congress.

| Design Summary | Performance Indicators / Target ⁷ | Data Sources / Reporting Mechanisms | Assumptions |
|---|---|-------------------------------------|---|
| OUTPUT SUMMARY 1: Critical Areas for Improvement Raised to Relevant Government Champion and Agency | Number / Significance of Policy Issues Raised to Government out of 10 reform areas ⁹ HS: All 10 reform areas MS: 6 reform areas | AmCham Noteworthy Documents | <ul style="list-style-type: none"> ▪ Subject to the availability of new government leaders in Congress and the government following elections |
| OUTPUT SUMMARY 2: Position on Selected Policy Issues Updated | Number / Significance of Policy Issues Updated out of 10 reform areas HS: All 10 reform areas MS: 6 reform areas | AmCham Noteworthy Documents | <ul style="list-style-type: none"> ▪ Subject to the consistency of the identified reform areas to the priorities of the newly-elected government |
| OUTPUT SUMMARY 3 Major Stakeholders updated on Critical Issues regarding Economic Reform | Number of new requests for inclusion in the distribution list of ICIP Newsclips: Economic Reform News by Nov 2010 from the existing base of 217 (as of July 2009) HS: +40 subscribers MS: +20 subscribers | AmCham Monthly Report | |
| OUTPUTS: 1. Noteworthy Documents on Current Issues 2. Roadmap to More Foreign Investment <ul style="list-style-type: none"> ▪ Draft ▪ Briefing ▪ Co-sponsorship ▪ Distribution ▪ Press Conference | <ul style="list-style-type: none"> ➤ 1 per quarter for a minimum of 4 for year¹⁰ ➤ Submission of completion report including information below: ➤ Submission <ul style="list-style-type: none"> ➤ No. and Significance of Co-sponsor(s) ➤ No. and Significance of Attendance ➤ No. /Extent of News and press coverage | | |

⁹ **10 Reform areas** include **4 reform clusters** on bureaucracy / corruption, infrastructure, judicial / regulatory / enforcement, legislature and **6 big sector winners** in agribusiness, creative industries, information technology / BPO, manufacturing / logistics, mining and tourism / medical / retirement. The Infrastructure sector was excluded being counted as a reform cluster.

¹⁰ Noteworthy documents need to be labeled as part of pre-defined outputs cited below or belonging to special concerns that are not identified under outputs.

| Design Summary | Performance Indicators / Target ⁷ | Data Sources / Reporting Mechanisms | Assumptions |
|---|---|-------------------------------------|-------------|
| <ul style="list-style-type: none"> ▪ Meeting with officials of new govt ▪ Briefings in Cebu and Mindanao <p>3. JFC Committee Meetings on Infrastructure</p> <p>4. AmCham Energy Committee meetings</p> <p>5. JFC Energy Sector Workshop</p> <p>6. Legislative Priorities for 15th Congress</p> <p>7. Foreign Investment Negative List</p> <ul style="list-style-type: none"> ▪ Propose language revisions to 7th FINL ▪ Develop amendments to laws ▪ Introduce amendments in 15th Congress ▪ Assist in removal of restrictions on foreign equity / ownership <p>8. Coordination with AmDesk BOI, JFC, NCC, PDF, DOF-led PORTAL, ARTTF, GRP agencies, PBGs, donors and international business groups</p> <p>9. Materials developed on other special concerns not elsewhere classified</p> | <ul style="list-style-type: none"> ➤ No. of major / senior officials met ➤ Same as above <p>➤ 1 summary report per quarter for a minimum of 4 for year</p> <p>➤ 1 summary report per quarter for a minimum of 4 for year</p> <p>➤ Submission of completion report including supplementary information as above if applicable</p> <p>➤ Submission of letters on priority list and summary report of meetings with Congress / Government on competitiveness agenda</p> <p>➤ Submission of Letter / Holding of Meeting</p> <p>➤ Submission of proposed amendments</p> <p>➤ Filing of bills if possible</p> <p>➤ Enactment of amendments and issuance of regulations if possible</p> <p>➤ Work calendars of ICIP Senior Advisor and AmCham Executive Director may be audited by LINC-EG</p> <p>➤ Regular submission as part of Noteworthy Documents</p> | | |

| Design Summary | Performance Indicators / Target ⁷ | Data Sources / Reporting Mechanisms | Assumptions |
|---|--|-------------------------------------|-------------|
| 10. ICIP Economic Reform News Clips/ Investment Climate Monitoring | <ul style="list-style-type: none"> ➤ Average of one News Clip edition per week ➤ Monthly submission of News Clips closely related to ICIP advocacy priorities (especially milestones) including those mentioning JFCs¹¹ | | |

