

4 Philippines Case Study: Laying the Ground for Regulatory Reforms for National and Local Competitiveness

Introduction

The business enabling environment in the Philippines is costly and overregulated, with wide variations observed in the implementation of national-level regulations among local government units (LGUs). This sub-national variation is documented in the World Bank Group's *Doing Business in the Philippines 2008 (DBP 2008)* study. **Table 1** presents the variations in total business permit fee charges, total transfer tax and total cost of certificate of occupancy among LGUs. The differences in the business permit fees are attributed to the clearances, inspections and other charges required by the city before the release of the business permit. Likewise, the differences in the property transfer tax imposed in different LGUs cause the wide variation in costs of property transfer, in addition to notary charges. In spite of the schedule of fees already provided in the Implementing Rules and Regulations (IRR) of the National Building Code (NBC), LGUs still differ in their computation of the certificate of occupancy. Due to these varying practices among cities, there is a need to examine and document the wide differences since it affects doing business in the Philippines.

Table 1: Variations in Total Business Permit Fee Charges, Total Transfer Tax and Total Cost of Certificate of Occupancy.

Cities	Total Business Permit Fees	Total Transfer Tax	Total Cost of Certificate of Occupancy
Caloocan	14,477.32	30,057.35	20,000.00
Cebu	7,124.79	18,216.58	3,000.00
Davao	5,595.76	29,146.52	16,506.00
Lapu-Lapu	2,160.63	27,324.86	1,750.00
Las Piñas	20,842.13	18,216.58	2,700.00
Makati	15,528.66	21,859.89	1,700.00
Malabon	11,395.00	18,216.58	11,000.00
Mandaluyong	5,141.93	18,216.58	20,000.00
Mandaue	5,185.76	10,929.95	1,600.00
Manila	11,372.00	27,324.86	3,121.60
Marikina	8,167.00	27,324.86	19,300.00
Muntinlupa	6,815.87	18,216.58	13,006.00

Navotas	4,986.00	18,216.58	19,000.00
Parañaque	6,312.04	18,216.58	20,700.00
Pasay	13,758.93	27,324.86	20,000.00
Pasig	8,636.66	18,216.58	20,500.00
Quezon	4,205.66	27,324.86	16,000.00
San Juan	8,506.82	18,216.58	10,000.00
Taguig	5,073.09	18,216.58	19,500.00
Tanauan	2,978.16	18,216.58	16,250.00
Valenzuela	3,968.50	18,216.58	20,000.00

Source: Doing Business in the Philippines 2008 database.

In May 2008, the International Finance Corporation (IFC), the private sector development arm of the World Bank Group, in partnership with the Asian Institute of Management Policy Center (APC) and the National Competitiveness Council (NCC), launched the *Doing Business in the Philippines* study. This was the first sub-national application of the World Bank Group's *Global Doing Business (GDB)* methodology in the Philippines, which examined business regulation in 20 metro cities.

The study benchmarks business regulations to identify bottlenecks and potential areas for reform. Using a standardized methodology, selected Philippine cities were compared against each other and with other cities around the world in three areas of business regulation, namely, Starting a Business; Dealing with Licenses; and Registering Property. These indicators were selected because they cover areas of local jurisdiction where reforms could be easily instituted. Cities were selected on the basis of the following factors: contribution to national income, political will, and population served. With this criteria, the study covered cities¹² belonging to the metro cities category. The twenty cities covered in the study are as follows: Caloocan, Cebu, Davao, Lapu-Lapu, Las Piñas, Makati, Malabon, Mandaluyong, Mandaue, Marikina, Muntinlupa, Navotas, Parañaque, Pasay, Pasig, Quezon, San Juan, Taguig, Tanauan¹³ and Valenzuela.

¹² The selected cities were based on the identified priority cities of the National Competitiveness Council (NCC). The cities were given priority for improving the Philippine's competitiveness and attractiveness for investments. In addition, the metro city classification is adopted from the Philippine Cities Competitiveness Ranking Project (PCCRP) of the Asian Institute of Management Policy Center (APC).

¹³ Tanauan is the only non-metro city but was included as a test case for smaller cities.

Since its May 2008 launch, *DBP* has made its mark as a relevant policy reform tool, as it has been useful in several initiatives currently advocated both at the national and local levels. Key national government agencies (NGAs) are at the forefront in reviewing outdated and redundant laws. Some cities that were included in the study have already introduced both administrative and legislative reforms as their initial response. Metro Manila LGUs, in particular, have been working together for a standardized business registration procedure that is more uniform, predictable and harmonized. Finally, the private sector has also become more participative in contributing their perspectives on reforming business regulation.

The case study discusses three key points. First, the process of obtaining buy-in from local governments and the challenges encountered are presented. Second, the results of the study in identifying potential areas for reform as well as the key reform areas suggested by the sub-national report; implementation challenges in the reform process; and the critical role of the private sector as advocate of reform are further elaborated. Finally, the case study discusses how relevant the results of *DBP* are in the next steps of the reform process at the national and local levels.

Sub-National Doing Business – The Philippine Case

Getting Buy-In for the Sub-National Study

The first hurdle for the sub-national study was getting the buy-in of cities covered. There were critical activities that manifested the degree of commitment of cities. These were the road tours, presentation of the preliminary results, and report launch.

Road Tours to the 20 Cities

As one of the key activities in the *DB* methodology, a road tour to each city included in the sub-national study was conducted before the survey implementation commenced. The road tours were comprised mainly of representatives from IFC, APC (Program Manager and one Research Associate) and NCC. The activity highlighted the importance of improving local business regulations in attracting foreign and domestic investments that would eventually create jobs for local constituents. During the road tours, key areas and processes for implementing reforms in local business regulations were also outlined. Each road tour facilitated feedback on issues surrounding the interplay of local and national business regulations and how the NCC–Transaction Cost and Flows (NCC-TCF) Working Group could address such matters. Most importantly, the road tours were the appropriate venues for soliciting commitments from each city visited to participate in the *DBP*.

Road tours were eventually held in all cities with the exception of Cebu City. *DBP 2008* was formally introduced to city officials including the City Mayor, City Administrator, Business Permits and Licensing Office (BPLO) Head, City Assessor, City Engineer/Building Official, City Treasurer and City Planning Officer. Cities were also encouraged to invite representatives from the local business sector to participate. In three cities, Marikina, Quezon and Pasay, the presidents of the local Chamber of Commerce were in attendance.

