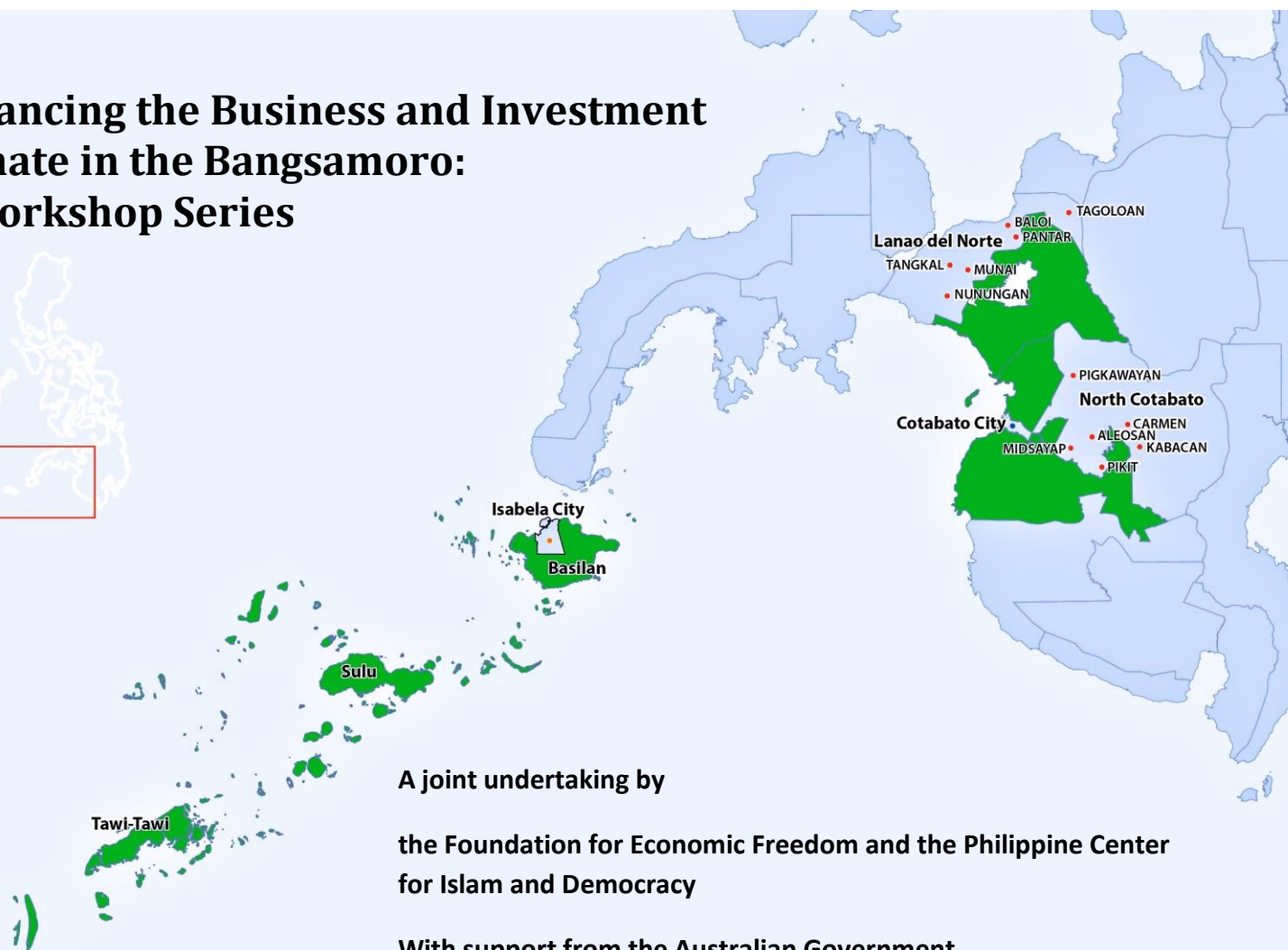


Enhancing the Business and Investment Climate in the Bangsamoro: A Workshop Series

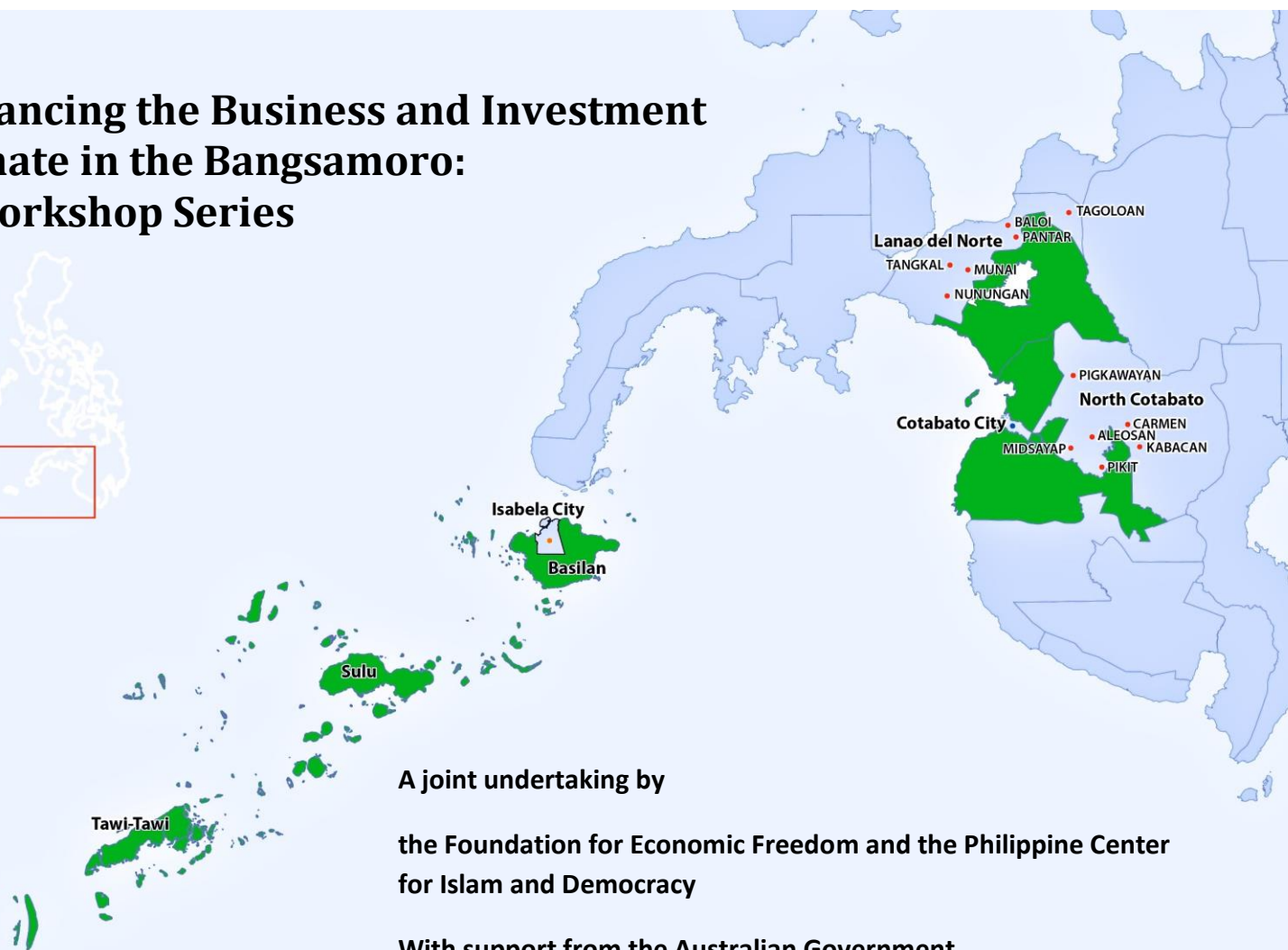


A joint undertaking by

the Foundation for Economic Freedom and the Philippine Center
for Islam and Democracy

With support from the Australian Government

Enhancing the Business and Investment Climate in the Bangsamoro: A Workshop Series



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Image Title: Proposed Bangsamoro Core Territory

Image Source: Office of the Presidential Adviser on the Peace Process. Official Website.

<http://www.opapp.gov.ph/media/infographic/proposed-bangsamoro-core-territory>

ACKNOWLEDGEMENT

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The views expressed in this report are the product of the workshop discussions and those of the authors and do not necessarily reflect the views of FEF, PCID, and DFAT.

PREFACE

The Workshop Series to Enhance the Business and Investment Climate in the Bangsamoro was jointly organized by the Foundation for Economic Freedom (FEF) and the Philippine Center for Islam and Democracy (PCID), in partnership with the Bangsamoro Development Agency (BDA) and with funding support from the Australian Government's Department of Foreign Affairs and Trade (DFAT).

Several capacity building workshops were conducted to help strengthen the business environment in the Autonomous Region in Muslim Mindanao (ARMM), which is intended to be expanded into the Bangsamoro political entity through the proposed Bangsamoro Basic Law. The workshops are a testament to FEF's and PCID's support for peace in Mindanao as well as inclusive and sustainable development in the anticipated Bangsamoro region.

The first workshop, held on November 26 to 27, 2013 at the Waterfront Hotel in Davao City, provided an overview of the business and investment climate in the Bangsamoro and identified the critical and strategic issues affecting the region.

This was followed by the workshop on Islamic banking and finance, held in partnership with the *Bangko Sentral ng Pilipinas* (BSP), which hosted the event at the BSP Executive Business Center in Manila last March 11 to 12, 2014.

Meanwhile, the third workshop tackled land and property rights. It was conducted in partnership with the University of the Philippines (UP) College of Law on June 4 to 5, 2014 at Malcolm Hall of UP Law in Quezon City.

Business and labor regulations were discussed in the fourth workshop, held in partnership with the AIM Policy Center last September 24 to 25, 2014 at Fuller Hall, Asian Institute of Management in Makati City.

The final installment involved capacity building for effective fiscal management, and was held in partnership with the Development Bank of the Philippines (DBP) on March 11 to 12, 2015 at DBP's *Bulwagan ng Diwang Pilipino* in Makati City.



Gary B. Teves
Project Director
April 2015

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PART 1
OUTCOME OF WORKSHOPS

Workshop No. 1

OVERVIEW OF THE BUSINESS AND INVESTMENT CLIMATE IN THE BANGSAMORO

1. INTRODUCTION

This overview workshop is the first in a series of workshops aimed at providing the Bangsamoro authorities, through an inclusive and consultative process, with a forum for determining the critical and strategic issues affecting the climate for business and investment in the Bangsamoro.

It also provides a forum for systematically exploring the policy and institutional options that would help lay the foundations for the growth of a robust and productive private sector, and for the emergence of a favorable climate for rapid, inclusive and sustainable Bangsamoro development.

This first workshop aimed to set the overall framework for the more detailed thematic workshops to follow, covering all the key areas of the business and investment climate. Its focus was on putting on the table the critical issues to be addressed in getting the climate “right,” and providing an agenda for the more detailed thematic follow-on workshops that will focus on policy and institutional options. These follow-on workshops would cover:

- banking and finance (including Islamic banking and finance);
- land and property rights;
- business and labor regulations; and
- fiscal mobilization and management.

The agenda and participants of the first workshop are present in Part 2 of this report. The workshop was held on November 26 -27, 2013 at the Davao Waterfront Hotel, Davao City and was attended by some 120 participants. Representatives came from various political, public and private institutions, academia, as well as the private sector particularly from the Bangsamoro and other parts of Mindanao.

The workshop was opened by Mohager Iqbal, Chairman of the Bangsamoro Transition Commission.

The general consensus was that the first workshop achieved its basic objective of highlighting the critical issues that will need to be addressed in promoting the development of a robust and competitive private sector in the Bangsamoro. It also:

- highlighted the important role that the private sector can play in bringing about peace and stability in the region;
- provided a framework for exploring the more detailed policy and institutional options for addressing the critical issues in the proposed follow-on workshops; and
- provided, some said for the first time, a platform for extensive interaction of the emerging Bangsamoro policy-makers with a wide cross-section of institutional, academic and private sector interests on issues surrounding private investment and business operations.

2. PERSPECTIVES OF THE BANGSAMORO LEADERSHIP

From the viewpoint of the Bangsamoro leadership, political autonomy cannot be achieved without fiscal autonomy. In this respect, a robust private sector is seen as critical.

Equally important is the need to ensure employment creation and income-generating opportunities for the millions of poor in the Bangsamoro who long for a decent livelihood and a peaceful existence. Again, it is seen that this cannot be achieved without a robust private sector.

Moreover, the longer-term sustainability of the Bangsamoro regions' natural resources and respect for the natural environment is fundamental in the thinking of the Bangsamoro leadership. Any form of investment, private or public, must take cognizance of this.

The basic law and development plan now being drawn up for the Bangsamoro will reflect these principles.

It cannot be "business as usual" for the Bangsamoro.

There was generally wide agreement in the workshop that the Bangsamoro should be given the flexibility to develop its own laws, regulations, institutions, and policies as they affect business operations and investment. They should not be just mere copies of national policies, many of which have been found to be wanting and counter-developmental, and far from appropriate for the Bangsamoro. New and

innovative approaches more suitable to the unique characteristics of the region should be explored, drawing on lessons learnt from local and international experiences.

Perhaps the Bangsamoro can be the “beacon on a hill” for the country to have a fresh start and do development right.

3. PEACE, LAW AND ORDER, AND PRIVATE INVESTMENT

The restoration of peace and law and order is the most critical challenge facing the new Bangsamoro authorities. This will take time, and while there will be “business as usual” during the transition, private investment in business activities, on the scale needed to ensure robust and sustainable growth to meet the development challenges, will not be forthcoming until the security of personnel and assets can be assured.

The experience of other countries and regions emerging from conflict shows that there is something of a “chicken-and-egg” situation with law and order and private investment.

Employment creation is seen as an extremely important instrument in restoring law and order. In particular, the effective re-deployment of armed forces and resettlement of displaced communities will principally be dependent on the ability to provide job opportunities. Unemployment (and thus idleness) is also often cited as the most important factor motivating young people to join rebel movements.

Public works programs will not be enough. Efforts have to be made to encourage private investment for the creation of jobs and income earning opportunities, even if the restoration of law and order is not complete, and the transition is still in progress.

This suggests a **two-pronged strategy relating to private investment:**

- ***special actions*** to facilitate the setting up of some core, targeted, larger scale private investment projects during the transition to get the ball rolling; and
- ***basic actions*** focused on putting in place the regulations, support services and infrastructure which signal the Bangsamoro authorities’ intent to encourage private investment in a wide range of business activities in the medium to long term, while restoring law and order on a sustainable basis.

While large-scale private investments in major projects — such as plantations and mining operations — will be important components of a development strategy, these will not necessarily be the principal drivers of high and inclusive growth.

Currently, while there are a few large-scale plantations, economic activity in the Autonomous Region in Muslim Mindanao (ARMM) is dominated by micro and small-scale enterprises, reflecting the uncertainties and risks posed in a conflict-affected region. These enterprises are primarily engaged in activities related to the existing resource base – agriculture, fishing, aquaculture, forestry, trade —and operate in both the informal and formal sectors.

As the law and order situation stabilizes, it is likely that existing enterprises will expand, informal enterprises will be subsumed into the formal sector, and business opportunities will emerge in other areas of the economy such as tourism, manufacturing, and services.

Though of course, there are the business elites who have made their fortunes through illegal trades such as narcotics and gun-running, some of whom may move into more legitimate business activities once the cover of conflict has been removed.

4. DEVELOPMENT CHALLENGES AND OPPORTUNITIES

The extent of the development challenge is daunting. All the economic and social indicators suggest that the Bangsamoro is at the bottom of the heap. This reflects the years of carnage and neglect, the mismanagement of the physical and social infrastructures, and the inability to attract the private investment essential for sustainable, inclusive and equitable growth.

The challenge becomes even more daunting when considering the need to find employment for a growing and underemployed workforce, the armed personnel to be re-deployed, and the potential workers to be resettled.

Some of the workforce will be absorbed into subsistence farming, fishing and informal activities. Others will be employed in public work programs. Some will start their own businesses. But most potential workers – largely unskilled and mostly illiterate — will be looking for jobs in private sector enterprises.

The success of the transition to an autonomous Bangsamoro will depend, to a considerable extent, on the ability of the authorities to attract the private sector investment in new or expanded enterprises necessary to absorb the bulk of these workers, and thus help lift families out of extreme poverty.

Geography poses further challenges. In addition to administrative complications, the dispersed nature of the Bangsamoro region poses transport and other infrastructure challenges that will affect the logistics and cost of doing business.

Further, the differing characteristics of the “island” provinces of the Sulu Archipelago and the Bangsamoro “mainland” provinces suggest differing strategic directions for their development. Initiatives for trade and investment should build on the individual strengths and characteristics of each area.

To the south, the **Sulu Archipelago** has strong historical trading links to Sabah, and much of the workforce in the plantations of Sabah emanate from these island provinces. Apart from subsistence/smallholder agriculture, commercial fishing and other aquaculture activities, the populations of these provinces are very much dependent on these links for their economic livelihood.

To the north and east, the principal link of the Sulu Archipelago to the Mindanao “mainland” is not through the Bangsamoro “mainland” provinces, but through Zamboanga.

Looking ahead, these linkages should be strengthened, with the economic activities along the corridor facilitating and reinforcing the trade flows.

Aquaculture (currently grouper, abalone, seaweed, mudcrab, milkfish) is an important activity in the Sulu Archipelago and will continue to be a mainstay, although coastal and marine resources throughout the islands are highly threatened by over-fishing, pollution and population pressures.

Agricultural produce (currently coconut, cassava, mangosteen, coffee, cacao, abaca) and **livestock** (native chicken, goat and cattle) still offer significant potential, as does **tourism**. However, the presence of armed bandits such as the Abu Sayyaf in the islands of Sulu and Basilan will make it difficult to take full advantage of these opportunities in the near term.

Nevertheless, there is no reason why Tawi-Tawi, now relatively free from banditry, cannot become a significant trading hub and tourist destination in the near future, supplementing its importance as a center for commercial fishing and aquaculture and to some extent mining (nickel laterite). As a start, a tourist bubble, with the aim of developing specific protected sites with appropriate facilities to attract both domestic and foreign tourists, should be considered.

Furthermore, offshore exploration for oil and gas in the Sulu Archipelago offers potential.

The **“mainland” provinces** of the Bangsamoro are rich in minerals and fertile land, and these are expected to be key drivers of their development.

Little is known about the potential for ***minerals and other extractive industries***, although the geology and tectonic settings suggest the prospects are favorable. If explorations prove to be successful, the challenge will be to set or negotiate terms that reflect the true value of the resources, while recognizing the costs and risks to potential investors associated with their extraction in a post-conflict region, and the need to ensure responsible management of environmental and social impacts.

Large projects will take some time to materialize, but the Bangsamoro Government should have the powers to ensure that they operate in a responsible fashion.

Unregulated small-scale mining without environmental safeguards is perhaps a more immediate challenge.

Slash-and-burn farming and both legal and illegal logging have already denuded the forests – leading to massive erosion, resulting in silted dams and river systems and flooded lowlands. Ironically, the deforestation of the lowlands opens up opportunities for commercial farming – including plantations – and the deforested highlands opportunities for commercial, but sustainable, forest plantations.

Agro-activities offer the more immediate potential. Crops such as rubber, oil palm, bananas, abaca, cacao, coffee, and coconuts, offer potential for both smallholder and plantation production and, in some cases, for processing facilities. These crops are already being grown in the Bangsamoro region, albeit only a few on a large scale commercial basis. La Frutera (bananas) and Agumil (oil palm) are often cited as examples of large plantations that work.

There are various models that can be adopted for plantations, most involving out-growers through direct contract growing or through grower cooperatives. The nature of the crop and processing needs will be a major determinant of the most appropriate model, although local conditions such as land tenure, cultural norms and practices, and leadership, will play a significant role.

The Bangsamoro authorities will need to keep an open mind on these arrangements, and work out with the potential investors, on a case-by-case basis, the most appropriate model for the circumstances being faced.

Some non-traditional high value crops that thrive in Mindanao — such as tree fruit crops like mangosteen, marang, lanzones, rambutan, pomelo and durian — lend themselves to farming models based on sustainable smallholder systems. These should certainly be encouraged through extension services providing market, technical and financial advice or support.

Organic and Halal food production can also be expected to be an expanding part of the Bangsamoro agricultural base. The Framework Agreement provides for the Basic Law to give authority to the Bangsamoro Government to accredit Halal-certifying bodies in the Bangsamoro. A Mindanao Halal Industry Task Force has already been set up under the auspices of the Mindanao Business Council, as well as a private sector Halal Certification and Accreditation Board. The Mindanao Development Authority (MinDA) is co-convenor of the Mindanao Halal working group whose core objective is to harmonize all Halal efforts of government agencies in Mindanao. While organic and Halal production also lend themselves to sustainable smallholder systems, some larger-scale operations could be expected.

Some balance between large plantation agriculture and smallholder farming will have to be sought, for reason of both social inclusiveness and environmental sustainability.

However, the critical point is that there poses a challenge on how the Bangsamoro authorities would be able to deal with the magnitude of the employment and poverty challenges without a strong and viable commercial farming sector across a number of crops.

The ***manufacturing and service sectors*** should not be forgotten. Agro-processing and support facilities (cold storage and other postharvest facilities, farm supplies, repairs and maintenance, transport, freighting, accounting etc.) offer significant potential, not only in support of the commercial farming sector but also of the smaller-scale independent farmers.

Given the right conditions, activities such as textile weaving, garments, furniture, ceramics, and light metal fabrication and assembly, could develop on a much wider scale, especially those based on local raw materials. Wage levels and employment conditions will be major factors underpinning investment in these business activities.

Building and construction will offer many opportunities given the scope of the reconstruction effort that will be needed. Many of these activities will be small to medium scale, but will form the bedrock of the industrial base.

There will be opportunities in ***tourism***. The Bangsamoro abounds with cultural tourism and “eco attractions. Unfortunately, the ability to exploit these is hindered by the security situation and thus will have to be put on the “back-burner” for the time being. But, as noted earlier, there are exceptions, such as Tawi-Tawi, where pockets of security could be more-or-less assured.

The move towards strengthening the ties within the **East ASEAN Growth Area of Brunei, Indonesia, Malaysia and the Philippines (BIMP-EAGA)** will open up more opportunities for the Bangsamoro. The private sector is seen as the engine of growth in BIMP-EAGA, and Governments are now making a concerted effort to strengthen partnerships and stimulate cross-border private sector investments.

The Bangsamoro has much to gain from this regional grouping in terms of easier market access and wider business opportunities. Given the religious and cultural ties, the Bangsamoro authorities should look to play, along with MinDA, a significant role in the formulation of BIMP-EAGA economic cooperation programs.

5. BARRIERS TO PRIVATE INVESTMENT

Exploiting the opportunities outlined is not going to be an easy task. Obviously, **securing lasting peace and restoring law and order** is top on the agenda. As stated at the outset of this summation, private investment in business activities on the scale needed will not be forthcoming if the security of assets and personnel cannot be assured. It is recognized that this will take time, but the Bangsamoro authorities will have to provide a clear signal that they will be able to bring things under control, and illustrate their intent through:

- instituting policies and initiating actions to deal with issues such as disarming and reintegrating combatants;
- outlawing private armies, resettling displaced persons; and
- removing discriminatory practices from the judicial system.

Steps to create “pockets” of security for “early-comer” projects could form part of the agenda for these initiating actions on more immediate concerns.

There is also the need to deal with the perceived as well as actual risks facing potential investors in conflict zones. Yes, taking these actions to restore peace, law and order will bring down the actual risks of doing business. But these are not enough. The Bangsamoro Government also has to convince investors that it will remain steadfast in gradually bringing things firmly under its control.

Dealing with the critical physical infrastructure bottlenecks will also be high on the agenda. **Water, land, and air transport** facilities need substantial improvement, with a more conscious effort to integrate them into a more seamless logistical network linking production to supplies and markets. This requires a multi-modal approach to transport systems.

The high cost of inter-island shipping is a major constraint to the competitiveness of producers in all of Mindanao, a result of inefficiencies and poor freight handling facilities in most of the ports, and the lack of competitiveness in inter-island shipping operations. The repeal of the Cabotage Law and enhanced logistics for roll-on/roll-off (RO-RO) – where feasible – would be major boosts to competitiveness.

The road network urgently needs to be upgraded — including construction of farm-to-market roads in previously neglected areas — and other transport modes rehabilitated and expanded. National roads are less of a problem, as the paved ratio in the ARMM is better than other regions in the Philippines. The secondary and tertiary (farm-to-market) roads, the responsibility of local governments, are deficient.

Power, telecommunications, and water supply are also inadequate, but whose provisions extend beyond geography.

Power outages are common because of the bulk power supply shortage in the entire Mindanao grid. At the retail level, system losses by rural cooperative distributors are excessively high, due largely to poor management. Many communities do not have access to electricity.

A similar structural problem can be found in the provision of water supply to urban centers and communities. Water districts are poorly managed and exhibit low collection and high leakages.

Water and environmental management, as well as erosion, drainage and flood control infrastructures are lacking in vulnerable watershed and river basin areas. Irrigation systems are in dire need of repair. The list goes on.

The prospects for attracting new private investment, and the expansion and efficiency of existing businesses will be very much dependent on these vital infrastructures being in place. Since they cannot be remedied overnight, priorities must be carefully chosen, particularly between infrastructures for social reasons (e.g. access to schools and health services) and for economic imperatives (e.g. access to markets).

The Bangsamoro Development Plan (BDP) that is now being prepared will no doubt put considerable emphasis on the rehabilitation and expansion of vital infrastructures. Addressing them effectively will involve looking at the needs in an integrated fashion, and recognizing that in many cases a Mindanao-wide approach to dealing with them will be required.

In power generation, for example, scale economies dictate that the Bangsamoro should continue to link to the Mindanao transmission grid, accepting that there is scope for small-scale hydro and other renewable energy sources that can be tapped, particularly in the islands of the Sulu Archipelago. In addition, there are actions that need to be taken locally to reduce the system losses and improve the efficiency of power distribution through electric cooperatives. Some of the larger plantation and mining enterprises may want to put in their own facilities (even if only for back-up purposes) and could be encouraged to add extra capacities to provide also for the needs of other sectors in their locality.

Addressing the challenges in access to electricity will be critical in spurring the diversification of the Bangsamoro economy, notably in manufacturing. In addition, good governance of electricity cooperatives will be key.

Similarly, planning for the core transport network will require a Mindanao and even wider regional approach. Decisions on ports and primary roads that link the Bangsamoro to the rest Mindanao, the country as a whole, and even to other countries, cannot be taken in isolation without severely compromising efficiency. The decisions on local ports (particularly Polloc port which is vastly underutilized) and secondary and tertiary roads and bridges will, of course, be primarily dependent on local conditions and requirements, but will still be influenced by decisions on the primary network.

The **watershed and river basin areas** require special attention. The Pulangi Watershed and River Basin ecosystem is the life-blood of the Bangsamoro mainland. What happens in the upper Pulangi river basin – which comprises nearly half the province of Bukidnon – has a substantial influence on what happens in the vast Pulangi agricultural basin and downstream provinces of the Bangsamoro. It also hosts a major dam — the Pulangi Dam — that produces hydroelectric power and supplies water for irrigation.

The Liguasan Marsh – the largest wetlands in Mindanao and home to over one million Maguindanaon Muslims – is also an integral part of the Pulangi River Basin. The development (or deliberate conservation) of the Liguasan Marsh exemplifies the complex variables that will have to be considered, and from which the infrastructure provisions will follow.

Obviously, the planning of infrastructure for the downstream provinces of the Pulangi in the Bangsamoro cannot be done in isolation of upper Pulangi. The flooding in Maguindanao, reinforced by the run-off of water after extensive rainfalls in the upper Pulangi — brought about by the denudation of the forests — and the subsequent erosion and thus siltation of the Pulangi Dam and river systems, underscores this need.

It makes sense to look at the Pulangi Watershed and River Basin as the focus of integrated ecosystems development, covering land use, water and environmental management, erosion, drainage and flood control infrastructures, irrigation systems, and transport networks. Designated areas for plantation and smallholder agriculture and reforestation would be included in the planning, as would sustainable aquaculture in the rivers and Liguasan Marsh.

The above are the big-ticket physical infrastructure items that will feature in the development plans for the Bangsamoro. However, other **support infrastructure** should not be neglected, and there are small projects that need not wait for the “master planning” exercise. For example, cold storage and other post-harvest facilities for key high value commodities are generally inadequate, and these may, initially at least, require some Government investment.

Much work has been done on the value chain analyses for a number of products – see for example the Japan International Cooperation Agency (JICA) Industry Promotion Study for ARMM and the United States Agency for International Development (USAID)-Growth with Equity for Mindanao (GEM) Program — and these can be used as a guide to appropriate support infrastructure from upstream (e.g. power, water supply, irrigation) to downstream (e.g. transport, communications, storage) to serve the entire value chain. This work could be extended to selected agro-processing and other manufacturing activities (and covers not only support infrastructures but also support services and inputs, including labor).

Indeed, it would make sense to work through the value chain with potential larger-scale investors, whose decision to invest may, in the end, depend on a critical support infrastructure. Also, it may make sense to phase infrastructure developments around some of the large-scale investments, since they could be the key strategic drivers of development in localities that would otherwise remain depressed.

Attention to the **social infrastructures** will also be crucial. The Bangsamoro fares poorly on all social indicators, including education achievements. ARMM, for example, has the lowest elementary and high school participation and completion rates in the Philippines. More than one-third of the workforce is illiterate. The lack of requisite skills and educational attainment of workers will be a handicap in attracting desirable private sector investments.

The importance of developing relevant and good quality **education and training programs** that are accessible to the masses at elementary, secondary and post-secondary levels cannot be over-emphasized. As well as technical and cognitive learning, character traits formation (discipline, trustworthiness, curiosity, etc.) and

universal values in the context of Islamic culture and a society committed to pluralism, should figure in these programs.

In addition to focusing on how to keep children in school, out-of-school youth should be given special attention since they are the ones most likely to be attracted to bandit and rebel groups. Apart from encouraging them to return to school, financially supported vocational or apprenticeship training schemes may be an option.

The region also desperately needs appropriate skills and expertise in areas of leadership development, business management and entrepreneurship. The mismatch of skill needs of enterprises and the curriculum of the education institutions needs to be addressed. But the most urgent is dealing with the extremely high illiteracy levels among the adult workforce. Technical Education and Skills Development Authority (TESDA)-like programs, as well as utilization of facilities and trainers in private entities operating in the local areas, can create beachheads.

One should also not forget the importance of a **healthy workforce**. In this respect, the provision of Level 1 water supply to many remote villages can be, and should be, high priority as they impinge on health and sanitation.

Land and property rights are another core constraint. Migration and settlement of vast tracts of Mindanao exacerbated land conflicts between settlers, Muslims and indigenous peoples (IPs). The various laws introduced over the years at the national level relating to the ownership of land have “muddied the waters”, often conflicting with traditional land rights based on customary law. Competing claims over land have been a principal cause of the continuing conflict. Uncertainties surrounding land ownership and access can undermine the ability of the Bangsamoro authorities to promote large-scale investments in many localities, particularly in agro plantations and mining.

Although La Frutera’s banana plantation found ways to deal with the land ownership issue by setting up a corporate venture through the lease of land from smallholders but with due consideration to their culture and traditional leadership, there is no certainty that its approach is readily replicable in other locations, and that it will hold sway over the longer-term. Agumil initially adopted a similar approach for its palm oil plantation, but problems arose when agreements with a *Datu* were not honored by his successor upon his death — the enterprises’ current model clusters individual growers into cooperatives.

As mentioned earlier, the Bangsamoro authorities will initially have to be flexible in the approach used for a specific plantation, modeling it on the nature of the activity and on the population and characteristics of the location(s) where it will be operating.

Cultural and environmental dimensions of doing business in the Bangsamoro will be challenging for a number of enterprises. Dealing with land and property rights is, of course, one of these challenges. The resolution of disputes, for example, could be through civil courts, *Shari'ah* courts, or alternative customary modes. Financing could be through commercial banking or Islamic financing channels, if available.

Integrating business activities with a community's cultural system and environmental concerns will be a challenge for some enterprises, especially in mining and other extractive industries. The recognition of cross-cultural sensitivities and the promotion of trust within an organization will be crucial to the success of many enterprises.

While the above are the more immediate and core constraints, there are a **number of other areas that are critical to the investment and business climate over the medium to longer term**, especially to the small and medium scale enterprises that are expected to be the principal drivers of growth. Attention to these areas will signal the intent of the authorities to support the development of a robust, competitive and productive private sector as the overall engine of development.

