

**Philippines Development Forum
30-31 March 2006, Tagaytay City**

Working Group on Growth and Investment Climate

Introduction

The following paper outlines the discussions, conclusions and recommendations that have been reached by the Growth and Investment Climate Working Group over the last year. It also reports on the progress achieved on the ten action items identified at last year's meeting and proposes specific and actionable objectives for the next year.

At the last Philippine Development Forum in Davao in March 2005, the Growth and Investment Climate Working Group agreed to collectively work on ten specific action items. Over the last year significant progress has been made both by the Government of the Philippines (GoP) and the donor community towards meeting these objectives and a full report can be found in Annex One.

Over the course of the last year discussions have continued amongst the group although it must be noted that meetings were not held as regularly as had been hoped. Given its broad mandate one of the challenges in convening the group was attempting to identify specific and tangible steps that could be undertaken by the GoP and supported by the donor community. While the commitment to the medium term goals for sustained private sector development, as agreed at the last PDF, remains strong, it was agreed that the focus for this year's meeting should be on developing short term action plans that identify certain specific action items that can be accomplished within the next twelve months which would demonstrate the progress being made to improve the investment climate of the Philippines.

In an effort to help focus the work of the group and to allow for more in depth discussion three sub committees were formed. These committees, chaired by different functional groups/agencies of the DTI, focus on Infrastructure, SMEs and Business Climate. Since their formation in early 2006 each of the committees has met on a number of occasions and through these meetings and other stakeholder dialogue has identified the key challenges and opportunities within their area of focus. Each committee then decided on one challenge on which tangible progress could be hoped for over the next twelve months and developed an action plan to address this. These action plans have been developed by the DTI but also indicate current donor co-operation or identify the opportunity for future donor support needed to achieve the objectives. Private sector representatives have been active in all the sub committees and as such the action plans resonate with the needs of the market.

Annexes 2- 4 in this report contain a full account of the activities and the action plans for each of the three groups but a summary of the key findings can be found below.

- **Infrastructure:** The infrastructure challenge is great and must be addressed now. Over the last year the DTI has been pro-active in pushing and coordinating efforts of various government agencies in addressing infrastructure bottlenecks that have long been identified as impediments to businesses and a number of long delayed projects have started to move. At one of these, the upgrading of the South Luzon Expressway, ground breaking took place earlier this month. However given the fiscal balances further infrastructure development will need increased private sector participation. The sub committee has however identified the need to strengthen the model for engaging the private sector, and the development partners have expressed the need for government to clarify the framework for private sector participation. Central to this is the need to develop a clear project pipeline that focuses on the country's strategic infrastructure needs and that commits to move forward one or two key projects in the next 12 months. Co-ordination and communication is vital and as

such this sub committee would like to explore how it can play a role in bringing together various stakeholders from across government ministries, from the development partners and the private sector into a series of scheduled meetings to develop this framework, monitor progress and disseminate lessons learnt for projects under way. Development partners have indicated interest in supporting this process both with technical assistance for the development of the framework but also for support in the preparation of individual projects and in strengthening the government agencies responsible (eg. PIC). Initially projects have been identified in the transport sector and while the group recognizes the very real need to address the power and water sectors it was felt that given the complexity and breadth of these issues separate sub groups should be formed under the leadership of different institutional champions– e.g. Power - Department of Energy.

- **SMEs:** With the support of a number of donors the DTI has spent considerable time over the course of the last year focusing the SME Development plan from 48 to 10 key objectives at the same time current donor activity has been mapped against these objectives. This process has allowed DTI to take a more strategic view both to leverage existing donor resources but also to identify gaps where future donor support would be needed. This process has identified that donor support to SMEs in the Philippines focuses around two main objectives: increasing access to capital and improving the process of business registration. It was agreed that the focus for this year's action plan would be on improving co-ordination on Business registration. It was noted that Business licensing and registration takes place at the Local Government level and as such the DTI does not have a direct mandate. However the focus for the work will be on promoting the uptake of reform. Significant opportunities exist to reduce the level of red tape at the sub national level and donor programs on the ground with individual LGUs are demonstrating tangible results. The SME Donor Group provides a powerful platform to share best practices and to promote the uptake of reform to other LGUs. The centerpiece of the action plan is a co-ordinated communications plan which aims to improve the dialogue between national and local governments, to increase understanding of the benefits of implementing reform programs and to assist LGUs in their reform efforts. The highlights will be the publication of a best practice manual on business registration reform and a Donor/Govt sponsored SME Summit that will focus on demonstrating the benefits of formality to SMEs.
- **Business Climate:** Under the Board of Investment significant progress has been made on improving the business climate notably the approval for the Minerals Development Council, establishing partnerships with academe and industry to improve the quality of human capital and the development of an investor servicing program (Retention Expansion and Diversification Program RED). Following discussions between government and the private sector the sub group on business climate however agreed that the rationalization of fiscal incentives among the eight investment promotion agencies is a key priority for this year. Currently there are over 140 independent incentives and this complicated legislative environment poses significant challenges for business. The BOI led action plan highlights the need to secure passage of the bill to establish one universal incentives policy across the country. Facilitating this would involve a process of co-ordination at the national government level and then on the executive working together with the legislature to enact the law. Upon passage of the bill the BOI would be actively looking for donor Support in the implementation of the new law particularly with respect to the formulation of a national investment promotion program. Support would also be needed to analyze incentives on a sector by sector basis to help identify tailored sets of incentives that are relevant to that sector and attractive to investors.

It is expected that discussion at the PDF will centre on the above issues and it is hoped that the action plans will form the basis for a declaration to the plenary. While the working group has been structured into three separate groups the GIC recognizes the need to increase co-ordination both within the sub groups and between the GIC and the other PDF working groups. One of the common themes that has come out of the discussions of the group is the need to both improve co-ordination between departments of DTI and other line ministries and also increase communication between local and national government. It is hoped that the GIC working Group can provide a platform for this and this meeting provides an opportunity to redefine the role of the Group to address this issue.

Indeed the final consideration for debate at this meeting is the functioning of the group itself. As was noted it has not worked as effectively as envisioned last year and the move to split into three sub committees was an attempt to address this. However further discussion is needed to establish whether this is an appropriate response and if so how the independent sub groups should operate both individually and as a part of the wider Growth and Investment Climate Group. As was also noted last year and has been again pointed out during the discussions this year, "growth and investment climate" is a broad subject that cross cuts with the work of many other groups and as such, for the GIC working group to function effectively it will be important to develop a platform for inter PDF group dialogue on cross cutting themes.

