ATTACHMENT 1

STATEMENT OF WORK

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

1.1 SUMMARY

1.1.1 Objective.

The Local Implementation of National Competitiveness for Economic Growth (LINC-EG) Project will promote local and national economic competitiveness to improve prospects for economic growth and fiscal sustainability. The primary focus area for local initiatives will be the Mindanao region. However, LINC-EG will also support initiatives in other selected regions, as well as national-level efforts consistent with the Program Areas described in Section 1.5.4. Partners will be selected for their demonstrated greater economic growth potential and broader economic impact to: (1) improve local and national government economic governance and revenue collection; (2) improve local field office effectiveness of national government agencies; and (3) improve operations, policy, and program implementation linkages between local government offices, local field offices of national government agencies, and national government agencies.[1] The Program will invest in tangible local results that have national economic impacts and national reform efforts that have tangible local benefits.

1.1.2 Location.

The bulk of LINC-EG resources, illustratively at least 50 percent, will be used to assist the participating regions of Mindanao. Participating regions will include clusters of local governments and other public and private sector partners and local field offices of national government agencies that are naturally economically integrated, and they will be selected for their demonstrated greater economic growth potential and broader economic impact, and their willingness to pursue important reforms. A smaller share of LINC-EG resources will be used to work at the national level on economic reform and improved competitiveness. National efforts may also include the pilot testing, anywhere in the country, of reform policies or programs that have national application. LINC-EG shall have one Manila office and at least one satellite office in Mindanao.

1.1.3 Alignment with U.S. and USAID Policy.

LINC-EG supports the economic growth and governing justly and democratically pillars of the U.S. Foreign Assistance policy framework. It will be an important new component of the USG's efforts to promote economic prosperity and security in the Southern Philippines and elsewhere. LINC-EG is consistent with USAID/Philippines' Strategic Objective 2: "Performance of Selected Government Institutions Improved." LINC-EG embodies the principles of, and employs many approaches advocated in, the April 2008 USAID Economic Growth Strategy.

1.1.4 Approach.

LINC-EG will work to improve the business environment, remove barriers to public and private investment, and reduce cost and policy constraints to trade.[2] LINC-EG will provide demand-driven

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[1] In 1991, the Local Government Code transferred the main responsibility for delivery of basic services (health, education, infrastructure, and more) to local governments, making improved local government–national agency field office operational coordination critical to progress against numerous local–national policy, program, and implementation challenges.

[2] In *The Bottom Billion (2007),* economist Paul Collier concludes that economic growth is essential for poverty

assistance proportionate to counterpart contributions and will seek public-private partnerships in implementation. LINC-EG assistance will be managed through individually-approved Technical Assistance Packages (TAPs), detailed in Section 1.5.4. Offerors will propose seven fully-developed TAPs as part of their initial technical proposal to USAID. The contractor will develop and manage additional TAPs throughout the period of the contract. At both the national and local level, program flexibility and the ability to work, at times, through local and international nongovernment organizations (NGOs) and without attribution or public recognition will be critical to reform agent ownership.

1.2 PROBLEM STATEMENT

Philippines Economic Growth Constraints Are Well Known But Philippines Government Policy and Program Implementation Failures Persist. The Philippines faces broad challenges to achieving domestically generated and sustainable economic growth. The primary bottleneck on the nation's critical path to national development is poor economic governance: a poor business environment, a lack of public and private investment, and cost and policy constraints to trade.

- Despite moderate GDP growth, domestic investment has been stagnant in real terms and the Philippines has, over the long term, been unable to attract significant shares of foreign investment that have been available globally. Present levels of investment are inadequate for the Philippines to achieve the kind of robust, long-term growth needed to create jobs and reduce poverty. Fortunately, the reasons why the Philippines has remained a relatively unattractive destination for investment (among both Filipinos and foreign investors, alike) are well-established, and repeated in various competitiveness diagnostic surveys released each year. Reform efforts should focus on removing barriers to business, investment, and trade, addressing inappropriate or poorly-enforced business regulations, attaining long-term fiscal stability, and improved infrastructure.

- Fiscal sustainability and the government's ability (including a local government's ability) to finance poverty-reducing programs continue to be at risk from poor rates of revenue collection (tax effort) and substantial and persistent revenue leakage. The IMF reported that though the Philippines Government and donors have been engaged in revenue administration reforms for years, the reforms have been only partially successful, have not generated significant increases or greater transparency, and have not been sustained. The major problems faced by the revenue collection agencies are organizational, managerial, and systemic[3]. Likewise, local governments have been found to be constrained in their ability to manage their finances.[4]

The key challenge, then, is not to understand better the constraints to economic growth or even determining what needs to be done; the challenge is certainly not in identifying international best practices or state of the art legislation or policy. The challenge at the policy and program level is how to help national and local reformers and private sector allies overcome vested interests, rent-seekers, and other forces that perpetuate the status quo and impede reform.[5] The Philippines needs to address competitiveness and governance issues that have perpetuated significant barriers to business, investment, and trade.[6] Many of the needed reforms have long been identified but require persistence, creativity, and mostly strong political will to implement policy decisions at the local level.

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reduction and the conditions that promote growth also encourage trade.

[3] IMF and World Bank, *Republic of the Philippines: Critical Priorities in Tax and Customs Administration Reform,* 2006.

[4] Asian Development Bank, *Proposed Program Loan and Technical Assistance Grant, Republic of the Philippines: Local Government Financing and Budget Reform Program Cluster,* 2007.

[5] For one of the best descriptions of the political economy of economic policy reform in the Philippines, see: "Rising Growth, Declining Investment: The Puzzle of the Philippines." World Bank Policy Research Working Paper 4472, by Alessandro Magnoli Bocchi. January 2008.

[6] US Embassy reporting (September 2007) concludes that recent GRP infrastructure investments will not be sufficient to keep Philippines growth rates up with those of its neighbors. Sustained growth and poverty reduction will require economic and political reforms, including privatization, liberalization of investment and trade regimes, and a more

1.3 BACKGROUND

Philippines Macroeconomic Performance Has Improved... The performance of the Philippines economy has improved over the past three years, as reflected by strong growth with low inflation, steady improvement in the government fiscal position, and continuing appreciation of the peso against foreign currencies. In 2007, the Philippines Government estimated Gross Domestic Product (GDP) growth at 7.3%, the highest in 30 years and above the ASEAN 5 average growth of about 6.3%.[7] The growth was due to higher spending on infrastructure, a record external payments surplus, falling interest rates, recovering financial markets, and strong consumption fueled by remittances of overseas Filipino workers. Private consumption, accounting for more than three quarters of GDP, grew by 6.0% during the year, again propelled by very strong remittances from overseas workers. Government consumption rose by 10% reflecting surging public sector construction investment.

…Especially its Fiscal Position. The Philippines has made remarkable progress in the last three years by nearly eliminating its fiscal deficit. This was achieved in part by significant reforms made in 2005 which broadened the tax base and raised the value-added tax. More significantly, the overall fiscal balance has benefited greatly from a few big-ticket privatization transactions carried out in the last three years. These efforts have been complemented by much lower debt servicing costs as a result of significant Philippines peso appreciation, lower interest rates, and pre-payment of some foreign debt obligations. Disappointingly, however, the overall tax effort (total tax collection as a share of GDP) declined to 14.0% for 2007 from 14.3% the previous year, and is likely to remain in the 14-15% range unless the government can implement improved collection efforts and eliminate long persistent tax leakages.

Other Than Services, Sector Performance is Generally Poor and Growth Fundamentals are Fragile. Financial services and a rapidly expanding business process outsourcing industry (which generated an estimated US$5 billion in revenues during 2007) fueled strong service sector growth of 8.7%. Strong growth in construction and mining was tempered by much weaker growth in most manufacturing sectors. Semiconductor assembly and other electronics manufacturing, a critical element of the manufacturing and export market, continued to grow, but at a slower pace, suffering from weak global demand. Agriculture posted a modest growth of 5.1%.

Overall job growth has only averaged 2.5% annually in recent years, barely enough to keep up with the population growth rate. The fiscal stability has been brought about by moderate improvements in revenue collection, substantial privatization revenues, and very modest gains in discretionary government spending. These favorable fiscal conditions were matched by healthy global and regional economic conditions. But even during this period of very good economic growth, the Philippines continued to lose competitiveness relative to many other developing countries.

Historically, the Philippines has had a relatively weak investment climate and has failed to attract a significant share of foreign investment in the region, or even to maintain adequate levels of domestic investment. Not withstanding moderately strong GDP growth in recent years, the reality is that over the last three decades, the Philippines has lost ground due to long periods of anemic economic growth, and has been overtaken by Malaysia, Thailand, and China on a GDP per capita basis, with Vietnam not far behind.[8] Both foreign and domestic investments have been lower in the Philippines than in these other countries by almost any measure.