During the road tours, expectations were leveled-off as most of the City Officials thought that with their participation in the *DBP*, their city would have access to foreign funding assistance. A number of city officials even raised their prevailing concerns and problems, hoping for action from the national government. Other cities were quite apprehensive at first as they were concerned over the financial obligation of their city by joining the study. In addition, there were city officials who were quite hesitant to commit at first because the study entailed review of internal processes and required key data to rank cities. Conversely, some cities were quite open about the study since they had been already subjected to various other assessment and ranking studies.

The Philippine Cities Competitiveness Ranking Project (PCCRP), a survey being undertaken by APC for the past ten years and now on its 5th round of implementation, was helpful in getting buy-in from the cities. Of the twenty cities covered by the *DBP*, seven were first-timers to both studies. Since the majority of the city officials were already familiar with PCCRP, the *DBP* team clarified the distinction between the two studies to resolve the confusion. Due to its ratings in the past surveys, specifically the PCCRP ratings, City of Cebu refused to participate in the *DBP*.

Preliminary Presentation of the Results

In February 2008, three months before the release of the results of *DBP*, preliminary results were presented to LGU officials to allow them to comment and give their feedback on the initial outcome. The activity was treated with utmost confidentiality. Most of the cities included in the study were well represented; only three cities (Cebu, Pasig and Marikina) were not.

DBP 2008 Report Launch

In May 2008, the “*Doing Business in the Philippines 2008*” report was launched through a national conference held in Makati City. The conference highlighted the key findings of the study as well as the reforms that could be instituted based on the results. Panelists from the private and public sectors gave their perspectives on how the study can be used to further improve the competitiveness of the Philippines. The conference was attended by various stakeholders from national government agencies, local government units, business organizations, academe, and donor communities. In the national presentation, the Cities of Parañaque, Pasig and San Juan were not represented.

It was evident that the role of the City Mayor in all the activities mentioned above was crucial. The level of participation of key officials in major activities, such as the road tour, the preliminary presentation of results and formal launching of *DBP 2008*, was determined by the degree of City Mayor support. Most city officials waited for instruction and clearance from their Local Chief Executives before attending the events. Even the attendance of the private sector in the city’s affairs was usually determined by the relationship of the City Mayor with the business community. The role of the City Mayor was even critical at the very onset of the project implementation, since his/her leadership dictated the kind of support and participation of key local stakeholders for the study. Nonetheless, since the majority of the City Mayors were supportive of the project, this was not much of a problem in engaging the other officials in the activities.

Overall, the level of buy-in and support of cities to the objectives of the project brought forth several lessons learned:

- Participation in the *DBP* was determined by degree of interest to improve the image of the city and consequently highlight this as an achievement of the Local Chief Executive. In order to gain the support of the city, it was very important to know the leadership dynamics in the city and the key officers that serve as link to the City Mayor. As noted, City Mayors are very conscious of the standing of their cities since it would make an impact on their re-election bid.

- After gaining the commitment of the City Mayor, it was important to establish a working relationship with a key person or unit/department within the city hall. The designated contact person for each city was of strategic value in sustaining the communication throughout the duration of the project. A local champion may be an individual person or a key unit or department in the city. For example, the project team easily communicated with Atty. Melanie Malaya, BPLO Chief of Caloocan City on certain concerns that need urgent response from the city. The Urban Development Department (UDD) in Makati City was also very helpful in facilitating the relay of key information to their city officials. In several instances, UDD initiated the request for clarification and dialogue between the project team and the city officials. The department also assisted the project team in gathering the most number of participants in the road tour, the preliminary consultation and in the post-*DBP 2008* presentation. The City of Makati, given their level of participation, had a very high interest in the study mainly because they need to live up to their image as the financial center of the Philippines. They considered the indicators under *DBP 2008* as very critical in linking with investment opportunities.

Application of *Doing Business* (DB) Methodology at the Local Level

The sub-national *Doing Business* methodology was based on the annual *GDB* report that tracks a set of regulatory indicators related to business start-up, property transfer and dealing with licenses, by measuring the number of procedures, time and cost associated with government's regulatory requirements. There were several key points raised in the course of gathering data and disseminating the results of *DBP 2008*:

First, a number of City Officials questioned the methodology, where cities were ranked based on the assessment of entire procedures capturing city-level, national agencies and private intermediaries. As the study progressed, most of the cities realized the importance of engaging other players in the entire process of business regulation. They also recognized the importance of collective initiative to improve the local investment climate of the city. With this, some cities have already started meeting with representatives from the NGAs to devise ways on how to improve their service delivery. Some of the issues brought up were organizational improvement (lack of manpower resources) and funding constraints (e.g. lack of necessary equipment to support the services being provided).

Second, the number of days accounted in the procedures was also initially questioned by cities. Eventually, this was ironed out when the project team explained that the purpose of recording a one-day-per-interaction for each procedure was for sub-national and global comparability. It was necessary to have a standardized methodology with a specific set of assumptions per indicator in order to establish a common reference point in responding to the questionnaire.

Third, the choice of local professionals and experts as respondents was also met with resistance. Some local officials noted that the sources of information for the study should have been the entrepreneurs or businessmen themselves. Hence, it was explained that the local experts, mostly lawyers, accountants and engineers, more or less have the overall appreciation and knowledge of the environment of regulation in the city. They had wider experience in dealing with both national and local-level procedures. Moreover, the study was not a mere survey, where number of respondents was critical. It basically mapped out procedures set by the city and captured by local experts and professionals through their responses.

Finally, among the three *DBP 2008* indicators, LGUs find the Starting a Business indicator as the most important, since this is where the city concentrates much of its efforts and resources. The natural bias on the part of cities to focus reforms only on entry regulation may stem from the fact that a lot of current assessment and donor programs concentrate on it. Aside from this, entry regulation generally presented the overall investment climate of the city and has been traditionally regarded as crucial in generating revenue that consequently portray the city's financial standing and marketability.

