# PARTNERSHIP FOR GROWTH

Joint Country Action Plan

Philippines – United States 2012-2016

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# Partnership for Growth: Philippines 2012-2016

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# Executive Summary

The Government of the Republic of the Philippines (GPH) and the United States Government (USG) have agreed to the new Partnership for Growth (PFG). This partnership mobilizes the resources of both governments to address the most serious constraints to economic growth and development in the Philippines. Through this enhanced bilateral engagement, the PFG will assist the Philippines achieve the goal of moving from a low growth path to a higher, sustained and more inclusive growth trajectory in line with other high-performing emerging economies. The GPH and USG plan to work together to accomplish this goal through the following objectives:

- Create a more transparent, predictable, and consistent legal and regulatory regime in the Philippines, one that is less encumbered by corruption;
- Foster a more open and competitive business environment with lower barriers to entry;
- Strengthen the rule of law that is grounded in an efficient court system capable of delivering timely justice; and
- Support fiscal stability through better revenue administration and expenditure management.

Led by key economic officials from both governments, the PFG spearheaded extensive consultations in developing this five-year PFG Joint Country Action Plan (JCAP), which the two governments intend to implement in accordance with their respective laws and regulations. Informed by current research and field assessments, a GPH and USG economic team conducted an analysis of the binding constraints to growth in the Philippines to prioritize key interventions to be undertaken by the PFG. The growth diagnostics and constraints analysis study provided a guide in developing a focused strategy intended to maximize the impact of development efforts. This assessment identified ***weak governance*** and ***narrow fiscal space*** as the two binding constraints to growth. These findings align with the priority reform areas of the GPH's Philippine Development Plan (PDP) 2011-2016. Based on this constraints analysis, this PFG country plan consists of three inter-related themes of development intervention: Regulatory Quality, Rule of Law and Anti-Corruption, and Fiscal Performance.

For regulatory quality, the PFG seeks to promote an environment attractive for investment, trade, and private sector growth. The GPH seeks to attract more investment and boost trade by reducing the cost of doing business, encouraging market contestability, easing regulatory processes, and engaging the private sector in economic reforms. The GPH strategy targets growth in priority sectors, such as tourism, agribusiness, infrastructure, logistics, mining, and manufacturing. In response, PFG initiatives seek to support measures to reduce the cost of doing business, improve the investment climate, ensure GPH import regulations are consistent with internationally accepted standards, enhance human capacity to support high-growth sectors, and ease restrictions to market entry. In addition, PFG efforts aim to facilitate economic integration and meet the country's commitments under the ASEAN Economic Blueprint, which outlines concrete targets for establishing a single market and production base in the ASEAN region by 2015. Other PFG efforts include support for trade and investment-related policy reforms needed to improve Philippine readiness to qualify for entry into other multilateral and bilateral trade agreements such as the Trans-Pacific Partnership (TPP) agreement. These PFG activities expect to contribute to an enhanced investment climate and cross-border trade for the Philippines.

To strengthen the rule of law, the PFG seeks to enhance judicial efficiency. The GPH undertakes to improve the timely resolution of court cases, particularly those that significantly undermine trade, the investment

climate, and business confidence. This PFG component aims to support the GPH in implementing a comprehensive docket cleansing effort to identify priority areas for court decongestion. PFG efforts seek to enhance the ability of justice sector institutions in resolving commercial disputes and financial crimes. PFG initiatives will also aim to assist the GPH in improving contract enforcement and enhancing avenues for alternative dispute resolution. PFG initiatives also strive to strengthen accountability mechanisms in the justice sector. This support for the rule of law is intended to contribute to a more efficient court system and timely delivery of justice.

The PFG seeks to lower the incidence of public sector corruption. The GPH seeks to reduce opportunities for corruption and increasing its punitive risks, particularly for large-scale cases. As a member of the Open Government Partnership, the Philippine government intends to strengthen transparency and accountability mechanisms by expanding avenues for citizen participation. In response, activities in this PFG component seek to enhance anticorruption institutions. In addition, PFG efforts endeavor to expand integrity initiatives of the private sector, particularly in business interactions with the government (e.g., tax compliance, public sector procurement). PFG efforts also aim to assist the Philippine government enforce compliance with the Anti-Red Tape Act to prevent corruption. These efforts are expected to mitigate corruption in business activities in the Philippines.

In fiscal space, the PFG seeks to address insufficient revenue generation, reduce tax leakages, and improve expenditure management of GPH agencies. The GPH has prioritized fiscal reforms as part of overall efforts to maintain macroeconomic stability and pursue tax policy reforms to achieve its fiscal revenue targets. To complement these initiatives, PFG initiatives are intended to provide GPH support to undertake tax policy reforms to broaden the tax base and expand tax collection efforts. PFG efforts also aspire to address GPH revenue shortfalls resulting from tax/duty evasion and smuggling. PFG efforts also aim to support measures to enhance transparency and accountability in the allocation and utilization of the budget. These PFG efforts are meant to strengthen the fiscal position, allowing the GPH to increase public spending in priority areas such as infrastructure, health, and education.

Over the next five years, the PFG anticipates producing a transformative impact in the Philippines. This enhanced engagement constitutes an unprecedented GPH-USG inter-agency collaboration guided by a focused strategy maximizing the impact of development efforts. Anticipated outcomes should be benchmarked against baseline economic statistics, a select list of middle-income countries, and high performing emerging markets, particularly regional neighbors. The PFG benchmarks and indicators align with the priority elements of the PDP: higher GDP growth; a decline of poverty incidence; annual growth of more productive (i.e., formal sector) employment; and increased GDP per capita.

Over the life of the JCAP, the PFG is intended to build a range of assistance partnerships to leverage its development investments through public-private alliances and by coordinating with the donor and NGO communities for the efficient use of resources. GPH contributions include national and local government support, in-kind amounts of GPH staff time, office space, and equipment. These contributions should be further discussed as part of succeeding bilateral agreements between the GPH and USG.