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effective judicial system.

[7] Regional Economic Outlook: Asia and Pacific. International Monetary Fund, April, 2008. ASEAN-5 consists of Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

[8] Measuring GDP per capita on a purchasing power parity basis and adjusted for inflation, the Philippines has made barely any gains since the late 1970s, while the rest of the Asia region has grown rapidly.

Domestic Investment* share of GDP	1990s	2000-p
East Asia and Oceania	34.8	31.9
South Korea	35.4	29.9
Thailand	36.3	25.6
Malaysia	36.3	23.9
Indonesia	27.6	21.5
Philippines	**22.4**	**17.7**
Info: India	23.3	26.0

* based on gross capital formation

Annual Foreign Direct Investments (FDI) into the Philippines has averaged less than $2 billion per year since 2000, a period in which Vietnam, Thailand, and Malaysia each averaged about $4-6 billion per year. Yet the potential for the Philippines is there; local and foreign business chambers estimated last year that the Philippines could attract $9 billion in FDI yearly if the right reforms were put in place.

A shrinking share of regional foreign investment, low levels of domestic investment, population growth, rising world commodity prices, fragile revenue collection, and persistent governance shortcomings challenge meaningful development for the Philippines. While the nation is poised to make gains, it is still not globally competitive for new investments, and thousands of educated Filipinos still choose to leave each year rather than build their future here.

And Poverty Has Actually Increased, as Has Income Inequality. Despite a moderately strong record of recent economic growth, there has been little progress in reducing poverty over the past ten years. Extreme income disparity has persisted during the last two decades and it seems likely that many of the economic gains have been concentrated in hands of the wealthy.[9] Poverty alleviation in the Philippines has been less responsive to economic growth than in other developing economies. The country's "growth elasticity"—the ratio of the rate of poverty reduction to the rate of income growth—is roughly half those of China, Indonesia, and Thailand's. Economists believe there is a very strong connection between poverty reduction and rural / agricultural development, infrastructure (particularly roads, transport, and power), and education and health—unfortunately, all areas where the Philippines has severely under-invested. Recently released Philippines Government statistics indicate poverty increased in 2006 to engulf a third of the population, and there was little progress in reducing poverty or addressing the uneven distribution of income.[10]

Improved Economic Fundamentals are Necessary to Reduce Poverty and Counter Instability. This is especially true for Mindanao, where economically-promising regions such as Northern Mindanao and the Davao Region can increasingly offer investment and growth opportunities for less stable regions. Assuming that clan warfare, politically motivated violence, criminal activity, and poor governance continue to undermine economic development in the Autonomous Region of Muslim Mindanao (ARMM) and other conflict-affected areas, long-term development prospects will undoubtedly benefit from more stable, dynamic centers of growth taking root in Mindanao.

Improving the Quality of Life for More Filipinos Will Require an Open, Competitive Economy and Greater Investment. Poverty alleviation requires domestically generated, broad-based, sustained economic growth robust enough to employ the rapidly growing population of the Philippines. By most estimates, the Philippines needs to sustain at least 7% real GDP growth to afford the investments in public services that will be required for any significant progress in poverty reduction. This can only be

[9] USAID's May 2007 *Philippines Economic Performance Assessment* found that in 2003 only 4.7 percent of income trickled down to the poorest 20 percent of the population, lower than Indonesia and Thailand, and this trend worsened between 2000 and 2003.
[10] Why Does Poverty Persist in the Philippines? Facts, Fancies, and Policies," by Arsenio Balisacan, UP School of Economics, 2007.

done by improving the business environment, greater public and private investment, reduced cost and policy constraints to trade, and revenue collection and administration.

Yet over the last two decades the country's economic growth has been quite anemic, barely exceeding the population growth rate and it has been well established that even the recent track record of higher growth has not been effective in creating jobs and reducing poverty. According to the Asian Development Bank, "fiscal pressures, poor investment climate, declining competitiveness, corruption and a weak state thwart pro-poor growth."[11]

What is Competitiveness? ***Competitiveness is a concept that encompasses a range of conditions and policies that affect an economy's ability to create value for its enterprises and prosperity for its people.*** There is ample evidence to show that improved competitiveness, as defined here, together with a stable macroeconomic environment leads to more investment, and more dynamic economic growth. The components of competitiveness indicators are broad and multifaceted, drawing in a wide range of factors that affect the ability of firms to compete domestically and internationally, and therefore are key determinants in the amount of investment that can be attracted. The two most comprehensive set of competitiveness indicators are those released in the World Competitiveness Yearbook[12] and the Global Competitiveness Report[13]. A third index, the World Bank's Doing Business Report, focuses specifically on the regulatory costs of doing business.

Despite variations in the methodologies of each diagnostic, there is broad agreement and a consistent message. These surveys consistently show that the Philippines is failing to address key issues that adversely affect the competitiveness of the country, i.e. its ability to create business climate conditions conducive to fostering investment (both domestic and foreign), and that the Philippines as a nation is falling behind other countries in relative terms.

Philippines has been slipping in the competitiveness rankings

Ranking in Year	IMD Competitiveness Indicator	WEF Global Competitiveness Index	World Bank Ease of Doing Business
2005	**40** out of 60	**73** out of 122	**121** out of 145
2006	**42** out of 61	**71** out of 125	**130** out of 175
2007	**45** out of 55	**71** out of 131	**133** out of 178

Recognizing that the Philippines faced the prospect of falling further behind on issues that are measured by the competitiveness rankings, President Gloria Macapagal Arroyo convened a National Competitiveness Summit in October 2006 to identify actions that would reverse the trend. In turn, a National Competitiveness Council (NCC) was tasked with identifying the most urgent competitiveness priorities and promoting an action agenda that would enhance the competitiveness of the country.

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[11] "Poverty in the Philippines: Income, Assets, and Access" by Karin Schelzig, Asian Development Bank, Manila 2005.

[12] Published by the Swiss-based Institute for Management Development (IMD), the World Competitiveness Yearbook measures 55 countries on the basis of 323 criteria. AIM Policy Center is the Philippines affiliate for the IMD Competitiveness Indicator.

[13] Published by the World Economic Forum, the Global Competitiveness Report measures 113 variables across 131 countries. The Makati Business Club is the Philippines' affiliate for the WEF Global Competitiveness Indicator.

These Urgent Competitiveness Priorities for the Philippines will be the Program Areas Under LINC-EG	IMD	WEF	Doing Business
Excessive business regulations, specifically the time and cost required to start, operate, and close a business		x	x
Customs administration (cost of importing and exporting) and trade facilitation	x	x	x
Property rights and land use (security of title, registration, transfer, securitization, taxation, zoning appraisal, land use, adjudication)		x	x
Restrictions on foreign employment, professional practice, ownership, investment, or participation in bidding for public contracts	x	x	
Effective competition and anti-trust policy, protection against regulatory capture and harmful aspects of market dominance	x	x	
Tax evasion and other revenue leakages; tax policy to promote domestic and foreign investment	x	x	
Poor quality and low public expenditure on infrastructure (especially roads, rails, ports, airports, power)	x	x	

1.4. PAST AND PRESENT USAID ECONOMIC REFORM PROGRAMS

USAID/Philippines has implemented the following economic reform and governance programs. On-going economic reform and governance activities have been implemented through a demand-driven contract and various grants to international and local NGOs. Together, these activities produced a substantial record of accomplishments since the start of implementation in 2004. However, all of these activities will be completed by September 2008.

1.4.1 *The Governance and Local Democracy (GOLD) Project (1995-2001)*

The Governance and Local Democracy (GOLD) Project was designed and implemented to respond to the democratic transition that took place in the country following the passing of a new Constitution that emphasized the principles of local autonomy, decentralization, and democratic governance in 1987, and the Local Government Code of 1991 which transferred authorities, functions, resources, and regulatory responsibilities in basic services to the local government level. The GOLD Project provided technical assistance to LGUs and worked with Philippines NGOs in support of the following: 1) local revenue generation and financial management; 2) local development prioritization, finance, and promotion; 3) environmental management and planning; 4) participatory mechanisms strengthening; 5) local, city, provincial, and municipal government leagues and nongovernmental organization (NGO) networks; 6) policy studies or relevant decentralization and governance issues including municipal credit and finance; and 7) information, communication, replication, and feedback system institutionalization. The GOLD Project covered the following LGUs: Bulacan; Bohol, Naga City, Cotabato, Lanao del Norte, Nueva Vizcaya, and Negros Oriental.

