

A: Framework - Trade and Inclusive Economic Growth Facility (February 2017)
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<p>Note:</p> <p>This information is provided for planning purposes only and it does not represent solicitation or constitute a request for proposal, nor is it a commitment to purchase or tender for any described services. The scale, scope and focus of any proposed program may change at any time and is subject to formal approval by the Australian and Philippine Governments before any procurement process will commence. Should a procurement commence, we anticipate commencing in March 2017. This information is subject to delays, revision or cancellations.</p> <p>This document articulates the framework for a Trade and Inclusive Economic Growth Facility (the Facility). It functions as the reference document for a managing contractor to implement a responsive facility from which a series of trade and inclusive economic growth activities will be designed and delivered. This document states the goal of the investment and the delivery approach. The specific outcomes of the investment that will form the basis for the monitoring and evaluation of the Facility, will be designed by the managing contractor and approved by the Department of Foreign Affairs and Trade (DFAT). Indicative outcomes are reflected in this document.</p> <p>This document supersedes the investment concept approved by the DFAT's Aid Investment Committee and released to the market in July 2016.</p> <p>The managing contractor is responsible for establishing and managing the Facility from Manila, preparing the Facility's operations manual including the monitoring and evaluation plan and other relevant documents necessary for investment implementation, designing activities, and implementing a substantial proportion of these activities. Full details of the requirements of the managing contractor is set out in the contract that forms part of the Request for Tender.</p>

Contents

Executive Summary	1
1. Analysis and Strategic Context	4
1.1 Inclusive Economic Growth in the Philippines	4
1.2 Other Donors and Australia's Value Add	6
2. Description of the Facility	8
2.1 Goal and Indicative End of Program Outcomes.....	8
2.2 Delivery Approach – Facility.....	9
2.3 Activity Modalities.....	9
2.4 Beneficiaries.....	10
2.5 Financial Resources.....	10
2.6 Areas of Engagement	11
3. Implementation.....	17
3.1 Management and Facility Steering Arrangements.....	17
3.2 Monitoring and Evaluation.....	24
3.3 Politically Smart Development	26
3.4 Sustainability	27
3.5 Gender and Social Inclusion	27
3.6 Private Sector.....	28
3.7 Risk Assessment and Management	28
3.8 Safeguards.....	30
3.9 Due Diligence (including Fiduciary Risk Assessments)	31
3.10 Fraud, Sanctions and Counter-terrorism.....	31
3.11 Security and Disaster Management.....	32
Annex A – Philippine Department of Trade and Industry's Framework for Inclusivity: A Guide for Development Partner Engagement.....	33
Annex B - Additional Information, Engagement Areas	35
Annex C - Risk Management Process for Activities Conducted in Conflicted Affected Regions of the Philippines, including Mindanao.....	42

Executive Summary

The Philippines is one of Australia's longest-standing bilateral relationships. We have shared interests and values, supported by strong people-to-people links. A more prosperous, inclusive and open Philippine economy is a goal of the Philippine government, and Australia supports this goal through the Australian aid program.

The Trade and Inclusive Economic Growth Facility (the Facility) will be a centrepiece of Australia's aid program to the Philippines.

The goal of the Facility is:

'To support the Philippines in building the foundations for sustained and inclusive economic growth.'

Indicative end of program outcomes, which will be reviewed and refined by the managing contractor are:

1. Reduced barriers to selected trade and investment flows;
2. Reduced cost of doing business and an improved business environment;
3. Empowerment of women and poor and vulnerable communities through improved participation in the economy including in entrepreneurship; and
4. Stronger government institutions that can better design and implement policy and provide services.

Areas of Engagement

To achieve the above goal, the Facility will support activities under five complementary engagement areas (EA):

- EA1: Connecting the Philippines with the global economy - aid for trade. Activities include trade negotiation capacity development and national quality infrastructure.
- EA2: Improving competitiveness through domestic regulatory reform. Activities include competition policy.
- EA3: Increasing inclusiveness and better jobs. Activities include social protection, women's economic empowerment and micro, small and medium sized enterprise development.
- EA4: Responding to emerging economic issues. Activities will support emerging and priority economic issues identified through dialogue with the Philippine Government.
- EA5: Strengthening government institutions. Activities include human resource, organisational development and public financial management assistance.

Delivery Approach

A facility mechanism, implemented by a managing contractor and assisted by rolling annual work plans approved by the Department of Foreign Affairs and Trade (DFAT) and endorsed by the Steering Committee, will provide the flexibility required for Australia to support trade and inclusive economic growth of the Philippines.

The Facility will implement activities through three types of modalities, with most activities being implemented through mode 1:

Mode 1: Activities designed and implemented by the managing contractor.

Mode 2: Activities designed and implemented by third parties where the agreement supporting the activity is between the managing contractor and the development partner. The managing contractor will provide important oversight services to ensure efficient and effective design and implementation of the activity.

Mode 3: Where an agreement between the managing contractor and the development partner is not feasible (e.g. where the third party prefers to have a direct funding arrangement with the Australian Government), the agreement will be between DFAT and the third party with appropriate provisions made for the role of the managing contractor. DFAT may task the managing contractor to provide advisory services in relation to the activity.

The managing contractor will identify and/or design activities for the Facility to invest in, and also deliver annual pipeline planning, activity implementation and management, oversight or advisory and reporting services. The managing contractor must screen activities prior to implementation and monitor activities to ensure compliance with DFAT’s safeguards and other relevant requirements.

Results will be measured at both the Facility and activity levels. An indicative high-level monitoring and evaluation framework, aligned with the Facility’s goal and end of program outcomes has been noted in this document. During the Facility set-up period, the managing contractor will review and finalise the monitoring and evaluation framework and identify performance indicators. At the activity level, the managing contractor will measure the progress and impact of each activity through monitoring and evaluation that links to the Facility’s goal/outcomes. DFAT may direct that independent reviews be undertaken by third parties, and the managing contractor must agree to participate in these reviews.

Staffing and Facility Steering Arrangements

The managing contractor will engage an established and well-recognised leader with a strong reputation on trade and/or inclusive economic growth as the Facility Director. The Facility Director will be supported by an Operations Manager and three Team Leaders.

A Steering Committee sets the strategic direction of the Facility, endorses annual workplans that determine activities for implementation and provides oversight on progress of the investment. Whilst the Steering Committee provides strategic oversight of the facility, investment decisions are ultimately made by DFAT in consultation with the Government of the Philippines. The managing contractor will provide secretariat services for the Steering Committee.

The managing contractor’s team of highly skilled and qualified personnel will recommend to DFAT additional oversight arrangements that could support the Facility. This could include establishment of Technical Working Groups for engagement areas of the Facility to guide implementation of activities.

Budget

The Facility will commence in September 2017 and will be implemented in two four-year phases with an evaluation in year 3 to determine whether DFAT will exercise the option to continue the Facility for a further four years. The proposed financial envelope for the Facility is up to AUD80m over eight years is below. This budget includes both program and facility costs.

FY 17/18	FY 18/19	FY 19/20	FY20/21
A\$7m	A\$11m	A\$12m	A\$10m

Option period

FY 21/22	FY 22/23	FY 23/24	FY24/25
A\$10m	A\$10m	A\$10m	A\$10m

Australia's Value Add

Supporting the Philippines' inclusive economic growth agenda is in Australia's interests. Australia is a long-term development partner of the Philippines, with a history of working in a broad range of relevant sectors such as social protection, governance, public financial management, human resource and organisational development, infrastructure and land governance. These investments create strong foundations for the next phase of our work.

Australia's newest trade and inclusive economic growth investment for the Philippines will build on past achievements and will be characterised by a focus on:

- Inclusivity - the Facility will ensure that, wherever possible, its investments/activities will benefit poor and vulnerable people. Australia will build on our successful partnership with the Department of Social Welfare and Development and consider opportunities to link social protection programs with trade, entrepreneurship and employment programs of other Philippine government departments.
- Gender equality - the Facility will have a strong emphasis on women's economic empowerment and promotion of women's leadership in economic governance through targeted stand-alone activities as well as by integrating gender equality analysis, into activities.
- Strengthening government agencies - improving the capacity and capabilities of government agencies that Australia works with will improve the sustainability of our assistance and help the Philippines implement their inclusive economic growth agenda. The Facility will build on outcomes of Australia's Human Resources and Organisational Development Facility and Public Financial Management Program.
- Flexibility - the Facility will emphasise flexibility and responsiveness to the needs of the Philippine government through the use of rolling work plans and regular meetings of the Steering Committee.
- Political economy - the Facility will value the importance of political economy analysis, especially in the design and management of activities.
- Philippine government ownership - the government of the Philippines will be represented in the Steering Committee and help determine the Facility's priorities and activities to be implemented.
- Australian and international expertise - the Facility will seek to partner highly-regarded Australian and international organisations with their Philippine counterparts. This will help Philippine government departments learn from Australia's and other countries' experience in trade and inclusive growth.

1. Analysis and Strategic Context

“By the end of my term, I hope - I hope and pray - to hand over an economy that is much stronger, characterized by solid growth...At the household level, there must be sufficient income for all Filipinos to meet the basic food and non-food needs for their families. We shall continue attract investments that will generate thousands of jobs each year - jobs that are suitable for the poor and less skilled members of the workforce...Reforms to ensure competitiveness and promote ease of doing business will be mandatory.”

Extract from State of the Nation Address of Rodrigo Roa Duterte President of the Philippines, to the Congress of the Philippine, Session Hall of the House of Representatives. Delivered at the Batasang Pambansa Complex, Quezon City on July 25, 2016.

1.1 Inclusive Economic Growth in the Philippines

The Philippines' economy is experiencing rapid growth, higher than many of its ASEAN neighbours.¹ In this period of growth, Philippine government revenue has jumped², strong remittance flows³ have boosted domestic consumption, and business process outsourcing has boomed with over one million Filipinos currently employed in this service industry.⁴ Contributing to this high growth is an economy which is more competitive⁵, and with lower levels of perceived corruption.⁶

As highlighted by the Philippines Socioeconomic Planning Secretary, Ernesto Pernia - “however, the challenge is to make this growth inclusive so that more people contribute to, and benefit from it.”⁷ The Philippines is interested in growth that redounds to its people's welfare. Significantly, poverty in the Philippines has fallen from 26.3 per cent in 2009 to 21.6 per cent in 2015.⁸ High population growth⁹ does however dampen improvements in average household wealth, and job growth has been sluggish.¹⁰ The Philippines is also one of the most unequal countries in South-East Asia.¹¹ Compounding the poverty and inequality problems is the noticeable difference between urban and rural communities, with rural areas of the Philippines impacted by higher poverty incidences than urban areas.

The World Bank highlights in their *Philippine Development Report - Creating More and Better Jobs*, that the country's long history of weak growth (current rapid growth notwithstanding) is a major reason for its subpar performance on inclusive growth.¹² The Philippines average growth of 4.1 percent in the last three decades is considerably lower than the 6.5 per cent of its more dynamic East Asian peers.¹³ This report also emphasises that the history of policy distortions has severely impacted on key sectors that provide jobs for the poor: agriculture and manufacturing. The agriculture sector, where many of the rural poor are located, has low productivity,¹⁴ and there is a ‘missing’ low to medium skilled manufacturing sector.¹⁵ The Philippine economy is characterised by a large low-skilled services sector and outflow of labour with about 10 million Filipinos leaving the country for better opportunities abroad.

The Philippines has executed important reforms including in social policy¹⁶, competition laws¹⁷ and to improve the quality of public administration. However, constraints to inclusive economic growth remain, including limited competition in key sectors, which can lead to high prices for food and other necessities, insecurity of property rights, and complex business regulations, which can make it difficult for small and medium enterprises to move out of the informal sector and to expand. In addition, there is a need to encourage more public and private investment, especially in infrastructure. Tax reform designed to expand the tax base and reduce tax evasion and avoidance, and addressing restrictions on Foreign Direct Investment are important matters in this regard. Reducing barriers to trade, especially for goods that poor and vulnerable people produce and consume through lower at the border and behind the border restrictions, and through improved trade facilitation can also contribute to inclusive and sustainable growth. The Philippines is ranked 64 out of 138 countries according to the World Economic Forum Enabling Trade Index, and performs below Malaysia (25), Thailand (57) and Indonesia (58).¹⁸

Although the Philippines scores well on global gender equality indices, improving the quality of women's workforce participation and increasing their access to economic and trading opportunities is necessary to achieve higher rates of growth and to spread the benefits of such growth. Supporting more women to

access private sector leadership positions and reducing the barriers to workforce participation facing vulnerable women will enable women to contribute to economic growth at their full potential.

President Duterte has committed to address several of these key constraints and to foster inclusive economic growth. In his first State of the Nation 2016 address, President Duterte pledged to continue and maintain current macroeconomic policies and to ensure that growth translates into more and better jobs and poverty reduction.¹⁹ The Philippine government has a 10 point socioeconomic agenda to:²⁰

1. continue and maintain current macroeconomic policies, including fiscal, monetary, and trade policies;
2. institute progressive tax reform and more effective tax collection, indexing taxes to inflation;
3. increase competitiveness and the ease of doing business;
4. accelerate annual infrastructure spending to account for 5 per cent of GDP, with Public-Private Partnerships playing a key role;
5. promote rural and value chain development toward increasing agricultural and rural enterprise productivity and rural tourism;
6. ensure security of land tenure to encourage investments, and address bottlenecks in land management and titling agencies;
7. invest in human capital development, including health and education systems, and match skills and training;
8. promote science, technology, and the creative arts to enhance innovation and creative capacity;
9. improve social protection programs, including the government's Conditional Cash Transfer program;
10. strengthen implementation of the Responsible Parenthood and Reproductive Health Law.

The Philippines has also indicated it intends to reform Foreign Direct Investment rules and to improve engagement with the global economy.²¹

Australia has re-cast our economic programs in the Philippines within the framework of a new, bilateral economic partnership. Australia's Comprehensive Partnership with the Philippines, signed in December 2015, commits both countries to create the best conditions for business to flourish including small and medium enterprises, cultivate a stronger enabling environment for bilateral trade, and develop projects to support women's economic empowerment.²² Australia's Aid Investment Plan published in 2015 aims to accelerate and build the foundations for inclusive economic growth in the Philippines.²³ There is a strong alignment of Australia's development agenda and the new Philippine administration's economic agenda.

This Trade and Inclusive Economic Growth Facility will be the centrepiece of a suite of investments that share the overarching objective of supporting the Philippines to **build the foundations for sustained and inclusive economic growth. This goal recognises that both the pace and pattern of growth matter for poverty reduction** - *inclusive growth allows people, especially the poor, to contribute to and benefit from economic growth; and for high and sustained growth, the Philippines must address its structural constraints and be better connected to the global economy.*²⁴

Another key Australian investment in the Philippines is Investing in Women: a women's economic empowerment investment which commenced in mid-2016, and will help achieve gender equity in workplaces and increase investment in women-led small and medium sized enterprises.

The above economic investments are complemented by the Basic Education Sector Transformation Program (BEST)²⁵, a six year program supporting implementation of K-12 education reform, and Australian support for governance related programs.

1.2 Other Donors and Australia's Value Add

There are three major bilateral investments in the Philippines which are focussed on economic growth:

European Union-Philippines Trade-Related Technical Assistance Project 3 (TRTA 3)²⁶
TRTA3 is a EUR8 million investment between 2013 and 2016 to promote trade and investment for further economic development, inclusive growth and poverty reduction. TRTA 3 has six interlinked components: 1) the Philippine International Trade Strategy and several industry roadmaps are successfully implemented leading notably to an increase of 10 per cent in the utilization rate of Free Trade Agreements; 2) the competition policy is successfully implemented through regulatory reforms and the use of new tools and techniques to analyze competition behaviors; 3) a National Quality Infrastructure strategy is successfully developed and implemented resulting to an easier access to increased services (by 10 per cent) provided by individual organizations including metrology, standardization, testing, certification and accreditation; 4) sanitary and phytosanitary management and control systems as well as producers themselves meet international requirements in order to have access to foreign markets; 5) the revised Kyoto Convention is implemented and the National Single Window is upgraded to facilitate trade by reducing clearing time by 30 per cent on average and import/export permit application processes to 6 hours; and 6) the capacity of business associations is strengthened and urgent trade problems are solved through the provision of on demand technical assistance.
USAID Funded - Advancing Philippine Competitiveness (COMPETE) Project²⁷
COMPETE is a USAID project The goal of COMPETE is to support higher economic growth through interventions in infrastructure, power, tourism, agribusiness, manufacturing and domestic credit. For activities in the infrastructure sectors, technical assistance enhances the viability of the Philippine Government's public-private partnership infrastructure program, advance a reform agenda to lower transport, logistics, and energy costs, and improve regulatory capacity and oversight of infrastructure development. For the priority tourism sector, activities support the effective implementation of the 2011-2016 National Tourism Plan, particularly in efforts to develop strategic destination areas and tourism clusters. In agriculture, COMPETE Project will advance a policy agenda to promote agri-food export competitiveness and provide technical assistance to boost productivity. To promote the use of productive capital, the Project expand access to credit for small and medium enterprises (SMEs) – particularly with an improved system of credit information for SME lending, wider utilization of credit guarantees, and overall stronger borrowing capacity for entrepreneurs.
USAID Funded - Trade-Related Assistance for Development (TRADE) Project²⁸
TRADE is a five-year, USD12.8 million initiative by USAID. Its goal is to improve the Philippines' global standing in the international economy through higher levels of trade and foreign direct investment. Technical assistance provided under the TRADE Project focus on identifying and addressing: 1) policy reform to implement binding contracts under the ASEAN (Association of Southeast Asian Nations) Economic Community Blueprint, advance the country's eligibility in Trans-Pacific Partnership, and meets its World Trade Organization obligations; 2) trade analysis and strategy formulation of proposed adjustment measures and reforms; and 3) gaps in institutional and administrative capacity of the government and other major stakeholders in undertaking trade-enabling measures.