Business regulations and investment promotion require attention. There is a plethora of laws and regulations pertaining to the establishment and operations of business enterprises in the Philippines. They are complex, and among the most costly in the East Asia region. They also provide considerable scope for corruption. There is a nationwide imperative to streamline the processes and minimize the transaction costs involved in setting up a business, and the overall costs of doing business.

The imperative is even more applicable to the Bangsamoro, where the nature and forms of business activities differ significantly from the national norm, and where the bulk of business activities are in the informal sector. Thus it makes a lot of sense to set up a Regional Competitiveness Committee for the Bangsamoro, linked to the National Competitiveness Council (NCC), to review business regulations, and to design and implement competitiveness and productivity programs, particularly through simplifying procedures underpinning business licensing and operations at the regional and local government levels. These strategies could underpin a broader effort to improve public service and the benefits of formality, which would include most notably the improvement in productivity and access to credit.

Further, the Bangsamoro Government should take advantage of any flexibility it has in devising its own regulations pertaining to investment promotion through incentives and guarantees, and explore the options that would make sense for the type of business activities that it would regard as priorities. In this context, the appropriateness of economic and freeport zones should be reviewed.

The importance of extension services for agricultural and marine pursuits and of support programs for micro, small and medium enterprises (MSMEs) should also be highlighted.

The nature of any special regulations for various extractive industries — such as mining, forestry and aquaculture — and strategic industries — such as plantations and tourism — should be looked into.

Philippine **labor regulations** are, like the business regulations, complex. Many firms find them difficult to comply with. As a result, and as pointed out in the recent World Bank Philippine Development Report, “there is high rate of non-compliance on various labor standards, high *de facto* cost of keeping workers, and low formal sector employment generation ...the excessive regulation has also exacerbated the dualism between the formal and informal sectors”, the latter falling outside the Labor Code.

Minimum wage rates in the Philippines are also high by a number of standards, “thus contributing to its lack of competitiveness in labor-intensive manufacturing”.

These, and any proposed regulations of the National Government relating to labor, should be assessed for their relevance to the Bangsamoro. Within the scope of the powers of the Bangsamoro Government, various options for labor protection and wage setting appropriate to the conditions in the Bangsamoro should be explored.

Ideally, the Bangsamoro Government would have the power to formulate its own regulation relating to labor and wages, moving towards simplified regulations and more flexible wage setting. Failing that, the relevance of proposals for labor employment zones — which aim to exempt enterprises from the application of minimum wage and other selected regulations — should also be reviewed.

Access to **banking and finance** has always been limited in the conflict-affected areas of Mindanao. ARMM has the lowest number of banks to service its population relative to any other region of the Philippines. Bank branches are few, and principally city-based.

The Development Bank of the Philippines (DBP), Land Bank of the Philippines (LBP) and other financial institutions — including the World Bank (WB) and Asian Development Bank (ADB) — have supported large enterprises and/or provided special credit facilities for MSMEs, but the traditional sources of credit have been traders and informal lenders.

Credit has not been readily available in a manner consistent with Islamic banking principles. The only institution offering Islamic banking is the Al-Amanah Islamic

Investment Bank, but its efforts have not been successful, and it had to resort to commercial banking practices to stay afloat. Al-Amanah is currently under the control of DBP, and is being prepared for privatization (could capital be raised in the Bangsamoro region for the purchase of Al-Amanah?).

The various options for expanding banking and financing services in the Bangsamoro need to be explored. The successes and failures of the various programs in the region to date will provide useful lessons.

In addition, the best practices from other parts of the Islamic world could be drawn on to explore the ways in which Islamic banking and financing could be supported and expanded. Regulatory amendments will be required to provide a legal platform for the alternative forms of Islamic financing, which could include the possibility of Islamic banking windows in commercial banks, *sukuks* for financing infrastructures and commercial ventures, and enhanced microfinance facilities based on Islamic principles.

Innovative approaches will be required to convert the challenges in the region into opportunities. For example, it would be interesting to explore whether:

- the current informal land market could be extended/formalized into more reliable sources of asset collateral;
- credit support can be secured from the patronage of powerful local individuals and entities; and
- the religious and moral strictures available from Islamic banking can be utilized to encourage voluntary credit compliance by faith-based borrowers.

One low risk way for banks to enter the region is through transaction banking which is non-credit in nature, e.g. processing the regular flows of *Zakat* remittances, especially inbound from Muslim Overseas Filipino Workers.

A platform for greater long-term banking presence is to build on the region's extensive informal economy, especially the informal trade between the Bangsamoro and BIMP-EAGA, by supplementing and eventually replacing/formalizing the informal credit market that currently dominates.

6. THE WAY AHEAD

The Bangsamoro authorities will have to take **early special actions to help reintegrate displaced persons and ex-combatants and to “kick-start” the**

development process. Many of these will return to subsistence or small-scale farming and fishing, and will require immediately shelter, planting materials, tools and other basic needs. This will then have to be followed by interventions to improve their production, such as small-scale irrigation facilities, access tracks and feeder roads, and extension services.

However, this uplifting of subsistence production will take time, and will not be enough by any stretch of the imagination to meet the needs and aspirations of the peoples of the Bangsamoro. Bolder steps will be required.

The Bangsamoro authorities – led perhaps by the ARMM’s Regional Board of Investments (RBOI) – will have to ***take special actions in the coming months to encourage the early establishment of some – perhaps two or three – large agro-based plantations.*** These could include the significant expansion of existing plantations for current or new crops. In promoting these projects, the emphasis should be ‘transaction-oriented’, seeking out the entrepreneurs who are most likely to deliver, and help in linking them to potential local partners.

The authorities should be fairly ***flexible on the models for these projects, which would be driven by the nature of the crops, their location, the amount of land needed to make the operations viable, and the way land access can be readily obtained and security assured.*** The models could be along the lines of La Frutera or Agumil, or some variation.

Aside from suitability of land and access, the ability to mobilize the required landholdings and assure security of assets and personnel will be the principal factors in determining the most appropriate locations for these projects.

As well as local labor, demobilized Moro Islamic Liberation Front (MILF) forces and returnees could be employed.

Hopefully, these projects could be underway by 2016 when the new Bangsamoro Government is in place.

The National Government and the Bangsamoro/ARMM Government should be ***ready to move on the physical and social infrastructure required to service and support these plantations,*** with donor support if necessary.

Consideration should be given to ***encouraging institutions*** such as the International Finance Corporation (IFC) ***to participate in the equity of the ventures*** if this is needed. A revived Southern Philippine Development Authority (SPDA) could partner the initial ventures in the Bangsamoro to reduce the risk burden of the private sector investors. The Special Development Fund could also be drawn on for these purposes.

The National Government should also **encourage organizations such as the DBP, LBP or even international organizations to consider offering some form of political risk insurance for local investors**, assuming that such insurance may be available from the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group and ADB for foreign investors (although they have been reluctant in the past to offer insurance in conflict-affected areas).

The Bangsamoro authorities should also move quickly in **encouraging and developing Tawi-Tawi as a tourist destination**. It is one of the high priority areas in the National Tourism Plan, and the appropriate National Government agencies are already gearing up for the support infrastructures. Although currently thought of as a relatively safe-haven, a military presence may be necessary for some time to ensure security.

There are already efforts underway to facilitate the bringing together of Bangsamoro entrepreneurs with potential business partners from other parts of the Philippines and nearby countries. These **“match-making” efforts should be further encouraged**, with the business councils and chambers taking a lead role in facilitating the introductions and follow through.

These early special actions will be a signal of intent to support private sector development, and for the new Bangsamoro Government to show some early gains. With the demobilization of forces by 2016, there is not a lot of time to get things going.

Yes, there will be moves that can readily be made by building on existing development support programs of the Government and donors — such as the conditional cash transfers system, community driven development programs, and various on-going infrastructure and extension service projects — but these alone will not be enough.

In parallel to these early special actions, the **basic actions to set in place an inviting business and investment climate over the medium to long term need to be put in train**.

As highlighted earlier, **restoring peace, law and order and ensuring the security of people and assets sits at the top of the agenda**. Genuine peace is essential to attract the levels of private investment necessary to ensure sustainable and inclusive growth in the Bangsamoro. The peace agreement with the MILF provides the foundations for this, but only the foundations. The pockets of resistance and banditry still have to be dealt with, and the dealers in drugs, guns and other illegal trades confronted.

The courts – *Shari'ah* and civil – need to be functioning and effectively dispensing justice. The police, rather than the army, should be seen patrolling the streets. These efforts will take time.

The approach to securing law and order is beyond the scope of our agenda, and is being focused on at the highest levels. However, it needs to be emphasized that a vibrant private sector will be important in supporting this law and order.

This would suggest that, as an interim measure, security zones be set up around key private sector projects and their transport corridors and in selected localities. The Polloc Freeport could be promoted as a security zone for other manufacturing activities. These zones would provide a “safe haven” for business activities. Hopefully, this would only be an interim measure, with the security zones being expanded as banditry and rebellious remnants are reduced to smaller and smaller pockets and ultimately brought under control.

The infrastructure needs, both physical and social, for the Bangsamoro will principally be addressed in the preparation of the development plan that is now underway – a completion date for this plan has been set for May 2014.

JICA has just finished an extensive review of the region’s physical infrastructure, and the MinDA has been engaged in formulating programs addressing Mindanao-wide infrastructure needs, especially for the various development corridors and river basins.

The Australian Agency for International Development (AusAID) – Basic Education Assistance for Mindanao (BEAM) project in ARMM provides a good framework for approaching basic education needs, noting its recent study on work-force skill requirements of enterprises which will help shape the skill-curriculum balance.

The background paper on infrastructure prepared for this workshop highlights some of the critical infrastructure issues from the viewpoint of the private sector. The development plan should adequately address these issues. The Bangsamoro authorities should also interact with National Economic and Development Authority (NEDA), MinDA and other relevant regional and national agencies in planning for those areas where interconnections of Bangsamoro with the rest of Mindanao are vital, such as power, transport networks, and river basin developments.

Possibilities for public-private partnerships (PPPs) in infrastructure projects need to be explored. Innovative approaches will be required in some sectors, particularly where it involves Islamic financing and/or interacts with critical private sector projects, such as those in mining and large plantations. Some may be quasi-private, in that they are projects that in normal circumstances would be purely private sector, but require a transitional period with government involvement until the

security situation stabilizes and throughput enables them to be self-standing. An example could be cold storage and other post-harvest facilities for certain crops. Some may also cross regional boundaries, and thus involve both the Bangsamoro and National governments. We would propose a small team be set up to work with the Bangsamoro authorities to explore these possibilities.

Dealing with land and property rights, business (including mining) and environmental regulations, investment promotion and incentives, support facilities and services, labor regulations, and banking and finance, will require further thought, as they may involve legislative and institutional actions by the new Bangsamoro Government.

A series of smaller, more focused workshops on these topics is planned over the coming months. The outputs of each workshop would highlight the critical issues to be addressed, and the feasible legislative, policy and institutional options to deal with these issues. The outputs would also include the follow-up actions, particularly with the business community and other interest groups. The aim would be to complete any follow-up work before the establishment of the new Bangsamoro Government in 2016, so as to provide it a road map for legislative, regulatory and institutional actions.

Government-private sector interaction will be critical in business-related policy making. It is suggested that a ***Bangsamoro Business Advisory Council*** — composed of prominent businessmen from the national, regional and local levels — ***be established*** to advise and interact with the Bangsamoro Government on business and investment policy matters on a regular basis.

This Council would not be a substitute, but a supplement, to the Bangsamoro government's interaction with local business organizations such as the ARMM Business Council, the Muslim Business Forum, and the various industry associations. These organizations would have valuable local perspectives on many issues. Some of these bodies could be represented on the Business Advisory Council.

The NCC, which has affiliated regional bodies throughout the country, would also like to have an affiliated body in the Bangsamoro. This is a role which the ARMM/ Bangsamoro Business Council could possibly play.

It may make sense to expand the scope of the Business Advisory Council at some stage to include other relevant labor and civil society organizations to enable a more inclusive dialogue on the business development agenda.

Cutting across all these actions will be governance, institutional capacity, and gender issues.

A major challenge will be the transition from the ARMM institutional structures and procedures to the new Bangsamoro institutional structures and procedures. While it may be tempting to dismantle all the existing apparatus and start from scratch, this would be a big mistake. Yes, cut off the obviously diseased parts of the apparatus and those that are not relevant to the new government structure, and necessarily modify the remainder as the new government moves along. While this may cause some discomfort to the leaders over an extended period, it will allow a smoother transition, and avoid the pitfalls of a capacity vacuum that may never be adequately filled. One will also find that there are some good parts of the apparatus that one will be glad to have retained and not dismantled.

There will still be capacity gaps. These ***capacity gaps need to be recognized early in the transition so that action can be taken to deal with them.*** Yes, simplifying regulations and procedures will go a long way towards dealing with the capacity issue, but there will still be a need for specialist skills for dealing with, and supporting, business enterprises. Often, in the transition, not enough thought is given to these needs.

It is strongly recommended that the Bangsamoro authorities review in the very near future the skill needs and assess the capabilities currently on the ground, and where there are gaps, look for means to deal with them. This could involve bringing in new skilled personnel, seeking donor support for enhancing capabilities of existing personnel, and/or seeking technical support from outside institutions, at least on a temporary basis.

In ARMM, women are actually more than half the population and have taken the brunt of the fall-out from the protracted armed engagements in the region. Harsh realities of surviving in conflict situations and the impoverished environments prevalent in the region have added to the burdens of women in caring for their families, and may have imposed barriers to their meaningful participation in their communities' transformation.

Cognizant of these realities, the Philippines is signatory to United Nations Security Council Resolution 1325 — the international legal framework that addresses not only the impact of war on women, but also the role women play in conflict management and resolution, and sustainable peace - and has implemented a National Plan of Action. Bangsamoro efforts to address gender issues include the incorporation of provisions on women's rights in the Framework Agreement, and the inclusion in the Bangsamoro Development Plan of a section on women's participation.

Education and capacity building for women is a key foundation for inclusive and sustainable economic growth, particularly since women's education has proved to

be linked a higher productivity, higher returns to investment, higher agricultural yields, and a more favorable demographic structure.

Workshop No.2

BANKING AND FINANCE IN THE BANGSAMORO

1. INTRODUCTION

This thematic workshop – held in partnership with the *Bangko Sentral ng Pilipinas* (BSP) – was aimed at providing a clear picture of the current state of play of the banking and finance sector in ARMM, as well as indicating the critical issues affecting the development of the sector in the region.

It also provided a forum for providing a common basic understanding of the fundamentals of Islamic banking, capital markets and microfinance. Legal constraints for the sector were also discussed, and alternative regulatory and governance arrangements were explored.

The agenda and participants for this workshop are presented in Part 2 of this report. The workshop was held on March 11-12, 2014 at the Executive Business Center of the *Bangko Sentral ng Pilipinas* in Manila. Some 50 participants attended, with representation from political, academic, public, and private financial and other institutions at the Bangsamoro, Mindanao, national, and international levels.

2. BACKGROUND ON BANKING AND FINANCE IN THE BANGSAMORO

The Bangsamoro is the least-banked region in the country. This is a symptom of more fundamental, interconnected issues facing the region, such as:

- the low level of household income and lack of opportunities for wealth creation;
- the dominance of informal activities in the business base of the economy;
- unclear property rights; and
- the presence of risk and instabilities caused by political conflict and clan wars, and the inhibiting persistence of backward institutions.

Further, Islamic banking and finance is yet to gain a strong foothold.

The legal and regulatory infrastructures that would enable – given the right conditions— the flourishing of Islamic banking and *Shari'ah*-compliant microfinance and other financial institutions in the region are glaringly absent.

So far, the only Islamic bank in the country is the Al-Amanah Islamic Investment Bank of the Philippines, which was set up in 1973 under its own legal charter. However, it failed to take off in Muslim Mindanao because of:

- the lack of a clear understanding by the people of the region of the concepts of the Islamic banking system and its products;¹
- the peace and order situation made it difficult for people to access the bank's offices and to engage in business activities which required funding;
- the high degree of informality in the business sector and low savings levels;
- the lack of appropriate skills and capacity in the organization itself; and
- the perception of Al-Amanah Bank as merely a government-owned instrument to appease the Muslims, highlighted by the fact that Muslim members of the board have no background in banking and finance.

Bringing peace and order to the Bangsamoro will provide a new and more conducive environment to the growth of the banking and financial system. But it will not be enough.

Concerted action will have to be taken on a number of fronts to create a business and investment climate conducive to the development of a robust and productive private sector, reflective of the cultural and religious aspirations of the Bangsamoro population. These include actions focused on:

- infrastructure, both physical and social;
- business and labor regulations, including incentives and support services;
- land and property rights; and
- fiscal mobilization and resource management.

These must be done in parallel to the specific actions relating to the banking and finance system.

¹ The people in the region who use banks, prefer other banks. The people who understand Islamic banking know that the Al-Amanah Bank is not operating as an Islamic bank.

The nature of these actions is the subject of the workshop series. These actions are an important part of the Development Plan for the Bangsamoro now being prepared by the Bangsamoro Development Agency (BDA).

3. ROAD MAP- STRATEGIC APPROACHES AND ACTION PLAN

3.1. A Dual System of Conventional and Islamic Banking and Finance

Both conventional and Islamic banking and finance facilities will play a role in the Bangsamoro.

A dual banking and finance system recognizes the fact that:

- the conventional banking and finance system underpins the economic structure of the country as whole; and
- the Islamic banking and finance system can provide an alternative for the segment of the market that wishes to adhere to Islamic principles.

A well-developed Islamic banking and finance system will also attract attention from non-Muslims who recognize the benefits of Islamic financial instruments.

It will take time for Islamic banking and finance to take root, and traditional banking and finance facilities will have to be relied on in the interim. However, it can be expected that the conventional banking and finance system will always play a significant role in the Bangsamoro.

Islamic banking and finance must be looked at from the national perspective as well as from the Bangsamoro perspective because of:

- the large Muslim population outside of Bangsamoro that will also want to access Islamic financial instruments and services;
- the many instruments and services that can be provided by entities whose main place of business is Manila or even overseas; and
- the legal mandate of the BSP and other national government instrumentalities.

It is thus critical for national legislation to underpin Islamic banking and finance in the Bangsamoro and the rest of the Philippines, accepting that the core of the activity will be in the Bangsamoro.

The Islamic banking and finance system offers benefits not found in the conventional banking and finance system, as it:

- offers products with interest-free mechanisms, and discourages leverage;
- eliminates unproductive speculation and introduces the concept of risk-sharing and partnership, with a high level of moral principles — suppliers of funds become investors rather than creditors, and share business risks with the entrepreneurs in return for share of profits; and
- has close links with the real sector of the economy – it introduces a materiality aspect that links financing directly with the underlying asset, so that financing is linked to the real sector activity.

Besides, it will not pose a “threat” to the viability of conventional banking and finance, even in the Bangsamoro.

On the contrary, it should improve the overall system in both the Bangsamoro and the Philippines, as well as provide the conventional banking industry with new products and services, should the regulatory environment allow Islamic banking and finance to be implemented.

Globally, Islamic banking and finance is a growing industry, with London developing itself as a major Islamic banking center. Major international banking institutions such as Hong Kong and Shanghai Banking Corporation, Citibank, Hong Kong and Standard Chartered Bank, all have Islamic banking products and services.

An orderly development of both the conventional and Islamic systems should:

- promote healthy competition, leading to increased market discipline and improved customer service and value;
- increase the deposit base, as products like “*tabun haj*” – a savings account for the annual pilgrimage to Mecca – are introduced; and
- lead to a better spread of financial risks over the economy.

3.2. Expanded Conventional Banking and Finance in the Bangsamoro

All facets of the conventional banking system will have a role to play in the future Bangsamoro.

With peace and order and an improved business and investment climate, it can be expected that the development, commercial and rural banks will step up to the plate and provide financial support to, for example:

- business enterprises in the informal sector that wish to “move” into the formal sector to take advantage of the new economic environment; and
- new and expanding activities taking advantage of the resource base and peace and order situation.

However, this will require dealing with the risks posed by unclear property rights, especially with regard to lands titles, and accessibility problems for many savers and investors, given the limited branch network of most of the development and savings banks.

Property rights issues are being addressed and will be the subject of the next workshop.

Accessibility issues should diminish as peace and order is restored and transport links are established.

Local institutions providing non-collateralized loans, especially rural banks, appear to have the greatest potential in the short term for enhancing the flow of funds in the Bangsamoro.

Microfinance programs run by cooperatives and non-government organizations (NGOs) will continue to be active, but they also have been handicapped by problems of security.

Donors continue to be active in putting in place financial support for MSMEs, and some of these involve support for agri-businesses based on Islamic financing modes. These programs should be further encouraged.

The Land Bank of the Philippines has been the most active bank in the region. It is expected that the bank will be in a position to significantly expand its lending program once peace and order has been restored. It could be a more effective conduit of funds to the more localized rural banks and microfinance institutions.

DBP has been less active. It should be encouraged by the National Government to have a more active presence in the region.

3.3. Issues and Policy Options Relating to Islamic Banking and Finance

The real challenge is getting Islamic banking and finance up and running. In doing so, five (5) principal issues will need to be addressed:

- an appreciation of the nature of appropriate Islamic banking and financial institutions and instruments /products for the Bangsamoro and the country as a whole, and the steps necessary to enable them to be provided;
- making people, especially in the Bangsamoro, aware of the concepts of the Islamic banking system and its products – this includes government officials and politicians as well as the general population – and the benefits offered by these products;
- the lack of appropriate skills in the country on Islamic finance and banking;
- ensuring *Shari'ah* compliance arrangements; and
- the lack of a suitable legal infrastructure for Islamic banking and finance, and of a framework for dealing with governance and accounting and auditing standards, and for ensuring a level playing field in taxation and other relevant policies for Islamic and conventional financial instruments.

It must be recognized that the current market for Islamic banking and financial products in the Bangsamoro – and indeed in the Philippines as a whole - is small, and this will limit the pace and nature of their introduction. A demand survey is perhaps called for.

Institutions and instruments of Islamic Banking and Finance

All aspects of Islamic banking and finance potentially have some role to play in the Bangsamoro and the Philippines as a whole, viz:

- banking;
- capital markets, including *sukuk*, stock market and mutual funds; and
- non-banking financial institutions, including *takaful* and microfinance.

Islamic banking and finance should be looked at as a “system”, and it is thus critical that the foundations be set for the development of institutions and products across all these aspects.

Business and economic reasons should underpin the system’s development, not merely political considerations.

Also, the system’s development should not be rushed. The market should have the say in what is possible and what is not possible.

The legislative base should be wide and flexible enough to enable the market to do its work, recognizing the rapid evolution of Islamic financial products and their delivery mechanisms.

There are two (2) general categories of ***Islamic banking***:

- fully-fledged Islamic banks; and
- conventional banks operating Islamic banking windows.

Some of the fully-fledged Islamic banks could be set up as a subsidiary of conventional banks, where the operations and management are clearly separated.

While fully-fledged Islamic banks ensure compliance in line with *Shari’ah*, avoid co-mingling of funds, and avoid conflicts in management objectives, the arguments for allowing Islamic banking windows – especially in a “green field” environment – are strong:

- gradual implementation is more easily absorbed, noting that it will take time to build up a customer base, educate the public, develop human resource capabilities and mold the regulatory environment;
- cost efficiency is more readily achieved, since existing infrastructure can be leveraged and duplication of resources minimized;
- the technological know-how of the conventional banks can often be readily transferred; and
- it is easier to attract the non-Muslim market to Islamic instruments.

Three (3) principal options – not mutually exclusive – could be explored.

The *first option* would be to allow only fully-fledged Islamic banks to be set up, as this avoids the moral hazard associated with the possible contamination associated with conventional banks operating Islamic windows.

Under this option, a start could be made by strengthening Al-Amanah, perhaps by bringing in experienced partners from Malaysia or the Middle East.² The downside of this option is the possible “contamination” of Al-Amanah, such that potential buyers may not develop trust in the institution. However, the fact that Al-Amanah is the only Islamic bank in the country, with a powerful charter, may be the major attraction for buyers.

The *second option* would be for the Bangsamoro Government to set up its own fully-fledged Islamic bank, which could also serve as a depository for regional and local government funds. Again, experienced partners could be brought in under a management or technical assistance contract. This could, of course, be a revived Al-Amanah.

The *third option* would be to provide for both Islamic banking windows and fully fledged Islamic banks, allowing the “market” – appropriately guided and monitored by the BSP – to determine the most suitable form of delivery mechanism for Islamic banking products. The challenge is to appropriately “ring fence” the windows to ensure they are not “contaminated” by conventional banking operations. This approach was successfully adopted in Malaysia.

It could be expected that a number of the current conventional banks would want to explore the opportunities for operating Islamic windows, and some may want to consider establishing fully-fledged Islamic subsidiaries.

The government may wish to consider encouraging Land Bank to open an Islamic banking window since it has the most extensive network of branches of all banks in the Bangsamoro.

Foreign banks may also want to enter the market, and this could be in joint ventures or technical/management agreements with local banks that do not have the necessary know-how in Islamic banking.

² There have been two failed attempts to sell the majority share of Al-Amanah to foreign Islamic banks. The ownership of Al-Amanah currently rests with DBP, which is undertaking a rehabilitation program with the aim of shifting it back to Islamic banking as soon as possible. Personnel have been sent to Malaysia for training with the Islamic Financial Services Board (IFSB). DBP wishes to privatize Al-Amanah and believe it could effectively serve the market again by 2015.

There has already been some interest expressed by local and foreign commercial banks to take-over Al Amanah, using it as springboard for introducing a wider range of Islamic banking and finance instruments.

As a starting point and while the legislative base is being formulated, the possibilities for exploiting the Al-Amanah charter to set up subsidiaries and introducing alternative Islamic financial instruments could be explored.

The legislative base should allow for all these possibilities. Islamic banking is still evolving, and it will be important to provide flexibility in the way banking services are provided.

Islamic capital markets perhaps offer the fastest route for introducing Islamic banking and financial products into the Bangsamoro.

Sukuks – certificates of ownership in a pool of underlying assets in which the certificates are of equal value – offer a means for mobilizing funds for expanding and offering new projects, and supporting ongoing business ventures.

A return is obtained through a sharing or leasing of assets, and reflects the profitability of a project.

Assets are not there as security, but are used for creating *Shari'ah*-compliant returns associated with the ownership or leasing of assets, i.e., asset-based financing rather than asset-backed.

These are flexible instruments, and can be customized to needs. They attract both Islamic and conventional lenders, the latter purely on the basis of their economic opportunity.

Sukuks are suited to PPPs, and these could form a significant component of the development thrust in the Bangsamoro, particularly to finance infrastructure in support of critical private sector projects.

Major private sector projects in the region could also be encouraged to pursue *sukuks* in the financing of their operations.

The financing can be organized on-shore or off-shore, and could be arranged without the necessity of establishing an institutional base within the Bangsamoro or even the Philippines.

The Bangsamoro government and local governments should also explore meeting their “borrowing” needs through *sukuks*.

In this respect, *sukuks* are an ideal way of introducing Islamic financial instruments into the Bangsamoro.

Under present Philippine taxation regulations, they would be prohibitively expensive instruments, since the transfer taxes, value-added tax and capital gains tax associated with the asset transfers place them at a considerable disadvantage in relation to conventional bonds. The regulations would need to be amended to ensure a level playing field.

The Philippine Stock Exchange (PSE) has taken steps towards Islamic finance. It has announced some 47 of its listed companies as *Shari'ah*-compliant stocks. The screening was based on the globally accepted Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards. This has now provided Muslim Filipinos from the Bangsamoro and elsewhere with a local alternative for *Shari'ah*-compliant investments, when otherwise they would have had to look at suitable overseas investments.

Products of a "grassroots" nature, such as **microfinance**, offer considerable potential, since they are seen as means of combating poverty, particularly in rural areas.

In many respects, a "bottom-up" approach to introducing Islamic financial products makes a lot of sense. This would be in keeping with the undeveloped nature of the Bangsamoro economy and the lack of awareness of the more sophisticated Islamic banking and financial instruments.

The dominance of informal activity in the Bangsamoro and the difficulties associated with collateral over property and land, suggest that Islamic microfinance facilities could play a major role in expanding the economic base. However, there is a need for:

- service providers with outreach to the rural areas where the need for support is greatest; and
- suitably designed and affordable instruments tailored to the needs of the Bangsamoro market.

Village and rural banks provide around three-quarters of *Shari'ah*-compliant microfinance products in Muslim countries, with the remainder being split among NGOs, cooperatives, commercial banks, and other non-bank financial institutions. Islamic banks have not been very active in microfinance. In the Philippines, it is likely

that cooperatives and NGOs would be the initial conduits for Islamic microfinance instruments, although rural banks may be willing to become conduits.³

Donors should be encouraged to expand their programs involving financial support to small farmers based on Islamic principles. These could be channeled through rural banks wishing to move away from conventional banking towards Islamic financing, cooperatives and accredited NGOs.

Associated with the financial support could be appropriate technical support, thereby enhancing the capacity of these organizations to sustain their programs over the longer term without the support of donors.

The Muhammadiyah model of Indonesia is worth exploring because of its applicability to the Bangsamoro.

This model also introduces *Takaful* (micro insurance) as protection to reduce risks associated with the possibility of losses. There is certainly a demand for insurance against crop failure by Muslim farmers in the Bangsamoro, but their ability to pay the necessary premiums is questionable.

Means of providing affordable *takaful* need to be explored further. It is understood that the Insurance Commission of the Philippines (ICP) is already working on drafting regulations with the intention of introducing *takaful* products into the country.

Trade finance will provide a ready avenue for the adoption of Islamic finance principles, especially with the onset of the Association of South East Asian Nations (ASEAN) free-trade regime starting next year. This would build on the traditional trade flows between Muslim Mindanao and its Indonesian and Malaysian neighbors.

Trade finance could be along the lines of *Murabahah*. The CIMB model offers an example.

Educating the public

Raising the public awareness for Islamic banking and finance operations is critical. Most Muslims in the Bangsamoro and the rest of the Philippines have been exposed to conventional banking and finance over many years, and are unaware of Islamic products and their benefits.

For Islamic banking and finance to succeed, this has to change.

³ However, Philippine rural banks have apparently been moving away from microfinance - it is unclear whether or not this is also apparent in the Bangsamoro.

A communications strategy should be prepared to educate the public on the Islamic banking and finance principles, and the products available to them. This should be across all stakeholders, Muslim and non-Muslim, and be based on careful socio-economic research.

The commercial aspects as well as the religious underpinnings should be stressed.

While the mosques offer a convenient avenue for dissemination of this information, care should be taken that the messages are not “hijacked” and misused.

Chambers of Commerce and other business associations could also be avenues of dissemination.

Even schools could be used in disseminating for basic understanding of *Shari’ah* principles underlying Islamic financing.

Muslim academics, professionals and local leaders who enjoy the respect of their local communities should be at the forefront of these campaign in the Bangsamoro.

The activities should emphasize Bangsamoro links to regional and global Islamic banking, and the potential for the Bangsamoro to be a business and cultural hub not only in BIMP-EAGA, but as a gateway to the rest of ASEAN as well.

Development of skills

There is a dearth of skills in Islamic banking and finance in the Philippines, more so in the Bangsamoro.

A program for developing the necessary skills will have to be formulated, and perhaps the BSP would encompass this in their agenda.

Academic support is critical, and means to financially support the development of suitable courses in academic establishments will need to be explored. This would include formal courses in universities and short term-programs through institutions such as TESDA, the Bangsamoro Leadership and Management Institute (BLMI) and the Development Academy of the Philippines (DAP).

Partnerships arrangements with, and/or technical support from, Malaysian and Indonesian (or other Muslim countries’) universities and training institutions should be considered.

Shari'ah compliance arrangements

The approach to *Shari'ah* compliance will be a major challenge. The lack of knowledgeable scholars in both Islam and finance will be a limiting factor over the near term.

In most mature Islamic banking and finance systems, there are *Shari'ah* advisory boards in both the banking and finance regulatory agencies – principally the central bank, in the case of banking system, and the ministry/department of finance.

The boards ascertain the compliance of a financial product with *Shari'ah* laws – and their decision is accepted as final.

In Malaysia, Islamic banks – including private commercial banks that wish to open Islamic windows – have their own *Shari'ah* advisory boards, which determine whether financial products are *Shari'ah*-compliant. The CIMB banks, for example, have in-house regulators. However, the success of this type of self-regulation depends on the acknowledgment that all banks adhere to principles of *Shari'ah* and are equally compliant – no bank is more compliant than the rest.