The GOLD Project has achieved the following results:

- Developed revenue-producing tax and fee policies and restructured treasury and assessment operations;
- Assisted local governments with all aspects of tax administration, privatization, and contract management;
- Provided technical assistance for the establishment of a municipal bond market for local government credit;
- Developed a credit rating system for evaluating local government creditworthiness;
- Designed and developed information systems for tracking loans;
- Facilitated public/private sector seminars to promote bond and private sector financing for local government infrastructure projects;
- Assisted in the development of benchmark criteria for monitoring financial trends in local governments;
- Promoted the contracting ability of local governments by encouraging their active participation and oversight of procurement of the project's technical assistance;
- Provided professional development to staffs of public and private financial institutions;
- Provided technical assistance in investment identification and promotion, including project feasibility studies, financial projections, economic estate development planning, irrigation and water supply development, tourism development, agro-industrial development, and public market management and credit;
- Provided technical assistance and facilitated participatory workshops on environmental management; and
- Provided extensive technical assistance and backstopping to the new leagues of local government (i.e., three leagues representing provinces, cities, and municipalities), including training in legislative research, advocacy, and legal analysis, and regularly published policy and case studies as well as occasional papers that addressed issues in decentralization, local governance, and national policy.

1.4.2 *Accelerating Growth, Investment And Liberalization with Equity (AGILE)/ Economic Governance Technical Assistance (EGTA) Project (1998-2004)*

AGILE/EGTA Project had two broad objectives: to contribute to continuing policy liberalization, and assist in efforts geared towards increasing the degree of competition in the economy. With these objectives in mind, the resources channeled through AGILE/EGTA provided essential support in a wide variety of interventions to modernize and clarify government operations and to open to new investors areas where competition had been sorely lacking. The AGILE/EGTA Project provided technical assistance to key GRP agencies in six major policy areas: improving capital markets and commercial law; increasing public revenues; strengthening expenditure management; making government procurement more transparent and efficient; reducing bank secrecy and money laundering; and removing barriers to competition in infrastructure and trade.

AGILE/EGTA Project helped put in place policy instruments that improved governance of the public sector. The most notable successes have been in the following areas:

- Procurement reform: enactment of the Government Procurement Reform Act and the issuance of its implementing rules and regulations and operations manual in 2003;

- Capital markets reform: enactment and implementation of the Securities Regulation Code, a law that empowers the SEC to regulate the capital markets and guard investors against anomalous trading activities; technical assistance on pre-need industry reform raised public and legislative awareness on the issue of under-regulation of the industry;

- Tax administration reform: assistance to BIR to implement projects aimed at having immediate positive impact on revenue collection such as the establishment of VAT benchmarks, evaluation of VAT returns, and the creation of tax compliance reports for large taxpayers;

- Customs reform: enactment of the law that amends the Customs Valuation Law for WTO compliance; assistance to build the capacity of the BOC to apply WTO methodology and implement post entry audit for improved revenue collection;

- Public sector governance reform: assistance to strengthen the accountability agencies, especially the Office of the Ombudsman;

- Bank regulation and supervision: assistance to the BSP to improve its bank supervision capacity to reduce systemic risks in the banking system; enactment of the General banking Act which paves the way for the implementation of reforms that ensure better capitalization and more stringent supervision of the banking industry;

- Anti-money laundering: technical assistance in the government's efforts to legislate an anti-money laundering law and the removal of the Philippines from the FATF's list of non-compliant countries and territories; assistance in the creation of the Anti-Money Laundering Council (AMLC) and Secretariat to act as the primary financial intelligence unit and lead organization in combating money laundering;

- Agriculture and biotechnology: assistance to the Department of Agriculture to promote the safe use of biotechnology in the country and provide a stable and predictable regulatory regime for the importation and commercial use of GMOs; enactment of the Plant Variety Protection (PVP) law and its implementing rules and regulations, and establishing the PVP office;

- Intellectual property rights: enactment of the Optical media Act, which empowered the government through the Optical media Board to curtail intellectual property violations in the entertainment industry;

- Air transport: technical assistance to the Department of Tourism to implement an executive order promoting air transport liberalization in the country;

- Ports and inter-island shipping: technical assistance in the drafting of executive orders which promote the use of RORO shipping as an alternative mode of sea transport;

- Telecommunications services: technical assistance to the National Telecommunications Commission (NTC) addressing interconnection and wholesale pricing issues which helped raise universal access and service, improve service and network quality, reduce telecommunications prices and provide consumers the freedom to choose the service and hardware provider.

1.4.3 *Transparent and Accountable Governance (TAG) Project (1999-2009)*

The TAG Project aims to strengthen Philippines civil society and private sector constituencies for counter-corruption reform, and support the Philippines national and local efforts to implement a good governance agenda conducive to economic growth and poverty reduction. The TAG Project has been implemented in three phases beginning in 1999. The first phase of the TAG Project (1999-2000) focused on building awareness on the cost of corruption, increasing transparency and accountability in government transactions, and promoting tri-sectoral collaboration in support of good governance. Building on the successes achieved by the initial national counter-corruption efforts, the second phase of the TAG Project (2001-2007) focused on national level counter-corruption advocacy, transparency and accountability in governance at the city level in Mindanao, and local governance improvement especially in the ARMM. The following are the significant results of the TAG Project (1999-2007):

- Enhanced civil society's effectiveness in fighting corruption;
- Improved collaboration between civil society and government;
- Increased civil society and private sector participation in governance processes;
- Improved capacity of government institutions and government officials to implement counter-corruption and good governance measures and reforms;
- Increased transparency in government transactions; and
- Increased effectiveness and accountability of government officials.

The third (current) phase of the TAG Project (2007-2009) aims to strengthen local governance and mechanisms for conflict resolution and local economic development in 9 cities and 30 municipalities in Mindanao. In particular, the project will: 1) Improve the overall business environment and increase the competitiveness of cities in Mindanao though better governance; 2) Institutionalize good governance agenda in Mindanao municipal governments; 3) Provide models of good governance tools and practices; 4) Measure improvements in the quality of business registration and real property tax administration of city governments; 5) Strengthen public-private partnerships in Mindanao cities; and 6) Increase the availability of reading materials in conflict-affected areas of Mindanao.

1.4.4 *Targeted Interventions in Economic Reform and Governance (TIERG) Program (2004-2008)*

The TIERG Program is a set of SO2 technical assistance activities intended to support economic policy reform and enhance the competitiveness of the Philippines economy. In addressing these issues, the TIERG Program works in two broad substantive areas namely: 1) economic policy reform, and 2) rule of law. The economic policy reform component is being implemented through the following projects: Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE), Economic Policy Reform and Advocacy (EPRA), and Partnership and Advocacy for Competitiveness and Trade (PACT). The rule of law component is being implemented through the Rule of Law Effectiveness (ROLE) Project.

The economic policy reform component includes the following illustrative priority issues and areas: a) trade, investment, and competitive structure; b) domestic and international trade (WTO technical assistance, tariff and non-tariff barrier reduction, agriculture, inter-island and overland transportation); c) investment and private sector development (financial market development, private investment in public infrastructure, intellectual property rights, telecommunications development); and d) sustainable fiscal management (fiscal policy, tax administration, LGU financial management and planning).

The rule of law component includes the following priority areas: a) Improved public sector governance (reduction of corruption opportunities in high-risk government agencies; anti-corruption agencies made more effective; within the boundaries allowed by US law and USAID regulations, prosecutors, investigators and other actors in the administration of justice are trained to better enforce the law); and b) judicial reform (institutionalization of mediation at the Court of Appeals and the Supreme Court; anti-corruption/ADR compact involving companies and lawyers; caseflow management activity; training of judges on new laws passed).

Technical assistance activities under the TIERG Program have achieved the following results:

- Improved tax administration through enhancing administration of specific tax measures such as the capital gains tax on real properties, improving taxpayer compliance (tax compliance verification drive, streamlining tax rulings and training of BIR staff on the new Philippines financial accounting and reporting standards), providing BIR access to information on comprehensive third party liability insurance for taxation purposes, and design of a performance management system at the BIR to help implement the Performance Attrition Act of 2005;

- Enhanced BIR-LGU information sharing through the issuance of Executive Order 646;
- Widely disseminated research on fiscal incentives which led to the drafting of legislation and tighter monitoring;
- Improved trade facilitation through the restructuring of the post entry audit unit of the BOC and accession to the Revised Kyoto Convention;
- Improved capacity of 330 participants in the Global Trade e-Learning training;
- Greater competition in the telecommunications sector through the issuance of rules on reference access offers;
- Leveraging of USAID funds by 3:1 through the establishment of 13 pilot e-community centers in the rural areas as part of the Last Mile Initiative program.