¹¹ News clips are to be grouped into (1) milestone events of government on policy issues relevant to ICIP; (2) those mentioning the ICIP, Amcham and/or the JFC; and (3) otherwise.

Annex 4. Summary Note: Focus Group Discussion on Mining

21 December 2009

To : Daniel Fitzpatrick, Chief of Party

From : Leandro Tan, M&E Specialist

Subject: Summary Notes for Focus Group Discussion on Mining, 12 noon to 2:30 pm 20 November 2009 at the Russia Room, Ascott Makati,

This forum on possible reforms in the mining sector forms part of a series of focus group discussions on select industry sectors identified by the Joint Foreign Chambers as “big winners” with the highest potential of raising much-needed foreign investment into the country. Mining is also one of the sectors covered in the study of the Center for Research and Communication on The Global Recession and the Philippine Economy: Impact and Policy Responses.

1. The discussion started with the stated objective of addressing the underdeveloped state of the Philippine mining industry to unlock its economic potential as a leading sector for raising growth, exports and employment. The country ranks in the top 6 in the world for gold, nickel, copper and chromite with mineral reserves valued at \$840b. However, industry output has fallen on hard times with the closure of numerous mines in the 1980s and 1990s due to constitutional issues hounding mining laws that was resolved by the Supreme Court in 2005.¹² The present state of the sector is a far cry from its heyday in the 1980s when it was a major contributor to employment and exports.¹³ Recent major policy shifts promoting mining development has led to renewed investor interest generating over \$2b in investments since 2004. But operational issues do exist which may hinder further expansion plans up to 2013 reportedly worth over \$12b.
2. The high potential of the sector has been recognized by government which has responded with the vigorous promotion of the mining industry. The Mining Act of 1995 and its implementing rules and regulations are considered as a world-class model framework by the World Bank for social and environmental initiatives in sustainable development.¹⁴ The law as upheld by the Supreme Court in 2005 allows for 100% participation of foreign-owned companies in financial or technical assistance agreements and in exploration and mineral processing permits. The establishment of the National Mining Policy in early 2003 identified sector barriers related to rising production costs, higher taxes, lack of long-term financing, and complex procedures on the issuance of mining contracts and environmental permits. An action plan to address these issues in line with investment promotion and

¹² Its share to GDP has dropped from 2.1% in 1980s to 0.9% in 2004 before recovering to 1.4% in 2007.

¹³ Its share to exports has fallen from 25% in 1980s to 5.2% in 2008. The employment generated has stagnated from around 168,000 in the 1980s (or 0.8% of labor force) to 158,000 in 2008 (or 0.4% of labor force).

¹⁴ Chamber of Mines study shows that Mining Act has more environmental and social obligations provisions than laws in the UK, US, Australia and Canada.

environmental concerns was formulated under the National Policy Agenda on Revitalized Mining (under EO 270) in late 2003. The Minerals Development Council (MDC) was established in October 2005 under EO 469 involving 13 national government agencies (including the Dept of National Defence) to provide a coordinating mechanism to harmonize existing policies, facilitate investments, to act as a “one-stop-shop” in providing oversight to mineral action plan implementation, and address issues and concerns of mining industry.

The MDC is under former DFA Secretary and Ambassador to Australia Delia Domingo Albert whom the President appointed as her special envoy to assist the government in revitalizing and promoting the mining industry. The latter as panelist in the FGD stated that the review of the Mineral Action Plan revealed the disjointed structure between industry agencies, LGUs and players; thereby necessitating the harmonization of industry players under the MDC which currently is in need of success stories for dissemination to the mining community (local and international including the local Catholic Church which has questioned mining activities on the ground of indigenous people exploitation and environmental issues).