The success of PFG requires strong and sustained levels of engagement from both the GPH and USG. This partnership demonstrates GPH commitment to economic reform to foster a more conducive investment environment. From the USG, this engagement reflects the strategic importance of the Philippines as a staunch ally in the Asia Pacific region. In making PFG a success, various USG agencies intend to provide the necessary financial and non-financial resources to assist the Philippines in addressing its binding constraints to growth, in accordance with applicable laws and regulations. Both the GPH and USG recognize the need

to engage and inform the private sector and the public about the partnership, in order to mobilize support for PFG activities.

The JCAP remains flexible and should be reviewed annually, in order to make on-course correction and adjustment for subsequent implementation. Composed of Co-Chairs from both the GPH and USG, a PFG Joint Steering Committee will be established to provide policy direction and monitor the overall implementation process. Meeting every six months, the GPH-USG Steering Committee will aim to assess progress on both USG and GPH initiatives and collaborate among participating agencies and civil society organizations. A PFG Secretariat plans to provide technical and administrative support to the Steering Committee. Three technical working groups will be organized: Regulatory Quality, Rule of Law and Anti-corruption, and Fiscal Performance. The PFG Secretariat and Technical Working Groups will be based in Manila.

# List of Acronyms

| | |
|---|---|
| ASEAN | Association of Southeast Asian Nations |
| ASW | ASEAN Single Window |
| BIR | Bureau of Internal Revenue |
| BOC | Bureau of Customs |
| BPLS | Business Permit and Licensing Systems |
| CTMA | Customs and Tariff Modernization Act |
| DBM | Department of Budget and Management |
| DILG | Department of the Interior and Local Government |
| DOE | Department of Energy |
| DOF | Department of Finance |
| DOJ | Department of Justice |
| DOTC | Department of Transportation and Communications |
| DOT | Department of Tourism |
| DPWH | Department of Public Works and Highways |
| DTI | Department of Trade and Industry |
| ERC | Energy Regulatory Commission |
| FTC | Federal Trade Commission |
| GPH | Government of the Republic of the Philippines |
| ILO | International Labor Organization |
| JCAP | Joint Country Action Plan |
| MCC | Millennium Challenge Corporation |
| NCC | National Competitiveness Council |
| NEDA | National Economic and Development Authority |
| NERBAC | National Economic Research and Business Assistance Centers |
| NSW | National Single Window |
| PBR | Philippine Business Registry |
| PDP | Philippine Development Plan |
| PPP | Public Private Partnership |
| RATE | Run after the Tax Evaders Program (BIR) |
| RATS | Run after the Smugglers Program (BOC) |
| RIPS | Revenue Integrity Protection Service (DOF) |
| RKC | Revised Kyoto Convention of the World Customs Organization |
| SEC | Securities and Exchange Commission |
| TPP | Trans-Pacific Partnership Agreement |
| USAID | United States Agency for International Development |
| USG | United States Government |

# Partnership for Growth: Philippines

Selected as a Partnership for Growth (PFG) country, the Government of the Republic of the Philippines (GPH) has spearheaded extensive consultations with the U. S. Government (USG) in developing this five-year Joint Country Action Plan (JCAP). The PFG provides a new framework for deepening and strengthening bilateral engagement towards promoting economic growth and inclusive development. The JCAP begins with the goal of the partnership and then states the joint priority areas of focus. The third section provides a summary of the GPH development plans. In the fourth section, the country plan outlines a framework in support of economic growth; identifies instruments that the USG and GPH intend to use to address key constraints to growth; and describes intended impacts. Section five identifies key economic barometers to evaluate the success of the PFG and includes benchmarks to assess progress on both GPH and USG commitments. The last section provides estimates of PFG resources, describes the implementation arrangement, and outlines its corresponding timeline.

## I. Goals and Objectives

The goal of PFG is to assist the Philippines move from a low growth path to a higher, sustained and more inclusive growth trajectory in line with other high-performing emerging economies. The GPH and USG share a desire to work together to accomplish this goal through the following objectives:

- Create a more transparent, predictable, and consistent legal and regulatory regime in the Philippines, one that is less encumbered by corruption;
- Foster a more open and competitive business environment with lower barriers to entry;
- Strengthen the rule of law that is grounded in an efficient court system capable of delivering timely justice; and
- Support fiscal stability through better revenue administration and expenditure management.

To achieve these objectives, PFG efforts to enhance growth will require a concerted effort to improve the business climate and generate more trade and investment flows. The enhanced engagement is intended to support important elements of the Philippine Development Plan 2011-2016 (PDP), specifically priority components of the GPH 10-point Agenda contained in the PDP Strategic Framework for Industry and Services. [1]

## II. Constraints to Higher and Inclusive Growth

To enhance national competitiveness, the PFG seeks to prioritize its interventions, which rely on the growth diagnostics methodology and its constraints analysis to guide a focused strategy maximizing the impact of development efforts. [2]

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[1] As indicated in PDP Chapter 3, this Agenda targets an improved business environment, increased productivity and efficiency, and enhanced consumer welfare with policy reforms designed to (1) Improve Governance; (2) Strengthen Economic Zones; (3) Strengthen National Brand/Identity Awareness; (4) Intensify the Culture of Competitiveness; (5) Focus Interventions in Key Industry Areas; (6) Enhance Firm-Level Support to MSMEs; (7) Expand Industry Cluster Development; (8) Increase Market Access; (9) Encourage Consumer Products and Services Satisfaction; and (10) Improve Supply Chains of Basic and Prime Commodities. (Government of the Philippines 2011, 73-93)

[2] For an overview of the methodology, see Hausmann, Rodrik and Velasco (2005).