1.4.5 The Millennium Challenge Account Philippines Threshold Program (MCA-PTP) (2006-2008)

The MCA-PTP is designed to reduce corruption and improve revenue administration by strengthening the Office of the Ombudsman, and by strengthening enforcement in three areas of the Department of Finance (DOF), namely, the Revenue Integrity Protection Service (RIPS), the Bureau of Internal Revenue (BIR) through its Run After Tax Evaders (RATE) Program, the Bureau of Customs (BOC) through its Run After the Smugglers (RATS) Program. The significant activities that the MCA-PTP is supporting include:

- A human resource development program to develop the investigative capabilities of BIR personnel and strengthen cases filed by the BIR.
- A nationwide computerization program to strengthen the BIR's tax administration. This activity involves the installation of the Integrated Taxpayer System (ITS) and the hardware needed to support the ITS, and will allow easier and more accurate tax filings by taxpayers and improve the tracking of tax evaders.
- A fully-automated Human Resource Information System (HRIS) that will allow better utilization and management of personnel of the BIR.
- A training program to strengthen the case development processes and skills at the Office of the Ombudsman, and improve its conviction rates.
- A values and anti-corruption education curriculum program for the youth.
- Information management and evidence security improvement at the RIPS.
- Integrity training program and establishment of the Internal Control Unit at the BOC.

1.4.6 *Policy Reform Project (2006-2008)*

The Policy Reform Project is implemented through a cooperative agreement and grant support for a range of activities addressing the lack of competition and poor infrastructure as two key factors in poor economic performance. Policy successes have come in the following areas:

- Transport costs along key points of the Western Route of the Ro-Ro Nautical Highway have been reduced by nearly 45%. Passenger traffic between Mindoro and Caticlan (Boracay) exceeded 700,000 in 2007. The Central Route will be operational by the end of 2008 following an inaugural caravan made by President Arroyo in April, leading to newer and more efficient transport and logisitics links between Mindanao and the rest of the country.

- Two new domestic cargo handling companies were awarded permits in the port of Manila in 2007. There are now four competing domestic cargo handling companies, creating intra-port competition.

- The Department of Interior and Local Government issued a policy (Memorandum Circular No 2006-70) eliminating local government "pass through" taxes and fees on transport and passengers.

- The Philippines Port Authority reduced the cost of exporting by discounting wharfage and scanning fees.

- Rules and guidelines have been issued by the Philippines Economic Zone Authority (PEZA) permitting Open Access for power sector agreements between locators and power providers, and permitting PEZA to act as its own energy sector regulator. PEZA was also able to reduce distribution rates by 16 to 20 centavos in two ecozones (Cavite and Bataan), and generation rates were reduced by 70 centavos in late 2007 for the 13 largest privately-managed economic zones.

- The "High Load Factor" discount for major electric power users was restored in early 2008. The discount had been unilaterally removed by the dominant utility. The "Systems Loss" charges were reduced in the Meralco franchise area for economic zone locators from 9% to 2.5%, benefiting exporters that make up about 85% of all merchandise exports from the Philippines.

- A highly-successful, inter-agency infrastructure monitoring task force, chaired by the Presidential Management Staff, was created and was instrumental in resolving implementation issues that affected high priority infrastructure projects (e.g. Subic-Clark-Tarlac Expressway, Southern Luzon Expressway, Light Rail Transit 1 North Extension, and Laguindigan Airport).

- Air talks have become more frequent and air panel representation has brought in a broader economic interests. The Philippines and Korea concluded an air service agreement in 2007 increasing seat capacity from 5,000 to 19,000 seats per week for each country. Passenger arrivals at Diosdado Macapagal International Airport in Clark have increased ten-fold since 2004.

- The project has successfully digitized the entire vault (180,000 titles) of the Cebu City Register of Deeds, making it easier and faster to locate titles for customers and possible to link electronically the Registry of Deeds with the Cebu City local government to facilitate real estate tax payments.

Please see http://www.usaid-philippines.gov/ for more information on relevant USAID activities.

1.5 SUMMARY DESCRIPTION OF WORK

1.5.1 Objectives

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However, LINC-EG will also support initiatives in other selected regions, as well as national-level efforts consistent with the Program Areas described in Section 1.5.4. Partners will be selected for their demonstrated greater economic growth potential and broader economic impact to: (1) improve local and national government economic governance and revenue collection; (2) improve local field office effectiveness of national government agencies; and (3) improve operations, policy, and program implementation linkages between local government offices, local field offices of national government agencies, and national government agencies. The Program will invest in tangible local results that have national economic impacts and national reform efforts that have tangible local benefits.

1.5.2 Relationship to U.S. Foreign Assistance and Mission Priorities

The LINC-EG Program advances the Foreign Assistance Objective of Economic Growth.

- Program Area 1: Macroeconomic Foundation for Growth
  Element: EG 1.1 - Fiscal Policy

- Program Area 2: Trade and Investment
  Element: EG 2.1 - Trade and Investment Enabling Environment
  Element: EG 2.2 - Trade and Investment Capacity

- Program Area 4: Infrastructure
  Element: EG 4.1 - Modern Energy Services
  Element: EG 4.3 - Transport Services

- Program Area 6: Private Sector Competitiveness
  Element: EG 6.1 - Business Enabling Environment
  Element: EG 6.2 - Private Sector Productivity

USAID anticipates that many of the LINC-EG activities will also address Elements of the Governing Justly and Democratically Program Objective, such as:

- Program Area 2: Good Governance
  Element: GJD 2.2 - Public Sector Executive Function
  Element: GJD 2.3 - Local Governance and Decentralization
  Element: GJD 2.4 - Anti-Corruption Reforms

LINC-EG will make leading contributions toward the achievement of USG priority foreign policy goal in the Philippines: economic prosperity and security. The LINC-EG Program is consistent with USAID/Philippines' Strategic Objective 2 (SO2): Performance of Selected Government Institutions Improved. The LINC-EG Program is also consistent with the April 2008 USAID Economic Growth Strategy and with the priorities of the Philippines Government, which include sustained and equitable economic growth, and will support key policy reforms in the areas of: revenue collection; improve governance and public sector functioning; strengthen private sector development; and improved competitiveness.

LINC-EG will help deliver on the action agenda developed by the National Competitiveness Council (NCC), which was formed last October 2006 by virtue of Presidential Executive Order No. 571 to address the improvement of the country's competitiveness.

1.6 DESCRIPTION OF WORK REQUIREMENTS

1.6.1 Approach and Implementation of Task Assignments (TAs)

LINC-EG will support policy formulation and implementation related to business, investment, trade, and fiscal reforms, so long as these can be linked to improving the competitiveness of the Philippines in a measurable way, at either a local or national level.

LINC-EG will continue USAID's assistance to the Philippines national government, but within the context of the run-up to the 2010 national election. The LINC-EG Program will focus a large portion of its resources on implementation at the regional or sub-national level, by working with local government units and the local field offices of national government agencies in relatively stable and economically-prominent areas of Mindanao, selected for their growth potential and demonstrated commitment to the Program objectives.

LINC-EG will promote public-private partnerships conforming as closely as practical to USAID's Global Development Alliance principles and leveraging as much private resources as possible.

LINC-EG assistance will be provided through individually-approved Task Assignment Proposal (TAPs). Specific technical assistance activities carried out under LINC-EG will be reviewed individually by the the Cognizant Technical Officer (CTO) and approved by the Contracting Officer (CO) once the contract has been awarded. The Contractor will design TAPs in accordance with the TAP Procedures set forth below. These will include approach, budget, timeline, and other parameters, and demonstrate significant commitment from the public and private counterparts. Representatives from sub-national offices of National Government Agencies and LGUs (such as city governments), in consultation with the local business sector and the civil society organizations, will be invited, for example, to specify the area in which to initiate the reforms from a short list of options drawn from the scope of this Program. The short list of options will conform to the Program Areas and illustrative items presented in Section 1.6.2.

For example, one TAP might be dedicated to improving the Cagayan De Oro Revenue District Office of the Bureau of Internal Revenue, a second TAP would focus on speeding up the business permitting process in Cagayan De Oro, and a third and fourth TAP might focus on improving customs operations in Davao and Subic, respectively. The contractor would be expected to propose and manage TAPs to maximize results based on grouping common regions and themes into logical clusters – in this case, for example, Cagayan De Oro and customs operations.

Details on TAP Development and Management. The Contractor will send proposed TAPs to the CTO for review and to the Contracting Officer for approval. Proposed TAPs must include a full activity description with deliverables consistent with the LINC-EG Program Areas identifying the time, level of effort, commodities, and other resources required. Proposed TAPs must demonstrate substantial commitment from the government or private counterpart to adopt and sustain TAP activities with funding, policies, and personnel. (This counterpart commitment can be in the form of a Letter of Intent signed by the Mayor, a City Council Resolution, an endorsement from the Local Chamber of Commerce, or from local civil society groups manifesting the city's willingness to undertake reforms through the project and pledging staff time, commodities, office space, or other resources.)

In most cases, approved TAPs will be recognized through an informal Memorandum of Understanding (MOU) between USAID and the relevant development partners (local and national).