The World Bank Group also provides assistance to the Philippines on economic growth through its trade and competitiveness, and macroeconomics and fiscal management global practices.

The World Bank and Asian Development Bank also provide assistance to the Philippine Government on their conditional cash transfer programs. Australia attends both formal and informal donor coordination meetings with relevant Philippine government agencies to ensure that Australian development assistance complements other donors.

It is recognised that the scope of work that donors can provide to the Philippines on trade and inclusive economic growth is significant and no one agency can assist the Philippines in all its needs. Points of differentiation and value-add associated with Australia's approach as envisaged by this Facility include:

- our emphasis on inclusivity - the Facility will build on Australia's successful partnership with the Department of Social Welfare and Development, and consider opportunities for inter-departmental collaboration (e.g. linking social protection programs with micro and small business development initiatives of the Department of Trade and Industry). This is not currently an emphasis of other donors' support to the Philippines on social protection.
- economically empowering women and other vulnerable communities - in all our trade and inclusive economic growth activities we will consider how we can empower women and other vulnerable groups including people with disability, Indigenous people, homeless families and the lesbian, gay, bisexual, trans, and/or intersex (LGBTI) community.
- human resource and organisational development - improving the capacity and capabilities of government agencies will improve the sustainability of our aid and help the Philippines implement their inclusive economic growth agenda. The Facility will build on the outcomes of Australia's Human Resources and Organisational Development Facility and Public Financial Management Program. Independent evaluations of these activities can be found on the DFAT website.²⁹
- flexibility - the Facility will emphasise flexibility and responsiveness to the needs of the Philippine government through the use of rolling work plans and regular meetings of the Steering Committee.
- political economy – the Facility strongly values the importance of political economy analysis, especially in the design and management of activity design.
- Australian and international expertise - the Facility will seek to partner highly-regarded Australian and international organisations with their Philippine counterparts including for example in competition policy, investment, trade related standards, and social policy. This will help Philippine government departments learn from Australia's and other country's experience in trade and inclusive economic growth.
- Philippine government ownership - the government of the Philippines is well represented in the Facility's Steering Committee. The government of the Philippines will help determine the priorities of the Facility and decide on the activities that will be delivered.

2. Description of the Facility

2.1 Goal and Indicative End of Program Outcomes

The Trade and Inclusive Economic Growth Facility (the Facility) will be a centrepiece of Australia's aid program to the Philippines. The goal of the Facility is:

'To support the Philippines in building the foundations for sustained and inclusive economic growth.'

The indicative end of program outcomes, which will be reviewed and refined by the managing contractor are:

1. *Reduced barriers to selected trade and investment flows* - measured by positive changes in trade and investment indicators for products/services targeted by the Facility's activities.
2. *Reduced cost of doing business and an improved business environment* - measured by reduced costs of starting a business and exporting and importing, and positive changes in other ease of doing business indicators.
3. *Empowerment of women and poor and vulnerable communities through improved participation in the economy including in entrepreneurship* - measured by positive changes in economic participation indicators of people and vulnerable communities who have been targeted by the Facility's activities. Indicators include jobs/decent employment, household incomes, number of people lifted out of poverty and entrepreneurs assisted.
4. *Stronger government institutions that can better design and implement policy and provide services* - measured by positive changes in indicators for policy delivery, service delivery, public financial management, human resource and organisational development in targeted government agencies.

What do we mean by Inclusive Economic Growth?

There is strong evidence that on average economic growth is good for the poor. However, when poverty levels are high, research shows that countries grow at a lower rate than their potential. Having growth as an objective without consideration of its distributional impacts can slow poverty reduction, and result in increased inequality. Inclusive growth takes place in sectors where poor people work, using factors of production that poor people have access to and it results in lower prices of things that poor people consume. Inclusive growth can be achieved through growth in particular sectors of the economy where poor people are more represented or in geographical locations where they live. Inclusive growth can be underpinned by government redistributive policies, for example through the tax and transfer system that target the poor and vulnerable.³⁰

In addition to supporting governments to meet their inclusive growth objectives, bilateral assistance can also help address barriers to economic participation in the formal economy. These barriers can include discrimination of vulnerable populations (such as particular groups of women, people living with disabilities, ethnic minorities, the elderly, and people with a temporary illness or injury), and can also include low education, poor health, family and caring duties, geography and other characteristics of poverty. Reducing barriers to broad participation in economic activity, not only benefits the individuals involved, but can also increase productivity in the economy, which in turn contributes to growth.

The Sustainable Development Goals 8 and 10 make explicit the goal of favouring investments that support relatively higher income growth for the bottom 40 per cent. This is in line with the global shift to inclusive economic growth which recognises that growth, that is generated through broad participation and that offers shared prosperity, is more sustainable and therefore more conducive to development.

2.2 Delivery Approach – Facility

DFAT believes that a facility represents the best means of organising Australia's trade and inclusive economic growth activities for the Philippines. A facility will:

- allow **flexible and responsive arrangements for aid programming** in which Australia can move quickly and react to changing circumstances (e.g. to better leverage the Philippine's reform agenda and adapt to changes in donors' priorities).
- permit a mix of longer-term programs (such as in aid for trade or social protection), exploratory ones (such as investment policy, where we can be innovative and see what works and adapt) and shorter interventions that meet particular needs or opportunities. It enables a **mix of risks**, rather than narrowing the focus on a particular sector or aid intervention.
- allows for **innovation** and iterative management by trial, experience and adjustment. When activities work, they are easily and quickly scaled-up. When activities fail they can be easily terminated.
- **equip us with a set of tools** which can be deployed according to the specific problems we tackle.
- **consolidate** a variety of agreements and activities into an efficient management structure, reducing DFAT's administrative and process burden, and maximising DFAT staff time for policy engagement. But, of course, it does require ongoing engagement and programming, in depth.
- enables DFAT to put in place an overarching managerial framework, and **develop and maintain policy coherence** in which Australia can direct and adapt our economic partnership with the Philippines.

Consistent with DFAT's *Effective Governance Strategy For Australia's Aid Investments*³¹ in managing for inclusive growth in a fluid political environment, the Facility will be flexible and design interventions in a range of policy and program areas. This approach is critical to balancing the risk/return of Australia's investment in trade and inclusive economic growth. Working narrowly in one or two areas of engagement would be high risk due to political uncertainties, and would not coherently address the multifaceted nature of poverty. Noting that Australia's financial support is small compared to Philippine government revenue, the impact on poverty through this Facility is dependent on how Australia positions itself to support the Philippine government and help local actors frame and implement their inclusive growth agendas.

2.3 Activity Modalities

DFAT anticipates that the Facility will implement activities through three types of modalities:

1. Mode 1 - Design and Implement (by the managing contractor): The majority of activities will be designed and implemented by the managing contractor. The managing contractor is responsible for designing the activity including to ensure that DFAT's safeguard requirements are met. Following review and recommendations from the Steering Committee and approval from DFAT, the managing contractor will mobilise the necessary technical assistance personnel and support staff, implement the activity, and report on progress and outcomes. Monitoring and evaluating activities may also be conducted through the engagement of independent contractors who will report directly to DFAT staff.
2. Mode 2 – Third Party Design and Implement (contract with managing contractor): The Facility will also support third-party development partners, including multilateral organisations, non-government organisations, the private sector and Philippine government departments. The agreement supporting the activity will be between the managing contractor and the development partner. These development partners are responsible for the design, implementation, monitoring and progress reporting of the activity to the managing contractor. The managing contractor however provides important **oversight services** including to ensure that the design of the activity is sound, DFAT's safeguards and other compliance obligations are met, and monitoring and progress reporting are of high quality. The managing contractor is also responsible for documenting the results of these activities, obtained from the third-party development partner, as part of the Facility's annual reporting on all activities.

3. Mode 3 - Third Party Design and Implement (contract with DFAT): In cases where an agreement between the managing contractor and the development partner is not feasible (e.g. where the Philippines government partner or multilateral organisations prefer to have a direct funding arrangement with DFAT), the agreement will be between DFAT and the third party. For these agreements, DFAT will likely task the managing contractor to provide **advisory services** (e.g. technical advice on monitoring and evaluation, gender, safeguards etc) to DFAT for the activity. The managing contractor is also responsible for documenting the results of these activities, obtained from DFAT, as part of the Facility's annual reporting on all activities.

The table highlights indicative proportions of total activities under each modality.

No.	Activity Modalities	Percentage
Mode 1	Design and Implement (by the managing contractor)	60 per cent
Mode 2	Third Party Design and Implement (contract with managing contractor)	30 per cent
Mode 3	Third Party Design and Implement (contract with DFAT)	10 per cent
	Total	100 per cent

2.4 Beneficiaries

The direct beneficiaries of the Facility, for the majority of activities, are Philippine Government departments. The subsidiary arrangement supporting the Facility will be between DFAT and the Department of Trade and Industry (which leads on trade negotiation, National Quality Infrastructure and business development). The other key partners of the Facility are the Department of Social Welfare and Development (which leads on social protection) and the National Economic and Development Authority (the Philippines premier socioeconomic planning body). The Facility will also work with other government organisations including the Philippine Competition Commission (on competition policy).

The ultimate beneficiaries of Australia's assistance are - businesses including micro and small enterprises especially those that are owned or led by women and/or in the informal sector (e.g. National Quality Infrastructure and micro and small business development activities); consumers (e.g. competition policy activities); and poor and vulnerable households (e.g. social protection activities).

2.5 Financial Resources

The Facility will commence in August 2017 and will be implemented in two four-year phases with an evaluation in year 3 to determine whether DFAT will exercise the option to continue the Facility for a further four years. The proposed financial envelope for the Facility is up to AUD80m over eight years is shown below. This budget includes both program and facility costs.

FY 17/18	FY 18/19	FY 19/20	FY20/21
A\$7m	A\$11m	A\$12m	A\$10m

Option period

FY 21/22	FY 22/23	FY 23/24	FY24/25
A\$10m	A\$10m	A\$10m	A\$10m

2.6 Areas of Engagement

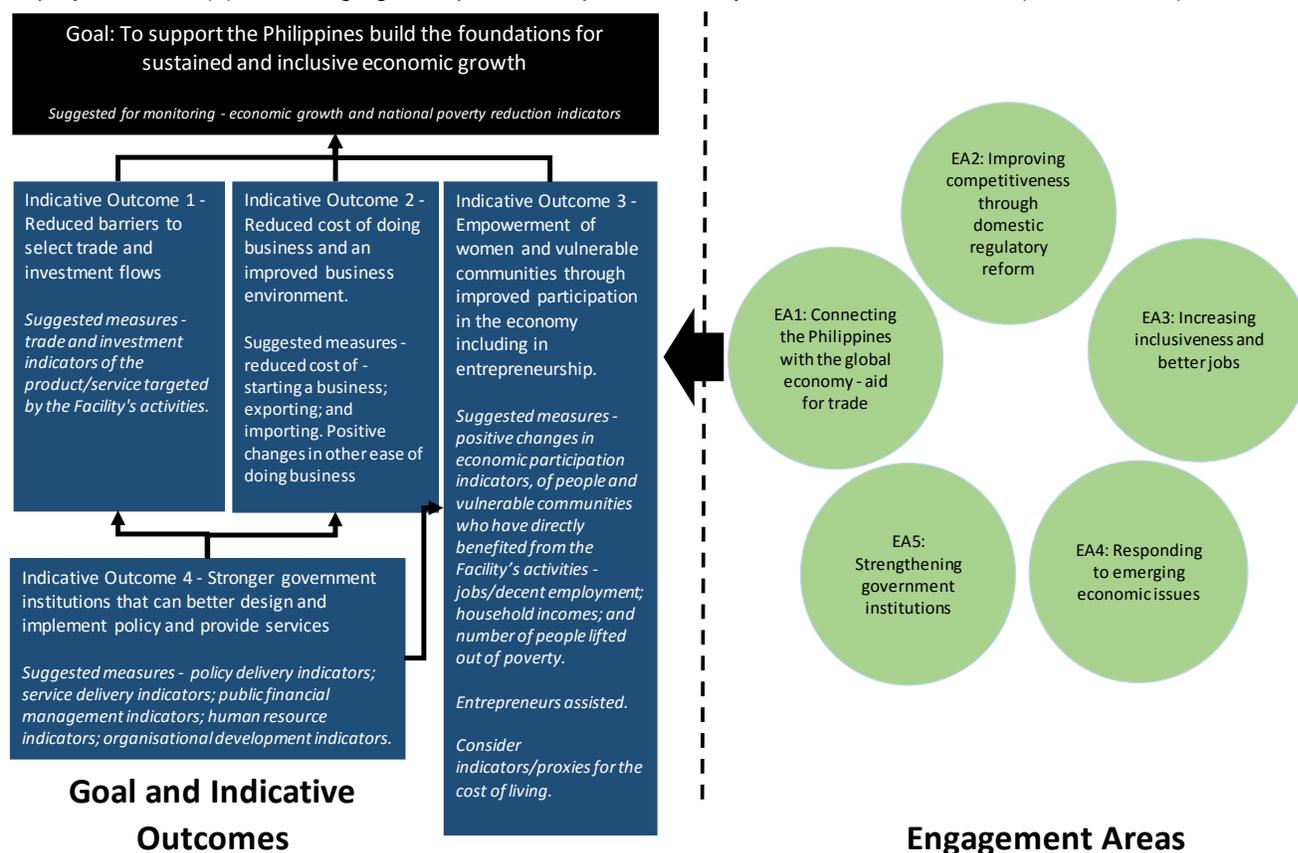
The Facility will design and implement activities under five complementary engagement areas (EA):

- EA1: Connecting the Philippines with the global economy - aid for trade;
- EA2: Improving competitiveness through domestic regulatory reform;
- EA3: Increasing inclusiveness and better jobs;
- EA4: Responding to emerging economic issues; and
- EA5: Strengthening government institutions.

The table below sets out the proportions expected to be invested in each of area of engagement of the Facility. These proportions are indicative only.

Area of Engagement	Proportion
1. Connecting the Philippines with the global economy - aid for trade	25 per cent
2. Improving competitiveness through domestic regulatory reform	25 per cent
3. Increasing inclusiveness and better jobs	25 per cent
4. Responding to emerging economic issues	10 per cent
5. Strengthening government institutions	15 per cent

The figure below highlights the relationship between the Facility's goal, indicative outcomes and areas of engagement. The goal, indicative outcomes and areas of engagement have been developed so that it complements the Philippine Department of Trade and Industry's *Framework for Inclusivity: A Guide for Development Partner Engagement* which emphasises a two-pronged strategy of (1) creating decent employment and (2) encouraging entrepreneurship to ultimately achieve inclusiveness (see Annex A).



For each engagement area DFAT has already identified activities that the managing contractor will either:

- a. design immediately;
- b. investigate further as to whether the Facility should provide support, as they are at an earlier stage of development (than a.), with a decision made by DFAT on whether a design process should commence; or
- c. provide advisory and reporting services to DFAT, given that DFAT has an agreement in place with a third party development partner in support of the activity.

These activities already identified by DFAT are summarised in the table below and described in further detail on the following pages. Annex B also provides additional information on engagement areas.

While this document indicates the type of activities that the Facility should support under each area of engagement, the managing contractor is expected to recommend other relevant activities. Innovation to find faster, cheaper and more effective ways to reach the goals/outcomes of the Facility is encouraged.

