ADB

Report and Recommendation of the President to the Board of Directors

Project Number: 43396-014
November 2014

Proposed Policy-Based Loan for Subprogram 2 Republic of the Philippines: Increasing Competitiveness for Inclusive Growth Program

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 24 November 2014)

Currency unit	–	peso/s (P)
P1.00	=	$0.02224
$1.00	=	P44.95

ABBREVIATIONS

ADB	–	Asian Development Bank
BIR	–	Bureau of Internal Revenue
CCT	–	common carrier tax
DOF	–	Department of Finance
DOJ	–	Department of Justice
DOLE	–	Department of Labor and Employment
DOT	–	Department of Tourism
GAA	–	General Appropriations Act
LGU	–	local government unit
LIBOR	–	London interbank offered rate
NEDA	–	National Economic Development Authority
NEET	–	not in employment, education, or training
P3F	–	post-program partnership framework
PDMF	–	Project Development and Monitoring Facility
PDP	–	Philippine Development Plan
PESO	–	public employment service office
PPA	–	Philippines Port Authority
PPP	–	public–private partnership
PPPC	–	Public–Private Partnership Center
RIA	–	regulatory impact assessment
TA	–	technical assistance
TCC	–	tax credit certificate
VAT	–	value-added tax

NOTE

In this report, "$" refers to US dollars, unless otherwise stated.

Vice-President	S. Groff, Operations 2
Director General	J. Nugent, Southeast Asia Department (SERD)
Director	M. Varkay, Officer-in-Charge, Public Management, Financial Sector, and Trade Division, SERD
Team leader	K. Bird, Principal Economist, SERD
Team members	I. Ahsan, Counsel, Office of the General Counsel
	C. de Vera, Operations Assistant, SERD
	K. Hattel, Financial Sector Specialist, SERD
	A. Haydarov, Country Economist, Philippines Country Office, SERD
Peer reviewer	Y. Elhan-Kayalar, Principal Public Management Specialist, Central and West Asia Department

CONTENTS

PROGRAM AT A GLANCE

1. Basic Data				**Project Number:** 43396-014
Project Name	Increasing Competitiveness for Inclusive Growth Program (Subprogram 2)	**Department /Division**	SERD/SEPF	
Country	Philippines	**Executing Agency**	Department of Finance	
Borrower	Government of the Philippines			

2. Sector	**Subsector(s)**	**ADB Financing ($ million)**
✓ **Industry and trade**	Industry and trade sector development	350.00
	Total	**350.00**

3. Strategic Agenda	**Subcomponents**	**Climate Change Information**	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low

4. Drivers of Change	**Components**	**Gender Equity and Mainstreaming**	
Governance and capacity development (GCD)	Institutional systems and political economy	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas		
Partnerships (PAR)	Implementation Private Sector		
Private sector development (PSD)	Conducive policy and institutional environment		

5. Poverty Targeting		**Location Impact**	
Project directly targets poverty	No	Nation-wide	High

6. Risk Categorization: Complex

7. Safeguard Categorization **Environment:** C **Involuntary Resettlement:** C **Indigenous Peoples:** C

8. Financing

Modality and Sources	**Amount ($ million)**
ADB	**350.00**
Sovereign Program loan: Ordinary capital resources	350.00
Cofinancing	**0.00**
None	0.00
Counterpart	**0.00**
None	0.00
Total	**350.00**

9. Effective Development Cooperation

Use of country procurement systems	Yes
Use of country public financial management systems	Yes

Source: Asian Development Bank

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan to the Republic of the Philippines for subprogram 2 of the Increasing Competitiveness for Inclusive Growth Program.[1]

2. The program supports the government's key reform priorities aimed at employment generation by increasing competitiveness in the economy with an inclusive approach through the labor market. The structural reform priorities include efforts to enhance the business climate by promoting competition policy, regulatory efficiency, competitive logistics, and private sector participation in infrastructure projects through public–private partnerships (PPPs). The program also supports the government in promoting competitive labor markets by piloting a youth employment program to empower young people to find decent jobs (known as JobStart Philippines) and a tourism-industry-led skills and services development program, and through longer-term labor policy reforms.

II. THE PROGRAM

A. Rationale

3. The government has made employment creation the core of its inclusive growth strategy and has updated the Philippine Development Plan (PDP), 2011–2016 to this effect. Investment in education, infrastructure, and improvements to the investment climate to attract investment and create jobs are the top priorities of the economic program.

4. **Job creation**. From 2010 to 2014, the Philippine economy enjoyed its fastest expansion since the 1970s. Economic growth has averaged 6.5% per annum, well above its long-term trend of 5.0%. This sustained growth is becoming manifest in a modest improvement in job creation. Since 2010, full-time wage jobs—a broad measure of decent jobs—have expanded by 3.7% per annum, slightly up from the average 3.4% during 1991–2010. According to the Bureau of Labor Statistics survey of the largest 1,000 corporations in the Philippines, new hires have expanded by 10.0% per annum since 2011, doubling from a longer-term average of 5.0% per annum. While wage-job creation has picked up since 2010, it has not been sufficient to absorb all new job seekers or make a dent in the number of workers crowded into the nonwage or informal employment sector (i.e., self-employed, private households, and unpaid family workers), of which the latter account for over half of the workforce.

5. **High rate of youth not in employment, education, or training**. Youth unemployment rates provide limited information on the situation of out-of-work young people because they exclude those economically inactive. A more informative measure is the number of young people "not in employment, education, or training" (NEET). The NEET rate includes unemployed youth and those staying at home. There is concern that repeated spells outside the labor market without training and for longer periods can be damaging to young people's future career prospects and earnings. It can also perpetuate lifetime poverty for the young residing in poor households. The youth NEET rate in the Philippines is relatively high on a comparison with its middle-income peers. For example, the Philippines' youth NEET rate (at 25.0% of the youth population) is the second highest behind Indonesia in Southeast Asia and above the rates calculated for the larger Latin American economies of Argentina, Brazil, and Mexico, which all have youth unemployment problems. In the Philippines, more than one-third of young women

[1] The design and monitoring framework is in Appendix 1.

fall into the NEET category, compared with one in five men. Of particular concern is that the youth NEET rate is twice as high in low-income families than in high-income families, indicating a large pool of young people from lower-income families not being integrated into the labor market despite the recent economic expansion. It reflects both insufficient growth in the demand for labor and a serious mismatch of technical and life skills in this demographic group. Thus, while sustained economic growth above 6.5% per annum is necessary to generate jobs, it is insufficient. Structural policy reforms, including to the labor market, and effectively targeted public provisioning of employment services to assist at-risk young people from lower-income households in finding jobs are necessary to reduce the youth NEET rate.

6. **Investment rate**. Supporting the pickup in economic growth has been a solid recovery in private and public investment. The fixed investment rate started to decline after the Asian financial crisis of 1997 and bottomed out at 13.5% of gross domestic product in 2005. It recovered to 16.8% of gross domestic product by 2008 and reached 19.4% by 2012. Still, the fixed investment rate in the Philippines is much lower than in most other Southeast Asian economies, such as Indonesia (33.2%), Malaysia (25.7%), and Thailand (28.5%). It has resulted in lower long-term economic growth potential of around 5.0% per annum. Much higher investment is necessary to sustain the current average growth rate of 6.5% per annum. In particular, the Philippines continues to underinvest in infrastructure.