However, the two other topics, namely Registering Property and Dealing with Licenses, had gained considerable attention as many issues were also identified under them. These issues are now being addressed by the cities, NCC, concerned NGAs and even by the private sector. In fact, NCC, through its TCF working group, has already met with utility companies (e.g. power, water and telecommunication) and made use of the *DBP 2008* results in addressing key issues that affect efficiency of service and the time to connect.

The application of *DB* methodology at the local level met certain challenges. However, with the dialogue conducted and continuing consultations, issues were addressed and elevated to concerned agencies. The study provided cities with the objective baseline information of both their relative and absolute performances. Through the study, Philippine cities can now assess and compare how far they are in relation to the best of the world in terms of business regulation efficiency.

Results of *DBP 2008* as Potential Areas for Reforms and Reform Process Arising and Other Parallel Efforts

The discussion on each *DBP 2008* indicator is divided into two parts. First, the results in terms of procedure, time and cost as well as the key areas for reforms are presented. The second part is a discussion on the reforms that are being undertaken due to the results of *DBP 2008*. It also presents other reform efforts from the national government that is further fueled by the study. *DBP 2008* has intensified the discussions on the overall picture and process of business regulatory reform in the Philippines. With the report, LGUs are pushed to view the process of reform as an interconnected effort among wider stakeholders. This signals the LGUs to not just explore reforms within their authority but also to involve other players and link with them.

The *GDB* report already highlighted this growing concern to address the entire business regulation environment. However, the impact of *DBP 2008* to LGUs indicated a stronger message to link all efforts to reform. The sub-national report strongly highlighted the message to connect all reform initiatives and clearly presented what areas to work on in order to improve the climate of doing business in the Philippines. Unlike previous efforts which were fragmented and disorganized, reform initiatives are now in synergy. Hence, the current initiatives are more integrated and inter-connected.

Starting A Business

Results and Key Areas for Reforms

Results. Across the Philippine cities, there are wide differences in the procedures, time and cost that an entrepreneur has to spend in order to complete the process of starting a business (**Table 2**). These differences could be attributed to distinctions in the regulatory procedures at the city level; service delivery of the local branches of NGAs; and local fees and taxes. On the average, starting a business in a Philippine city requires 18 procedures that take 35 days to complete and cost around 27% of income per capita. Manila, Marikina and Taguig have been noted as having the least number of procedures (15); Taguig with the least number of days (27); while Lapu-Lapu is the least costly (17% of Gross National Income (GNI) per capita) in starting a business.

Table 2: Starting a Business Indicator Results per City.

City	Starting a Business				
	Procedures (number)	Time (days)	Cost (% of income per capita)	Paid-in minimum capital (% of income per capita)	Ease of Starting a Business (rank)
Caloocan	16	28	35.5	6.9	7
Cebu	16	32	23.9	6.9	4
Davao	23	42	20.7	6.9	19
Lapu-Lapu	16	33	17.0	6.9	2
Las Piñas	19	33	44.6	6.9	18
Makati	18	32	37.2	6.9	13
Malabon	19	31	31.2	6.9	12
Mandaluyong	18	29	22.8	6.9	5
Mandaue	17	34	21.3	6.9	6
Manila	15	52	32.6	6.9	16
Marikina	15	28	27.5	6.9	3
Muntinlupa	18	40	25.4	6.9	17
Navotas	20	33	22.4	6.9	10
Parañaque	17	33	24.5	6.9	8
Pasay	17	35	35.2	6.9	14
Pasig	22	35	27.7	6.9	20
Quezon City	17	37	21.6	6.9	9
San Juan	21	39	27.5	6.9	21
Taguig	15	27	22.8	6.9	1
Tanauan	22	36	17.9	6.9	11
Valenzuela	22	37	21.0	6.9	14

Source: Doing Business in the Philippines 2008 database.

Key Areas for Reform. Designing the procedures that are generally uniform and predictable, especially on the requirements as mandated by the government (e.g. application for incorporation, social security, health care, among others), would make transactions easier for entrepreneurs.

In most cities, entrepreneurs are required to go to different offices to get the specific fees assessed or the signature of the particular officer in that office. Making the business permit application form downloadable and posting the process flow to follow in order to obtain the business permit in the city website would significantly ease the processing of papers for the entrepreneur.

In addition, the inspections required for particular clearances before the release of the business permit also delay the commencing of business operations. Identifying businesses into high-risk or low-risk types and requiring only the former classification for inspections before the release of the business permit would reduce the necessary procedures and time needed before a business could legally start its operations.

Most importantly, a single-access window for all national and local level procedures would also be an advantage in making sure that starting a business in the Philippines can likely be accomplished in the minimum time.

Reform Process Arising and Other Parallel Efforts

Among the three *DBP 2008* indicators, Starting a Business stands out as having the most numerous efforts in the reform process.

Local Government Units. As early as the 2nd quarter of 2008 after *DBP 2008* results had been released, there are already reform initiatives from the cities involved in the study. These are the following:

- ***Caloocan City.*** *Caloocan City* is further streamlining its procedures, which would also support its effort in gaining ISO (International Standard Organization) certification through the Development Academy of the Philippines (DAP). According to Atty. Malaya, Business Permit and Licensing Office (BPLO) Chief, Caloocan City has been hooked to the Philippine Business Registry (PBR) since May 2008 and its initial operations are for sole proprietorship type of business.
- ***Valenzuela City.*** For *Valenzuela City*, *DBP 2008* documented a separate procedure in obtaining the sanitary assessment from the Health Department. The BPLO Head contested the finding, saying that this was not so since such assessment was already linked in their computerized system. However, a staff member from the Health Department confirmed what *DBP 2008* has documented and mentioned that the sanitary assessment is yet to be included in their system. Hence, the city is currently reviewing their computerization system, and hopefully, the sanitary assessment will be linked to it. With this, it is quite evident that the data presented in *DBP 2008* was quite helpful in identifying this particular bottleneck in starting a business in Valenzuela City.