3. Notwithstanding the positive regulatory stance of the national government towards the mining industry, the sector still faces numerous challenges mostly related to the legal implementation of the mining law in relation to other laws relating to LGUs, indigenous peoples and environmental concerns. The panelist on mining laws, Atty. Roderick Salazar (Managing Director of Fortun, Narvasa and Salazar law firm) laid out the present concerns in relation to regulations and policy. (Details are provided in the Summary Table below).¹⁵ The audience which mostly consisted of industry firms-players was vocal on improving the compliance of LGUs with the mining law and regulations of MGB. Specifically, their main grievance was the issuances of local ordinances declaring moratoriums which are not allowed under the mining law. Their common suggestion was for the national government to file cases against erring local government officials. One even proposed a class-action suit given present aversion of existing players to file official complaints on future business grounds.

The panelist on indigenous peoples (IP) Mr. John Doughty (President of Comval Tribal Resources) gave a 12-minute speech that aired his firm’s experience in managing IP-related issues. The most common issues involved the interpretation of legal terms on defining IPs and their “informed consent” and relocation, and on sorting out petitions of different tribes, dummy applicants and even illegal loggers over the same land. One actual plan involving 4 tribes comprised 255 pages and took over a year to complete.

¹⁵ The Summary Table attempts to synthesize the identified problems and proposed solutions of the private sector with the present initiatives of the government as represented by the Mining and Geosciences Bureau of the Department of Environment and Natural Resources. The actual discussions involved sequential presentations of the private sector on mining laws, indigenous peoples and banking requirements followed by the MDC and MGB which did not follow a common theme. A matrix of common issues presumably prepared by the CRC authors was not effectively utilized for guiding the discussions.

The panelist on financing mining projects, Mr. Filomino Yaptinchay (Director, Origination & Client Coverage of Standard Chartered Bank) cited the inexperience of claimants and bank officials in providing bank financing to local mining activities which tends to be smaller scale than typical mining concerns in Australia and Indonesia for example. Local claimants in general lack the knowledge on the opportunities as well as the documentary requirements in relation to bank financing. Another major concern of banks is the impact measurement of mining on the social environment in local communities which poses as big reputational risk for the banks' public image - which unlike other risks cannot be financially mitigated. His proposed solutions involve an improvement in government enforcement of laws,¹⁶ the sharing of information, vocalization of community views even if contrary to NGO and Church views and the presentation of a balanced picture.

4. Potential TAPs?

- a. Establishment of communication protocol between national agencies, mining firms and local stakeholders. This solution was proposed by consultants Winston Conrad B. Padojinog and Coleen G. Hubo who wrote the chapter on metallic mining in the CRC study on the Impact of the Global Financial Crisis in a private discussion with the author after the FGD. As cited from that study, this approach seeks to formulate a locally-oriented, responsive and representative minerals protocol which can provide mechanisms for representation, dialogue, consultation, education, monitoring, conflict resolution and capacity building among key representatives of communities. It is less confrontational and thus more likely to yield positive results than the present call of mining firms for DOJ prosecutions to ensure LGU compliance with the mining law regulations.¹⁷ It is consistent with the present strategy of the MDC to harmonize industry players.¹⁸
- b. Creation of information materials on bank financing for mining players and bank officials. This project may involve the development of reference manuals (for bank officials) and brochures (for mining players) documenting the opportunities and technical requirements (e.g. feasibility studies, drilling reports, etc.) in obtaining bank loans for mining ventures. Note however that this project or a similar study for a filtering mechanism for bank officials was not fully endorsed by the banker panelist Filomino Yaptinchay citing that his bank (Standard Chartered) already possessed this tool (although he was silent on the case with other banks).
- c. Other concrete projects proposed by the private sector that do not involve constitutional reform include (1) mining permits facilitation; and (2) regional one-stop-shops. Note however that the positive results from these procedural fixes in the form of successful mining ventures are still contingent on the susceptibility of LGUs (especially in the poor areas) to undertake informal deals to improve their economic standing. For LINC-EG, entering this highly politicized field may also entail dealing with feuding local political

¹⁶ A recent survey showed that 70% of respondents identified enforcement rather than policy as a major factor in raising mining investments.