7. **Competitiveness**. There has been a marked improvement in the rankings of the Philippines in key global competitiveness surveys since 2010, indicating significantly improved perceptions about the investment climate and the government's reform efforts. For example, compared with 2013, the Philippines jumped six places in the World Economic Forum's 2014 Global Competitiveness Index to become 59th out of 148 countries. Still more needs to be done. The global competitiveness reports identified common areas for the government's attention, such as reforms to the labor market, investment regime, business regulations, and the finance sector. Continued improvements in competitiveness in these areas would establish a solid platform for attracting investment and job creation.[2]

8. The Asian Development Bank (ADB) country partnership strategy, 2011–2016 for the Philippines is consistent and aligned with the PDP and its recent midterm review.[3] It has set expansion in investment as an outcome indicator. ADB has extensive experience in helping improve the investment climate in the Philippines, including assistance to the energy sector, capital market development, road infrastructure, and the business climate (footnote 2).

9. The Increasing Competitiveness for Inclusive Growth Program takes a programmatic approach.[4] It has two subprograms enveloped by a medium-term results-based framework. Subprogram 1 was approved by the ADB Board of Directors in June 2012 (footnote 4). Subprogram 2 builds on the reforms under subprogram 1, with the main focus on implementing policy reforms through pilot projects to demonstrate reform impact. The program has three outputs seen as critical for raising competitiveness and promoting labor market inclusiveness: (i) implementing structural policy reforms to the economy through a better competition policy, regulatory efficiency, and competitive trade logistics; (ii) strengthening the market for infrastructure projects through PPPs; and (iii) promoting competitive labor markets to overcome

---

[2] Sector Assessment (Summary): Public Sector Management–Investment Climate (accessible from the list of linked documents in Appendix 2).

[3] ADB. 2011. *Country Partnership Strategy: Philippines, 2011–2016*. Manila.

[4] ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 1 to the Republic of the Philippines for the Increasing Competitiveness for Inclusive Growth Program.* Manila.

structural weaknesses and generate employment. The program includes a set of high-impact structural policy reforms (such as competition policy, regulatory reform, and tax reform) designed to potentially benefit all sectors. It also includes a package of deeper structural policy reforms and assistance to specific leading sectors such as tourism, logistics, and infrastructure. The tourism sector was selected at the onset of the program in response to private sector demand for structural reforms to specific sectors that hold promise for further lifting economic growth and job creation in an inclusive manner.[5]

10. Subprogram 2 includes two innovative pilot projects that apply policy in practice, with clearly defined and measurable performance indicators. The two pilot projects are supported by two ADB technical assistance (TA) projects financed by the Government of Canada to the amount of Can$12.5 million.[6] Each pilot project is subject to an impact evaluation to provide evidence prior to a nationwide rollout of these programs. The first intervention is the youth employment program known as JobStart Philippines. Drawing on successful models in Latin America, Canada, and Europe, JobStart provides job placement assistance to young people. JobStart is currently being piloted in four local government units and helps 1,600 out-of-school youths to find quality jobs. The second innovative intervention is the tourism skills development program, a PPP between the Department of Tourism (DOT), employers, and industry groups, and is being piloted in Bohol, Cebu, Davao, and Palawan, which are fast-growing tourism destinations. The tourism skills development program includes a grants scheme whereby employers can avail of grants to train workers so as to upgrade skills and services.

11. Subprogram 2 has been jointly formulated by the Government of the Philippines and ADB, with input into outputs 1 and 2 of the policy matrix from the Government of Japan and inputs into output 3 by the Government of Canada. The government, through the Department of Finance (DOF), has coordinated the reform agenda with other development partners participating in the program policy forum (the governments of Canada, France, and Japan) through the program steering committee.[7]

12. During implementation of subprogram 2, the government and ADB agreed to shift two original policy triggers to the post-program partnership framework (P3F) (para. 30) without materially affecting the program's impact and outcome. One new policy trigger was added to subprogram 2. The first policy trigger shifted to the P3F required the government to approve the ports utilization plan designed to decongest container traffic at the Port of Manila and enhance port sales in the Subic Bay Freeport and the Port of Batangas. While the Philippines Port Authority (PPA) had drafted a plan and submitted it to the National Economic Development Authority (NEDA) board for approval, the NEDA board referred the plan back for further revisions, especially in light of the 2014 truck ban that exacerbated congestion at the Port of Manila. The revised draft plan is expected to be resubmitted to NEDA in early 2015. This policy trigger is shifted to the P3F and is replaced in subprogram 2 with the government's interim measure to decongest the Manila container port (para. 19). The second policy trigger shifted to the P3F required the government to provide budgetary financing for the tourism skills development program upon completion of the tourism skills pilot funded under ADB's TA. This policy trigger has been shifted to the P3F because the pilot will be completed at the end of 2015. The government is committed to rolling out the skills development program financed through the national government budget for the fiscal year 2016 (para. 28).

5 Joint Foreign Chambers. 2010. *Arangkada Philippines 2010*. Manila. The document named tourism, logistics, and infrastructure as three of the seven big sectors with promising growth prospects.
6 ADB. 2013. *Employment Facilitation for Inclusive Growth*. Manila; and ADB. 2013. *Improving Competitiveness in Tourism*. Manila.
7 Development Coordination (accessible from the list of linked documents in Appendix 2).

B. Impact and Outcome

13. The impact of the program is an improved investment climate. The benchmark will be progress made in key global competitiveness indicators. The growth inclusiveness element of a better investment climate is measured by the expansion in the number of young people employed in full-time wage jobs. The outcome of the program will be improved competitiveness of selected sectors such as tourism and infrastructure. An update of the performance indicators shows substantial progress in key global competitiveness indicators (para. 7) and a moderate pickup in young people employed in full-time wage jobs (para. 4).

C. Outputs

14. Subprogram 2 supports the government's efforts in improving competitiveness and inclusiveness with three outputs: (i) implementing structural policy reforms to the economy, (ii) strengthening the market for infrastructure projects through PPPs, and (iii) promoting competitive labor markets. All 22 policy measures (14 policy triggers and 8 milestones) required for subprogram 2 have been accomplished.

1. Output 1: Implementing Structural Policy Reforms to the Economy

15. Subprogram 2 supports the government in advancing its competition policy and measures to promote competitive trade. These measures build on reforms completed under subprogram 1, which included the start of regulatory impact assessment (RIA) pilot projects at DOT and the Department of Labor and Employment (DOLE), an "open skies" policy, and initial reforms to value-added tax (VAT) refunds.

16. **Enhancing competition policy and regulatory efficiency**. The government has implemented reforms to develop a robust competition policy framework over the longer term. Its approach has three pillars: (i) develop a competition policy law, (ii) institutionalize RIAs in government, and (iii) undertake sector-by-sector competition and regulatory reforms. Under subprogram 2, the following measures were accomplished to advance this agenda. First, the government, through the Department of Justice (DOJ), established the Office for Competition at DOJ with 17 staff and a 2014 budget of P10 million. It continued capacity development with assistance from the Government of Japan (through the Japan International Cooperation Agency). The Office of Competition has also carried out substantial interagency coordination by establishing five sector working groups and the Sector Regulators Council. Up to mid-2014, the office has received 21 complaints of anticompetitive practices, of which 7 have been resolved and the other 14 are ongoing. A main function of the office is to issue advisory opinions, and it has issued two: on airline tickets sales promotions and on supermarkets.

17. Second, NEDA has established a new division called Governance Staff. Governance Staff will be responsible for championing the practice of RIA in government and providing capacity development to line ministries. NEDA is preparing the legal basis for implementing the practice of RIA in the executive government during the P3F period. Third, DOLE and DOT are piloting RIAs in their departments with ADB assistance to demonstrate the benefits of a systematic approach to reviewing regulations. Both departments endorsed RIA work plans for 2013 and 2014. Substantial capacity development of staff in both departments has been carried out since 2012. Consequently, DOT has accomplished reviews of three regulations in the sector and DOLE has accomplished reviews of eight regulations and programs, such as security of tenure regulations, foreign worker permits, and apprenticeship law. The RIAs provide recommendations and some are being used as inputs for preparing longer-term reforms in both

sectors. DOT has also begun to implement RIA in two attached agencies with important regulatory powers in the sector: the Philippine Retirement Authority and the Scuba Diving Commission. Both departments will continue implementing RIA during the P3F period in support of the national rollout of RIA in government. DOLE has also established an e-regulation portal for public consultation on regulations, which is expected to be launched at the end of 2014.