The Indonesian system does not rely on the issuance by *muftis* on *Shari'ah* (or determination whether a nonbanking financial product is compliant or contravenes *Shari'ah* principles). There is no recognized hierarchy of *muftis*.

Instead, the system relies on the collective opinion of religious scholars (*ustadj*, *imams* who are chosen to represent their organization/party) who constitute the advisory board. They determine whether a financial product is *Shari'ah*-compliant (decisions are reached by majority vote), and issue *fatwas* (opinions). All *fatwas* are compiled and provided to the central regulatory agency, which formulates the corresponding regulation based on the *fatwas*.

In the Philippines, there is an issue of credibility over *fatwas*, particularly where the *mufti's* deliberation may be influenced by factors other than interpretation of *Shari'ah* law. In conflict areas, “transactional considerations” may be given more weight than actual application of *Shari'ah* law.⁴

The most suitable course of action for the Bangsamoro and the Philippines will need to be explored. This may involve adopting interim measures, including tapping ASEAN expertise.

⁴ In the early years of Al-Amanah Bank, operational manuals were formulated based on *Shari'ah* concepts and principles. It was suggested these could be updated and used as a reference point for *shari'ah* compliance, at least in the interim.

Legal infrastructure and standards

The legal infrastructure is critical, and a number of institutions will have roles to play. These include the BSP, the PSE, the Securities Exchange Commission (SEC), and the Department of Finance (DoF). If these institutions provide the necessary legal framework at the national level, the need for legislative action by the Bangsamoro government will be minimal.

The BSP will need to provide the basic legal framework for Islamic banking. This would mean providing the appropriate regulatory framework for the licensing and supervision of Islamic banking in the Philippines, including the Bangsamoro.

Ideally, the legislation would be flexible enough to allow for the full range of Islamic banking arrangements, recognizing that the products and instruments are continually evolving as the industry matures, viz.:

- establishment of new fully-fledged Islamic banks or conversion of conventional banks into Islamic banks, whether domestic or foreign-owned, commercial or rural;
- establishment of Islamic banking windows or subsidiaries within conventional banks;
- opening of branches that operate as Islamic banking branches or converting conventional branches to Islamic banking branches; and
- establishment of sub-branches or Islamic banking services within conventional branches, and converting and upgrading the status of conventional sub-braches to that of Islamic banking branches.

The BSP would also need to look at means of dealing with liquidity management problems peculiar to Islamic banking institutions.

The BSP will likewise have to work closely with other government agencies for allied activities such as:

- necessary reforms to the tax system to reflect the special nature of Islamic financial instruments, and in particular to nullify the inherent advantage the current system offers conventional bonds over *sukuks*;
- supporting non-banking institutions providing Islamic capital market and insurance products; and

- setting up quasi-legal institutions.

The intention is to use the Financial Services Forum (comprising the BSP, SEC, ICP, and the Philippine Deposit Insurance Corporation) in order to secure cross-cutting and coordinated government support.

The extent of legislative action required in these areas needs to be looked at carefully. There may be enough scope under existing laws – through changes in regulations and operating procedures – to effect the necessary policy actions without the need for legislative changes.

Regarding the setting up of quasi-legal institutions, the BSP could follow the actions, for example, of Bank Indonesia and establish:

- a separate body to license, regulate and supervise Islamic banks;
- a panel of Islamic experts to advise the BSP on relevant *Shari'ah* issues relating to the financial sector;
- a National *Shari'ah* Board that may issue *fatwa* concerning new instruments and recommend persons to serve on the *Shari'ah* supervisory boards within each bank; and
- a specialized agency to settle disputes according to Islamic law.

Note that the Organic Act underpinning ARMM provided for the BSP to set up a regional office, but this did not happen. If the Basic Law currently being prepared has the same provision, the BSP should be encouraged to move ahead and establish the office, and use this to spearhead Islamic banking in the Bangsamoro.

The Bangsamoro Government will have the power, subject to supervision of the BSP, to encourage the establishment of banks and financial institutions and their branches, and off-shore banking units of foreign banks.

This provides a good basis for the BSP to work closely with the Bangsamoro authorities in ensuring a local presence of financial institutions providing Islamic banking and financial products.

The Philippine Association of Islamic Accountants could also play a role in setting accounting and auditing standards for Islamic banks, following the principles set out by AAOIFI.

The Islamic Financial Services Board (IFSB) standards and guiding principles for corporate governance, risk management, and capital adequacy can also be a guide to setting these standards.

The SEC will also have to review its regulatory base relating to capital markets to ensure an appropriate framework for Islamic capital market products, particularly *sukuks*.

It is critical for the BSP and SEC to show fair treatment between conventional and Islamic institutions and products. A level playing field is important, although the embryonic nature of Islamic banking and finance in the Philippines – indeed the rest of the world though maturing quickly – suggests some additional nurturing is required.

4. CONCLUDING REMARKS

It is critical that the “ownership” of the action plan for developing Islamic banking and finance in the Bangsamoro rests with the Bangsamoro people.

However, it must be recognized that the implementation of any plan will require legislative and institutional actions at the national level as well as the regional level. This will necessitate close cooperation between national agencies (such as the BSP) and Bangsamoro agencies (such as the BDA) in formulating the action plan.

The plan itself will have to recognize the multiple fronts that need to be addressed, ranging from the legislative agenda, public education, skills development, *Shari’ah* compliance arrangements, and mobilizing the interest of the banking and financial community in the opportunities for Islamic banking and finance in the Bangsamoro and the country as a whole.

It must also recognize that conventional banking and finance will still have a role to play in the Bangsamoro, especially given that it will take time for Islamic banking and finance to take root.

The proper sequencing of the actions will be critical, and should reflect the evolution of the market and capacity realities. Political considerations cannot be avoided, but they should not dominate the decision-making process, as this would run the danger of moving along an unsustainable and non-viable path.

Workshop No. 3

LAND AND PROPERTY RIGHTS IN THE BANGSAMORO

1. INTRODUCTION

This thematic workshop – held in partnership with the University of the Philippines Law Center of the UP College of Law – aimed at providing a clear picture of the rules, regulations and issues on land ownership and tenure in ARMM and the Philippines, and their relevance to the new Bangsamoro region.

Sessions were also devoted to discussion on the the management and current status of exploitation of mineral resources in the ARMM, and the national laws and international treaty obligations relating to the new Bangsamoro waters. International best practices related to land and property rights were also presented.

The agenda and participants for this workshop are presented in Part 2 of this report. The workshop was held on June 4-5, 2014 at the Malcolm Hall of the University of the Philippines College of Law in Quezon City. Some 60 participants attended, with representation from political, academic, public, and private institutions at the Bangsamoro, Mindanao, national, and international levels.

2. BACKGROUND ON LAND TENURE IN THE PHILIPPINES

2.1. Land Tenure at the National Level

The Philippines adopts a Torrens title system for land ownership. The official registry is kept by the Land Registration Authority (LRA), with a network of 164 Registries of Deeds, under the Department of Justice (DOJ). In addition:

- the *Land Management Bureau (LMB) under the Department of Environment and Natural Resources (DENR)* administers the distribution of alienable and disposable public lands using patents of various forms. It also maintains technical information on land records based on cadastral surveys;
- the *Forest Management Bureau (FMB) under DENR* issues instruments of land rights for inalienable public forest lands;
- the *Department of Agrarian Reform (DAR)* implements the Comprehensive Agrarian Reform Program (CARP), and issues the Certificate of Land Ownership Award (CLOA) as proof of land transfer. This is registered with

LRA with encumbrances; and

- the *National Commission on Indigenous Peoples (NCIP)* issues instruments over lands in the ancestral domain, i.e. Certificates of Ancestral Domain Title (CADT), and Certificates of Ancestral Domain Claim (CADC).

Other key players in the land administration system are:

- the *courts*, that have the power to settle ownership claims which are then reflected in the registered title; and
- *local governments*, which collect real property taxes and enforce land use laws and ordinances.

In the absence of formal title, a tax certificate is a key document to establish possession.

The country's present land administration situation is plagued with many problems, including:⁵

- multiple agencies, with duplicating and overlapping functions and complex processes;
- multiple laws, leading to inconsistencies, especially on agency functions and mandate;
- multiple land titling process, with the emphasis on a judicial mode of titling (in contrast to the rest of Southeast Asia which use an administrative mode of titling);
- multiple forms of ownership; and
- multiple standards for land valuation, and multiple agencies undertaking valuation.

These problems are compounded by inefficient land record management due to lack of resources, facilities, and trained personnel, as well as failure to archive or preserve documents, not to mention faulty information systems.

The country also suffers from:

⁵ Briones (2013)/Dealca (2009)

- an incomplete and deficient cadastral survey;
- a large number of untitled parcels;
- weak monitoring of land policy;
- limited public participation in land use planning processes;
- lengthy and expensive appeal processes; and
- weak framework for large scale land investments, resulting in conflicts, uneven sharing of benefits, and increased investor risks and costs.

2.2. Land Tenure in the Bangsamoro

These problems at the national level are magnified in the Bangsamoro.

The World Bank/IOM Land Scoping Mission in the Conflict Areas of Mindanao found that there is very limited formal data on land ownership and usage.⁶

In cases where information on land tenure exists, the Mission found its legitimacy was frequently questioned:

- better educated, more powerful individuals or groups could register land that is being claimed by others, usually the poorer and more vulnerable members of the population who neither understand the importance of title registration, nor have access to the complicated and corruption-prone process of land titling;
- allegations of irregularities within the responsible institutions further undermine trust in written records and contribute to land conflicts; and
- attempts to rationalize and centralize the storage of land ownership data have failed as a result of the lack of capacity and willingness to cooperate, as well as vested interests in the agencies involved in land titling.

This means that it is not possible to say with certainty how much land is currently titled correctly in the Bangsamoro, and how many competing land claims exist.

⁶ Figures compiled by Kadtuntaya Foundation in 2004 indicate that some 64% of the 527,440 total land parcels in ARMM were titled (compared to 54% for the whole of the Philippines) and 94% documented by tax declaration (compared with 89% for the whole of the Philippines).

2.3. Evolution of Land Rights

Traditionally, land rights in Muslim Mindanao were based on *adat* or customary law. This law recognized the *Sultan's land*, which may be granted or leased, and *communal land*, for which usufruct rights may be allocated to tribal members.

Owing to the belief that resources are owned by God, property rights are not absolute but rather convey stewardship over land, with the stewards expected to make the land productive, benefit the common good, and provide support for the neediest (*zakat*).

The Spanish colonial period introduced the “Regalian doctrine” in which Spain claimed state ownership over all lands in the colony, although this was not imposed in Moro-controlled areas.

During the American period, the colonial government imposed the Torrens system on all private lands. All unregistered lands were automatically classified as public lands under ownership of the State, and all grants of titles made by non-Christian chieftains, *datus*, and sultans were nullified. The colonial government actively attempted to open up Moro and *Lumad* lands to Christian settlers and corporations.

Following independence, the Government of the Philippine Republic continued these land policies. The opening up of vast areas in Mindanao to migration and settlements was accelerated, exacerbating land conflicts between settlers, Muslims and indigenous peoples. Elite and big business interests would play a key role in displacing Muslims and *Lumads*, they having acquired lands to establish plantations and logging concessions.

Land-related strife and political grievances precipitated the Bangsamoro insurgency, officially launched in 1973.

The World Bank/IOS Scoping Report identified several ways in which usurpation of land rights transpired within a wider context of conflict, and itself worsening the scale and intensity of conflict:

- forced displacement of earlier claimants, followed by titling by a new set of occupants — many Moros and *Lumads* were displaced, with their lands being titled subsequently by Christian settlers;
- local elite actors titling land that belonged to poor people, many by means of the land reform program;
- land acquisition through fraud — for instance, original rental agreements

during periods of conflict were fraudulently altered into permanent sales;

- acquisition of land under duress — a typical scenario is during an insecure period, a family head may depart or sell land under unfavorable terms, with later heirs reclaiming the land or seeking redress in the terms of sale; and
- *de facto* acquisition of land through physical occupation — in some cases families settled on land they thought was unclaimed, or which they knew was claimed, with the intent to later convert possession into ownership.

2.4. Land Tenure in Practice

Based on field investigation reported in Briones (2012), the overriding consideration for customary tenure is possession, seen as legitimate occupation at the community level. Possession may not necessarily be supported by formal title.

Informal tenure is sufficiently established even to affect an orderly transfer of rights, supplanting the need for a formal sale.⁷ The informal market mimics the formal one but without the transaction costs of notaries, surveyors, tax assessors, and the like, hence opening up the land market to the poor, and improving the efficiency of land use.

However, legitimacy will typically require mediation by local strongmen, i.e. clan and village chieftains, or local politicians. But the system is not foolproof. Local strongmen may act not as a referee, but as an interested party, either as a buyer of land or a seller — in such cases the outcome of a transaction may be questioned by some members of the community and may even exacerbate conflict.

It is often not clear what extent of control, formal or informal, is exerted by clan leaders.

The popularity of informal land markets implies perpetuation of the poor level of land documentation.

Consolidation persists in some areas despite implementation of CARP. Lapses in implementation in land reform implementation occur at the field level, with knowledge and connivance of some local officials. Farmers are also responsible, as they fail to assert their rights.

In the island provinces, there is less of a tendency for the prominent clans to consolidate large farm landholdings — landholding inequality is therefore not as extreme as in the mainland provinces.

⁷ Gulane (2013)

The scope of CARP in ARMM is about 340,000 hectares,⁸ of which some 70% had been accomplished by 2011, benefitting some 83,000 beneficiaries. Based on Commission on Audit reports, Guttierrez and Borrás (2004) conclude that evasion and plunder under Voluntary Land Transfers (VLT) and Voluntary Offers to Sell (VOS) is worse in ARMM than in the rest of the Philippines.

A special case of formal tenure is land held by agrarian reform communities (ARCs) and/or resettlement areas. Premised on proper land documentation, these lands showcase the exercise of *de facto* and *de jure* property rights by smallholders in ARMM.

While lands have been titled to Agrarian Reform Beneficiaries (ARBs), large portions of resettlement areas remain uncultivated owing to inaccessibility or lack of capital. DAR officials attest to the availability of these areas for large-scale operations of any interested agribusiness investor.

Outside the resettlement areas, large ARCs are found in the former rubber and coconut plantations of Basilan.

2.5. Indigenous Peoples - Ancestral Domain

In a policy speech on May 14, 2014, Chairman Iqbal underscored the need to reconcile the clash of identity and ancestral domains of the IPs and the Bangsamoro. While rooted on overlapping territories, the two (2) claims are intrinsically different in nature and character.

The MILF has consistently held that there is only one (1) indigenous people in the region — the Bangsamoro, and that all IPs share one Bangsamoro ancestral domain. This is premised on the historical narrative of kinship among all indigenous peoples and the collective struggle for self-determination irrespective of ethnic affiliation.

For the MILF, the Bangsamoro ancestral domain is distinct, politically and jurisdictionally-oriented, and much broader than that envisioned by laws such as the Indigenous Peoples' Rights Act (IPRA).

Non-Islamized IPs have premised their claims on the guarantees accorded by the Constitution and the IPRA, where claim to ancestral domain is recognized and delineated with the grant of a CADT. These IP groups have consistently asserted their identity as distinct and separate from the Bangsamoro.

⁸ According to the Census of Agriculture, this figure is well below the 520,000 ha of temporary and permanent crops suggesting a large number of exclusions at the scoping stage.

In view of these divergent claims, there must be a common formula where non-Islamized IPs can realize self-determination within the context of the Bangsamoro, and where their rights are equal, if not more, than that guaranteed by the Constitution and the IPRA.

To address this concern, the draft Bangsamoro Basic Law (BBL) provisions on IPs include recognition of the IPs' right to native titles or *fusaka inged*, indigenous customs and traditions, justice systems and indigenous political structures. They also recognize their right to an equitable share in revenues from the utilization of resources in their ancestral lands.

Even though the BBL provisions also include the rights guaranteed by the IPRA, some IP groups express doubts as to whether native title or *fusaka inged* is equivalent to ancestral domain, absent any definition of native title in the draft.

Although the draft provisions do not resolve all the issues affecting IPs in the Bangsamoro, these provide a basis for continuing dialogue for IPs to assert their rights and for the Bangsamoro government to protect and promote IP rights.

As expressed by Chairman Iqbal, "guarantees and protection in law are good only up to the extent that IPs themselves are able to assert and demand respect for their rights". It is imperative for the Bangsamoro government to demonstrate that the promotion of IP rights does not flow from all IPs sharing the same ancestral domain but also from the IPs' right to their native title.

It is crucial to develop new mechanisms, processes and languages, and to foster a relationship of trust and cooperation between the IPs and the Moros. Cognizant of this need, the Bangsamoro Transition Commission has created a Task Force on IP Concerns, tasked and mandated to continue to explore and dialogue on mechanisms and processes implementing the IP provisions which include identification of IP areas and tenurial instruments for possible enactment as legislation for the region.

It has been pointed out that in the deliberation on the ancestral domain issue, the consideration of land as an issue of the peace process should be viewed separately from the consideration of land as an issue of economic development.

2.6. Local Strongman and *Datuism*

In Muslim Mindanao, powerful clans are headed by a local strongman (often self-styled as a *datu* regardless of bloodline). A number of these strongmen command private armies.

Within this context, there are several important features that impact on the current land tenure system in the Bangsamoro:

- modern practices and institutions overlies traditional institutions, and this reflects the status of the *datu*, “who enjoy both the authority of traditions (*agama* and customary law) and the state laws, because they are often the ‘elected’ local officials in their own domain”;⁹
- any business arrangement involving land within the bailiwick of a clan would often require the blessing of the local *datu* — while the *datu* acts as “gatekeeper” for gaining access to land, he also provides a service by securing boundaries and property rights within his territory;
- the more progressive *datu* combines both development concerns for the communities, and commercial interests of his clan, and would function as an essential ally for outside investors requiring land; and
- although clan rivalry and the vagaries of local and national politics may disrupt control exercised by the *datu* and impact adversely on his business arrangements, clans with a history of dynastic succession within their respective bailiwicks are more likely to maintain their long-term dominance, and provide continuity over any long-term arrangements relating to land negotiated by a clan leader.

Any significant business venture in ARMM would normally require cooperation from the local dominant clan, represented by elected officials – typically the mayor, who is also likely to be the *datu*. Rather than undermining property rights, this assures property rights as the *datu* is in charge of protecting property of the clan and its allies.

2.7. Dispute Settlement

Informal or traditional justice systems through mediation are the most common mechanism for the resolution of competing land claims in predominantly Moro and Indigenous communities. The *datu*, clan leaders, and/ or elected officials would often be the principal mediators.

The formal justice systems recognized under Philippine law for the resolution of land conflict are:

- the *Katarungang Pambarangay*, or Barangay Justice System;

⁹ Sidel (1997).

- *Shari'ah* Justice System; and
- the Civil Court System.

In general, all disputes that do not involve a public entity must first be submitted to the *Lupon Tagapamayapa*, or Pacification Council, of the Barangay Justice System for possible conciliation before any court can take jurisdiction.

Shari'ah Courts have a role in managing land disputes in Moro areas, especially as they have original jurisdiction over the disposition and distribution of estates of deceased Muslims or upon divorce, as well as disputes relative to communal properties.

Where mediation through the Barangay Justice System is not able to resolve cases involving both Moro and other parties, disputes must be referred to the Civil Court System.

Other local level initiatives to resolve land disputes exist but these are mostly *ad hoc* in nature.

2.8. On-going Reform Initiatives

There are on-going efforts at both the national and local levels to grapple with the issues relating to land tenure:¹⁰

- a *Joint Administrative Order* was signed in 2012 requiring DAR, DENR, LRA and NCIP to coordinate and ensure no overlap in titles prior to issuing any new land tenure documents — while this will begin to help address the coordination problems, it is unlikely it will resolve issues identified due to the mandated functional overlaps of the agencies;
- LMB is currently updating the 1970s *cadastral survey* on a nationwide basis and aims to complete the process by 2015 - LMB signed a memorandum of agreement with the ARMM Regional Governor to jointly undertake cadastral survey, starting with the provinces of Maguindanao and Basilan;
- promising attempts are being made by Civil Society Organizations (CSO) and local institutions to *resolve disputes at the local level* by establishing trust between and among ethnic groups/clans before forging consensus agreements between competing parties to address land disputes;

¹⁰ World Bank/IOS Scoping Mission report.

- the *Land Administration and Management Project (LAMP)* of DENR- funded by the World Bank and Australian Aid, has pilot-tested the process of surveying, individually titling, and the proper record keeping and storage of land titles with relative success – however, the project did not attempt to cover conflict-affected areas in Mindanao due to the difficulty in gaining support from local government units (LGUs);¹¹
- the *National Land Use Commission (NLUC)*, an interagency body on land use and physical planning, was recently strengthened and reformed as a NEDA Board Committee; and
- the *Applying Binding, Bonding, Bridging to Land Conflict in Mindanao (A3B)* project implemented by the Catholic Relief Services (CRS) and funded by USAID aims to bring diverse identity group together to collaborate to resolve land-related conflict - the project pays particular attention to trust building as a key component of sustainable conflict resolution.

Other ongoing and past initiatives directly or indirectly related to land and natural resources conflicts and management in Mindanao include conflict mitigation, transformation, and peace initiatives at the local level, supported by various donors and NGOs.

3. LESSONS FROM OTHER COUNTRIES RELATING TO LAND TENURE

Thailand and Malaysia offer good models in the region. Thailand, for example, has:

- a strong and unified policy and legal framework, with systematic administrative processes for registration to formalize rights;
- a sound institutional framework, with a single land administration agency for land registration, cadastral survey and mapping, and collection of land and related fees;
- streamlined procedures and reasonable transaction costs - the registration process is through a 'one-stop-shop';

¹¹ Outputs from these policy studies were used to formulate the Land Administration Reform Act (LARA), which would consolidate all land management function in a Land Administration Authority (LAA) and create a Land Adjudication Board (LAB) to resolve conflicts. However, despite various iterations since its initial submission in 2003, the LARA bill remains stalled in Congress.

- a strong public confidence in the land administration system; and
- high levels of participation.

Malaysia has introduced a good land titling system based on Torrens title, with a major program to issue provisional titles based on limited surveys.

Vietnam has a land law that covers all the country, including forests, and has one agency responsible for issuing land use rights certificates under this law.

There is a general trend across countries for a single land administration agency, e.g. Thailand, Australia, Laos, Cambodia, Vietnam, and Indonesia.

4. FLEXIBILITY OF BANGSAMORO GOVERNMENT IN SHAPING LAWS, REGULATIONS AND INSTITUTIONAL ARRANGEMENTS RELATING TO LAND TENURE

The Framework Agreement on the Bangsamoro (FAB) provides for the Bangsamoro Government to administer land registration, through a local office, in accordance with the land registration system of the National Government. It has the flexibility to:

- institute processes that promote more efficient registration of lands;
- initiate and recommend to the President the classification public lands into alienable and disposable lands;
- conduct cadastral, lot and special surveys for inclusion into the national cadastral survey; and
- declare nature reserves and other protected areas in the Bangsamoro.

It has also been given exclusive powers over ancestral domain and natural resources as well as powers of expropriation and eminent domain.

Moreover, the FAB provides for:

- strengthening of *Shari'ah* courts, including expanded jurisdiction, while placing them under Bangsamoro, with its supremacy asserted over Muslims;
- strengthening of civil courts, and alternative dispute resolution systems; and
- recognizing the customary rights and traditions of indigenous peoples, as

well as indigenous processes as alternative modes of dispute resolution.

Regarding land tenure, FAB states: *Vested property rights shall be recognized and respected. With respect to the legitimate grievances of the Bangsamoro people arising from any unjust dispossession of their territorial and proprietary rights, customary land tenure or their marginalization shall be acknowledged. Whenever restoration is no longer possible, the Central Government and the Government of the Bangsamoro shall take effective measures for adequate reparation collectively beneficial to the Bangsamoro people in such quality, quantity and status to be determined mutually.*

Remedies to redress historic injustice and resolve the conflict between the historic and the current landholders include land reform and the power of eminent domain.

These provisions are expected to be covered in detail in the Bangsamoro Basic Law. Nevertheless, based on these principles, there appears to be some policy space for the Bangsamoro to implement its own reforms in land administration.

The breadth of this policy space to the Bangsamoro in so far as land and land rights are concerned is at once unique and unparalleled, given that the powers granted by the National Government to the Bangsamoro in the Comprehensive Agreement is a major administrative change.

The National Government generally retains administrative control over land even in the face of devolution, as is the case of local governments in the Philippines. But in the case of the Bangsamoro, the National Government, in effect, has constituted it as a special general agent over land rights, making it a one-stop shop for determining and creating rights over land. By giving the Bangsamoro full administrative powers, the National Government has concentrated the land regulatory mechanism in one institution, a major change from its usual practice of disaggregating administrative authority to various entities and offices with disparate and sometimes, conflicting jurisdictions.

As long as the Bangsamoro's policy space over land administration is consistent with the two primary constitutional norms governing land under Article XII, Sections 2 and 3, of the Philippine Constitution, it will have sufficient leeway to chart its own direction with respect to land and land rights.

Most of the powers of the Bangsamoro over land have already been previously given to both the ARMM and the Cordillera Administrative Region, and should therefore not pose any constitutional problems. Whatever opportunities over land that can be created out of the powers given to the Bangsamoro will rest on how it will exercise its administrative powers to make acquisition and use of rights over land more efficient.

5. INLAND MINING, OIL AND GAS

For the exploration, development and utilization of natural resource, the Framework Agreement provides for the Bangsamoro Government to:

- have *sole* authority and jurisdiction for mines and minerals in its territory;
- have *joint* authority with the National Government for fossil fuels (petroleum, natural gas and coal) and uranium in the Bangsamoro —giving preferential rights to qualified citizens who are *bona-fide* inhabitants of the Bangsamoro; and
- retain 100% of revenues from non-metallic minerals, 75% from metallic minerals, and 50% from fossil fuels.

The modalities for these arrangements are to be provided in the basic law, with the implementing rules and regulations drawn up jointly by the two governments.

Mining in the Philippines is currently governed by:

- Republic Act (R.A.) No. 7942- The Philippine Mining Act of 1995 - and its Revised Implementing Rules and Regulations DENR A.O. No. 96-40; and
- R.A. No. 7076 – The Small Scale Mining Act of 1991 – and its Implementing Rules and Regulations DENR A.O. No. 34.

Exploration Permits are issued by DENR under R.A. No. 7942.

As exploration progresses to mining, the permit holder needs to enter into a mineral agreement with the National Government through the DENR.

The National Government has suspended the issuance of approvals for new mining operations (E.O. 79) pending legislative action on a revised production-sharing scheme.

Not much is known about the mineral potential of ARMM. The security situation – and perhaps the National Government’s ambivalent attitude to mining and lack of local technical capacity – has meant that little geological work has been undertaken.

The potential for mineralization has been deduced from the presence of specific geologic and tectonic settings that are favorable for mineral deposition and from the reported presence of minerals in specific areas.

Exploration has been active in other parts of Mindanao, including oil and gas. Significant mineral deposits include copper, gold, chromite, and nickel.¹² There are reasons to believe that these are also prevalent in ARMM. Coal and gas reserves are also suspected to be prevalent in some areas.

There is one operating mine in the ARMM, a nickel laterite mine in Tawi-Tawi. Several explorations permits have been issued since 2007, but most are inactive.

There are several, mostly undocumented, small scale mines. These are unregulated, and many have caused significant environmental damage.

Unfortunately, the LGUs in ARMM have not organized their city/municipal mining regulatory boards as required under the Small Scale Mining Act to oversee the operations of these mines.

Mining brings with it many *pluses*:

- increased revenue flows to government;
- local level employment benefits;
- supply chain business opportunities; and
- Improved 'soft' and 'hard' infrastructure.

But it also has its *curses and minuses*, unless responsibly managed:

- conflict and social dislocation;
- human rights breaches;
- corruption and waste;
- environmental and cultural damage; and
- economic distortions.

¹² Mineral production of Mindanao accounts for about half of the national mineral output.

The risks of the curses are high in a region such as the Bangsamoro, where the institutions are weak, corruption has been entrenched, and peace and order has been elusive.

6. COASTAL WATERS

The new Bangsamoro Region consists of land territory and augmented maritime space with a potential resource base, wealth-sharing and management responsibilities of the Bangsamoro Government over the area.

The Bangsamoro Maritime space is collectively referred to as the Bangsamoro Waters (BRW) & Zones of Joint Cooperation (ZJC).

Under the Addendum on Bangsamoro Waters & Zones of Joint Cooperation, the Bangsamoro Waters shall be part of the territorial jurisdiction of the Bangsamoro political entity. It shall extend up to 22.224 kilometers (12 nautical miles) from the low-water mark of the coasts that are part of the Bangsamoro territory.

The Bangsamoro Government will be exercising shared and reserved powers with the National Government and maritime rights with the international community within the Bangsamoro Region.

Bangsamoro Waters & Zones of Joint Cooperation will be technically defined in the Bangsamoro Basic Law.

Zones of Joint Cooperation in the Sulu Sea and Moro Gulf will be created for the purpose of:

- protecting traditional fishing grounds;
- benefitting from the resources;
- interconnectivity of the islands and mainland parts of the Bangsamoro political entity; and
- facilitating free movement of vessels, goods, and people.

A Joint Body for Zones of Joint Cooperation will manage the ZJC to:

- ensure cooperation/coordination of agencies for fisheries, marine development, environmental protection;

- enhance movement of vessels, goods and people;
- ensure cooperation/coordination between the National Government and Bangsamoro Government for the exploration, development of non-living resources in ZJC; and
- determine the sharing of income and revenues from the ZJC, noting that the general provisions relating to wealth sharing arrangements for natural resource between the National and Bangsamoro Governments in the FAB are applicable to oil and gas in the Bangsamoro coastal waters.

Transportation between Sulu, Basilan, Tawi-Tawi, and the mainland that passes through the ZJC are considered intra-regional routes. International shipping routes are also within the BRW & ZJC.

The Bangsamoro people, other indigenous peoples in adjoining provinces, and resident fisheries shall have preferential rights over fishery, aquamarine, and other living resources in the ZJC.

Potential petroleum areas exist within the BRW & ZJC.

Potential coral resources and key biodiversity sites exist within the BRW & ZJC.

7. ROAD MAP – STRATEGIC APPROACHES AND ACTION PLAN

7.1. Critical Issues to Address

Land Tenure

The World Bank/IOM Scoping Mission highlights some of the critical issues that would need to be addressed in formulating an action agenda to deal with land tenure in the Bangsamoro, viz.:

- new dynamics are being created with the signing of the FAB - an increased number of “latent” competing land claims are becoming “actual” land disputes which, if not addressed soon, could undermine the on-going peace-making efforts;
- uncertainty about how the FAB provisions on land claims will be applied adds fuel to the new dynamics — this vacuum is encouraging some stakeholders to move and position themselves based upon their expectation of how the FAB will be implemented;

- a considerable proportion of competing land claims are related to historical grievances that have never been adequately addressed;
- other competing land claims are the direct consequence of contradictory decisions on land tenure or land use taken by authorities with overlapping land management mandates and roles;
- the prevalence of unresolved land claims demonstrates that past policies were often not effectively grounded in local context;
- many conflicts are based on misunderstandings over boundaries; and
- while general patterns of competing land claims can be discerned across all of the Bangsamoro – in fact all of Mindanao — the situation and dynamics tend to differ significantly from community to community.

These issues will be magnified with returning settlers and combatants to their home areas.

There is no “one-size-fits-all” solution to the land problems.

A significant proportion of both active and latent competing land claims have potential to trigger renewed violence and/or forced displacement.

Further:

- the lack of formal data and records on land ownership and usage;
- the questionable legitimacy of the data that is available;
- the limited capacity, resources and conflicting mandates of the land management institutions;
- significant prevalence of informal markets; and

The ineffectiveness of the formal justice system makes it difficult to deal effectively with the above issues in an expeditious and equitable manner, and to avoid being open to elite capture and to withstand the politicization of land conflicts.

A recurring issue during the World Bank/IOS Scoping Mission consultations was that poor and less educated people find it very difficult to access procedures intended to

protect their rights over land. This is due principally to a lack of information and knowledge about what procedures exist and how they can be accessed.

This should be addressed through an effective communications program.

Smallholder farm production will continue to be the mainstay of the Bangsamoro economy for some time to come. A more certain climate for land tenure will be an important factor in enhancing the income and productivity of these small-holders, and in their ability to access finance.

Large plantations will have a major role to play in “kick-starting” the development process and, indeed, maintaining its momentum. Restoring law and order will be a major factor in the decision of potential new investors in plantations, but they will want to be assured that:

- adequate land is available with secure tenure over the long term;¹³
- potential local partners are available who can ensure an effective interface with the local community; and
- critical infrastructures can be in place.