Proposed TAPs Will Include Performance Measures. Each TAP proposal submitted to USAID for approval will identify indicators by which progress can be measured. Indicators should describe both the outcome (i.e. what will the task produce at its conclusion) as well as the intended impact (i.e. the development objective or reason for the specific TAP). The illustrative Outcomes and Intended Impacts in each of the Program Areas below are examples of indicators that could be adapted for a given TAP. In addition to the indicators, the task proposal should describe, and set targets corresponding to, three possible scenarios: "highly successful", "moderately successful", and "not successful". For example, if the contractor submits a TAP proposing to help a specific Local Government Unit (LGU) implement a new system to speed up the business permitting process, the proposed TAP should identify what a "highly successful" outcome would be, including relevant indicator targets. Similarly, the contractor should define “moderately successful” and “not successful” outcomes, all subject to TAP approval by the CTO. This will help both USAID and the Contractor assess the benefit of each TAP.

The Contractor shall also report on relevant Foreign Assistance Standard Indicators (adapted here from the “Handbook on Global Indicator Guidance”). Since Operating Units report on a subset of the relevant Standard Indicators within the program elements they are funding, the contractor will be required to measure and report on Standard Indicators as well as customized TAP-specific indicators. Reporting on Standard Indicators will be developed in the Work Plans.

TASK ASSIGNMENT PROPOSALS (TAPs) PROCEDURES

Performance under this Task Order shall be in accordance with Task Assignments issued pursuant to the following procedures:

a. The Contractor shall incur costs under this Task Order in performance of Task Assignments (TAs) and revisions to TAs which are reviewed by the Cognizant Technical Officer and approved by the Contracting Officer.

b. The Contractor shall submit TA Proposals (TAPs) setting forth the following:

   1) Description of the task to be performed;
   2) Performance deliverables/targets and measure;
   3) Period of performance; and
   4) Budgetary cost estimate, including labor days.

   The TAP is the Contractor’s overall estimate for the completion of the TA and will include the following:

   1) Dates of commencement and completion of the TA;
   2) Labor days, by labor category, for the total performance period to complete the TA;
   3) Travel costs, if any, estimated to complete the TA;
   4) Subcontract or grant services to complete the TA;
   5) Brief discussion of why the proposed labor mix is optimal;
   6) Brief description of the technical approach, method or process;
   7) Identification of supplemental information, activity or decisions required to perform the TA, if any. Provide description, criticality, date required and source.
   8) Listing of anticipated deliverables and a brief description of the expected contents of each deliverable to be provided.
   9) Definition of what constitutes “highly successful”, “moderately successful” and “not successful” targets.

c. The Contractor’s TAP is subject to review by the CTO and negotiations and approval by the CO. Once approved, the TA will be issued.

d. TAs will be issued in writing by the CO on forms specified and provided by USAID. TAs will be identified by a numeral and modifications or revisions will be identified by an alphabetical suffix.

e. After a TA is issued, a modification or revision may be originated by either the USAID or the Contractor. If the Contractor perceives a revision is necessary, whether to increase or decrease, the Contractor shall promptly submit a revised TAP to the CTO and the CO, explaining the necessity for the revision. Revised TAPs submitted by the Contractor are subject to the review of the CTO and negotiation by and approval of the CO.

f. Upon completion of each TA, the Contractor shall provide a report of the total expenditures to close out the TA to the CTO and the CO.

1.6.2 Program Areas

There will be seven Program Areas under which TAPs may be developed. Each Program Area matches an Urgent Competitiveness Priority identified in Section 1.3, plus one Program Area to undertake diagnostics. Each Program Area listed below includes some *illustrative* activities (along with *illustrative* indicators) which could be developed into TAPs, and applied either regionally or nationally, as appropriate.

Program Area #1: Measuring Factors of Competitiveness

- **Perform sub-national or LGU-based competitiveness diagnostics consistent with existing methodologies (e.g. Sub-National Doing Business, Cities Competitiveness, etc.)**

  The contractor shall implement investment climate diagnostics following pre-existing methodologies (Sub-National Doing Business and competitiveness). The contractor may work through grantees or local partners to conduct surveys, benchmarking diagnostic studies, prepare reports, and educate policy-makers about factors of competitiveness, to be proposed by the contractor and approved by USAID.

- **Perform other comparative diagnostics or indicators in order to identify weaknesses, either regionally or nationally, in fiscal stability, trade facilitation and customs administration, business permitting and licensing, real property administration, and other barriers to business, investment, and trade.**

  For example, diagnostics and reports might be applied to all cities within a given region of the Philippines, reporting on tax collection performance of Revenue District Offices, or on the customs processing performance.

- **Coordination with other sub-national economic reform and competitiveness initiatives being carried out by development partners.**

  Coordinating project activities with other donor-supported technical assistance will be paramount. Development partners from the Filipino government, business, and civil society have invited donor participation in numerous coordinating fora focused on the competitiveness agenda including the National Competitiveness Council, the Anti-Red Tape Task Force, and the Philippines Development Forum. Specific activities occurring at the LGU level will require special coordination and benefit from a sharing of experiences.

  Expected Outcomes:

  There are many common diagnostics used to measure competitiveness, including most notably, the World Economic Forum (WEF) and the Institute for Management Development (IMD) Competitiveness Indices and the Doing Business indicators published by the World Bank. All three of these indicators have been adapted to measure aspects of Sub-National Competitiveness in the Philippines at the LGU level. One or more TAPs will likely be developed under LINC-EG to help conduct competitiveness diagnostics at the sub-national level.

World Bank Doing Business framework	Can be Measured Locally or Nationally
Starting a business (procedures, time, cost)	**Local**

Dealing with licenses (procedures, time, cost)	**Local**
Employing Workers (hiring, firing, non-wage labor costs)	National
Registering Property (procedures, time, cost)	**Local**
Getting Credit (legal rights, credit information)	National
Protecting Investors (disclosure, corp. governance)	National
Trading Across Borders (documents, time, cost for export/import)	Local / National
Enforcing Contracts (procedures, time, cost)	National
Paying Taxes (procedures, time, amount payable % of gross profits)	Local / National
Closing a business (time, cost, recovery rate)	Local / National

Philippines Cities Competitiveness Ranking Project (PCCRP) uses a methodology developed by the AIM Policy Center to assess the capacity of a city to attract investments and entrepreneurs, and to uplift the living standards of its residents. The PCCRP ranks cities using seven major drivers of competitiveness: cost of doing business, dynamism of local economy, linkages and accessibility, human resources and training, infrastructure, responsiveness of local government to business needs, and quality of life. These drivers were adopted from the World Competitiveness Yearbook of the Swiss-based International Institute for Management Development.

Intended Impact:

> A better understanding of the local and national competitiveness factors that affect the investment climate.

Program Area #2: Working with local and national partners and stakeholders to help set the policy agenda -- Carry out other tasks contributing to understanding and improving factors of competitiveness in the Philippines:

- Remove legal limitations on foreign investment (including constitutional, legislative, and executive provisions) to attract investment and provide more competition.
- Update and revise the 1992 “Barriers to Entry” study[14], focusing on concentration ratios, regulatory capture, red tape burden, other barriers to entry for specific industries.
- Promote development of a competition/anti-trust framework that limits regulatory capture and market dominance

Expected Outcomes:

1) Higher scores on competitiveness indices or measures of economic freedom.
2) Improved industry concentration ratios of key economic sectors.

Intended Impacts:

1) Increased Philippines share of FDI in the region.
2) Increased Gross capital formation share of GDP.

F Indicators: Trade and Investment Enabling Environment (Element: EG 2.1)

> Number of Investment Measures Made Consistent with International Investment Agreements, such as the WTO Agreement on trade related investment measures (TRIMS), bilateral investment

[14] “Barriers to Entry Study,” produced by Mario Lamberte and Emmanuel de Dios, et. al., under contract for USAID Philippines in 1992.”

treaties (BITs) with the United States or other countries, WTO services commitments allowing foreign ownership, regional harmonization protocols, or Investment Chapters in U.S. Free Trade Agreements.

Program Area #3: Streamline the business permit and license process, reducing the time and cost required to start, operate, and close a business (via bankruptcy or otherwise).

Activities supported under this Program Area would lead to simplified forms and procedures, decreases in the number of signatories, and decreased overall time required for processing or for final approval. If successful, technical assistance activities would lead to more business permits being issued and more business activity officially recorded in the formal sector.

- **Roll-out the Philippines Business Registry (PBR) and other e-Government efforts to LGUs.**

  The PBR is intended to be a portal registry for all business entities, containing the profile of business entities to eliminate repetitive submission of basic data and documents across agencies. The PBR has been funded so far from the e-Government Fund with the DTI database development being done through ADB support. The PBR is expected to gradually bring in relevant LGU offices and National Government Agencies such as SSS and PhilHealth, though few have committed to joining the system. DTI is presently assessing the e-readiness of LGUs to participate in the system.