The main challenges to economic growth in the Philippines require addressing governance-related issues and constraints to competitiveness. Investment climate diagnostics and global competiveness rankings have identified the major constraints to growth in the Philippines: inadequate infrastructure, cumbersome business procedures, poor tax and customs administration, barriers to market entry, weak property rights, high energy costs, and lack of equitable and effective regulation and enforcement. [3] Informed by current research and field assessments, a GPH and USG economic team conducted an analysis of the binding constraints to growth in the Philippines. This assessment identified ***weak governance*** and ***narrow fiscal space*** as the two binding constraints to growth.[4] Within these two broad areas, poor regulatory quality, weak rule of law, lack of anti-corruption enforcement, inefficient revenue administration and tax collection, and weak expenditure management emerged as critical areas for attention that the USG and the GPH can most effectively address together.

In the area of **Governance**, the PFG focuses on three sub-constraints.

(1) Poor Regulatory Quality. A weak regulatory environment caused by poor governance has played a conspicuous role in deterring public and private investment in the country. Restrictions on foreign investment limit access to the Philippine market and create market distortions that impede business creation and labor demand across the economy. Regulatory inconsistency and poor implementation and enforcement of policies by government agencies increase the risk premium of doing business in the Philippines.

(2) Weak Rule of Law. Delays in resolving cases, the high cost of litigation, the long and arduous legal process, and inconsistency in judicial decision-making have diminished public trust in the justice system. Pointing to weaknesses in the GPH's ability to enforce laws and administer justice, these issues also unsettle investor confidence, especially for those engaged in commercial disputes.

(3) Weak Anti-Corruption Enforcement. Corruption remains pervasive in the Philippines. Corruption continues to undermine the faith of its citizens in local and national government institutions and hampers the ability of these institutions to deliver public services, improve people's welfare, and protect their rights. In effect, corruption poisons the implicit social contract of citizenship. Past anticorruption efforts have been widely criticized for inconsistency and failure to combat large-scale corruption. Agencies responsible for accountability and oversight typically have limited resources, lack the legal tools to detect corruption, grapple with interminable court delays, and operate under outdated legal frameworks. Administrative inefficiencies of public sector organizations – combined with wide executive discretion and poor public oversight – exacerbate wide opportunities for corruption.

In **Fiscal Space**, the PFG focuses on three sub-constraints.

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[3] See, for example, Habito (2010)

[4] The constraints analysis focused on four main primary constraints: fiscal space, infrastructure (emphasizing electricity and transport), aspects of governance, and human capital. Although significant drags on more inclusive economic growth in their own right, deeper analysis revealed that the infrastructure and human capital constraints are largely the consequence of limited fiscal space. As tax revenue collections declined the GPH reduced the impact on its fiscal deficit by reducing discretionary expenditures on infrastructure, education and health. The fiscal space constraint is itself a consequence of poor governance. The CA therefore identified Poor Governance and Fiscal Space as the chief binding constraints to more competitive, inclusive growth in the Philippines. (Joint USG-GPH Technical Team 2011)

(1) Inefficient Revenue Generation. Poor tax administration and a small revenue base limit the ability of the GPH to fund crucial spending priorities. The multiplicity of tax exemptions, fiscal incentives, and other revenue-eroding measures further reduce the fiscal space. Given the limited tax base, the GPH requires new sources of revenue to achieve its spending targets.

(2) Weak Anti-Tax Evasion Enforcement. Reduced fiscal revenues due to tax evasion, smuggling, and corruption undermine efforts to improve the country's fiscal position. Poor enforcement of anti-tax evasion and anti-smuggling rules– coupled with difficulty prosecuting such cases – limit government capacity to improve its revenue performance.

(3) Weak Budget/Expenditure Management. Deficiencies in budget and expenditure management, along with weak legislative oversight and the lack of independent audit/monitoring, also contribute to fiscal crises. Moreover, weak fiscal transparency increases the risk of corruption.

## III. Summary of Philippine Development Plan 2011-2016

President Benigno S. Aquino III has embarked on a program of government based on his "Social Contract with the Filipino People," which articulates a commitment to transformational leadership, institutional reform, economic stability, and inclusive growth.[5] With good governance and anti-corruption as an overarching theme, the Philippine Development Plan (PDP) 2011-2016 seeks to address poverty, create employment opportunities, and achieve the GPH's vision of inclusive growth. The PDP outlines a comprehensive set of strategies, policies and programs, and activities within a framework of inclusive growth that will operationalize the administration's development agenda. The PDP centers on five key strategies. First, the GPH seeks to boost competitiveness in the productive sectors to generate massive employment. Second, the PDP aims to improve access to financing to address the evolving needs of a diverse public. The third priority looks to invest massively in infrastructure. Fourth, the GPH hopes to promote transparent and responsive governance, as emphasized throughout the PDP. Finally, the GPH proposes to develop human resources through improved social services and protection. Complementary programs focused on achieving a stable macroeconomic environment, ensuring ecological integrity, advancing the peace process, and guaranteeing national security are also envisioned to support these PDP strategies.

## IV. PFG Country Plan for 2012-2016

Based on the constraints identified above, the PFG country plan consists of three inter-related themes of development intervention: Regulatory Quality, Rule of Law and Anti-Corruption, and Fiscal Performance. Each area outlines (i) GPH PDP goals and related policies and actions; (ii) proposed PFG joint actions; and (iii) anticipated impacts.

### A. Improving Regulatory Quality

For regulatory quality, the PFG objective is to foster an environment attractive for investment, trade, and private sector growth. The enhanced engagement aims to ease the regulatory burdens that inhibit

[5]The Social Contract envisions "a country with an organized and shared rapid expansion of the economy through a government dedicated in honing and mobilizing our people's skills and energies as well as the responsible harnessing of natural resources."

investments and trade and support the implementation of related priority policy reforms outlined in the PDP's strategic framework for industries and services.

