SUMMARY PROGRAM IMPACT ASSESSMENT

I. Introduction

1. This Program Impact Assessment (PIA) presents a methodology for assessing the impact of the proposed Increasing Competitiveness for Inclusive Growth Program (ICIG) on stakeholders. The PIA documents the formulation of the ICIG and provides estimates of the benefits and costs of the ICIG. The methodology used for this PIA follows the regulatory impact assessment (RIA) tool now used by Governments in over 50 countries to assess the impact of proposed regulations and other interventions on the economy.

2. The remainder of this PIA is as follows. Section II briefly summarizes the key features of the methodology used for this PIA. Section III discusses the key economic issues, problems and opportunities. Section IV presents the development impact of the proposed ICIG and presents the PIA including estimates of the benefits and costs of the ICIG. Section V provides a justification for the entire ICIG financing plan of $700 million drawing on the PIA estimates. The proposed subprogram 1 will be financed to the amount of $350 million loan from ADB's ordinary capital resources. Technical assistance is also being formulated to support implementation of key policy triggers in subprogram 2.

3. Overall, the PIA estimates the direct benefits of the program of at least $1,876.0 million and the direct costs to the government and private sector at least $961.3 million, producing a benefit-cost ratio of 2.0. There are also significant transfers arising from the ICIG interventions resulting in foregone revenues in the public sector and transfers to the private sector, accruing over the ICIG medium term period of 2011 to 2016. These come from the VAT cash fund reforms and the proposed abolition of the common carrier tax, in total amounting to $1,080.0 million.

II. Methodology

4. A PIA is both a process and a tool that encourages a structured approach to developing interventions in the economy that systematically evaluates the costs and benefits of the proposal to ensure the intervention can achieve its impact and outcome. The premise of the impact assessment concept is that a proposed regulation, law or other intervention such as programs should be justified on the basis that net benefits to the economy can be demonstrated. A guiding principle of the assessment is that policy adjustment costs to government and stakeholders should be minimized where possible. In this way, the proponent of the program is encouraged to provide a more rigorous rationale for the intervention (footnote 2). The impact assessment steps relevant to this PIA include:

- **Defining the problem**. The problem to be addressed and the related regulation objective should be identified as first steps in the program development process.

- **Defining the impact and outcome of the proposed program**. The next step is to define what impact and outcomes are to be achieved.

- **Presenting the options**. This should be followed by consideration of a range of options at least cost for achieving the impact and outcomes.

- **Assessment of costs and benefits of the proposed program.** This should include identifying the winners and losers from the proposal. The analysis should attempt to estimate the costs and benefits of the proposed program and provide a net benefit. The selection of method for assessing costs and benefits of a program will depend on the

design features of the program – standard cost model, cost effectiveness model, and cost-benefit analysis are three commonly used methods in impact assessment. Macroeconomic and micro household simulation models are also used for complex and significant interventions such as for tax and trade reforms. This PIA uses a combination of techniques including the standards cost model and cost-benefit analysis. The PIA approach defines policy adjustment costs to include costs borne by the Government and stakeholders. These costs can be categorized as follows:

- ***Government and statutory agencies***
  - ✓ **Administrative costs** incurred by Government and relevant statutory agencies in implementing the program.
  - ✓ **Enforcement costs** incurred by Government and relevant statutory agencies in monitoring compliance and enforcing regulations under the reform program.
  - ✓ **Direct fiscal costs** of the program such as investment costs to set up new agencies, permanent budget increases, reduced budget revenue from fees, cost of public education programs etc.
- ***Stakeholders (such as tourism industry, airline industry, and households)***

✓ **Compliance costs** incurred by businesses in complying with new obligations under legislation and regulations. These can be the administrative costs such as business staff time and overhead costs incurred in applying for and obtaining business licenses, business delayed costs in waiting for the granting of the license, and adjustments to production processes and product specification or quality required to comply with new regulations.