Approach	Identified Activities
For immediate design	EA 1 - Trade negotiation capacity development EA 1 - National Quality Infrastructure EA 2 - Competition Policy EA 3 - Women's Economic Empowerment EA 3 - Micro, Small and Medium-Sized Enterprise Development EA 4 - Emerging and Priority Economic Issues EA 5 - Human Resources, Organisational Development and Public Financial Management Support
For Investigation	EA 1 - Foreign Investment EA 1 - Trade Facilitation EA 1 - Liberalisation of the Professional Services Sector EA 2 - Ease of Doing Business Reforms EA 2 - Deregulation EA 2 - Energy Policy EA 3 - Labour Market Reform EA 3 - Economic Empowerment of Poor and Vulnerable Communities
For Advisory and Reporting Services	EA 2 - Two Policy Engagement / Research Activities (Philippines Project and ADRI) EA 3 - Two Social Protection Activities (DSWD and UNICEF)

EA1: Connecting the Philippines with the global economy - aid for trade

The Facility will implement aid for trade activities to better connect the Philippines to the global economy.

For Immediate Design

The managing contractor will design two key activities to:

- a) help improve the capacity of the Philippines to negotiate trade agreements, and
- b) increase the capacity of Philippine businesses to export/import through better National Quality Infrastructure.

These two key activities have been selected for implementation given - their identification as a key constraint of Filipino businesses that trade, their prioritisation by the Philippine Government and their coordination of aid for trade donor assistance, and DFAT's *Strategy for Aid for Trade Investments*.³²

Trade negotiation capacity building will improve the capabilities of the Philippine government to negotiate Free Trade Agreements (FTAs). The activity will help trade negotiators better understand and negotiate agreements that lead to improved access to international markets including for goods and services produced by poor and vulnerable communities, and reduced prices for imported goods and services that poor and vulnerable people consume. When implemented, these trade agreements will help businesses better access international markets and the Philippines to become more globally competitive through the economic reform they encourage. Reforms negotiated through external agreements can drive/supplement the domestic reform process.

The Philippines Department of Trade and Industry (DTI) has identified trade negotiation capacity building as an area of high need and has requested Australia's support. It notes that existing training provided by donors including through RCEP and WTO are ad-hoc and do not sustainably boost DTI's longer-term capabilities. Rather than once-off and FTA specific training, DTI is seeking a solution that boosts the capabilities of the entire agency and has raised the idea of a trade negotiation training centre.³³

The trade negotiation capacity development activity, targeted at the bureaus involved in FTA negotiations, could improve the Philippines' capability to:

- research the impact of FTAs (including their impacts on poverty and poor and vulnerable populations, and on micro and small enterprises and women led-enterprises);
- understand and negotiate technical issues related to agriculture and other key sectors, competition policy and investment policy, amongst others;
- communicate with the private sector including women-led businesses;
- build a trade competency framework that underpins a trade professional development program; and
- recruit and maintain staff, especially women.

Aid for trade on National Quality Infrastructure (NQI) will support Philippine government agencies involved in standards, certification, accreditation and metrology for traded goods and services.³⁴ Priority will be placed on ensuring that small businesses, especially those owned by and employing poor and vulnerable populations, as well as those that are owned or led by women, are well serviced and able to meet technical requirements and standards abroad, opening up the benefits of trade to more of the population.

The activity could also seek to:

- improve communication between government and businesses including in the development of standards;
- improve coordination between different Philippines NQI agencies;
- enhance the availability of information about technical requirements and standards abroad to exporters and those who are near ready to export;
- provide support to small and medium sized enterprises (MSMEs), for example through DTI's SME roving academy with particular attention to women-led businesses;
- provide technical assistance to strengthen a particular value chain (e.g. cacao or other sectors where the poor/vulnerable groups are located);
- build the capabilities of the Bureau of Philippine Standards; and
- support the improvement of food standard regulations and processes for assessment of food imports.

For Investigation

Other aid for trade activities to be investigated for possible support include addressing restrictions on foreign investment (to improve the country's growth through increased access to capital, a priority for the new Administration), trade facilitation (better export/import procedures which lower the cost of trading) and liberalisation of the professional services sector.

EA 2: Improving competitiveness through domestic regulatory reform

The Facility will help the Philippines implement key domestic reforms identified by the Philippine Government that will improve the competitiveness of the Philippine economy and reduce business costs.

For Immediate Design

The Facility will support implementation of the Philippines' new Competition Policy Act, which has the potential to reshape the Philippine economy. The Act, if implemented effectively, could provide significant poverty reduction benefits including by - reducing the costs of consumption including food consumption; increasing job opportunities in small business; and reducing the cost of business inputs including for farmers. Australia is currently providing ad-hoc assistance to the newly established Philippine Competition Commission (PCC) which is mandated to implement the Competition Policy Act. The Facility would seek to design and implement a more comprehensive program of support including technical assistance linked to the PCC business plan and helping it to access international competition policy experts.

For Investigation

Other economic reforms under investigation for support are - ease of doing business (this is a priority of the new Administration and focus could be on better serving micro/small business and vulnerable communities); deregulation (reducing the cost of unnecessary or inefficient regulation imposed on business) and energy policy (reducing business and consumer cost by delivering sustainable and affordable electricity).

For Advisory and Reporting Services

Australia's Aid Program in the Philippines currently funds two policy engagement/research activities:

- the Philippines Project, a joint initiative between the DFAT and the Australian National University to support influential research on inclusive economic growth, trade and governance and to build linkages between Australia and Filipino officials;³⁵ and
- funding support to the ADR Institute for Strategic and International Studies to increase its research and public engagement on trade, investment and the global economy.³⁶

These two policy engagement/research activities are implemented through a direct agreement between DFAT and the partner organisations. The managing contractor is not responsible for managing these activities as they are being implemented by a third party. However, the managing contractor's advisory services could include providing strategic advice to DFAT on improving these activities and highlighting opportunities for collaboration between these activities and other Facility activities. The managing contractor is responsible for documenting the results of these policy engagement/research activities, obtained from DFAT, as part of the Facility's annual reporting on all activities. Prior to the end of the agreements between DFAT and the ANU (September 2019) and DFAT and ADRi (June 2019), the managing contractor will help to review the activities to date and design the next phase of DFAT's policy engagement/research activities.

EA 3: Increasing inclusiveness and better jobs

A key outcome of the Facility is to empower women and poor and vulnerable communities through improved participation in the economy including in entrepreneurship. The Facility will also prioritise micro, small and medium enterprise (MSME) development noting that these represent 99.6 per cent of all registered businesses in the Philippines, and the vast majority of businesses in the informal sector. The Philippine government has a goal to increase the contribution of MSMEs to 40 per cent of GDP (from its current base of 32 per cent³⁷).

For Immediate Design

To sharpen the Facility's gender focus, the managing contractor will design and implement a flagship activity with the principal goal being to improve women's economic empowerment. In designing this activity, the managing contractor must consult with Australia's Investing in Women Initiative.³⁸

The managing contractor will also design, in consultation with the Department of Trade and Industry, an activity to help strengthen MSMEs in the Philippines. The activity could help increase agricultural and rural enterprise productivity or rural tourism, noting that this a priority of the Philippine government under their 10-point socioeconomic agenda. Other options include developing - incubation facilities (e.g. for creative industries and IT-based start-ups); credit guarantee facility for micro and small enterprises; mentoring programs; shared service facilities (provision of processing machines/equipment for the common use of the MSMEs within an industry cluster); and centres that facilitate access to business registration, advisory and information services. The managing contractor must design the activity in a way that maximises the benefit to poor and vulnerable populations.

For Investigation

Other areas under investigation for support are - labour market reform (to improve employment conditions for the working poor); and economic empowerment of poor and vulnerable communities.

For Advisory and Reporting Services

Australia's current social protection assistance in the Philippines will be continued under the Facility. This includes Australia's support to:

- a) the Department of Social Welfare and Development's (DSWD's) Technical Assistance Facility for Social Protection Reforms, which helps improve DSWD's capacity to effectively manage its social protection reform programs including: the Pantawid Pamilyang Pilipino Program (Conditional Cash Transfer), Sustainable Livelihood Program, and National Community Driven Development Program. DSWD's social protection facility helps streamline their analytical needs and harmonise assistance from international development partners (e.g. Australia, World Bank, Asian Development Bank and United Nations Agencies). Australia's agreement with DSWD ends in December 2017.
- b) UNICEF's Programmatic Fund to Enhance the Philippines Modified Conditional Cash Transfer Program. The aim of this fund is to strengthen the design and implementation of DSWD's modified conditional cash transfer program to better service socially excluded groups notably Indigenous people and homeless street families. Australia's agreement with UNICEF ends in May 2019.

Australia has been investing in social protection in the Philippines for nine years. We provided catalytic funding which helped the Philippines establish a conditional cash transfer program. The program has lifted 1.5 million households from poverty since 2010.³⁹ Going forward, Australia will help the Philippine government in its social protection agenda to improve: program efficacy; job, livelihood and entrepreneurship outcomes; reach to vulnerable groups; and protection of vulnerable groups against instability and shocks (e.g. economic or disaster related). Through the Facility's partnership with the Department of Trade and Industry we will consider opportunities to better link social protection with micro and small business development programs, and with the programs of other government departments (e.g. the Department of Labor and Employment).

The managing contractor is not responsible for managing these activities as they are being implemented by a third party. However, the managing contractor's advisory services could include providing strategic advice to DFAT on improving these activities and highlight opportunities for collaboration between these activities and other Facility activities. The managing contractor is responsible for documenting the results of these social protection activities, obtained from DFAT, as part of the Facility's annual reporting on all activities. Prior to the end of the agreements with DSWD and UNICEF, the managing contractor will work

with key stakeholders and facilitate the design of the next phase of the Facility's social protection activities.

EA4: Responding to emerging economic issues

Australia's economic partnership with the Philippines must be flexible and responsive, adapting to the priorities of the Philippine administration and opportunities to pursue activities that will contribute to more inclusive economic growth.

For Activity Design and Implementation

The Facility should be capable of providing technical assistance and policy development support on emerging and priority economic issues identified through ongoing dialogue with the new Government (for example land governance, or other aspects of the Philippines Administration's 10-point socioeconomic agenda). The managing contractor will also consider how the Facility can be used as a vehicle to fund activities that support *Australia's Economic Diplomacy Strategy*, and *Philippines-Australia Trade Investment and Industry Dialogue* and *Australian Aid: Promoting Prosperity, Reducing Poverty, Enhancing Stability*.⁴⁰

EA 5: Strengthening government institutions

The Facility will offer Philippine government agencies that Australia works with, human resource, organisation development and public financial management support. This will improve the sustainability of Australia's development assistance in the Philippines.

For Activity Design and Implementation

The provision of human resource, organisation development and public financial management support will prioritise key stakeholders of the Facility. This offer of support recognises that these agencies may not only be constrained by a lack of technical skills, but by the capacity and capabilities of the bureaucracy and its staff. Agencies may have difficulties in managing their program budget, planning strategically, offering training programs, hiring and retaining staff, and planning and managing their gender and development budget.

The Facility will build on the outcomes of Philippines Australia Human Resource and Organisational Development Facility (PAHRODF)⁴¹ and the Public Financial Management Program (PFMP).⁴² Independent evaluations of these activities can be found on the DFAT website.⁴³

3. Implementation

3.1 Management and Facility Steering Arrangements

Facility Management

Given the importance of streamlined management of the Facility, DFAT will enter into an agreement with a single managing contractor who may lead, and is responsible for, a consortium of organisations. The managing contractor will be selected through a competitive DFAT-managed open tender process. Procuring the services of a managing contractor to manage the Facility and implement a substantial proportion of the Facility's activities will allow DFAT to outsource the day-to-day administration of the Facility and to focus on policy and dialogue with the Philippine government.

The managing contractor will work closely with the Australian Embassy in Manila and the government of the Philippines.

Whilst the Steering Committee outlined below plays an essential function in setting the strategic direction and providing recommendations for and oversight of the Facility, all investment decisions are ultimately made by DFAT. The monitoring of managing contractor performance is also a responsibility of DFAT.

Steering Committee

A Steering Committee will set the Facility's strategic direction and oversee its implementation. DFAT suggests the Steering Committee has a membership of approximately 5 and could include:

Member	Relevance
Deputy Head of Mission, Australian Embassy	<ul style="list-style-type: none">• Representative of Australia's Aid Program to the Philippines.
Senior Officer from DFAT Canberra	<ul style="list-style-type: none">• To ensure that the Facility aligns with DFAT's trade, economic and development agenda and foreign policy.
Senior Officer from the Department of Trade and Industry (DTI)	<ul style="list-style-type: none">• DTI represents the Philippine government on trade and industry issues.• DTI is the main partner government agency of the Facility and a key beneficiary of Australia's trade and inclusive economic growth aid.
Senior Officers from relevant government departments	<ul style="list-style-type: none">• Department of Social Welfare and Development (DSWD) who represents the Philippine government on social inclusion and protection issues.• National Economic Development Authority (NEDA) who is the Philippines' premier socioeconomic planning body. Their representation ensures that the Facility aligns with the priorities of the Philippine government.• Other relevant Departments, if appropriate.• Representation of key Philippine government representatives will ensure that Australia's support complements/is coordinated with the development assistance of other donors.

The Facility Steering Committee will set the strategic direction of the Facility by endorsing principles/criteria for investment and annual workplans (to be regularly updated at meetings). The annual workplans will set out the longer-term strategic direction of the Facility and outline priority activities that will be delivered over the coming year. All annual work plans prepared by the managing contractor will be approved by DFAT before submission to the Steering Committee. The Steering Committee will make decisions by way of consensus and the representative from the Australian Embassy in Manila will be the chair of the Committee.

Other functions of the Steering Committee include: overseeing the Facility's progress, achievements and risks; offering a high-level forum for Facility stakeholders to discuss trade and inclusive economic growth issues and to seek recommendations from key Philippine partner government agencies; and recommending when activities should be scaled-up or terminated or complementary activities designed.

The relationships between the Steering Committee and activity programming and approvals is detailed later in this chapter (see *Activity Programming*).

To support the work of the Steering Committee, the Steering Committee can invite advisors to attend their meetings in a support capacity. Such advisors may include:

- Economic Counsellor, Australian Embassy
- Facility Director (managing contractor)
- Representative of the managing contractor
- Private sector representative
- Gender and social inclusion specialist
- Senior economist

The managing contractor should not expect to be invited to all Steering Committee meetings and must ensure that documents considered at Steering Committee meetings are sufficiently detailed so that the Steering Committee can make strategic recommendations on the basis of the written documents alone.

The Steering Committee will meet twice per year, to ensure that the Facility can adapt to changes in context.

The effectiveness of the Steering Committee including its membership, will be determined by the managing contractor and DFAT in the early stages of implementation of the Facility, and reviewed regularly to determine whether different representation is required.

Additional Arrangements - Technical Working Group(s)

The managing contractor will recommend to DFAT additional arrangements that could support the Facility. This could include establishment of Technical Working Groups for engagement areas of the Facility to provide advice on the design and implementation of specific activities.

Technical Working Groups could focus on providing technical support to particular activities undertaken by the Facility, as opposed to the strategic direction and operations of Facility as a whole which is the responsibility of the Steering Committee. Technical Working Groups could also serve as an entry point into the Facility for government departments and organisations who are not part of the Steering Committee.

The managing contractor will propose, for DFAT's approval, the membership and operations of the Technical Working Groups or other additional arrangements. Membership can be drawn from Philippine and Australian government departments, local think tanks, private sector including not for profit sector and international experts. People with a disability and their representative organisations could be members of the Technical Working Groups related to engagement area 3. Due to the Facility's emphasis on inclusive economic growth, representation in the Technical Working Groups of specialist in gender, social inclusion, poverty and microeconomics should be considered.

If Technical Working Groups or similar additional arrangements are established, the managing contractor will facilitate their work including providing secretariat services.

Additional Arrangements - Yearly High Level Forum

The managing contractor will explore the feasibility and propose, for DFAT's consideration, participants and operations of a Yearly High Level Forum. A Yearly High Level Forum may provide the Facility a vehicle to engage with a broad range of key stakeholders, both in Australia and the Philippines, to discuss trade and inclusive economic growth issues impacting on the Philippines. Participants of the forum could

include all members of the Steering Committee, Technical Working Groups (if any), activity implementers, Australian whole of government partners (e.g. Austrade, Standards Australia, Australian Centre for International Agricultural Research, if relevant), Philippine government agencies, academics, non-government organisations, the private sector and other stakeholders who have an interest in trade and inclusive economic growth of the Philippines. The Yearly High Level Forum could help the Facility reach out to Philippine government departments that are not on the Steering Committee to ensure that they are aware and supportive of the Facility. The high level forum could coincide with meetings of the Facility Steering Committee and inform the development of the Facility's annual work plan.