Annex 1: Report on progress since 2005 PDF

I. Background

The Growth and the Investment Climate (GIC) Working Group, during the 2005 round of the Philippine Development Forum (PDF), recognized the urgent need to stimulate private-sector investment and reinvestment to accelerate economic growth and social development, create jobs, improve living standards, and reduce poverty in the Philippines. The group acknowledged that the private sector played a key role in driving the Philippines' growth and development - even more so in this period of fiscal constraints, as it accounted for the bulk of Gross Domestic Product and employment. It established that the private sector, having many choices, will vote with their feet if the investing environment in the Philippines remained unattractive. And it agreed that special emphasis should be given to making business formation easier for Small and Medium-sized Enterprises (SMEs), as these comprise the majority of private enterprise and employment.

In line with these premises, the GIC Working Group agreed to pursue ten action items to promote growth and improve the investment climate in the Philippines. Apart from agreeing to improve coordination among themselves to continuously monitor and review the progress of the action items, the GIC Working Group members also agreed to support reforms in the infrastructure sector, the judiciary - in so far as enforcement of contracts is concerned, the financial sector, and those relating to selected high-value sectors with vast investment potentials.

This draft document provides a brief update on the progress of these ten action items. It is meant to provide the initial talking points to assist the GIC Working Group, particularly its development partner-members, in drafting its Discussion Framework for the 2006 round of the PDF, scheduled for March 30 and 31. Where necessary, some action items will be given updates as a group for clarity and conciseness.

II. Agreed Action Items and Updates

Action Item #1. The GIC Working Group strongly felt that continued interaction and mutual monitoring is useful, and agreed to review progress after six months.

Action Item #2. Partnerships between the government - principally the Department of Trade and Industry (DTI) and the private sector would be established to discuss investment climate issues on an ongoing basis for each of the key sectors (infrastructure, financial sector, human capital, natural resources and FX-earning sectors).

Update. The GIC Working Group members were unable to find common meeting schedules last year because of constraints both on the part of the government and the co-conveners. Because of this, they were also unable to jointly monitor and review the progress of these action points and discuss sector specific investment climate issues as much as they had wanted to during the period.

This year, however, the PEP-Philippines Facility of the International Finance Corporation (IFC) and the Japanese Embassy have committed to address the constraints they faced last year to help the GIC Working Group achieve its objectives. The Department of Trade and Industry (DTI) moreover, is working to improve overall facilitation of the working group by dividing it into three more manageable subgroups handling concerns about infrastructure development, investment climate and SMEs. The DTI also assigned senior-level officials to chair each sub-working group, and the latter have been meeting regularly and coordinating their effort since the start of the year to achieve the goals of the 2005 PDF and in support of the activities under the 2006 PDF.

Action Item #3. In response to underutilized and cancelled official development assistance (ODAs) due to government's tight budget and inability to furnish meaningful amounts of counterpart funding, the international financial institutions (IFIs) agreed to make more aggressive use of guarantee and partial guarantee instruments.

Update. The Board of Directors of the Asian Development Bank (ADB) approved in October last year the creation of a partial credit guarantee facility to promote SME lending in the Philippines. ADB extended the almost \$18.4 million facility to the Philippine government through an assistance package that included a US\$25 million loan and an equity investment of up to \$1 million in the Philippines' proposed credit information bureau. The partial guarantee facility is expected to be operational by mid 2006.

Action Item #4. The DTI / Board of Investments (BOI) / NDC / PIC have undertaken to accelerate progress on one or two major infrastructure projects within the next 60 days (e.g., rehabilitation and extension of the South Luzon Expressway), and to complete all infrastructure projects deemed critical by 2006.

Update: The P4.42 B rehabilitation and upgrading of the South Luzon Expressway (SLEX) was formally launched by the President last March 24, 2006. The SLEX modernization and extension is one of the government's key infrastructure projects under the Medium Term Philippine Development Plan (MTPDP).

The SLEX rehabilitation and upgrading project consists of three phases called Project Toll Road (TR) 1, 2 and 3.

TR 1 involves the full repair and rehabilitation of the 1.2 kilometers Alabang viaduct to improve volume capacity, riding quality and the structural integrity of the superstructure, including the replacement of the bridge deck. Two new lanes will be added to the existing six lanes.

Construction of the P1.34 B TR1 project, which starts in May 2006, is scheduled to be completed in May 2008.

TR 2A involves the rehabilitation and widening to eight lanes of the existing six – lane toll road from the Alabang viaduct in Muntinlupa City to Sta. Rosa City in Laguna, while TR 2B contract is for the repair and widening to six lanes of the existing four – lane Sta. Rosa to Calamba City tollway.

The construction of the P2.98B TR 2A and TR 2B projects will start in August 2006 and is expected to be completed in April 2008.

The P1.56 B TR 3 project is the construction of a four – lane toll road from Calamba City to Sto. Tomas in Batangas.

The rehabilitation and upgrading of the SLEX is a joint venture of the Philippine National Construction Corporation (PNCC) and MTD Manila Expressway, a subsidiary of MTD Capital Bhd., the second largest toll operator in Malaysia and also a major proponent of property and infrastructure projects both in Malaysia and overseas.

Action Item #5. A useful idea supported by the Japanese Bank for International Cooperation (JBIC) is creation of a coherent master plan for developing a Subic-Clark-Batangas City growth corridor.

Update. The infrastructure sub-working group organized the "Philippines Infrastructure and Business Climate Workshop" on 1 March 2006 through the sponsorship of the Japanese Embassy. The event was meant to identify the private sector's view on

investment priorities in infrastructure and discuss the role played by the Philippine Infrastructure Corporation in infrastructure development. In one of the featured presentations, the JBIC reiterated its position on the significance of infrastructure development in and around the Subic-Clark-Batangas Growth Corridor. This area, according to the JBIC, spans the National Capital Region, Region 3 and Region 4-A, which aggregately contribute more than 50% of the country's GDP. The JBIC also identified around 12 projects necessary to support the corridor. The workshop generated several recommendations (to be discussed in a separate discussion paper), which the development partners of the Infrastructure Sub-working Group hope to bring up during the PDF in March 30 and 31.

On the part of the government, there were several infrastructure projects undertaken within the Growth Corridor during the year. Whether these were done under a coherent master plan as recommended by the GIC Working Group, however, remains uncertain. PGMA's 2005 yearend report did say, however, among other things, the government pursued the construction of the three segments of the Southern Luzon Expressway Extension Project and it began the construction works for the STAR Extension from Lipa City to Batangas City under the BOT scheme. It also implemented the Subic-Clark-Tarlac Expressway Project to provide a direct link among industrial, economic and tourism zones in the Central Luzon region, specifically Clark Special Economic Zone, Subic Bay Freeport Zone, Luisita Industrial Park in Tarlac and the Bataan Technology Park.

Action Item #6. The government committed to accelerate the resolution of legal and operational issues at PIATCO-NAIA 3.