¹⁷ See first paragraph in no. 3

¹⁸ See second paragraph in no. 2

families as well as the anti-mining lobby of the Church and environmental NGOs. In any case, these or any other initiatives involving LGUs can be follow-on activities of (a).

SUMMARY TABLE OF ISSUES IN THE METALLIC MINING INDUSTRY

| Legal Issues / Challenges | Explanation | Proposed Solutions | MGB Reforms and Plans |
|---|--|--|---|
| Lengthy Approval process for exploration permits | Present regulations calls for central MGB office to review all applications made at regional offices which takes too long for mere permits especially with overlapping claims that are under arbitration in courts | Further streamlining of approval process - decentralize to regional level for exploration permits and with clear and close coordination amongst agencies | <ul style="list-style-type: none"> ➤ Issuance of Area Status and Clearance for Mining Applications shall now be handled by MGB Regional Offices ➤ Further reductions in processing times from a maximum of 80 days to 42 days for issuance of EP and from 35 days to 16 days for renewals |
| Conflicting claims | | One-stop shop for processing of applications at regional level | Cleansing of Non-Active Mining Application thru strict implementation of the three (3) letters Notice policy in exacting compliance of mining applicants with all documentary requirements. |
| Disconnect between the Mining Act and the Indigenous Peoples Rights Act of 1997 | Difficulty in defining and proving "free and prior informed consent" | Strict enforcement of mining and environmental laws | |
| Disconnect between Mining Act and Local Government Code | Despite clarificatory letters from the Dept of Justice and MDC stressing the supercedence of the Mining Act over local ordinances, LGUs still declare moratoriums on exploration permits while also allowing the sprouting of small scale mining permits without | | Implementation of joint circular on release of mining taxes to LGUs |
| Moratorium | | | |
| Small-Scale Mining | | | |

| Legal Issues / Challenges | Explanation | Proposed Solutions | MGB Reforms and Plans |
|---|---|--|---|
| | coordination with MGB. There is also issue on the LGU share to mining fees and revenues (i.e. 40% excise tax). | | |
| Taxes on Real Property | | | |
| Auxiliary Rights - Timber, Water, Surface | | Constitutional change on 60-40 nationality provisions in respect of land ownership, water rights, forest rights and mining rights. | |
| Rule of Procedure for Environmental Cases | The present procedure allows complainants to execute a Writ of Nature which effectively acts as a cease and desist order on mining activities. It also gives the courts a wide latitude of discretion in recognizing litigants who don't issue bonds and in deciding over technical issues. | Active monitoring by ANZCHAM, Chamber of Mines, PMEA, et al. of developments in legislature and judiciary on Alternative Mining Bill and Rules of Procedure on | Reduction in the Processing Time of Environmental Compliance Certificates and Certificate of Non-Coverage |
| Alternative Mining Bill | The bill (Phil Mining Resources Decree / Act of 2009?) which is now in the House calls for the cancellation of all permits, recognizes all ancestral lands to indigenous peoples, transfers the MGB from DENR to the Dept of Sci and Tech, and creates a Mineral Resources Development Council which allows members who have no technical scientific background. Chamber of Mines already sent position letter opposing the bill. | Environmental Cases | |
| Next President / Next DENR Secretary | Question on the policy environment of government after elections | | |

Annex 5. Summary Note: Focus Group Discussion on Agribusiness

21 December 2009

To : Daniel Fitzpatrick, Chief of Party

From : Leandro Tan, M&E Specialist

Subject: Summary Notes on Focus Group Discussion on Agribusiness, 3 December 2009 at the American Chamber of Commerce offices