- **Distributive impacts of reforms.** Programs will also have important distributive effects that should be identified and if possible quantified. This will also mean identifying the winners and losers from the reform. The distributive impact of the reforms on employment is of concern to the ICIG. For example, high school leavers have difficulty integrating into the labor market due to insufficient years of schooling and appropriate qualifications. Young females have a harder time than young men. Implementing interventions to assist this transition from school-to-work through the MyFirstJob pilot will benefit young high school leavers and women in particular.

- **Consultations with stakeholders (government agencies, households, industry and consumer groups etc).** The impact statement should describe stakeholders consulted with, what were the dissenting views and how were these views were dealt with in revisions to the intervention (of they were not incorporated then this needs to be mentioned).

5. The program development process should at least ensure that the benefits to the community of any program actually outweigh the costs, and give some assurance that the options chosen will yield the greatest net benefits to society.

III. Program Impact Assessment - The Developmental Impact of the Program

6. This section presents the PIA for the ICIG. It summarizes the problem, identifies the intended impact and outcome of the proposed ICIG, options reviewed, stakeholders consulted, and estimates of the potential benefits and costs of the ICIG.

(a) Issues, Problems and Opportunities

7. **Low investment to GDP ratio has been an impediment to growth in the Philippines.** In 2011, the ratio is at 15.7 percent of GDP, which is low in relation to its neighbors. Indonesia's investment-to-GDP ratio for 2010 was 30.7 percent; South Korea, 29.4 percent; Malaysia, 20 percent; and Thailand, 25.5 percent. A combination of factors explain the low ratio: (i) weak business climate has led to disincentive for industry to invest for long term; (ii) limited fiscal space for public capital investment; and (iii) structural change in the economy, with the rapidly growing service sector requiring less physical investment and more investments in skills.

8. **Key to Philippine's private sector growth is service sector.** The share of services in the Philippines GDP has reached over 50 percent of GDP, well above the comparable level of its neighbouring countries. In the past 10 years, the service sector has contributed the majority of real GDP growth in the economy. An increasing share of services GDP is coming from private services, with trade the other main service sub-sector. The rise in private services incorporates the growth of the domestic and offshoring business processing outsourcing (BPO) sectors. The service has driven recent employment growth and now accounts 50% of the employment. Despite service's sector extensive contribution to growth, there are policy and structural impediments to lifting the growth further over a sustained period.

9. **Anti-competitive sectors**. While the Philippines ranking in global surveys of competitiveness have improved in recent years, it still ranks relatively low on an international comparison. The underlying reasons are due to high business compliance costs in the regulatory environment, the prevalence of anti-competitive regulation, high cost logistics, under-investment in infrastructure, and weak governance. For example, ADB diagnostic studies carried out under the Development Policy Support Program (DPSP), completed in 2009, and at the Economic Research Department (ERD) highlight key areas for improvement.[1] The 2009 ADB *Philippines: Reforming Investment Incentives* reiterated the key constraints to investment attractiveness in the Philippines relative to its neighboring economies such as excessive red tape, anti-competitive practices in selected industries, and tax policy. At the same time, stable macro-economy, skilled labor and competitive labor costs are seen as important location factors for investors considering the Philippines. The *2007 Philippines: Critical Development Constraints* report highlighted inadequate infrastructure as a major constraint in private sector investment and growth. Most recently, ADB working paper on the Philippines private sector development reiterated these constraints on private sector development.[2]

10. **High cost of regulation**. The Philippines does not have a regulatory review system that promotes good practice regulation through the application of a systematic review process and regulatory impact assessments (RIA). International evidence shows substantial gains to policy development, governance, and the economy through RIA. A 2008 ADB report on institutional options for addressing red tape in the Philippines recommended that the Philippines adopt and institutionalize RIA in the national government.[3] An effective institutional architecture for RIA requires an oversight agency to provide advocacy information to regulators and monitor compliance with RIA. Good international practice suggests the following sequencing of reforms: (i) establish an oversight agency such as the Australian office of best practice regulation and the United Kingdom office of better regulatory practice. The oversight agency provides advocacy information to line ministries on good practice in regulation. (ii) Line ministries and agencies