- ***Makati City.*** *DBP 2008* pointed out that the processing of the locational clearance added much to the number of procedures and accounted for almost a quarter of the total cost to get a business permit in the City of Makati. In response, the City Government has started looking into the matter closely and signified their intent to lower the number of procedures and review the imposed fees for this type of clearance. In fact, Mr. Gerardo San Gabriel, Internal Management and Control Officer of the City of Makati, mentioned that they have sent their staff to the cities of Taguig, Marikina and Mandaluyong, three of the top five cities in the Starting a Business indicator, to study their best practices specifically on how they implement their zoning ordinance.
- ***Davao City.*** The City of Davao expressed disappointment over the results of the study. Through the combined efforts of IFC and APC in explaining how to make full use of the outcome of the study, city officials are now looking closely into integrating necessary improvements in their business permit processing. The city has signified its intention to further simplify their business permit application procedures with the aim of improving their ranking in the next round of *DBP* study.
- ***Lapu-lapu and Mandaue Cities.*** Both the cities of Lapu-Lapu and Mandaue are geared towards lessening their number of procedures by studying how to integrate their Realty Tax Clearance assessment in their overall set-up.
- ***Marikina and Quezon Cities.*** The cities of Marikina and Quezon have been working with IFC on regulatory simplification advisory work. *DBP 2008* data was the baseline used by the two cities in their respective simplification design.

Technical Working Group – Standard Business Registration and Permit (TWG-SBRP). The TWG-SBRP directly stemmed from the need to improve on the results of the Starting a Business indicator in the next rounds of both *GDB* and *SDBP*. In a meeting with NCC, Her Excellency President Gloria Macapagal Arroyo encouraged all stakeholders, including LGUs, to improve the ranking of the Philippines in the *DB* survey conducted by the IFC. On September 25, 2008, Metro Manila Mayors convened in a meeting and agreed to create a technical working group to look at how the business registration process in Metro Manila could be improved.

Subsequently, the group was organized with the aim to assess the variation in local and NGA regulations for business registration (entry); develop and implement a Standard Business Registration and Permit for cities and business applicants; and promote an environment conducive to private sector growth. There are two tasks involved in this reform effort.

Task 1 is to develop the “Standard Business Registration and Permit”. The activities included in Task 1 are as follows: review the legal and procedural aspects of LGU and NGA requirements for business registration (entry); develop and adopt SBRP; and develop a monitoring and evaluation (M&E) mechanism for SBRP implementation. Aside from the development of SBRP, other expected outputs from Task 1 include the assessment and recommendations on legal and procedural aspects of LGU and NGA requirements; creation of supporting department orders and local ordinances; and development of the action and advocacy plan as well as the implementation and M&E plan.

Task 2 is the “Implementation, Monitoring and Evaluation of SBRP”. This includes full implementation of SBRP; monitoring the adoption of SBRP; evaluating the implementation of SBRP and identifying areas for improvement; and coordinating with NGAs, LGUs, private sector, civil society and donors as necessary. Expected outputs for Task 2 include advocacy and consultation activities; capacity building modules and exercises; and implementation and M&E reports.

The reforms to be introduced by the TWG-SBRP will hopefully be adopted by the 17 Metro Manila LGUs. So far, 11 cities have been well represented during the Technical Secretariat meetings.

Philippine Business Registry (PBR). The PBR, initiated through an Executive Order in December 2006, is an online business registration facility, a collaborative product of the national and local government agencies to help streamline business registration procedures throughout the Philippines. In July 2008, PBR had its soft launching which featured the linking of the Department of Trade and Industry (DTI) Business Name Registration System (BNRS), BIR eReg system and Business Permit and Licensing System (BPLS) of the pioneering LGUs that had connected to the PBR (namely the cities of Caloocan and Mandaluyong) to register sole proprietorship businesses.

Additional features of PBR would include the application for partnerships and corporations at the Securities and Exchange Commission (SEC), registration with the Social Security System (SSS), Philippine Health Insurance Corporation (PhilHealth), Home Development Mutual Fund (PAG-IBIG), Cooperative Development Authority (CDA) and other licensing agencies, business renewal, business matching, online payment, and report generation facilities. With the results of and key reform recommendations from *DBP 2008*, the need to fully implement PBR is further underscored.

National Anti-Red Tape Task Force (NARTTF). In 2006, the NARTTF was established through Executive Order 557 to reduce red tape in all government agencies. This is one of the strategic measures of the Philippine Government for global competitiveness as indicated in its Medium Term Philippine Development Plan. Moreover, the Anti-Red Tape Law, which was passed in 2007 with its IRR taking effect on September 2008, mandates all offices and agencies, which provide frontline services, to regularly undertake time and motion studies, undergo evaluation and improvement of their transaction systems and procedures and re-engineering if deemed necessary to reduce bureaucratic red tape and processing time. The Civil Service Commission (CSC), through its regional offices and field offices, is currently monitoring the activities related to the implementation of the Citizen's Charter¹⁴. The full implementation of NARTTF activities as well as compliance of NGAs on the Anti-Red Tape Law would most likely affect the *DB* results in the future.

Registering Property

Results and Key Areas for Reforms

Results. Across the 21 cities in *DBP 2008*, on the average, eight procedures, 32 days and 4.4% of the property value to transfer a property title to another business were measured to enable the purchaser to use the property as collateral in taking new loans for expanding its business (**Table 3**).

¹⁴ "Citizen's Charter" refers to an official document, a service standard, or a pledge, that communicates, in simple terms, information on the services provided by the government to its citizens. It describes the step-by-step procedure for availing a particular service, and the guaranteed performance level that they may expect for the service. (Section 2 Rule II of the IRR of Anti-Red Tape Act Of 2007)

Table 3: Registering Property Indicator Results per City

City	Registering Property			
	Procedures (number)	Time (days)	Cost (% of property value)	Ease of Registering Property (rank)
Caloocan	8	33	4.8	20
Cebu	8	32	3.5	4
Davao	8	33	4.8	19
Lapu-Lapu	8	41	3.7	15
Las Piñas	8	25	4.5	9
Makati	8	33	4.6	18
Malabon	8	32	4.5	14
Mandaluyong	8	21	4.5	1
Mandaue	8	43	3.3	13
Manila	8	33	4.2	10
Marikina	8	32	4.7	17
Muntinlupa	8	26	4.5	2
Navotas	8	31	4.5	11
Parañaque	8	27	4.5	7
Pasay	8	32	4.7	16
Pasig	8	30	4.5	8
Quezon City	8	39	4.7	21
San Juan	8	26	4.5	4
Taguig	8	32	4.5	12
Tanauan	8	32	3.5	3
Valenzuela	8	30	4.5	4

Source: Doing Business in the Philippines 2008 database.