18. **Promoting competitive trade logistics.** A major reform to the logistics market is the government's "open skies" policy. In June 2013, Congress enacted Republic Act 10378 abolishing the common carrier tax (CCT) of 3.0% on foreign airlines' passenger revenues. The CCT was considered a major tax distortion on foreign airlines and prevented equal treatment of domestic and foreign carriers in the domestic aviation market. The new law also exempts foreign airlines from the Gross Philippine Billings Tax (GPBT) of 2.5% on gross passenger revenues on the basis of reciprocity with other countries. This reform has now aligned the Philippines' aviation sector with neighboring economies and will boost the competitiveness of the logistics market and benefit a wide range of industries.

19. Congestion at the Port of Manila and the underutilization of the Subic Bay Freeport and the Port of Batangas have resulted in lengthy delays in port clearance at the Port of Manila. A truck ban in Manila from February to September 2014 exacerbated the problem. The government has responded in two ways. First, as an interim measure, it issued Presidential Executive Order 172 (dated 13 September 2014) to give the PPA the authority to redirect container traffic from the Port of Manila to the Subic Bay Freeport and the Port of Batangas. The second measure is for the PPA to draft a port utilization plan with measures to make better use of the Subic and Batangas ports and thereby decongest the Manila port. The plan will be submitted to NEDA for approval in early 2015 and implemented during the P3F period.

20. Another major reform benefiting exporters of goods and services is the reform to VAT refunds for enterprises. Until 2011, enterprises received tax credit certificates (TCCs) for VAT refunds, instead of cash refunds commonly used elsewhere in Southeast Asia. The TCC approach tied up the working capital of firms and thereby significantly raised their cost of working capital. Under subprogram 2, the government issued Presidential Executive Order 68-A to replace TCCs with cash refunds and direct the encashment of existing TCCs. However, very few cash refunds have been provided to exporters due to a cumbersome refund administration process at the Bureau of Internal Revenue (BIR). In response and to support implementation of the executive order, the BIR issued in June 2014 Circular 52-2014, which lays out a more convenient process and administration of claims for VAT refunds consistent with the provisions of the National Internal Revenue Code. Finally, to fund the VAT cash refunds and conversion, the 2014 General Appropriations Act (GAA) allocated P8.8 billion to BIR and P6.5 billion to the Bureau of Customs.

2. Output 2: Strengthening the Market for Infrastructure Projects through Public–Private Partnerships

21. Subprogram 2 supports the government in creating a world-class PPP framework for infrastructure projects as one financing modality to reverse the underinvestment in infrastructure. The measures build on activities under subprogram 1 that had strengthened the functions of the Public–Private Partnership Center (PPPC) and the Project Development and Monitoring Facility (PDMF).

22. **Strengthening the public–private partnership policy, regulatory, and institutional framework.** Under subprogram 2, Presidential Executive Order 136 was issued in 2013 to

institutionalize the PPP framework by establishing the PPP Governing Board as the overall policymaking body on PPPs of the PDMF, which is a technical facility providing transaction advisory services. The PPPC continues to be the implementing agency for PPP policy and activities.[8] Regulations related to PPPs have also been reviewed and improved under subprogram 2. For example, the PPPC completed a review of all PPP-related legislation and recommended amendments to the Build–Operate–Transfer Law to harmonize with the PPP framework. With ADB technical assistance funded by the governments of Australia and Canada, substantial efforts have been made to boost the government's capacity for PPPs with 195 government staff (56% of them women) received training on the relevant policy and legal framework, operating manuals, preparation of feasibility studies, bidding and transactions, and other PPP-related matters.[9] The government (through NEDA and the PPPC) signed a memorandum of agreement with the University of New South Wales, Australia, to establish a twinning partnership in PPPs as a vehicle for knowledge sharing and capacity development.

23. **Establishing long-term financing and risk guarantee mechanisms for PPPs in infrastructure.** The government (through the Department of Budget and Management) allocated in the 2013 GAA P8.1 billion to the Strategic Support Fund for sustainable financing of the government's share in PPPs. The funds will be used for PPP projects of the Department of Public Works and Highways, and the Department of Transportation and Communications. Another P20 billion was allocated in the 2014 GAA to cover contingent liabilities that might arise from PPPs in 2014.

24. These reforms and capacity development activities have produced concrete, measureable results. Sixteen project feasibility studies have been prepared with the support of the PDMF and with completed gender-responsive checklists. As of 6 November 2014, eight PPP projects had awarded contracts with estimated project costs amounting to P127 billion, among them the LTR line 1 Cavite Extension (P64.9 billion), the Mactan–Cebu international airport passenger terminal (P17.5 billion), the school infrastructure project (P16.3 billion), and the NAIA expressway (P15.5 billion). Another PPP in road construction (P35.5 billion) has bidding ongoing, and six more (P172.4 billion) are tendering for bid submission (footnote 8). Several of these projects are related to tourism infrastructure such as new airports or terminals in Bohol, Cebu, and other destinations in line with the DOT's tourism development plan.

3. Output 3: Promoting Competitive Labor Markets

25. Subprogram 2 supports the government in implementing measures and programs to improve youth employment, improve skills development in the workplace, and remove other structural rigidities in the labor market with the aim of stimulating job growth. These reforms build on subprogram 1, which included the endorsement of the tourism development plan, issuance of new hotel and resort standards, and capacity development activities at the public employment service offices (PESOs).

26. **Improving labor market information and employment intermediation systems—JobStart Philippines.** The government is addressing the problem of the high youth NEET rate with its JobStart Philippines program. JobStart was designed and developed during subprogram 2 and was made operational as a pilot project in 2014. In 2013, DOLE signed memorandums of understanding with the mayors of Taguig City, Quezon City, City of San Fernando, and the municipality of General Trias to pilot JobStart in their PESOs. The four local government units

[8] Public-Private Partnership Center. www.pppc.gov.ph.
[9] ADB 2013. *Technical Assistance on Strengthening Public-Private Partnerships in the Philippines*. Manila.

(LGUs) were selected for their differences in population size and industrial base. Young people between 18 and 24 years of age with at least high school education and less than 12 months of work experience are eligible to participate. By the end of October 2014, 1,600 eligible persons had been randomly selected into the program and had completed career guidance and life skills training, and are now being referred to employers for internships. The pilot program is expected to end in June 2015, when all beneficiaries have finished their internships. Of those, 56% are young women, 68% had completed high school education (including some college dropouts), and 32% had completed college or had technical and vocational education and training qualification. Partnering with ADB's Economics and Research Department, a sex-disaggregated randomized impact evaluation has been adopted that will allow a rigorous evaluation of JobStart services' effect on the employment performance of the young.[10] Some 4,300 young people are participating in the evaluation. The results of the evaluation will guide DOLE on a nationwide rollout of JobStart.

27. In addition to JobStart, the government (through DOLE) continued capacity development at selected PESOs for effective service delivery at the LGU level by (i) designing a gender-sensitive manual for career guidance and disseminating career guidance modules in the pilot PESO, and (ii) developing a labor market information system action plan and beginning to implement it in the four JobStart pilot LGUs.