Update. The NAIA-3 project was awarded in 1996 and was set to open in 2002 when President Arroyo declared that the government would not honor its contract for being inimical to national interest. The president's position was sustained by the Supreme Court (SC) when it voided the contract in 2003. The SC, however, ruled that the project proponents needed to be compensated. The project proponents raised the issue of compensation to international institutions and the cases are still pending in these institutions. In particular, Fraport filed its claim against the government at the World Bank's International Center for the Settlement of Investment Disputes. The Philippine International Air Terminal Co. raised its claim against the government at the International Chamber of Commerce-International Court of Arbitration in Singapore. Consistent with the SC order, the government is honoring its obligation to compensate the project proponents for their investment in NAIA-3. It is, however, intending to ask the proponents to spread out the payment period.

The Joint Foreign Chambers of Commerce in the Philippines noted last year that the resolution of this issue is necessary to attract foreign investment capital to the Philippines - particularly in respect of much needed infrastructure projects.

At present, plans are pushing through for the soft opening of NAIA 3 by 30 March 2006, despite pending legal issues. The government has reiterated its willingness to comply with the final ruling of the Supreme Court ordering the payment of PIATCO pending the result of the assessment of an internationally recognized valuator that the government plans to hire to determine the cost of the entire airport facility.

Three carriers agreed to conduct test flights. Jet Star of Singapore's state-owned Temasek Holdings Ltd., Air Philippines Corp. of Lucio Tan, and Cebu Air, Inc. (CEB) of John Gokongwei, have all agreed to conduct test runs, not operations, at NAIA-3 to see if there are still defects in the terminal. Test runs will be conducted independent of litigation.

About \$6 million of MIAA-generated funds will be allotted to troubleshoot structural, technical, and engineering defects. Japanese airport developer, Takenaka Corp., has been contracted to address the defects.

Action Item #7. The private sector participants of the GIC Working Group expressed a strong wish to continue promoting judicial reform. A useful concrete suggestion was to institutionalize briefings of the court by the private sector regarding investment climate issues. The success of amicus curiae was cited as an important factor in recently persuading the Supreme Court to reverse its restrictive stance on the mining industry.

Update. This topic was not actively taken up this year by the GIC Group but opportunities to facilitate dialogue with other PDF groups concentrating on legal reform will be sought.

Action Item #8. The Bangko Sentral ng Pilipinas (BSP) committed to make a Fixed Income Exchange operational by the end of 2005. This promise was anchored on its continuing work on the building blocks of such an exchange. BSP reported strides in establishing a Real-Time Gross Settlements system which would for the first time provide traders with timely price discovery.

Update. The country's fixed income exchange, Philippine Dealing and Exchange Corp. (PDEX), became operational on March 28, 2005. PDEX is owned by the Banker's Association of the Philippines, the Philippine Stock Exchange, and two technology and infrastructure providers. Its launch, which highlighted the first phase of a centralized electronic marketplace for fixed-income securities in the country, involved the automation of existing fixed income inter-dealer market for government securities. A public order-driven platform for the fixed income exchange will be launched within the year to allow a wider market to participate in active trading of securities. After this, PDEX is set to develop an independent securities custodial system that would improve investor protection and reduce market malpractices and overall systemic risk.

Action Item #9. BSP agreed on the importance and urgency of forming a credit bureau to serve the needs of both large corporations and the retail / consumer market.

Update. The proposed Credit Information System Act, which was meant to pave the way for the creation of a credit bureau and to establish a comprehensive and centralized credit information system in the Philippines, has been pending approval in Congress for several years now. Issues pertaining to the bureau's ownership structure and on whether the government should even own part of the institution kept the bill from being passed into law.

Because of the delay of the bill's passage, recommendations that included the creation of an interim body without creating a new law to act as a credit information bureau under the Bangko Sentral ng Pilipinas (BSP), have been proposed in the past. Recently, however, the BSP said that the interim measure would be too complicated to implement because of legal issues, particularly as regards the Bank Secrecy Law. The interim proposal apparently required borrowers to waive their rights to secrecy of deposit - a requirement which did not sit well with some sectors. Moreover, the banking industry has yet to determine how to regulate the information that would be accumulated by the BSP. These hurdles convinced the BSP to just wait until Congress can enact the law that will create the credit bureau.

On the part of the development partners, the ADB board approved in 2005 a possible equity investment by ADB in the proposed credit bureau (please see update on Action Item #3). According to ADB, its planned equity investment of up to \$1 million (or not more than a quarter of the project cost) will help establish a comprehensive and credible

credit information system. The IFC is also keen on investing equity on the proposed credit bureau if it materializes. It is also looking at giving technical assistance to the BSP related to the creation of the credit bureau should the need for it arises.

Action Item #10. The GIC Working Group agreed to further explore practical ways of improving the investment climate in the agricultural sector, which has great needs and poses great difficulties, but at the same time can hold great potential for private investment.

Update. PGMA's 2005 yearend report highlighted significant gains in the agriculture sector. In particular, the government was able to ensure the availability of food supply by increasing the production of rice, corn, livestock, sugar and fisheries. It was also able to develop a total of 138,862 hectares of agricultural land under its agribusiness land development program that was meant to develop two million hectares of idle and unutilized, new and existing, agricultural areas. And, with assistance from World Bank, it was able to provide market-oriented services to increase agricultural competitiveness and rural income through the implementation of Diversified Farm Income and Market Development Project.

A rural development committee has been convened and has been meeting since the 2005 round of the PDF. There is a need to coordinate with the rural development committee on updates regarding this action item.

The GIC Working Group also highlighted the need to develop the mining industry under this Action Item. As such, it may be instructive to also update the group on developments on the sector. According to the 2005 yearend report, the government shifted its policy on mining from tolerance to promotion. The government identified 24 large-scale new and expansion mineral development projects nationwide with potential to generate US\$6.5 billion in investments. To date, six projects are already operational with a cumulative investment of US\$ 363 M with 5,805 jobs created.

Annex 2: Sub Group on Infrastructure

Background:

Infrastructure development is fundamental in facilitating trade, supporting the growth of industries and promoting sustainable investments. Even with the implementation of the required fiscal reforms, this will not fully translate into economic development if this is not supported by new investments in infrastructure that will strengthen the Philippines' competitiveness.

In the 90's, government was faced with a similar dilemma and turned to the private sector to bridge the investment gap by creating over US\$20 billion in BOT infrastructure investments.

But admittedly, the Philippines' BOT experience was mixed for although infrastructure was developed, much of the market risk was still carried by government. Contracts were structured where risk sharing with the private sector was not optimal, which had a painful impact on the fiscal health of government. On the balance however, PPP's are still believed to have had a positive impact on the economy, and therefore remains a viable option to again address current infrastructure development gaps. The Government will intensify efforts to attract private sector investments to address the infrastructure challenge.

For this reason, the DTI has been mandated to push and coordinate efforts of various government agencies in addressing infrastructure bottlenecks that have long been identified as impediments to businesses and industries through the Philippine Infrastructure Corporation and the National Development Company. As such, the WG on Growth and Investment Climate formed an infrastructure sub-committee to help create the favorable policy environment for private sector investments in infrastructure.

Initial achievements in Public-Private Partnerships in Infrastructure.