DFAT Management Arrangements

DFAT's Economic Section in Manila will oversee implementation of the Facility and an officer at the Australian Embassy will be nominated as the primary point of contact for the managing contractor.

As a key function of the Facility is to provide flexible and responsive assistance, DFAT can direct the managing contractor to design and implement specific activities, which will be added to the annual work plan. The Economic Section of the Australian Embassy in Manila will:

- lead relationship management with the Government of the Philippines;
- provide strategic guidance and operational oversight of the Facility;
- be the primary point of contact between the managing contractor and the Australian Government;
- monitor the Facility's compliance with DFAT's policies in relation to safeguards, risk, fraud, etc.; and
- manage DFAT's contract with the managing contractor (and arrange for finances, payments, etc.).

Regular meetings between the managing contractor and the Economic Section will be necessary (e.g. once every two weeks).

Managing Contractor

The managing contractor's indicative responsibilities include:

Facility Set-Up (The First Six Months)
Develop a <i>Facility Set-Up Plan</i> to guide the set-up of the Facility.
Establish the national office in Manila.
Recruit key personnel.
Develop Facility principles/ selection criteria for selecting activities, to be included in an operations manual.
Draft a Facility operations manual which includes: Facility steering mechanism and organisational structure, facility operations, activity programming guide, facility monitoring and evaluation plan, gender and social inclusion strategy, security and disaster management plan, etc.
Support establishment of the Steering Committee and Technical Working Groups (if any). Facilitate the convening of the first Steering Committee.
Establish a feedback process to ensure that the Facility responds to changes in context – a yearly review and redesign process.
Design start-up activities.
Implementation
Recommend and design, in collaboration with DFAT, activities under each of the five areas of engagement.
Managing contractor provides: design and implement services (mode 1); oversight services (mode 2); or advisory services (mode 3).
Report annually on all activities and on the Facility's financial, management and overall effectiveness (i.e. prepare a Facility annual report).
Twice per year, develop rolling annual work plans identifying opportunities for investment (activities) and identifying risks associated with activities and the Facility as a whole. These annual work plans will identify interventions for approval by DFAT and be endorsed by the Steering Committee.
Provide strategic advice and analysis to Australia and the Philippines through the Facility Steering Committee.
Provide secretariat services to the Steering Committee and Technical Working Groups (if any).
Disburse funding to relevant third-party implementing partners and oversee activities as necessary.

Ensure that activities meet Australian Aid Program's compliance obligations, including those related to managing risk, work, health and safety, safeguards, fraud, etc.
Keep DFAT apprised of policy developments and management of the Facility through regular meetings.
Provide corporate services, including on human resources, procurement, finance, logistics/fleet management, financial audit and risk and information technology.
Public diplomacy.

Staffing

The managing contractor must outline a staffing and management structure, with an emphasis on a cost effective, responsive and flexible facility. It is expected that both full-time and non-full-time staffing arrangements will be required. The managing contractor will hire all personnel.

Full-time positions could for example relate to key Facility personnel including: a director, deputy director, team leaders/technical lead, gender specialist, monitoring and evaluation specialist, activity design specialist, and public diplomacy and administration staff.

Tenderers for the managing contractor position must submit the details of people who will occupy key positions in the Facility.

- Facility Director
- Operations Manager / Deputy Director
- 3 x Team Leaders (Trade and Economics; Inclusive Growth and Gender; and Organisational Capacity Development).

Given the emphasis on flexibility and responsiveness, the Facility must be able to recruit specialist/technical assistance personnel, sourced from the Philippines or internationally, quickly to design and implement activities including for short and long durations. Examples of specialists whose services maybe required on a non-ongoing basis include: trade negotiation, competition policy, private sector development, social protection and human resource and organisational development.

Facility Set-up: Inception Period

The managing contractor will provide DFAT with a *Facility Set-Up Plan* describing the tasks required in the early stages of implementation of the Facility and deadlines for completion. During the set-up period the managing contractor will:

- set up the Facility based on this framework. This includes preparing the Facility operations manual and its component parts (including facility principles/criteria for aid investments, activity programming guide, terms of reference of the Steering Committee, safeguards screening, etc.) and the first annual work plan;
- hire key staff and personnel of the Facility; and
- begin the process of designing, investigating and/or providing advisory services for Facility activities highlighted in this framework paper. This will require substantial engagement with the Government of the Philippines and the Australian Embassy Manila, and compliance with DFAT's safeguards and other requirements as set out in this Framework paper.

The managing contractor will work closely with the Australian Embassy Manila during the set-up period and will prepare a *Facility Set-Up Report* that details progress against the *Facility Set-Up Plan* for DFAT's review. This will allow for early intervention if Facility set-up is slow and deviates from the *Facility Set-Up Plan*.

Use of Partner Government Systems

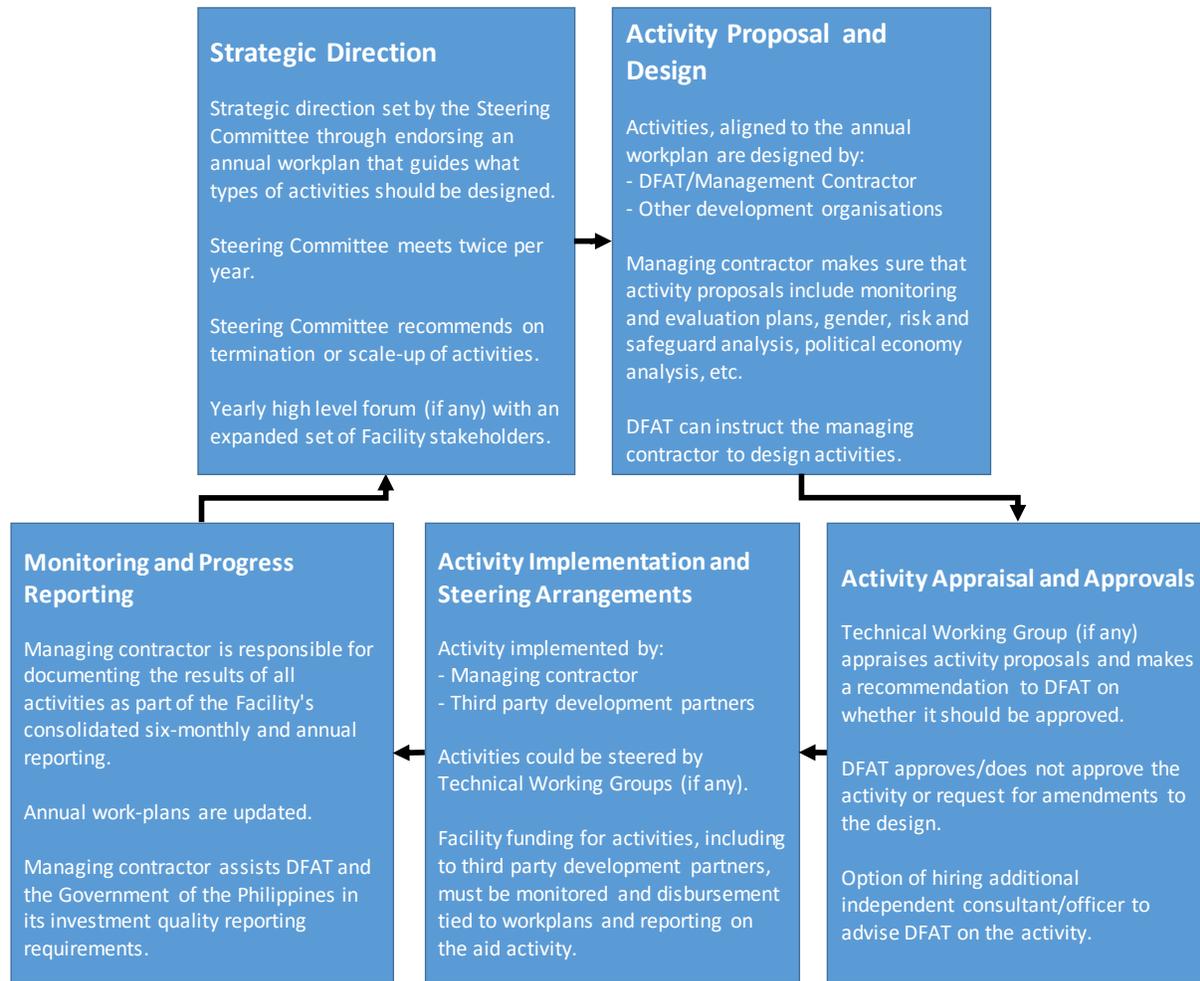
Through mode 3, the Facility may provide advisory services and monitor activities where DFAT has a direct funding agreement with a Philippine government partner. Currently DFAT has a direct funding arrangement with the Department of Social Welfare and Development for social protection activities. During the set-up phase of the Facility, the managing contractor will develop *Using Partner Government Systems Guidelines*, to be inserted into the *Facility Operations Manual*. The guidelines will be consistent

with DFAT's *Managing Activities That Use Partner Government Systems - Guideline (October 2016)* and *the Background Note: Rationale for Working in and through Partner Government Systems (March 2016)*, and consider:

- fiduciary risk assessment of Philippine government departments, with recommended risk mitigation measures incorporated into activity designs;
- conditions before payments are processed (e.g. linked to workplans, progress reports, achievement of agreed outputs/outcomes etc.);
- what funds can and can't be used for (e.g. not for recurrent administrative costs);
- financial audits (e.g. annual audits either by the Commission of Audit or an independent auditor);
- risk management/monitoring and mitigation against fraud and corruption (e.g. joint quarterly reviews, periodic updates of assessment of national systems and departmental assessments);
- review and progress reporting of activities;
- procurements (e.g. responsibility and auditing arrangements);
- program accounts and records (e.g. Philippine government must maintain sound administrative and financial systems capable of verifying all acquittal statements, keep proper and detailed accounts, records and assets, and grant access to DFAT and its authorised representatives to records);
- capacity development support;
- governance arrangements; and
- responsibilities of DFAT and the managing contractor.

Activity Programming

The Facility's activity programming (activity cycle including design, approvals, implementation and reporting) must be adaptive, allowing it to respond quickly to development opportunities and priorities of the Philippine and Australian governments, and continuously monitor progress and improve efficacy. The managing contractor will develop and implement this adaptive programming approach. The diagram overleaf describes how adaptive activity programming could work based on rolling annual work plans:



Strategic Direction

The Steering Committee sets the strategic direction of the Facility by proposing changes and endorsing annual workplans, which have been drafted by the managing contractor and approved by DFAT before submission to the Steering Committee. This annual workplan, informed by the Facility's principles/selection criteria for investment and progress reporting, outlines activities that the Facility will support over the next year. The Steering Committee will meet twice per year.

Also to be considered by the managing contractor is the value of a yearly high level forum to reach out to other key stakeholders of the Facility who are not members of the Steering Committee. This forum can help garner broad feedback on results, assist in identifying development opportunities and help the Steering Committee decide on the future strategic direction of the Facility.

Activity Proposal and Design

The managing contractor either designs activities agreed in the annual workplan or seeks proposals from third party development partners. The managing contractor actively engages with key stakeholders to ensure that the managing contractor is in a position to recommend activities to DFAT. It is the managing contractor's responsibility to ensure that final activity proposals are of a high quality and meet DFAT's requirements related to gender and political economy analysis, risk, safeguards, monitoring and progress reporting, etc. This may require the managing contractor to provide activity design support to third party development partners. The managing contractor may also have to undertake due diligence/fiduciary risk assessment of third party development partners.

Activity Appraisal and Approvals

The managing contractor supports Technical Working Groups (if any) to appraise proposals and provide a recommendation on whether it should be approved. The Steering Committee may endorse a work plan and suggest activities for implementation. The decision on whether or not to fund a particular activity rests with DFAT.

In addition to considering the use of Technical Working Groups, the managing contractor should consider the value of independent consultants, or DFAT officers not involved in Australia's aid program to the Philippines, to advise DFAT on the decision to approve or not. These individuals can help provide an objective perspective and an additional layer of quality assurance to the approvals process.

Activity Implementation and Steering Arrangements

Activities are either implemented by the managing contractor (through mobilisation and management of skilled personnel) or a third party (multilateral development partner, non-government organisation, private sector, Philippine government department, etc.).

Individual activities could be steered by Technical Working Groups or another mechanism suggested by the managing contractor.

Facility funding for activities, including to third party development partners, must be monitored and disbursement tied to work plans and reporting on the activity.

Monitoring and Progress Reporting

The managing contractor must report on all activities that the Facility supports, including on finances, management, risk, outputs and outcomes. A consolidated Facility progress report should be provided to DFAT and the Steering Committee every six months, including more substantial/in-depth annual reports which will include financial audits. The progress/annual reports must detail progress against the Facility's goal/outcomes and the Steering Committee's annual work plan.

Based on the progress/annual reports, the Steering Committee can recommend the termination or scale-up activities, and/or recommend that the managing contractor design complementary activities. The managing contractor will update the Facility's annual workplans based on the progress/annual reports.

DFAT and the Government of the Philippines have investment reporting requirements including yearly Aid Quality Checks, Annual Program Performance Reporting, Official Development Assistance Portfolio Reviews, and Gender and Development Results. The managing contractor will contribute material for the drafting of these and other reports. In addition, the managing contractor will cooperate with authors of the independent impact evaluations of the Facility in years 3 and 8.

Yearly Review and Redesign

The managing contractor will establish and facilitate a yearly process of review and redesign to ensure that the Facility is responding to the changing context. This will be a whole of Facility process, where consideration is given to relevance and utility of engagement areas, progress towards end of program outcomes, quality and impact of relationships, efficiency and effectiveness of facility steering mechanism and operations, and other key issues. The review and redesign process will involve the management teams of both the managing contractor and DFAT, and may draw on Philippine expertise (e.g. from government, civil society, etc.). The yearly review and redesign process will be timed so that findings and recommendations can be provided to the Steering Committee for endorsement and reported in the Facility Annual Report.

3.2 Monitoring and Evaluation

Monitoring and evaluation of results will occur at the both the Facility level, and the activity level. The managing contractor will also undertake a yearly operational performance assessment of the entire Facility.

Monitoring and Evaluation – Facility Goal/Outcomes

The managing contractor will develop a framework to measure progress towards the Facility’s articulated goal and agreed outcomes. An indicative framework is provided below. The indicative framework emphasises the importance of disaggregating results so that the impact on beneficiaries, especially vulnerable communities and women, can be understood. This framework will be tested and reviewed by the managing contractor (i.e. living document). The outcomes noted in this document are indicative. During the start-up phase, the managing contractor will refine these outcomes and indicators.