[1] ADB. 2009. *Philippines: Reforming Investment Incentives*. Manila. ADB. 2007. *Philippines: Critical Development Constraints*. Manila.
[2] A. Haydarov. 2011. *Philippines: Private Sector Development Challenges and Possible Ways to Go*. Manila.
[3] ADB. 2008. *Options for Establishing an Office of Best Regulatory Practice*. Manila.

implement good practice regulation guidelines and carry out RIA on proposed regulations. Line ministries design a focal point to coordinate with the oversight office. (iii) Once good practice regulation and RIA architecture are established and institutionalized, then implement a red tape reduction program. With ADB technical support, the government has developed a strategy to institutionalize RIA and a Memorandum of Agreement (MoA) has been agreed between NEDA, the Department of Labor and Employment, and the Department of Tourism has been drafted to pilot RIAs in these departments.

11. **Inefficient tax policy distorts investment decisions**. Several tax policies are inefficient and not conducive to improving productivity. For example, the tax system deters investors from undertaking investments in innovations and human capital. The VAT refund system tax system imposes significant costs on the private sector, and in particular manufacturers. Until the VAT refund reform under the ICIG program, firms received tax credit certificates (TCC) instead of VAT cash refunds. The practice of issuing TCC was a non-transparent approach to revenue saving measures during the Philippines periodic episodes of fiscal stress. For firms it tied up working capital for long periods thereby raising the cost of working capital. While firms could sell the TCCs in the private sector, they were always sold at a heavy discount, which particularly hurt small and medium-sized enterprises that typically sold TCCs at a heavy discount; at times more than 10.0% of the TCC value. At the same time, tax investment incentives provided by Congress had proliferated over the last 10 years and are considered generous by international standards. ADB staff estimates that over half of these incentives to firms are redundant. The government intends to rationalize incentives and reduce the number of them. Among the priority bills being tackled by the 15th Congress is a Fiscal Incentives Bill that harmonizes the country's existing incentive system, which is presently provided under various laws with differing provisions. It is currently under deliberation in the Upper House (the Senate) which targets its approval in 2012. Upon approval by both Houses, implementing regulations will be established.

12. **High cost logistics** Studies and surveys on the Philippines indicate that trade logistic costs (from factory to port) are relatively high on a regional basis.[4] According to the World Bank's 2010 Logistic Performance Index (LPI), Philippines is ranked 44 out of 155 surveyed countries, up by 21 places from the 2007 report. Philippines is the fourth highest in the region, behind Singapore, Malaysia, and Thailand. In the components of LPI, the efficiency of the customs clearance process is the second lowest rank (54 out of 155) after quality of trade and transport-related infrastructure. Related to trade and transport related infrastructure, several areas have been identified that have contributed to its high costs including chronic congestion at the Manila port raising logistic costs, restrictions on competition in the domestic aviation sector, and taxes on foreign carriers (aviation and shipping) that have created unequal treatment between foreign and domestic competitors. The Manila port is heavily congested resulting in lengthy port and customs clearance time, whereas the Subic and Batangas ports are significantly under utilized. The latter two ports are world class, deep sea ports and provide substantial cost savings to manufacturers if better utilized. This can be addressed through better port utilization planning of the three ports. With assistance from the government of Japan (Japan International Cooperation Agency), the Bureau of Customs has begun implementing key reforms that will improve customs clearance and the Department of Transportation and Communication (DoTC) are developing a port utilization plan with concrete measures for improving efficiency of the three ports. Until 2011, foreign airlines could not fly directly to subnational destinations out of Manila. The government also levies taxes on foreign airline and

[4] Logistics encompasses an array of essential activities—from transport, warehousing, cargo consolidation, and border clearance to in-country distribution and payment systems—involving a variety of public and private agents.

shipping that have significantly raised costs for them. The government is addressing these restrictions through its "open skies" policies accomplished in subprogram 1 and commitment to abolish the common carrier tax of 3.0% levied on foreign carriers in subprogram 2.