Key Areas for Reform. Reduction of time in two NGAs (BIR and Registry of Deeds (RD)) would significantly ease the time required in registering property, which is currently 75% of the time spent. Differences in the city level procedures, particularly in procedure 8 (Apply with the City Assessor's Office (CAO) for the issuance of a new tax declaration over the building and land in the name of buyer), where inspection could be eliminated if a city zoning ordinance was in place.

Significant reduction in cost will be felt if notary public fees for preparing and ratifying the sales deed were standardized. Likewise, uniformity in the imposition of property transfer taxes would minimize cost disparity.

Reform Process Arising and Other Parallel Efforts

Local Government Units. After the launch of *DBP 2008* report and the conduct of city-level workshops, several cities have explicitly committed to improve procedures at their level:

- **Valenzuela City.** The city has committed to reduce the number of days to apply with the CAO for issuance of new tax declaration in the name of a new buyer from three days to one day.
- **Makati City.** The city has committed to reduce the number of days to apply with the CAO for a new tax declaration in the name of new buyer from three days to one day.
- **Mandaue City.** Mandaue City has expressed a commitment to reduce the number of days needed to apply with the CAO for issuance of new tax declaration in the name of a new buyer from three days to one day.
- **Lapu-Lapu City.** The city is set to coordinate with the BIR Regional Office to lessen the length of time required to securing the Certificate Authorizing Registration (CAR).

Land Registration Authority (LRA). Currently, the LRA is implementing the so-called “Land Titling Computerization Project”. The project is expected to significantly improve the titling procedures and clean the agency’s records. The procedure was noted as a bottleneck in *GDB*, secondary to procedure 4 (Obtain tax clearance from BIR). The project has been designed to be implemented in five phases by the Land Registration Systems Inc. (LARES). This is under the Build-Own-Operate (BOO) financing scheme, the company has the exclusive right to provide information technology services to the agency for ten years, after which the contract may be extended through negotiation.

- The first phase of the current computerization project, involves system prototyping in the Registry of Deeds where pilot sites have been selected in the cities of Quezon, Parañaque and Cebu. This phase also involves the construction of a three-story information management center.
- Eventually, in the second phase, the developed and accepted system would be introduced and a central office application system would be commissioned.
- For the third phase of the program, the LRA will implement the system in 43 Registry of Deeds.
- Phase four will be the roll-out of the application to the remaining 52 registry centers.
- Finally, the fifth phase will cover the operation and maintenance of the resulting IT facilities and the development of a geographic information system for the National Capital Region Registries of Deeds.

Bureau of Internal Revenue (BIR). In terms of time, both *GDB* and *DBP 2008* have identified the BIR as a bottleneck in the registering property indicator. To address the issue, BIR issued Revenue Memorandum Order No. 15-2003 (“RMO 15-2003”) which orders that, “Certificates Authorizing Registration (CAR) shall be issued within five days from date of receipt of tax returns with complete documentary requirements”. However, *DBP 2008* study found that most of the regional district offices (RDOs) did not implement what was mandated. For example, although the regional district office of Mandaue was aware of RMO 15-2003, they could not implement the order due to their wide area of coverage as well as lack of technical support and personnel. The Mandaue RDO caters not only to the taxpayers within their vicinity but also to some areas of Lapu-Lapu City and other localities. Although the local officials and RDOs from Lapu-Lapu and Mandaue have already recognized this concern, it may take a while to bring about the necessary reforms due to lack of funds. In fact, Ms. Aida Simborio of the Policy and Planning Department of BIR mentioned that, with the current set up, BIR really lacks the facilities to handle these problems immediately. She also said that, even though there have been several issuances of the circulars, BIR does not have a monitoring system to take note of regional offices who really follow such orders.

Dealing with Licenses

Results and Key Areas for Reforms

Results. As guided by the NBC, the procedures and fees in obtaining all the necessary licenses and permits to construct a warehouse are generally the same across the cities (**Table 4**). On average, it takes 28 procedures, 129 days, and a corresponding cost of 243.1% of GNI per capita to complete the whole process. Taguig recorded the least number of procedures (23); Makati was the least expensive (102.4% of GNI per capita) while Davao and Tanauan were the fastest to complete the process (58 days).

Table 4: Dealing with Licenses Indicator Results per City.

City	Dealing with Licenses			
	Procedures (number)	Time (days)	Cost (% of income per capita)	Ease of Dealing with Licenses (rank)
Caloocan	29	135	132.0	9
Cebu	31	83	476.5	13
Davao	28	60	464.6	8
Lapu-Lapu	32	90	557.5	19
Las Piñas	25	134	115.7	3
Makati	25	125	102.4	1
Malabon	29	155	145.8	18

City	Dealing with Licenses			
	Procedures (number)	Time (days)	Cost (% of income per capita)	Ease of Dealing with Licenses (rank)
Mandaluyong	29	155	135.1	13
Mandaue	33	70	480.6	17
Manila	24	203	102.4	6
Marikina	25	121	123.0	1
Muntinlupa	30	141	127.0	11
Navotas	27	145	142.8	12
Parañaque	31	137	137.1	16
Pasay	27	161	139.8	15
Pasig	33	173	127.6	20
Quezon City	28	141	123.0	7
San Juan	31	175	134.8	20
Taguig	23	121	136.1	4
Tanauan	29	58	1072.3	10
Valenzuela	25	123	129.2	4

Source: Doing Business in the Philippines 2008 database.

Key Areas for Reform. In spite of the new schedule of fees stipulated in the IRR of the NBC, some Building Officials (i.e. Davao, Las Piñas, Marikina and Malabon) compute certificate of occupancy differently from other cities. The National Building Code and Development Office could correct this. Reorienting the staff at the Office of the Building Official (OBO) on the proper computation of fees could remove discrepancies in the fees imposed to applicants.

One-stop shops could centralize applications and processing of all project permits and clearances. The OBO could set up a system where all the required clearances, such as fire safety approval, locational clearance, and building permit, are processed in one window. Metro Cebu cities and Parañaque could benefit from such reforms, cutting interactions at the OBO for the evaluation and approval of the plans.