- **Promote best practice in one-stop shop concepts.**

  LGUs and National Government Agencies (NGAs) alike have begun promoting one-stop shop concepts to streamline business permitting and licensing. Aside from the many successful initiatives of innovative and business-friendly LGUs, DTI's National Economic Research and Business Assistance Centers (NERBACs) are intended to link BIR, PhilHealth, SSS, other government offices, and in some cases, LGUs permitting authorities, in order to speed up business licensing and registration. So far, NERBACs have been established in only a handful of regional DTI offices such as Cebu, Davao, and Pampanga. The Department of the Interior and Local Government (DILG) has set up One Stop Shops in 75% of the country's cities.

- **Implementation of the Anti-Red Tape Law.**

  A major breakthrough was achieved in 2007 with the signing of RA 9485, the Anti-Red Tape Law. Both national government agencies and LGUs are increasingly coming into compliance with this new law which requires bureaucracies to seek ways to reduce red tape. DTI and DILG intend to issue a joint memorandum circular that would identify benchmarks for business processing and organize assistance to LGUs for capacity building.

<u>Expected Outcomes:</u>

1) Simplification of forms and procedures;
2) Decrease in the number of signatories;
3) Decrease in time to get approval;
4) Decrease in processing or approval time.

<u>Intended Impacts</u>:

1) Increase in business tax collections;
2) Increase in number of business permits, renewals, or new registrations.

<u>F Indicators</u>: Business Enabling Environment (Element: EG 6.1)

> Number of Municipalities Receiving USG Assistance with Regulatory or Administrative Simplification

Program Area #4: Improve property rights and land use, focusing on secure registration and transfer of title, appraisal, taxation, and adjudication.

- Support efforts to improve the legal and administrative framework, including the Residential Free Patent, Land Administration Reform Act (LARA), and/or other related legislation.

- Improve real property tax administration (working with local Registry of Deeds, Land Registration Authority, and relevant city offices)

- Assistance to Land Registration Authority (LRA) and others to improve the legal and administrative framework on land titling.

Expected Outcomes:

1) Property rights and land use legal framework advanced through executive or administrative orders, or through legislation.
2) Number of days to register property
3) Interconnection between Registries of Deeds and other local or national government databases

Intended Impacts:

1) Increase in number of titles registered
2) Increase in real estate tax collection
3) Increase in bank lending collateralized by real property

Program Area #5: Improve personal and corporate income tax collection efficiency and reduce tax leakages.

- Diagnose leakages, improve target-setting, and clean up tax registries at a Revenue District Office (RDO) of the BIR in order to improve tax collection efficiency

- Improve participating RDO management and organization

- Improve revenue target-setting at the BIR national and RDO levels

- Improve taxpayer service and compliance **-** streamline tax registration and filing procedures, and simplifying payment procedures

- Implement tax mapping (roll-out of e-TCVD) and synchronize tax mapping of BIR-RDO with local government unit

- Tighten administration of the fiscal incentive-granting process

- Improve excise tax collection efficiency

- Improve fiscal transparency (tax collection and revenue sharing) in mining between mining companies, LGUs, and national government agencies; or other activities which enhance the transparency of government taxation, budget, and spending.

Expected Outcomes:

1) Improved tax records (e.g. increase in number of tax filers).
2) Issuance of Revenue Memorandum Orders or other policy decisions.

Intended Impact:

> Increased in revenue collection (at the National or RDO level).

F Indicators: Fiscal Policy (Element: EG 1.1)

1) Percent of Necessary Preconditions for a Successful Fiscal Policy Unit (FPU) Established Through USG Assistance. These include suitable access to high level decision-makers (not in USG manageable interest), legal framework in place for unit, high level training of key staff, computer and data support.
2) Number of Key Personnel in Fiscal Policy and Fiscal Administration Trained with USG Assistance

Program Area #6: Improve trade facilitation and customs administration, and reduce the cost of importing and exporting.

- Assist local ports, offices of the Bureau of Customs, and relevant Port Authorities to improve customs administration, reduce smuggling and other illegal behavior, and increase revenue collection.

- Provide assistance to revise the Customs Code and other support for the Philippines Accession to the Revised Kyoto Convention (RKC) on Customs Administration.

  The President signed the instruments of accession to the International Convention on the Simplification and harmonization of Customs Code, as amended, otherwise known as the Revised Kyoto Convention (RKC) in February 2008, leaving the Senate to ratify the accession. The RKC contains the most comprehensive set of international standards and recommended practices for entry and exit of goods and business persons. The RKC endeavors to (a) promote international trade by establishing a universal system of simplified and harmonized customs procedures; (b) create better predictability in customs procedures; (c) impact positively on border security as it promotes the secure movement of legitimate trade across the globe; (d) implement special procedures for low risk importers; and (e) reduce the time and cost of clearing customs in the Philippines.

- Assist the implementation of the National Single Window (NSW) between the Bureau of Customs and other government agencies.

- Improve port efficiency, customs administration and promote competition in selected cities that handle foreign traffic and high volume domestic traffic.

- Improve Bureau of Customs operations with relevant port authorities (both public and private).

- Provide assistance to locally implement integrity (anti-corruption) programs.

- Provide technical assistance to streamline and simplify export and import procedures which include accreditation, licensing, clearance procedures and inspection of goods.

- Provide assistance for risk assessment, selectivity, valuation, and post-entry audit

- Promote trade initiatives (WTO, regional, and bilateral)

<u>Expected Outcomes:</u>

1) Introduce automated risk assessment criteria at specific ports.
2) Connect customs functions to the National Single Window at specific ports.

<u>Intended Impacts:</u>

1) Improve the growth rate in volume and/or value of goods cleared or inspected in the port.
2) Increase in revenue collection at a specific port.
3) Reduce the average number of days to process goods.
4) Increase use of the green lane and other risk selectivity implemented at a local port.

<u>F Indicators:</u> Trade and Investment Enabling Environment (Element: EG 2.1)

1) Number of Consultative Processes with Private Sector as a Result Of USG Assistance
2) Number of Customs Harmonization Procedures Implemented in Accordance with Internationally Accepted Standards, such as the World Customs Organization Kyoto Convention on the Simplification and Harmonization of Customs Procedures, the World Trade Organization Customs Valuation Agreement, a U.S. Free Trade Agreement chapter on customs, or regional harmonization protocols.
3) Number of USG-Supported Training Events Held That Related To Improving the Trade and Investment Environment
4) Number of Participants in Trade and Investment Environment Trainings

Program Area #7: Improved Availability of Infrastructure (transportation, power, aviation, ports)

- Timely and efficient implementation of high priority infrastructure projects through better monitoring and coordination.

- Competitive development of Subic-Clark as a business logistics hub.

- Improve the legal and policy framework for private sector participation in infrastructure (e.g. BOTs)

- Continued energy sector reform leading to more reliable power at lower cost to the consumer

- Continued liberalization of civil aviation (passengers and cargo)

- Promote expansion of the network of roads and Roll-on/Roll-off (RoRo) terminals

- Promote more efficient port operations through greater competition

<u>Expected Outcomes:</u>

1. Promulgate policy decisions through legislation or executive decisions.
2. Facilitate investments through public and private sector actions.

<u>Intended Impacts:</u>

1. Reduce cost of infrastructure (power, shipping, etc.).
2. Increase availability of infrastructure (quality/quantity).
3. Improve infrastructure-related policy indicators (WB, other sources).

1.6.3 Role of NGOs and Research Institutions

Due to the sensitive and contextual nature of many of the proposed Program Areas, the Contractor may have to partner with non-governmental policy/research institutions to assist in carrying out many of the TAPs. Therefore, the Contractor should be familiar with USAID sub-contracting and grant-under-contract management processes and must be prepared to manage and report to USAID on progress against multiple sub-awards across the breadth of the LINC-EG Program Areas. The Contractor will be accountable for managing these sub-awards for results.

The Contractor is encouraged to work with the American Chamber of Commerce of the Philippines soon after the award, to develop a grant to advocate policy reforms for, and monitor progress of, improved competitiveness, reduced barriers to business, investment, and trade, and an improved investment climate, in general. This grant will be a logical, follow-on award, not to exceed $100,000 and subject to USAID approval and should be awarded soon after the contract start date.

Offerors will include in their cost proposals a plug item of $2.4 million to cover “Grants under Contract” over the four-year duration of the Task Order. Grant funding allocated to various TAPs will be covered by this plug amount. For example, an illustrative breakdown of the grant funding by Program Area might be:

Illustrative Breakdown of Grant Allocation by Program Area
(over the four-year contract period)

Program Area	**Illustrative Amount**
#1: Measuring factors of competitiveness	$160,000
#2: Working to help set the policy agenda	$120,000
#3: Streamline the business permit and license process	$240,000
#4: Improve property rights and land use	$120,000
#5: Improve personal & corporate income tax operations	$360,000
#6: Improve trade facilitation and customs administration	$400,000
#7: Improve availability of infrastructure	$1,000,000
Total, All Program Areas	**$2,400,000 (plug)**

1.6.4 Special Activities Fund

Most of the policy analysis work will be based on the LINC-EG policy agenda, following the Program Areas identified in Section 1.5.4. However, some work may be undertaken in special cases outside of the policy agenda based on consultation with, and approval by, the CTO. These special cases will be carried out through a Special Activities Fund (SAF).