13. **Inefficient market for infrastructure.** The Philippines was one of the first developing countries with a Build Operate Transfer (BOT) law, enacted in 1990. However, enabling policy and legal and regulatory frameworks are not entirely clear or consistently applied. Many infrastructure projects have not been competitively tendered as PPPs. The financial viability of several PPP projects has been undermined by the unwillingness or inability of the government to carry out its contractual agreements. Right-of-way acquisition processes and lack of adequate government budget for land acquisition have severely hindered the implementation of PPP projects. The lack of credible mechanisms for guaranteeing risks, particularly for regulatory-related risks, is one of the major deterrents to private sector infrastructure investment. The government recognizes these inadequacies in the implementation of the BOT law and has made development of a world class PPP framework its priority. Most recently it has restructured the BOT center into the PPP Center and shifted to NEDA to effectively promote and implement PPP projects in the Philippines. The government is also exploring feasible ways to address the need for guarantees and the provision of fiscally responsible subsidies for appropriate PPPs. With ADB technical assistance, the government is starting to build capacity at the PPP Center to ensure it has the necessary technical capacity and authority to optimally perform its role as the government's central PPP unit. In such aspects as PPP strategy and policy formulation, updating the PPP legal and regulatory framework, and provision of expert PPP advisory services to other government agencies.

14. **Rigidities in the labor market.** While the government has made incremental changes to the Labor Code to reduce rigidities in the labor market, it still remains one of the most rigid markets in Southeast Asia. Minimum wages are among the highest in the region, the cost of severance regulations are the third highest, and employment arrangements the most restrictive. These rigidities in the labor market have contributed to: i) persistently high unemployment, particularly among youth, ii) higher rates of long term unemployment, and iii) slow transition for school-to-work for young persons, particularly high school graduates and dropouts and females.[5] The government recognizes this and is currently reviewing the Labor Code to promote job creation and developing interventions to address structural unemployment.

15. **ICIG will support the Government's key reform priorities aimed at achieving improves competitiveness and inclusive growth.** It is aligned with the Philippine Development Plan (2011-2016), which aims to create one million new jobs per year and maintain the unemployment rate within a narrow range of 6.8% and 7.2%. Improvements in the investment climate to attract investment and create jobs, and programs to improve skills of the working age population and address mismatch of skills in the labor market, form central themes of the economic program.

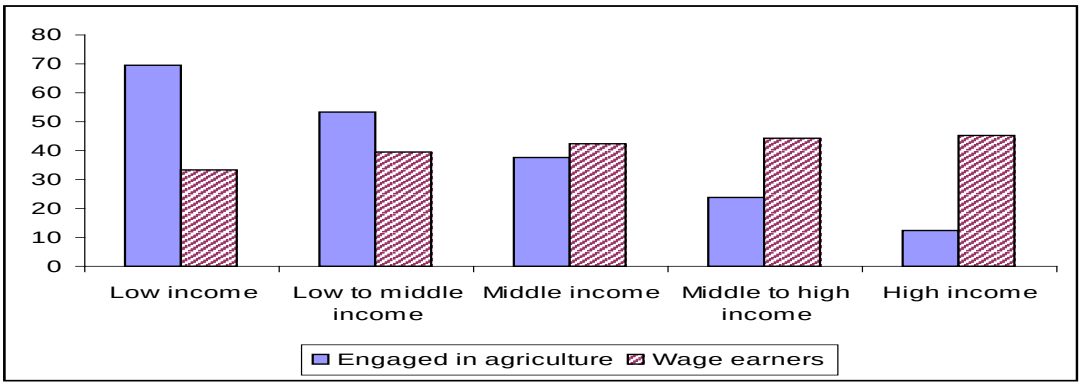
(b) Impact and Outcome

16. The impact of ICIG is improved investment climate. The benchmark will be improvements in key global competitiveness indicators. The growth inclusiveness element to improved investment climate is measured by the expansion in the number of youth employed in full time wage jobs. Wage employment provides higher economic returns to schooling compared to informal employment and evidence points to wage employment helping families escape from

[5] Sector Assessment (Summary): Youth School-to-Work Transition and Gender Assessment (Accessible from the list of documents in appendix 2).

poverty (Figure 1). The outcome of the program will be improved competitiveness of selected sectors.