1. This forum on possible reforms in the agribusiness sector is part of a series of focus group discussions on select industry sectors identified by the Joint Foreign Chambers as “big winners” with the highest potential of raising much-needed foreign investment into the country. Agribusiness is also one of the sectors covered in the study of the Center for Research and Communication on The Global Recession and the Philippine Economy: Impact and Policy Responses. The moderator was Cargill Philippines Country Representative Philip G. Soliven.
2. The agenda centered on improving the competitiveness of the local agricultural sector to compete with other ASEAN nations upon the implementation of the zero-tariff scheme starting in 2010 under the ASEAN Free Trade Area - Common Effective Preferential Treatment (AFTA-CEPT). The common observation is that local farmers still cannot go head-to-head with their ASEAN counterparts despite the long interim period provided in the trade agreements signed in 1992. Among the sub-sectors expected to be hit are rice and sugar which currently enjoy tariffs of 40% and 38% respectively. A case in point is the poultry industry which will face stiff competition from Thailand where their dressed chicken is priced 20% cheaper. This issue is the major challenge for agriculture which still comprises 18% of GDP and 35% of the labor force but only accounts for 6.3% of total country exports.
3. With less than a month until the onset of the zero-tariff regime, the prescribed theme for discussion is no longer on structural reform and institutional preparations but on immediate coping mechanisms to level the playing field. The consolidation strategy in extending backward and forward integration along the value chain for higher economies of scale is expected to continue among sector players. The initial hesitation due to land reform issues have hindered modernization efforts sufficiently so that the current state is reportedly 30 years behind the fully-integrated agricultural setup linking growers to processors in Vietnam according to International Rural Development consultant Mariano Cordero. But farm integration is still the way to go as shown with the success of San Miguel Corporation in providing a guaranteed market and floor price for small farmers to plant cassava in 30,000 hectares in Mindanao essentially for export. Another model is that used in Unifruti Phils according to its president Uroj Malik where farmers also function as forest rangers in

exchange for free seedlings, training and conditional cash transfers provided by the firm. New technology related to organic farming may also allow the survival of small farmers although multinational support may still be necessary to crack world markets. While the issue of high shipping costs (where the cost of importation from Mindanao to Manila is about twice that of from Taiwan) was introduced, no further discussion was held on measures to reduce costs on labor and inputs which could reportedly be 3x and 2x higher (e.g. insecticides).

4. One fundamental long-term issue is the state of neglect in agriculture which reflects the lack of public interest based on its public image as a low growth non-dynamic sector. The symptoms are all too clear on the low extent of government support for agriculture: the Dept of Agriculture assigns only 0.4% of its total budget to R&D; no major irrigation works have been undertaken since the 1990s; and there are only 3 seedling firms in the entire country. This is in sharp contrast with the policy environment in other ASEAN nations where agricultural development is imbued with a deep sense of social responsibility in uplifting families from poverty. As such Indonesian farmers unlike local farmers have a say in their pricing boards. This image problem not only exists in big food manufacturers which have diverted capital to investments in IT and telecommunications but more importantly in the small farm communities as well. As noted by PHILFOODEX representative Nina Belleza, fewer sons and daughters now want to continue the family livelihood as farmers opting instead to be part of the service sector as professionals in ITC or health care. This negative trend is evident during these policy forums on agriculture where the same old faces remain without their family heirs in tow as noted by former Agriculture Secretary Senen Bacani (now La Frutera president). It is the steady erosion of this human capital which threatens the long-term future of Philippine agriculture.
5. The negative image problem also hinders the attractiveness of Mindanao as an investment site. The island with its large size, rich soil, and abundant resources has the potential of feeding the entire country and is relatively typhoon-free. Yet few local firms have taken the opportunity to develop multi-industry clusters of banana, coffee and palm oil plantations in the area. This may change with the signing of the MOA last May by PGMA in South Korea on developing a merchandise industry cluster area in Mindanao encompassing some 100,000 hectares. The Korean embassy representative said that KOICA will start training on seed planting from its vocational training center in Davao established with TESDA, followed by organizing trade investment forums in South Korea for the site.
6. Specific recommendations: (a) Revamp of agri-school curriculums to promote business side of agriculture for prospective entrepreneurs; (b) Publicize success stories on successful agri-business ventures in Mindanao (with Corporate Social Responsibility theme) and profitable farmer families utilizing dual training centers and family farm schools