Since the 1st Philippine Development Forum in Davao, some significant infrastructure projects have moved forward.

Roads:

The toll road sector has shown particular promise for public-private partnerships.

1. NLEX - The NLEX has been successfully operating for 1-year, and the private investors are now looking to implement the next stage of the concession.
2. SLEX – The Concession Agreement to upgrade Alabang, Muntinlupa – Sto. Tomas, Batangas was signed in February 2006 and construction in the whole stretch will commence in 2006.
3. Subic-Clark-Tarlac – Construction is underway, and the concession agreement for Private Sector Operations and Maintenance is being prepared.
4. Daang Hari – SLEX Link Road - This tolled road is being developed by the Philippine Infrastructure Corporation, the National Development Corporation and the PNCC as a vital "traffic reliever road" for the CALABARZON area.
5. STAR - Construction of the stage two, connecting Lipa to Batangas City, is underway with new investors in the picture.

Airports:

1. Some headway has been made in the opening of NAIA Terminal 3, with a test run scheduled for end of March, and the resolution of some of the legal issues hampering its opening.
2. Clark has emerged as an alternative hub for budget airlines.
3. Laguindingan airport in northern Mindanao is currently being repackaged as a Public-Private Partnership so construction may finally begin.

Sea Ports:

1. The Philippine Ports Authority has decided to pursue the modernization of the domestic Port of Manila through Public-Private Partnership

Rail:

1. North Rail ROW clearing is nearly complete.
2. Capacity Expansion of LRT 1 is underway.
3. LRTA has adopted the policy to publicly tender the development of LRT 1 extension.

Power:

1. The program to privatize Government power assets continues to be a priority.
2. The wholesale energy spot market is being developed.

Water:

1. The east concessionaire of the MWSS successfully tapped the capital markets to fund its development programs.
2. Significant headway in addressing the problems of the West Concession was made.

However, the investments required to narrow the infrastructure gap and bring the state of Philippine infrastructure at par with neighboring economies are still well beyond the capacity of the public sector alone.

II. Identified Private Sector Concerns:

Against this background, the sub-committee organized the “Philippine Infrastructure Workshop” on inviting private sector partners and development partners. The meeting meant to identify investment priorities in infrastructure from the private sector’s viewpoint. Among their concerns were:

A. Power Sector

Private sector partners expressed serious concerns over the pace of the power sector reform since maintaining constant, continuous, and stable supply of electricity at affordable prices is the very basis of business operations.

B. Preparing a bankable pipeline of Public-Private Partnership (PPP) projects

It was agreed that PPP continues to be a viable option for key infrastructure development in the short-term given the fiscal conditions of the Philippine Government. However, private sector partners expressed several concerns to develop bankable PPP.

Project Risk

It was agreed that an optimal balance of risk-sharing between the Philippine Government and the private sector must be sought in terms of effectively handling each risk element (commercial risk, foreign exchange risk, regulatory risk, political risk, etc.).

User Fees

The financial viability of PPPs is largely dependent on the level of user-fees allowed by government. Setting of user-fees should carefully balance consumer welfare and the financial and economic parameters of the investor. It is also recommended that regulatory bodies should be strengthened in this respect.

Public Tenders

So as to be able to provide the government support allowed for by the BOT Law, it was encouraged that key PPP's in infrastructure be publicly tendered, so private proponents are well selected and the procurement process is transparent. By doing so, projects can avoid legal concerns throughout implementation.

Coordination among Government Agencies

Development partners emphasized the need to improve planning and coordination of key infrastructure developments within government.

C. Role of PIC

PIC was recognized as a positive initiative, but it was acknowledged that it would need additional resources to increase its impact and accelerate the development of bankable concession agreements for private sector investments.

III. Key Recommendations

(1) Increase the pipeline of PPP projects

Through the PDF Infrastructure Sub-WG forum, it was identified that there is a need to define a new model for PPP Policy Framework, one that is defined by the Philippines' 10-year history of working with the private sector on infrastructure projects. DTI, development partners and private sector partners committed to continue a dialogue in view of defining a coherent policy framework that will be consistently applied by all government agencies in implementing private sector participation projects. Please see Attachment 2 for more details.

(2) Power Sector

Sectoral concerns were likewise raised in the PDF Infrastructure Sub-WG. Issues related to the power sector were extensive and required more in-depth discussions. Given the complexity and breadth of these issues, it was recommended by the group that a focused power sector subgroup within the Growth and Investment Climate WG be constituted to formulate the Power Sector agenda in view of private sector concerns. It was recommended that the Department of Energy (DOE) take the lead in this subgroup to be participated in by

PSALM, NPC, ERC, and other related stakeholders (private sector partners, development partners, etc.).

(3) Water Sector

The lack of a high-level institutional champion to address the growing water sector problems was also raised by some development partners, though the broad range of issues in the water sector may not fully fall under the agenda of the Growth and Investment Climate WG. The sector has been well-studied and most issues are known. The identification of an institutional champion to lead needed reforms in the sector was identified as a first and important step towards addressing deficiencies in water infrastructure and services.

A. Developing a Strong Pipeline of Infrastructure Projects

Project Preparation Facility

New projects should be tendered competitively and transparently in order to attract private sector interest. Sound project preparation is a key to being able to conduct competitive bidding. Thus, it is important to develop a strong pipeline of Infrastructure projects. PIC could help develop the pipeline of PPP projects. It is recommended that PIC receives additional resources to carry out its project preparation functions effectively by supporting its Project Development Facility. This will be explored through technical assistance with development partners.

Infrastructure Needs Mapping

It is vital to focus on a few investments that would address infrastructure bottlenecks and undertake these investments in close partnerships with the private sector. Thus, for initial identification of key infrastructure projects, close consultations among government, private sector partners and development partners should be held regularly.

B. Developing the Project Financing Facilities for PPPs

Over the next 12 months it is critical to work with development partners in making available to PPP investors the appropriate financial instruments such as long term domestic-currency lending and partial risk/political risk guarantee.

It will be useful for ADB, World Bank and other development partners to organize a program where these facilities are applied to the PPP projects currently being developed by government. The prerequisites for financing and the pricing of these facilities should be clear, so they may be factored into the concession agreements being developed.

It would also be necessary to brief private sector partners and raise their awareness of such instruments.

IV. Possible Action Agendas for Strengthened PPP Policy Framework

C. Developing a Strong Pipeline of Infrastructure Projects

Project Preparation Facility

New projects should be tendered competitively and transparently in order to attract private sector interest. Sound project preparation is a key to being able to conduct competitive bidding. Thus, it is important to develop a strong pipeline of Infrastructure projects. PIC could help develop the pipeline of PPP projects. As PIC begins to prove that it can add value at the project preparation stage, it is recommended that PIC receives additional resources to carry out its project preparation functions effectively. A Project Preparation Facility will be explored by the Government.