Indicative Facility Monitoring and Evaluation Framework

Goal / Indicative Outcomes	Recommended Indicators	Examples of activities that can contribute to the goal/outcome
Goal - To support the Philippines in building the foundations for sustained and inclusive economic growth	Suggested for monitoring - <ul style="list-style-type: none"> Economic growth indicators; and National poverty reduction indicators. 	Ex-ante assessment of economic reform - <ul style="list-style-type: none"> Free-trade agreements (EA1) National Quality Infrastructure (EA1) Foreign investment policy (EA1) Trade facilitation (EA1) Professional services (EA1) Competition policy (EA2) Simplifying steps to register a business (EA2) Deregulation (EA2) Conditional Cash Transfers / Social Protection (EA3) Labour market reform (EA3)
Outcome 1 - Reduced barriers to selected trade and investment flows	Suggested measures include - <ul style="list-style-type: none"> Trade and investment indicators, of the product/service targeted by the Facility’s activities. 	Ex-post assessment of Facility activities - <ul style="list-style-type: none"> National Quality Infrastructure (EA1) Foreign investment policy (EA1) Professional services (EA1) Micro and small enterprise development (EA3) Ex-ante assessments of Facility activities - <ul style="list-style-type: none"> Free-trade agreements (EA1) Trade facilitation (EA1) Competition policy (EA2)
Outcome 2 - Reduced cost of doing business and an improved business environment.	Suggested measures include - Reduced cost of: <ul style="list-style-type: none"> starting a business; exporting; importing; and positive changes in other ease of doing business indicators. 	Ex-post assessment of Facility activities - <ul style="list-style-type: none"> National Quality Infrastructure (EA1) Trade facilitation (EA1) Simplifying steps to register a business (EA2) Ex-ante assessment of economic reform - <ul style="list-style-type: none"> Deregulation (EA2)
Outcome 3 - Empowerment of women and poor and vulnerable communities through improved participation in the economy	Suggested measures include - positive changes in economic participation indicators, of people and vulnerable communities who have directly benefited from the Facility’s activities: <ul style="list-style-type: none"> jobs/decent employment⁴⁴ (disaggregated by formal/informal job if possible); household incomes; and number of people lifted out of poverty. (Note: Disaggregation of the indicators above by the type of vulnerable community, sex, age and disability, if possible)	Ex-post assessment of Facility activities - <ul style="list-style-type: none"> Conditional Cash Transfers / Social Protection (EA3) Women’s economic empowerment (EA3) Micro and small enterprise development (EA3) Ex-ante assessment of Facility activities - <ul style="list-style-type: none"> Free-trade agreements (EA1) National Quality Infrastructure (EA1) Trade facilitation (EA1) Competition policy (EA2) Labour market reform (EA3)

	<p>Entrepreneurs assisted (note: disaggregation by those that are women-led).</p> <p>Consider indicators/proxies for the cost of living.</p>	
<p>Outcome 4 - Stronger government institutions that can better design and implement policy and provide services</p>	<p>Suggested measures include -</p> <ul style="list-style-type: none"> • Policy delivery indicator; • Service delivery indicator; • Public financial management indicator; and • Human resource indicator. • Organisational development indicator 	<p>Ex-post assessment of Facility activities -</p> <ul style="list-style-type: none"> • Strengthening government institutions (EA5)

Activity Level Monitoring and Evaluation

The managing contractor will also monitor progress and report on results of each activity. Activity designs will include their own monitoring and evaluation plans. Monitoring and evaluation plans will generate data to support Facility reporting on:

- progress and results of activities; and
- the degree to which the Facility’s goal/outcomes are being incrementally achieved.

The managing contractor will ensure that activity designs and associated monitoring and evaluation plans foster a clear line of sight between the activity and the Facility’s goal/outcomes. The managing contractor will ensure that activities are designed so that they are able to be evaluated, and results can be disaggregated wherever possible. Transparency and replicability is emphasised in activity level monitoring and evaluation.

Ex-ante assessments of activities, especially those related to economic regulatory reform, are a useful tool to help understand the impact of activities as they can narrate the importance of addressing constraints to growth for poverty reduction, and where ex-post assessments would be too difficult/costly.

The Managing Contractor’s Role

The managing contractor will support the monitoring and evaluation of all Facility activities:

- Where the managing contractor is the activity implementer, it will arrange for Facility staff or contracted technical assistance personnel to self-report in accordance with DFAT’s monitoring and evaluation requirements. DFAT may also require that independent evaluations be undertaken.
- Where a third party implements the activity, relevant reports will be provided to the managing contractor. The managing contractor may need to help the third party improve their ability to monitor and evaluate. The managing contractor will not be responsible for the results, but the quality of the reporting. The managing contractor will also contract independent consultants to evaluate results, if requested by DFAT.

Operational Performance Assessment of the Facility

The managing contractor will report yearly on the operational performance of the Facility. A performance framework including indicators will be agreed with the managing contractor. The list below is a guide and articulates key operational issues for the managing contractor, and is obtained from DFAT’s *Partner Performance Assessment* reporting requirements:

- Results focused and delivered on time, ensuring deliverables are of high quality, accurate and meet the defined requirements;
- Undertakes sound monitoring and progress reporting that includes quantitative and qualitative evidence of progress against goal/outcomes;
- Promotes sustainability and where applicable, is prepared for transition in/out of the activity;
- Committed to eliminating inefficiency and duplication and applying lessons learnt to enhance value for money;
- Delivers defined services within budget (predicted budgets compare well to actual expenditure);

- Scrutinises costs to pursue the most cost-effective options and considers proportionality in planning/allocating resources;
- Robust systems and procedures in place to monitor and manage value for money during implementation;
- Communicates effectively with stakeholders and counterparts (including partner government, other donors, private sector, communities and beneficiaries as appropriate), works collaboratively, builds effective relationships and ensures DFAT is consulted on key developments and emerging issues;
- Demonstrates appropriate flexibility and responsiveness to DFAT requests and addresses problems/issues openly and constructively;
- Takes appropriate account of DFAT policies including on child protection, environmental and resettlement safeguards, gender equality and disability inclusive development;
- Has effective systems for identifying, managing and reporting risk, fraud and corruption and informs DFAT of risks/issues that may adversely affect timing, cost or quality of services as agreed;
- Partner follows branding guidelines, including use of the DFAT crest and Australian Aid Identifier, and promotes the visibility of Australian Government funded aid investments as appropriate;
- Partner proposes and implements innovative development approaches (e.g. results-based aid; trialling/adapting new technologies), leveraging new partnerships/sources of finance, whilst mitigating associated risks;
- Senior personnel demonstrate effective leadership and management, achieve results against agreed responsibilities and communicate effectively; and
- Head/Regional Office provides effective support and oversight to the in-country team;
- Recruitment and management of staff is conducted in a timely and professional manner and DFAT has been alerted to any recruitment/staffing issues.

Monitoring and Evaluation System

During the set-up period, the managing contractor will be required to develop a comprehensive system that will deliver on the reporting of: Facility goal/outcomes; activity results; and operational performance assessment of the Facility. The managing contractor will produce six-monthly and annual report on these areas.

The managing contractor may propose innovative monitoring and evaluation tools which suit the adaptive programming approach of the Facility. The use of surveys (e.g. satisfaction, perception, knowledge attitudes and practices, etc.) reviews (government relationship, internal, etc.), and external spot-checks should be considered.

The managing contractor will establish baseline data against which results will be measured. Baseline information will describe the current status of the problem that the Facility seeks to address. Where baseline data are not available from existing sources, the managing contractor will establish the baseline.

In developing the monitoring and evaluation system, the managing contractor should be conscious of DFAT's reporting obligations including yearly aid quality checks and partner performance assessments due in the first quarter of each calendar year. The Facility will also be subject to independent mid-term (in year 3) and final (in year 8) evaluations. The monitoring and evaluation system will be documented in *Monitoring and Evaluation Plan*, to be inserted into the *Facility Operations Manual*.

3.3 Politically Smart Development

The Facility will deliver technical assistance based on good political analysis and incorporate political economy considerations in key aspects of the activity cycle. This includes early political economy analysis in the design of each activity to determine the probability of success, mapping institutional arrangements, recognising key stakeholders who are impacted by the reform, and identifying people who may act as champions, brokers, facilitators or organisers. The scale of the political economy analysis will be dependent on the activity. Political economy analysis will also extend to:

- activity appraisals and approvals - guide the decision of DFAT where to approve the activity;

- activity implementation and steering arrangements - regular “check-ins” between DFAT, the managing contractor and other development partners about the status of activities and political barriers to implementation;
- monitoring, review and progress reporting - take stock of lessons learnt and to document changes to the political environment; and
- strategic direction - guide discussions and frame the longer-term priorities and direction of the Facility.

3.4 Sustainability

Sustainability is central to Australia’s aid program and a key outcome sought by the Facility. The Facility’s activities will build the foundations for sustained inclusive growth. Australian support will catalyse reforms, assist policy formulation, and support Philippine government efforts to improve the quality of its own programs including through better planning and managing its budget. The Facility will also improve the human resource, organisational development, and public financial management capabilities of Philippine government agencies.

A range of factors however affect the sustainability of the Facility’s activities. These include:

- persistent skill gaps in Philippine government agencies requiring ongoing provision of technical assistance. The Facility will need to clearly identify capacity development requirements and ensure appropriate phasing of assistance, to minimise the need for ongoing support;
- contraction in Philippine government budgets. The Facility will need to pay attention to the public financial management systems and processes of Philippine government departments, to ensure they support the Facility’s interventions.
- political instability, social unrest and other unforeseen events which impact the delivery of outcomes. The Facility’s flexibility allows for a scaling-up or scaling-down of activities in response to political and social unrest. Design and implementation of activities will be underpinned by ongoing political economy analysis.
- high staff turnover in Philippine government departments can affect capacity building in government agencies. There will be a focus on improving human resource and organisational systems rather than only building the capabilities of selected staff.

3.5 Gender and Social Inclusion

A key outcome of the Facility is to improve participation in the economy by women and poor and vulnerable communities. To achieve this outcome, the Facility will adopt a two-pronged approach:

1. the design of each activity will consider how poor and vulnerable groups, and especially women, can be economically empowered (i.e. social inclusion as a cross-cutting issue) and will ensure, wherever possible, poor and vulnerable people directly benefit from activities undertaken by the Facility; and
2. the Facility will also design specific activities, to be implemented under EA3, with the principal objective of economically empowering women and other vulnerable groups. Specifically, the Facility in collaboration with DFAT’s Investing in Women Initiative, will design and implement a women’s economic empowerment activity. Within this approach, it is important to note how disadvantage, vulnerability and discrimination on the basis of gender, sexual orientation, disability, ethnicity and other markers can intersect.

In regards to OECD’s Development Assistance Committee gender equality policy marker, the Facility will be marked 1: gender equality is a significant objective of this investment.

The managing contractor is expected to draft a *Gender and Social Inclusion Strategy* during the set-up period of the Facility, to be incorporated in the Facility’s *Operations Manual*. The managing contractor should propose innovative activities to implement the *Gender and Social Inclusion Strategy*. The managing contractor is expected to engage appropriately skilled gender and social inclusion experts to help design, implement and evaluate activities.

Throughout this framework paper, strong guidance has been provided on the importance of women's empowerment including in - defining the outcomes of the Facility; activity design (gender and social inclusion analysis); emphasising opportunities in activities including aid for trade, MSMEs development and public financial management; the design and implementation of a flagship women's economic empowerment activity; stressing collaboration with Australia's investing in women's initiative; monitoring and evaluation (disaggregation of results by gender and to subsequently measure empowerment); articulation of Australia's value add; and risk analysis. All these issues should be reflected in the Facility's operational and reporting documents.

Monitoring and evaluation at both the Facility and activity levels should collect and analyse disability disaggregated data using the Washington Group questions wherever possible. This will provide information on the extent to which people with disabilities are able to access or benefit from the Facility.

3.6 Private Sector

The Facility will support Australia's goal of private sector development to "grow the size and inclusiveness of the private sector in our partner countries to drive economic growth and reduce poverty."⁴⁵ The *Strategy for Australia's Aid Investments in Private Sector Development* sets out three priority objectives:

1. building better business and investment environments: the Facility will consider activities related to doing business, competition policy, deregulation, foreign investment and trade facilitation. The Facility will engage with business to understand key constraints to private sector growth.
2. supporting growth in specific markets: the National Quality Infrastructure activity will consider providing technical assistance across a particular value chain (e.g. cacao). The Facility will also consider providing assistance to support micro and small-medium sized enterprise growth.
3. maximising the development impact of businesses: the Facility will consider providing grants to the private sector for activities that help achieve the Facility's goal/outcomes, noting considerations of:
 - additionality - public funds will not finance activities that a business or commercial financier would have financed without intervention.
 - neutrality - collaboration with DFAT will not provide one business with an unfair advantage over its competitors.
 - sustainability - collaboration should have lasting development impacts, ideally through long-term commercial viability for the business.
 - safeguards - partnerships will be subject to the same safeguards that apply to all DFAT investments.

The managing contractor will be required to identify appropriate private sector partners and entry points when designing activities.

3.7 Risk Assessment and Management

Using DFAT's risk assessment matrix and safeguard screening checklist, the Facility is assessed as a low risk investment due to its technical assistance nature. Issues and mitigation measures highlighted by the risk assessment include:

- vested interests impede economic reform - to manage this, planning of Facility activities will be informed by a political economy analysis. The Facility will pursue politically smart development (see Politically Smart Development section above).
- gender and social inclusion is treated as a peripheral issue - to manage this, activity designs and monitoring and evaluation frameworks will be informed by gender and social inclusion analysis. The Facility will implement activities in which the principal objective is to empower women and other poor and vulnerable communities.
- shifts in Philippine government priorities - to manage this DFAT and the managing contractor will ensure that the Facility can adapt through its iterative annual plan process. DFAT and the managing

contractor will also develop a close working relationship with the Government of the Philippines. Key departments are represented in the Facility's Steering Committee.

- a disparate range of activities might be funded which in totality lacks coherence (fragmentation) - to manage this the program will increase coherence by designing key aid interventions to complement smaller value activities. Through proactive management and adaptive programming, DFAT and the managing contractor will actively monitor progress, build the knowledge base, and incrementally improve the effectiveness of activities' contribution to the Facility's goal/outcomes.
- lack of Philippine government buy-in - to manage this DFAT will consult early with the Department of Trade and Industry, National Economic Development Authority and Department of Social Welfare and Development. Other relevant departments could be included in the Facility Steering Committee.
- Regional or global downturn in the economy might reduce the development dividends from these economic growth investments - to manage this the pace and scale of our activities will be determined progressively, responding to the opportunities and economic environment, including to assist in times of slow economic growth/recessions.
- DFAT safeguard requirements are not met leading to fraud, negative impacts on the environment, displacement and resettlement of communities, or decreased welfare of children - to manage this, as a general rule, the Facility's activities will not directly involve work with children, displacement and resettlement of people, or detrimental impacts on the environment. The managing contractor will develop a screening protocol to assess all activities at the proposal stage to determine its safeguard risk. If DFAT decides to fund an activity with a medium/high safeguard risk, these activities must be subject to a higher monitoring protocol to ensure that all of DFAT's safeguards requirements are met.

How we will identify and mitigate risks

Risk assessment and mitigation will be conducted at both the Facility level and the activity level. The managing contractor must:

- identify and notify DFAT of emerging risks and propose mitigation strategies on an ongoing basis;
- prepare and maintain a comprehensive Facility risk register which contemplates Facility risks, set-up risks, value for money risks, and financial management and fraud risks amongst others;
- provide regular updates to DFAT and update the Facility risk register;
- prepare a separate dedicated risk matrix for each activity (activity level risk management);
- develop a *Risk Management Plan including Safeguard Screening and Monitoring Protocols* to be inserted in the *Facility Operations Manual*, which describes processes for:
 - risk identification and mitigation;
 - updating the Facility risk register;
 - safeguards risk assessments for use in screening all activities at proposal stage (i.e. using safeguards checklists);
 - safeguards monitoring for use throughout activity implementation; and
 - assessing proposals and activity partners (selection criteria and due diligence assessments);
 - advance notification of DFAT of risks that may lead to disruption or delay to achievement of the Facility goal/outcomes.
- use ongoing political economy analysis throughout activity design and implementation to identify and mitigate risks, consistent with the Facility's politically smart development approach.

3.8 Safeguards

Child Protection

It is possible that managing contractor staff and technical assistance personnel will come into contact with children or minors while implementing activities, or that children may be affected by the Facility. DFAT does not tolerate child exploitation and abuse. DFAT has mandatory child protection compliance standards to ensure that contractors understand and act on their obligations for managing risks to children:

1. The organisation has a child protection policy that applies to all personnel, partners and subcontractors that are engaged by a contractor or civil society organisation to perform any part of a DFAT-funded activity;
2. The organisation has robust recruitment screening processes for all personnel in contact with children;
3. The organisation's child protection policy includes a documented reporting procedure for child exploitation and abuse allegations and policy non-compliance, including available sanctions for breaches;
4. The organisation provides child protection training for personnel;
5. The organisation has a child protection code of conduct that meets the minimum standard set by DFAT;
6. The organisation's child protection policy commits it to preventing a person from working with children if they pose an unacceptable risk to children;
7. The organisation's employment contracts contain provisions for dismissal, suspension or transfer to other duties for any employee who breaches the child protection code of conduct;
8. The organisation's child protection policy is subject to regular review - at least every five years or earlier if warranted;
9. The organisation undertakes a risk assessment that covers all DFAT-funded activities that have contact with children. The assessment should identify risks, classify any high risk activities, and document steps being taken to reduce or remove these risks.

All contractors are expected to immediately notify DFAT's Child Protection Compliance Section if any DFAT-funded personnel, or DFAT partner personnel, are accused of, charged with, arrested for, or convicted of criminal offences relating to child exploitation and abuse.

It is noted that there are more risks to children than just personnel; DFAT recognises that many of the risks to children are the result of unintended consequences which occur during activity design or implementation.