The contractor will manage a SAF to facilitate implementation of selected sub-activities complementary to, but not originally included in, the annually-approved workplan. Specific use of the SAF will be proposed by the contractor’s Chief of Party (COP) and approved by the CTO. In addition to supporting activities identified in project work plans, the SAF may be used to pay the costs of the following:

- Special studies and technical assistance on matters of interest to LINC-EG, including support for related activities of other USAID Strategic Objectives,
- Organization and implementation of conferences, seminars, workshops, and short-term training (anticipating that in most cases the SAF will share the costs of these activities with other organizations);
- Organization and implementation of study tours to observe relevant cases within or outside of the Philippines;
- Selective long-term participant training for Filipino public and private sector policy professionals;
- Commodity procurement (other than for the contract administration);
- Specialized TAPs pertinent to achieve project objectives, including support for policy analyses, public-private policy dialogue, and technical assistance by local think tanks, university policy analysis units, NGOs, and business associations.

1.6.5 General Support Activities

In addition to being responsible for all activities necessary to supporting specific TAPs approved under the contract, the contractor shall provide logistical support for visits by, and events of interest to, the United States Mission. The contractor shall also generate greater public understanding and support for project activities, where necessary to achieve results, through effective communications. The contractor shall organize and host field visits to project sites by Philippines government officials and arrange meetings with local government, private sector, and civil society stakeholders.

1.7 IMPLEMENTATION ARRANGEMENTS

1.7.1 Staffing and Management Structure

The contractor will propose, for USAID approval, staff levels and a management structure appropriate to the Program's objectives, approach, and budget. The Chief of Party (COP) will provide overall strategic direction and management for all aspects of the project including the development of specific TAPs and the results expected from contract employees and grantees. The COP may be drawn from the principal contractor or its consortia partners.

We anticipate the need for other full-time, professional, long-term technical staff who will be responsible for (1) monitoring, coordination, and reporting; (2) procurement management; and (3) financial management. Offerors shall propose staffing arrangements for the technical areas (i.e. the Program Areas identified in Section 1.6.2) and other positions in their proposal. The Contractor will maintain a Manila office and at least one satellite office in Mindanao. However, offerors may propose more than one satellite office depending on their approach and/or geographic areas of focus. Office spaces may be contributed by government counterparts as a demonstration of buy-in.

1.7.2 Monitoring, Assessment, and Audit

The contractor shall maintain project-level Performance Monitoring Plans and related, aggregated indicator data. These will be made available to USAID in a variety of formats upon request.

Each TAP submitted to USAID for approval will identify indicators by which progress can be measured. Indicators should describe both the expected outcome (i.e. what will the TAP produce at its conclusion) as well as the intended impact (i.e. the development objective or reason for the specific task). The Expected Outcomes and Intended Impacts in each of the Program Areas (presented above) are examples of indicators that could be adapted for a given task. In addition to the indicators, the TAP should offer targets and describe three possible scenarios: "highly successful", "moderately successful", and "not successful". For example, if the contractor submits a TAP proposing to help a specific LGU implement a new system to speed up the business permitting process. The proposed TAP should identify what a "highly successful" outcome would be, including relevant indicator targets. Similarly, the contractor should define "moderately successful" and not successful" outcomes, all subject to TAP review and approval by USAID. This will help both USAID and the contractor assess the benefit of each TAP.

The Contractor will also report on relevant F Common Indicators (adapted here from the "Handbook on Global Indicator Guidance"). Since Operating Units report on a subset of the relevant Common Indicators within the program elements they are funding, the contractor will be required to measure and report on F Common Indicators as well as task-specific indicators. Reporting on F Common Indicators will be developed in the Work Plans.

A mid-term evaluation of the LINC-EG Program will be conducted toward the end of the second year of Program implementation to assess contractor performance, determine impact, measure accomplishments, and validate Program design. The mid-term evaluation will inform future directions for the final years of Program implementation.

USAID will arrange for external audits when deemed necessary, and to comply with any USAID audit requirements.

1.7.3 Performance Monitoring Plan

In close coordination with implementing partners, the Contractor will develop a performance monitoring plan. This plan will aggregate all indicators included in individual TAPs to evaluate Expected Outcomes and Intended Impacts, and to determine the degree to which each TAP has been “highly successful”, “moderately successful”, or “not successful”. The Performance Monitoring Plan will also link these indicators to broader measures of competitiveness at both a local and national level. The Performance Monitoring Plan will evaluate all TAPs, both active and completed, for the duration of the project to measure sustainability.

The Contractor is not expected to produce all of the Intended Impacts or achieve all of the overall objectives of the program by itself. These results can only be produced by the Government of the Republic of the Philippines (GRP), other government entities including the LGUs, and the private sector. However, the Contractor shall work to increase understanding and appreciation by stakeholders, policy makers, and interested parties of the benefits of improved tax collection and fiscal sustainability, more competition and reduced barriers to trade and investment, and a better environment for business, in general. The Contractor is expected to propose realistic TAPs in order to achieve moderately- or highly-successful projects. Thus, performance criteria will concentrate on the effectiveness of the Contractor in selecting, designing, implementing, and disseminating work designed to help policy makers achieve reform success.

1.7.4 Public Information and Consultations

The Contractor will communicate technical recommendations to activity counterparts privately. All public dissemination of information concerning LINC-EG activities, via news or other means, will be done by GRP counterparts, grantees or subcontractors in their own name, with identification of the project support if necessary.

The contractor may seek exemption from USAID branding requirements for TAPs (carried out by the contractor or its grantees and subcontractors) that would not benefit from attribution to U.S. Government (USG) support.

1.7.5 Implementation Partners

On an operational basis, the Contractor will provide support to various government and private sector partners based on their requests for assistance and within the terms of approved TAPs. Sub-national government partners will include LGU officials, employees of local offices of National Government Agencies such as the Revenue District Offices of the Bureau of Internal Revenue (BIR), Bureau of Customs (BOC) district offices, and specific ports under the domain of the Philippines Ports Authority (PPA).

National Government partners may include the Department of Finance (DOF), including the BOC, the BIR; the Department of Agriculture (DA); the Department of Transportation and Communication (DOTC), including the PPA, and the National Telecommunications Commission (NTC); the Department of Trade and Industry (DTI); the National Economic and Development Authority (NEDA); and chambers of commerce and business associations.

Other development partners include the public-private endeavors such as (but not limited to) the National Coordinating Council (NCC), the Anti-Red Tape Task Force, the Export Development Council (EDC), and other bilateral donors and multilateral financial institutions, as well as their contracted technical assistance activities.

1.7.6 USAID’s Role

USAID/Philippines will supervise the Contractor to ensure the activities' consistency with USAID's strategy, USG policy, and GRP development objectives. The CTO will be principally responsible for the project management of the LINC-EG Program.

1.7.7 Policy Advisory Committee

USAID will form an informal Project Advisory Committee (PAC) to provide feedback on workplan and implementation issues. Membership of this advisory committee will be drawn from donors and development partners listed above, with preference to those active in the NCC and the relevant Philippine Development Forum (PDF) Working Groups such as Economic and Fiscal Reforms, Growth and Investment Climate, Infrastructure, and Decentralization and Local Governance. Regionally-based advisory committees may also be created to provide feedback on LINC-EG activities clustered in a given region.

1.7.8 Coordination with Donors and Other Development Partners

USAID/Philippines has productive relationships with multilateral and other bilateral donors. Competitiveness issues are coordinated primarily though USAID’s participation in the NCC and the Philippines Development Forum (PDF). Working Groups under the PDF which focus on competitiveness issues include Economic and Fiscal Reforms, Growth and Investment Climate, Infrastructure, and Decentralization and Local Governance. USAID collaborates with the Asian Development Bank (ADB) and the World Bank on fiscal, trade, and investment related issues. USAID maintains an active dialogue with the International Monetary Fund (IMF) on its technical assistance program on tax administration. Australia, Germany, Canada, and the International Finance Corporation are most prominent among the many donor agency programs involved at improving aspects of competitiveness and economic governance at both national and local levels. Effective and consistent coordination will be critically important.

The Contractor shall advise and assist USAID in coordinating all project activities with other donor-funded activities. The Contractor shall provide information to the CTO and disseminate reports, if appropriate, to keep other donors informed of project activities. The Contractor shall stay informed about other donors’ activities so as to avoid duplication and to exploit opportunities to coordinate and possibly collaborate in specific activities.