Figure 1
Share of households with head engaged in agriculture and wage employment by Income Group



Source: Family Income and Expenditure Survey, 2006.

(c) Options

17. **In formulating the ICIG several options were considered in addressing the key impediments to generating employment, increasing competitiveness, and encouraging PPP in infrastructure.** Consequently, ICIG draws on international best practices in microeconomic reforms and input from stakeholders. These include (i) structural policy reforms to promote competitiveness, (ii) measures to create an efficient market for infrastructure through PPPs, and (iii) measures to promote competitive labor market. Labor market initiatives include review of the Labor Code to significant regulatory rigidities to hiring, interventions to enhance labor market information systems, targeted job placement programs, and establishing a public-industry-led skills development program. A mix of economy-wide policy measures, sector policy measures, and pilot programs are included in the ICIG. These include legislative, regulatory and non-regulatory instruments adopted to achieve the program approach and goals.

(d) Impact Analysis

18. This section presents estimates of the economy-wide benefits and costs of ICIG. Benefits of proposed reforms are difficult to estimate especially the second round benefits. In the absence of a computable general equilibrium model of the Philippines economy, we use different type of analysis to estimate the direct or first round effects of the reforms, recognizing the dynamic, second round effects would typically be much larger. The analysis used in this PIA includes growth accounting, regression analysis, cost-benefit analysis, and standard cost models to find the impact of key reforms that are quantifiable to growth.

19. **Potential benefits**. The ICIG addresses the key impediments that constrains competitiveness, supports measures to increase competitiveness, and introduces innovations to mainstream competition policy as a way to achieve inclusive growth while at the same time addressing the issues concerning employment generation. The benefits of ICIG are estimated over the ICIG medium term program period 2011 to 2016.

20. **The costs of reforms**. The costs of the reforms estimated are primarily the short to medium term costs of government administering and enforcing reforms, the direct fiscal costs of selected reforms, and costs to businesses in complying with reforms. There are permanent administration cost increases in the national budget from establishing new government institutions (JobStarts, PESOs, Tourism Development Fund, hotel accreditation system), funds to the Strategic Support Fund (SSF) and the Project Monitoring and Development Facility (PMDF) to promote PPPs in infrastructure. The future stream of cost commitments in the budget are discounted into a present value lump sum. In this PIA we discount the stream of costs over ICIG medium-term period from 2011 to 2016 using a discount rate of 4.0%.

Estimating the economy-wide gains from the ICIG

21. **ADB staff estimates that the direct (first round) benefits of the program to the business community and consumers could be $1,876.0 million over ICIG's medium term period of 2011 to 2016.** The benefits would come from efficiency gains and lower prices arising from the competition policy reforms, regulatory reforms to the tourism sector, reforms to the VAT refund system, trade logistics improvements, and incremental investments in infrastructure arising from PPPs projects under the ICIG program. See Table 1 for details. The longer term, second round effects from increased investments and growth, as well as the growth from positive externalities of these reforms are expected to be much larger and accrue over a much longer period beyond the medium term program. These are difficult to estimate without an appropriately designed macroeconomic model of the Philippines' economy.

Table 1: Philippines: Potential Economic Benefits and Costs from ICIG
(Over medium term period of 2011 to 2016)

	Gains	Costs
1. Increased in TFP due to improved competition and institutional quality	$529 million	$13.0 million
2. Improved trade logistics	$525 million	$3.3 million
3. Reduced capital cost for business through better tax rebate.	$102 million	$2.0 million
4. Efficient and enabling environment for PPP in infrastructure (6 PPPs under ICIG)	$720 million	$802 million
5. Employment generation interventions		$146.0 million
Total Gains	**$1,876 million**	**$966.3 million**

Source: ADB Staff estimates. Note: GDP at 2010 prices is $199.6 billion.