28. **Promoting industry-led skills and service standards in tourism.** Employers in several sectors complain about the skills mismatch of many high school and college graduates and the emerging shortage of skilled workers. The government recognizes these constraints on competitiveness and employment and is trying to solve them through both crosscutting interventions and sector-specific programs. Under subprogram 2, the government (through DOT) piloted a PPP with employers, known as the tourism skills development program, which is an employer-led initiative. Under the program, employers were awarded 25 grants in May 2014 to train about 4,300 workers in four locations at an average training cost of P8,000 per worker. About 46% of the trainees are women, which is below the program's target of 55%. Incentives will be introduced to increase the share of women in phase 2 of the grant awards (in 2015); for example, additional points will be awarded to applications meeting the gender target. Training programs under phase 1 are currently being implemented. The grantees include high-end hotels and resorts partnered with smaller hotels, community-based tourism enterprises, tour guide associations, and tour operators. DOT intends to fund the skills program through the national government budget in 2016. The skills grant scheme is being complemented by the new five-star rating scheme designed to promote service standards in hotels and resorts. Under subprogram 2, third-party international and national assessors were engaged to assist with quality audits of hotels and resorts under the new rating system. The audits covered 693 hotels and resorts nationwide, of which 141 hotels and resorts are in the four pilot areas of Bohol, Cebu, Davao, and Palawan and were assessed with TA support from ADB and the Government of Canada. Ratings should be announced in the fourth quarter of 2014.

29. **Strengthening employment policies and programs.** The government initiated actions to improve labor and employment policies and programs with the aim of generating employment and improving access to decent jobs. This included the following: (i) DOLE completed preliminary impact assessments on selected employment programs such as the Special Program for Employment of Poor Students and the apprenticeship program, and made

---

[10] ADB. 2013. *Technical Assistance for Developing Impact Evaluation Methodologies, Approaches, and Capacities in Selected Developing Member Countries (Subproject 1).* Manila (TA 8332-REG).

suggestions for improvement,[11] (ii) the government (through DOLE) took stock of 40 government income support programs for workers and posted the findings on a DOLE website;[12] and (iii) the government established its social protection results framework to guide its interventions in the employment programs and ensure social protection for vulnerable workers.

30. **Post-program partnership framework**. The program has also defined in detail the P3F activities that will sustain future reforms beyond subprogram 2, especially regarding youth employment, PPPs for infrastructure, and regulatory reform through RIA. Thirteen policy measures are included in the P3F, covering November 2014–March 2016 and providing the building blocks for the next generation of possible policy-based loans and projects, e.g., for infrastructure improvement in 2016, enhancement of rural enterprises and rural employment in 2016, and improvements to the school–work transition of young people in 2017.

D. Development Financing Needs

31. To support its reform initiatives, the government has requested a single-tranche loan of $350,000,000 from ADB's ordinary capital resources to help finance subprogram 2 of the programmatic approach. The loan will have a 15-year term, including a grace period of 3 years, (30% annuity amortization method); an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year; and such other terms and conditions as set forth in the draft loan agreement. Based on this, the average loan maturity is 12.1 years and there is no maturity premium payable to ADB. The government has provided ADB with (i) the reasons for its decision to borrow under ADB's LIBOR-based lending facility based on these terms and conditions, and (ii) an undertaking that these choices were its own independent decision and not made in reliance on any communication or advice from ADB. The loan proceeds will be used to finance the full foreign exchange cost (excluding local taxes and duties) of items produced and procured in ADB member countries, excluding ineligible items and imports listed in the negative list attached to the loan agreement. In accordance with the provisions of ADB's Simplification of Disbursement Procedures and Related Requirements for Program Loans,[13] the proceeds of the policy-based loan will be disbursed to the Republic of the Philippines as the borrower.

32. The size of the program loan is based on (i) the importance of the sector to the economy and the weight of the benefits of the reform program (para. 35), (ii) the need to conform to the overall financing requirement of the country partnership strategy period, and (iii) development expenditure supported by the reform program.[14] The government's net development financing needs are P266 billion for 2014, to which overseas development assistance loans contributes P52 billion. Net financing needs for 2015 are P184 billion. The subprogram 2 loan proceeds support key development spending in the 2013 and 2014 GAA that arose from the accomplishment of subprogram 2 policy triggers, such as (i) 2014 GAA allocation of P15.3 billion to fund the VAT cash refund policy trigger under subprogram 2, (ii) 2013 GAA allocation of P8.1 billion to fund the Strategic Support Fund and the 2014 GAA allocation of P20 billion to cover contingent liabilities arising from PPPs in 2014, and (iii) other spending items in 2014 GAA allocations, such as for the budget for the Office of Competition at the DOJ. The loan will

[11] The Special Program for Employment of Poor Students program is administered through DOLE and provides scholarships and internships to poor students with the aim of financially assisting them to complete and graduate from senior high school and college.
[12] Income Support (Dagdag Kita). www.Dagdag-kita.com.
[13] ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.
[14] Summary Program Impact Assessment (accessible from the list of linked documents in Appendix 2).

also offset the reduction in tax revenues of approximately $22 million per annum resulting from the abolition of the 3.0% CCT on foreign carriers in 2013.

33. The single-tranche loan will be disbursed in two installments by 31 December 2015. The government requested multiple installments to ensure efficient cash-flow management by minimizing (i) the incidence of negative carry that may occur due to a potential mismatch in timing between disbursement of the full loan amount and its full utilization; and (ii) the burden of full financing charges that would arise due to higher interest payments payable on a fully disbursed loan, as compared with lower commitment charges payable on a loan disbursed in two installments.

E. Implementation Arrangements

34. Subprogram 2 covers October 2012–October 2014. The P3F covers November 2014–March 2016. DOF is the executing agency for the program and is responsible for the overall implementation of subprogram 2, P3F and the medium-term results framework and coordination among the implementing agencies. The program implementing agencies—DOJ, DOLE, DOT, NEDA, DOTC, DTI, the Bureau of Customs, and BIR—are responsible for day-to-day implementation of subprogram 2.

III. DUE DILIGENCE

A. Economic and Financial

35. ADB staff simulations indicate that the potential benefits of the reforms over the program's medium-term period—from 2011 to 2016—could be about $2.65 billion (in 2010 prices). These economic benefits arise from lower costs of trade logistics, an improved competition policy, and increased investment in infrastructure. The reform costs to the government and the private sector are conservatively estimated at $838.2 million discounted over the program's medium-term period. These costs include the administrative and fiscal costs to the government in implementing the reforms and direct budgetary funding of the Strategic Support Fund and the PDMF (footnote 14).

B. Governance

36. Improved governance and anticorruption efforts are core priorities of the government. The government's public financial management (PFM) reform roadmap was announced in February 2011, and it includes a series of short- to medium-term reforms building on previous accomplishments made since 2006. The reforms address PFM risks related to budget credibility, weak government internal audit, and inefficient procurement system, among other risks.[15] The plan is supported by development partners. ADB has supported public financial management reforms since 2006, starting with its Development Policy Support Program loan completed in 2009.[16] ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government.

C. Poverty and Social

37. Subprogram 2 is categorized as effective gender mainstreaming. The NEET rates are higher among young women than young men. The program aims to narrow this gender gap by

---

[15] Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

[16] ADB 2009. *Report and Recommendation of the President to the Board of Directors: Development Policy Support Program Loan Subprogram 3.* Manila.

targeting young women to make up 56% of JobStart beneficiaries, and to account for 55% of those who gain access to training grants under the tourism skills program.

D. Safeguards

38. The program does not trigger the safeguard policies and is categorized C for environment, involuntary resettlement, and indigenous peoples. The following arrangements are agreed on and will be incorporated into the legal agreement. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the program. The government agreed to cooperate, and shall cause any and all government offices, organizations, and entities involved in implementing the program to cooperate fully with any such investigation and to extend all necessary assistance, including providing access to all relevant books and records, as may be necessary, for the satisfactory completion of any such investigation.