The managing contractor will develop a clear, unambiguous *Risk Management Plan including Safeguard Screening and Monitoring Protocols – Child Protection Policy*, to be included in the *Facility Operations Manual*, which aligns with DFAT policy (*DFAT Child Protection Policy January 2017*; and *Guidance Note Establishing Child Protection Risk Context September 2016*) and the law. We will consider child protection issues in the design of all activities across all areas of engagement to ensure that boys and girls, particularly those from disadvantaged sectors, will not be adversely impacted by the activities supported by the Facility. This includes for social protection activities where the focus of the intervention is focussed on the households which include children. The design of each activity will consider how boys and girls will be impacted by the activity and attempt to address those risks during design and implementation. The child protection policy will include protocols for the management of activities which attract risks to children. The managing contractor will need to ensure activities are rigorously reviewed and mitigate risks to children in the activities supported by the Facility. DFAT may require engagement of a specialist child protection consultant to undertake child protection risk assessments and develop appropriate risk mitigation measures for the Facility from time to time.

Environment

DFAT affirms that sustainable management and conservation of the environment is a cornerstone of long-term economic growth and social development. It is essential that the Facility protects the environment

and promotes ecologically sustainable development as required under the *Environment Protection and Biodiversity Conservation Act, 1999*.

As a general rule, the Facility will not support activities that directly leads to an undue detrimental impact on the environment. To mitigate this safeguard risk, the managing contractor will develop a *Risk Management Plan including Safeguard Screening and Monitoring Protocols - Environment* to screen Facility activities prior to approval (e.g. strategic environmental assessment), to ensure that all of DFAT's environment requirements are met.

It is recognised that some of the Facility's activities, especially those related to agriculture and value chains, may have high environmental impact risk. The managing contractor must develop protocols to outline how activities will be monitored and managed, and if a higher level of monitoring and management is required for activities where environment risks are identified as medium/high. *Risk Management Plan including Safeguard Screening and Monitoring Protocols – Environment* will be inserted into the Facility's *Operational Manual*. In drafting the *Risk Management Plan including Safeguard Screening and Monitoring Protocols – Environment*, the managing contractor must consult with DFAT's Environmental and Safeguards Section and refer to DFAT's *Environment Protection Principle 2: Assess and manage environmental risks and impacts (March 2016)*. The managing contractor will also train Facility staff and technical assistance personnel on environmental issues. The managing contractor will also ensure that for service, repair or replacement of vehicles or other items (e.g. printers, batteries and information technology equipment), appropriate practices are followed to minimise any damage to the environment.

Displacement and Resettlement

As a general rule, the Facility will not support activities that directly lead to displacement and resettlement of communities. To mitigate this safeguard risk, the managing contractor will develop *Risk Management Plan including Safeguard Screening and Monitoring Protocols - Displacement and Resettlement* to screen Facility activities prior to approval, to ensure that all of DFAT's displacement and resettlement requirements are met. Protocols will need to outline how activities will be monitored and managed, and if a higher level of monitoring and management is required for activities where displacement and resettlement risks are identified as medium/high. *Risk Management Plan including Safeguard Screening and Monitoring Protocols – Displacement and Resettlement* will be inserted into the *Facility's Operational Manual*. In drafting the *Risk Management Plan including Safeguard Screening and Monitoring Protocols – Displacement and Resettlement*, the managing contractor must refer to DFAT's *Displacement and Resettlement of People in Development Activities – the Policy (July 2015)*. The managing contractor will also train Facility staff and technical assistance personnel on displacement and resettlement issues.

3.9 Due Diligence (including Fiduciary Risk Assessments)

The managing contractor will be required to undertake due diligence assessments of all third party development partners to identify and assess implementing partner risk prior to the managing contractor/DFAT entering into an agreement and providing funding support under the Facility. Due diligence assessment will provide confidence to DFAT that the third party development partner is able to deliver the activity effectively and efficiently.

The managing contract will develop a *Due Diligence Process* to ensure that all of DFAT's due diligence requirements are met. *Due Diligence Process* will be inserted into the *Facility's Operational Manual* and the managing contractor must refer to DFAT's *Due Diligence Operational Procedures (February 2017)* in drafting the process. A risk based approach will be used to determine the extent that a due diligence assessment is conducted (e.g. baseline or comprehensive assessment) and generally there will be more focus on new partners or where the risk of using an existing partner has significantly changed. Due diligence assessments may cover organisational capacity (including fiduciary risk assessment), risk management, safeguards and policy requirements (e.g. disability, branding, etc).

3.10 Fraud, Sanctions and Counter-terrorism

The managing contractor will put in place systems and processes that guard against fraud, nepotism and corruption, including:

- transparent processes for the selection of activity implementers;
- screening of activity implementers prior to funding approval;
- robust management and tracking of funds;
- clear financial operating procedures that promote and take a 'zero tolerance' position on fraud;
- compliance with the DFAT financial management, fraud control and accountability requirements;
- an annual independent financial audit of the Facility and its project management systems;
- providing access to DFAT, at any time, to financial management information and expenditure summaries of the Facility through a password-protected web-based portal; and
- regularly updating the Facility's risk register.

The managing contractor will also put in place systems and processes that ensures that none of the Facility's funds are used, directly or indirectly, to provide support to individuals or entities associated with terrorism or listed under United Nations or Australian Autonomous Sanctions. Processes will likely include screening of activity implementers before funding is provided, and regular monitoring. The managing contractor must inform DFAT immediately if, during the course of the Facility's implementation, it suspects that funds or any other material benefits have been used directly or indirectly to support terrorism or terrorists, or individuals or entities listed under United Nations or Australian Autonomous Sanctions.

For activities implemented in conflicted affected regions of the Philippine, including Mindanao, the managing contractor will follow the risk management process at Annex C.

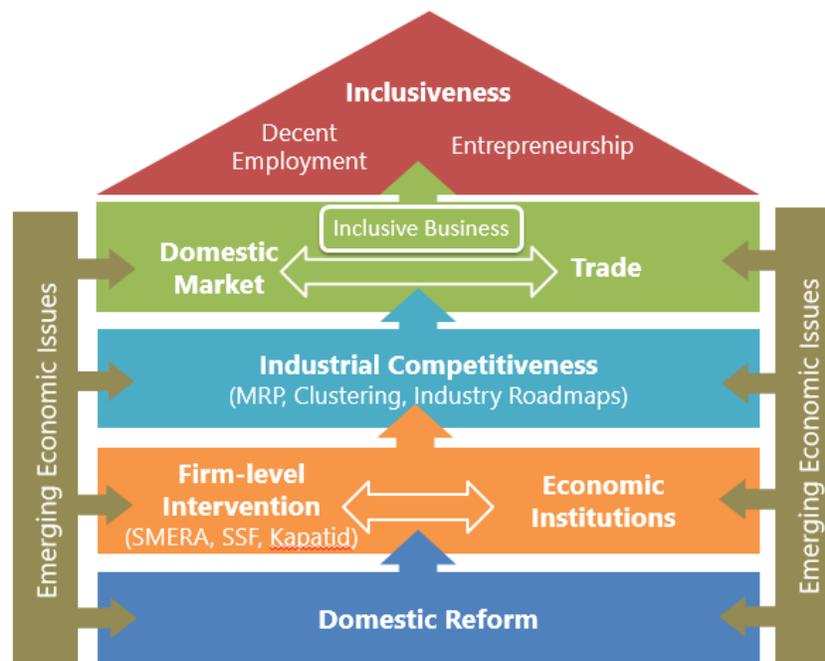
The managing contractor's systems and process to protect against fraud and terrorism will be documented in a *Fraud, Sanctions and Counter-Terrorism Protocols*, to be inserted into the *Facility's Operations Manual*.

3.11 Security and Disaster Management

Facility activities may be conducted in conflict affected regions of the Philippines including Mindanao. Likewise activities may also be impacted by natural disasters. The managing contractor must develop a *Security and Disaster Management Plan* to be inserted into the Facility's Operations Manual. The Plan must ensure the safety and security of Facility staff and technical assistance personnel including when they travel to conflict affected areas to implement the Facility's activities, and ensure business continuity of the Facility's activities. The Disaster Management Plan should incorporate prevention strategies and response plans, including evacuation plans where appropriate. The managing contractor must review and update the *Security and Disaster Management Plan* to ensure that it is up to date, brief all personnel and conduct regular emergency drills. The plan must also comply with relevant DFAT and the Australian Embassy's policies and protocols.

Annex A – Philippine Department of Trade and Industry’s Framework for Inclusivity: A Guide for Development Partner Engagement

In line with the current administration’s zero to ten-point socio-economic agenda, the Department of Trade and Industry (DTI) focuses its initiatives on a two-pronged strategy of (1) creating decent employment and (2) encouraging entrepreneurship to ultimately achieve “inclusiveness”, allowing the effects of the country’s continued strong economic performance to benefit all, especially the Micro, Small, and Medium Enterprises (MSMEs).



With this, the Department aims to harmonize its activities across sectors and levels. Towards this end, the Department seeks to engage in meaningful initiatives with development partners in addressing gaps in its current activities. The Department continuously works towards a seamless connectivity between projects, regardless of with whom we undertake these, to align into the Department’s overarching framework of inclusivity through decent employment and entrepreneurship, ensuring that the Department gets the needed assistance from the right development partners.

In order to effectively address economic growth issues, priority must be given to domestic reforms that address the most binding growth constraints in an economy. Among these constraints, institutions are seen to be the key to unlocking nations’ growth potentials for they promote economic activity by fostering competition and efficiency. In addition, institutions also provide safety mechanisms for the marginalized sectors of society that pave the way for a more equitable distribution of economic growth, resulting in inclusive growth.

There are two equally important avenues for intervention to deliver domestic reforms. First, *interventions at the institution-level* remain a top priority as this ensures better service delivery that enables government to better cater to the ever-developing needs of and challenges faced by its stakeholders. It is important to enhance skills on areas such as regulatory impact assessment, use of economic tools for policy analysis, project development and management, strategic planning, and database development, among others.

Second, *firm-level interventions* are equally important in order to boost private sector capacity to participate in the economic sphere. These interventions come in different forms - whether through the provision of needed inputs to jumpstart businesses; further boosting capacities in sectors where the Philippines has a competitive advantage; or providing guidance in industry roadmapping.

These interventions aim to develop *industrial competitiveness* that enables businesses, regardless of size, to claim a piece of the country's economic pie and contribute further to its development. While DTI counts among its priorities the expansion of markets for local goods through improved *access to international markets through trade*, there is also potential for growth through further developing the *domestic market*. By building the capacities of local firms through firm-level and economic institution interventions, local businesses can fully exploit the opportunities offered by the local market.

At the heart of building this competitiveness is *inclusive business*, serving as the lynchpin that connects MSMEs to big firms to allow them to ultimately form part of global value chains - giving way to firms that may be small in scale and local in setting but international in outlook. The Department envisions this linkage to further cultivate the Filipinos' natural entrepreneurial spirit and with the flourishing of businesses, create more, better, and decent jobs that will enable more Filipinos to share in the fruits of our economic gains. To accelerate inclusive growth, it is important to encourage more investments with tangible social impact. Interventions on this may include incubation facilities (e.g. for creative industries and IT-based start-ups) and an establishment of a credit guarantee facility to micro and small enterprises.

This inclusive growth trajectory is embedded in an intricate fabric of evolving realities (e.g., political, economic, social) and does not follow a linear path. The Department acknowledges this changing landscape and advocates for flexibility and readiness in confronting and effectively managing *emerging issues* that impact on the attainment of its ultimate goal of inclusivity.

Annex B - Additional Information, Engagement Areas

EA1: Connecting the Philippines with the global economy – aid for trade

*“No country has successfully developed its economy by turning its back on international trade and long-term foreign direct investment”.*⁴⁶

Improved trade and investment is essential for the Philippines to sustain its economic growth and help lift over a quarter of its 100 million population out of poverty. There is however substantial scope for the Philippines to better connect with the global economy. The country is ranked 64 out of 138 countries on the World Economic Forum’s (WEF) Enabling Trade Index⁴⁷ and 95 out of 189 countries on the World Bank’s trading across borders ranking.⁴⁸ There are multiple reasons why the Philippines perform poorly on these indices, over and above widely acknowledged deficits in the country’s infrastructure.

Barriers to trade are especially high at the border, notably **customs procedures/trade facilitation**. For the Philippines, the time required for businesses to comply with export documentary and border compliance for exports is 114 hours while for imports it is 168 hours.⁴⁹ This is approximately four times higher than neighbouring Malaysia where it is 30 hours for export documentary and border compliance and 34 hours for import compliance. Given the significant time (and cost) it takes to move goods across borders in the Philippines, it is not surprising that the WEF found that a) burdensome import procedures and b) corruption at the border are the most problematic factors for businesses to import.⁵⁰ For exporting businesses, the WEF found that access to imported inputs at competitive prices is the second most problematic factor and second only to the cost of domestic transportation.

For entrepreneurs to sell their goods overseas, businesses must be capable of both complying with border requirements and also be proficient in meeting international technical requirements and standards abroad. **National Quality Infrastructure (NQI)** is the complete institutional framework required to establish and implement standardisation, conformity assessment (inspection, testing, and certification), metrology and accreditation. The WEF highlights that NQI is one of the top three concerns for exporting businesses in the Philippines (only behind transportation cost and access to inputs).⁵¹ This finding of a key constraint to trade is corroborated by the International Trade Centre’s survey of Philippine businesses, where it was found that 70 per cent of all companies face trade barriers related to non-tariff measures (NTMs).⁵² The majority of these barriers relate to NQI issues of technical requirements and conformity assessments of partner countries (56 per cent), technical requirements of the Philippines (8 per cent) and private standards (7 per cent). A study by the European Union has also found the Philippines lags in almost all components of NQI when compared with selected countries in ASEAN, Latin America, and Europe.⁵³ While various elements of NQI exist, it is fragmented and inadequate. Key issues include an absence of a national standardisation plan; understaffing in key agencies; inadequate budget for training; and lack of coordination between NQI agencies. This fragmentation is especially costly for small businesses due to their limited resources to navigate the complex regulatory/standards universe. It should be noted that the benefits of NQI not only relates to exports, but also for quality upgrading to meet domestic consumer expectations.⁵⁴

Foreign direct investment (FDI) helps link a country’s economy to global value chains. FDI improves export sophistication, and also creates better paid jobs, promotes knowledge transfer, and raises productivity.⁵⁵ The Philippines has huge potential to attract foreign direct investment given its location in East Asia, large and fast-growing market, knowledge of English, abundant natural resources and young population.⁵⁶ The Philippines however has not achieved its FDI potential. It has the third lowest net inflow of FDI as a proportion of GDP out of all countries in ASEAN.⁵⁷ The Organisation for Economic Co-operation and Development’s (OECD) Investment Policy Review highlights that statutory restrictions in the Philippines are high by regional and global standards.⁵⁸ The Philippines has more statutory restrictions than any of the large ASEAN Member States, and twice as high as Vietnam. Restrictions are particularly tight in the media (zero per cent), followed by mining, agriculture, transport and telecommunications (40 per cent).⁵⁹ Across all sectors, access of foreign investors to land is highly restricted. FDI reforms have proved difficult to enact as many of the restrictions are enshrined in the

Philippine Constitution, rather than through investment law or sectoral legislation. The OECD however highlights that even without constitutional amendment, significant parts of the economy can be liberalised.⁶⁰ This includes through defining public utilities, reconsidering the high minimum capital requirement for foreign investors, modernising the legislative framework for investment (the Omnibus Investment Code), and liberalising professional services which the Constitution allows subject to reciprocity. On the latter the World Bank notes that professions such as engineering and medical services are almost exclusive to Filipinos, which limits the dissemination of knowledge and technology and results in the country's having a services trade restriction index score well above the ASEAN region.⁶¹

Across the globe, there is an expanding network of **Free Trade Agreements (FTA)**, the proliferation of which gives rise to concerns that some countries, those that are not participating, may be disadvantaged including by having their relative preference margin eroded. Studies have shown that a one percentage point decrease in a country's relative preferential margin can decrease exports on average by 0.86 percentage points.⁶² FTA are however not just about tariffs. Modern FTA are increasingly focused on 'behind the border' issues including standards, professional qualifications, intellectual property rights and competition policies which may be more of a trade barrier for Philippine businesses than tariffs or quota restrictions. For the Philippines, the need and will to negotiate FTA is increasing. The country has only one bilateral FTA (with Japan) implemented other than agreements reached through its ASEAN membership. The Philippines is currently negotiating a FTA with the European Union, and the Regional Comprehensive Economic Partnership.

EA 2: Improving competitiveness through domestic regulatory reform

For the Philippines to sustain its high economic growth, the country must consolidate and implement its reforms, and embark on the next set.⁶³ The key risk is that economic constraints which have long held the country back will persist, impeding a more inclusive growth pattern.