22. **Competition policy reforms could create economic gains amounting to $529 million over the ICIG medium-term period**. The ICIG promotes competition policy through three major interventions. The first intervention is through the government's establishment of the competition office at the Department of Justice and its operationalization under subprogram 2, as a precursor to Congress enacting the competition law. A credible competition law and policy will help promote domestic competition and lead to efficiency gains in those sectors. The second intervention is through the piloting of the regulatory review program in three agencies in subprogram 1, an additional two agencies in subprogram 2, and its institutionalization during the ICIG's medium-term framework. Regulations that address market failures or minimize negative externalities, or influence community behavior for the public good impose compliance costs on businesses and the wider community. These compliance costs can be broken into three categories – i) business administrative costs in complying with regulations and obtaining licenses (staff time, overhead costs, official and unofficial fees to obtain licenses); ii) commercial delay costs in waiting for licenses etc (loss profits etc); and iii) adjustment costs related to changing product and or management processes to comply with the regulation. The government also incurs monitoring and enforcement costs related to regulation. The burden of government regulation raises industry-wide costs, of which some proportion is passed on to consumers through higher prices hurting low income households the most. The third intervention is through structural reform policies on a sector by sector basis starting with the tourism sector in subprogram 1[6].

23. The PIA assesses the potential impact of improved competition, regulatory reform and institutional reform on economic growth using the supply-side capacity of the economy, i.e., the production function. The production function approach highlights the scope for further increases in capital, labor, and total factor productivity (TFP). In the Philippines, the contribution of TFP to growth (adjusted to human capital) has been increasing since 2000, in the order of 0.7% per annum. Improvements in TFP can persist over time and have long lasting contribution to growth, unlike capital and labor that are subject to diminishing returns. Empirical studies on economic growth have shown that competition policy and institutional quality are correlated with TFP growth. The International Country Risk Group (ICRG) index on governance ranks the Philippines third from last among 21 APEC member countries. Government stability and persistence level of high corruption are the cause of the low ranking. IMF study shows that improvement of 1 in the governance index of ICRG will result in a 0.3% increase in the TFP

[6] Sector Assessment (Summary): Tourism Sector. (Accessible from the list of documents in appendix 2).

index. Using this coefficient and assuming an improvement of 1 in the governance index, the increase in the TFP will add will add $529 million to GDP (in 2010 prices) over the medium-term program.

24. **Reforms to trade logistics could create economic gains of $525 million over the medium term program period**. ICIG reforms include "open skies" policy, abolition of the 3.0% common carrier tax, decongestion of Manila port and improved customs clearance. The reforms to domestic aviation sector will produce both a price and quantitative effect on the industry. The removal of the taxes amounting to 3.0% of gross passenger and cargo revenue will result in a significant fall in the cost of air travel for passengers and cargo. The 'open skies' policy will lead to a shift in supply of passenger seats and cargo capacity and increased tourism. From the tourism industry point of view, a liberalized air policy will further assist their development as the industry will benefit from more tourists. To see the benefit, ADB staff estimated the quantitative effect of these two policy measures on tourism arrivals using a simple multiple regression model. Based on the removal of the 3.0% tax on sales and a supply shift proxy by an improvement in the regulatory environment (a 1 point improvement in the global tourism competitiveness index), the analysis estimates a $250 million increase tourism revenues accounting for 0.1% of GDP. Improvements to customs will have positive impact on logistic performance. To see the impact, ADB staff regressed economic growth and World Bank's Logistics Performance Index (LPI) To see the impact on the Philippines, dummy variables were applied to the regression. The results shows that on average, for the 136 sample countries, a one point increase in LPI will result in an increase of 0.22 percentage points of GDP. Looking at the Philippines, an increase of one point in the LPI will result 0.14 percentage points increase in GDP or $279 million in economic gains. Thus, total economic gain from reforms to the logistics sector is $529 million, of which $250 million in GDP to the tourism sector and $279 million from lower logistic costs.