7. Fiscal constraints limit the significance of government intervention in agriculture necessitating the shift to private sector-led programs. This is the viewpoint of private sector representative from the Regional Development Council (RDC) of Davao, Mr. Louie Rabat who identified the lack of coordination between regional and municipal levels of government on promoting agri-business as a major stumbling block for sustained development. His advice is to limit the role of government to road development and maybe on policy related to food security. His experience using the Philippine Coffee Board model shows the feasibility of shifting from rice to higher value crops such as coffee or banana which is 6x more profitable in addition to livestock raising. The key is in development of small and medium scale farmers (10-30 hectares) into middle class entrepreneurs with coordination with the RDCs on technical assistance and zoning regulations. This opinion was shared with the Korean embassy representative who stated that private business and not government was the key for the successful land reform program in their country. He added that government corruption will only disappear when the country reaches middle-income status (about \$5000 GNI per capita which is 2.5x present level). The Dept of Trade and Industry representative Marriz Agbon did cite the idea of putting up one-stop-shop agri-business centers to handle LGU-level issues and regulatory transactions.
8. The need for an agricultural-investment fund was raised even as the observations on capital constraints were mixed. Earlier, it was mentioned that capital was not a problem given the availability of funds from government development banks (Land Bank and DBP) and the healthy balance sheets of food manufacturing firms -- only that the capital is being diverted to industries not related to agriculture as stated above. However, former Agriculture Secretary Senen Bacani stressed on the need for an agricultural investment fund of say \$1 billion as a financial intermediary to gain access to large scale funding from international banks for larger scale projects. Mr. Rabat did mention the failure of local financing for farmers due to low zonal land valuations.
9. Present laws and regulations concerning the land reform and zoning restrictions still hamper business operations. Jose Maria Zabaleta of San Carlos Bioenergy cited cases where land owners had trouble in convincing local communities of their compliance with the land reform law and were also prevented from replacing their production of coconut with higher valued orchids. These problem areas may be suitable for possible technical assistance on policy reform.
10. Other issues relating to social security and environment concerns were raised but not discussed further. Responsibility for the social security of farmers after land reform was relegated to newly formed cooperatives granted with tax incentives which unfortunately floundered on account of poor management by relatively untrained farmer-managers. The effect of climate change on food production was cited as the factor justifying a \$2.5 million grant from JICA for a replanting project which can be used a carbon credits during global environment talks.

In summary, the focus group limited its key recommendations to the following:

- a. Forming technical working groups with representatives from the government, foreign embassies, the Joint foreign Chambers and the private sector on the development and dissemination of success stories (e.g. joint ventures, farm schools)
- b. Establish system of certification for land reform compliance
- c. Construction of food terminals in CDO and Davao
- d. Set up an Agri-Investment fund

The initiatives dealing with policy reform and NOT land-resource extraction activities which LINC-EG may consider are in italics.

Annex 6. LINC-EG Expenditure Pipeline (as of December 31, 2009)

| Cost Element | Contract Budget | Actual | | | | Projected | | |
|--|---------------------|---------------------|------------------|------------------|-------------------|-------------------|---------------------|--------------|
| | | Reporting Period | | | | | December 31, 2009 | |
| | | Oct to Sep 2009 | October 2009 | November 2009 | December 2009 | Jan to Mar 10 | Cumulative | % used |
| 1 Labor | 5,180,994.14 | 1,067,265.39 | 91,644.94 | 68,998.08 | 155,583.03 | 325,470.98 | 1,383,491.44 | 26.7% |
| General Project Technical Labor | 4,532,212.59 | 1,067,265.39 | 91,644.94 | 68,998.08 | 155,583.03 | 325,470.98 | 1,383,491.44 | 30.5% |
| Expat Labor | 736,332.97 | 353,504.52 | 27,058.98 | 22,839.19 | 119,815.11 | 170,000.00 | 523,217.80 | 71.1% |
| CCN Labor | 3,795,879.62 | 713,760.87 | 64,585.96 | 46,158.89 | 35,767.92 | 155,470.98 | 860,273.64 | 22.7% |
| SAF Funded labor | 648,781.55 | - | - | - | - | - | - | 0.0% |
| Expat Labor | 248,033.03 | - | - | - | - | - | - | 0.0% |
| CCN Labor | 400,748.52 | - | - | - | - | - | - | 0.0% |
| 2 Travel, Transportation and Per Diem | 655,858.93 | 77,596.53 | 6,299.93 | 1,396.56 | 1,109.47 | 11,000.00 | 86,402.49 | 13.2% |
| International Travel | 92,272.74 | 27,170.23 | | 39.00 | | | 27,209.23 | 29.5% |
| Local/Regional Travel | 69,319.30 | 8,697.30 | 1,216.93 | 414.41 | 560.05 | 4,666.66 | 10,888.69 | 15.7% |
| International Per Diem | 52,644.50 | 20,392.44 | | | | | 20,392.44 | 38.7% |
| Local/Regional Per Diem | 429,285.00 | 16,356.79 | 3,932.07 | 600.09 | 462.90 | 6,333.34 | 21,351.85 | 5.0% |
| Other travel related costs | 12,337.39 | 4,979.77 | 1,150.93 | 343.06 | 86.52 | 600.00 | 6,560.28 | 53.2% |