The Philippines notably passed the *Philippine Competition Act (PCA)* in July 2015. The PCA serves as the primary competition law in the Philippines and created the Philippine Competition Commission (PCC) which is mandated to implement a national **competition policy**.⁶⁴ Expectations are high for the PCA to have a transformative impact on the economy which is riddled with monopolies (water, electricity distribution and ports), duopolies (telecommunications) and oligopolies (oil, cement, water and transport). The PCA could have substantial poverty reduction impact especially if it is able to lower the cost of food, transportation and utilities, where high prices substantially impact on the budget of poor households. Effective competition policy can also:

- reduce inequality and encourage entrepreneurship through creating a level playing field for all market players;
- encourage innovation, improve economic efficiency and reduce wastage in the production of goods and services;
- allow monitoring to ensure that public monopolies are not replaced with private monopolies; and
- encourage informed choice and improves the quality of life of consumers in terms of a greater variety of goods/services and lower prices.⁶⁵

Australia, the EU and the United States have been active in supporting the development of competition policy in the Philippines. Australia's assistance was intended to help build the PCC into a functioning entity as rapidly as possible. Activities included a study mission to Australia, support to develop a communications strategy and communication tools, human resource development support and support to develop implementing rules and regulations for the PCA. Our guiding criterion was to respond to the PCC's immediate needs in building the organisation. This has included legal, research, strategic planning, budget management and communication services. It is envisaged that our support will shift toward a more strategic track, including supporting preparation of the PCC's inaugural business plan and developing complementary activities that address the PCC's medium- and long-term development needs. Specific activities for consideration include:

- training key players to be educators on competition policy;

- undertaking market studies to identify issues and challenges and to eventually come up with remedies to address anti-competitive behaviours;
- engage market participants to submit comments and suggestions on undertakings and regulation that defeat anti-competitive agreements and abuse of dominant position;
- review all existing legislations that directly or indirectly affect and restrict competition in the Philippines;
- providing assistance to the National Economic Development Authority, the government unit mandated to prepare and formulate a national competition policy.

Between 2010 and 2015, the Philippines' **ease of doing business** ranking improved, moving from 136 to 103.⁶⁶ There is room for improvement given that in the Philippines it takes 29 days to register a business and 193 hours to pay tax, while in Malaysia it takes only three days to register a business and 118 hours to pay tax. Complex, costly and redundant regulatory procedures hurt micro and small firms significantly as associated costs account for higher proportions of MSME capital expenditure. This inhibits entrepreneurship especially by the poor and can lead to large scale informality in the economy. To address this, the Philippines enacted the *Go Negosyo Act* in 2014 which calls for the establishment of service centres to facilitate business start-up and operations of MSMEs.⁶⁷ The World Bank Group has identified automating key business registration processes (e.g. online system), introducing online and mobile payments, and reducing the frequency of renewals of government permits as further areas for reform.⁶⁸ A Facility activity on ease of doing business could have a focus on providing improved services to small and micro enterprises and reaching out to vulnerable communities, mentoring/coaching of entrepreneurs, and streamlining the national and local business permit system.

Unnecessary regulation is not only costly for businesses due to the delay and confusion it creates, but it also provides opportunities for corruption. To help in its **deregulation** objective, the Philippines, spearheaded by the National Competitiveness Council, embarked on its first ever "*Project Repeal Day*", where seven government agencies revoked or repealed respective rules and regulations that are deemed burdensome and irrelevant.⁶⁹ The benefits of Repeal Day can be substantial. In the case of Australia, which inspired the Philippines' Project Repeal Day, savings reached AUD4.6 billion by the end of December 2015.⁷⁰ Efforts are under way aimed at reducing red tape through establishment of a Philippine Efficiency Office (PEO).⁷¹ The proposed PEO, similar to Australia's Office of Best Practice Regulation, will help improve the quality of regulations and reduce regulatory burden. This is expected to reduce the cost of doing business, improve service delivery, and strengthen accountability and efficiency in government and society.

An activity on deregulation could - look at administrative simplification in all government agencies dealing with business and the public; develop a methodology that will quantify the costs of government administrative processes to business (regulatory impact analysis or RIA); institutionalise RIA across the government bureaucracy; and provide training in policy analysis, strategic planning and database development.

High cost and under-supply of **electricity** inhibits economic growth and is a deterrent to business investment. In 2016 DFAT commissioned an analysis of the Philippines electricity sector which identified a number of causes for the high cost and under-supply of electricity, including a lack of competition in the ownership of electricity assets, limited capacity for reserve planning in terms of both expertise and infrastructure, and a weak regulatory environment. This study will be made available to the managing contractor who will consider whether the Facility should design activities that help reduce the cost of electricity to Philippine businesses and households.

A specific area to be investigated is energy efficiency. Australia/International technical expertise could be utilised to help the Philippines improve the effectiveness and adoption of building energy efficiency measures, including relevant regulation and policies for residential, commercial and government buildings. Australia initiated and has been implementing building energy ratings for over 20 years, making Australia one of the most experienced countries in terms of applying national energy efficiency standards. Given that the residential, commercial and government sectors account for a large component of Philippines overall energy consumption, Australia's technical expertise could be highly valued and help

reduce energy consumption in this sizeable sector. A related issue to be considered is the proposed comprehensive Energy Efficiency and Conservation Bill. The proposed bill, if legislated, will institutionalise energy efficiency and conservation and grant incentives to energy efficiency and conservation projects. The proposed Senate Bill 1087 establishes a framework for introducing and institutionalising energy efficiency and conservation policies while defining the responsibilities of various government agencies and private entities. Another energy related activity that should also be considered is to encourage the manufacturing sector to adopt and utilize energy efficient technologies and apply renewable energy systems for their operation.

EA 3: Increasing inclusiveness and better jobs

Poverty incidence in the Philippines is currently 21.6 per cent.⁷² With a population of over 100 million, this means that over 21 million Filipinos live in poverty. The evidence is strong that high poverty levels impede growth, and efforts to address poverty directly through aid investments including social protection can support economic growth. Aid investments can improve productivity and labour market participation of vulnerable people and communities, and limits the need for negative coping strategies which reduce economic growth.

Australia currently has a direct funding agreement with the Department of Social Welfare and Development (DSWD) to support their Technical Assistance Facility for **Social Protection** Reforms. The Technical Assistance Facility for Social Protection Reforms hires local consultants to help DSWD implement their flagship poverty reduction initiatives: Pantawid Pamilyang Pilipino Program; Sustainable Livelihood Program; and Kapit-Bisig Laban sa Kahirapan - Comprehensive and Integrated Delivery of Social Services (Kalahi-CIDSS).⁷³

The key poverty reduction program of the Philippines is Pantawid Pamilyang Pilipino Program (4Ps)⁷⁴ which Australia helped in the design and implementation. 4Ps is a conditional cash transfer program where the Philippine government gives cash grants to poor households who meet certain health and education conditions (e.g. babies are immunized, pregnant mothers use pre-natal care, and children go to school). The program has successfully lifted 1.5 million households or 7.5 million individuals out of poverty since 2010.⁷⁵ The Duterte administration, which took up office on 1 July 2016, has committed to review the effectiveness of 4Ps and continue its implementation. Key priorities going forward for the Philippine government (in partnership with Australia) are to better - boost jobs, livelihoods and entrepreneurship; encompass vulnerable communities (e.g. people with disabilities, indigenous people, and homeless families); and protect the poor against instability and shocks (e.g. economic or disaster related). Australia also currently supports UNICEF's Programmatic Fund to Enhance the Philippines Modified Conditional Cash Transfer Program. The aim of this fund is to strengthen the design and implementation of DSWD's modified conditional cash transfer program to better service socially excluded groups notably Indigenous people and homeless street families.

The Sustainable Livelihood Program (SLP)⁷⁶ helps identified poor families, especially 4P members, to engage in resource-based and market-driven community micro-enterprises, or explore employment opportunities. Participants are given the opportunity to choose between the Micro-Enterprise Development track or the Employment Facilitation track. In the employment track, assistance is provided to help participants organise into groups, and plan and monitor livelihood projects to ensure that they are self-sustaining. Partnerships are also formed with public and private sectors to provide services on financial literacy, resource mapping, market scanning, and technical and vocational skills training, financial literacy and credit assistance, and employment opportunities amongst others. Participants in the Micro-Enterprise Development track are encouraged to pool their resources together as groups known as Self-Employment Assistance-Kaunlaran Associations. These groups help participants establish economically viable enterprises and maximise resources within their organised groups.

Another key poverty alleviation program of the Philippine government implemented by the Department of Social Welfare and Development is Kalahi-CIDSS⁷⁷ This program uses the community-driven development approach to achieve its objective of helping barangays/communities of targeted

municipalities become empowered to achieve improved access to services and to participate in more inclusive local planning, budgeting, and implementation. Kalahi-CIDSS:

- helps communities in poor municipalities identify challenges around reducing poverty and make informed decisions on a range of locally identified options for development, including how this is made and in what form;
- gives control of resources to address local poverty to communities; and
- builds the capacity of both state (including local governments) and civil society stakeholders to provide assistance and respond to calls for support from poor communities as they implement development initiatives.

On **women's economic empowerment**, the Philippines ranks 7th out of 145 countries in the World Economic Forum's 2015 *The Global Gender Gap Report 2015*.⁷⁸ Since the index was introduced in 2006, the Philippines has consistently ranked among the top 10 in the world. The Philippines outranked Australia and is the only Asian country in the top 20. While the overall result is strong, the index highlights political and economic participation challenges for women. Women tend not to be well represented in leadership roles in both the private and public sectors. Further, jobs for women tend to be concentrated in low-earning occupations and low-value-added industries. Many poor Filipino women face risks of domestic violence and human trafficking. The Philippine Commission on Women has published a *Women's Empowerment, Development and Gender Equality Plan 2013-2016*.⁷⁹ The publication highlights the strategic women's economic empowerment issues of the Philippines:

- gender gap in labour force participation;
- low participation of women in paid employment;
- vulnerabilities of employed women;
- high vulnerability of women migrant workers to exploitation;
- social cost of migration;
- lack of access to social protection;
- lack of access to productive resources;
- exposure to poor occupational safety and health standards;
- lack of women's representation in governance and decision-making structures;
- women's lack of social preparation and technical skills in entrepreneurship;
- difficulty of women micro, small and medium enterprises in accessing funds;
- difficult of women entrepreneurs in sustaining and upscaling their businesses;
- need to harmonise and coordinate government efforts to develop and improve the business environment; and
- limited access to and control over resources (agriculture, fisheries and forestry) and limited representation in decision making.

The managing contractor will be required to design and implement a key activity whose principal goal is to improve women's economic empowerment. The focus of the activity could be on some of the key strategic issues identified in the *Women's Empowerment, Development and Gender Equality Plan 2013-2016* (e.g. entrepreneurship related) thereby connecting the activity to the Philippines women's empowerment agenda.

Similarly, the managing contractor will investigate the possibility of the Facility designing and implementing other activities whose principal objective is to **economically empower other vulnerable groups** including people with disabilities, indigenous people, lesbian, gay, bisexual, transgender and intersex (LGBTI) community, and homeless families. Members of these communities may face challenges in finding employment, be the subject of discrimination or abuse, or have little access to capital or other resources.⁸⁰

In designing economic empowerment activities for women and poor and other vulnerable communities, it should be understood that they may experience poverty differently to, and for different reasons than, the rest of society. The design of activities under engagement area 3 must take into consideration these

differences including experiences in the labour market, in the home, and throughout the lifecycle (which impacts on earning potential).

Micro Small and Medium Enterprises (MSMEs) play a crucial role in the Philippines' economy, representing 99.6 per cent of all registered businesses. MSMEs account for 32 per cent of the country's value-add and employ almost 63 per cent of the workforce.⁸¹ The Facility will prioritise support which helps strengthen MSMEs. The Department of Trade and Industry's *Micro, Small, and Medium Enterprise Development (MSMED) Plan 2011-2016*⁸² highlights that - "the performance of MSMEs has remained constrained by various factors that prevent them from realizing their potentials and surviving and growing in a highly competitive environment. These include high cost of doing business, lack of access to finance and market information, and low productivity and competitiveness. While poor business conditions affect the performance and competitiveness of all enterprises, the impact is perceived to be greater for MSMEs given their relatively small size and limited resources. Many MSMEs are unable to qualify for bank loans because they lack the necessary track record and collateral. The lack of credit information also deters banks from lending to MSMEs as it is more difficult to determine their creditworthiness. With their limited management and financial capabilities, many MSMEs have remained domestic oriented rather than take the risks of focusing on export markets. Another key concern is the low productivity of MSMEs due to lack of access to new technology, weak technological capabilities, and failure to engage in innovation and research and development activities." The Department of Trade and Industry's *MSMED Plan 2011-2016* defines four major outcomes and regional and provincial action plans to deliver results in – business environment, access to finance, access to markets and productivity and efficiency.⁸³ The Trade and Inclusive Economic Growth Facility's emphasis on MSME development is in recognition of the importance of the private sector development in promoting pro-poor growth. As highlighted by the OECD, "for the private sector to expand in developing countries and fulfil its role as the main engine for growth, efforts must be made to address the needs and maximise the contribution of the many informal enterprises, family-run farms and self-employed men and women that conduct business there."⁸⁴

On **labour market reform** the managing contractor will investigate if the Facility should provide support to the Department of Labor and Employment (DOLE). In August 2016, DOLE released an Eight-Point Labour and Employment Agenda for inclusive development, prosperity and labour justice:⁸⁵

1. continuously enhance and transform DOLE into an efficient, responsive, purposeful and accountable institution;
2. address the persistent problems of unemployment and underemployment;
3. ensure full respect of labour standards and the fundamental principles and rights at work;
4. continuously strengthen protection and security of our overseas Filipino workers;
5. bring more focus and accessibility in workers' protection and welfare programs;
6. achieve a sound, dynamic, and stable industrial peace with free and democratic participation of workers and employers in policy and decision-making processes affecting them;
7. have a resolution system that ensures just, simplified, and expeditiously resolution of all labour disputes; and
8. have responsive, enabling, and equitable labour policies, laws and regulations.

A particular issue which the managing contractor may investigate is the issue of illegitimate contractualization or 'endo'. These are "practices which constitute labor-only contracting or other similar arrangements where the duration of employment is fixed for a short period for purposes of circumventing workers' rights to security of tenure, self-organization and collective bargaining, labor standards, and other basic workers' rights."⁸⁶ The termination of contractualization is a priority of the Duterte administration and DOLE has set a target to abolish endo by 2017.⁸⁷ The managing contractor will consider complementary support Australia could provide on labour market reform and on the issue of contractualization.

EA 5: Strengthening government institutions

The ability of the Philippines to implement its reform agenda, and provide services including to small businesses and vulnerable communities, is dependent on the effectiveness of the public service and the quality of staff. Like in many countries, there is scope for improvement in the Philippines.

The Australian government has provided **human resource and organisational development** support to Philippine government departments since 2004. In part, this is in recognition that strengthened Philippine government agencies increase the effectiveness and sustainability of Australia's aid investments. The current Philippines Australia Human Resource and Organisational Development Facility (PAHRODF)⁸⁸ provides government departments with support in strategic planning and management, the delivery of human resource and organisational development interventions, and research and knowledge management. PAHRODF has developed organisational and resource management assessment tools to measure individual Philippine Government agencies' capacity. These tools have found that government agencies face constraints in strategic capability and institutional planning, leadership development, strategic performance management, strategic human resource management, developing competency-based job descriptions, stakeholder management and gender and women's empowerment. PAHRODF currently works with eleven Philippine government agencies identified as Australia's key strategic partners in economic growth, governance, and peace and security.

Going forward, the Facility will offer human resource and organisational development support to select Philippine government agencies. The human resource and organisational development support that Australia will provide is intended to complement our other technical assistance and improve partner government's service delivery. The managing contractor of the Facility must have the capabilities to identify and recommend human resource and organisational development activities, and recruit relevant experts to implement these activities.

The Facility should also have the capabilities to provide **public financial management** services to select government agencies. In recent years, the Government of the Philippines with the support of the Philippines-Australia Public Financial Management Program⁸⁹, has implemented a number of initiatives that have sought to strengthen the policy basis for budgeting, and the transparency and accountability of agency performance. The Facility can assist Philippine government agencies to operationalise their reforms. An important challenge is to help sectoral agencies like the Department of Trade and Industry and Department of Social Welfare and Development in budget planning and to better align it with the national process. Proper alignment will help the sectoral agencies to strengthen the quality of their spending and improve their service delivery. The provision of assistance will be demand driven and tailored to the needs of the partner government. The managing contractor of the Facility must have the capabilities to identify and recommend public financial management activities, and recruit relevant experts to implement these activities.