25. **The VAT refund reforms could save the private sector up to $102 million in the cost of working capital over the ICIG medium term program period**. Lowering transaction cost also entails reforms in the tax system. The World Economic Forum reports that inefficient tax regulation is the fifth problematic factor of doing business in the Philippines. The proposed ICIG will assist the government in improving the tax policy through reform in VAT refund system. The VAT reform includes government earmarking $200 million in the 2012 national government budget for eligible VAT cash refunds. Earmarks will be made in subsequent budgets. This is a major reform from the previous practice of issuing tax credit certificates, which recipients could sell in the market at a heavy discount (on some occasions above 10% of the TCC value). The reform to the VAT refund therefore reduces the cost of capital to the producer. ADB staff estimate that in 2012 the reform could save the private up to $20 million in the cost of working capital. Over the period 2012 to 2016 (ICIG medium term period), the savings in the cost of capital would be a discounted lump sum of $102 million. This is calculated as follows. The total eligible VAT refund in 2012 is $200 million, as reflected in the budget earmarks for 2012. We assume that in the absence of the new cash refund reform, the total value of TCC issued in 2012 would be $200 million. We assume the TCC value would grow by 5.0% per annum reflecting the growth in the value of exports. We further assume that firms sell the TCC in the market at a discount of 10.0% (reflecting discounts in the market) in order to raise capital. In 2012 this cost of capital is $20 million. We discount the stream of capital costs using a discount rate of 4.0%. Thus, the discounted capital cost savings is $102 million, discounted from 2012 to 2016.

26. **Promoting PPP in infrastructure could add $720 million to GDP over ICIG medium term program period**. The net benefit will come through incremental infrastructure projects and

its value added to the economy. We assume that the 6 PPP projects targeted in ICIG amount to $600 million. We assume an income multiplier coefficient of 1.2. Thus, the gain to GDP is $720 million.

Estimating the economy-wide costs from the ICIG

27. **ADB staff estimates that the direct (first round) costs of the ICIG program to both the public and private sectors could be $966.3 million over the program's medium term period of 2011 to 2016.** The costs would come from the investment, administrative, and operating costs of the various interventions, amounting to $81.3 million over the ICIG program medium term period of 2011 to 2016, net grants earmarked in the budget from these interventions could amount to $850.0, and compliance costs to the private sector amounting to $25.0 million over the same period. There are significant distributive transfers amounting to a loss to the public sector and a gain to the private sector. These are primarily tax revenues forgone such as from the abolition of the common carrier tax and the earmarking of VAT cash refunds in the budget. These transfers amount to $1,472. When costs of $966.3m are matched against the estimated benefits of $1,876.0 million, the benefit-cost ratio would be 2.0

28. **Government and statutory agencies**. Government administrative costs in associated with implementing the ICIG interventions include: (i) the investment costs in institutionalizing PESOs, setting up the MyFirstJob pilot, establishing the tourism skill development program and hotel accreditation system, setting up the new competition office, setting up an office of better regulatory practice, trade facilitation measures at the Bureau of Customs, and capacity development at the PPP Center and units in the line ministries; (ii) Current and future stream of operating costs for rollouts and institutionalization of the of interventions, and (iii) government budget earmarks for the SSF and PDMF, the tourism industry skills development program and the eventual rollout of the MyFirstJob program.

29. **Private Sector**. Enterprises will also incur private costs where adjustments need to be made to comply with new regulations such as the Executive Order on Implementation of the Open Sky Policy, competition policy, and in preparing PPPs.

30. Table 1 summaries the costs against the benefits. Table 2 highlights in detail the key costs with quantitative estimates where possible.