The supply of progressive-minded local elected officials is critical — the *datus* should serve as “development entrepreneurs”¹⁴ who identify clan interests broadly in terms of development outcomes of communities within their jurisdiction.

It will be important to explore alternative and appropriate “models” for the ways in which these plantations could be structured to effectively recognize the land ownership aspirations and cultural characteristics of the people in the Bangsamoro.

Accepting that the FAB is creating new dynamics and uncertainties relating to land tenure, the creation of the new Bangsamoro does open unprecedented opportunity for land conflict resolution, and indeed the overhaul of the land administration system for the whole of the Philippines.

However, in formulating the action agenda, the National Government and the MILF will need to ensure the support and buy-in of all the key stakeholders, including those at the local level. Particular attention will need to be given to the rights of Indigenous Peoples.

¹³ Other factors, such as infrastructure and business and labor regulations will also be important.

¹⁴ Faustino and Fabella (2011).

As stated by the World Bank and IOM in their mission report, *“mistrust between different communities and minimal trust in the state will render the implementation of solutions more complicated”*.

Inland Mining, Oil and Gas

The Bangsamoro is starting from a weak position. Apart from weak institutions, entrenched corruption, lack of infrastructure and of a trained workforce, and elusive peace and order, it suffers from:

- poor geological knowledge,
- an unsettled legal and policy framework,

and thus a limited project pipeline.

A minerals potential assessment in the Bangsamoro is critical. Mining could provide a revenue base that will be crucial in the efforts to achieve real financial autonomy.

The Bangsamoro Government will have to clearly articulate its position on mining, and on oil and gas exploration and development.

This will require the formulation of an appropriate policy framework that would set the basis for a legislative agenda. This should be a joint exercise with the National Government.

The challenge will be to set or negotiate terms that reflect the true value of the resources, while recognizing:

- the costs and risks to potential investors associated with their extraction in a post-conflict region;
- the need to ensure responsible management of environmental and social impacts; and
- the necessity to ensure that impacted areas get a “fair share” of mining revenue.

Large projects will take some time to materialize, but the Bangsamoro Government should have the powers to ensure that they operate in a responsible fashion.

Unregulated small-scale mining without environmental safeguards is perhaps a more pressing immediate challenge.

Coastal Waters

The Bangsamoro maritime space is collectively referred to as the Bangsamoro Waters (BRW) & Zones of Joint Cooperation (ZJC).

The Bangsamoro Waters & Zones of Joint Cooperation pose special challenges:

- rules regarding the exercise of reserved and shared powers, including maritime rights with the international community, must be clearly drawn and capacities to execute them developed;
- Bangsamoro Waters are currently intensively fished by domestic and foreign fishers in a free-for-all fashion, necessitating the urgent enhancement of law enforcement;
- fishing in the BRW & ZJC straddles Bangsamoro and other waters, highlighting a need to ensure compatible laws/regulations between non-Bangsamoro, regional, and municipal waters;
- relevant wealth-sharing formulae under different laws must be studied to clarify issues relating to boundaries, resources, and Indigenous and other communities' rights;
- current petroleum exploration is impeded by relatively slow contract approval, multiple local permit/clearance requirements, and LGU demand;
- petroleum exploration in multiple use marine spaces temporarily displaces other activities;
- marine biodiversity protection across multiple boundaries needs an agile mechanism for integration with national agencies;
- international shipping routes within BRW & ZJC poses risks associated with shipping concentrated in maritime "choke points," and requires the application of international conventions and standards and capacity issues;
- lack of accessible ports; and
- traditional marine transportation activity needs to be managed hand-in-hand with modern activity

There will need to be close cooperation between that National and Bangsamoro governments in dealing with all of these issues. Relevant Mindanao and Local Government authorities will also have to be brought into the picture as needed.

7.2. Action Agenda

The actions proposed should be seen as recommendation options emerging from the workshop proceedings for consideration by the appropriate Bangsamoro Authorities.

The *immediate actions* are meant to convey some sense of urgency, and thus should be considered for commencement of implementation over the lifetime of the Bangsamoro Transition Authority (BTA).

While it would be desirable for some of the *medium-term actions* to be commenced as soon as possible, it is recognized that some will require further work to formulate an appropriate policy and/or an effective implementation program, while others will require legislative action by the Bangsamoro Government.

Immediate Actions

The initial task will be setting up a Geographic Information System to capture existing and new data sets to support strategic planning by BDA.

Priority should be given to obtaining data on land disputes and conflict prevalence, initially focusing on mapping those areas where the prevalence of land conflicts are perceived to be the highest and/or the risks of escalation are seen to be the greatest.

The following data would be entered:

- existing data on rights from DENR, LRA, DAR and NCIP and land classification, particularly the boundaries of alienable and disposable land from DENR;
- mapping of ongoing and potential conflicts related to natural resources and plantations, with particular attention given to the special issue surrounding indigenous peoples and ancestral domains; and
- mapping of areas likely to be of interest to agribusiness and mining investors.

This information will help focus initial efforts to:

- understand the nature and extent of disputes;

- test appropriate mechanisms to resolve them; and
- provide the basis for selecting initial areas to pilot efforts to systematically register land rights.

This information system will provide the core information to support an improved planning system in Bangsamoro.

A full inventory of the laws and regulations relating to land and property rights in the Bangsamoro should be undertaken.

The inventory should indicate:

- the institutional responsibilities in the Bangsamoro for their implementation;
- the processes the institutions have in place for land titling, issuing of mining/forest/other resource permits, and monitoring procedures where relevant;
- overlapping responsibilities of the institutions; and
- capacity and capability assessment of the institutions.

This will include indicating the role of local governments where relevant.

Considerable information is already available relating to such an inventory (e.g. through the LAMP Project).

An assessment of the capacity of the formal judicial and informal/traditional dispute mechanisms in key locations should be undertaken.

Lessons learned from areas where land disputes have generally been settled amicably should be recorded.

An inventory of lessons learned from past and ongoing projects in ARMM and the rest of Mindanao that focused on the peaceful resolution of conflicts, should also be undertaken.

Pending the outcome of this assessment, there is scope for capacity building for those engaged in mediation through:

- professional training; and

- information sharing between the different actors involved, particularly in areas with a high number of land disputes and/or high conflict potential.

The sensitive nature of land tenure issues in the Bangsamoro suggests that mechanisms that would provide parties with incentives for mediation would be preferable over mechanisms focused on adjudication.

However, these mechanisms should provide for sustainable settlements, framing jurisdictions acceptable to the law community and Islam.

An intentions survey among displaced persons and combatants should be undertaken. This could be done in concurrence with the mapping exercise on the prevalence of land conflict.

This should provide an indication of potential population movements and areas where tensions relating to land may emerge — sudden return movements have the potential to escalate latent land conflicts and, indeed, trigger violence.

All the above actions must reflect the cultural sensitivities to the traditional forms of land ownership, especially in some Moro and Indigenous Peoples' communities where, among other things, individual titles are not necessarily desired or feasible at this time.

Potential areas for commercial plantations should be documented.

This would include assessing the availability of land and willingness of small holders to participate in plantation ventures.

A key factor would be identifying development-oriented *datus* who could assist in the mobilization of land holdings and labor, and in maintaining law and order.

In parallel, alternative “models” for plantation development could be explored, focusing on differing arrangements for land tenure and the meriting the involvement of smallholders.

A feasible scenario for a potential investor in agribusiness who has scoped ARMM as an investment destination is as follows:

- the investor may find an entry point through a business-oriented office in the regional ARMM, such as the ARMM-RBOI, and secure referral to a *datu* who is business-friendly and progressive-minded, and well —established and secure within his bailiwick; and

- the *datu* would serve as facilitator, particularly for farmers who possess customary tenure over the land to be utilized, as well as secure clearance from armed groups within his territory (i.e. MILF, the military, and the militias) — it is likely that interlocking clan-based business would also have to be part of the cooperation arrangement (i.e. as provider of land and other services, including labor contracting).

Given the absence of a truly competitive business environment in the area, relying on the clan or its allies for non-tradable inputs would probably make good business sense as well.

This is no different from other business ventures outside of Muslim Mindanao, although the outside investor would have to adjust to the local context and culture.

A resource potential assessment should be undertaken — this would include forestry and minerals.

This assessment would provide a basis for evolving a policy on the exploitation of these resources.

In the case of minerals, the output of the assessment would be a geologic and minerals resources map, and mineral resource estimates.

The assessment would not, of course, be an actual inventory of exploitable deposits — this would require more detailed assessment by mining companies.

The use of aerial geo-magnetic surveys should be explored.

Medium-Term Actions

A land policy for the Bangsamoro should be formulated, taking cognizance of the relevant national laws and regulations, the outcomes of assessments and surveys indicated above, and the flexibility that the Bangsamoro Government will have in devising its own laws and regulations.

The land policy would provide the basis for the legislative agenda of the Bangsamoro Government on land tenure.

This policy should ensure that:

- appropriate account has been taken of other relevant laws dealing with past land and with environmental and cultural concerns at the local level;

- a broad consensus is built amongst stakeholders to ensure smooth implementation of the land use policy and avoid new tensions and conflict; and
- the actual capacity of institutions on the ground is integrated in the development of the policies from the start, to ensure that only provisions that can be implemented are adopted – temporary measures can be adopted until institutions are equipped to implement more ambitious policies.

The policy should also ensure that Indigenous Peoples' rights are promoted and protected.

The land policy would need to be underpinned by a realistic assessment of alternative tenurial rights that would be appropriate for the Bangsamoro.

This assessment would take into account the traditional value of stewardship and communal ownership, but would have to recognize the extent to which private titles are part and parcel of present-day realities.

The solutions to land conflicts will involve recognition of past land injustices, and this may require strong political will, coupled with financial resources for compensation of victims of these injustices.

The legislative and administrative scope for establishing a single land administration agency in the Bangsamoro should be given serious consideration.

An alternative land transfer and transaction system could be adopted placing greater reliance on administrative approaches.

The installation of its own professional bureaucracy for land administration with streamlined procedures, realistic compensation scale, and checks to minimize corruption and influence peddling makes a lot of sense.

Within this context, steps should be taken to develop and test a streamlined process to systematically register rights in land with appropriate safeguards, to ensure that the poor and less educated people have their rights protected.

This would include:

- reviewing recent experience in developing efficient systematic registration procedures, particularly under LAMP, and reviewing decisions on appropriate tenurial instruments;

- designing a new streamlined systematic registration process that includes appropriate engagement with community leaders and the community, with a focus on the poor and disadvantaged; and
- implementing a series of pilots to test and refine the systematic registration process, with detailed workshops with the community leaders and communities undertaken after each pilots to capture lessons and refine the systematic registration process.

The objective of this activity would be developing a very participatory, cost-effective systematic registration process that can be scaled up to formally record rights throughout the Bangsamoro.

For illustrative purposes, the *systematic registration process* could include the following steps:

- consultation with community leaders and the community, with special meetings for women and disadvantaged groups;
- mobilization of teams to the field to have land claimants publicly demarcate boundaries of their land;
- collection of evidence from claimants with appropriate certification by community leaders and those claiming rights to adjoining land;
- adjudication of rights based on this evidence and information from existing records;
- public display of maps and claimant details for a period of at least 30 days to allow for the submission of counter claims or requests to correct the displayed data;
- resolution of the disputed claims and requests to amend the displayed data; and
- registration of undisputed claims and the distribution of certificates to land owners.

Given the disputed nature of a significant proportion of the existing land titles, it would be important to ensure sufficient communication and outreach on the ground, to avoid that such inventory would become a source of tension and conflict.

Within the context of CARP – if it was to continue – the Bangsamoro authorities could consider:

- introducing variations in the instrument for CARP land transfer (the CLOA) by shortening the proscriptive period, waiving the amortization requirement, and permitting land to be used as collateral; and
- introducing flexibility in pursuing alternative venture agreements (AVAs) with Agrarian Reform Beneficiaries and Agrarian Reform Communities, with capacity building for Bangsamoro authorities to regulate AVAs to maintain equity and enforceability of contracts.

The establishment of an *ad hoc* mediation body for dealing with land disputes that cannot readily be dealt with at the local level should also be considered.¹⁵

At the local government level, a land management office should be considered in selected municipalities.

The design and implementation of robust community programs aimed at trust building and the reinforcement of local government through improved basic service delivery could have considerable value.

Small grants programs that support participatory decision-making within communities and provide incentives for local authorities to improve basic services have proved to be of considerable value peace in building in transitional contexts in other countries. It would be worthwhile exploring their relevance to the Bangsamoro.

On completion of the resource mapping, *consultation with the LGUs and other stakeholders should be undertaken with the aim of building consensus around a policy direction for sustainable forest management and responsible mining development.* This will have interlocking features with the land policy. The stakeholders will have to decide whether to pursue the development of these resources or forego the economic opportunities associated with them.

The medium and long term plans for the forestry and mineral sectors will be contingent on the outcome of the consensus building.

¹⁵ A number of interlocutors during the World Bank/OAS Scoping mission suggested that this should be a national mediation body, consisting of mediators that are neutral in respect of Bangsamoro issues and perceived to be such - such a national body was thought to be more likely to produce results than a body consisting of local mediators.

Sustainable forest management schemes would include clear delineation of productive and protective forest land.

Alternative forest tenurial instruments that merge the Muslim concept of stewardship with Philippine Civil Code provisions on usufruct should be explored — a similar concept has been successfully adopted in New Zealand and Vietnam.

Dealing with these issues will take time. In the case of mining, a “one step at a time” approach to mining development is suggested, starting with some formalized exploration activity and small-scale projects.

Keep things simple, and recognize that legislation should *follow*, not precede, policy formulation.

Consider starting with a commission – respectable technocrats, please – to deal with potential projects on a case-by-case basis until appropriate legislation is in place.

The *exploration* activity will be governed by the current legislation until such time as any revisions are made at the national and/or regional levels. International “best practices” suggest:¹⁶

- for areas that are largely unexplored; a ‘first come, first served’ approach is generally best, *provided that* eligibility criteria are met around technical competence and financial capacity;
- where geological data is available and there is good prospectivity, consider auctioning exploration rights;
- use the licensing process to set down minimum acceptable conditions for exploration (e.g. prior consultation, restoration of disturbed areas, use of chemicals);
- avoid issuing exclusive rights over large areas and for long periods;
- include ‘use or lose’ provisions in licenses and contracts; and
- require explorers to provide geological data to Government when exploration rights expire or are withdrawn.

For *small-scale mining*, the relevant Bangsamoro authorities could:

- engage with local communities – involve them in developing and

¹⁶ Brereton (2014).

implementing solutions, where possible;

- adopt 'light touch' formalization – issuing of licenses; legal recognition; simplified regulations; incentives to participate in the formal system;
- decentralize the permit granting and administering system — fund local authorities to support this;
- demarcate areas for small-scale mining;
- engage in community education and training on mining techniques; and
- provide micro-credit to support adoption of alternative, less damaging, mining methods, and alternative livelihoods.

Promoting responsible mining will require:

- creating investment conditions that are likely to attract companies that have technical capability and good management systems, and are concerned about protecting their reputations;
- conducting due diligence before issuing licenses and entering into agreements with applicant companies;
- using licenses/agreements to define minimum obligatory standards – create mandatory codes of conduct;
- requiring environmental and social management plans for significant projects;
- monitoring for compliance and taking action where there are breaches; and
- recognizing and rewarding good practice.

Underpinning the above is the importance of local benefit sharing, preferably through local community agreements or jointly-managed development trusts.

The Bangsamoro maritime space, specifically the Bangsamoro Waters and Zones of Joint Cooperation, needs to have a comprehensive and effective policy covering fishing, wealth-sharing of natural resources, petroleum exploration, coral resources and key bio-diversity sites, local marine transportation, and international shipping routes. Studies must be conducted to:

- ensure compatible laws/regulations between non-Bangsamoro, regional, and municipal waters - aside from intensive fishing by domestic and foreign fishers, fishing in the area straddles Bangsamoro and other waters; and
- determine wealth-sharing formulae under different laws to clarify issues relating to boundaries, resources, and indigenous and other communities' rights.

There must be closer coordination between agencies regulating petroleum exploration in multiple use marine spaces and a one-stop shop is needed to encourage investments in exploration and extraction.

Funding and capacity building must likewise accompany marine biodiversity protection efforts within the Bangsamoro maritime space to ensure its effective integration with national agencies and other countries with similar efforts.

Marine transportation, both local and international, within the Bangsamoro maritime space must be regulated and improved by applying international conventions and standards, addressing capacity issues, and building accessible ports.

Workshop No. 4

BUSINESS AND LABOR REGULATIONS

1. INTRODUCTION

This thematic workshop – held in partnership with the *Asian Institute of Management (AIM) Policy Center* – aimed at engaging stakeholders in a dialogue to explore alternative industrial policy options of relevance to the Bangsamoro, with a principal focus on the business and labor regulations underpinning the operations of business enterprise and private investment promotion.

A robust private sector is seen as critical to the creation of jobs and income-generating opportunities for the millions of poor in the Bangsamoro, as well as for setting the foundations for greater fiscal autonomy. In this respect, it is important to create an enabling environment that encourages private investment and make it easier to set up and operate business activities efficiently.

The agenda and participants for this workshop are presented in Part 2. The workshop was held on September 24-25, 2014 at the Fuller Hall of the Asian Institute of Management in Makati City. Like the previous workshops, participants and stakeholders from political, academic, public, and private institutions at the Bangsamoro, Mindanao, national, and international levels attended and actively participated in the event.

2. INDUSTRIAL POLICY

In the first workshop, the critical issues that need to be addressed in promoting the development of a robust and competitive private sector in the Bangsamoro were highlighted. A road map for addressing these issues was also outlined.

While the development of resources, particularly agriculture, will form the core of the efforts, a key component of this road map will be the development of an industrial sector that comprises a diversity of products that have strong backward and/or forward linkages to the resource base of the Bangsamoro, particularly to the agriculture base.

The Philippines does not offer a good model for this. Although it has been successful in attracting investments in, for example, electronics and business process outsourcing, it has not succeeded in building a strong industrial sector. The linkages between MSMEs and large enterprises remain weak, and the diversity of products

and depth of processing are narrow. MSMEs continuously face financing problems and difficulties in accessing markets and technology.

Poor infrastructure, lack of investor confidence arising from governance issues and weaknesses in the investment climate, cumbersome business and labor regulations, and the elite capture of traditional sectors, have been seen as the principal constraints on industry growth and the entry of new firms.

In addressing these issues in an “across-the-board” fashion, the National Government is attempting to “jumpstart” the transformation process to a more robust industrial sector through the formulation of a Comprehensive Manufacturing Industry Road Map which includes sector road maps for areas of potential competitive advantage.

The sector road maps identify the constraints that have to be addressed, and the horizontal measures (e.g. regulations, human capital, infrastructure) and vertical measures (e.g. support measures) to deal with them, and the coordinating mechanisms for the design and implementation of the measures.

There has been no magic formula for the success of other Asian economies in building a robust industrial base. Infant industry protection, export subsidies and targets, credit allocation and direction, local content rules and so on have been used. However, these policies were disciplined by a strong export orientation. Singapore, Korea, and Taiwan in particular, also invested massively in human capital, fostered local research and development (R&D), and built strong support institutions.

The export successes of the second wave of “tiger” economies (Malaysia, Thailand, and Indonesia) relied heavily on foreign direct investment and were largely driven by global value chains, particularly in electronics.

The successes of Japan, Korea, Taiwan and Singapore are instructive, particularly with respect to lessons learned by “first mover” investors combined with needed government intervention. Some of these experiences are the:

- overall consistency of government policy;
- government’s obvious and steadfast commitment to economic growth;
- honesty and competence of the bureaucracy;
- ability of the contending parties to arrive at constructive compromises;

- effective two-way communication between government and the business sector;
- recognition that there is much to be gained from technology and knowledge from abroad; and
- while accepting that the markets are the key driver to industrial development, they do fail and sensible government intervention can often compensate for these failures (but take care!).

Lessons can also be learned from Aceh's experience on what happens to countries that come out of peace agreements, and from Iraqi Kurdistan's (a parliamentary democracy) experience with a unified foreign investment law.

The "lessons-learned" from the negative experience of the Philippines and positive experiences of other Asian countries can feed into an industrial policy agenda for the Bangsamoro. The principal emphasis should be on putting in place:

- across-the-board measures which make it easier to do business and reduce the risks of doing business; and
- supporting activities and technologies, addressing specific sector issues within the context of sector strategies cannot be avoided.

The initial focus should be on food products that the Bangsamoro produces or can readily produce, as there is a huge surge in global demand for agricultural products like rubber, fruits, cacao, palm oil, etc. Organic and Halal food products are also in great demand.

In this respect, the Bangsamoro authorities should look to "link in" to the national level sector road maps where applicable.

Clear benchmarks for program success (or failure) should be established. Accountability (simplicity and transparency) and focus are essential.

The importance of an aggressive investment promotion campaign should be factored into the industrial policy agenda. It would make sense for the initial focus to be on entrepreneurs already in Mindanao, either in the Bangsamoro or surrounding areas. They would be more comfortable with working in the region.

The close cooperation of the government, private sector, labor organizations, and other key civil society stakeholders will be critical to the formulation and

implementation of the industrial policy agenda. An institutional arrangement for continuous dialogue and collaboration with these stakeholders makes sense.

The competence and dedication of personnel manning the institutions is critical. There is urgent *need for better managers* (bureaucratic managers, business managers, and grassroots managers to help develop the people). Previous experiences show that the current system in ARMM is heavily politicized. Skills and competency training is required.

Institutional and personal capacity building should thus be an integral part of the industrial policy agenda. However, capacity mobilization will also be needed, especially in the transition phase. There will be a need to bring in appropriate skills from outside the region.

3. BUSINESS REGULATIONS

There is a plethora of laws and regulations pertaining to the establishment and operations of business enterprises in the Philippines. They are complex, and among the costliest in the East Asia region. They also afford considerable scope for corruption. The World Bank/IFC Doing Business Survey 2014 finds that starting a business and resolving insolvency in the Philippine to be among the most costly and cumbersome in the world.

Costly and cumbersome regulations and procedures deter the establishment of new business enterprises, and discourage the expansion of existing business enterprises. They also fuel corruption.

There is thus a nationwide imperative to streamline the processes and minimize the transaction costs involved in setting up a business and the overall costs of doing business. Making it easier to do business and reducing the cost of doing business will promote entrepreneurship, spur job creation, and encourage movement of small firms to the formal sector and in doing so, increase their productivity and access to finance and markets. Replacing regulations with support systems, especially for small and medium scale enterprises, will have very high payoff.

This imperative is even more applicable to the Bangsamoro, where the nature and forms of business activities differ significantly from the national norm, and where the bulk of business activities are concentrated in the informal sector.

The Bangsamoro Regional Government should fully exploit any flexibility it has in simplifying business regulations, and dispensing with unnecessary or inappropriate ones. This should be done in conjunction with the Bangsamoro-LGUs, which currently lack customer orientation, tending to regulate rather than facilitate business.

In this respect, a start could be made by the incoming Bangsamoro authorities, including appropriate current ARMM officials, and the local private sector by immediately taking up the offer of the Philippine National Competitiveness Council (NCC) to set up a Regional Competitiveness Committee for the Bangsamoro.

The NCC tracks the Philippine competitiveness numbers in global rankings compiled by the World Bank, World Economic Forum, Transparency International, and other international bodies, which reflect the ease and cost of doing business. It works with the national, regional and local governments in the Philippine to help streamline business regulations, so improving competitiveness. The NCC has created 15 Regional Competitiveness Committees and established the Cities and Municipalities Competitiveness Index, enabling a benchmarking among Philippine cities and with other ASEAN cities. The benchmarking has proved particularly effective in leading to reforms in business regulations, and an improvement in Philippine cities and national competitiveness rankings.

ARMM is the only region in the Philippines that does not have a Regional Competitiveness Committee. This committee would be tasked with reviewing the business regulations, and designing and implementing competitiveness and productivity programs, particularly through cutting red tape by simplifying procedures underpinning business licensing and operations at the regional and local government levels.

Further, the Bangsamoro Government should also fully exploit any flexibility it has in devising its own regulations and procedures pertaining to investment promotion through fiscal and other incentives and guarantees, and exploring the options suitable for the type of business activities that it would regard as priorities. A clear and unambiguous decision making process will be a key.

Again, the emphasis should be on simplification and relevance of the incentives offered, with built-in sunset provisions, as appropriate. Consideration should be given for the adoption of an “across-the-board” approach where the basic incentive provisions are automatically made available for both local market and export enterprises which meet specified, but limited, basic conditions over the entire Bangsamoro territory. However, it is not clear as to how much leeway the Bangsamoro Regional Government will have in this respect.

Incentives are now made available through a plethora of laws, which will also apply to the Bangsamoro pending any changes.¹⁷ The principal avenues for availing of

¹⁷ Tax incentives are available through some 92 different laws. Attempts have been made to rationalize these incentives at the national level, but the Philippine Congress has been slow to move on this. There is currently a bill before Congress but it is uncertain as to its standing.

incentives by business enterprises relevant to the Bangsamoro are through registration with the Board of Investment, the Economic Zones and Freeport Authorities, (which includes PEZA) and the Tourism Infrastructure and Enterprise Zone Authority.

The powers and functions of the Philippine Board of Investments were devolved to the ARMM in 1991. The *ARMM-RBOI* has the power to approve, register and supervise investments under the Philippines Omnibus Investment Code of 1987 and grant incentives provided for under the Code. The ARMM-RBOI prepares a *Regional Investments Priorities Plan (RPIP)* listing the preferred areas for investment.

Within the constraints imposed by the peace and order situation in the region, the ARMM-RBOI has proved to be effective, and should continue to be the key investment promotion body in lieu of an “across-the board” rationalization of the incentive system.

A *Regional Economic Zone Authority (REZA)* operates alongside the ARMM-RBOI. Set up in 2003, the REZA offers a one-stop agency for the regulation, taxation and licensing of small businesses in ARMM. It provides for the establishment of *Ecozones* in strategic areas of ARMM. It also provides for the creation of a *Halal Certification Board*.

In 2010, it set up its first *Freeport and Special Economic Zone at the Port of Polloc, Maguindanao in 2010*, but this has been slow in taking off — no other zone has been established.

Failing the adoption of an across-the-board approach, special economic zones offer an appealing concept for the Bangsamoro. It would make to sense to review the ARMM-Regional Government legislation setting up REZA, particularly the appropriateness of the criteria for designating the location of the zones and of the incentives and regulations, in light of the experiences to date and the emerging “new” Bangsamoro.

The success of the PEZA could also provide lessons for REZA. PEZA attributes its success to four (4) pillars:

- *one-stop-shop* concept where PEZA facilitates the issuance of relevant National Government and LGU permits;
- *non-stop shop* concept where PEZA offers 24/7 services;
- *no red tape* principle, with red carpet treatment or investors; and

- *no graft and corruption* scheme, as reflective of the *Matuwid na Daan* program of the Aquino administration.

These pillars should also underpin the operation of REZA.

In any event, it would make sense to designate industrial estates or zones in key locations where security can be assured and basic infrastructure can be readily put in place. These zones could be expanded as security is improved.

However, it must be recognized that many of the agro-based enterprises – which are given high priority in the BDP — are likely to be “off the beaten track”, and these should not be discriminated against for the availment of incentives and simplified regulations. In this respect, considerable flexibility given in designating *agro-industrial economic zones* as potential ventures emerge.

In addition, the Regional BOI should designate fairly broad categories of agricultural enterprises (e.g. agro-based processing, Halal food industry) with limited eligibility criteria for incentive availment.

The importance of *extension services and R&D support for agricultural and marine pursuits and of support programs for micro and small and medium enterprises* must also be emphasized. These activities have been, and will continue to be, important in the economy of the Bangsamoro.

The provision of extension services to the countryside has been hampered by the continued conflict and difficulties in accessing many communities. With the peace and order situation stabilizing, and priority being given to improving access to rural communities, the ability to extend the required R&D, technical, and market support to these communities opens up.

However, this assumes that the institutional capacity is in place to provide these services effectively, a capacity that does not seem to be prevalent in many parts of the Philippines, let alone the Bangsamoro.

In this respect, it is essential to initially focus the services on key priority areas and activities in the agribusiness sector, particularly Halal food production, and gradually build up the capacity within the required institutions. The donor and NGO community — and in some cases the private sector — can be called on to assist in this, and to help build up the appropriate capacity of the service providers.

For many large-scale investors in particular, *political risk insurance* against losses incurred by non-commercial risks (including war, terrorism and civil disturbance) will be an issue in the Bangsamoro. While such insurance may be available to foreign

investors through institutions such as WB-MIGA and the ADB, no such insurance is available for local investors. This is an area that needs to be looked into with the appropriate institutions.

It may also be necessary for the Bangsamoro Regional Government to take stakes in certain large-scale investment projects. A Bangsamoro Transition Government investment fund to match private sector investment may be considered for certain strategic projects, with appropriate phase-out provisions. A revived Southern Philippine Development Corporation (to be transferred under the proposed BBL to the Bangsamoro Regional Government) could serve this need.

4. LABOR REGULATIONS

The Philippine labor regulations are, like the business regulations, complex. Many firms find them difficult to comply with. As a result:

- the non-compliance rate on a number of the labor standards is high;
- the *de facto* cost of keeping workers is high;
- formal sector employment generation is held back; and
- the dualism between the formal and informal sectors is exacerbated, the latter falling outside the scope of the Labor Code.¹⁸

The minimum wage rates in the Philippines are also high by a number of standards, contributing to the country's lack of competitiveness in labor-intensive manufacturing industries. Further, the minimum wage regulations are complex to administer, exacerbated by weak enforcement making minimum wage setting less binding in the Philippines.

Results of studies (Paqueo et al. 2014) presented at the workshop, suggest that minimum wages and other current labor regulations should not be regarded as the unquestionable solution to the plight of poor workers. The studies reveal that the minimum wage has not always been helpful to the common man and disadvantaged:

- the demand for workers in small firms is reduced;

¹⁸ See World Bank Philippine Development Report, 2014.

- the chance of the young, female, low-educated and inexperienced workers at being hired is decreased; and
- the rise in the minimum wage results in lower household income.

Better alternatives could come from investment in education and health, direct subsidies to the poor for subsistence needs, and from increasing opportunities for on-the-job training.

The National Government is undertaking a comprehensive review the Labor Code of the Philippines (Presidential Decree No. 442) and related regulations, department orders and court jurisprudences. The aim is to consolidate and remove much of the complexity and inconsistencies in these regulations, and make them more relevant to the current and evolving economic and social conditions of the country.

The economic and social realities in the Bangsamoro suggest that the Bangsamoro Regional Government should, within the scope of the powers given to it under the BBL, explore various options for labor protection and wage setting¹⁹ appropriate to the conditions in the Bangsamoro, and develop its own labor policy agenda that would include appropriate regulations in these two areas. In doing this, it should take cognizance of the output of the comprehensive review being undertaken by the National Government, particularly the “lessons learned” in the implementation of the existing regulations.

A multi-party system of consultations should underpin the formulation of the labor policy agenda. This should include representation of the informal sector (businesses and workers), the poor and the jobless, and not be confined to the government and businesses and workers of the formal sector.

Under an “asymmetrical relationship” prescribed in the proposed BBL, the *Bangsamoro Government has exclusive authority and jurisdiction over matters on labor, employment and occupation*, while matters on social security fall under concurrent powers. National labor policies and laws are not automatically applicable to the Bangsamoro once BBL takes effect.

This suggests that the Bangsamoro Regional Government will have considerable flexibility in determining its labor policies subject, of course, to constitutional limitations such as due process, police power, social justice and the non-impairment clauses, as well as adherence to international conventions which the Philippines has ratified.

¹⁹ A concrete recommendation emerging from the workshop was that if minimum wages were to form part of the labor policy agenda in the Bangsamoro, they should be set close to community level wages while pursuing flexible wage regime.

In exploring the policy options, it is important that the labor policy agenda that emerges should:

- be consistent with the overall Bangsamoro development agenda, as reflected, for example, in the Bangsamoro Development Plan;
- take into account the social and cultural characteristics of the population, and the importance of promoting equality between women and men and the greater participation of women in the work-force, and ensure that child labor is not exploited; and
- take into consideration the dominance of informal business activity and the level of educational attainment of the population.

Consideration will also have to be given to approaches to social insurance and health care coverage for workers in both the formal and informal sectors, and social protection programs for the unemployed.