E. Risks and Mitigating Measures

39. Overall the risks to the program are rated from *low to medium* and are expected to be outweighed by the program impact and benefits (footnote 15). The two main political economy risks to the program are weak interagency coordination and the reform agenda remaining sensitive to political interests. The program includes mitigating measures. TA is provided to support capacity development and interagency coordination on key reforms, including signing of memorandums of understanding between DOLE and the mayors of four LGUs. The P3F embeds measures to support the rollout of JobStart Philippines and the tourism skills development program. DOLE is also looking at possible legislative initiatives to sustain relevant reforms under the P3F.

IV. ASSURANCES

40. The government and the Department of Finance have assured ADB that implementation of subprogram 2 shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, and disbursement as described in detail in the loan agreement.

V. RECOMMENDATION

41. I am satisfied that the proposed policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of $350,000,000 to the Republic of the Philippines for subprogram 2 of the Increasing Competitiveness for Inclusive Growth Program, from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

24 November 2014

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Improved investment climate	By December 2018: (i) Philippines' ranking in global surveys of competitiveness improved by at least 15 places (2010 baseline); and (ii) youth full-time wage employment increased by an average of 5.0% per annum (2010 baseline: average 3.4% growth in 1991–2010).	World Economic Forum Global Competitiveness Report Heritage Foundation Index of Economic Freedom World Bank Group Doing Business reports National Statistics Office household labor force survey	**Assumption** Economic stability is maintained. **Risk** Lack of effective coordination between national government departments
Outcome Improved competitiveness of selected sectors	By December 2015: (i) number of people who found jobs through institutionalized PESOs increased by 10% per annum (2010 baseline: average 1,000 people per PESO); (ii) cost of rules and regulations for key licenses reduced by 15% (2014 baseline);[a/] (iii) Philippines ranking in global logistics performance index improved by at least 10 places (2010 baseline: rank 44 out of 155 countries); and (iv) Philippines ranking in global travel and tourism competitiveness index improved by at least 15 places (2011 baseline: rank 94 out of 139 countries).	DOLE annual PESO data ADB business licensing survey 2015 World Bank Logistics Performance Index World Economic Forum Travel and Tourism Competitiveness Report	**Assumption** Government stays on course with key business regulation reform. **Risk** Lack of commitment and willingness of government agencies and stakeholders to participate in implementing reforms
Outputs 1. Structural policy reforms to the economy implemented	By December 2014: (i) at least three complaints of anticompetitive practices investigated (2011 baseline: no data);[b/] (ii) RIA piloted at five national departments or agencies, with at least 50% of focal persons women (2011 baseline: no data);[b/] (iii) at least 15 RIAs completed by all pilots (2011 baseline: no data); (iv) at least 50% of stakeholders consulted through the RIA process are	Department of Justice, Office of Competition annual report Department administrative orders from DOLE, DOT, NEDA, and two others Published RIAs by agencies piloting RIA Completed RIA checklists	**Risks** Weak interagency coordination Capacity of agencies to implement reforms may be constrained by resources and other emerging priorities Competition policy reforms and efforts to reduce red tape may face

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	women (2011 baseline: no data); (v) at least 90% of eligible value-added tax refunds made within the 120/60 day rule and encashment of all outstanding tax credit certificates completed (2011 baseline: no data); (vi) number of foreign tourist arrivals to Philippines increased by 10% per annum (1991–2010 baseline: estimate of long-term average); and (vii) increased container traffic at the Subic and Batangas ports (2010 baseline: Subic 34,318 TEU and Batangas 6,194 TEU).	DOF (Bureau of Internal Revenue) annual tax reports, surveys of investors National statistics on tourism arrivals, National Statistics Office DOTC annual reports on Subic and Batangas port sales	strong resistance from vested interests in the public service (regulatory agencies), industry, and agriculture
2. Market for infrastructure projects through PPPs strengthened	By December 2014 (i) six competitively tendered PPP projects, of which two are gender-responsive, are implemented (2011 baseline: no); and (ii) at least 100 staff members involved with PPP in DOF, NEDA, DBM, and line ministries trained in PPP, at least 30% of them women	Government reports including from DOF, NEDA, and other line departments and agencies ADB technical assistance reports	
3. Competitive labor markets promoted	By December 2014: (i) number of institutionalized PESOs with standard labor market information and employment intermediation systems in place increased to 100 (2011 baseline: 89); (ii) at least 1,600 youths placed in internships through the JobStart Philippines pilot, of which 56% are female school leavers (2011 baseline: no data); (iii) at least 5,000 people accessed skills development through the PPP Tourism Industry Skills Development Program pilot, with at least 55% women workers (2011 baseline: no data); and (iv) 100 hotels accredited	DOLE and PESO annual reports DOLE annual report on the JobStart Philippines pilot DOT annual report on the skills development pilot DOT data on hotel	

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	under the new national quality assurance system pilot (2011 baseline: no data).	accreditation and annual report on the accreditation pilot	

Activities with Milestones **1. Structural policy reforms to the economy implemented** 1.1 The government (through DOTC) implemented measures to harmonize vehicle regulations and certifications with Association of Southeast Asian Nations practices (May 2014). **2. Market for infrastructure projects through PPPs strengthened** 2.1 The government (NEDA, PPPC) completed initiatives to enhance the capacity of PPPC. These included (i) signed memorandum of agreement with the University of New South Wales, Australia, for establishing a twinning partnership; (ii) PPP management information system designed; and (iii) 195 staff members involved with PPP in DOF, NEDA, DBM, and line ministries trained in PPP, of which 56% are women (July 2014). 2.2 The government (through PPPC) completed review of PPP-related legislation and recommended amendments to the Build–Operate–Transfer Law to harmonize with the submitted proposals to PPP Governing Board on amendments to the power sector, public procurement, civil aviation, right-of-way acquisition, and tollway regulation frameworks to harmonize them with PPP framework (July 2014). 2.3 NEDA approved amendments to 2008 guidelines on joint ventures. Amended guidelines issued (May 2013). 2.4 The government allocated P20 billion in the General Appropriations Act to cover contingent liabilities arising from PPPs in 2014 (May 2013). 2.5 DOF completed and submitted to the PPP Governing Board the policy paper on the government's share in PPP projects (July 2014). **3. Competitive labor markets promoted** 3.1 The government (through DOLE) took stock of 40 government-wide income support programs for workers and posted findings on DOLE website (2013). 3.2 The government (through DOLE and Technical Education and Skills Development Authority) carried out preliminary impact evaluations on selected employment programs, including the Special Program for Employment of Poor Student and the apprenticeship program. Suggestions for improvements made (May 2014). 3.3 DOLE social protection results framework established and targeting the following outcomes: (i) employability of workers enhanced, (ii) social protection for vulnerable workers strengthened, and (iii) research and statistics provided (2013).	**Inputs** **ADB: $350 million**

ADB = Asian Development Bank, DBM = Department of Budget and Management, DOF = Department of Finance, DOLE = Department of Labor and Employment, DOT = Department of Tourism, DOTC = Department of Transportation and Communications, NEDA = National Economic and Development Authority, PESO = public employment service office, PPP = public–private partnership, PPPC = Public–Private Partnership Center, RIA = regulatory impact assessment, TEU = twenty-foot equivalent

[a]/ Enterprise survey ongoing with results published in early 2015;

[b/] Office for Competition commenced activities in 2012 and all RIA activities at DOT and DOLE commenced in 2012.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

http://adb.org/Documents/RRPs/?id=43396-014-3

1. Loan Agreement
2. Sector Assessment (Summary): Public Sector Management – Investment Climate
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items

Supplementary Documents

10. Problem Tree
11. Summary Program Impact Assessment

Appendix 3

Republic of the Philippines
DEPARTMENT OF FINANCE
Roxas Boulevard Corner Pablo Ocampo, Sr. Street
Manila 1004

25 November 2014

LETTER OF DEVELOPMENT POLICY

Mr. Takehiko Nakao
President
Asian Development Bank
Manila
Philippines

Dear **Mr. Nakao**:

On behalf of the Government of the Philippines (Government), allow me to thank you for the sustained commitment and support of the Asian Development Bank (ADB) towards our overall reform efforts and our national development agenda.