## 1. Facilitate Trade and Investment

By promoting a stable, consistent, and transparent policy environment needed to enhance investor confidence, the PFG seeks to boost trade and increase investments in priority sectors identified in the PDP.[6] The GPH recently acceded to the World Customs Organization (WCO) Revised Kyoto Convention (RKC), which seeks to standardize and harmonize customs policies and procedures according to set standards. The GPH seeks to introduce a new Customs and Tariff Modernization Act to comply with the RKC. These changes in the customs laws, regulations, and procedures are expected to result in reduced cost and delays in customs clearance. In addition, simplification and automation of customs procedures will introduce greater transparency and predictability in the resolution of customs cases. The GPH has also committed to implementing a National Single Window (NSW), integral to the country's obligations under the ASEAN Economic Blueprint.[7]

PFG activities are intended to support GPH efforts to facilitate compliance with RKC provisions and other international trade regimes, including WTO customs valuation agreement and regional trade agreements. PFG activities also aim to support trade facilitation through greater use of automated systems and electronic means to reduce paper bureaucracy and person-to-person interactions at the Bureau of Customs and improve coordination between government departments under the NSW. PFG assistance endeavors to improve customs compliance through more sophisticated targeting and risk management systems. PFG support is meant to extend to efforts at harmonizing local customs rules that conform to international standards. In addition, PFG activities are intended to assist GPH efforts to improve economic integration and meet the country's commitments under the ASEAN Economic Blueprint, which charts concrete targets for establishing a single market and production base in the ASEAN region by 2015. Other PFG efforts include support for trade and investment-related policy reforms needed for eligibility into multilateral and bilateral trade agreements such as the Trans-Pacific Partnership agreement.

Overall, these combined GPH-USG PFG activities expect to contribute to an enhanced investment climate and cross-border trade for the Philippines. As for impact, increased levels of domestic and foreign investment will result in higher growth and employment in priority sectors.

## 2. Reduce Regulatory Bottlenecks, Entry Barriers and Discriminatory Provisions to Investment

The PFG is intended to support GPH measures to reduce the cost of doing business, improve the investment climate, ensure all import regulations are consistent with internationally accepted standards and policies, and reduce barriers to entry. The Philippine government has committed to streamlining business procedures (predictability, reliability, and efficiency) at the national and local levels to reduce the country's cost of doing business. The GPH also seeks to improve the overall investment climate

[6] Such as tourism, agribusiness, infrastructure, logistics, mining, and manufacturing.

[7] The NSW system is designed to enable the single submission, and synchronous processing of data, and single decision-making for the release and clearance of imports and exports by the Bureau of Customs. This interconnection will provide the ability to share and counter-check permits and clearance across a total of 50 agencies online and in real-time. In doing away with spurious permits, licenses and clearances from these regulatory agencies, the NSW would contribute to trade facilitation and a reduction of opportunities for corruption.

through regulatory reforms.[8] The GPH continues to pursue the implementation of the Anti-Red Tape law, as well as a Philippine Business Registry (PBR) system to establish an on-line system for national business registration requirements.

Regulatory quality also suffers from overlapping and conflicting functions of government authorities, which the GPH proposes to address by separating dual operational and regulatory functions of various government agencies. In addition, the GPH seeks to establish policies for risk allocation, right-of-way acquisition, and financial support for viability of transport projects in support of Public-Private Partnerships (PPP) for infrastructure investment and seek the amendment of the Build-Operate-Transfer law. The GPH seeks to improve provision of transport infrastructure, reduce the high cost of electricity, and promote access to affordable power.

In efforts to improve the investment climate, PFG efforts will aim to support GPH initiatives to streamline, reduce or eliminate regulations that constrain the business environment, particularly with the implementation of related priority policy reforms in the GPH framework for industries and services. PFG activities will seek to support jointly-organized investment policy conferences, reverse trade missions, or international buyer programs aimed at encouraging economic growth in the Philippines. This PFG strategy aims at growth in priority sectors, including tourism, agribusiness, infrastructure, logistics, mining, and manufacturing. PFG support may include TA for feasibility studies. Activities are also intended to support regulatory reform initiatives particularly in port, water, and transport sectors.

These joint PFG efforts are expected to result in lower regulatory compliance costs, increased business start-ups, reduced logistics costs, and higher infrastructure spending as a percentage of GDP.

## 3. Improve Competition Policy

The PFG seeks to foster competition in key sectors, particularly where monopolies and oligopolistic market power thrives. High concentration of ownership, along with cross-ownership, in several industries inhibits effective competition, innovation, and dynamism in the domestic economy. The Philippine government has made the enactment of a new Anti-Trust/Competition Law a legislative priority and, by executive action, recently created a precursor Office of Competition within the Department of Justice (DOJ). The GPH also expects to encourage more market contestability in key economic sectors and reduce discriminatory provisions to market entry.

The PFG envisions providing technical support to enhance the competitive environment through a more effective competition policy. PFG proposes to strengthen capacity and independence of the Competition Authority, as well as other regulatory agencies dealing with anti-competitive behavior. This should lead to a more competitive economic environment conducive to increased business activities, investments, and gainful employment.

## 4. Enhance Philippine Participation in Regional and International Trade Arrangements

The PFG aims to support trade and investment-related policy reforms needed to improve Philippine readiness to participate in regional and multilateral trade regimes. The Philippine government seeks greater engagement in international trade arrangements to boost exports and attract investment. The

[8]For example, the Department of the Interior and Local Government and the Department of Trade and Industry jointly launched the Nationwide Streamlining of Business Permits and Licensing System Reform Project to streamline the processes of getting business permits and licenses from city and municipal governments.

GPH has committed to advancing regional integration under the ASEAN Economic Community and aspires to participate in multilateral and bilateral trade agreements such as trade-enhancing partnerships, e.g., Trans-Pacific Partnership (TPP) Agreement. The GPH seeks improvements in areas such as intellectual property rights, standards conformance, government procurement, and trade and investment policy, and thus become ready and eligible for trade agreements such as the TPP.