Applicants would need to understand how the process works. Dealing with Licenses can be more easily facilitated if there are flowcharts displayed in public places or on the city website. Aside from the step-by-step guide, the applicants would save a lot of time if they were provided with the list of required documents to be submitted to particular offices. The contact details of each office (e.g. address, contact number, contact person) would be helpful for applicants to know where to follow up their papers.

Reform Process Arising and Other Parallel Efforts

Taguig City. The Taguig City Government already cut down the number of procedures by allowing the applicant to submit photocopies of the documents required in the processing of the building permit. It also established a customer service counter to speed up transactions.

National Competitiveness Council - Transaction Cost and Flows (NCC-TCF). The mandate of the NCC-TCF Working Group is to ensure consistency in implementing business rules at the national and local levels. Currently, aside from its efforts to reform the procedures under the Starting a Business indicator, the group is also looking more closely at addressing issues identified under the Dealing with Licenses indicator.

The group has already conducted an initial consultation and dialogue with key utility providers to be part of the reform process in dealing with various construction-related permits. Upon learning from the *DBP 2008* report that it takes 90 days to connect to the Manila Electric Company (MERALCO), Mr. Ernesto Cabral, Head of Central Sales of MERALCO, clarified that connection per se does not take that long and application actually starts after obtaining the building permit. Likewise, the processing of papers up to the actual time of electric connection is parallel with the construction of the warehouse.

Upon completion of the building, electric connection would only take in a week to install. With this development, the next round would be crucial to further validate this information, not only with MERALCO, but also with the private respondents. Furthermore, the result of which may have positive or negative impact on the rankings. Through this dialogue, the private utility providers have been made to realize how vital their role is in the reform agenda. Their active participation in the series of meetings signifies their appreciation of *DBP 2008*. The dialogue also served as a venue to raise their concerns and issues in dealing with the government, both at the national and local levels.

Implementation Challenges in the Reform Process

This section is made up of two parts. First, it presents the implementation challenges on the reform initiatives identified in each indicator. The second part focuses on the more general challenges that encompass all three indicators.

Specific Challenges on each Reform Initiative

Starting A Business – The Promise of PBR and SBRP

For NGAs, the primary concern is to how effectively disseminate the contents of revised circulars and regulations so that their ground offices, such as the RDOs of BIR, operate according to the new regulations and that local clientele are fully informed of the procedures in the new regulations.

PBR is a major effort in streamlining the regulatory processes for business start-ups in the Philippines. However, at this early stage, it caters only to sole-proprietorship firms since the SEC, which has jurisdiction over limited-liability companies, is yet to link up with the system. PBR without the SEC would not guarantee any upward movements in the Philippine rankings since it is the registration of limited liability companies that is being measured in the Starting a Business indicator.

According to the PBR Management team, the existing i-Reg system¹⁵ of the SEC is beset with system performance problems because it has not been enhanced or maintained since it was developed. During the first PBR Steering Committee Meeting on 15 August 2008, the SEC had committed to enhance its system within the next two years. In the meeting, the SEC agreed that they would use PBR for reservation of corporate names. The service provider for PBR has already developed the web service necessary to do this. However, the SEC has no server to receive the data from PBR.

¹⁵ The Philippine SEC offers the public the convenience of online registration through SEC-iRegister, the web-based Company Registration System of the Philippines Securities and Exchange Commission (SEC). SEC-iRegister is a quick, affordable, and user-friendly service that is available to the public 24 hours a day, 7 days a week. An easy, step-by-step guide allows everyone, even the computer novice, to use this web-based company registration system from the convenience of their desktop. With SEC-iRegister, clients can do the following online: (1) verify the availability of the desired name for corporation or partnership; (2) reserve the verified name; (3) accomplish and print the registration online without the need to buy the SEC forms.

Moreover, the success of PBR in improving the ease of doing business in the Philippines depends on the participation of LGUs. Several cities have already expressed interest in connecting to the PBR portal. The cities of Caloocan and Mandaluyong had already connected to PBR as early as the second quarter of 2008. However, according to NCC-TCF, there are some LGUs that do not have the necessary Information, Communication and Technology (ICT) infrastructure or they cannot comply with PBR criteria to connect. Currently, a number of LGUs have electronic Business Permit and Licensing System (e-BPLS) but many others have none. Moreover, existing e-BPLS of LGUs differ. Aside from having an e-BPLS, the LGUs also need to have an Internet connection, staging server and expertise to upload and download data from PBR. The best way to fast track the process of connecting LGUs to PBR, according to the PBR Management team, is through the provision of Online System Support so that they can connect effectively to the portal.

At the LGU level, one of the key challenges identified by the TWG on SBRP is the commitment of LGUs to allocate their time for Tasks 1 and 2 as well as the coordination of TWG with other NGAs. Proper and timely communication within and among necessary agencies is needed to come up with the expected outputs of the group. Time is of the essence for the TWG since they have to accomplish Task 1 (development of SBRP) by December 2008 to ensure its full implementation by February 2009.

Registering Property: Addressing the High Cost

There are already potential reforms that aim to reduce the time for transferring property from one owner to another. However, on the issue of reducing the cost of registering property, concrete steps have yet to be taken. *DBP 2008* results show that the following procedures contributed the most to the high cost of registering property in the Philippines: (1) Preparation of Deed of Sale by Notary Public; (3) Payment of Documentary Stamp Tax and Capital Gains Tax; and (6) Payment of transfer tax at the Treasurer's Office. Across all cities covered in the study, the three procedures account for an average of 90% of the cost incurred in transferring property from one owner to another.

The Integrated Bar of the Philippines (IBP) could help lower the cost of notarization. Currently, there are differences in the directives of local IBP chapters related to legal fees. For example, the IBP-Cebu City Chapter charges legal fees for notarization equivalent only to 1% of the property value as compared to 2% for Metro Manila IBP chapter. Though the problem has been identified, the IBP has yet to tackle the issue. Interviews with key informants from the IBP indicate that the organization is not very keen in addressing this issue because doing so would not be beneficial for some of its members.

The payment to BIR of a documentary stamp tax, equivalent to 1.5% of the property value, is a significant cost component in transferring property. There have been no visible efforts to lower this cost.