Table 2: Philippines: Costs to Government and Stakeholders from the ICIG over the Medium Term Framework period of 2011 to 2016

Types of Adjustment Costs	Government and Statutory Agencies	Stakeholders
1. Investment, administrative and operating costs funded from the national budget	(i) Costs incurred in increasing number of institutionalized PESOs from 65 to 100 – estimated total of $14.0 million; (ii) Costs incurred in pre-testing the MyFirstJob pilot in three LGUs ($4.0 million), expansion of the larger pilot to 30 LGUs ($7.0 million) and the eventually national program to 100 LGUs by 2016 ($18 million) – estimated total cost of at $29 million. (iii) Administrative and investment costs in setting up DOT industry skills program – estimated at $8 million; (iv) Administrative and investment cost to have Philippine's professionals achieved mutual recognition under the ASEAN agreement – estimated at $500,000; (v) Administrative and investment cost to have Philippine's hotels and other providers consistent with international standards – estimated $ 3.5 million (vi) Administrative and investment costs in improving regulation review systems and reducing red tape such as establishing the RIA units and advocacy of RIA, – estimated at $5 million; (viii) Administrative and investment costs for establishing and operating the office of competition – estimated cost $4.3 million (ix) Administering cost of capacity building for PPP – estimated at $12 million. (x) Administrative costs for implementing the VAT cash refund reform – estimated at $2.0m (xi) Administrative costs for implementing logistic reforms – estimated at $3.0 million	$81.3 million
2. Grants earmarked in the national govern budget.	(i) Grants to be earmarked for the national rollout of the MyFirstJob program targeting 50,000 out-of-school youths (estimated at $ 50.0 million); (ii) The budget funding of the SSF and PMDP in the 2011 and 2012 budgets, – at $790.0 million. (iii) The budget earmarks for the VAT refund reform for budgets 2012 to 2016 – estimated as a discounted lump sum of $1,080 million (from 2012 to 2016) a/ (iv) Lost tax revenues from the abolition of the common carrier tax - estimated as a discounted lump sum amount of $392.0 (from 2012 to 2016) b/ (iv) Budget earmarks for the tourism industry skills development program from 2013 to 2016 – estimated at $20 million.	$958.0 million
4. Budget earmarks of which are	(i) The budget earmarks for the VAT refund reform for budgets 2012 to 2016 – estimated as a discounted lump sum of $1,080 million (from 2012 to 2016) a/	$1,472.0

transfers from the national budget to the private sector	(ii) Lost tax revenues from the abolition of the common carrier tax - estimated as a discounted lump sum amount of $392.0 (from 2012 to 2016) b/	
4. Compliance costs incurred by the private sector	(i) Profit adjustments from enforcement of rulings from the office of competition (the ICIG program targets at least 5 investigations) – unquantifiable. (ii) Profit losses of Philippine domestic airlines from new competition form international airlines under the 'open skies' reforms - unquantifiable. (iii) Counterpart funding from firms participating in the MyFirstJob internship program and the tourism industry skills development program - $25 million.	At least $25 million.
Total estimates		**Total economic cost $966.3 million c** **Total transfers from government to private sector = $1,472.0**

a\ Eligible VAT cash refunds earmarked in the 2012 budget is approximately $200 million. We assume the earmarks grow by 5.0% par annum. Discount rate used is 4.0%. The estimate of $1,080 million is not a cost to the economy but a transfer from the public sector (lost to the public sector) to the private sector (gain to the private sector).
b/ The lost tax revenues estimate is based on 2010 tax collections of approximately $80 million from the common carrier tax. We assume the tax revenues grow by 5.0% per annum. Discount rate used is 4.0%. The estimate of $392.0 million is not a cost to the economy but a transfer from the public sector (lost to the public sector) to the private sector (gain to the private sector).
c/ Total economic costs excludes the pure transfers from the national budget to the private sector (VAT cash refund and abolition of the 3% common carrier tax.
Source: ADB staff estimates.