The lessons learned and best practices from the experience at the national level and other countries suggest that these *labor policies should not be burdened with heavy and complex regulatory restrictions – they should be kept simple, flexible, and market-oriented, and reflect the need to attract and expand job-creating and competitive businesses, and especially nurture small and medium scale enterprises.*

Aside from regulations, the labor policy agenda should consider a wide range of instruments, including expenditures, promotion and facilitation.

In this context, the relevance of proposals for labor employment zones (Sicat) – which aim to exempt enterprises from the application of minimum wage and other selected regulations – should also be reviewed.

While the recommended approach is for the *entire* Bangsamoro territory to adopt simplified labor regulations and dispense with minimum wage setting, the concept of labor employment zones has some merit, even if only as an interim measure. If this course is adopted, it would make sense to link it to the special economic zones under REZA.

5. SECTOR PERSPECTIVES

Some of the specific issues related to infrastructure, agriculture, and mining were discussed in the breakout sessions. The aim was to highlight some of the critical

factors underpinning the development of these sectors in the Bangsamoro, factors which are not necessarily related to business and labor regulations per se.

Infrastructure

Any planning done by the Bangsamoro in infrastructure (water, power, transport, telecom) must take into consideration its neighboring areas. It should start with strategic objectives followed by strategic programs. Although a potentially important policy tool, there is not a single PPP project in Mindanao – all PPP initiatives in the Philippines to date are Luzon-centric.

The *Metropolitan Waterworks and Sewerage System* (MWSS) is an example of a successful public-private partnership. The State does not have to provide all services directly. The Bangsamoro might want to adopt the MWSS model of privatization.

Local leadership is important in operationalizing a *working water district*. For the Bangsamoro, although there are already 14 operational water districts, 60 are non-operational due to budget and institutional constraints. Another 60 are targeted as priorities for 2016. Sewerage development and septic management are lesser priorities for the Bangsamoro because water availability comes first before sanitation.

Like water, the sustainability of *power projects* is an absolute necessity. The Bangsamoro Regional Government working with the national government needs to exercise strategic leadership and direct the private sector where it should be operating. The private sector should not be left alone.

Power projects should be thought of as infrastructure endeavors and not only businesses. Power projects should also take into consideration issues on climate change, sustainability, and corporate social responsibility.

Renewable energy should continue to be pursued in the Bangsamoro, but under the proposed BBL, there will be a diversification of power sources.

As to *transportation*, the approach to transport development may be incremental because there are still many outlying areas where access is minimal. The Bangsamoro should emphasize on the rehabilitation of existing assets, and consider subsequent upgrading afterwards.

Likewise, the Bangsamoro Government should start looking at possible projects that cover major access points (ports, airports), as it will take time to do the relevant studies.

Meanwhile, the challenge for the *telecom* sector is how to improve services to the extent that broadband and other telecom services become regular and reliable. To date, most traffic in the region is mostly voice, although there's an increase of 10% data use because of availability of cheap phones that support data.

Some operational challenges to the development of telecom include right of way, commercial power stability, and peace and order concerns. Getting permits can be tedious. The situation becomes more daunting because different LGUs impose different fees and requirements. The constant problem of security in and surrounding cell sites should be addressed.

Agriculture

Agriculture will continue to be very important in the Bangsamoro. There is high correlation between agricultural growth and poverty reduction. The agriculture sector is beleaguered with tenurial security issues, thus the Bangsamoro needs to invest in the creation of a good bureaucracy – a system that promotes, rather than hampers, investment.

The Bangsamoro needs quick wins especially in the transition phase. The Bangsamoro should focus on business inclusivity in the agriculture sector. This means making farmers part of the whole business model and value-chain. There are also opportunities brought about by climate change and world-wide shortages (e.g. for coffee beans) which the region can explore and exploit to its advantage.

Corporations are seen as crucial partners. Corporate farms can serve as anchors in improving rural productivity and generating local employment.

Aside from the peace and order, a major cause for concern in attracting big corporate farms to the Bangsamoro is the absence of large tracts of land. A potential solution is La Frutera's strategy of talking to local chieftains as a focal point instead of dealing directly with individual farmers. The success of La Frutera Inc. as the first big plantation in a Muslim area can be attributed to several factors, i.e. proximity to Davao City and low labor cost, but mostly because of working relationships with local chieftains (*datus*).

The workshop on land and property rights looked at ways to dealing with many of the issues surrounding land rights and their impact on the development of commercial agriculture.

Mining

There is a strong case for pushing for *responsible* mining in the Bangsamoro.

The potential for mineral resources is not yet fully known. No reports have been generated as to the full extent of mineral resources in the region. The Bangsamoro is known to be rich in nickel, copper and gold. It has been suggested that mining should start with nickel, as it is the easiest to extract.²⁰

Securing mining permits is cumbersome and prone to corruption. The approval process for mining permits and applications needs to be shortened. To date, securing an exploration permit may take 2-10 years. The Bangsamoro Regional Government should look into ways of streamlining the procedures for granting these permits.

The Bangsamoro Regional Government should also consider the separation of prospecting from exploration permits. Prospecting is the process of exploring whether there is a potential mineral resource that can be mined in the area. Suggestions have been made to ease the process of securing permits, and rules can become stricter once investors are already able to identify mineral-rich locations.

²⁰ Nickel mining is currently underway in Tawi-Tawi.

Workshop No. 5

CAPACITY BUILDING FOR EFFECTIVE FISCAL MANAGEMENT

1. INTRODUCTION

This workshop aimed to explore appropriate institutional, capacity building, resource mobilization, and expenditure management options for efficient, transparent, and accountable fiscal management in the proposed Bangsamoro political entity.

The agenda and participants for this workshop are presented in Part 2 of this report. The workshop was held on March 11-12, 2015 at the *Bulwagan ng Diwang Pilipino* of the Development Bank of the Philippines in Makati City. Representation was from political, academic, public, and private institutions at the Bangsamoro, Mindanao, national, and international levels.

2. ISSUES AND CHALLENGES – LESSONS FROM ARMM

Achieving fiscal autonomy will be critical for overall autonomy to be effective. But this will not be enough. Institutions and capacities need to be in place to ensure that fiscal resources are:

- mobilized efficiently and with transparency and accountability; and
- spent wisely — also with transparency and accountability — and reflect the needs for sustainable and inclusive growth in the region.

Weak fiscal management has been a principal underlying factor in the failure of ARMM to effectively perform as an autonomous region.²¹ The DFAT Australian - World Bank report attributed this to:

- inappropriate fiscal arrangements for the unique relationship between ARMM and the National Government;
- contradictions between these fiscal arrangements and the wider decentralization in the Philippines: and

²¹ See “*Making Education Spending Count for the Children of the ARMM*” *Public Expenditure and Institutional Review for ARMM Basic Education*. A Joint Report of DFAT Australia and the World Bank. 2014.

- weak governance and accountability in ARMM.

While ARMM has received its “fair share” of its fiscal resources through the budget from the National Government, it has had little effective control over these resources and how they are spent.

Even if ARMM did have more control over these resources, it is questionable whether they have in place the appropriate institutional capacity and procedures to ensure that they are spent wisely.

ARMM has been completely dependent on the National Government for its funding.

While the Organic Act provided the ARMM Regional Government certain taxation powers, the use of such powers has not been evident. But even if these powers were exercised to the full extent possible, it is questionable whether the revenues generated would be of any significant magnitude because of:

- the constraints imposed on collecting taxes in a conflict and war-torn and weary economy;
- the inherent difficulty of taxing a local economy that has a high poverty incidence and is dependent on a largely underground and informal undocumented economy; and
- a bureaucratic structure that has not been equipped—technically and organizationally — to undertake revenue mobilization as a serious reform agenda.

This is also evident at the local government level.

The politics of local tax collection is also a handicap. Local politicians are often seen as “givers” of funds, and the imposition of taxes is “unbecoming” for many of these leaders and could lead to a negative backlash on their standing. Personal and family relationships also get in the way. In addition, many areas are controlled by “warlords” with their own agenda and income base, making it difficult for any legitimate and concerted tax collection effort. The lack of information and documentation to collect local taxes is also a handicap.

On the basis of 2002-2015 data, about 99% of funds flowing to the ARMM region were sourced from the National Government, with less than 1% directly raised by ARMM Regional Government and ARMM LGUs.

Further, the National Government allocated around 51% of ARMM funds. Since the ARMM LGUs allocated some 45% of ARMM's fiscal resources, only a negligible 4% was completely within the control of the ARMM Regional Government.

From the point of view of disbursements, around 42% of the total funds were under the ARMM Regional Government's disposition. Personnel services accounted for the bulk of these expenditures, with little left for operational expenses and capital investment.

Thus, there has been little scope for real fiscal autonomy in ARMM, with the ARMM Regional Government having little budgetary control over fiscal resources, being "squeezed" between the national and local governments.

Budget processes in the ARMM are also fragmented and complicated.

According to the *DFAT Australian-World Bank Report 2014*, there is no "single budget document or process [that] comes close to including the bulk of resources to be used in ARMM...making it difficult to integrate the ARMM Regional Government budget processes with the national budget processes... and making it difficult to promote a coherent set of policy goals through budget allocations...these weaknesses apply to budgetary execution arrangements, as well as to planning."

The fragmentation also makes it difficult to integrate the budgets with the overall development plan for the ARMM region.

Aside from the "mismatch" in the ARMM Regional Government linkage to the National Government budget process, there is a lack of:

- a regional budget law or a department responsible for budget preparation and management;
- sound budgeting processes among the ARMM institutions; and
- skills and institutional capacity for effective program and project design, and budget preparation and execution.

As is also apparent at the national level, procurement processes are often long and tedious, and the budget release processes complicated.

ARMM also has a history of poor governance and accountability

This is shown in the misuse of funds and the lack of effective expenditure control systems and reporting. In addition, public accountability is sorely lacking.

The lack of qualified staff for budget management in the ARMM Regional Government is also apparent.

Appropriate capacity building to enable the ARMM Regional Government and its agencies to meet national fiduciary and budget accountability requirements has not taken place.

However, as pointed out in the *DFAT Australia-World Bank Report*, “the failure of fiscal autonomy in ARMM is not simply the result of insufficient autonomy and poor governance... it is also the result of incomplete implementation of the Expanded Organic Act, such as the establishment of an effective regional budget and management institution.”

Thus, the willingness and capacity to implement what is provided for in the law is crucial.

And critical decentralization issues in ARMM have not been addressed

The ARMM Regional Government has not formulated a regional policy and enacted legislation on “local autonomy” as called for in the Expanded Organic Act for ARMM.

The said law gave the ARMM Regional Government the responsibility for services normally allocated to LGUs. Since the ARMM Regional Government has not devolved any of these assigned services to LGUs within their jurisdiction, these ARMM-LGUs have no responsibility to carry out these services, unlike the LGUs in the rest of the Philippines.

Yet the ARMM-LGUs still continue to receive the full Internal Revenue Allotment (IRA). Thus the ARMM-LGUs have substantial fiscal resources from the National Government, but reduced expenditure responsibilities, leading to little incentive for local revenue measures and the misuse of funds by LGU officials.

3. THE WAY AHEAD: ROAD MAP FOR AN ACTION AGENDA FOR FISCAL AUTONOMY AND MANAGEMENT

A three-pronged track is proposed:

- a more serious effort to ensure fiscal autonomy within the Bangsamoro through appropriate revenue and other financial resource mobilization measures;
- putting in place a budgetary system which leads to more efficient, accountable and transparent fiscal management; and
- a systematic effort to build institutions and capacities to underpin the resource mobilization and budgetary system measures.

3.1. The Road to Fiscal Autonomy and Improved Revenue Mobilization

The proposed Bangsamoro Basic Law (BBL) encompasses important steps towards greater fiscal autonomy for the region.

The block grant and Special Development Fund in the proposed BBL, replacing the more “fragmented” allocations through the ARMM Regional Government and departments, will give the Bangsamoro Regional Government more autonomy in the use of fiscal resources. It is imperative that these resources be used wisely.

However, real and lasting autonomy can only be achieved through establishing a strong revenue base in the Bangsamoro.

The proposed BBL provides for taxing powers of the Bangsamoro Regional Government for this to be achieved. These powers include:

- levying taxes and charges as per those already devolved to ARMM;
- sharing of central government taxes, fees and charges collected in Bangsamoro (other than tariff and customs duties) — 75% (100% for limited time);
- sharing of revenues from natural resources (100% non-metallic, 75% metallic, 50% fossil fuels);
- the ability to impose flat lump sum tax on small and medium enterprises (SMEs); and
- the receipt of grants and donations, income from government-owned corporations, contract loans and Official Development Assistance (ODA), and Build-Operate-Transfer (BOT)/Public-Private Partnership (PPP) arrangements.

Zakat (alms giving or charitable contribution) offers another potential source of revenue.

A serious effort by both the Bangsamoro Regional Government and LGUs to generate own-source revenues through these tax and non-tax measures is warranted.

In pursuing this course, the Bangsamoro Regional Government should look to partner with the LGUs in revenue generation and sharing schemes, and adopt a Local Revenue Code which:

- recognizes the most appropriate tax structures and collection methods for the region, reflecting the differing cultural characteristics of the population and geography of the region;
- clearly delineates Bangsamoro Regional Government and Local Governments revenue raising (and expenditure?) responsibilities;
- demystifies tax collection and simplifies tax collection procedures; and
- grants discounts and incentive for prompt payment.

In this context, the adoption of flat taxes instead of progressive taxes and the unification of all taxes in a "one-stop" agency could be considered.

The Bangsamoro Regional Government should also explore with LGUs:

- the most appropriate use of tax and non-tax incentives (within the scope delegated to the Bangsamoro Regional Government and LGUs) to encourage investment and job creation, recognizing the need to keep this transparent, performance based, and temporary, given their fiscal implications;
- means to improve land administration and updated valuations, providing the basis for increased revenue through property taxes;
- ways to simplify business procedures to encourage currently unregistered businesses to enter the formal sector, and thus extending the potential tax base;
- the adoption of a more open trade policy and investment policy to legalize informal trade;

- mechanisms to institutionalize the implementation of *Zakat* for those who can afford it, perhaps making it tax deductible; and
- means to foster a culture of paying taxes, which could include the conducting of *pulong-pulong*s in barangays to help them better understand taxes and how they are used.

A directory of available non-tax funding sources (including ODA), and the conditions under which these fund could be accessed, would be helpful.

The exploitation of natural resources, particularly mining, offers an opportunity to achieve real and lasting fiscal autonomy in the Bangsamoro.

However, this is not without its dangers, particularly in a region emerging from conflict. Large-scale mining can lead to the corruption of the political system, and often gives rise to more conflicts, particularly if located in culturally and environmentally sensitive areas. This suggests the need for a mature political system to manage mining on a large scale.

But *the door should not be closed to responsible mining*. If extensive mineral resources are proven to exist in the Bangsamoro, it will take a number of years before significant exploitation of these resources can take place and before any significant revenues can accrue to the Bangsamoro Regional Government. This will give time for the political system to mature, and for the education of the public on how responsible mining can be achieved and its importance to achieving fiscal autonomy.

As a first step, a minerals potential assessment is required.

The Bangsamoro Regional Government will also have to clearly articulate its position on mining (and oil and gas) exploration and development. This will require the formulation of an appropriate policy framework, which should be a joint exercise with the National Government, to set the basis of a legislative and institutional agenda.

In formulating the policy framework, the Bangsamoro Regional Government should:

- emphasize its commitment to responsible and sustainable mining, and articulate clearly the environmental and other critical guidelines for the sector's development;
- spell out the responsibilities of the National Government, Bangsamoro Regional Government, and Bangsamoro LGUs in the identification and

approval of mining projects, ensuring the harmonization of policies and procedures while recognizing the respective legal mandates;

- clearly differentiate the approach to exploration *and* exploitation of mineral resources;
- indicate its intent to engage the private sector in both the exploration and exploitation of the mineral resources, recognizing that different parties may be involved in each of these stages;
- specify steps to regulate small-scale mining;
- consider creating an agency mandated to overseeing the development of natural resources, and a separate agency to take care of environmental protection; and
- consider a Bangsamoro sovereign wealth fund for stabilizing mineral revenues and sovereign wealth bonds.

As also highlighted in the workshop on land and property rights, the challenge will be to set or negotiate terms that reflect the true value of the resources, while recognizing:

- the costs and risks to potential investors associated with their extraction in a post-conflict region;
- the need to ensure responsible management of environmental and social impacts; and
- the necessity to ensure that impacted areas get a "fair share" of mining revenue.

Large projects will take some time to materialize, but the Bangsamoro Government should have the powers to ensure that they operate in a responsible manner.

As indicated above, it will be many years before revenues would flow from mineral resources. The on-the-ground reality is that the high level of poverty and the informal nature of the economy means that there is little scope for mobilizing significant tax revenue by other means in the foreseeable future without dealing effectively with the issues underpinning poverty and the informal nature of the economy.

Thus while the revenue measures along the line of those outlined above should be pursued, the principal focus of the Bangsamoro Regional Government and LGUs over the near future should be on spending their Internal Revenue Allocations (IRA+) from the National Government and other available fiscal resources wisely —supplemented with policy actions – so as to enhance investment and stimulate growth, particularly by the private sector.²²

This focus will ultimately lead to:

- more jobs and reduced poverty;
- a more robust, formal, private sector; and
- an expanded tax base.

As the tax base expands, so will local revenues, and so will the potential for fiscal autonomy. Underpinning the wise spending of fiscal resources will be sound and transparent budgetary and accounting processes.

3.2. The Road to Sound and Transparent Budgetary and Accounting Processes

The Bangsamoro Regional Government needs to strengthen and realign the budgetary processes currently in place so that they integrate more effectively with the region’s plans for the mobilization and use of financial resources, and ensure transparency and accountability in the use of funds.

This re-orientation needs to build in a longer-term orientation to the budget process, so that it is not focused purely on the short-term as has been the common practice. It should also clearly link revenue, expenditure and debt.

In this context, *the programs of the sector agencies, as reflected in their expenditure programs and budget requests, should support the Bangsamoro region’s plans and relevant national requirements, and reflect a programmatic approach to budget preparation.* This would require guidelines for the responsibilities of sector agencies in budget preparation to ensure that spending is within means, and focused on the right priorities with measurable results. Among other things, the guidelines would cover:

²² The policy actions to enhance investment and stimulate the growth of the private sector have been the subject of this workshop series. The reader is also referred to the outcomes of the other workshops for recommended policy actions. These actions include, for example, simplifying business and labor regulations, targeted incentives and support services to MSMEs, more effective land administration and enforcement, availability of finance, especially microfinance, and well directed physical and social infrastructure spending.

- the reflection of priorities in the Bangsamoro Development Plan;
- the approach to forward budget planning over the medium to longer-term and its relationship to annual budget requests, including how to deal with multi-year projects;
- the involvement, as appropriate, of the private sector and other stakeholders in budget preparation;
- an agreed set of performance indicators;
- the formatting and preparation of budget proposals;
- indicative budget ceilings; and
- timetable for budget preparation.

Particular attention should be given to ensuring the more efficient use of funds, through, for example, the rationalization of personnel and other operating expenses, and the integration of capital outlays effectively with infrastructure investment planning and maintenance.

The regional and national budget systems should be integrated as appropriate through the adoption of a regional performance budgeting framework suitable to the Bangsamoro region and acceptable to the national government.

This could be a modification of the current national OPIF framework to ensure “a simple and limited results-based program budgeting framework”²³ that integrates the activities budgeted by the Bangsamoro Regional Government and its agencies and appropriate national agencies, and relates them to an agreed set of indicators. Such performance indicators will also be a requirement of national and international funding institutions supporting projects in the Bangsamoro.

This framework should be extended to include responsibilities and reporting requirements of the regional LGUs.

Delineated accounting and auditing systems should be put in place to promote transparency and accountability in the receipt and utilization of funds from all sources. This will require:

²³ Australia DFAT- World Bank Report op. cit.

- putting in place transparent and simplified procedures for procurement and fund disbursements;
- developing a framework for a unified accounting structure, and horizontal and downward monitoring and accountability in the use of public funds and service quality, which would include public reporting and citizen scrutiny; and
- establishing a Bangsamoro auditing body staffed with competent officials and adopting transparent procedures, with auditing responsibility over the utilization of public funds within the Bangsamoro, ensuring appropriate relationship to the National Commission on Audit on the use of national funds.

In all aspects of budget preparation and execution, advantage should be taken of the benefits of information technology in service delivery, process improvement, and transparency.

The implications of the Islamic business transactions and use of Islamic financial tools will also have to be considered once these take hold within the Bangsamoro economy.

3.3. Role of GOCCs, PPPs and Economic Zones in the Bangsamoro

Government-owned and controlled corporations (GOCCs), public-private partnerships (PPPs) and Special Economic Zones (SEZs) will also have a role to play in the Bangsamoro.

GOCCs proliferate at the national level, but it would be wise for the Bangsamoro Regional Government to be cautious in using GOCCs as a tool for development.

On the plus side, GOCCs offer a means for fiscal independence and flexibility, and provide a mechanism for pursuing development projects that do not readily attract private sector interest.

On the minus side, GOCCs offer the potential for abuse and loss of fiscal control – many GOCCs have become significant drains of the national government’s budget. Some GOCCs have both regulatory and commercial functions that are often in conflict, particularly when they are competing with private sector entities. While easy to establish, they are often hard to close down.

The national government has been making attempts to rationalize the GOCC through, for example, closing down clearly unprofitable ones, privatizing those that could be better run by the private sector, and decoupling the regulatory and

commercial functions of GOCCs as appropriate. But this has been a slow and tedious process.

However, there may be scope for a limited number of Bangsamoro Regional Government GOCCs in some critical niche areas where they can:

- meet a critical supply chain gap in which the private sector is hesitant to engage; and
- provide a means for Bangsamoro Regional Government participation in PPPs, particularly in the transition stage where the perceived risks to the private sector are still high and these would prevent them investing fully on their own account.

The Bangsamoro Regional Government should avoid making decisions on GOCCs until it has in place effective and transparent budgetary processes and has identified a definite need for GOCCs within the context of fully articulated strategies for priority sectors.

Even then, these should be limited. Each proposed GOCC should have a robust economic and financial rationale, a competent and professional management team, an oversight mechanism, and clear exit strategy.

There are two (2) GOCCs that will be transferred to the responsibility of the Bangsamoro Regional Government under the Bangsamoro Framework Agreement—the Al-Amanah Islamic Investment Bank of the Philippines and the Southern Philippines Development Corporation (SPDC). The Al-Amanah Bank is a “failed” bank, and is currently being restructured by the Development Bank of the Philippines. The SPDC is also a failed entity.

The Bangsamoro Regional Government will have to make early decisions as to how it proposes to deal with these two (2) GOCCs:

- decisions on the Al-Amanah Bank should be made within the context of the overall strategy proposed for the development of Islamic banking and finance, the embryo of which was proposed in the previous workshop on *Banking and Finance in the Bangsamoro*; and
- it has been proposed that the SPDC be revamped so that it could become an investment vehicle for the Bangsamoro Regional Government in joint venture project with the private sector - the charter of the SPDC is said to have provisions which facilitate, for example, long lease arrangements for land which could facilitate certain plantation-type projects.

If review of the SPDC does not seem to be a suitable vehicle for public investment in private sector projects, the setting up of some form of a public funding mechanism for joint ventures with private entities could be considered.

There will be scope for PPPs in a number of areas, but these should also be approached with caution. Some of these could be in critical infrastructure projects, such as airports and seaports. Innovative approaches will be required in some sectors, particularly where it involves Islamic financing and/or interacts with critical private sector projects, such as those in large commercial plantations and mining.

Some may be quasi-private, in that they are projects that in normal circumstances would be purely private sector, but require a transitional period with government involvement until the security situation stabilizes and throughput enables them to be self-standing. These could be critical commercial supply chain projects (such as cold storage and post-harvest facilities) for certain crops.

As for GOCCs, such decisions on PPPs should be made within the context of clearly defined sector strategies, with each project exhibiting a robust financial and economic rationale and an exit strategy for government participation.

A PPP Law, accompanying guidelines, and a separate PPP agency should be considered by the Bangsamoro Regional Government. This could be based on the national model (noting that a revision of this law is currently being considered in the House and Senate), modified to take account of “lessons learned” to date in the implementation of the current national law and the special conditions which prevail in the Bangsamoro. In particular, PPPs lend themselves to Islamic financing tools, and this should be factored into the law and guidelines.

As suggested in the previous workshop on business and labor regulations, the Bangsamoro Regional Government should fully exploit the flexibility the BBL provides in devising its own regulations and procedures relating to investment promotion, with an emphasis on making it easier to do business and ensuring that the incentives offered are relevant and affordable. However, these will take some time to devise and put in place.

In the meanwhile, SEZs offer an immediate means of providing streamlined procedures and incentive to private enterprises in the Bangsamoro. Further, security can be more-or-less assured and basic infrastructure can be more readily put in place in these zones. These zones can be expanded as security improves.

The ARMM Regional Government enacted its own law in 2003 pertaining to SEZs providing for the establishment of *Ecozones* in strategic areas of ARMM. In 2010, it set up its first Freeport and Special Economic Zone at the Port of Polloc, Maguindanao, but it has had difficulty in attracting investors.

However, the failure of Polloc Port to take off should not deter the Bangsamoro Regional Government from exploring other areas suitable or SEZs – once the BBL has been passed and the sense of security restored in the region, it is hoped that the level of economic activity will pick up, enabling Polloc Port and other locations attract the attention suitable private enterprises.

3.4. The Road to Effective Institution and Capacity Building

Designing and implementing all the above actions hinges on the ability to have in place the necessary institutional and manpower capacity. In this respect, it is critical to have:

- enlightened and competent leadership;
- a lean and mean government;
- an empowered and competent bureaucracy with clear responsibilities and accountability;
- transparent and streamlined procedures;
- results-based management systems; and
- governance enhancement of the private sector and general public.

Enlightened and competent leadership is perhaps the most critical component. Such leadership should exist not only in government, but throughout all segments of society. It is through such leadership that inclusive institutions and innovative approaches to development will emerge, reflecting the special cultural and religious characteristics of the population, and the unique nature of the natural environment.

Extensive capacity-building initiatives are already underway. The principal focus of the capacity building efforts in the near term should be on ensuring financial and technical support for these initiatives, taking cognizance of the lessons learned to date in their implementation.

The efforts to build leadership capacity centers around the work of the *Bangsamoro Leadership and Development Institute (BLMI)*. The BLMI was established in 2007 to be a training center for Bangsamoro leaders and managers. Seed money was provided by the national government, but the BLMI is now receiving extensive support from donors such as JICA and The Asia Foundation.

As well as running capacity building programs for regional and local leaders and managers, the BLMI has carried out human resource mapping of Bangsamoro professionals and public education programs.

The *Development Academy of the Philippines (DAP)* also has an extensive range of capacity-building programs for the ARMM Regional Government and for the emerging Bangsamoro leadership, including the BDA and BTC. These include workshops on governance, an Executive Development Program, and the screening and selection processes for the Bangsamoro Government employees. It is also engaged in providing complementary capacity building programs for the private sector, including business partnering and work force skill training.

The *National Government* has provided management development training through seminars and coaching sessions. DOF, for example, is also ready to conduct a comprehensive technical assistance program to the Bangsamoro through workshops, secondments of Bangsamoro officials to DOF national agencies, and secondment of DOF officials to the Bangsamoro Regional Government.

Various *donors* have provided training programs and offshore and onshore scholarships. JICA in particular has been providing comprehensive capacity building support to ARMM/BDA/BTC, partly through BLMI and DAP. The list goes on.

In plotting the road ahead for capacity-building support, it is critical that cognizance be taken of the lessons learned from these on-going programs for the design and implementation for future programs. Some of the lessons that were highlighted in the workshop include:

- consultants and training providers need to have a good grasp of the Bangsamoro context and be acceptable to project counterparts;
- training programs should be relevant and applicable to the regular work of training participants;
- the methodology of the training programs should include an appropriate mix of on-site and off-site seminars, coaching, scholarships, secondments, and on-the-job training (with a heavy dose of the latter) supplemented as necessary with operations manuals; and
- appropriate organizational analysis and staff screening should underpin these programs.

In addition to the lessons learned, there are specific challenges in the Bangsamoro to be addressed in designing and implementing capacity-building programs. These include the:

- importance of leadership;
- recognition of the unique (from the Philippine perspective) governance arrangements - the parliamentary system and its implications;
- relationship of the regional to the national government;
- relationship of LGUs and civil society to the regional government;
- transition from conflict to peace, and from warrior to worker;
- transition process from ARMM to Bangsamoro;
- cultural and religious characteristics of the peoples of the Bangsamoro; and
- dearth of skills in ARMM and the neglected education base.

Managing expectations and sustaining peace and security underpin these challenges.

While the focus in the near term should be on maintaining the momentum of ongoing capacity building support, some very basic actions relating to the organization and governance structure should be undertaken:

- establish the basis of the cabinet structure and plans for expansion, such as by first assessing the institutional needs and choosing only those Ministries (and GOCCs?) deemed appropriate to meet these needs;
- determine the public service provision roles and responsibilities of the Bangsamoro Regional Government (i.e. ask whether to provide alone, through GOCCs, through PPPs);
- review existing national government systems and regulations, and revise to suit the local context and ARMM experiences (especially for accounting audit);
- determine the role and responsibilities of organizations/offices that will be set up in the Bangsamoro *vis-a-vis* counterparts in the national government and LGUs;

- establish an ODA/FAP management office to ensure these are complementary and avoid overlaps, and ensure that the Bangsamoro Regional Government remains in the driver's seat; and
- establish regulatory structures for the inflow of private financing.

Further, it will be necessary to ensure that there is coherence in the capacity development programs for the various arms of the Bangsamoro Regional Government and of the providers of these programs.

To ensure this, overall capacity development needs should be identified, a capacity development plan drawn up, and appropriate providers of the required services identified (accepting the need for flexibility to reflect evolving needs).

Consideration should be given to the establishment of an office to oversee the development of the plan, manage the various capacity development initiatives, and liaise with the appropriate agencies in government to identify personnel to be trained and the nature of their training.

4. CONCLUDING REMARKS

It will take time to formulate the appropriate policy, institutional arrangements, and procedures to ensure that fiscal autonomy can ultimately be achieved, and to ensure that the institutional and manpower capacity is in place to fully implement them. Work on these areas is already underway, and it will be important to keep up the momentum, even in the face of important setbacks that may occur, such as a delay in the passage of the proposed Bangsamoro Basic Law now before Congress.

This is a process. The changes will not take place overnight. While there does need to be a clear framework, strategy, and action plan up-front for each of the critical areas, there will in most cases be the step-by-step formulation of policies, institutional arrangements, and procedures. Their implementation will also be step-by-step, as will the capacity development programs to support them.

Also, given the unique characteristics the Bangsamoro, there will need to be flexibility in both the formulation and implementation of policies, institutional arrangements, and procedures to reflect legitimate and critical changes in external circumstances, and the feedback and lessons learned as the process moves along.