Infrastructure Needs Mapping

It is vital to focus on a few investments that would address infrastructure bottlenecks and undertake these investments in close partnerships with private sector. Thus, for initial identification of key infrastructure projects, close consultations among PIC, private sector partners and development partners should be held regularly. The Growth and Investment Climate WG will be the primary venue for such a consultative process. There is also a need

to improve the oversight of investment planning and coordination, namely, a shift from detailed project level approval process to a broader and more forward looking process. In order to assist PIC interventions in planning and coordinating key infrastructure developments, private sector partners and development partners, together with the related infrastructure agencies, could collaborate in mapping infrastructure needs in key areas of infrastructure development. Please see the attached for an example of such mapping.

Technical Assistance in Preparing PPP Infrastructure Projects

Development partners could extend loans and Technical Assistance to facilitate the preparation of a few PPP projects, thereby helping to build a solid pipeline of future projects. Development partners can provide Technical Assistance for conducting feasibility studies (including the preparation of TOR for technical studies, risk mitigation analysis and finance-ability assessment), the structuring of concession framework and the preparation of bidding packages.

D. Increasing Support to PIC and Strengthening its Capacity

MOUs with the Relevant Sector Agencies

It is essential that PIC focuses its efforts on a few high priority projects and that the main stakeholders within the administration join forces to ensure high quality preparation of those projects. PIC will need to sign comprehensive MOUs with the relevant sector agencies to determine allocation of responsibilities for the preparation of projects and the selection of concessionaires.

Technical Assistance to PIC

PIC is expected to focus its efforts on one or two of the most promising projects. The successful transaction of one or two projects would help PIC gain expertise and establish credibility and send a strong signal to private sector partners. Development partners could identify areas in which they could support PIC through capacity building and TA, while closely monitoring the mandate and operating parameters of PIC.

E. Establishing a Coherent Framework for Public Support to Infrastructure Projects

Government Support Policy on PPP

Private sector participation is neither about Government sitting back to let the private sector do all the work nor about the private sector passing the full risk to Government. It is about the public and private sectors coming together to contribute respective resources and expertise in order to achieve their collective objectives under the partnership. Strong public-private partnerships (PPPs) require strong partners. There is a need to have a clear and consistent framework for the grant of scarce public resources. Thus it is imperative to establish a unit that would develop expertise in (i) identifying the instruments (including loans, guarantees and subsidies) that would most efficiently provide the required support to PPP projects; and (ii) estimating the fiscal costs and risks of these instruments extended to PPP projects.

Technical Assistance in Establishing a Framework for the Provision of Public Support to Infrastructure Projects

The development partners could assist the Government in establishing an appropriate framework to make final decisions on line agencies' proposals for the provision of public support to infrastructure projects. The assistance would be aimed at developing expertise in (i) selecting infrastructure projects deserving of public support; (ii) identifying the instruments (including loans, guarantees and subsidies) that would most efficiently provide the required support for specific sector/ project circumstances; and (iii) estimating the fiscal costs and risks of these instruments.

F. Developing the Financing Strategies to Project Financing and Investment

Use of Development Partners' Financial Instruments (Partial/Political Risk Guarantee and Domestic-Currency (Peso)-Denominated Lending Scheme

Development partners could actively market their available financial instruments such as partial risk/political risk guarantee and domestic-currency-denominated lending to private sector partners. It will be useful for ADB, World Bank and other development partners to organize a workshop on this matter to brief private sector partners and raise their awareness of such instruments. In this connection, discussions with the Philippine Government would be helpful in reaffirming the sectors they would like to be prioritized by the development partners guarantees. Since there is a difference in pricing for guarantees which are counter-guaranteed by Government and those that are not, discussions with Government on whether and in what cases they would grant counter guarantees would add clarity to the pricing issue.

Annex 3: Discussion Paper – Sub Group on Small and Medium Enterprises

I. Background

In support of the Presidential Agenda of increasing the number of small and medium enterprises (SMEs) and contributing to the creation of 6 to 10 million jobs by 2010, the Small and Medium Enterprise Development (SMED) Council launched the SME Development Plan (2004 to 2010) in July 2004 after it had been approved by the President. The SMED Plan, which was formulated with technical assistance from the Japan International Cooperation Agency (JICA), presents the integrated efforts to strengthen and stimulate the SME sector so it can significantly contribute to the country's economic development. The plan envisions to transform the SME sector into a significant contributor to national development by 2010 by creating globally competitive SMEs.

In view of the overwhelming challenges faced by SMEs, there is a need to marshal resources properly through well-crafted strategies and programs. It is therefore imperative to encourage cooperation between the private sector and the government. The Plan thus details the strategies and corresponding programs drawn up through extensive and joint efforts between the private sector and the concerned government entities.

The Department of Trade and Industry (DTI) has taken the lead in implementing and monitoring the SME development plan. In 2005 the SMED Council and DTI concentrated on prioritizing and operationalizing the SMED Plan (with support from donors such as Canadian International Cooperation Agency (CIDA) and German Development Co-operation (GTZ)). The DTI led a participatory process of prioritizing the SME long term plan with the key national agencies involved in its implementation. The outcome is an SMED Action plan for January 2006 to December 2007 which has been approved by the SMED Council in February of this year (2006). The SMED Action plan encompasses the outputs, indicators and activities planned and agreed upon by 10 respective Activity Groups and constitutes a very good basis for the co-ordination of donor support in this area in the future .

The Plan is intended to also guide the efforts of the donor community in identifying specific areas of intervention as only activities which are supportive of the strategies to develop SMEs shall be prioritized over this time frame.

II. The SME Development Plan (2004-2010)

In capsule, the SME Development contains the following:

A. Vision: To create globally competitive SMEs

B. Strategies:

1. Provide SMEs access to comprehensive and focused support for enhancing managerial and technological capabilities, tapping business opportunities, and becoming competitive in the local and international markets.
2. Provide support for identifying and developing business opportunities through the development of business ideas that promote the expansion and diversification of the country's industrial structure.