The PFG aims to support GPH efforts to meet its commitments under the ASEAN Economic Blueprint and improve Philippine readiness for trade agreements such as the TPP. The PFG plans to assist GPH efforts to harmonize national policies and regulations in line with regional and international trade regimes. These activities will aim to increase exports and inward investment, generating employment and raising national income.

### 5. Enhance Human Capacity for Economic Growth

The PFG seeks to provide assistance to strengthen higher education institutions in the country to serve as a key driver for innovative, sustained economic growth. The primary focus will be to help improve regulation of institutions to improve the quality of post-secondary education. The GPH seeks to achieve a higher level of productivity, international competitiveness, industry relevance, and social responsiveness in the development of both middle-level skills and the high-level professions.

PFG efforts will aim to provide technical assistance to improve the regulation of both public and private institutions of higher education. To address supply-demand mismatches in skills, the PFG seeks to promote stronger links between academe and industry. In addition, this enhanced engagement aims to establish links between U.S. universities, local higher education institutions, and the private sector to strengthen faculty development, accelerate transfer of technology, support the formation of patent officers in universities, and spur collaborative research that lead to innovation.

These activities should strengthen the ability of GPH to regulate post-secondary education and learning, strengthen linkages between academe and industry for skills and research development, and improve the innovative capacity of local universities to carry out research in science and technology in selected high-value sectors.

### 6. Other Proposed Actions by USG Agencies

The PFG also proposes various other initiatives to improve regulatory quality to improve public and private investment in the country.

## B. Strengthening the Rule of Law and Anti-Corruption Measures

To strengthen the rule of law, the PFG objective is to ensure the speedy, predictable, and consistent legal environment, as well as the effective enforcement of anti-corruption laws. The PFG is also intended to carry out activities to support GPH efforts to minimize corruption.

### 1. Support Efforts to Improve Judicial Efficiency

PFG activities seek to uphold the rule of law, primarily by assisting GPH efforts in the timely delivery of justice. The Philippine government remains committed to continuing initiatives to decongest court dockets.[9] The GPH also seeks to uphold the strict implementation of the prescribed period provided by

[9]These efforts include an exhaustive inventory of existing cases to identify archived cases and the review of laws and rules of procedure to increase both the resolution and clearance rates of courts.

the rules for the resolution of cases, as well as the establishment of guidelines for the determination of probable cause in case filings.

The PFG aims to support comprehensive court docket cleansing efforts.[10] These activities include identification of bottlenecks that delay trials, the implementation of case decongesting procedures, and tracking and management systems that will significantly reduce the current backlog of cases. By improving court efficiency, the PFG is intended to contribute to reducing transactions costs in resolving contractual disputes, boost public trust in the judicial system, and bolster investor confidence. An efficient and functioning judiciary plays a crucial role in meeting the PFG objectives of enhancing regulatory quality and strengthening enforcement efforts against financial crimes.[11]

## 2. Strengthen Anti-Corruption Institutions

For this area, the PFG seeks to combat corruption through a variety of mechanisms. The GPH intends to increase the punitive risks of public sector corruption and provide stronger oversight over corruption infractions. GPH enforcement efforts are directed at large-scale corruption to deter massive fraud and promote open and fair competition in public procurement. As a party to the Open Government Partnership, the Philippine government seeks to promote transparency, widen citizen participation, minimize opportunities for corruption, and improve accountability across all levels of government.[12] The PFG aims to support efforts to strengthen the legal framework, internal procedures, law enforcement capacity, and accountability mechanisms of anticorruption institutions. Activities may also facilitate cooperation among institutions with anticorruption mandates to improve prevention, detection and prosecution. PFG support is intended to enhance asset disclosure, forfeiture, and management regime to deprive corrupt officials of their ill-gotten gains.

In limiting the cost of corruption, these PFG measures seek to attract more foreign and domestic investors by creating a more secure destination and a level playing field for doing business.

## 3. Strengthen Contract Enforcement

The PFG seeks to ensure predictable contract enforcement. The Philippine government remains committed to strengthening the rule of law, particularly in bolstering investor confidence, and in reducing costs to resolving contractual disputes. To achieve this objective, the GPH seeks to enforce government contracts more consistent with international standards, existing laws, and public interest. The government plans to continue to uphold the independence of the justice sector to promulgate legal opinions and ensure consistency of government contracts. The government also seeks to expand the use of alternative dispute resolution to facilitate faster resolution of disputes.

In tandem, PFG activities expect to provide capacity building to justice sector institutions in the handling of priority cases of the Philippines. To maximize transparency and clarity in contract provisions, the PFG intends to provide TA to assist oversight and implementing agencies in drafting large-scale government contracts, including public-private partnerships for infrastructure. PFG efforts also seek to support GPH

[10] These docket cleansing efforts include addressing bottlenecks that delay trials, a thorough analysis of the case backlog of appellate courts, and select trial courts with the highest volume of cases.
[11] In such areas as corruption, tax evasion, smuggling and violations of intellectual property rights.
[12] The Open Government Partnership constitutes a new international initiative aimed at securing concrete commitments from governments to promote transparency, increase civic participation, fight corruption, and harness new technologies to make government more open, effective, and accountable. See www.opengovpartnership.org.

efforts to enhance commercial dispute resolution and promote the use of *amicus curiae* and forensic evidence in business-related cases. Finally, PFG intends to support public participation in monitoring business-related cases to promote both accountability and consistency.

These PFG efforts seek to lower transaction costs for businesses, particularly with regard to litigation over contract disputes. Less prone to legal challenges, government contracts would be more consistent with international standards, existing laws, and the general public interest. These outcomes contribute to reducing the risk premium of doing business and strengthen investor confidence in the Philippines.