PART 2

AGENDAS AND PARTICIPANTS

AGENDA NO. 1

**WORKSHOP ON
"OVERVIEW OF THE BUSINESS AND INVESTMENT CLIMATE IN BANGSAMORO"
PROGRAMME**

November 26-27, 2013
Waterfront Hotel, Davao City

DAY 1 November 26, 2013

TIME **TOPIC**

8:00am-
8:30am **REGISTRATION**

8:30am-
9:00am **INVOCATION**

OPENING

HONORABLE MOHAGHER IQBAL, *Chairman, Bangsamoro Transition Commission*

9:00am-
12:30pm **SESSION 1: BANGSAMORO: DEVELOPMENT CHALLENGES AND OPPORTUNITIES**

Moderator:

CAYETANO PADERANGA JR., *Professor of Economics, University of the Philippines, and Chairman, Development Academy of the Philippines*

Speakers:

AMINA RASUL, *President, Philippine Center for Islam and Democracy, and Managing Trustee of Magbassa Kita Foundation Inc.; Member of the Board, Mindanao Development Authority*

STEVEN SCHOOF, *Philippine Country Office, International Alert*

UROOJ MALIK, *Lead Convenor, Philippine Center for Islam and Democracy, Senior Adviser Bangsamoro Development Agency, and Chairman Hineleban Foundation*

Reactors:

PETER WALLACE, *Chairman, Wallace Business Forum*

ATTY. NAGUIB SINARIMBO, *Senior Advisor on Political Transition, United Nations*

1:30pm-
3:30pm

**SESSION 2: ENHANCING THE BUSINESS AND INVESTMENT CLIMATE
IN BANGSAMORO: LESSONS FROM OVERSEAS AND THE PHILIPPINES**

Moderator:

CAYETANO PADERANGA JR., *Professor of Economics, University of the Philippines, and Chairman, Development Academy of the Philippines*

Speakers:

WENDY WERNER, *Manager, Investment Climate Advisory Service, East Asia & Pacific, International Finance Corporation, World Group*

GUILLERMO LUZ, *Private Sector Co-Chairman, National Competitiveness Council of the Philippines*

FABIAN DELOS SANTOS, *Partner, SGV&Co. Philippines*

Reactors:

ATTY. ISHAK MASTURA, *Chairman, Regional Board of Investments-ARMM*

4:00pm-
4:30pm

SPECIAL PRESENTATIONS

DEVELOPMENT PLAN FOR THE BANGSAMORO

DR. SAFFRULLAH DIPATUAN, *Chairman, Bangsamoro Development Agency*

MINDANAO 2020: ITS RELEVANCE TO THE BANGSAMORO

SECRETARY LUWALHATI ANTONINO, *Chairperson, Mindanao Development Authority*

4:30pm-
6:30pm

SESSION 3: PRIVATE SECTOR PERSPECTIVES

Moderator:

CAYETANO PADERANGA JR., *Professor of Economics, University of the Philippines, and Chairman, Development Academy of the Philippines*

Speakers:

IAN PORTER, *Australian New Zealand Chamber of Commerce*

PETER PERFECTO, *Executive Director, Makati Business Club*

HAR MAN AHMAD, *Trade Commissioner, Malaysian External Trade Development Corporation*

VICENTE LAO, *Mindanao Business Council*

EDGAR BULLECER, *Senior Vice President, Paglas Corporation*

Reactors:

DATU HARON BANDILA, *Chairman, ARMM Business Council*

MUHAMMAD PASIGAN, *President, Bangsamoro Business Club*

DAY 2
8:30am-
11:30am

November 27, 2013

SESSION 4: PARALLEL ROUNDTABLE DISCUSSIONS

Principal Resource Persons:

SENEN BACANI, *Chairman, La Frutera*

GARY TEVES, *Fellow, Foundation for Economic Freedom*

I. RESOURCE ENDOWMENT AND DEVELOPMENT POTENTIAL

Moderator:

UROOJ MALIK, *Lead Convenor, Philippine Center for Islam and Democracy, Senior Adviser Bangsamoro Development Agency, and Chairman Hineleban Foundation*

Resource Persons:

Mining

PETER WALLACE, *Chairman, Wallace Business Forum*

Manufacturing

BERNADINE SIY, *President, FilPacific Apparel Corporation*

Tourism

LUDWIG REIDER, *Chairman, Asia Pacific Projects Inc.*

Agriculture

ROLANDO DY, *Executive Director, Center for Food and Agribusiness*

NATALIE MACAWARIS, *Associate Operations Officer, Agribusiness Linkages, International Finance Corporation*

Land And Property Rights

ROEHLANO BRIONES, *Senior Research Fellow, Philippine Institute for Development Studies*

River Basin and Watershed Management

REY ZALDY TAN, *Director, Mindanao Development Authority*

II. SUSTAINABLE INFRASTRUCTURE

Moderators:

RENE SANTIAGO, *Fellow, Foundation for Economic Freedom (physical infrastructure)*

VICENTE PAQUEO, *Fellow, Foundation for Economic Freedom (education and social development)*

Resource Persons:

Physical Infrastructure

HUSSEIN SINSUAT LIDASAN, *Professor and Director Graduate Studies, School of Urban and Regional Planning, University of the Philippines*

USEC. JANET LOPOZ, *Executive Director, Mindanao Development Agency*

Education and Social Development

FR. ELISEO MERCADO OMI, *Director and Senior Policy Adviser, Institute for Autonomy and Governance*

KEVIN CORBIN, *Team Leader, BEAM-ARMM, AusAID Project*

PARTICIPANTS

"OVERVIEW OF THE BUSINESS AND INVESTMENT CLIMATE IN BANGSAMORO"

| NAME | DESIGNATION | ORGANIZATION |
|---------------------------|--|---|
| Thomas Allen | Team Leader | Foundation for Economic Freedom |
| Vicente Paqueo | FEF Bangsamoro Core Group | Foundation for Economic Freedom |
| Rene Santiago | Independent Consultant on Transportation | Foundation for Economic Freedom |
| Ronald Mendoza | Associate Professor & Executive Director | Foundation for Economic Freedom/AIM Policy Center |
| Gary Olivar | Risk Management Consultant | Foundation for Economic Freedom/Banco de Oro |
| Peter Wallace | Chairman | Foundation for Economic Freedom/The Wallace Business Forum |
| Bernadine T. Siy | President | Foundation for Economic Freedom/Fil-Pacific Apparel Corporation |
| Joven Balbosa | Senior Country Specialist | Foundation for Economic Freedom/Asian Development Bank |
| Gary Teves | Managing Director | Foundation for Economic Freedom/The Wallace Business Forum |
| Amina Rasul | President | Philippine Center for Islam and Democracy |
| Atty. Salma Rasul | Executive Director | Philippine Center for Islam and Democracy |
| Moner Bajunaid | Corporate Secretary | Philippine Center for Islam and Democracy |
| Byron Nonato | Assistant Researcher | Philippine Center for Islam and Democracy |
| Atty. Nasser Marohomsalic | Convener | Philippine Center for Islam and Democracy |
| Samira Gutoc Tomawis | Convener | Philippine Center for Islam and Democracy |
| Urooj Malik | Chairman/CEO | Hineleban Organization |
| Jaymee Alcos | | Hineleban Organization |

| NAME | DESIGNATION | ORGANIZATION |
|-----------------------------|---|---|
| Cabangbang | | |
| Steven Schoofs | Research Manager | International Alert |
| Hans Shrader | Senior Program Manager | International Finance Corporation |
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| Karl Chua | Senior Country Economist | World Bank |
| Kevin Corbin | Team Leader, Basic Education for Muslim Mindanao (BEAM- ARMM) Program | AusAID BEAM (ARMM) |
| Ludwig Reider | Chairman | Asia Pacific Projects Inc. |
| Ian Porter | President | Australian-New Zealand Chamber of Commerce Philippines |
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| Robert Boumphrey | Consultant | Asian Development Bank |
| Wendy Werner | Program Manager | International Finance Corporation |
| Atty. Naguib Sinarimbo | Senior Advisor on Political Transition | United Nations |
| Mar Man Ahmad | Trade Commissioner | MATRADE Malaysia |
| Guillermo Luz | Private Sector Co- Chairman | National Competitiveness Council of the Philippines |
| Rolando Dy | Executive Director | Center For Food and Agribusiness, University of Asia and the Pacific |
| Roehlano Briones | Senior Research Fellow | Philippine Institute for Development Studies |
| Dr. Cayetano Paderanga, Jr. | Chairman | Development Academy of the Philippines/IDEA |
| Hussein Lidasan | Professor | School of Urban & Regional Planning, University of the Philippines |
| Idiosa Ursolino | SVP & Head | Al-Amanah Islamic Investment Bank of the Philippines |
| Fame Delos Santos | SVP & Head | Al-Amanah Islamic Investment Bank of the |

| NAME | DESIGNATION | ORGANIZATION |
|---------------------------|------------------------------------|---|
| | | Philippines |
| Edgar Bullecer | Vice President | Unifrutti |
| Celeste Burgos | Vice President | Land Bank of the Philippines |
| Fr. Eliseo Mercado OMI | Director and Senior Policy Adviser | Institute for Autonomy and Governance |
| Isidro Sorbrearey | Vice President | Development Bank of the Philippines |
| Benel Laguna | Head of Development Sector | Development Bank of the Philippines |
| Senen Bacani | Chairman | La Frutera Incorporated |
| Benedicto Bacani | Executive Director | Institute for Autonomy and Governance |
| Peter Perfecto | Executive Director | Makati Business Club |
| Ikram Tawasil | Chief of Staff | National Commission on Muslim Filipinos |
| Mirkarl Allian | Commissioner | National Commission on Muslim Filipinos |
| Atty. Mehol Sadain | Secretary | National Commission on Muslim Filipinos |
| Rey Zaldy Tan | Director | Mindanao Development Authority |
| Usec. Janet Lopez | Executive Director | Mindanao Development Authority |
| Sec. Luwalhati R. Antonio | Chairperson | Mindanao Development Authority |
| Ernie Tomas | Director | Mindanao Development Authority |
| Atty. Adzlan Imran | | Mindanao Development Authority |
| Ambrojoe Daud | | Mindanao Development Authority |
| Madania-Casinto | | Mindanao Development Authority |
| Mr. Bords | | Mindanao Development Authority |
| Norhana Kamid | Program Officer | Philippine Center for Islam and Democracy |
| Jesse Ang | Resident Representative | International Finance Corporation |

| NAME | DESIGNATION | ORGANIZATION |
|-------------------------|---|---|
| Juvy C. Donafrata | OIC, Research & Information Office | Department of Finance |
| John Forbes | Senior Advisor | Foundation for Economic Freedom/American Chamber of Commerce of the Philippines |
| Gerli May U. Catangui | Operations Officer Investment Climate East Asia and Pacific | International Finance Corporation |
| Assad Baunto | Economist | World Bank |
| Dr. Fermin Adriano | Economist | World Bank |
| Delfin H. Bibat | | w/ Ms. Bernandine Siy |
| Joselito Supangco | Team Leader | JICA Funded Project |
| Ras Sabado | Power Specialist | JICA Funded Project |
| Luisito Uy | Agri, Fishery & Agribusiness Specialist | JICA Funded Project |
| Jemuel Perino | Water Resources & Disaster Management Specialist | JICA Funded Project |
| Zenaida J. Jaranilla | Finance and Admin Manager | WEBCAST Technologies Inc. |
| Peter Carreon | Program Officer | AusAID |
| Winston Uy | President | Universal Leaf Philippines |
| Lewis Flowers | Vice President | Universal Leaf Philippines |
| Ma. Fides Balili | Partner | SGV and CO. |
| J. Carlitos Cruz | Vice Chairman | SGV and CO. |
| Ramilito Nanola | Partner | Punongbayan & Araullo |
| Dr. Saffrullah Dipatuan | Board Member | Bangsamoro Development Agency |
| Hji. Hashim S. Casinto | Board of Directors | Bangsamoro Development Agency |
| Jamel Macaraya | Board of Directors | Bangsamoro Development Agency |
| Taupiq O. Alagasi | Board of Directors | Bangsamoro Development Agency |
| Mohammad B. Salih | Board of Directors | Bangsamoro Development Agency |
| Rhadzni M. Taalim | Board of Directors | Bangsamoro Development Agency |
| Almansor B. Taug | Board of Directors | Bangsamoro Development |

| NAME | DESIGNATION | ORGANIZATION |
|--------------------------|---|--|
| | | Agency |
| Abdullakadir K. Abdullah | Board of Directors | Bangsamoro Development Agency |
| Abusaliha M. Macacuna | Board of Directors | Bangsamoro Development Agency |
| Mohammad Taha Abdulgapor | Board of Directors | Bangsamoro Development Agency |
| Windel Diangcalan | Program Division Head | Bangsamoro Development Agency |
| Dr. Habib Maacayong | Senior Economic Adviser | Bangsamoro Development Agency |
| Mohammad Yacob | Executive Director | Bangsamoro Development Agency |
| Natalya Milenko | Financial Sector Specialist | World Bank |
| Mohagher Igbal | Chairman | Bangsamoro Transition Commission |
| Atty. Laiha Dumama-Alba | Secretariat Head | Bangsamoro Transition Commission |
| Atty. Sheriff M. Abas | Head Executive Assistant | Bangsamoro Transition Commission |
| Jasmairah Irene Alang | Accountant | Bangsamoro Transition Commission |
| Hussien Munoz | Commissioner | Bangsamoro Transition Commission |
| Melanio Ulama | Commissioner | Bangsamoro Transition Commission |
| Atty. Maria Julita Asis | Legal Staff, office of Commissioner Jajurie | Bangsamoro Transition Commission |
| Archie Buaya | Executive Assistant | Bangsamoro Transition Commission |
| Juckra Abdulmalik | Staff, office of the Chairman | Bangsamoro Transition Commission |
| Atty. Raissa Jajurie | Commissioner | Bangsamoro Transition Commission |
| Atty. Johaira Wahab | Commissioner | Bangsamoro Transition Commission |
| Hon Fatmawati Salapuddin | Commissioner | Bangsamoro Transition Commission |
| Zamin Unti | Administrative Officer | Bangsamoro Leadership and Management Institute |

| NAME | DESIGNATION | ORGANIZATION |
|----------------------------|--|---|
| Abdulsalam Alabat | Steering Committee Member | Bangsamoro Leadership and Management Institute |
| Akmad Mama | Steering Committee Member | Bangsamoro Leadership and Management Institute |
| Mahmod S. Ahmad | Executive Director | Bangsamoro Leadership and Management Institute |
| Councilor Rima Hassan | Board of Directors | Autonomous Basilan Islamic Chamber of Commerce Inc. |
| Philip Dizon | President | American Chamber of the Philippines - Davao |
| Julian H. Payne | President | Canadian Chamber of the Philippines |
| Ahmad Salao | President | Autonomous Basilan Islamic Chamber of Commerce Inc. |
| Mitch Manalocon | President | Lanao Del Sur Chamber |
| Hon Sittie Jehanne Mutin | Chairperson | Regional Commission on Bangsamoro Women, ARMM |
| Atty. Ishak Mastura | Chairman | Regional Board of Investments-ARMM |
| Engr. Maritess Maguindra | Regional Secretary | Department of Agriculture & Fisheries - ARMM |
| Muhammad Pasigan | President | Bangsamoro Business Club |
| Vicente Lao | Chairperson | Mindanao Business Council |
| Debbie Gail Laburda | Project Officer | Mindanao Business Council |
| Rolando Torres | Executive Director | Mindanao Business Council |
| ARD Mae Ester T. Guiamadel | Assistant RD of NEDA XI | National Economic and Development Authority |
| Priscilla Sunido | Chief, Project Development and Investment Planning | National Economic and Development Authority |
| Lourdes Lim | Regional Director | National Economic and |

| NAME | DESIGNATION | ORGANIZATION |
|---------------------|---|---------------------------------|
| | | Development Authority |
| Matt Stephens | Senior Developmental Specialist | World Bank |
| Dr. Habib Macaayong | Professor of Management & Public Administration | Mindanao State University |
| Kathleen de la Cruz | Documenter | Plenary/Breakout Environment |
| Jay M. Rosas | Documenter | Plenary/Breakout Governance |
| Sheila C. Cabusao | Documenter | Plenary/Breakout Infrastructure |

AGENDA NO. 2

WORKSHOP ON "BANKING AND FINANCE IN THE BANGSAMORO" PROGRAMME

March 11-12, 2014

Bangko Sentral ng Pilipinas Executive Business Center, Manila

DAY 1 March 11, 2014

Workshop Moderator: CAYETANO PADERANGA JR., *Founding Chairman, Foundation for Economic Freedom; Chairman, Development Academy of the Philippines*

Workshop Director: GARY OLIVAR, *Trustee, Foundation for Economic Freedom; Risk Management Consultant, BDO Unibank*

| TIME | TOPIC |
|-------------------|--|
| 8:00am- 8:30am | REGISTRATION |
| 8:30am- 8:45am | NATIONAL ANTHEM INVOCATION MONER BAJUNAID, <i>Convenor, Philippine Center for Islam and Democracy</i> |
| 8:45am- 9:30am | OPENING ADDRESSES OPENING STATEMENTS: HON. CESAR VIRATA, <i>Senior Advisor, Foundation for Economic Freedom</i> AMINA RASUL BERNARDO, <i>President, Philippine Center for Islam and Democracy</i> WARREN HOYE, <i>First Secretary, Australian Embassy</i> KEYNOTE ADDRESS: HON. AMANDO M. TETANGCO, JR., <i>Governor, Bangko Sentral ng Pilipinas</i> VISION STATEMENT: SAFFRULLAH M. DIPATUAN, MD, <i>Chairman, Bangsamoro Development Agency</i> |

WORKSHOP INTRODUCTION:

CAYETANO PADERANGA JR., *Workshop Moderator*

9:30am-
10:00am

Coffee Break and Asr Prayers

10:00am-
12:00pm

SESSION 1: BANKING AND FINANCE IN ARMM

Speaker:

ACRAM LATIPH, PHD, *Professor, Mindanao State University*

Reactors:

ISIDRO SOBRECAREY, *First Vice President, Development Bank of the Philippines*

CELESTE BURGOS, *Vice President, Land Bank of the Philippines*

SAILLANY SABLAY, *Head, Government Banking Division-LGUs for Mindanao, Philippine National Bank*

The aim of the session will be to: (i) have a clear picture as to the current state of play of the banking and financial sector in ARMM; (ii) put on the table the critical issues affecting the development of the banking and finance sector in ARMM; and (iii) provide the broad parameters for the future evolution of the banking and financial sector in the Bangsamoro.

The presentation and reactions will be followed by an **open forum**.

12:00pm-
1:00pm

Lunch and Zhuhr Prayers

1:00pm-
2:30pm

SESSION 2: CONCEPTS AND PRINCIPLES UNDERLYING ISLAMIC FINANCE

Speaker:

ZAMIR IGBAL, *Lead Investment Officer, World Bank*

Reactors:

MUZZAFAR HISHAM, *Group Head for Islamic Banking, Maybank Group*

IKRAM TAWASIL, *Chief of Staff, Office of the Secretary, National Commission on Muslim Filipinos*

The aim of this session is to ensure there is a common basic understanding of the fundamentals of Islamic finance on the part of the Bangsamoro participants. Although it is expected that some will have an in-depth knowledge, others may only have a superficial understanding.

The presentation and reactions will be followed by an **open forum**.

2:30pm-
3:30pm

SESSION 3: ISLAMIC BANKING

Speaker:

BADLI SYAH ABDUL GHANI, *Chief Executive Officer, Group Islamic Banking, CIMB, Malaysia*

Reactors:

MUZZAFAR HISHAM, *Group Head for Islamic Banking, Maybank Group*
ALFONSO SALCEDO, *Executive Vice President, Bank of the Philippine Islands*

NOEL BONOAN, *Vice Chairman, KPMG in the Philippines*

This session will provide greater detail on issues, principles, and practices of Islamic banking. It will cover:

- Financial institutions offering Islamic banking services
- Islamic banking products
- Overview of operational issues in Islamic banking – accounting, risk management, and audit
- Risk capitalization and minimum capital standards

The presentation and reactions will be followed by an **open forum**.

3:30pm-
4:00pm

Coffee Break and Asr Prayers

4:00pm-
5:30pm

SESSION 4: ISLAMIC CAPITAL MARKETS

Speaker:

USMAN AHMED, *Managing Director, Global Islamic Banking, Citibank*

Reactors:

ROEL REFRAN, *Chief Operating Officer, Philippine Stock Exchange*

MICHAEL MUNSAYAC, *Assistant Vice President, BDO Unibank*

This session will provide greater detail on issues, principles, and practices of Islamic capital markets. It will explore the characteristics and types of *Sukuks*, how they are used, and how they differ from conventional bonds. Their relevance to the Philippines and the Bangsamoro will be addressed.

The presentation and reactions will be followed by an **open forum**.

DAY 2
8:30am-
10:00am

March 12, 2014

SESSION 5: ISLAMIC MICROFINANCE

Speaker:

MUHAMAD NADRATUZZAMAN HOSEN, *Secretary for Department of Economy, Central Board of Muhammadiyah, Indonesia*

Reactors:

PIA BERNADETTE ROMAN-TAYAG, *Deputy Director, Inclusive Finance Advocacy Staff, BSP*

ERNESTO GALENZOGA, *Co-Founder and President, Mindanao Microfinance Council*

This session will provide greater detail on issues, principles, and practices of Islamic microfinance, and explore their relevance to the Philippines and the Bangsamoro.

The presentation and reactions will be followed by an **open forum**.

10:00am-
10:30am

Coffee Break

10:30am-
12:30pm

SESSION 6: MAINSTREAMING ISLAMIC BANKING AND FINANCE ALTERNATIVES IN THE BANGSAMORO AND THE PHILIPPINES

There is no principal speaker for this session. The moderator and facilitator will open the floor to “brainstorming” discussions, prodding

participants to give their views as appropriate. The aim of the session would be to provide the basis for a road map for introducing Islamic Banking and Finance in the Bangsamoro and the Philippines.

This session would primarily explore the characteristics of the Bangsamoro and the Islamic community in the rest of the Philippines, and of the Philippine banking and financial system, that would affect: (i) the nature of the Islamic banking and financial services that would need to and could be provided, (ii) the most appropriate instruments and institutional arrangements for their delivery, and, (iii) the regulatory and governance options.

The legal constraints – constitutional and basic law - would need to be put on the table. The need for an education program for the general public on the Islamic banking and finance instruments would need to be explored.

12:30pm-
1:30pm

Lunch and Zhuhr Prayers

1:30pm-
3:30pm

SESSION 7: REGULATORY AND GOVERNANCE ISSUES AND REARRANGEMENTS

Speakers:

RIFKI ISMAL, *Assistant Director, Macro-Prudential Policy Department, Bank Indonesia*
REPRESENTATIVE, *Bank Negara, Malaysia*

Reactors:

AMANODING ESMAIL, *President, Philippine Association of Islamic Accountants*
SANI ISMAIL, *Financial Sector Specialist, Asian Development Bank*
RAFAEL MORALES, *Managing Partner, SyCip Salazar Hernandez & Gatmaitan*

This technical session is especially recommended for participants from BSP and other regulatory agencies, government and private financial institutions, as well as Bangsamoro representatives with strong interest in this technical discussion.

The session would explore alternative regulatory and governance arrangements for Islamic Banking and Finance (including relevant taxation rules), and how they would “fit in” with regulatory

arrangements for conventional banking and finance. The “pros” and “cons” of the alternatives would be highlighted, looked at in the light of Bangsamoro/Philippine circumstances.

After the presentation and reactions, there will be an **open forum**.

3:30pm-
4:00pm

Coffee Break and Asr Prayers

[Thru the break, the secretariat will consolidate outputs of previous sessions into a ‘first cut’ of a road map]

4:00pm-
5:00pm

SESSION 8: AN ACTION AGENDA FOR DEVELOPING ISLAMIC AND CONVENTIONAL BANKING AND FINANCE IN THE BANGSAMORO

The moderator and facilitator will give the “first cut” of a road map.

The floor will be open to discussion on the road map, pulling all the strands together to explore the most appropriate policy, institutional and regulatory options for developing Islamic and conventional banking and finance in the Bangsamoro.

Although the workshop may not be able to come out with the “final” agenda, it should at least provide a clear road map for assisting the appropriate Philippine and Bangsamoro authorities to make the final regulatory, policy, and institutional decisions, and indicate the nature of the steps necessary to finalize and implement the agenda.

5:00pm-
5:30pm

CLOSING REMARKS

SAFFRULLAH M. DIPATUAN, MD, *Chairman, Bangsamoro Development Agency*

NESTOR A. ESPENILLA, JR., *Deputy Governor for Supervision and Examination, Bangko Sentral ng Pilipinas*

CLOSING DINNER

Hosted by the Bangko Sentral ng Pilipinas

PARTICIPANTS

"BANKING AND FINANCE IN THE BANGSAMORO"

| NAME | DESIGNATION | ORGANIZATION |
|------------------------|---|---|
| Cayetano Paderanga Jr. | Founding Chairman | Foundation for Economic Freedom |
| Gary Olivar | Trustee | Foundation for Economic Freedom |
| Moner Bajunaid | Convenor | Philippine Center for Islam and Democracy |
| Cesar Virata | Senior Advisor | Foundation for Economic Freedom |
| Amina Rasul Bernardo | President | Philippine Center for Islam and Democracy |
| Warren Hoye | First Secretary (Development Cooperation) | Australian Embassy, Department of Foreign Affairs |
| Amando Tetangco, Jr. | Governor | Bangko Sentral ng Pilipinas |
| Saffrullah Dipatuan | Chairman | Bangsamoro Development Agency |
| Acram Latiph | Professor | Mindanao State University |
| Isidro Sobrecarey | First Vice President | Development Bank of the Philippines |
| Celeste Burgos | Vice President | Land Bank of the Philippines |
| Saillany Sablay | Head, Government Banking Mindanao | Philippine National Bank |
| Zamir Igbal | Lead Investor Officer | World Bank |
| Muzzafar Hisham | Group Head for Islamic Banking | Maybank Group |
| Ikram Tawasil | Executive Director | National Commission on Muslim Filipinos |
| Badlisyah Abdul Ghani | Chief Executive Officer | Group Islamic Banking, CIMB, Malaysia |

| NAME | DESIGNATION | ORGANIZATION |
|-----------------------------|--|--|
| Alfonso Salcedo | Executive Vice President | Corporate & Investment Group, BPI |
| Noel Bonoan | Vice Chairman | KPMG |
| Usman Ahmed | Managing Director | Global Islamic Banking, Citibank |
| Roel Refran | Chief Operating Officer | Philippine Stock Exchange |
| Michael Munsayac | Assistant Vice President | BDO Unibank Inc |
| Muhamad Nadratuzzaman Hosen | Secretary for Department of Economy | Central Board of Muhammadiyah |
| Pia Tayag | Deputy Director | Bangko Sentral ng Pilipinas |
| Ernesto Galenzoga | President | Mindanao Microfinance Council |
| Rifki Ismal | Assist Director at Department of Macro Prudential Policy | Bank Indonesia |
| Amanoding Esmail | President | Philippine Association of Islamic Accountants |
| Sani Ismail | Financial Sector Specialist | Asian Development Bank |
| Nestor Espenilla | Deputy Governor for Banking Supervision | Bangko Sentral ng Pilipinas |
| Enrique Maca | Treasurer / Care Inc., VP for Quality Management | Community Access for Resources on Entrepreneurship (CARE) Foundation, Inc. |
| Albert Que | Owner, Former Municipal Mayor, Bongao, Tawi Tawi | Pawnshop – Padjak |
| Ismael Abubakar | General Manager | IA Business Enterprises |
| Alberto Olermo | IF Adviser | Rural Bank of Paglas |
| Dr. Danda Nanawan Juanday | Chairman | Metro Cotabato Chamber of Commerce and Industry |
| Ghazzali Dipatuan | Finance Consultant Ranaw Region | Bangsamoro Development Agency |
| Mohammad Taha Abdulgapor | Board of Director | Bangsamoro Development Agency |

| NAME | DESIGNATION | ORGANIZATION |
|-----------------------------------|--|---|
| Rhadzni Taalim | Board of Director | Bangsamoro Development Agency |
| Mohammad S. Yacob | Executive Director | Bangsamoro Development Agency |
| Hamodi Tiboron | Head of Finance | Bangsamoro Development Agency |
| Mohajirin Ali | Liaison Officer | BTC Sajahatra |
| Ishak Mastura | Chairman | Regional Board of Investment, ARMM |
| Anwar Malang | Regional Secretary | Department of Interior and Local Government-ARMM |
| Sulay Halipa | Assemblyman | Lone District of Tawi Tawi |
| Hassan Garcia | Member | National Ulama Conference of the Philippines and President of Fil-Imam Foundation |
| Nataliya Mylenko | Financial Sector Specialist | World Bank |
| Matt Stephens | Senior Social Development Specialist | World Bank |
| Clark Grant | Director / Advisory | KPMG |
| Jesus Carlos Exequiel D. Castillo | | KPMG |
| Manuel Gaité | Chairperson | Securities & Exchange Commission |
| Idiosa Ursolino | SVP & Operations Head | Al-Amanah Islamic Investment Bank |
| Peter Carreon | Program Officer – Mindanao Peace and Stability Portfolio | Department of Foreign Affairs and Trade, Australian Embassy |
| Antonis Malagardis | Program Director | GIZ |
| Dante Portula | Senior Adviser | GIZ |
| Maharlika Alonto | Acting Compliance Officer | Al-Amanah Islamic Investment Bank |

| NAME | DESIGNATION | ORGANIZATION |
|---------------------|---|---------------------------------|
| Arifa Ala | Director, Integrated Supervision Dept II | Bangko Sentral ng Pilipinas |
| Rosilio Prado | Deputy Director, Integrated Supervision Dept. II | Bangko Sentral ng Pilipinas |
| Mel Georgie Racela | Deputy Director & Head, Inclusive Finance Advocacy Staff | Bangko Sentral ng Pilipinas |
| Rhio Nuylan | Office in Charge, SES Technical Support Staff | Bangko Sentral ng Pilipinas |
| Maria Luisa Nieva | Acting Deputy Director, Trust Specialist Group | Bangko Sentral ng Pilipinas |
| Anna Lisa Atienza | Bank Officer IV, Office of the Supervisory Policy Development | Bangko Sentral ng Pilipinas |
| Anna Marie Lagman | Bank Officer IV, Office of the Supervisory Policy Development | Bangko Sentral ng Pilipinas |
| Noel Tiana | Manager | Bangko Sentral ng Pilipinas |
| Lyn Tamayo | Bank Officer I, Integrated Supervision Department II | Bangko Sentral ng Pilipinas |
| Bridget Rose Romero | SE Specialist II, Technical Support Staff | Bangko Sentral ng Pilipinas |
| Rose Ann Martinez | Assistant Manager, Trust Specialist Group | Bangko Sentral ng Pilipinas |
| Richard Jadulan | Acting Manager | Bangko Sentral ng Pilipinas |
| Noel Valisno Jr. | Dept. Officer I | Bangko Sentral ng Pilipinas |
| Odemma Galang | DD | Bangko Sentral ng Pilipinas |
| Ed Jimenez | | Bangko Sentral ng Pilipinas |
| Asshar R. Syed | Counsel | Asian Development Bank |
| Ashraf Mohammed | Assistant General Counsel | Asian Development Bank |
| Santanina T. Rasul | Chairwoman | Magbassa Kita Foundation, Inc. |
| Thomas Allen | Board of Trustee | Foundation for Economic Freedom |
| Urooj Malik | | Hineleban Foundation |
| Calixto Chikiamco | President | Foundation for Economic Freedom |

| NAME | DESIGNATION | ORGANIZATION |
|-------------------|--------------------------|--|
| Simon Paterno | Board of Trustee | Foundation for Economic Freedom |
| Romulo Neri | Fellow | Foundation for Economic Freedom |
| Salma Rasul | Executive Director | Philippine Center for Islam and Democracy |
| Amroussi Rasul | Volunteer | Philippine Center for Islam and Democracy |
| Cecile Bermejo | Workshop Coordinator | Foundation for Economic Freedom |
| Laila Deles | Volunteer | Foundation for Economic Freedom |
| Fatima del Prado | Documenter | |
| Gina Tiamwatt | Staff | MKFI / Philippine Center for Islam and Democracy |
| Jamael Sariff | Staff | MKFI / Philippine Center for Islam and Democracy |
| Ranna Maih Pintor | Program Officer | Foundation for Economic Freedom |
| Gomer Terano | Liaison Officer | Foundation for Economic Freedom |
| Marian Padilla | Administrative Assistant | Foundation for Economic Freedom |
| Jerome Marcos | Technical Staff | Pixel Image |
| Felchito Lindayag | Technical Staff | Pixel Image |

AGENDA NO. 3

**WORKSHOP ON
"LAND AND PROPERTY RIGHTS IN THE BANGSAMORO"
PROGRAMME**

June 4-5, 2014

Malcolm Hall, UP College of Law, University of the Philippines, Quezon City

DAY 1 June 4, 2014

Workshop Moderator: CAYETANO PADERANGA JR., *Founding Chairman, Foundation for Economic Freedom; Chairman, Development Academy of the Philippines*

Program Emcee: ATTY. RICARDO P. BALATBAT III. *Executive Director, Foundation for Economic Freedom*

TIME

TOPIC

8:00am-
8:30am

REGISTRATION

NATIONAL ANTHEM

ATTY. DOT RAMOS BALASBAS-GANCAYCO, *UP College of Law*

INVOCATION

DR. MOHAMMAD S. YACOB, *Executive Director, Bangsamoro Development Agency*

8:30am-
9:30am

OPENING ADDRESSES

OPENING STATEMENTS:

DEAN DANILO L. CONCEPCION. *Dean, UP College of Law*

MR. CALIXTO V. CHIKIAMCO. *President, Foundation for Economic Freedom*

AMINA RASUL BERNARDO, *President, Philippine Center for Islam and Democracy*

WARREN HOYE, *First Secretary, Australian Embassy*

KEYNOTE ADDRESS:

HON. ARSENIO M. BALISACAN, *Socioeconomic Planning Secretary and NEDA Director-General*

VISION STATEMENT:

SAFFRULLAH M. DIPATUAN, MD, *Chairman, Bangsamoro*

Development Agency

WORKSHOP INTRODUCTION:

CAYETANO PADERANGA JR., *Workshop Moderator*

9:30am-
12:30pm

SESSION 1: THE NATIONAL PICTURE AND ITS RELEVANCE TO THE BANGSAMORO

Speaker:

MR. ELMER S. MERCADO, *Land Use Specialist and Former Undersecretary, Department of Environment and Natural Resources*

Reactors:

PROF. FLORIN T. HILBAY, *Associate Professor, UP College of Law*
ATTY. ALLAN V. BARCENA, *Former Director, Land Management Bureau*
JUSTICE OSWALDO D. AGCAOILI, *Professor, Philippine Judicial Academy*
ATTY. SUHARTO M. AMBOLODITO, *Fellow, Philippine Center for Islam and Democracy*

This session shall orient the participants on current rules, regulations and institutional arrangements on land ownership/tenure in the Philippines. The discussion will focus on the review of rules and regulations on alienable and disposable (A&D) lands and forestlands. Special issued related to forestlands and protected areas will be discussed as well.