3. Strengthen support to the growth industries that are active in the international markets in order to sustain and enhance their competitiveness and improve their access to the domestic market.
4. Provide support for industrial linkages of SMEs with leading Philippine industries to strengthen the country's industrial structure.
5. Develop SME financing support programs and strengthen the institutions that provide direct and appropriate financial services to SMES.
6. Streamline the system that provide support programs and incentives for SMEs.
7. Streamline the implementation of SME policies and regulations.
8. Strengthen and build the capabilities of institutions that generate and implement programs for SME development

C. 10 Major Activity Groups

1. SME Information Support
2. SME Counseling and Advisory and Upgrading of SME Centers
3. Facilitating Partnerships/Linkaging for Competitive Support
4. Enhanced Support for Trade Fairs and Access to Market Services
5. Product Development and Design Services
6. Industry Productivity and Quality
7. Information Technology Appreciation and Application
8. Entrepreneurship Training
9. SME Financing and Support Programs
10. Streamlining of Business Regulatory Requirements

III. Accomplishments under the SME Development Agenda

Under these ten activity groups, major accomplishments were reported along the following areas:

1. Strengthened 25 SME Centers
2. Trained and Deployed SME Business Counselors to SME Centers
3. Linked up with volunteer counselors from Financial Executives Institute of the Philippines (FINEX) and Management Association of the Philippines (MAP) and ODA donors
4. Initiated an SME database and integrated 17,000 SMEs in the database
5. Provided various training programs for SMEs by different agencies
6. Published various SME Information materials and implemented various SME information support mechanisms
7. Conducted franchising seminars
8. Conducted various training programs/self help packages
9. Implemented IT awareness and enablement of SMEs
10. Formulated best practice models such as Employers' Confederation of the Philippines- Big Enterprise Small Enterprise (E-BESE), Philippine Chamber of Commerce and Industry (PCCI) -SME Virtual Center
11. Implemented Community Based Enterprise Program in Abra and Camarines Norte for the Bamboo sector and Handmade Paper and Loomweaving

12. Assisted Parol community of Las Piñas through provision of design and training
13. Assessed the needs of the Sabutan and Coconut Industry in Aurora
14. Conducted One Town One Product (OTOP) seminars and video documentation of products in selected cities and municipalities
15. Assigned Brand Managers to shepherd/lead growth sectors to attain development goals
16. Established technology facilities like testing, shared packaging
17. Coordinated with Department of Finance (DOF) on the relaxation of Barangay Micro Business Enterprises (BMBE) requirements for micro enterprises
18. Coordinated with Bangko Sentral ng Pilipinas (BSP) re various mechanisms to ease up SME lending
19. Conceptualized the Philippine/National Business Registry and finished the first phase (design phase) and thereafter secured the approval of ADB for grant assistance in the amount of \$700,000 from the Japan Fund for International and Communication Technology (JFCIT) which would include the strengthening the DTI Business Databases through the development of SME Databases and Business Matching System
20. Implemented Securities and Exchange Commission (SEC) and DTI linkage to respective databases
21. Implemented programs in coordination with partners like CIDA and GTZ to build capability of business development service providers for SME support
22. Partnered with Department of Science and Technology (DOST) for the roll out of *100,000 pieces* of generic packaging materials (including graphic design)
23. Promoted indigenous raw materials through the 2nd Raw Materials Showcase and distribution of the Raw Materials Catalogue
24. Released loans amounting to P 85.414 billion under the SULONG Program since start of program in 2003 to 2005; Released P 31.6 billion in loans for the year 2005;
25. Secured approvals for the following ODA loans "Rural Micro-enterprise Promotion Program (RuMePP) at \$15M from International Fund for Agricultural Development (IFAD); ADB at \$25 Million and KfW at 11M euro all for SME lending programs of SB Corporation with accompanying technical assistance.
26. Secured the commitment of the IFC for a \$ 5 million Technical Assistance Facility under the Private Enterprise Philippines (PEP).

IV. Donor Support for SME Development Initiatives

Despite the inroads already made and the ongoing support of the ODA donors for some selected activities, the enormity of the tasks to be done in making sure that the goal of developing our SMEs remains a big challenge, given the scarce resources of the government. Thus, the continuous support of the ODA community is desired.

With the plan concretized and prioritized it was easier for donors to align their respective initiatives with the priorities of government. Last February 24, the Streamlined SME Development Plan enumerating the 10 activity groups was presented to the SME Donors' Group. The meeting helped the donors map their envisioned projects against the priorities of the SME agenda which showed that presently, the SME Donors' Group has been largely supporting the Activity Groups on SME Financing and Support Programs for SMEs and Streamlining of Business Registration. The Donors agreed to support the implementation of the SME Development Plan with the major focus of donor support for the next two years concentrated on streamlining business registration.

V. The Case for Streamlining Business Registration

The cumbersome procedures of business registration in the Philippines discourage local businesses, particularly SMEs from securing business permits, thus preventing local government units (LGUs) from increasing revenues derived from business taxes. The same procedures constrain many businesses from formalizing their establishments, forcing them to remain in the informal economy and thus limiting their potential for growth and job creation.

Business start up procedures and policies can substantially increase the cost of doing business if they are not properly streamlined by the government. To meet government requirements for starting to operate a business in the Philippines, an entrepreneur must complete 11 procedures taking at least 48 business days. In contrast, an entrepreneur in Singapore can finish the process in 6 days and completing only 6 procedures.¹

A. The Business Registration Process in the Philippines

The business registration process in the Philippines requires companies to go through a number of steps in interaction with both national government agencies and LGUs.

At the national level, every company has to go through the following steps:

- Registration with the Department of Trade and Industry for the registration of the company name².
- Registration with the Social Security System (SSS).
- Registration with the Bureau of Internal Revenue (BIR) for taxation purposes.
- Registration with Home Development Mutual Fund (HDMF).

Additionally, some companies will have to go through:

- Registration with the Securities and Exchange Commission (SEC). This registration does not apply to all companies. Only partnerships and corporations need to register with SEC.
- Registration with the Cooperative Development Authority (CDA), for all cooperatives.
- Registration with the Department of Labor and Employment (DOLE). Registration with DOLE is mandatory for firms which employ 50 or more workers, for monitoring and compliance with labor laws.
- Registration with other agencies. Depending on the type of sector where the firm will operate or the type of products or services that the firm will offer, firms are required to register with other government agencies. Some of these are: the Bureau of Food and Drugs (BFAD), Bureau of Forest Development (BFP), Bureau of Fisheries and Aquatic Resources (BFAR), Bureau of Animal Industry (BAI), Bureau of Plant Industry (BPI), Intellectual Property Office (IPO), etc.

At the local level, every firm has to register with the Local Government. All businesses, whatever the legal form, are required to secure a mayor's permit

¹ See Doing Business in 2006, The World Bank.

² This only applies to Sole Proprietorships. For SEC-registered corporations or CDA-registered cooperatives, Business Name Registration (BNR) with DTI is optional.

or municipal license from the municipality or city³ where they are located. LGUs have different registration procedures, since these are not standardized by law, and therefore the time and cost to register with the LGU may vary tremendously from one to another.

B. Current Issues in the Business Registration Process

Unclear and lack of transparent business registration procedures. The time and the respective costs of registering a business both at the national and local level increase the transactions costs for businesses. Although some LGUs have already implemented reforms of their business registration procedures, the average time for business registration (including all procedures at the national and local level) is still very high compared to neighboring countries. Moreover, information about the registration process as well as respective fees is seldom available in the LGUs making the process even less transparent.⁴

Inadequate and non transparent regulations. At the local level, there is a decentralization act called the Local Government Code of 1991 (RA7160) which governs the mandates, services and operations of the local governments. This is applied uniformly across the country although there could be as much interpretation in some of its provisions as there are so many local governments in the country. This leads to the establishment of different processes in each LGU. Another issue is the one of conflicting national laws with the Local Government Code. Some of the new laws which partly refer to the business registration process (e.g. the barangay micro enterprise law, the building code) are in conflict with some provisions of the local government code. Furthermore, another issue is the difficulty of getting a new law implemented due to LGUs' lack of appreciation on how laws will benefit them as well as due to SMEs' resistance to register.