This Letter supplements the first Letter of Development Policy that was attached to the Report and Recommendation of the President for the Subprogram 1 approved by the ADB Board in June 2012. This supplement highlights the Philippine Government's commitment to achieve global competitiveness through implementing a robust domestic competition policy, regulatory reform, improved trade facilitation, and implementing a world class framework for public-private partnerships in infrastructure. At the same time, we recognize that competitiveness and sustained economic growth must be inclusive if we are to reduce income inequalities and poverty. Thus, creation of decent jobs is a central tenet of our economic program.

Under Subprogram 1 of the Increasing Competitiveness for Inclusive Growth (ICIG) program, we have undertaken major reforms laying down the foundations for a more competitive and fair society. In the attached Policy Matrix, we have identified key reform initiatives under our Philippine Development Plan (2011 to 2016) which we proposed to be supported by the second subprogram loan. Thus, we would like to request financial assistance from the ADB through the Increasing Competitiveness for Inclusive Growth to support the reform initiatives that we have implemented. This loan amounting to $350,000,000 will allow the Government to sustain our momentum in implementing our reform program.

The loan proceeds from subprogram 2 of the ICIG will be used to support ICIG related development spending in the 2013 and 2014 GAAs. This includes budget allocation of P15.3 billion to fund the VAT cash refund, budget allocation of PhP8.1 billion to fund the Strategic Support Fund (SSF) for PPPs in infrastructure, and PhP20 billion to cover contingent liabilities. There are also other development spending arising from the subprogram 2 reforms such as the operation of the Office of Competition at the Department of Justice, capacity development of the PESO under the JobStart Philippines pilot project, and to offset the reduction in tax revenues from the abolition of the 3.0% CCT on foreign carriers.

We trust that this loan will be approved as soon as possible.

The Philippine Development Plan

Since 2010, Philippine economy has enjoyed its highest and longest expansion in four decades. Economic growth has averaged 6.325% per annum since 2010, well above its long term average of 5.0%. Despite this strong economic performance, poverty has been painfully stubborn, and income inequality remains high. While we have had a pickup in quality employment, with full time wage employment expanding by an average of 3.7% per annum since 2010, it has been insufficient to absorb all new job seekers or make a dent in the number of workers crowded into the unstable informal sector. It is in this context that we have just completed our midterm update of the Philippine Development Plan (PDP) 2011-2016, and have strengthened our focus on poverty reduction as our highest priority for the remaining two years of the development plan. Employment creation is one of the main channels for poverty reduction, with increasing competitiveness as a central tenet in this agenda. We will invest our efforts and resources in education, skills development, and health of the population and workforce; continue to invest in infrastructure, develop our science, technology, and innovation; and continue to reform our investment climate for a competitive economy. Subprogram 2 is aligned with our re-prioritization in the PDP, 2011-2016. This Development Policy Letter shall be focusing on employment creation, competitiveness, and investment. The Development Policy Letter emphasizes the Government's commitment to ensuring full implementation of a series of ongoing and forward-looking policy reforms.

Structural Policy Reforms to the Philippines Economy

The Philippines has made substantial improvement in all the main global competitiveness surveys confirming a marked turnaround in investor perceptions about the country. At the macro level, the Philippines is one of the four ASEAN Member States rated investment grade by all three major rating agencies—Moody's, Standard & Poor's, and Fitch. At the micro-level, the Philippines jumped 25 places from 133 in 2013 to 108 in 2014 in the World Bank Doing Business report. The Philippines went up by seven notches in the 2014 World Economic Forum (WEF) Global Competitiveness Index to reach 52nd place out of over 140 countries. The Philippines also ranked 89th in the 2014 Heritage Foundation Economic Freedom index, up from 114th place in 2010. In tourism, identified as one of the leading sectors for inclusive growth, our ranking in the WEF Travel & Tourism Competitiveness Index has jumped 12 places in 2013 over our ranking in 2011 confirming that our reform efforts are in the right direction. Foreign tourism arrivals have grown by an average of 10.0% per year since 2010. Still, we recognize much needs to be done to improve our competitiveness and further lift our investment rate to sustain our economic growth rate over the longer term. Accomplishments under subprogram 2 of the ICIG program and the forward looking measures under the post-program partnership framework (P3F) sketched out below supports our competitiveness agenda.

Under subprogram 2, we advanced our agenda on competition policy and regulatory efficiency. The Office for Competition at the Department of Justice (DOJ) was established, 15 staff designated to the office and with a PhP10 million budget for

Appendix 3

2014. There has been encouraging progress in implementing its mandate. The office has promoted interagency coordination including establishing the Sector Regulators Council. The office has received 21 complaints of anti-competitive practices, of which 7 have been resolved and the review of the other 14 complaints going. It has also issued two advisory opinions: one on airline tickets sales promotions and the other on supermarkets. We continue to implement the regulatory impact assessment (RIA) pilots at the Department of Labor and Employment (DOLE) and the Department of Tourism (DOT). Under the pilot, DOLE has completed reviews of eight regulations and programs and the DOT has completed two. The National Economic and Development Authority (NEDA) will oversee the development of this practice. It has established the Governance Staff division, which includes RIA functions. Both the competition policy and RIA reforms are advanced in the P3F from 2015 to 2016.

A major reform to the logistics market is the Government's "open skies" reforms. Under subprogram 1, a Presidential EO was issued providing for increased "Open Skies" whereby Philippine Air Panels may offer and promote third, fourth and fifth freedom rights to the country's airports other than Ninoy Aquino International Airport (NAIA). Under subprogram 2, we enacted legislation that abolished the 3.0% common carrier tax on foreign airlines passenger revenue, thereby aligning the Philippines aviation sector with neighboring economies. These reforms have contributed to a strong pickup in foreign tourism arrivals. Another major reform benefiting exporters of goods and services is the reform to VAT refunds for enterprises. We issued EO 68-A which replaced TCCs with cash refunds and instructs an encashment of existing TCCs. The Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) have issued circulars to implement the reforms. We also allocated in the 2014 National Government budget PhP8.8 billion to BIR and PhP6.5 billion to BOC to fund VAT cash refunds.

Congestion at the Port of Manila has created delays in port clearances and added costs to logistics and industry. The Local Government truck ban in Manila exacerbated congestion at the port and disrupted production in the manufacturing sector. This ban highlighted the urgency of addressing congestion at the Port of Manila and improving the utilization rates at the Subic Bay Freeport and the Port of Batangas. Decongesting container traffic at the Port of Manila is a complex effort. We are responding to this problem in two ways. First, as an interim emergency measure, Presidential Executive Order No. 172 dated 13 September 2014 was issued redirecting container traffic to the Subic and Batangas ports. Second, the Philippines Port Authority is drafting a ports utilization plan with the objective of implementing short, medium and long term reforms to the ports in order to decongest the Port of Manila.