The presentation and reactions will be followed by an **open forum**.

10:00am-
10:30am
12:30pm-
1:30pm

Coffee Break

Lunch and Dhuhr Prayers

1:30pm-
3:30pm

SESSION 2: LESSONS FROM ARMM

Speaker:

DR. FERMIN D. ADRIANO, *Team Leader, World Bank Scoping Mission for Mindanao*

Reactors:

MS. JUDY T. GULANE, *Consultant, International Alert*

DR. PRUDENCIANO U. GORDONCILLO, *Associate Professor, University of the Philippines Los Baños*

MR. EDGAR L. BULLECER, *Vice President, Unifrutti Philippines, Inc.*

HON. ANWAR A. MALANG, *Regional Secretary, DILG-ARMM*

ATTY. BENEDICTO R. BACANI, *Executive Director, Institute for Autonomy and Governance*

This session aims to orient the participants on the current land tenure issues and the performance of the current formal land tenure system in the ARMM and how these are relevant to the new Bangsamoro Area.

The presentation and reactions will be followed by an **open forum**.

3:30pm-
4:00pm

Coffee Break and Asr Prayers

4:00pm-
6:00pm

SESSION 3: LESSONS FROM OTHER COUNTRIES

Speaker:

MR. ANTHONY F. BURNS, *Managing Director, Land Equity International*

Reactors:

DR. ARTURO G. CORPUZ, *Senior Vice President, Ayala Land, Inc.*

MR. ANTONIO C. OLIZON, *President, Philippine Wood Producers Association*

HON. ISHAK V. MASTURA, *Chairman, Board of Investments-ARMM*

The aim of this session is to present international best practices in land and forestlands administration and management done in other countries that may be applied to or used as model in the Bangsamoro jurisdiction.

The presentation and reactions will be followed by an **open forum**.

END OF DAY ONE

Fellowship Night (Hosted by the UP College of Law)

Executive House, UP Diliman

DAY 2
8:30am-
12:00pm

June 5, 2014
SESSION 4: INLAND MINING, OIL AND GAS

Speakers:

DR. DAVID BRERETON, *Deputy Director-Research Integration, Center for Social Responsibility in Mining*
PROF. JOSE M. LAYUG, JR., *Former Undersecretary, Department of Energy; Senior Partner, Puno & Puno Law Offices*

Reactors:

DR. CARLOS PRIMO C. DAVID, *Philippine Business for Environmental Stewardship*
MR. ARTEMIO S. DISINI, *Chairman, Chamber of Mines of the Philippines*
DR. BENJAMIN S. AUSTRIA, JR., *Executive Director, Petroleum Association of the Philippines*
HON. HADJI KAHAL Q. KEDTAG, *Regional Secretary, DENR –ARMM*

The aim of this session is to orient the participants on the known mineral resources in the Bangsamoro and the current status of exploitation of resources, the applicable national laws and regulations, current regulations and practices in ARMM, and relevant international obligation, and best practices in selected countries in dealing with issues presented.

The presentation and reactions will be followed by an **open forum**.

10:00am-
10:30am
12:00pm-
1:00pm

Coffee Break

Lunch and Dhuhr Prayers

1:00pm-
3:00pm

SESSION 5: COASTAL WATERS

Speaker:

ATTY. RODOLFO FERDINAND N. QUICHO, Jr., *Country Programme Manager, UNDP P-GEF-Small Grants Programme*

Reactors:

ATTY. LORENZO R. REYES, *Chancellor, Mindanao State University-Tawi-tawi*

DR. BENJAMIN S. AUSTRIA, JR., *Executive Director, Petroleum Association of the Philippines*
ATTY. JOHAIRA C. WAHAB, *Principal Assistant to the Undersecretary for Special and Ocean Concerns, Department of Foreign Affairs*

The aim of this session is to present the current national laws and regulations, current practices in ARMM and relevant international treaty obligations and its implications to the new Bangsamoro waters. The session will also discuss current utilization of these waters and best practices in other countries in the management and utilization of waters in and around their jurisdiction.

The presentation and reactions will be followed by an **open forum**.

3:00pm-
3:30pm ***Coffee Break and Asr Prayers***

3:30pm-
4:30pm **SESSION 6: ACTION AGENDA**

Moderator: DR. CAYETANO W. PADERANGA, JR.

This session intends to solicit a tentative list of possible policies that may be considered for development or areas of concern that may be given emphasis for the Bangsamoro region.

4:30pm-
5:00pm **CLOSING REMARKS**

SAFFRULLAH M. DIPATUAN, MD, *Chairman, Bangsamoro Development Agency*

AWARDING OF CERTIFICATES

CLOSING DINNER

PARTICIPANTS

"LAND AND PROPERTY RIGHTS IN THE BANGSAMORO WORKSHOP"

| NAME | DESIGNATION | ORGANIZATION |
|-------------------------|---|---|
| Danilo L. Concepcion | Dean | UP College of Law |
| Calixto V. Chikiamco | President | Foundation For Economic Freedom |
| Amina Rasul-Bernardo | President | Philippine Center for Islam and Democracy |
| Warren Hoye | First Secretary | Australian Embassy |
| Kenneth V. Tanate | Assistant Director-General and Chief of Staff | National Economic and Development Authority |
| Saffrullah M. Dipatuan | Chairman | Bangsamoro Development Agency |
| Cayetano Paderanga, Jr. | Founding Chairman | Foundation For Economic Freedom |
| Santanina T. Rasul | Former Senator, Chairwoman | Magbassa Kita Foundation Inc. |
| Elmer S. Mercado | Development and Land Use Planning Specialist, Former Undersecretary | USAID/Department of Environment and Natural Resources |
| Oswaldo D. Agcaoili | Professor | Philippine Judicial Academy |
| Florin T. Hilbay | Associate Professor | UP Law |
| Suharto M. Ambolodto | Former Mindanao Conflict Affected Areas Specialist | AusAID |
| Fermin D. Adriano | Team Leader | World Bank |
| Judy T. Gulane | Consultant, Research Head | International Alert/ Business World |
| Prudenciano Gordoncillo | Associate Professor | University of the Philippines Los Baños |
| Edgar L. Bullecer | Senior Vice President | Unifrutti Philippines, Inc. |
| Anwar A. Malang | Regional Secretary | Department of Interior and Local Government-ARMM |
| Benedicto R. Bacani | Executive Director | Institute of Autonomy and Governance |
| Anthony F. Burns | Managing Director | Land Equity International |
| Antonio C. Olizon | President | Philippine Wood Producers Association |
| Arturo G. Corpuz | Senior Vice President | Ayala Land, Inc. |
| Ishak V. Mastura | Chairman | Board of Investments- |

| NAME | DESIGNATION | ORGANIZATION |
|-------------------------------|--|--|
| | | ARMM |
| Jay M. Layug, Jr | Former Undersecretary, Senior Partner | Department of Energy, Puno & Puno Law Offices |
| David Brereton | Deputy Director, Research Integration | Center for Social Responsibility in Mining (CSRM) Sustainable Mineral Institute, University of Queensland |
| Carlos Primo C. David | Convenor | Philippine Business for Environmental Stewardship |
| Artemio S. Disini | Chairman | Chamber of Mines of the Philippines |
| Benjamin S. Austria, Jr. | Professor (retired) | University of the Philippines |
| Rodolfo Ferdinand Quicho, Jr. | Country Programme Manager | UNDP P-GEF-Small Grants Programme |
| Lorenzo R. Reyes | Chancellor | Mindanao State University Tawi-Tawi |
| Johaira C. Wahab | FSO IV | Department of Foreign Affairs |
| Mohamad Yacob | Executive Director | Bangsamoro Development Agency |
| Mohamad Taha Abdulgapor | Board of Director | Bangsamoro Development Agency |
| Almanzor B. Taug | Board of Director | Bangsamoro Development Agency |
| Benamine Ubpon | Institutional Development Officer | Mindanao Trust Fund for Reconstruction and Development Program (MTF-RDP), BDA - RMO ZamPen |
| Haron Meling | Chief Executive Assistant to Chairman Mohagher Iqbal | Bangsamoro Transition Commission |
| Mohajirin T. Ali | Liaison Officer | BTC-Sajahatra |
| Sulay H. Halipa | Assemblyman | Lone District of Tawi Tawi, Regional Legislative Assembly (RLA) |
| Yasmin A. Naga | Development Management Officer III | National Commission on Muslim Filipinos |
| Mohamad O. | President | Bangsamoro Business Club |

| NAME | DESIGNATION | ORGANIZATION |
|--------------------------|--------------------------|---|
| Pasigan | | |
| Sukarno G. Baraguir | | Bangsamoro Business Club |
| Michael Abubakar | Owner | M. Abubakar Construction and Engineering |
| Hussein Lidasan | | Philippine Center for Islam and Democracy |
| Salma Pir Rasul | Executive Director | Philippine Center for Islam and Democracy |
| Adzlan Imran | | MinDA |
| Al Amin Jul Kipli | | Office of the Presidential Adviser on the Peace Process |
| Alexander Casiple | Consultant | Inclusive Agri Business Models |
| Maguid Makalingkang | Professor | MSU-Maguindanao |
| Paul Hutchcroft | Lead Governance Adviser | DFAT, Australian Embassy |
| Romulo L. Neri | Fellow | Foundation For Economic Freedom |
| Epictetus E. Patalinghug | Fellow | Foundation For Economic Freedom |
| Gary Olivar | Fellow | Foundation For Economic Freedom |
| Vicente Pacqueo | Fellow | Foundation For Economic Freedom |
| Thomas W. Allen | Fellow | Foundation For Economic Freedom |
| Cecile Bermejo | Workshop Coordinator | Foundation For Economic Freedom |
| Ricardo P. Balatbat III | Executive Director | Foundation For Economic Freedom |
| George S. Katigbak | Workshop Manager | Foundation For Economic Freedom |
| Rhea Lyn L. Dealca | AO Manager | Foundation For Economic Freedom |
| Ethel Briones | Program Officer | Foundation For Economic Freedom |
| Ranna Maih B. Pintor | Program Officer | Foundation For Economic Freedom |
| Marian V. Padilla | Administrative Assistant | Foundation For Economic Freedom |
| Gomer Terano | Liaison Officer | Foundation For Economic |

| NAME | DESIGNATION | ORGANIZATION |
|--------------------------|---------------------------|---|
| | | Freedom |
| Nicholas Felix L. Ty | | UP Law |
| Gina S. Basilio-Resultay | | UP Law |
| Michelle A. Dy | | UP Law |
| Patricia Daway | | UP Law |
| Ma. Isabel Arevalo | | UP Law |
| Golda Miñoza | Documenter | UP Law |
| Celeste Sembrano Mallari | Documenter | UP Law |
| Patrick Omar Erestain | Documenter | Foundation For Economic Freedom |
| Jamael Sarip | Staff | Philippine Center for Islam and Democracy |
| Diane Lara | Staff | Philippine Center for Islam and Democracy |
| Maila R. Vasquez | Deputy Executive Director | Philippine Wood Producers Association |
| Celeste Estrella | Program Officer | The Asia Foundation |
| Jechel Tan De Guzman | Research Assistant | UP Law |
| Onnong Abubakar | MACE Finance | M. Abubakar Contruction and Engineering |
| Maria Venice D Anulat | Research Assistant | University of the Philippines Los Baños |
| Ma. Divina Olaguera | Research Assistant | University of the Philippines Los Baños |
| Jose Mari Plaza | URA | Intellectual Property Office |
| Josielyn Linga | Consultant | The Asia Foundation |
| Bai Shaima Baraguir | APO | The Asia Foundation |
| Nadine Ragonjan | PO | The Asia Foundation |
| Darrel Ablaza | Engineer | UP College of Engineering |
| Dennis Legaspi | Consultant | Chamber of Mines of the Philippines |
| Francis Ballesteros | Member | Chamber of Mines of the Philippines |
| Jonathan Sisson | | Swiss Embassy |
| Amroussi Rasul | | Philippine Center for Islam and Democracy |

AGENDA NO. 4

WORKSHOP ON "BUSINESS AND LABOR REGULATIONS " PROGRAMME

September 24-25, 2014

Fuller Hall, Asian Institute of Management, Makati City

DAY 1 September 24, 2015

Workshop Moderator: CAYETANO PADERANGA JR., *Founding Chairman, Foundation for Economic Freedom; Chairman, Development Academy of the Philippines*

Program Emcee: ATTY. RICARDO P. BALATBAT III. *Executive Director, Foundation for Economic Freedom*

| TIME | TOPIC |
|-----------------|---|
| 8:00am-8:30am | REGISTRATION |
| 8:30am-8:45am | NATIONAL ANTHEM AND INVOCATION |
| 8:45am-9:30am | OPENING ADDRESSES OPENING STATEMENTS: COMMISSIONER MEHOL SADAIN, <i>Secretary and Chief Executive Officer, National Commission on Muslim Filipinos</i> MR. CALIXTO V. CHIKIAMCO, <i>President, Foundation for Economic Freedom</i> MR. RICHARD RODGERS, <i>Counsellor, Political and Public Affairs Australian Embassy, Philippines</i> MS. MARIA NIEVES R. CONFESOR, <i>Professor, Asian Institute of Management</i> KEYNOTE ADDRESS: DR. SAFRULLAH M. DIPATUAN, <i>Chairman, Bangsamoro Development Authority</i> |
| 9:30am-10:00am | Coffee Break and Photo Session |
| 10:00am-12:00pm | SESSION 1: THE OVERALL CONTEXT: INDUSTRIAL POLICY IN THE PHILIPPINES AND ITS RELEVANCE TO THE BANGSAMORO |

This session aims to provide the context for reviewing the business and labor regulations in the Philippines and in the Bangsamoro. It will

indicate how these regulations fit in to the broader policy agenda for industrial and private sector development.

The relevance of these national policies and its effect on the Bangsamoro, the lessons learned, challenges faced, and the critical importance of ensuring a “business-friendly” regulatory environment will be highlighted

Speakers:

DR. FELIPE MEDALLA, *Monetary Board Member, Bangko Sentral ng Pilipinas; Former Socio Economic Planning Secretary*

Reactors:

MR. PAUL DOMINGUEZ, *Former Presidential Assistant for Mindanao*

MR. ROMY NERI, *Former Socio Economic Planning Secretary; Former President, Social Security System*

DR. EPICTETUS PATALINGHUG, *Professor Emeritus, UP Cesar E. A. Virata School of Business*

ENGR. WINDEL DIANGCALAN, *Program Head, BDP Core Team*

12:00pm-

1:00pm

Lunch and Dhuhr Prayers

1:00pm-3:00pm

SESSION 2: BUSINESS REGULATIONS: THE NATIONAL PICTURE AND ITS RELEVANCE TO THE BANGSAMORO

This session aims to review the laws, regulations, and institutional arrangements pertaining to business operations generally applicable throughout the Philippines and its applicability to the Bangsamoro region.

This includes ease of doing business mechanisms (competitiveness), taxation, foreign ownership, investment incentives (PEZA), and support programs for micro/small/medium enterprises, including enterprise learning and capacity building.

Speakers:

MR. ELMER H. SAN PASCUAL, *Group Manager for Promotions & Public Relations, Philippine Economic Zone Authority*

MR. GUILLERMO M. LUZ, *Private Sector Co-Chairman, National Competitiveness Council*

Reactors:

MR. VICENTE LAO, *President, Mindanao Business Council*
MR. HANS SHRADER, *Senior Program Manager, Private Sector Development. – Emerging Countries, International Finance Corporation*
MR. PHILIP DIZON, *President, American Chamber of Commerce, Davao*

3:00pm-3:30pm ***Coffee Break and Asr Prayers***

3:30pm-5:30pm **SESSION 3: LABOR REGULATIONS: THE NATIONAL PICTURE AND ITS RELEVANCE TO THE BANGSAMORO**

Like the previous session on business regulation, this session reviews the laws, regulations, and institutional arrangements but pertaining to labor, and its applicable to the Bangsamoro region.

This session will review the labor laws and regulations pertaining to the Bangsamoro region, and explore ways to help the Bangsamoro design its labor institutions, develop its labor policy framework, and propose some labor regulations.

This includes application of labor standards and minimum wage setting, as well as the effectiveness and possible reforms of labor institutions (i.e. the setting up of “labor employment zones”).

Speakers:

ATTY. BENEDICTO ERNESTO BITONIO, *Former Undersecretary, Department of Labor and Employment; Former Chairman, National Labor Relations Commission*

MR. CIRIACO A. LAGUNZAD III, *Undersecretary, Department of Labor and Employment*

DR. GERARDO SICAT, *Professor Emeritus, University of the Philippines School of Economics; Former Socio-Economic Planning Secretary*

DR. VICENTE PAQUEO, *Senior Fellow, Philippine Institute for Development Studies; Former World Bank Executive*

MS. SUSAN OPLE, *President, Blas F. Ople Policy Center and Training Institute; Former Undersec., Dept. of Labor and Employment; Former Chief of Staff, Dept. of Foreign Affairs*

DAY 2
8:30am-
10:30am

September 25, 2014
SESSION 4: LESSONS FROM ARMM

This session aims to review the extent to which the national laws, regulations, and institutional arrangements (including local government) relating to business and labor have been adopted in ARMM and the extent of flexibility of ARMM in legislating in the areas of business and labor.

The session would then focus on examining the areas in which the ARMM Regional Government and local Governments initiated changes, such as R.A. 1054 - Organic Act for the Autonomous Region of Muslim Mindanao, and the ARMM-RBOI set up under Executive Order 458 for Devolving Powers and Functions of the Board of Investments.

Speaker:
ATTY. ISHAK V. MASTURA, *Chairman, Regional Board of Investment, ARMM*

Reactors:
MR. SENEN BACANI, *Chairman and CEO, La Frutera Incorporated*
ATTY. NAGUIB SINARIMBO, *Bangsamoro Study Group*

10:30am-
11:00am

SESSION 5: INVESTING IN THE BANGSAMORO: SECTOR PERSPECTIVES

This session will review generally the common concerns of the agricultural, industrial, and infrastructure sectors and how they affect the investment climate in the Bangsamoro.

Speaker:
ATTY. ADZLAN IMRAN, *Mindanao Development Authority*

11:00am-
1:00pm

SESSION 6: BREAK-OUT SESSIONS

This session will look at how national and local laws, regulations, and institutional arrangements affect infrastructure and industries identified as likely starting points for investment, as well as those necessary to lay the foundations for further investment.

This includes a discussion of taxes and incentives, bidding, regulatory commissions and their policies, the administration and execution of these policies, and what policies and institutional arrangements can be established alleviate difficulties these industries faced.

**Group 1
Infrastructure**

Facilitator:
DR. ALAN ORTIZ, *President and COO, SMC Global Power Holdings Corp.; Former Undersecretary to the President for the Build-Operate-Transfer (BOT) Center*

Experts:

(Water) MR. EDUARDO SANTOS, *Trustee, Local Water Utilities Administration*
DR. CECILIA SORIANO, *Trustee, Metropolitan Waterworks and Sewerage System*

(Power) ATTY. JOSE ALEJANDRO, *VP Energy and Water, Philippine Chamber of Commerce and Industry*
REPRESENTATIVE, *Aboitiz Power*

(Transportation) ENGR. RENE SANTIAGO, *Consultant, Department of Transportation and Communications*

(Telecom) ENG. EMMANUEL ESTRADA, *Globe Telecom, Senior Vice President, Technical Services Division, Network Technical Group*

**Group 2
Agriculture and Industry**

Facilitator:
MR. CALIXTO CHIKIAMCO, *President, Foundation for Economic Freedom*

The session will pull all the strands together to explore the most appropriate regulatory, policy and institutional options for general application relating to business and labor for the Bangsamoro.

This will include reviewing the options within the context of current government laws and regulations, and the scope and desirability for an independent agenda of the Bangsamoro government.

Experts:

(Agriculture) MR. SENEN BACANI, *Chairman & CEO, La Frutera Incorporated*
MR. ROMY NERI, *Former Socio Economic Planning Secretary*

(Mining) REPRESENTATIVE, *Chamber of Mines of the Philippines*

1:00pm-2:00pm ***Lunch Break and Dhuhur Prayers***

2:00pm-2:30pm **SESSION 7: BREAK-OUT SESSION FACILITATOR'S REPORT**

2:30pm-3:30pm **ACTION AGENDA**
DR. CAYETANO PADERANGA, JR., *Former Socio Economic Planning Secretary*

3:30pm-4:00pm ***Coffee Break and Asr Prayers***

4:00pm-4:30pm **CLOSING REMARKS**
SAFFRULLAH M. DIPATUAN, MD, *Chairman, Bangsamoro Development Agency*

AWARDING OF CERTIFICATES

CLOSING DINNER

PARTICIPANTS

"BUSINESS AND LABOR REGULATIONS IN THE BANGSAMORO WORKSHOP"

| NAME | DESIGNATION | ORGANIZATION |
|-------------------------|--|--|
| Mehol Sadain | Commissioner | National Commission on Muslim Filipinos |
| Calixto V. Chikiamco | President | Foundation for Economic Freedom |
| Richard Rodgers | Counsellor | Political and Public Affairs, Australian Embassy |
| Nieves Confesor | Professor | Asian Institute of Management |
| Saffrullah Dipatuan | Chairman | Bangsamoro Development Agency |
| Cayetano Paderanga, Jr. | Founding Chairman | Foundation for Economic Freedom |
| Felipe Medalla | Monetary Board Member | Bangko Sentral ng Pilipinas |
| Paul Dominguez | | Former Presidential Assistant for Mindanao and Chairman of the Mindanao Economic Development Council (MEDCo) |
| Romy Neri | | Former President and Chief Executive Officer of Social Security System, Former Socio Economic Planning Secretary, NEDA |
| Epictetus Patalinghug | Professor Emeritus | UP Cesar E. A. Virata School of Business |
| Windel Diangcalan | Program Head | BDP Core Team |
| Elmer San Pascual | Group Manager for Promotions & Public Relations | Philippine Economic Zone Authority |
| Guillermo Luz | Private Sector Co-Chairman | National Competitiveness Council |
| Vicente Lao | President | Mindanao Business Council |
| Hans Shrader | Senior Program Manager Private Sector Development – Emerging Countries | International Finance Corporation |
| Philip Dizon | President | American Chamber of Commerce, Davao |
| Benedicto Ernesto | | Former Undersecretary, |

| NAME | DESIGNATION | ORGANIZATION |
|----------------------|--|---|
| Bitonio | | Department of Labor and Employment (DOLE) and Chairman, National Labor Relations Commission |
| Ciriaco Lagunzad III | Undersecretary | Worker's Welfare Social Protection Cluster, DOLE |
| Gerardo Sicat | Professor Emeritus | UP School of Economics, Former Director General, NEDA |
| Vicente Paqueo | Senior Fellow | Philippine Institute for Development Studies, Former World Bank Executive |
| Ishak Mastura | Chairman | Regional Board of Investment, ARMM |
| Senen Bacani | Chairman and President | La Frutera, Inc., Former Secretary of Agriculture |
| Naguib Sinarimbo | UN Senior Adviser of Political Transitions | Bangsamoro Study Group |
| Adzlan Imran | Legal Officer | MinDA |
| Alan Ortiz | President and COO | SMC Global Power Holdings Corp., Former President of the National Transmission Corporation |
| Eduardo Santos | Board of Trustee | Local Water Utilities Administration |
| Cecilia Soriano | Board of Trustee | Metropolitan Waterworks and Sewerage System |
| Jose Alejandro | Vice President | Energy & Water, Philippine Chamber of Commerce and Industries |
| Rene Santiago | Consultant | Department of Transportation and Communications |
| Emmanuel Estrada | Senior Vice President | Technical Services Division, Network Technical Group, Globe Telecom |
| Artemio Disini | Chairman | Chamber of Mines of the Philippines |
| Mohammad S. Yacob | Executive Director | Bangsamoro Development Agency |
| Mohamad | Board of Director | Bangsamoro Development |

| NAME | DESIGNATION | ORGANIZATION |
|------------------------|--|---|
| Abdulgapor | | Agency |
| Mangontawar Macacuna | Board of Director | Bangsamoro Development Agency |
| Samin Wahab Ebrahim | | El Bajada Hotel Davao |
| Amilbahar Amilasan Jr. | Manager | Metrobank Cotabato |
| Omar Macondara | Secretary General | Ranaw Traders Association |
| Mohammad A. Batabor | President | Marawi Chamber of Commerce and Industry |
| Mohajirin Ali | Liason Officer | Bangsamoro Transition Commission |
| Rehana Abas | Admin | Bangsamoro Transition Commission |
| Haina Bajunaid | Admin Officer IV, Budget Officer | Bangsamoro Transition Commission |
| Myrna Alagasi | Admin Assistant II, HRMO, | Bangsamoro Transition Commission |
| Archie Buaya | Executive Assistant III | Bangsamoro Transition Commission |
| Mohammad Aragasi | Officer | Bangsamoro Transition Commission |
| Julkiram Arastam | Executive Director | Sulu Chamber of Commerce |
| Ahmad Salao | President | Autonomous Basilan, Islamic Chamber of Commerce & Industry (ABICCI) Basilan |
| Abdul Kahar Nul | Owner | Alnor Hotel - Cotabato |
| Edgar Bullecer | Senior Vice President | Unifrutti Philippines, Inc. |
| Argie Leparto | | MinDA |
| Warren Hoye | | Australian Embassy |
| Brian Breuhaus | Economic Councilor | US Embassy |
| John Forbes | Senior Advisor | American Chamber of the Philippines |
| Nelia Halcon | Executive Vice President | Chamber of Mines of the Philippines |
| Arifa Ala | Director, Integrated supervision Department II | Bangko Sentral ng Pilipinas |
| Thomas Allen | Fellow | Foundation for Economic Freedom |
| Gary Teves | Project Director | Foundation for Economic |

| NAME | DESIGNATION | ORGANIZATION |
|----------------------------|----------------------|---|
| | | Freedom |
| Bernadine Siy | Fellow | Foundation for Economic Freedom |
| Atty. Ricardo Balatbat III | Executive Director | Foundation for Economic Freedom |
| Atty. Katrina Monsod | Workshop Director | Foundation for Economic Freedom |
| Cecile Bermejo | Workshop Coordinator | Foundation for Economic Freedom |
| Hannah Muralla | Staff of Mr. Teves | Foundation for Economic Freedom |
| Ranna Pintor | Program Officer | Foundation for Economic Freedom |
| Ethel Briones | Program Officer | Foundation for Economic Freedom |
| Marian Padilla | Admin Assistant | Foundation for Economic Freedom |
| Gomer Terrano | Liaison Officer | Foundation for Economic Freedom |
| Patrick Omar Erestain | Documenter | |
| Salma Rasul | Executive Director | Philippine Center for Islam and Democracy |
| Diane Lara | | Philippine Center for Islam and Democracy |
| Ron Mendoza | | Asian Institute of Management |
| Jean Labios | | Asian Institute of Management |
| Marina Saldana | Staff of Bill Luz | National Competitiveness Council |
| Faisah dela Rosa | Staff of Bill Luz | National Competitiveness Council |

AGENDA NO. 5

**WORKSHOP ON
“CAPACITY BUILDING FOR EFFECTIVE FISCAL MANAGEMENT “
P R O G R A M M E**

March 11-12, 2015

Bulwagan ng Diwang Pilipino, Development Bank of the Philippines, Makati City

DAY 1 **March 11, 2015**

Convenor: MARGARITO B. TEVES, *Former Finance Secretary; Program Director, Bangsamoro Workshop Series*

Workshop Director: MA. CECILIA G. SORIANO, PhD., *Former Undersecretary of Finance*

| TIME | TOPIC |
|-----------------|--|
| 8:00am-8:30am | REGISTRATION |
| 8:30am-8:40am | NATIONAL ANTHEM AND INVOCATION |
| 8:40am-9:10am | OPENING STATEMENTS: JOSE A. NUÑEZ, JR., <i>Chairman, Development Bank of the Philippines</i> MR. CALIXTO V. CHIKIAMCO. <i>President, Foundation for Economic Freedom</i> AMINA RASUL-BERNARDO, <i>President, Philippine Center for Islam and Democracy</i> MR. RICHARD RODGERS, <i>Counsellor, Political and Public Affairs Australian Embassy, Philippines</i> |
| 9:10am-9:30am | MESSAGES: MOHAGHER IQBAL, <i>Chairman, Bangsamoro Transition Commission</i> CESAR V. PURISIMA, <i>Secretary, Department of Finance</i> |
| 9:30am-10:00am | <i>Photo Session and Coffee Break</i> |
| 10:00am-12:00pm | SESSION 1: LAYING THE GROUNDWORK FOR PEACE AND DEVELOPMENT Purpose: To familiarize workshop participants with the goals, thematic areas and flagship programs of the Bangsamoro Development Plan and the roles of the public and private sectors in the BDP. To learn from the experiences of Aceh, Indonesia as it prepared to set up its governance institutions to achieve the peace |

and development objectives of its new regional autonomy.

Moderator:

CAYETANO W. PADERANGA, JR., *Chair, Development Academy of the Philippines*

Speakers:

DR. SAFFRULLAH M. DIPATUAN, *Chair, Bangsamoro Development Authority*

NAZAMUDDIN BANTASYAM, PHD., *Syiah Kuala University, Aceh, Indonesia*

Reactors:

ALAN ORTIZ, PHD, *Former Assistant Director-General, National Security Council*

AMINA RASUL-BERNARDO, *President, Philippine Center for Islam and Democracy*

RICHARD BOLT, *Country Director, Philippine Country Office, Asian Development Bank*

12:00pm-

1:00pm

Lunch and Zuhr Prayers

1:00pm-2:15pm

SESSION 2: INSTITUTION AND CAPACITY BUILDING

Purpose: To discuss how the appropriate fiscal management institutions and systems can be established and capable staff hired, trained and retained.

Moderator:

SIMON PATERNO, *Former President, Development Bank of the Philippines*

Speakers:

GIL S. BELTRAN, *Head, Policy Development and Management Services Group and Chief Economist, Department of Finance*

CAYETANO W. PADERANGA, JR., PH.D., *Chair, Development Academy of the Philippines*

NORIAKI NIWA, *Chief Representative, Japan International Cooperation Agency*

Reactors:

SAM CHITTICK, *International Advisor, Facility for Advisory Support for*

Transition Capacities (FASTRAC)

USTADZ MAHMUD SUMILALAO AHMAD, *Executive Director, Bangsamoro Leadership and Management Institute (BLMI)*

ATTY. LORENZO R. REYES (PAPER SUBMITTED), *Chancellor, Mindanao State University Tawi Tawi*

2:15pm-3:30pm **SESSION 3: MOBILIZING REVENUES AND OTHER SOURCES OF FINANCING**

Purpose: To discuss how the Bangsa Moro and local governments can generate own-source revenues through tax and non-tax measures and mobilize other sources of financing including grants and donations, sukuk bonds and loans from domestic and international financing institutions.

Moderator:

MA. CECILIA G. SORIANO, PH.D., *Former Undersecretary of Finance*

Speakers:

ACRAM LATIPH, PH.D., *Professor, Mindanao State University*

KARL KENDRICK CHUA, *Senior Economist, World Bank*

ISIDRO A. SOBRECAREY, *Head, DBP Institute, Development Bank of the Philippines*

Reactors:

MUSTAPHA GANDAROSA, *Former Regional Director, Bureau of Internal Revenue*

GANI J. PETRON, *Revenue Officer and Acting Planning Officer, Office of the ARMM Regional Treasurer*

MA. PRESENTACION R. MONTESA, *Former Executive Director, Bureau of Local Government Finance, Department of Finance*

3:30pm-4:00pm **Coffee Break and Asr Prayers**

4:00pm-5:30pm **SESSION 4: INTERGOVERNMENTAL FISCAL TRANSFERS, ROLES AND RESPONSIBILITIES – MINING**

Purpose: To discuss how the Bangsa Moro and local governments can create the enabling environment for investments in the responsible and sustainable utilization of mineral resources and use their shares in the revenues from mineral resources for improving the quality life of their constituents.