C. Rationale for Simplification of Business Registration

According to many studies and empirical evidence, simplifying business registration procedures can have an important impact on economic growth. "Streamlining" or "simplifying" regulations though does not simply mean "deregulating", rather it implies enhancing the efficiency, consistency and transparency with which public administration handles a number of mandatory bureaucratic requirements business registration. Thus simplifying business registration is important for several reasons:

1. Improvements in the registration process will most likely have a positive influence on business creation as several country examples show. Egypt increased the number of company registrations by 50% after the reform of the process, so did countries in Asia such as Vietnam by 28% and Pakistan by 19%.⁵
2. Fast and simple start-up procedures can contribute to formalization of previously informal businesses. According to the Doing Business Report 2004 "heavy entry regulation is associated with informality".

³ The difference between Cities and Municipalities is based on the population and the revenues of the LGU. Cities normally have more revenues and more population than municipalities.

⁴ See "Improvement and Documentation of Business Licensing Procedures in the Cities of Bacolod and Ormoc", GTZ April 2005

⁵ See "Time is Money: How to Simplify the Registration of New Businesses", World Bank, 2005.

Cumbersome entry procedures push entrepreneurs into the informal economy, where businesses pay no taxes and many of the benefits that regulation is supposed to provide are missing. Workers lack health insurance and pension benefits. Products are not subject to quality standards. Businesses cannot obtain bank credit or use courts to resolve disputes. Women are disproportionately hurt, since they make up 75% of informal employees⁶. The Philippines is the country in Asia with the second highest informal sector after Thailand (43% of GNP)⁷.

3. Examples in and outside the Philippines show that easier business registration procedures leads to formalization and an increase in company registration which in turn helps broaden the tax base, and allows the government to make better-informed public policy and investment decisions based on greater knowledge of the private sector⁸. Also the Philippine Experience shows that cities and municipalities implementing the Memorandum Circular No. 2001-120 of the Department of Interior and Local Government (DILG)⁹, which mandates all provincial governors and mayors to implement the Anti-Red Tape Program for Local Governments, attained an increase in revenues derived from real property and business tax collections. They were able to shorten processing time of business permit applications from a maximum of 1 - 5 days to 15 - 30 minutes. Some of these cities include Cagayan de Oro, Cawayan, and Lapu-lapu; and the municipalities of Cabuyao, Kalibo, Luna and Tanauan, among others. The Ormoc Planning Office also reports that in 2005, 776 new businesses registered compared with 200 new businesses in 2004 after having streamlined their procedures.

Cities assisted by The Asia Foundation under the Transparent Accountable Governance (TAG) project on streamlining business registration procedures reported that for January 2-20, 2006, marked increase and improvements were noted in their collection of business taxes and processing of business permits and licenses.¹⁰ The city of Malaybalay for example, increased the collection from Business Permits from **Php 3,272,945.08** in Jan. 2-20, 2005 to **Php 7,169,758.99** in Jan. 2-20, 2006 (119% increase), increased the number of Business Permits issued from **1,031** in Jan. 2-20, 2005 to **1,905** in Jan. 2-20, 2006 (84% increase) and reduced the processing time of Business Permits from **2 hrs. & 10 minutes** in 2005 to **1 hr. & 6 minutes** in 2006. The city of Zamboanga reported an increase of **295%** in business tax collection from **Php 9,995,053.00** in 2005 to **Php 29,488,651.00** for the same period in 2006. The city of Ozamiz reduced the processing time to secure business permits from 3 days to ½ day, while the city of Tacurong decreased the number of forms from 2 to 1 and the number of signatories from 11 to 4.

⁶ See Doing Business in 2005

⁷ See www.doingbusiness.org 2005

⁸ See "Building the Capacity for Business Registration Reform", The World Bank, 2005.

⁹ The memorandum circular includes simplification of internal regulatory systems such as reduction of processing time in business permit application, rationalization of documentary requirements and processing costs, eventual computerization of systems, and installation of application flowchart within the city or municipal hall premises, among others. The establishment of a One-Stop Shop or One-Stop Processing Center is recommended to complement the simplification of internal regulatory systems. Source: DILG

¹⁰ The Asia Foundation's Transparent Accountable Governance (TAG) project is supported by USAID

4. Other economic benefits associated with better business registration processes are: increase in investments and creation of employment. As the Doing Business Report points out, analysis in one study suggests that if Algeria brought its entry regulation to the level in Turkey, it could boost business investment by up to 30%.
5. Finally, as empirical evidence shows¹¹, cumbersome business registration regulations offer an opportunity/temptation for some rent-seeking behavior from those signatories required in the issuance of a Mayor's permit.

VI. Plans and Activities of the Various SME Stakeholders

In response to the need to address the issue of business regulatory processes, the different stakeholders outlined key activities and tasks that shall respond to the concerns raised in the area of business registration through Activity Group 10 Streamlining of Business regulatory requirements in the SMED Plan.

The Activity Group 10 is composed of BSMED, Bureau of Food and Drugs (BFAD), DTI-Management Information Service (MIS), DTI-Bureau of Trade Regulation and Consumer Protection (BTRCP), DILG, League of Cities, League of Municipalities, PCCI, PHILEXPORT, ROG-NCR, SEC as well as GTZ. Other donors, such as International Finance Corporation (IFC), have manifested its intention to join this Activity Group.

The target of the Activity Group 10 is that "Existing and start-up SMEs avail of an easy procedure in securing fewer (simpler) and more affordable requirements for their business".

Activities in the area of business registration will concentrate very much on advocacy for streamlining of business registration procedures such as documenting and sharing of best practice promoting the use of on-line registration etc. (see annexed Operation Plan).

VII. Donor Support for Business Registration – Action Plan

As mapped out in the SMED Plan, Donor Agencies have already been supporting streamlining activities. For the next year, they have agreed to co-ordinate their activities as part of the Working Group on Growth and Investment climate (WG – GIC).

Through unified business registration (national level), the Asian Development Bank (ADB) will be supporting DTI in developing a Philippine Business Registry (PBR) that would strengthen DTI in linking its business registration system with those of other national agencies (SEC, SSS, BIR, etc) as well as LGUs. PBR is the unified business registration system which will consolidate multiple entries to various national agencies and LGUs to one-point registration.

At the local level, GTZ, through the SMEDSEP Program has recently completed piloting streamlining business registration (Mayor's Permit) in two cities in the Visayas (Bacolod and Ormoc). GTZ will in the future concentrate on replicating this incremental reform model in other LGUs in the Visayas, tackling reform of other cumbersome regulatory processes and promoting peer learning.