The Contractor shall inform the CTO of opportunities and circumstances where collaboration with other donors in sponsoring participation in symposia, workshops and other public/professional fora will contribute to the achievement of the LINC-EG objectives.

1.8 DELIVERIES AND REPORTS

1.8.1 Reports

All reports shall be in the English language. The contractor shall promptly notify the CTO of any problems, delays or adverse conditions which materially impair the contractor’s ability to meet the requirements of the contract.

All project outputs and deliverables will be submitted to the CTO in both hard copy and electronic (pdf or editable) format. Hard copies will be printed/copied double sided. On a quarterly basis, the contractor shall submit a list of outputs and deliverables prepared by the project and confirm their delivery to the CTO.

1.8.2 Annual Workplans

The contractor shall deliver an initial Annual Workplan (covering the period from contract award through December 2009) no later than 45 days of contract award. The initial annual workplan shall be a basic blueprint describing how proposed TAPs will be developed and marketed to National Government Agencies (NGAs), sub-national offices of NGAs, and LGUs. The initial Annual Workplan will also identify proposed TAPs to be worked on during the calendar year (although TAPs need not be started and concluded in the same calendar year), and an implementation schedule that discusses major tasks and activities, resource requirements, and expected results for the first year. This section of the Initial Annual Workplan should formalize the methodology for conducting research, diagnostics, and outreach to eligible LGUs and other sub-national partners, leading to the identification of specific TAPs with a chosen LGU or sub-national partner.

The contractor shall submit subsequent annual workplans in draft for CTO's review no later than November 15th of each year for the next planning year. The annual workplan will form the basis for activities to be initiated beginning in January of each planning year. The LINC-EG Team, the Policy Advisory Committee, and selected partners will collaborate, as appropriate, with the contractor in developing the activities for each year. Modifications that respond to changed conditions may be made to each annual workplan, subject to approval by the CTO. Activities within each annual workplan may last longer than a 12-month period: therefore, an annual workplan may run concurrently with the next year's workplan.

1.8.3 Quarterly Performance Report

The contractor shall submit Quarterly Performance Reports summarizing progress of all TAPs and activities, including all grants under contract, indicating any problems encountered and proposing remedial actions as appropriate.

Each Quarterly Performance Report shall: 1) summarize results from specific TAPs and other technical assistance activities during the quarter and cumulative since the beginning of the contract; 2) describe the methods of work used; 3) provide comments and recommendations regarding unfinished work and/or project continuation and direction; and 4) contain a financial report that describes in detail how contract funds were used.

At a minimum, the Quarterly Performance Report shall include progress updates on all completed, underway, and planned task activities, including updates on all task indicators. The Quarterly Performance Report shall also self-evaluate each complete task as "highly successful", "moderately successful", and "not successful".

The contractor shall promptly notify the Contracting Officer and CTO of any problems, delays, or adverse conditions which materially impair the contractor's ability to meet the requirements of the contract. Sensitive activities may be reported on to the CTO in a manner set forth in the terms of the specific task description or grant agreement.

- The Contractor shall submit Quarterly Performance Reports no later than 30 days after the ending of a three-month period (calendar quarters) ending on March 31, June 30, September 30, and December 31.

- The Contractor shall submit the Quarterly Performance Reports to the CTO. The CTO will review the reports and may provide comments on the reports to the Contractor.

- The contractor shall give a detailed presentation of all activities and results under LINC-EG to an internal USAID and interagency USG audience once per quarter, to be arranged by the CTO.

1.8.4 Periodic Program Area Report

The contractor shall develop a tracking system which can report on the financial utilization and technical progress of all TAPs by any combination of Program Area and geographic location. The contractor shall also develop a weekly action tasker and a non-binding matrix summarizing the approvals required for management of resources in the LINC-EG contract. These Periodic Program Area Reporting requirements will be developed in coordination with the CTO following award of the contract.

1.8.5 Special Reports

In addition to the reports specified herein, the contractor, at USAID's request, will provide USAID with reports on specific aspects of contract implementation. For example, it is assumed that informal, frequent, and detailed progress reporting will be provided to USAID in a manner agreed upon between the contractor and the CTO.

1.8.6 Short-term Consultants Reports

Upon completion of the services of all short-term consultants, the Contractor shall submit a report to the CTO summarizing the activities, contributions, and recommendations of the consultant.

1.8.7 Branding Strategy and Marking Plan

The Contractor shall submit a Branding Strategy and Marking Plan to the CTO and the Contracting Officer no later than 90 days after contract award.

1.9 LOCATION OF WORK

The Duty Post for this task order is Manila and other appropriate locations in the Philippines.

1.10 PERIOD OF PERFORMANCE

1.10.1 Performance shall be from the date of the signing of the Task Order through September 30, 2012. Offerors are advised that funds are not yet available for a Task Order award and final approval of the Mission's Operational Plan by the Head of the Agency is required prior to any obligation of funds under the Task Order resulting from this solicitation.

This solicitation in no way obligates USAID to award a Task Order nor does it commit USAID to pay any costs incurred in the preparation and submission of the proposal.

1.10.2 Subject to the ceiling price of this Task Order, the Contractor's performance and the prior written approval of the CTO, the Contractor may be authorized to extend the estimated completion date set forth herein, provided that the extension does not cause the elapsed time for completion of the work, including the furnishing of all deliverables, to extend beyond 60 calendar days from the original completion date. The Contractor shall provide a copy of the CTO's approval to the final voucher submitted for payment. In no event shall the expiration date of this Task Order, with any authorized extension, exceed the expiration date of the basic IQC contract with any currently approved Task Order performance extension periods, unless an extension to the base contract or further Task Order performance period extension is affected by the USAID/W Contracting Officer.

1.10.3 It is the Offeror's responsibility to ensure that the CTO's approved adjustment to the original completion date does not result in costs incurred that exceed the ceiling price for this Task Order. Under no circumstances shall each adjustment authorize the contract to be paid any sum in excess of the task order.

1.11 PERFORMANCE STANDARDS

Evaluation of the Contractor's overall performance will be conducted jointly by the CTO and the Task Order Contracting Officer, and will form the basis of the Contractor's permanent performance record with regards to this task order. USAID will evaluate contractors performance at least annually and upon task order completion in accordance with AAPD 06-05 Evaluation and Use of Contractor Performance Information. USAID will utilize the National Institutes of Health (NIH) Internet based Contractor Performance System to perform these evaluations.

1.12 BACKGROUND READING

Most USAID project documents are available to the public at the Development Experience Clearinghouse (DEC), http://dec.usaid.gov/. A copy of the 1992 Barriers to Entry Study is available through DEC.

The following documents can be found at the DEC website. Many technical reports produced under these projects are also available from the same source.

EMERGE PROJECT QUARTERLY REPORTS

July - Sept. 2007
April – June 2007
Jan - March 2007
Oct - Dec. 2006
July - Sept. 2006
April – June 2006
Jan - March 2006
Oct - Dec. 2005
July - Sept. 2005
April – June 2005
Jan - March 2005
Sept – Dec. 2004

TRANSPARENT AND ACCOUNTABLE GOVERNANCE (TAG2)
End of Project Report March 2008
Semi-Annual Reports:
July – Dec 2007
Jan – June 2007
July – Dec 2006
Jan – June 2006
July – Dec 2005
Jan – June 2005
July – Dec 2004

POLICY REFORM PROJECT (TAF) QUARTERLY REPORTS
April – June 2007
Jan – March 2007
Oct – Dec 2006

EPRA PROJECT
Mid-term Report (Sept. 2004- Feb. 2006)

USAID/Philippines' current strategy and other Key Documents are available at USAID/Philippines website, http://philippines.usaid.gov/.

"Doing Business in the Philippines 2008", released by the World Bank Group in May 2008, is the first sub-national report of the Doing Business series to study the Philippines and was produced in partnership with the National Competitiveness Council and the Asian Institute of Management Policy Center. The report covers 21 cities and three areas of regulation—starting a business, dealing with licenses, and registering property. It finds that city regulations and the interpretation and implementation of national laws vary greatly, thereby constraining or promoting local business activity. For example, it takes 21 days in Mandaluyong to transfer a property title, compared to six weeks in Mandaue. To build a warehouse and connect basic utilities requires 23 procedures in Taguig and 33 in Mandaue and Pasig. The report also finds that both national and subnational governments are responsible for creating a positive business environment. Starting a business in the 21 cities takes an average of 18 procedures, 11 of which are required nationally and seven by local governments. The report is available at: http://www.doingbusiness.org/documents/subnational/DB08_Subnational_Report_Philippines.pdf

Information on the Millenium Challenge Account – Philippines Threshold Program is available at http://www.mca-ptp.ph/.

Most of the other documents referenced are available from their original sources through the internet.