A specific area of opportunity in public financial management and organisational development could also be on **gender and development** (GAD). In the Philippines, the Women in Development and Nation Building Act of 1992 mandates concerned government agencies to "support programs and activities for women" and led to the implementation of the GAD Budget Policy in 1995, which requires all departments to allot at least 5 per cent of their total budget for GAD-related activities.⁹⁰ Concerns have however been raised that use of the budget by agencies has been low, implementation has not been fully institutionalised, misuse has occurred, and compliance and performance reporting are weak.⁹¹ The Facility may enable Australia to offer appraisals of partner government agencies' GAD plans, especially DSWD, DTI and NEDA, and to design complementary activities to help them more effectively plan, manage and spend their GAD budget.

Annex C - Risk Management Process for Activities Conducted in Conflicted Affected Regions of the Philippines, including Mindanao

There is growing recognition of the need for greater scrutiny of who is involved in the implementation of Australian activities in conflict affected regions, including Mindanao. This note sets out baseline requirements for screening implementers before entering into agreement to ensure Australian funds are not used to support institutions and/or individuals that promote a radical view of Islam; nor support entities and/or individuals associated with terrorism or armed insurgency. This process seeks to add an additional layer of assurance to existing risk management processes and it is not exhaustive. It will be reviewed and updated when required in consultation with DFAT Manila Post and DFAT Canberra.

Why is Australia implementing these measures?

- Australian taxpayer dollars are being spent in conflict affected regions as part of our broader engagement with the region. We seek assurance that Australian funds are being spent effectively and as fully intended.
- Our engagement in Mindanao is also in the context of ongoing peace agreement discussions and activity by unlawful groups. Australia will use this screening to give assurance that, to the best of our knowledge, Australian funds will not contribute to harming the peace process or making the situation worse in any way.

Who and what is screened?

- Non-government entities that receive Australian contracts, grants or subcontracts for work in Mindanao will have organisational details and key personnel checked through existing public databases (listed below).
- As deemed necessary by DFAT, screening will go below the subcontract level depending on the type, breadth and depth of activity being implemented. Organisations based in areas where extremist groups have influence and greater numbers will be subject to higher scrutiny.
- Screening will apply to sub-contractors, partners and beneficiary organisations, for example:
 - Sub-contractors will be required to list the company name and address, the names and dates of birth of the owner, company directors and officer-in-charge.
 - Emphasis on screening will be placed on non-government entities and individuals, but can be expanded if deemed appropriate.
- The entity holding the primary grant or contract with the Facility Contractor will be responsible for collating and rechecking this information on six-monthly basis. The primary contract or grant holder will send this information to their Australian Embassy counterpart for additional screening by the Australian Government.

How is the screening done?

- The Facility Contractor will be responsible, as per Commonwealth Procurement Guidelines, for screening individuals and entities names through existing public databases including the DFAT Consolidated List, Australian Government Listed Terrorist Organisations, ADB Public Sanctions List, World Bank Listing of Ineligible Firms and Individuals, and Philippines Government agency black lists as relevant (for example: Philippines Government Procurement Policy Board black lists). They should also use local sources, as appropriate.
- The Australian Embassy in Manila will cross-check the consolidated list of entities/individuals with other existing lists including reporting from the International Crisis Group (ICG); the Office of National Assessments (ONA); and through Australian Federal Police liaison.

What happens if a red flag shows up in the screening process?

- Any organisation or individual named in any list, or found to be linked to any entity in a list will be ineligible for Australian-funded assistance.
- If they are already engaged in an Australian-funded activity, that activity must cease operation immediately pending further investigation. The subcontract relationships may be terminated pending the outcome of that investigation and relevant legal advice. Reasonable efforts to recover any funds may be undertaken if possible to do so.

¹ The Philippines' economy expanded by seven percent in the second quarter of 2016. The country's longer-term growth rate is also strong averaging 6.2% between 2010 and 2015. This is higher than in Thailand (3.7%), Malaysia (5.6%), Indonesia (5.6%) and Vietnam (6.0%). See Philippine Statistical Authority 2016, 'National Accounts', Philippine Statistical Authority, viewed 10 September 2016, <<http://psa.gov.ph/nap-press-release/data-charts>>; World Bank 2016, 'World Development Indicators', World Bank, viewed 10 September 2016, <<http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>>.

² by 74% between 2010 and 2015. See Bureau of Internal Revenue 2017, 'BIR Collection Statistics', Bureau of Internal Revenue, viewed 12 January 2017, <<http://www.bir.gov.ph/index.php/transparency/bir-collection-statistics.html>>.

³ an increase of approximately 40% between 2010 and 2015. See World Bank 2016, 'World Development Indicators', World Bank, viewed 10 September 2016, <<http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>>.

⁴ Rappler 2016, 'Philippines' back office shines in 2015, exceeds targets', Rappler, viewed 10 September 2016, <<http://www.rappler.com/business/industries/174-outsourcing/121233-philippines-bpo-ibpap-targets-2015>>.

⁵ The Philippines was ranked 57 out of 138 countries in the World Economic Forum's 2016-17 Global Competitiveness Index, and improvement from its rank of 65 in 2012-13. See World Economic Forum 2016, *The Global Competitiveness Report 2016-17*, World Economic Forum, Geneva.

⁶ The Philippines was ranked 95 out of 167 countries on Transparency International's Corruption Perceptions Index 2015, which is an improvement from its ranking of 134 in 2010. See Transparency International 2016, 'Corruption Perceptions Index 2015', Transparency International, viewed 6 November 2016, <<http://www.transparency.org/cpi2015?gclid=C1Kq6Nmzk9ACFQoQvQodZrEH5w>>.

⁷ Statement by Ernesto M. Pernia, Socioeconomic Planning Secretary, NEDA Director-General, Press Conference on the 2016 Q2 Performance of the Philippine Economy, SMX Convention Center Rooms 4 and 5, Agdao, Davao City 18 August 2016, 10:00AM.

⁸ Philippine Statistics Authority 2016, 'Poverty incidence among Filipinos registered at 21.6% in 2015 - PSA', Philippine Statistical Authority, viewed 6 January 2017, <<https://psa.gov.ph/poverty-press-releases>>.

⁹ an increase of almost 8 million people between 2010 and 2015. See World Bank 2016, 'World Development Indicators', World Bank, viewed 10 September 2016, <<http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>>.

¹⁰ The employment rate was 94.6% in July 2016 and 93.1% in July 2010. See Philippine Statistics Authority 2016, 'Labor Force Survey', Philippine Statistics Authority, viewed 10 September 2016, <<https://psa.gov.ph/statistics/survey/labor-force>>.

¹¹ The Philippines' Gini coefficient was 43 in 2012 and higher than Cambodia (31), Laos (38), Vietnam (39) and Thailand (39). See World Bank 2016, 'World Development Indicators', World Bank, viewed 10 September 2016, <<http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>>.

¹² World Bank 2013, *Philippine Development Report – Creating More and Better Jobs*, World Bank, Manila.

¹³ World Bank 2013, *Philippine Development Report – Creating More and Better Jobs*, World Bank, Manila.

¹⁴ Philippines' agriculture value added per worker (constant 2010 US\$) was \$1941 in 2015, compared to \$2629 for Indonesia and \$19,818 for Malaysia. See World Bank 2016, 'World Development Indicators', World Bank, viewed 10 September 2016, <<http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>>.

¹⁵ The World Bank attributes this to issues such lack of competition, complex regulations, insecure property rights, lack of investments, overvaluation of the peso, credit and fiscal incentives that favoured capital inputs (e.g., duty-free import of capital), and high minimum wage rates that make capital relatively cheaper, thereby keeping manufacturing employment artificially low. See World Bank 2016, *Philippine Economic Update – Moving Full Speed Ahead: Accelerating Reforms to Create More and Better Jobs*, World Bank, Manila; World Bank 2013, *Philippine Development Report – Creating More and Better Jobs*, World Bank, Manila.

¹⁶ This includes the Pantawid Pamilyang Pilipino Program which has lifted 1.5 million households from poverty since 2010.

¹⁷ The Philippine Competition Act was signed into law by President Aquino in 2015.

¹⁸ World Economic Forum 2014, *The Global Enabling Trade Report 2014*, World Economic Forum, Geneva.

¹⁹ Philstar 2016, 'FULL TEXT: Duterte's 2016 State of the Nation Address', *Philstar*, 26 July, viewed 10 September 2016, <<http://www.philstar.com/headlines/2016/07/25/1606702/full-text-dutertes-2016-state-nation-address>>.

²⁰ GMA News Online 2016, 'Duterte's Economic Team Reveals 10-point socioeconomic agenda', *GMA News Online*, 20 June, viewed 10 September 2016, <<http://www.gmanetwork.com/news/story/570703/money/economy/duterte-s-economic-team-reveals-10-point-socioeconomic-agenda>>.

²¹ The Australian Business Review 2016, 'Duterte Plans Constitutional Change to Open Up Economy', *The Wall Street Journal*, 22 June, viewed 10 September 2016, <<http://www.theaustralian.com.au/business/wall-street-journal/duterte-plans-constitutional-change-to-open-up-economy/news-story/2439d7487a24850d0696b0020f3ba331>>.

²² See *Joint Declaration on Australia – The Philippines Comprehensive Partnership* <<http://dfat.gov.au/about-us/publications/Documents/joint-declaration-on-australia-the-philippines-comprehensive-partnership.pdf>>.

- ²³ DFAT 2015, *Aid Investment Plan – The Philippines 2015/16 – 2017/18*, Department of Foreign Affairs and Trade, Canberra.
- ²⁴ See Commission on Growth and Development 2008, *The Growth Report Strategies for Sustained Growth and Inclusive Development*, World Bank, Washington DC; and World Bank 2009, 'What is Inclusive Growth', World Bank, viewed 10 September 2016, <<http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1218567884549/WhatIsInclusiveGrowth20081230.pdf>>.
- ²⁵ Australia - The Philippines: Basic Education Sector Transformation (BEST) Program. See <http://www.best.org.ph/>
- ²⁶ From <http://www.eutra3phils.org/the-trta-3.html>.
- ²⁷ From <https://www.usaid.gov/philippines/partnership-growth-pfg/compete>.
- ²⁸ From <https://www.usaid.gov/philippines/partnership-growth-pfg/trade>.
- ²⁹ See <http://dfat.gov.au/about-us/publications/Pages/philippines-australia-public-financial-management-program-pfmp-independent-evaluation-2014.aspx>; and <http://dfat.gov.au/geo/philippines/development-assistance/Pages/building-stronger-institutions-for-transparent-accountable-governance-philippines.aspx>.
- ³⁰ In this context, vulnerable people are considered to be at high risk of falling into poverty as a result of a shock (that affects individual households including illness or injury in the family and job loss, or a community shocks such as an extreme weather event). Most people who are vulnerable have an income level only slightly above the national poverty line.
- ³¹ DFAT 2015, *Effective Governance Strategy for Australia's aid investments*, Department of Foreign Affairs and Trade, Canberra.
- ³² See DFAT 2015, *Strategy for Australia's Aid for Trade Investments*, Department of Foreign Affairs and Trade, Canberra. The Australian Embassy have also undertaken studies on a) constraints to growth; b) constraints to trade; and c) aid for trade, which helped informed the decision to invest in activities related to trade negotiation capacity building and NQI. These studies will be made available to the managing contractor.
- ³³ A proposed trade negotiation training centre will need to consider (i) building the capacity of other departments involved in FTA negotiation including the National Economic Development Authority, Department of Foreign Affairs, Department of Agriculture and the Intellectual Property Office amongst others; and (ii) existing training provided by the Philippine Trade Training Center which has a mission to advance Philippine export sector's competitive position in the world market.
- ³⁴ This includes the Bureau of Philippine Standards, Bureau of Agriculture and Fisheries Standards, Philippine Accreditation Bureau, National Metrology Laboratory of the Philippines and the National Competitiveness Council.
- ³⁵ For more information, see: <http://regnet.anu.edu.au/research/research-projects/details/6637/philippines-project>.
- ³⁶ For more information about ADRI, see: <https://adrinstitute.org/>.
- ³⁷ See DTI 2016, 'MSME Statistics', Department of Trade and Industry, viewed 10 September 2016, <<http://www.dti.gov.ph/dti/index.php/resources/sme-resources/sme-statistics>>.
- ³⁸ See <http://dfat.gov.au/about-us/business-opportunities/tenders/Pages/investment-design-south-east-asia-investing-in-women-initiative.aspx>.
- ³⁹ Rappler 2016, '5Ps and CCT: How will candidates' anti-poverty promises be funded?', *Rappler*, 20 April, viewed 10 September 2016, <<http://www.rappler.com/nation/politics/elections/2016/129949-feasibility-campaign-promises-poverty-alleviation>>.
- ⁴⁰ See <http://dfat.gov.au/about-us/publications/Pages/australian-aid-promoting-prosperity-reducing-poverty-enhancing-stability.aspx>. Other relevant reports will be made available to the managing contractor.
- ⁴¹ See <http://www.pahrodf.org.ph/>. PAHRODF will end in September 2017.
- ⁴² See <http://www.pfmp.org.ph/>. PFMP will end in June 2017.
- ⁴³ See <http://dfat.gov.au/about-us/publications/Pages/philippines-australia-public-financial-management-program-pfmp-independent-evaluation-2014.aspx>; and <http://dfat.gov.au/geo/philippines/development-assistance/Pages/building-stronger-institutions-for-transparent-accountable-governance-philippines.aspx>.
- ⁴⁴ Decent employment, as articulated in the *International Covenant on Economic, Social and Cultural Rights* article 7 is work which "ensure in particular (a) Remuneration which provides all workers, as a minimum, with: (i) Fair wages and equal remuneration for work of equal value without distinction of any kind, in particular women being guaranteed conditions of work not inferior to those enjoyed by men, with equal pay for equal work; (ii) A decent living for themselves and their families in accordance with the provisions of the present Covenant; (b) Safe and healthy working conditions; (c) Equal opportunity for everyone to be promoted in his employment to an appropriate higher level, subject to no considerations other than those of seniority and competence; (d) Rest, leisure and reasonable limitation of working hours and periodic holidays with pay, as well as remuneration for public holidays.
- ⁴⁵ DFAT 2015, *Strategy for Australia's aid investments in private sector development*, Department of Foreign Affairs and Trade, Canberra.
- ⁴⁶ OECD 2009, *Trading Out of Poverty – How Aid for Trade Can Help*, OECD Journal of Development 10/1, Paris.
- ⁴⁷ World Economic Forum 2014, *The Global Enabling Trade Report 2014*, World Economic Forum, Geneva.
- ⁴⁸ World Bank 2016, *Doing Business 2016*, World Bank, Washington DC.
- ⁴⁹ World Bank 2016, *Doing Business 2016*, World Bank, Washington DC.
- ⁵⁰ World Economic Forum 2014, *The Global Enabling Trade Report 2014*, World Economic Forum, Geneva.

- ⁵¹ World Economic Forum 2014, *The Global Enabling Trade Report 2014*, World Economic Forum, Geneva.
- ⁵² ITC 2016, *ITC Business Survey on Non-Tariff Measures in the Philippines*, International Trade Centre, Geneva.
- ⁵³ TRTA2 2011, *Study on National Quality Infrastructure & Government Regulatory Processes*, Trade Related Technical Assistance Project 2, Manila.
- ⁵⁴ World Bank 2013, *The National Quality Infrastructure*, The Innovation Policy Platform Policy Brief, Washington DC.
- ⁵⁵ Echandi, R, Krajcovicova J & Qiang, C 2015, 'The Impact of Investment Policy in a Changing Global Economy - A Review of the Literature', Policy Research Working Paper 7437, World Bank Group, Washington DC.
- ⁵⁶ OECD 2016, *OECD Investment Policy Reviews – Philippines*, Organisation for Economic Co-operation and Development, Paris.
- ⁵⁷ See World Bank 2016, 'World Development Indicators', World Bank, viewed 10 September 2016, <<http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>>.
- ⁵⁸ OECD 2016, *OECD Investment Policy Reviews – Philippines*, Organisation for Economic Co-operation and Development, Paris.
- ⁵⁹ World Bank 2016, *Philippine Economic Update – Moving Full Speed Ahead: Accelerating Reforms to Create More and Better Jobs*, World Bank, Manila.
- ⁶⁰ OECD 2016, *OECD Investment Policy Reviews – Philippines*, Organisation for Economic Co-operation and Development, Paris.
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