Finally, the transfer tax paid to the LGUs is another large cost in transferring property. To boost their revenues, LGUs, which are revising their outdated tax ordinances, are considering an increase in the transfer tax rather than decreasing it. Unless vigorous efforts are made to enhance the LGU's appreciation of the economic benefits of reducing the cost of doing business, the revisions in city tax ordinances will only add significant costs to the parties involved in transferring property.

Dealing with Licenses: Building Code Compliance and Transparency

Instituting reforms in the procedures for issuing local licenses is quite challenging. Getting construction permits and other local licenses is laborious and time-consuming. The tedious procedures required for evaluating technical plans result in delays, which create opportunities for government officials to ask for monetary favors in exchange of expediting the process. In spite of the 15-day statutory time limit in releasing the building permit, many local governments still do not follow this. The weak capability of the Department of Public Works and Highways (DPWH) to monitor LGU's conformance with the IRR of the NBC makes the situation even worse.

A building contractor disclosed that, despite complying with all the requirements in securing a building permit, he was still asked by the OBO to submit other unnecessary requirements, which further delay the release of the permit. Contractors who need to meet their project timeline, might find it easier to give in to the monetary demand of local officials, just to obtain the building permit.

The lack of interest on the part of the OBO/City Engineering Office (CEO), as manifested by their lack of initiative to formulate reforms, is a major obstacle in improving the process of obtaining construction permits and licenses. To address this problem, the support of City Mayors for reforms would make the process of issuing permits and licenses fast and transparent. The City Mayors play a crucial role in trying to eliminate under-the-table transactions that add substantial costs in doing business in their cities.

The OBO/CEOs need to be coached on how to carry out potential reforms since the Philippines suffered a major slippage in its global ranking in the Dealing with Licenses indicator as reported in the latest *GDB* report.

General Challenges for all Stakeholders

Overarching among all the implementation challenges in the reform process mentioned above are the general hurdles that should also be overcome in order to fully institute the reform initiatives. These are as follows:

Regulation as Opportunity for Revenue Generation

A business enterprise needs to get a business permit and to register in order to legalize its operation. The intention of regulating businesses is to ensure that their activities and operation will not pose harm to the general public. However, in the Philippines, with lesser national government subsidy (i.e. Internal Revenue Allotment) to LGUs, some regulatory functions are seen as venues for augmenting financial resources. With decentralization, where most of the decision-making authority is handed down to the LGUs, the challenge of increasing own-source revenues (local taxes, fees and charges) at the same time balancing it with facilitating entry of investors is evident. Hence, addressing concerns on high fees and charges would directly benefit the LGU since it will improve business-friendliness and attractiveness to investors.

Weak Linkages Among NGAs

Most of the time, NGAs issue various guidelines and procedures without due knowledge on how these affect the overall environment of regulation. Therefore, there is a need to further improve inter-agency communication and collaboration. The government (i.e. through the Philippine Development Forum (PDF)) should ensure that there is understanding and transparency within and among the NGAs.

Changes in Leadership

In the Philippines, reform initiative is personality-driven. In the local setting, the City Mayor is in a good position to push for reforms. However, since there is a chance that he may not be elected after his/her three-year term, the long-term goal of sustaining reform initiatives cannot be easily guaranteed. The same scenario holds true with the NGAs. At any given time, the head of office may be re-assigned or stripped of his/her power. Hence, there is a need to ensure and strengthen inter-agency and public-private sector collaborations, such as the NARTTF and NCC-TCF, to address these risks.

Strong Focus on Autonomy, Less Attention on Collaboration

As a result of decentralization, LGUs are empowered in many ways to improve their fiscal standing. Such authority spurs competition among LGUs to increase their own sources of revenue in order to finance their daily operations, improve service delivery and other financial obligations. However, there are areas needing reforms, which warrant collective response and effort. In parallel, there are national level procedures that prolong the entire process of starting a business and registering property in the Philippines. This affects the ability of most LGUs to attract investments. Moreover, collaboration among LGUs is not a very popular practice in the Philippines as most focus their efforts and services within their geographic areas and boundaries.

Individual Efforts Rather than Collective Response

The temptation to shift again to individual efforts is high if reform initiatives are not carried out consistently. Now that everyone is excited by the promises and efforts of various NGAs, LGUs and the private sector, the big challenge for the government is to sustain the reform initiatives until it improves the Philippine's standing in the global *DB* report.

Critical Role of the Private Sector as Advocate of Reform

The private sector, composed of businessmen and entrepreneurs, has a critical role to play in the overall reform agenda in the field of business regulation. Even as subjects of regulation, they can be agents of change especially that directly affect their business operation. In the Philippines, the private sector has become a vigilant player in the reform process.

NCC is driven by key personalities from both the public and private sector. In TCF, the NCC's working groups, the Philippine Chamber of Commerce and Industry (PCCI), the Makati Business Club (MBC) and similar business groups are key members. They are also well represented in the NARTTF. In fact, the PCCI has been giving the Most Business-Friendly LGU Awards for many years. This shows that businessmen are serious in addressing concerns such as business regulation and corruption. For them, these are important issues that must be addressed by the government for businesses to grow and thrive. Their involvement in various discussions and fora has been seen to crystallize different issues of business regulations.

In an interview, Mr. Alberto Lim, the MBC Executive Director, stressed the importance of cities as subjects of most competitiveness studies and called on everyone to help Philippine cities attain global recognition, noting that the *DBP 2008* report seemed to be objective and practical while other studies were based on perception. The key lessons of the study deserve a second hard look.

With regard to key reforms now being initiated by the government, Mr. Lim noted that some of them are not at all new ideas, like the PBR. He pointed out that the turf war among agencies and LGUs are real impediments to streamlining procedures in business registration. He mentioned that a stronger hand must intervene in order to make this reform feasible and that there should be more political will among heads of government to put all the agencies in line.

Next Steps in the Reform Process

NCC Asserts its Key Role in the Reform Agenda

The long time absence of an apex body that monitors the implementation of business regulation both at the NGA and LGU level triggered many of the current issues in the business registration process. NCC, with its primary mandate to address and improve the general competitiveness of the Philippines, is now at the forefront of all these efforts to facilitate discussions on business regulation reform. The Public-Private Council is very supportive of the *DB* report and now centers its effort in meaningful dialogues and coordination activities that focus on reforming the business regulation.