## 4. Strengthen Intellectual Property Rights Enforcement

The PFG engagement recognizes that a strong intellectual property rights (IPR) regime fosters innovation and creativity in the private sector to spur domestic economic development and international trade. To serve the needs of the copyright-based industries, the Philippine government will seek to pursue amendments to the Intellectual Property Code and strengthening the enforcement capability of the Intellectual Property Office. PFG activities will aim to support efforts to combat commercial piracy, enforce IPR laws, and ensure the speedy resolution of IPR cases. A strong IPR regime can help attract foreign investments and increase the volume of trade between the Philippines and its international trading partners, including the U.S.

## 5. Support Integrity- and Confidence-Enhancing Measures

PFG efforts seek to promote transparency in judicial appointments, procedures and rulings, including business-related cases. The Philippine government remains committed to implementing integrity enhancing measures that reduce opportunities for corruption as well as enhance the credibility of the judicial system. Among the proposed activities to be undertaken by the GPH is the establishment of independent disciplinary units to act on complaints against erring legal personnel. In addition, the GPH seeks an open and transparent search process in the selection of appointees in justice sector institutions, public oversight of government processes, and the strict enforcement of ethical standards.

Building on the integrity-building measures identified in the Supreme Court Integrity Development Review, PFG activities are intended to support the GPH in ensuring the consistent, transparent, fair and timely application of appropriate sanctions for misconduct in the justice sector. Such PFG confidence-building measures aim to boost public trust in the judicial system, as well as bolster investor confidence.

## 6. Strengthen Corporate Governance

PFG seeks to support chambers of commerce and business associations to encourage transparent, honest and ethical business practices among its members and strengthen integrity mechanisms. The GPH supports the strengthening and expanding of private sector initiatives to police its own ranks and limit corrupt relations with government agencies, particularly in tax payment and procurement. The Philippine government intends to harness the contributions of the business sector in changing the business environment from one that tolerates corruption to one that upholds transparency and fair competition. The Partnership intends to assist business associations and chambers of commerce in expanding self-regulatory initiatives to promote anti-bribery practices and discourage other illegal and/or unethical business behavior. PFG efforts will also aim to provide technical assistance to the Securities and Exchange Commission in monitoring compliance to the Code of Corporate Governance.

These PFG efforts expect to improve the perception of corporate governance in the Philippines; help increase the number of business associations undertaking self-regulatory corporate governance; and assist in raising the number of corporations sanctioned for misconduct.

### 7. Reduce Opportunities for Corruption

PFG efforts aim to assist the Philippine government focus corruption prevention efforts on areas relevant to boosting competitiveness and trade facilitation. The GPH seeks to enhance transparency of transactions with businesses and with the public, particularly in enforcing full compliance with the Anti-Red Tape Act. The GPH also intends to strengthen integrity mechanisms, including the application of the Integrity Development Review – a compendium of tools for assessing public sector systems to determine the level of vulnerability to corruption.

In response, the PFG intends to provide support to the Civil Service Commission and other oversight offices in monitoring and increasing compliance to the Anti-Red Tape Act. Interventions should support the application of the Integrity Development Reviews as well as develop and pilot other system diagnostic technologies in select government agencies.

PFG activities to reduce opportunities for corruption should increase compliance with the Anti-Red Tape Act by investment- and trade-related government agencies and improve international rankings on Philippines bureaucratic efficiency.

### 8. Enforce Ethical Standards

The GPH seeks the strict enforcement of anticorruption policies, including the Code of Conduct and Ethical Standards for Public Officials. The PFG intends to support the office within the GPH DOJ in effectively upholding professional and ethical standards.

### 9. Strengthen Accountability Measures

The GPH remains committed to improving the performance of the justice sector. PFG should assist efforts to pursue and evaluate the effectiveness of specific policy and reform initiatives.

## C. Improve Fiscal Performance

A reduced fiscal space remains a binding constraint on growth in the Philippines. Low government revenue due to a narrow tax base and ineffective expenditure management further inhibit growth. The PFG seeks to address insufficient revenue generation, strengthen tax collection enforcement, and improve expenditure management of GPH agencies.

### 1. Increase Fiscal Space by Expanding the Tax Base

The Philippines has one of the lowest ratios of tax revenues to GDP in the region because of widespread tax evasion and special interest tax exemptions. Although the GPH has stressed the need to correct its fiscal imbalances, few of the Administration's efforts to generate additional revenue have been legislated. There is a need to improve both revenue collection and the fairness of the tax system. The PFG envisions a highly targeted approach for its support of tax policy, focusing on areas where: (i)problems have been noted in the past and are likely to remain in the future; (ii) limited assistance may have strategic impact; and (iii) assistance and reforms can be monitored by the public.

The PFG intends to assist in expanding the tax base by supporting a specialized fiscal unit within the Department of Finance (DOF). PFG efforts also aim to support revenue enhancement measures through data sharing within and across pertinent GPH agencies, indexation of excise taxes, rationalization of fiscal incentives, mitigation of revenue-eroding measures, and assistance in the review of the Internal Revenue Code.

These initiatives should result in increased tax revenue and better defined tax revenue targets.

### 2. Increase Fiscal Space by Minimizing Revenue Loss

The PFG aims to strengthen tax collection enforcement and address evasion of tax and customs duty. Component activities are intended to improve the Philippines' tax administration. Aside from improving the tax effort, the GPH has prioritized actions to address revenue leakages arising from tax evasion and smuggling. The GPH has established the Run After the Smugglers (RATS) and the Run After the Tax Evaders (RATE) programs to plug revenue leaks and prosecute tax evaders and smugglers.

PFG initiatives should support efforts to strengthen the capacity of RATS and RATE to combat tax evasion and smuggling. In addition, activities will strengthen mechanisms to track, coordinate, and prosecute RATS/RATE cases. The PFG also intend to assist in establishing mechanisms for more effective seizure and forfeiture procedures when handling resolved RATS/RATE cases.

These efforts will result in lower incidences of tax evasion and smuggling.