| Cost Element | Contract Budget | Actual | | | | Projected | | |
|---|---------------------|-------------------|------------------|------------------|------------------|------------------|-------------------|--------------|
| | | Reporting Period | | | | | December 31, 2009 | |
| | | Oct to Sep 2009 | October 2009 | November 2009 | December 2009 | Jan to Mar 10 | Cumulative | % used |
| 3 Allowances | 171,386.98 | 77,748.85 | 14,689.89 | 22,024.39 | 12,932.49 | 50,000.00 | 127,395.62 | 74.3% |
| 4 Furniture and Equipment | 93,669.50 | 31,401.27 | 1,215.10 | 334.30 | 609.94 | 2,555.56 | 33,560.61 | 35.8% |
| Office Furniture | 6,058.50 | 6,847.17 | 145.06 | | | | 6,992.23 | 115.4% |
| Office Equipment | 10,561.00 | 7,065.64 | 1,070.04 | 334.30 | 609.94 | 2,555.56 | 9,079.92 | 86.0% |
| Computers | 34,550.00 | 17,488.46 | | | | | 17,488.46 | 50.6% |
| Vehicles | 42,500.00 | | | | | | - | 0.0% |
| 5 Other Direct Costs | 1,827,885.64 | 294,187.04 | 41,324.84 | 31,851.37 | 44,117.09 | 51,168.17 | 411,480.34 | 22.5% |
| Local Office Costs - Manila | 1,022,048.37 | 228,205.72 | 37,685.77 | 26,734.07 | 39,485.11 | 38,098.17 | 332,110.67 | 32.5% |
| Local Office Costs - Cagayan de Oro | 406,628.76 | 19,296.81 | 2,604.37 | 3,857.94 | 3,142.56 | 9,490.00 | 28,901.68 | 7.1% |
| Local Office Costs - Zamboanga | 52,601.78 | | | | | | - | 0.0% |
| Local Office Costs - Davao City | 52,601.78 | | | | | | - | 0.0% |
| Other direct program costs | 257,899.15 | 31,711.27 | 122.94 | (29.03) | 481.79 | 580.00 | 32,286.97 | 12.5% |
| Home Office Costs | 36,105.80 | 14,973.24 | 911.76 | 1,288.39 | 1,007.63 | 3,000.00 | 18,181.02 | 50.4% |
| 6 General & Admin - 8.5% x Table Ref 2* thru 7 | 722,501.66 | 52,264.26 | 4,873.69 | 8,921.71 | 7,517.00 | 54,173.19 | 73,576.66 | 10.2% |

| Cost Element | Contract Budget | Actual | | | | Projected | December 31, 2009 | |
|---|----------------------|---------------------|-------------------|-------------------|-------------------|-------------------|---------------------|--------------|
| | | Reporting Period | | | | | Cumulative | % used |
| | | Oct to Sep 2009 | October 2009 | November 2009 | December 2009 | Jan to Mar 10 | | |
| 7 Grants (2,400,000) & SAF (3,351,218.45) | 5,751,218.45 | 133,939.97 | (6,192.21) | 49,354.67 | 29,666.27 | 97,720.14 | 206,768.70 | 3.6% |
| TOTAL (U.S.\$) | 14,403,515.30 | 1,734,403.31 | 153,856.18 | 182,881.08 | 251,535.29 | 592,088.04 | 2,322,675.86 | 16.1% |