Strengthening the Market for Infrastructure through Public-Private Partnerships

Strengthening the PPP framework is complex and it takes time to build sufficient capacity to carry out PPP projects. At the same time, we recognize that it is crucially important to demonstrate early success stories in the PPP framework to build confidence. Considering the need to show results, we have implemented reforms to strengthen the institutional, regulatory, and policy environment and sustainable financing of public-private partnerships (PPPs). Through Executive Order No. 136 issued in May 2013, we created the PPP Governing Board to oversee all policy development for PPP. We have reviewed all laws related to PPPs and have proposed amendments to our BOT Law to make it consistent with our PPP framework. We have also revised the joint venture guidelines to make them conducive to PPPs in infrastructure. The national and Local Government PPP manuals have been finalized, and will guide our PPP processes. We have also enhanced capacity of Government staff involved in PPPs. Under subprogram 2, 195 staff have been trained in PPPs, of which 56.0% of trainees are women. NEDA and the PPP Center also signed a MOA with the University of New South Wales for a twinning partnership to support capacity development in this field. The 2014 GAA budget allocated PhP8.1 billion to the SSF to ensure Government's funding of PPPs. 2014 GAA also allocated PhP20 billion to the PPP contingent liabilities funds to cover risks arising from PPPs in 2014.

This effort is producing measureable results. Sixteen feasibility studies were completed with the Project Development and Monitoring Facility (PMDF) support and as of 6 November 2014, eight PPP projects have been awarded contracts with the total project costs amounting to about PhP127 billion. Another 7 PPP projects are ongoing, bidding or for bid submission.

Promoting Competitive Labor Markets

Young persons, in particular, have had difficulty integrating into the labor market due to insufficient demand for labor to cover the large numbers of job seekers each year, and the widening mismatch of skills in the labor market. Recognizing that the creation of decent jobs is key and essential to achieve inclusive growth and reduce income inequalities, the Government has set off to implement a set of innovative interventions to address the high rate of youth not in employment, education, and training (known as NEET status).

As a starting point, the Department of Labor and Employment (DOLE) has implemented its flagship youth employment project known as JobStart Philippines with assistance from ADB and the Government of Canada. The project is currently being piloted in four Local Government Units (LGUs) and is assisting 1,600 'at risk' youth to find decent employment, of which 56.0% are women. DOLE is preparing for a nationwide rollout starting in 2015. JobStart provides youth with career guidance, life skills training, technical and vocational education and training, if needed, and placements with employers for up to six months. DOLE continues to enhance capacity of the PESOs to implement JobStart and other employment facilitation programs. One activity is the implementation of the labor market information system action plan at the four pilot LGUs.

We recognize that long term competitiveness of our economy will crucially depend on raising skills of our people. While much has been done to improve technical and vocational education, we are testing financing modalities in industry skills development to lift skills on a sustainable basis, starting with the tourism sector as a priority sector in the Philippine Development Plan. Global surveys rank the Philippines tourism industry low in terms of competitiveness due to its regulatory burden and service standards. We are committed to address these impediments. The tourism development plan, 2011 to 2016, has prioritized establishing PPP in industry skills development and a new hotel accreditation system in line with international standards as key interventions to raise skills and service standards in

Appendix 3

the industry. Under subprogram 2, DOT has piloted the tourism skills development program in Bohol, Cebu, Davao, and Palawan. In May 2014, 26 grants were awarded to 26 employers and industry groups with commitments to train 4,300 workers in these areas. Related to skills development, DOT has implemented its new star rating quality standards in 2014. A total of 693 properties have been rated, of which 141 hotels and resorts were rated in the four pilot areas by international assessors supported by ADB technical assistance financed by the Government of Canada.

In order to boost employment and meet our target of one million new jobs per year, we have initiated a review of regulations in our labor code that may be impeding job creation. The review is being carried out through DOLE' regulatory impact assessment program and through the tripartite consultation process comprising of Government, employers and labor unions to strike an appropriate balance between providing employment protection and boosting employment.

Conclusion

The Government remains firmly committed to the agenda outlined above and to implement reform efforts already instituted. We would appreciate the prompt consideration of this loan and we look forward to working together with the ADB and other development partners on the post-program partnership framework to advance these reforms.

Thank you.

Sincerely yours,

CESAR V. PURISIMA
Secretary

POLICY MATRIX
REPUBLIC OF PHILIPPINES: INCREASING COMPETITIVENESS FOR INCLUSIVE GROWTH
SUBPROGRAM 2

Policy Actions	Accomplishments Under Subprogram 2 (2012–2014) Triggers in bold	Post program partnership framework (Nov 2014 to March 2016)	Medium term direction and expected results (2012 to 2016)
1. Implementing Structural Policy Reforms to the Economy			
1.1 Enhancing competition policy and regulatory efficiency *ADB-Government of Canada technical assistance to NEDA, DOT and DOLE on RIA implementation* *JICA technical assistance to OFC for capacity development*	The Government started implementing reforms to competition policy, regulatory transparency and efficiency. These included: 1. **The Government (through NEDA) established the Governance Staff division with responsibilities to advocate RIA in government.** 2. **DOLE and DOT implemented RIA work plans and completed 10 regulatory impact assessments. DOT extended RIA program to two attached agencies (scuba diving commission and Philippine retirement authority). DOLE developed the e-Regulations portal for public consultations and publication of RIAs.** 3. **The Government (through Department of Justice) established the Office for Competition (OFC) by designating 17 staff and a 2014 budget of P10 million. Capacity development activities implemented.**	1**. Presidential EO approved. NEDA (through the Governance Staff) starts roll out of RIA practice in the national government.** **2. DOT implements its tourism red tape reduction program, which incentivizes selected LGUs through the grants mechanism to reduce business-related red tape in the four pilot areas.** **3. Government (through the Department of Justice) continues to enhance capacity at the competition office and reports on investigations into complaints of anti-competitive practices.**	1. Government continues to implement a transparent regulatory system with at least of 30 preliminary impact assessment or regulatory impact statements on key regulations completed and published. At least 35% of stakeholders consulted are female. 2. At least 3 complaints of anti-competitive practices investigated.

Policy Actions	Accomplishments Under Subprogram 2 (2012–2014) Triggers in bold	Post program partnership framework (Nov 2014 to March 2016)	Medium term direction and expected results (2012 to 2016)
1.2 Promoting competitive trade logistics *JICA technical assistance to PPA on ports utilization*	The Government started implementing reforms aimed at lowering the transaction costs to doing business and trade. These include: 4. **Government abolished the common carrier tax (CCT) on passenger revenues (RA 10378).** 5**. As an interim, emergency measure to decongest container traffic at the Port of Manila, Presidential Executive Order 172 was issued providing for redirection of container traffic from the Port of Manila to the Subic Freeport and the Port of Batangas.** 6. **Government (DOF/BIR) reformed its VAT refund by (i) issued Presidential EO 68-A which replaced TCCs with cash refunds for new rebates and instructs an encashment for existing TCCs, (ii) BIR issued Circular 52-2014 clarifying process and administration of claims or VAT refund, (iii) The 2014 GAA allocated P8.8 billion to BIR and P6.5 billion to BOC for VAT cash refunds.**	 **4. The Government (through DOTC/PPA/SBMA) approved the ports utilization plan and enhanced port sales.**	 3. Increase in foreign visitor arrivals by 10% per annum. 4. Increased container traffic at Subic and Batangas ports. 5. At least 90% of eligible VAT refunds made within the 120/60 day rule. 6. Encashment program of all outstanding TCCs completed.
2. Strengthening the Market for Infrastructure Projects through Public-Private Partnerships			
2.1 Strengthening PPP policy,	The Government continued strengthening the PPP policy and regulatory framework. These measures included:		

Policy Actions	Accomplishments Under Subprogram 2 (2012–2014) Triggers in bold	Post program partnership framework (Nov 2014 to March 2016)	Medium term direction and expected results (2012 to 2016)
regulatory and institutional framework ADB-Government of Australia and Government of Canada technical assistance to the PPPC and PDMF	**7. EO 136 (May 2013) issued that institutionalized the PPP framework by (i) established the PPP Governing Board as the overall policy-making body on PPPs of the PDMF and (ii) strengthened the operations of the PDMF.** **8. Sixteen (16) feasibility studies for PPP projects prepared with support of the PDMF and with completed gender responsive check lists.** **9. The Government (through the PPP Governing Board) cleared comprehensive PPP manuals for national government agencies and local government units, and guidelines for PPPs in health, education and agriculture sectors.** 10. The Government (NEDA, PPPC) completed initiatives to enhance capacity of PPPC. These included: (i) signed MOA with the University of New South Wales, Australia, for establishing a twinning partnership and (ii) 195 staff members involved with PPP in DOF, NEDA, DBM, and line ministries trained in PPP, of which 56% are female. 11. Government (through the PPPC) completed review of PPP-related legislation and recommended proposed amendments	**5. BOT Law amended, and implementing rules and regulations to the amended BOT law issued.** **6. PPP Center adequately staffed and at least 5 PDMF-supported projects are approved by ICC annually**	7. Six competitively tendered PPP projects prepared with PDMF support, of which 2 are gender-responsive, are implemented. 8. 100 Staff of DOF, DBM, NEDA and line ministries trained in PPPs, of which at least 30.0% are women.