### 3. Increase Fiscal Space by Improving Expenditure Management

The PFG seeks to support improvements in the quality of public expenditure management policies and frameworks. Component activities are intended to improve the Philippines' execution of the national budget. The GPH seeks to reform public expenditure management to increase productive expenditures. The government seeks to reduce waste and inefficiency with the rationalization of expenditures and increased fiscal accountability. The GPH continues to pursue the establishment of the Government Integrated Financial Management System, in-depth program evaluation, and greater procurement transparency. In addition, the government intends to establish a single treasury account and reform the pension system.

In response, the PFG aims to provide technical assistance to enhance and institutionalize GPH capacity in program evaluation and expand a public database for tracking the utilization of lump sum appropriations. Activities will also seek to provide capacity building and technical assistance to potential third party observers of public infrastructure projects. PFG assistance to the GPH also seeks to improve the payroll management system, specifically in consolidating the disbursement of salaries and in instituting pension reforms.

These efforts are expected to increase transparency, eliminate inefficient programs, and improve fiscal accountability.

## V. Anticipated Outcomes

The PFG seeks to support measures to enable the Philippines join the ranks of high-performing emerging economies. Assistance should be focused on implementing reforms that improve the business environment and competitiveness, including an investment climate more attractive to investors – both foreign and domestic. The enhanced engagement also measures progress along such lines as judicial reform, anti-corruption measures, and budget transparency. By improving court efficiency, the PFG may contribute to reducing transactions costs in resolving contractual disputes, boost public trust in the judicial system, and bolster investor confidence. In limiting and regularizing the cost of corruption, PFG activities seek to attract more foreign and domestic investors by creating a more secure destination and a level playing field for doing business. PFG efforts will also aim to contribute to a stronger public sector

fiscal position that enables increased public sector investment in critical sectors like health, education, and infrastructure.

## A. Benchmarks and indicators

Anticipated outcomes should be benchmarked to baseline economic statistics, a select list of middle-income countries, and high performing emerging markets, particularly regional neighbors.

***I. Enhanced Domestic Investment Climate***

- Share of regional foreign direct investment (FDI) increased
- Gross capital formation increased
- Global Competitiveness Index: increasing or on par with leading regional and emerging market peers
- Index of Economic Freedom (overall score, Business, Investment): increasing or on par with regional and emerging market peers
- Doing Business Ranking and Related Indicators: improving or on par with regional and emerging market peers
- Business Start-ups: increased in key sectors (agribusiness, creative industries, infrastructure, manufacturing & logistics, mining, and tourism)

These barometers of the PFG's success depend on activities that address the binding constraints to growth.

***II. Governance***

- Corruption Perception Index: improving or on par with regional and emerging market peers
- World Governance Indicators (Regulatory Quality, Rule of Law, Control of Corruption): improving or on par with regional and emerging market peers
- World Justice Project's Rule of Law Index (Accountable Government, Open Government and Regulatory Enforcement, Access to Justice): improving or on par with regional and emerging market peers
- Court Congestion: eased through docket cleansing, case track management, and capacity building of commercial, tax, and anti-graft courts

***III. Fiscal Space***

- Tax effort improved
- Budget deficit at manageable levels
- Public spending on priority areas, particularly in infrastructure and education

The PFG benchmarks and indicators align with the priority elements of the PDP on the country's path towards inclusive growth: higher GDP growth; a decline of poverty incidence, annual growth of more productive (i.e., formal sector) employment; and increased GDP per capita.

## B. Macro and Political Assumptions

In contributing to these development targets, the PFG seeks to expand access to investment and economic opportunity in the Philippines. At the macro-economic level, the PFG benchmarks and indicators outlined above are predicated on a stable monetary policy and relatively stable international market conditions. Based on the growth diagnostics framework, the PFG has concluded that private investment better oriented toward employment generation is the key to higher economic growth. The root causes of low private investment – and hence, low growth – can be attributed to poor governance and insufficient fiscal space in the Philippines.

At the political level, the success of PFG will require strong and sustained levels of engagement from both the GPH and USG sides. From the USG, this commitment reflects the strategic importance of the Philippines as a staunch ally in the Asia Pacific region. In making PFG a success, various USG agencies intend to provide the necessary financial and non-financial resources to assist the Philippines in addressing its binding constraints to growth. On the GPH side, this partnership underscores a convincing political willingness to address the intractable governance and fiscal problems that limit the country's otherwise strong economic potential. This undertaking assumes strong buy-in and appropriate priorities of the various GPH agencies in the pursuit of the targets identified above.

# VI. Resource Requirements and Implementation Plan

## A. Resource Requirements

The PFG constitutes an unprecedented interagency collaboration guided by a focused strategy to maximize the impact of USG's development assistance in the face of limited resources. It calls upon the USG and GPH to be more comprehensive and creative in both countries' development work—to reach beyond aid to all the instruments that both governments can bring to bear in trade, private investment, and technical assistance to connect and amplify the impact of current investments and unlock the growth potential of the Philippines. Under a streamlined and coordinated PFG strategy, the GPH and USG plan to fund activities in line with an agreed upon matrix of activities. The GPH and USG's funding support for PFG will be subject to their respective laws and regulations, including the annual Congressional appropriation and internal budget allocation processes of both governments.

## B. Implementation Plan

Composed of Co-Chairs from both the GPH and USG, a PFG Joint Steering Committee will be established to provide policy direction and oversee overall progress of the PFG JCAP. Meeting every six months, the GPH-USG Steering Committee expects to assess progress on both GPH and USG commitments and collaborate among participating agencies and civil society organizations. USG membership in the Steering Committee comprises USAID, the Department of State, U.S. Trade Representative, the Millennium Challenge Corporation, and the Department of Justice. GPH membership in the Steering Committee derives from DOF, NEDA, DBM, DTI, and DOJ. Other agencies may also be invited to join the Steering Committee as necessary.