Currently, the concerned NGAs are participating actively in various coordination meetings called by NCC-TCF and the PDF Growth and Investment Climate Working Group. This is a good signal that national agencies are open and would want to share in the overall work of reform. NCC has to position itself better as the need for facilitation and coordination is vital at this phase of reform. NCC must reiterate the need for a concerted and conscientious effort among key stakeholders in order to effectively achieve the goals of reform. This is not an easy task as it entails persistent coordination and advocacy as both LGUs and NGAs are governed by their own respective mandates and leadership.

Consolidating and Harmonizing Current Reform Initiatives of Different Stakeholders

Particularly on reforming the process of business registration, there are several on-going efforts advocated by various foreign donors and implemented by different NGAs. The challenge now for the government is how to make sure that these current initiatives are consolidated.

LCP to Continue Advocating for Reforms at the LGU Level

The current intention to standardize procedures among Metro Manila LGUs is an initial response to address the reform areas identified by *DBP 2008*. The League of Cities of the Philippines (LCP), recognizing the relevance of the SBRP and the need to improve the competitiveness and attractiveness of the cities for potential investors, assumed the active role of convening all LGUs of the National Capital Region (NCR) to come up with a set of standardized procedures for business registration. If SBRP is proven successful, it will be replicated and advocated to other LGUs. This will address the issues surrounding the variations across LGUs in terms of local regulations and interpretation of NGA regulations embedded in the business registration process.

The next important phase of this initiative is to monitor compliance and be aware of the dynamics at the local level in the course of implementation. This will definitely generate important findings in understanding the process of reform and eventually lead to a better regulatory environment for attracting businesses and investments.

Conclusion

Undoubtedly, the implementation of *Doing Business in the Philippines* at the sub-national level introduced new ideas and revitalized approaches and collaboration among important stakeholders to further address reforms in the area of business regulation. It stirred up discussions on business regulation, not only among cities covered by the study, but also among NGAs and the private sector.

With the results of *DBP 2008*, Philippine cities have been encouraged to look into the details of the study and lay out plan to respond to the identified bottlenecks. Since, in general, Philippine cities are very conscious of their image, strong competition motivates key cities to explore good governance practices and service efficiency.

Likewise, NGAs have become more receptive and interested in looking at the overall picture of reform process. Private sector groups, particularly the local chambers and utility service providers have become increasingly open to dialogue and consultation with regard to improving the overall climate of doing business in the Philippines. Therefore, NCC 's role as a platform for dialogue and collaboration among different stakeholders was emphasized as crucial in advocating and facilitating reforms in the field of business regulation.

Overall, the *DBP 2008* report provides valuable data and information on the initial assessment of local procedures and referred national laws as a basis for the current initiative to simplify and standardize the business registration system.

- ***DBP 2008 fuels discussions on current reform initiatives.*** Largely, *DBP 2008* provides a strong push for the on-going talks on reforming the business regulatory climate in the Philippines. It complements the already existing efforts to address concerns over lengthy and tedious regulatory processes. In the effort to address these concerns, various stakeholders come together and collectively express their commitment to reform.

- **DBP 2008 provides baseline and comparative data on business regulation.** *DBP 2008* allows Philippine cities to compare themselves globally and enables them to assess their performance and standing on business regulation. The value of the study is in establishing the baseline data upon which to refer when implementing reforms.
- **DBP 2008 pinpoints best practices as well as areas for reform.** *DBP 2008* exposes Philippine cities to global best practices, which can also be adopted locally. Cities in the Philippines may be highlighted too when they have their own best practices. The report has shown that no particular city has the monopoly of best practices. It shows that there is still much to be done in reforming local business regulations.
- **DBP 2008 shows that strong competition among cities triggers local-level reforms.** The strong competition among cities in the Philippines contributes to the move to institute various reforms. Ranking studies such as *DBP 2008* mean a lot to LGUs as they bank on the results in marketing the city as the best place to do business. The results push the cities to innovate and improve their efficiency in business regulation processes.

ACRONYMS

APC	Asian Institute of Management Policy Center
APEC	Asia-Pacific Economic Cooperation
BIR	Bureau of Internal Revenue
BNRS	Business Name Registration System
BOI	Board of Investments
BOO	Build-Own-Operate
BPLO	Business Permits and Licensing Office
BPLS	Business Permit and Licensing System
CAO	City Assessor's Office
CAR	Certificate Authorizing Registration
CDA	Cooperative Development Authority
CEO	City Engineering Office
COR	Certificate of Registration

CSC	Civil Service Commission
DB	Doing Business
DBP	Doing Business in the Philippines
DILG	Department of Interior and Local Government
DPWH	Department of Public Works and Highways
DTI	Department of Trade and Industry
e-BPLS	electronic Business Permit and Licensing System
GDB	Global Doing Business
GNI	Gross National Income
IBP	Integrated Bar of the Philippines
IFC	International Finance Corporation
IRR	Implementing Rules and Regulations
LARES	Land Registration Systems Inc.
LCP	League of Cities of the Philippines
LGUs	local government units
LRA	Land Registration Authority
M&E	monitoring and evaluation
MBC	Makati Business Club
MERALCO	Manila Electric Company
NARTTF	National Anti-Red Tape Task Force
NBC	National Building Code
NCC	National Competitiveness Council
NCC-TCF	NCC–Transaction Cost and Flows
NCR	National Capital Region
NGA	national government agencies
OBO	Office of the Building Official

PAG-IBIG	Home Development Mutual Fund
PBR	Philippine Business Registry
PCCI	Philippine Chamber of Commerce and Industry
PCCRP	Philippine Cities Competitiveness Ranking Project
PDF	Philippine Development Forum
PhilHealth	Philippine Health Insurance Corporation
RD	Registry of Deeds
RDOs	regional district offices
RMC	Revenue Memorandum Circular
RMO	Revenue Memorandum Order
SBRP	Standard Business Registration and Permit
SEC	Securities and Exchange Commission
SSS	Social Security System
TIN	Tax Identification Number
TWG-SBRP	Technical Working Group – Standard Business Registration and Permit
UDD	Urban Development Department
ULAP	Union of Local Authorities in the Philippines