Policy Actions	Accomplishments Under Subprogram 2 (2012–2014) Triggers in bold	Post program partnership framework (Nov 2014 to March 2016)	Medium term direction and expected results (2012 to 2016)
	to the BOT law to harmonize with the PPP framework. 12. NEDA approved amendments to 2008 guidelines on joint ventures. Amended guidelines issued (May 2013) and published on PPPC and NEDA websites.		
2.2 Establishing long term financing and risk guarantee mechanisms	The Government continued adoption of measures to provide sustainable financing and risk guarantee mechanisms for PPP projects. These included: **13. The Government (Department of Budget and Management) allocated in the 2013 GAA P8.1 billion (DPWH – P3b, DOTC – P5.1b) to SSF for PPPs and P632 million for PDMF**. 14. The Government allocated P20 billion in the GAA to cover contingent liabilities arising from PPPs in 2014. 15. The Department of Finance completed and submitted to the PPP GB the policy paper on the government's share in PPP projects. Paper disclosed on PPPC website.	**7. Contingent liability fund as a revolving fund established to ensure timeliness of payments by the government in case of materialization of risks allocated to the government under the PPP contracts**	
3. Promoting Competitive Labor Markets			
3.1 Improving labor market information and employment	The Government implemented several capacity development activities to strengthen delivery of labor market services to local communities. These included the following activities:		

Policy Actions	Accomplishments Under Subprogram 2 (2012–2014) Triggers in bold	Post program partnership framework (Nov 2014 to March 2016)	Medium term direction and expected results (2012 to 2016)
intermediation systems ADB-Government of Canada technical assistance to DOLE on JobStart pilot and LMIS	16. **The Government (through DOLE) designed and commenced implementation of JobStart Philippines pilot project - a youth employment program - by: (i) signed MoAs with four local government units to pilot JobStart Philippines through their PESOs, (ii) the intake of 1,600 out-of-school youth into JobStart Philippines commenced in June 2014, of which 56% are young women, and (iii) established a sex-disaggregated randomized impact evaluation of JobStart Philippines.** 17**. The Government (through DOLE) continued capacity development at selected PESOs for effective service delivery at the LGU level by (i) designed gender-sensitive manual for career guidance and (ii) developed a LMIS action plan and began implementing it in the four pilot LGUs.**	**8. JobStart Philippines pilot program completed and impact evaluation published.** **9. Government (through DOLE) prepares a five year program for nationwide rollout JobStart Philippines with a target of placing up to 100,000 out-of-school youth into employment per annum by 2019.**	9. At least 100 PESOs implementing standard LMI and employment intermediation systems. 10. 1,600 out-of-school youths placed in internships through the JobStart Philippines pilot project, of which 56% placements are women 11. JobStart Philippines rolled to at least another 10 LGUs. 12. Increased the number of job placements through PESOs by 10.0% per annum
3.2 Promoting industry-led skills and service standards development ADB-Government of	The Government (Through DOT) implemented a set of interventions to raise industry-led skills and service industry standards. The measures include: 18. **The Government (through DOT) established the Tourism Skills Development Program, which includes the Tourism Skills Grant Scheme. By June 2014, 26 grants were awarded to**	10. **Government completes the second phase of the Tourism Skills Grant Scheme with at least 2,500 workers accessing training under the grants scheme.**	13. At least 5,000 persons accessed vocational training funded under the Tourism Skills Grant Scheme, of which 55% are

Policy Actions	Accomplishments Under Subprogram 2 (2012–2014) Triggers in bold	Post program partnership framework (Nov 2014 to March 2016)	Medium term direction and expected results (2012 to 2016)
Canada technical assistance to DOT on the Tourism Skills Development Program and the new 5 star rating system for hotels and resorts	**industry in the four pilot areas of Bohol, Cebu, Davao and Palawan under the first phase of the scheme. 4,300 workers are being trained by industry under the scheme, including for MRA under ASEAN. Approximately 46% trainees are women.** 19. **The Government (through DOT) established and implemented the new hotel and resorts five Star rating system, which is aligned to international standards. International and national third party assessors were engaged to grade hotels and resorts. A total of 693 hotels and resorts have been assessed for ratings in 2014, of which 141 hotels and resorts were graded by international third party assessors in the four pilot areas.**	**11. Government provides budgetary financing to DOT for the national rollout of the Tourism Skills Grants scheme in 2016 on a sustainable basis.** **12. Government expands tourism standards including: (1) complete the full rollout of Hotel and Resorts Star rating system (approximately 6000 enterprises), (ii) roll out the new "Tourism Service Quality" standards to supplement the Hotel and Resorts standards, and (iii) extend quality standards to bed and breakfast accommodation, guest houses, tourist inns and pension houses**.	women 14. At least 500 Philippine professionals achieved mutual recognition under the ASEAN agreement 15. 250 hospitality providers nationally accredited under the new Star rating system 16. Improvement in the index of Visitor Satisfaction Survey in all four pilot areas of Bohol, Cebu, Davao, and Palawan.
3.3 Strengthening employment policies and programs ADB-Government of Canada assistance to DOLE	The Government with relevant stakeholders continued developing policy and programs for employment facilitation including: 20. The Government (through DOLE) carried out a stock take of 40 government wide income support programs for workers and posted on DOLE website. 21. The Government (through DOLE and TESDA) carried out preliminary impact evaluations on selected employment	13. **Government (through DOLE) strengthens policies and programs to help shorten the school-to-work transition for at-risk youth by, for example, strengthening the framework for apprenticeships, improvements to SPES, among others**.	17. Protocols or guidelines on dealing with the impact of conflicts, economic shocks and natural disasters on local labor markets

Policy Actions	Accomplishments Under Subprogram 2 (2012–2014) Triggers in bold	Post program partnership framework (Nov 2014 to March 2016)	Medium term direction and expected results (2012 to 2016)
	programs including the Special Program for Employment of Poor Student (SPES) and the apprenticeship program. Suggestions for improvements made. 22. DOLE Social protection results framework established and targets the following outcomes: (i) employability of workers enhanced and (ii) social protection for vulnerable workers strengthened.		

ADB = Asian Development Bank, ASEAN = Association of Southeast Asian Nations, BIR = Bureau of Internal Revenue, BOC = Bureau of Customs, DBM = Department of Budget and Management, DOF = Department of Justice, DOJ = Department of Justice, DOLE = Department of Labor and Employment, DOTC = Department of Transportation and Communications, GOJ = Government of Japan (JICA and Embassy of Japan), GOP = Government of the Philippines, LGU = local government units, NEDA = National Economic and Development Authority, PDMF = Project Development and Monitoring Facility, PPPC = Public-Private Partnership Center, VAT = Value Added Tax.