¹¹ See Doing Business in 2004

In Mindanao, The Asia Foundation is currently working on simplification of business registration in 6 cities of Mindanao, namely Ozamiz, Oroquieta, Zamboanga, Malaybalay, Tacurong and Koronadal under the Transparent Accountable Governance project supported by US Agency for International Development (USAID). In the next couple of months, The Asia Foundation in partnership with the Mindanao Business Council and the League of Cities of the Philippines will host a Mindanao-wide policy forum among city governments, national government agencies and business chambers to discuss issues on business registration and regulatory clearances issued by the national government agencies and agree on common agenda for further reforms. The experiences of city governments on streamlining business registration procedures and one stop shops will also be documented, published, and disseminated to other local governments as part of the project's public outreach.

CIDA, through its Local Governance Support Program (LGSP) has provided technical assistance to LGUs in Mindanao in computerizing business permits and licenses and creating one stop shop services to business for registration purposes.

IFC PEP Philippines is planning to provide technical assistance to cities in Mindanao and the Manila area on improving their investment promotion capacity and streamlining business registration procedures (business permits, licenses, inspections, etc).

In an attempt to co-ordinate the donors' efforts and link these closely to the targets and activities of the respective SMED action plan, the members of the working group have agreed to concentrate their common efforts in supporting DTI in its advocacy activities (developing and implementing a respective communication plan as well as bubbling up of information/experience/lessons learned at the local level for replication and policy advocacy such as LGU handbooks on simplification, national and regional best practice events etc).

SMED Action Plan Activity Group Number 10
“Streamlining Regulatory Requirements”
(2006 -2007)

Activities planned	Responsibilities/National Co-operating Partners
Upgrade the Business Name Registration (BMR) system	DTI (MIS/Bureau of Trade Regulation and Consumer Protection), ROG
Promote usage of on-line SEC registration among SMEs	SEC and Clearing Government Agencies
Promote among the SMEs the use of downloadable business forms in their (City LGUs') website	For the cities – LCP
Document the best practices of Bacolod and Ormoc and other identified cities in streamlining business requirements and process ¹²	GTZ-SMEDSEP, Respective LGUs, ILO, Asia Foundation, IFC
Prepare a handbook on best practices in business registration ¹³	BSMED, GTZ-SMEDSEP, ILO, Asia Foundation, IFC
Forward documentation to Info Support Group for dissemination	LCP

¹² Event showing benefits of streamlining to LGUs (revenues), benefits to SMEs of formality at SME Summit (October)

¹³ Either during SME Week or SME Summit

Share best practices with other city LGU in a forum	LCP
Sustain Philippine Participation at Asia Pacific for Trade Facilitation and Electronic Business (AFACT)	Export Development Council (EDC)/CICT
Conduct IT Capacity-building study for GOP export-clearance agencies	EDC
Conduct Forum/conference of One-Stop-Ex-post Documentation Centre (OSEDC) Capacity Building Project	DTI-BETP Philexport
Conduct study on the RP Compliance with Kyoto Convention	EDC/PHILEXPORT
SME Summit	SB Corp.

Annex 4: DISCUSSION PAPER - Sub-Committee on Business Climate

Introduction

In preparation for the 2006 Philippines Development Forum (PDF) and in sustaining initiatives undertaken in the 2005 PDF, the Working Group on Growth and Investment Climate (WG-GIC) has recognized the urgency of attracting private sector investment and reinvestment to accelerate general economic growth and social development of the country. Due to constraints experienced in 2005, the Department of Trade & Industry (DTI), government lead convener for the WG-GIC is working to improve overall facilitation of the working group by dividing it into three (3) manageable sub-committees handling concerns on infrastructure development, SMEs and Business Climate.

This discussion paper lays down the premise for the selection of the subcommittee on Business Climate's priority issue for 2006 - **Passage of the bill on the Rationalization of Fiscal Incentives within 2006**, as well as the desired assistance from the Donor partners for the attainment of this initiative.

Priority Issue for 2006: Passage of the bill on the Rationalization of Fiscal Incentives within 2006

The Sub-Com on Business Climate recognizes the importance of continually finding means to enhance the Philippines' investment climate in order to attract more investments into the country. The sub-committee identified the improvement of the incentive regime as a tangible measure by which positive developments can be shown. The groundwork for the passage of a new incentives bill has been initiated, therefore, the sub-committee need not start from scratch and have a better chance of getting things done within the year.

In working for the passage of the bill, the sub-committee is guided by the following specific objectives:

- 1) To have one incentives law that will govern and be administered by all investment promotion agencies in the Philippines; 2) To have a clear, simple, time-bound and performance based incentives system; and 3) To provide incentives that are "at par" with regional countries.

A tri-level approach involving the Cabinet, the Senate and the Bicameral Levels has been mapped by the DTI to achieve approval of this priority issue within 2006.

Work Plan

	ACTIVITIES	TIME FRAME
1st Level –		
a. DTI LEVEL	1. DTI Secretary to convene all agencies under the DTI umbrella to come up with only one position <ol style="list-style-type: none">a. Board of Investments (BOI)b. Philippine Economic Zone Authority	3 rd week of March 2006

	ACTIVITIES	TIME FRAME
b. CABINET LEVEL	<p>(PEZA)</p> <p>c. Clark Development Corporation (CDC)</p> <p>d. Subic Bay Metropolitan Authority (SBMA)</p> <p>e. John Hay Management Corporation (JHMC)</p> <p>f. Cagayan Economic Zone Authority (CEZA)</p> <p>g. Zamboanga City Special Economic Zone Authority (ZCSEZA)</p> <p>1. DTI Secretary to meet with DOF and NEDA to come up with a common position</p> <p>2. For the Cabinet to adopt DTI-DOF-NEDA position</p>	<p>1st week of April 2006</p> <p>1st or 3rd week of April 2006</p>
2nd Level SENATE LEVEL	DTI Secretary and the Undersecretary for IIG to elevate at the Senate level the Executive Agencies' position on the rationalization of fiscal incentives	3 rd week of April 2006
3rd Level BICAM LEVEL	DTI Secretary to tap the support of Secretary Gabriel Claudio and request him to coordinate with the Senators and Congressmen for the speedy passage of the Rationalization of Fiscal Incentives Bill.	September 2006

Desired Assistance from Donor Partners

1. We seek Donor assistance to push for the passage of the bill by providing inputs to the DTI and the Senate on emerging variants of incentives that are now being granted by like countries, particularly for sectors that we similarly identify as priority investment areas.

In the service-oriented sectors, for example, the Donor may be able to come up with a study that compiles and explains the set of incentives that are most relevant and attractive to investors.

2. When the bill is finally passed into law, the DTI seeks further assistance from the donor to

implement its provisions especially those related to investment promotion and industry development (e.g., grants for the formulation of a National Investment Promotion Program for investment promotion activities and the development of sector plans).