The PFG Secretariat should provide administrative support to the Steering Committee, such as:

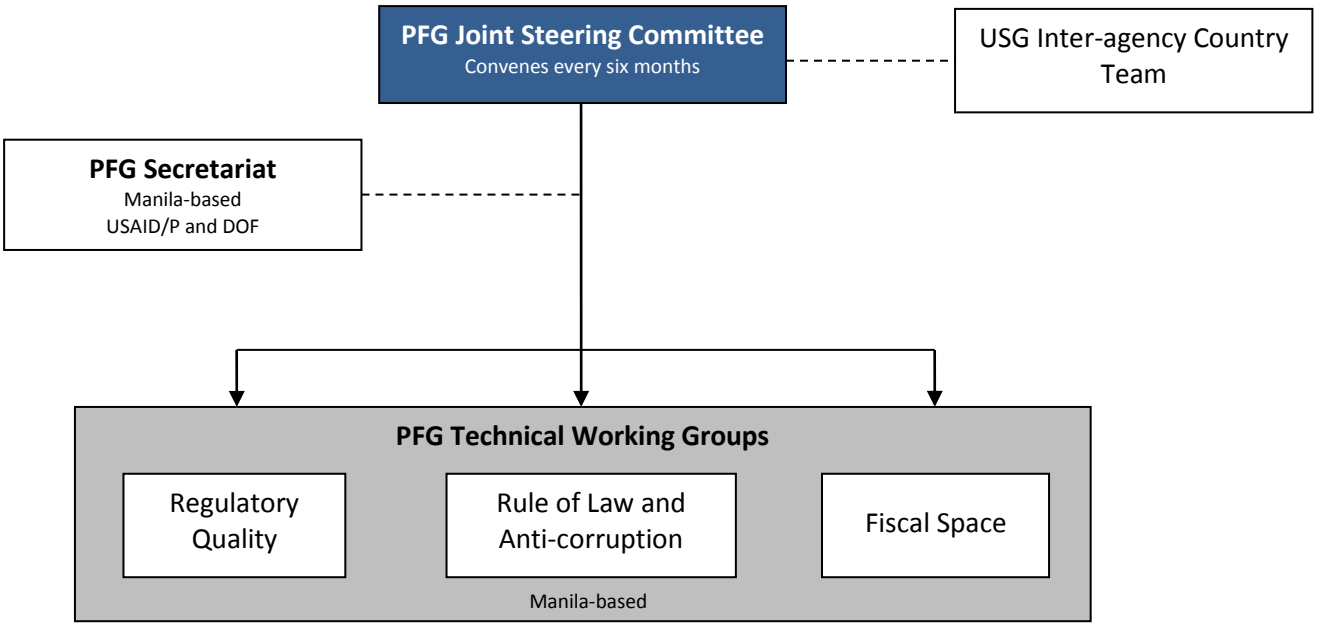
- Preparing agenda, minutes and other documents requiring action by the Steering Committee and PFG Technical Working Groups;
- Maintaining Steering Committee documentation and records;
- Undertaking follow-up actions in support of Steering Committee decisions;
- Serving as the liaison between the Steering Committee and the Technical Working Groups; and
- Arranging meetings for the Steering Committee and provision of necessary logistics for the meetings.

Three technical working groups should be organized: Regulatory Quality, Rule of Law and Anti-corruption, and Fiscal Performance. The PFG Technical Working Groups should perform the following functions:

- Provide advisory support in pursuit of program goals and objectives;

- Coordinate with implementing agencies and entities involved in program activities;
- Resolve implementation issues and other institutional bottlenecks;
- Support advocacy and other outreach efforts for program activities;
- Prepare and review technical documents required for Steering Committee deliberation; and
- Prepare studies supportive of the functions of the Steering Committee, as necessary.

The PFG Secretariat and Technical Working Groups will be based in Manila. USG representatives to the Steering Committee will be based in both Washington and Manila. The USG Interagency Coordinating Team, which played an integral role in the strategic planning process of PFG, intends to continue to provide support and counsel throughout the program's five-year timeframe.




**Implementation Milestones**
November 2011: PFG Statement of Principles signed; Steering Committee convened
December 2011: Composition and terms of reference for PFG Technical Working Groups agreed upon
December 2011: PFG targets established and overall M&E framework developed for the Philippines
January 2012: PFG Technical Working Groups organized
January 2012: Programs designed, small activities initiated
February 2012: Procurement for major programs undertaken (depending on funding availability)
Q2-2012: PFG projects rolled out
2012-2015: Regular monitoring and evaluation (M&E) of program activities (see Section C, below)

## C. Monitoring and Evaluation Plan

The GPH and USG plan to work together to establish an evidence-based M&E framework, to include identifying and tracking progress on sectoral- and macro-level indicators, which will best demonstrate performance against these benchmarks. This framework is expected to cover the following:

1. Process for selecting the benchmarks and indicators associated with each objective;

2. Relevant entity tasked with collecting M&E data to present to the Steering Committee (Technical working groups, an office within USAID, or the PFG Secretariat); and
3. Expectations or plans to collect M&E information from all USG agencies and the GPH.

The JCAP remains flexible and is intended to be reviewed annually, in order to make on-course correction and adjustment for subsequent implementation. The PFG Steering Committee expects to monitor overall implementation progress and ensure proper monitoring and evaluation of activities – while taking into account performance results from the previous year and projected indicator targets. During the implementation of the JCAP, monitoring and evaluation should include the following for each of the three program themes, as well as the PFG as a whole:

1. Identification of key performance indicators and expected development impacts, and corresponding benchmarks and targets;
2. Quarterly implementation monitoring;
3. Annual performance reporting;
4. Mid-term implementation assessment; and
5. Third party impact evaluation.

In addition to commissioning reports, the PFG will aim to undertake periodic public consultations to validate progress and inform future programmatic interventions. Impact evaluations should also be conducted at the end of key activities.

## VII. Appendix - Bibliography

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