Moderator:

RONALD U. MENDOZA, PH.D., *Executive Director, Asian Institute of Management Policy Center*

Speakers:

HORACIO C. RAMOS, *Former Secretary, Department of Environment and Natural Resources (DENR) and Former Executive Director, Mines and Geosciences Bureau (MGB)*

ATTY. RONALD RECIDORO, *Vice President for Legal and Policy, Chamber of Mines of the Philippines*

JOHN CARLO TRIA, *Director, Environmental Counselors, Inc.*

Reactors:

ABDUL JALIL S. UMNGAN, *Focal Person, Environment, Natural Resources and Energy, Bangsamoro Development Plan, BDA*

ATTY. ISHAK MASTURA, *Chairman, ARMM Regional Board of Investments*

DAY 2
8:30am-
10:30am

March 12, 2015

SESSION 5: BUDGETING AND ACCOUNTING WITH TRANSPARENCY AND ACCOUNTABILITY

Purpose: To discuss how budgeting, accounting and auditing systems can be put in place in a parliamentary setting to promote transparency and accountability in the receipt and utilization of funds from all sources.

Moderator:

VINCENT LAZATIN, *Executive Director, Transparency and Accountability Network*

Speakers:

JAIME C. LAYA, PH.D. , *Former Budget Minister and Former Central Bank Governor*

TANYA HAMADA, *Assistant Secretary, Department of Budget and Management*

KAMIL MD IDRIS, PH.D., *Dean, School of Accounting, Universiti Utara Malaysia*

Reactors:

ROMULO L. NERI, *Former Socio-Economic Planning Secretary, National Economic and Development Authority*

MOHAMMAD YACOB, PH.D., *Executive Director, Bangsamoro Development Agency*
SUKARNO TANGGOL, PH.D., *Chancellor, Mindanao State University, Iligan City*

10:00am-
10:30am

Coffee Break and Asr Prayers

10:30am-
12:00nn

SESSION 6: THE ROLE OF GOCCs, PPPs AND ECONOMIC ZONES IN THE BANGSAMORO

Purpose: To discuss the possible roles of GOCCs, PPPs and economic zones in infrastructure development and investment promotion in the Bangsa Moro. To discuss how the Bangsa Moro can collect and utilize its shares in the revenues of national GOCCs operating in the Bangsa Moro.

Moderator:

ATTY. FERDINAND TOLENTINO, *Former Deputy Executive Director, PPP Center*

Speakers:

ALAN ORTIZ, PH.D., *President and COO, SMC Global Power Holdings Corp.; Former President, Transco and Former ED, BOT Center*
TERESA HABITAN, *Assistant Secretary, Department of Finance – Corporate Affairs Group*

Reactors:

ATTY. RODOLFO 'INKY' REYES, *Senior Partner, Gordon Dario Reyes Hocson Viado & Blanco*
ATTY. ADZLAN IMRAN, *Office of the Chairperson, Mindanao Development Authority*

12:00nn-1:00pm

Lunch and Zuhr Prayers

SESSION 7: INTEGRATED AND STRATEGIC ACTION PLANNING FOR EFFICIENT AND TRANSPARENT FISCAL MANAGEMENT IN THE BANGSAMORO

Purpose: To discuss the various aspects of fiscal management in an integrated and strategic manner and to draw up an "Action Agenda for Efficient and Transparent Fiscal Management in the Bangsa Moro".

- 1:00pm-2:30pm **BREAK-OUT SESSIONS**
Group 1: Budgeting, Raising Revenues and Mobilizing Resources with Transparency and Accountability

Facilitator: ACRAM LATIPH, PH.D.

Group 2: Building Institutions and Capacities for Efficient and Transparent Fiscal Management

Facilitator: MA. CECILIA G. SORIANO, PH.D.
- 2:30pm-3:00pm *Coffee Break*
- PLENARY SESSION** **AN ACTION AGENDA FOR EFFICIENT AND TRANSPARENT FISCAL MANAGEMENT IN THE BANGSA MORO**
- 3:00pm-3:30pm *Reports from Breakout Sessions*
- 3:30pm-4:30pm *Summary by Former Finance Secretary Margarito B. Teves*
- 4:00pm-4:30pm **CLOSING REMARKS**
CESAR E.A. VIRATA, *Former Prime Minister; Senior Adviser, Foundation for Economic Freedom*
SAFFRULLAH M. DIPATUAN, MD, *Chairman, Bangsamoro Development Agency*
- 4:30pm-5:00pm **Giving Out of Certificates of Attendance/Appreciation**
- 7:00pm **FELLOWSHIP DINNER**

Masters of Ceremonies – Dr. Hussein Lidasan, PhD. And Atty. Oliver San Antonio

PARTICIPANTS

“CAPACITY BUILDING FOR EFFECTIVE FISCAL MANAGEMENT IN THE BANGSAMORO WORKSHOP”

| NAME | DESIGNATION | ORGANIZATION |
|-------------------------------|--|--|
| Jose A. Nuñez, Jr. | Chairman | Development Bank of the Philippines |
| Calixto V. Chikiamco | President | Foundation for Economic Freedom |
| Amina Rasul-Bernardo | President | Philippine Center for Islam and Democracy |
| Richard Rodgers | Counsellor, Political and Public Affairs | Australian Embassy |
| Al Camlian | Commissioner | Bangsamoro Transition Commission |
| Gil Beltran | Under Secretary, Head, Development and Management Services Group and Chief Economist | Department of Finance |
| Cayetano Paderanga, Jr. | Chairman | Development Academy of the Philippines |
| Saffrullah M. Dipatuan | Chairman | Bangsamoro Development Agency |
| Nazamuddin Bantasyam | Economist | Syiah Kuala University, Aceh, Indonesia |
| Alan Ortiz | Former Assistant Director-General | National Security Council |
| Richard Bolt | Country Director | Asian Development Bank |
| Simon Paterno | Former President | Development Academy of the Philippines |
| Noriaki Niwa | Chief Representative | JICA |
| Sam Chittick | International Advisor | FASTRAC |
| Ustadz Mahmud Sumilalao Ahmad | Executive Director | Bangsamoro Leadership and Management Institute |
| Ma. Cecilia Soriano | Workshop Director | Foundation for Economic Freedom |
| Acram Latiph | Professor | Mindanao State University |
| Karl Kendrick Chua | Economist | World Bank |
| Ma. Presentacion R. Montesa | Former Executive Director | Bureau of Local Government Finance, DOF |
| Ronald U. Mendoza | Executive Director | AIM Policy Center |

| NAME | DESIGNATION | ORGANIZATION |
|-----------------------|---|---|
| Horacio C. Ramos | Former Secretary | Department of Environment and Natural Resources |
| Ronald Recidoro | VP for Legal and Policy | Chamber of Mines of the Philippines |
| John Carlo Tria | Director | Environmental Counselors, Inc. |
| Abdul Jalil S. Umngan | Focal Person, Environment, Natural Resources and Energy | Bangsamoro Development Agency |
| Ishak Mastura | | ARMM Regional Board of Investments |
| Vincent Lazatin | Executive Director | Transparency and Accountability Network |
| Jaime C. Laya | Former Budget Minister and Former Central Bank Governor | |
| Tanya Hamada | Assistant Secretary | Department of Budget and Management |
| Kamil Md Idris | Dean, School of Accounting | Universiti Utara Malaysia |
| Romulo Neri | Former Socio-Economic Planning Secretary | National Economic and Development Authority |
| Mohammad Yacob | Executive Director | Bangsamoro Development Agency |
| Sukarno Tanggol | Chancellor | Mindanao State University |
| Ferdinand Tolentino | Former Deputy Executive Director | PPP Center |
| Isidro Sobrecarey | Senior VP and Head | DBP Institute |
| Teresa Habitan | Assistant Secretary | Department of Finance – Corporate Affairs Group |
| Rodolfo ‘Inky’ Reyes | Senior Partner | Gordon Dario Reyes Hocson Viado & Blanco |
| Adzlan Imran | Office of the Chairperson | MinDA |
| Cesar E.A. Virata | Former Prime Minister | |
| Hussein Lidasan | Convenor | Philippine Center for Islam and Democracy |
| Santanina Rasul | Former Senator | Magbassa Kita Foundation, Inc |
| Salma Rasul | Executive Director | Philippine Center for Islam and Democracy |
| Cheng Rasul | Volunteer | Philippine Center for Islam and Democracy |
| Thomas Allen | Fellow | Foundation for Economic Freedom |

| NAME | DESIGNATION | ORGANIZATION |
|-----------------------------|-----------------------------------|-------------------------------------|
| Gary Teves | Project Director | Foundation for Economic Freedom |
| Elmer Mercado | Fellow | Foundation for Economic Freedom |
| Hamodi L. Tiboron | Finance Head | Bangsamoro Development Agency |
| Anwar S. Abdullah | Finance Officer | Bangsamoro Development Agency |
| Gina-Aisha Ladiasan | Finance Officer | Bangsamoro Development Agency |
| Sittie Norhana Solaiman | Finance Officer | Bangsamoro Development Agency |
| Hafidullah Kasan | Finance Assistant | Bangsamoro Development Agency |
| Amilbahar Amilasan Jr. | Branch Head | Metro Bank Cotabato |
| Mangontawar Macacuna | Board of Director | Bangsamoro Development Agency |
| Jamel Macaraya | Board of Director | Bangsamoro Development Agency |
| Taugan Kikay | Director | Sajahatra Bangsamoro |
| Mohammad Pasigan | President | Bangsamoro Business Council |
| Juro Chikaraishi | | JICA |
| Yuko Tanaka | | JICA |
| Cristina Santiago | | JICA |
| Idiosa B. Ursolino | Head, Operations | Al-Amanah Islamic Investment Bank |
| Nursalyn H. Ladjabassal | Head, Treasury | Al-Amanah Islamic Investment Bank |
| Al-Jabbar M. Darimbang, Jr. | Acting Branch Head, Makati Branch | Al-Amanah Islamic Investment Bank |
| Jam Abu Dharr P. Usman | Acting Head, Accounting & Finance | Al-Amanah Islamic Investment Bank |
| Trinidad Rodriguez | Executive Director | National Tax Research Center |
| Ernest Leung | Fellow | Foundation for Economic Freedom |
| Alberto A. Lim | Member, Board of Director | Development Bank of the Philippines |
| Lydia Echauz | Member, Board of Director | Development Bank of the Philippines |

| NAME | DESIGNATION | ORGANIZATION |
|----------------------------|--------------------------|---|
| Teresita Solomon | | National Tax Research Center |
| Warren Hoye | First Secretary | DFAT, Australian Embassy |
| Atty. Ricardo Balatbat III | Executive Director | Foundation for Economic Freedom |
| Susette Rosuelo | Supervisor | Philippine Chamber of Commerce, Inc. |
| JB Santos | Staff | Philippine Center for Islam and Democracy |
| Ranna Pintor | Project Officer | Foundation for Economic Freedom |
| Marian Padilla | Administrative Assistant | Foundation for Economic Freedom |
| Gomer Terrano | Liason Officer | Foundation for Economic Freedom |
| Ma. Cecilia Bermejo | Workshop Coordinator | Foundation for Economic Freedom |
| Atty. Oliver San Antonio | | Foundation for Economic Freedom |
| Hannah Muralla | | Foundation for Economic Freedom |
| Elizabeth Makayan | | Foundation for Economic Freedom |
| Gabrielle Dominique Garen | Documenter | Foundation for Economic Freedom |
| Esther Elizabeth Suson | Documenter | Foundation for Economic Freedom |
| Mhel Romero | Staff | Foundation for Economic Freedom |
| Stephanie Arguelles | Staff | Foundation for Economic Freedom |
| Eduardo Gana | | Foundation for Economic Freedom |
| Vanessa Estano | | Office of the Presidential Adviser on the Peace Process |
| Rem De Leon | | Office of the Presidential Adviser on the Peace Process |
| Susan Prado | CFO | Development Bank of the Philippines |
| Anelyn Binancilan | SEDS | MinDA |

| NAME | DESIGNATION | ORGANIZATION |
|------------------------|--------------------|-------------------------------------|
| Maria Niecel Fullido | | DBP Institute |
| Dennis Legaspi | | Chamber of Mines of the Philippines |
| Lutgarda Peralta | | Development Bank of the Philippines |
| Joven Balbosa | | Asian Development Bank |
| Elaine Collado | | Foundation for Economic Freedom |
| Angela Arnante | | Foundation for Economic Freedom |
| Samira Gotoc | | |
| Jeanne Rachel Martinez | | DBP Institute |
| Wilfredo Nuqui | | MinDA |
| Jojo Rey Salvatierra | | Development Bank of the Philippines |

PART 3

BASELINE STUDIES FOR WORKSHOPS

Working Paper No.1

SOCIO-ECONOMIC CONDITIONS IN THE ARMM²⁴

Introduction

When the Autonomous Region in Muslim Mindanao (ARMM) was created²⁵ it sought to fulfill economic prosperity, social justice, and lasting peace in Mindanao. Unfortunately, after more than two decades of existence, the ARMM is still the most impoverished and underdeveloped region in the country.

The ARMM is composed of predominantly Muslim provinces, viz. the “mainland” provinces of Lanao del Sur and Maguindanao, and the “island” provinces of Basilan (except Isabela City), Sulu and Tawi-Tawi (see Map 1). The regional capital is Cotabato City, but this is not formally part of the autonomous region. The current population of the ARMM is around 3.5 million over a total land area of around 27,000 square kilometers.

Map 1. The ARMM



Image Source: Wikipedia

²⁴ This paper was prepared by the Philippine Center for Islam and Democracy.

²⁵ The ARMM came into being on August 1, 1989 through Republic Act No. 6734 (known as the Organic Act).

The ARMM is headed by an elected Regional Governor.²⁶ He is advised by an Executive Council – which has representation from the Christian, Muslim and indigenous cultural communities – and assisted by an appointed Cabinet.²⁷ The elected Regional Legislative Assembly exercises legislative powers, within the context of the power sharing arrangements with the National Government.

Table 1. Regional Governors

| Term | Governor | Party |
|--------------|----------------------------------|-----------------|
| 1990–1993 | Zacaria Candao | Lakas-NUCD |
| 1993–1996 | Lininding Pangandaman | Lakas-NUCD-UMDP |
| 1996–2002 | Nurallaj Misuari | Lakas-NUCD-UMDP |
| 2001 | Alvarez Isnajia | Lakas-NUCD-UMDP |
| 2001–2005 | Parouk S. Hussin | Lakas-NUCD-UMDP |
| 2005–2009 | Zaldy Ampatuan | Lakas Kampi CMD |
| 2009–2011 | Ansaruddin-Abdulmalik A. Adionga | Lakas Kampi CMD |
| 2011–Present | Mujiv S. Hataman | Liberal |

The creation of the Bangsamoro will result in an expansion of the geographical area of the autonomous region and a ministerial form of government. The core territory will be composed of:

- the present geographical area of ARMM;
- six (6) selected municipalities in Lanao del Norte and 39 barangays in six (6) towns of North Cotabato that voted for inclusion in ARMM in the 2001 plebiscite;
- the cities of Cotabato and Isabela; and
- all other contiguous area where there is a resolution of the local government or a petition of at least 10% of the qualified voters in the area asking for their inclusion at least two (2) months before the ratification of the Bangsamoro Basic Law.

²⁶ Governors are also elected for each of the five provinces of the ARMM.

²⁷ The Cabinet is appointed by the Governor, but requires the endorsement of the Regional Legislative Assembly.

The expanded area (see Map 2) will have a population of around five (5) million.

Map 2. The Proposed Bangsamoro

PROPOSED BANGSAMORO CORE TERRITORY

A. The present geographical areas of the ARMM

- Provinces: Basilan, Sulu, Tawi-tawi, Lanao del Sur and Maguindanao
- Cities: Marawi and Laminan

B. Areas that voted Yes to inclusion in the ARMM in the 2001 plebiscite

6 Lanao del Norte towns

| | |
|----------|----------|
| Baloi | Pantar |
| Munai | Tagoloan |
| Nunungan | Tangkai |

39 out of 208 barangays in six towns in North Cotabato

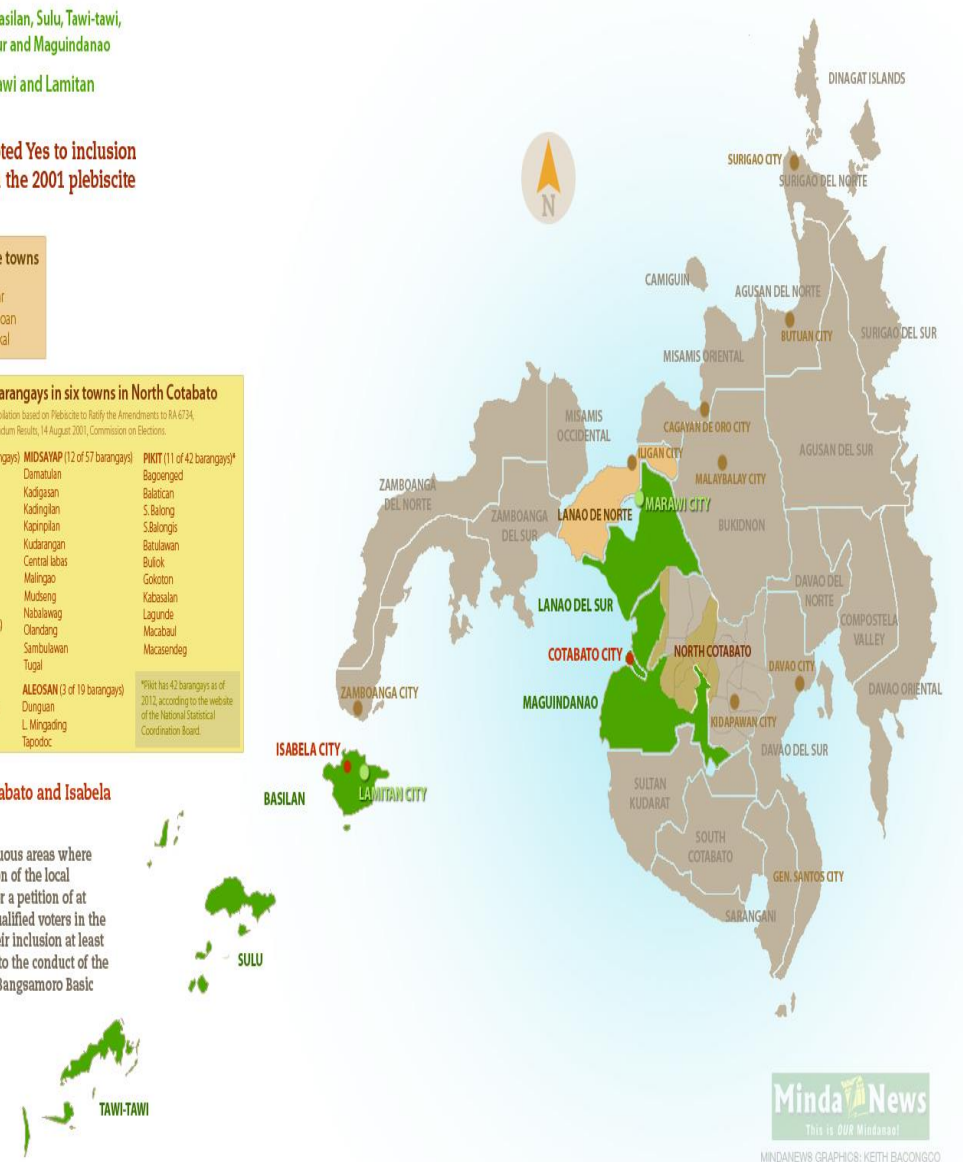
From Prof. Rudy Rocila compilation based on Plebiscite to Ratify the Amendments to RA 6734, Consolidated ARMM Referendum Results, 14 August 2001, Commission on Elections.

| | | |
|--------------------------------------|--------------------------------------|------------------------------------|
| PIGAWAYAN (8 of 40 barangays) | MIDSAYAP (12 of 57 barangays) | PIKIT (11 of 42 barangays)* |
| Lower Baguer | Damatulan | Bagoonged |
| Balacayan | Kadagsan | Balatican |
| Buricain | Kadunglan | S. Balong |
| Datu Bimasing | Kapinplan | S.Balongis |
| Kadunglan | Kudarangan | Batulewan |
| Maitac | Central labas | Bulok |
| Petot | Malingao | Gokiton |
| L. Pangarkalan | Mudseng | Kabasalan |
| | Nabalawag | Lagunde |
| KABACAN (3 of 24 barangays) | Olandang | Macabaul |
| Nanga-an | Simbulawen | Macasendag |
| Simbuhay | Tugal | |
| Sanggadong | | |
| CARMEN (2 of 28 barangays) | ALEOSAN (3 of 19 barangays) | |
| Manarahan | Dunguan | |
| Nasipian | L. Mingading | |
| | Tapodoc | |

*Pikit has 42 barangays as of 2012, according to the website of the National Statistical Coordination Board.

C. Cities: Cotabato and Isabela

D. All other contiguous areas where there is a resolution of the local government unit or a petition of at least 10% of the qualified voters in the area asking for their inclusion at least two months prior to the conduct of the ratification of the Bangsamoro Basic Law



Demographic Characteristics

Population

In 2010, the National Statistics Office (NSO) estimated a population of 3.2 million in the ARMM. This implied an annual growth rate of 1.49% over 2000–2010, the lowest growth rate of any region in Mindanao and well below the national average of 1.90%. Net migration outflows through the years of conflict have contributed to this.

However, there is some controversy – even surprise – over these figures. In 2007 the ARMM registered a population of 4.1 million, but a revalidation by NSO reduced this figure to the estimated 3.2 million in 2010. The low population growth rate for ARMM seems somewhat out of line with the pre-2000 growth rates, which are much higher, suggesting that there are question marks over the validity of the population data going back a number years.

Table 2. Population Growth Rates

| | 1995-2000 | 2000-2010 |
|--------------------|-----------|-----------|
| Philippines | 2.36 | 1.90 |
| ARMM | 3.73 | 1.49 |

Source: NSCB/NSO/MinDA

Varying values of official data regarding population and other economic indicators in ARMM pose some problems in making a conclusive analysis of the region's performance. The reported population figure and levels of poverty sometimes do not reflect the true situation on the ground. Local executives tend to induce data gathering agencies to overestimate the size of population and the extent of poverty. An inflated population means a larger Internal Revenue Allotment (IRA), while a higher count in the size of the poor means more aid and social welfare programs for those areas.²⁸

The median age of the ARMM's population in 2010 was 18.1 years, which was much lower than the 23.4 years for the Philippines as a whole, and lower than any other region in the Philippines. The median age for the ARMM's male population was 17.8 years, half a year lower than the median age of 18.3 years for the female population. The ARMM population is relatively young, with some 43% under the age of fifteen, and less than 2% over 65 years old.

²⁸ See Assessment of the State of Local Democracy in the Autonomous Region of Muslim Mindanao, UP-NCPAG and PCID 2013.

The ARMM is the only region in the Philippines – with the exception of the National Capital Region – in which females outnumber the males (99 males per 100 females). There are more women than men in the 15-65 age group, but more men than women in the under 15 age group and the over 65 age group. These numbers could reflect the attrition of male ranks as a result of the armed conflict.

Within the region, the “mainland” provinces of Lanao del Sur and Maguindanao account for 60% of the population and the ‘island’ provinces 40%.

Table.3. Regional Population (‘000)

| Province | Population (‘000) |
|-------------------|-------------------|
| Lanao del Sur | 933 |
| Maguindanao | 944 |
| Basilan | 293 |
| Sulu | 719 |
| Tawi-Tawi | 366 |
| TOTAL 2010 | 3,255 |

Source: NSCB/NSO

Principal Identity Groups

Over 90% of the population of the ARMM are Muslims, with the rest mostly Christians of different denominations, plus a smattering of non-Muslims and non-Christians, particularly among the *Lumad* (indigenous groups). The homogeneity in religion in the ARMM is, however, not matched by a similar uniformity in ethnic identity and cultural traditions. Each province is dominated by a particular Muslim ethno-linguistic group (also referred to as tribes by people in the area) speaking its own language and standing on its own cultural practice, history and traditions. These groups even display different attitudes towards their fellow Muslims, as well as their non-Muslim neighbors.²⁹

The non-Muslim *Lumad* in ARMM – the Tenduray and Monobo who live in the mountainous areas of Maguindanao – are the most marginalized groups within ARMM. They practice subsistence farming and fishing, occasionally selling surplus produce for cash or barter. It is estimated that there are some 60,000 *Lumad* in ARMM.

The ARMM is home to three (3) major ethno-linguistic groups – Maguindanaon, Maranao, and Tausug – and 10 minor ones. As indicated above, each province has a different principal language spoken by its residents. Internal migration has meant

²⁹ State of Local Democracy in ARMM... op. cit. pg.24.

that non-Mindanao languages, particularly Visayan, have gained some traction, and Tagalog is becoming widely spoken in the region.

Annex 1 explores in more detail the historical and cultural background of the Bangsamoro. Success in business operations in the region is very much dependent on understanding and responding to the religious and cultural traditions.

Regional Domestic Product

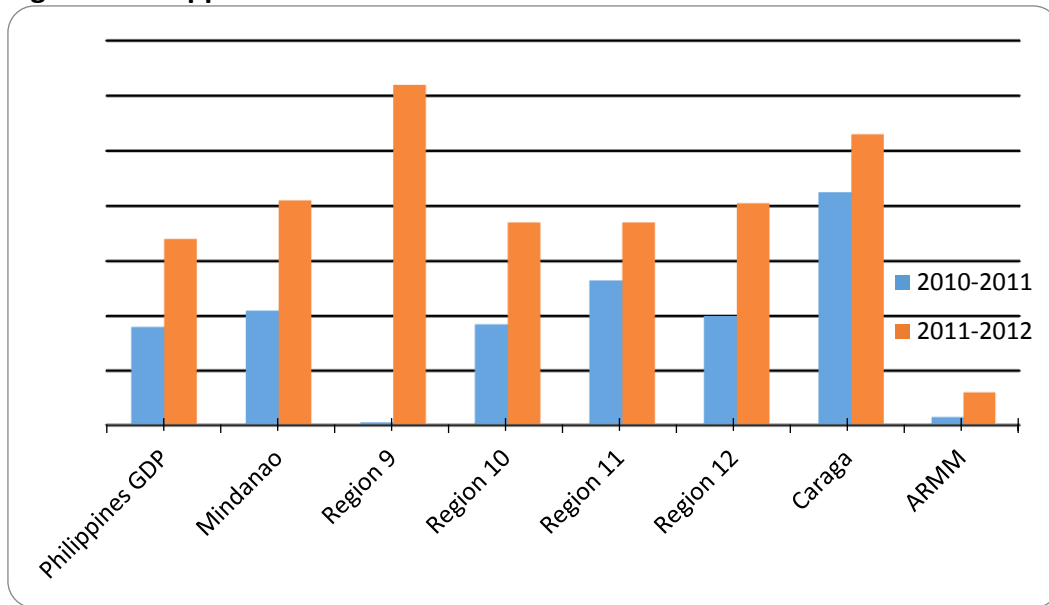
The Gross Regional Domestic Product (GRDP) in ARMM in 2012 was PhP 93 billion. Around 63% of the GRDP is accounted for by agriculture, forestry and fishing, and some 32% by the service sector. Industry accounts for a paltry 5%.³⁰ The ARMM accounted for less than 1% of GDP for the Philippines as a whole, by far the lowest among all regions.

In real terms, after achieving a growth rate of 2.3% in 2010, the ARMM economy actually declined by 0.3% in 2011 and grew by only 1.2% in 2012. Over the last decade, growth in the ARMM has lagged and “historically has contributed the least to national product among all the country’s regions, no doubt due to the long-running separatist conflict but also as a consequence of National Government neglect of that region’s economic development.”³¹ Although the Government has prioritized infrastructure spending in Mindanao in recent years, a significant portion going to ARMM, it is hard to see the National Government placing substantial resources in ARMM over the next couple of years given the need for it to give attention to the devastated areas of the country as a result of recent natural disasters.

³⁰ These figures are being checked.

³¹ State of Local Democracy in ARMM... op. cit. pg 30.

Figure 1. Philippine GDP and Mindanao GRDP Growth Rates



The sluggish growth is one of the reasons why ARMM is consistently one of the poorest regions in the Philippines. This is reflected in the *per capita income* figures – the ARMM GRDP per capita in 2012 at current prices was around PhP 26,000, by far the lowest of all regions, and only a quarter of the level for the whole of the Philippines. In real terms, the level of per capita income in ARMM has changed little over recent years, and continues to lag by a large margin that of other regions in the Philippines.

Table 4. Per Capita Gross Regional Domestic Product, 2011 and 2012 in Pesos (at constant 2000 prices)

| REGION / YEAR | | 2011 | 2012 |
|--------------------|-----------------|---------|---------|
| PHILIPPINES | | 62,739 | 65,904 |
| NCR | METRO MANILA | 173,975 | 183,747 |
| CAR | CORDILLERA | 73,945 | 73,573 |
| I | ILOCOS | 38,287 | 39,806 |
| II | CAGAYAN VALLEY | 32,167 | 34,364 |
| III | CENTRAL LUZON | 52,766 | 55,072 |
| IVA | CALABARZON | 78,966 | 82,393 |
| IVB | MIMAROPA | 37,540 | 38,514 |
| V | BICOL | 21,112 | 22,312 |
| VI | WESTERN VISAYAS | 33,499 | 35,559 |
| VII | CENTRAL VISAYAS | 52,528 | 56,507 |
| VIII | EASTERN VISAYAS | 37,006 | 34,305 |

| | | | |
|------|---------------------|--------|--------|
| IX | ZAMBOANGA PENINSULA | 33,726 | 37,284 |
| X | NORTHERN MINDANAO | 50,838 | 53,632 |
| XI | DAVAO REGION | 49,431 | 52,201 |
| XII | SOCCKSARGEN | 37,813 | 40,043 |
| XIII | CARAGA | 28,362 | 30,951 |
| ARMM | MUSLIM MINDANAO | 14,348 | 14,321 |

Source: National Statistical Coordination Board

Workforce

The ARMM has a comparatively low labor force participation rate compared to the Philippines as a whole. In fact, it is the only region in the country where the rate is below 60%. On the basis of 2012 data, the labor force participation rate is around 58% compared to the national average of around 64%.³² Coupled with this, the ARMM posted the lowest unemployment rate in the country of 3% in 2012, although this jumped to around 7% in January 2013. The underemployment rate in the ARMM in January 2013 was 13.4%, only slightly higher than in 2012.³³ The NSO reported in 2010 that for every 100 of the population in the working ages, ARMM had 80 dependents.

It is relevant to note that only 15% of the workers in ARMM are salaried workers, compared with 54% for the country as a whole. More than 50% of the workers in ARMM are self-employed, and a further 25% are unpaid family workers. More than 50% (predominantly male) are engaged as farmers, forestry workers, and fishermen, and a further one-third as laborers and unskilled workers.

³² A number of explanations have been offered for the low labor force participation rate in ARMM, ranging from many simply giving up on finding employment because of the lack of job opportunities to the constant state of conflict preventing access to jobs. However, the low unemployment rate seems to negate these explanations. A more likely explanation is that “a significant portion of the population, namely women, do not consider work outside the home an option either because of traditional cultural constraints on women working, religious considerations that discourage women from seeking work, or socio-economic constraints... such constraints, however, seem to apply only to women from the poorer segments of ARMM society.” *State of Local Democracy in ARMM .. op. cit. pg 37.*

³³ Until 2004, SWS unemployment survey (which started in 1993) tracked the official jobless rate. However, the data sharply diverged from each other beginning in 2005 when the NSO changed its definition of employment. The new definition of unemployment that the NSO started using in its April 2005 Labor Force Survey excluded discouraged workers—and those not willing or available for work—from the labor force. (*The redefinition is contained in Resolution No. 15 passed by the National Statistical Coordination Board or NSCB in 2004.*) This redefinition, which further distorted the already problematic old official definition of employment, had the net effect of further statistically reducing the number of unemployed. (Arnold Padilla, 2012).

ARMM has contributed to the export labor pool. In 2011, some 65,000 workers (predominantly women) from ARMM were deployed overseas.

Poverty

The ARMM has not made any significant dent in alleviating poverty during its two decades of existence. The incidence of poverty among families in ARMM – 47% in 2012 – is the highest among regions in the Philippines, and more than twice the country’s overall poverty incidence of 22%. The depth of poverty – measured by the distance of the poor from the poverty line – is even more severe in the ARMM provinces, indicating that “not only does the ARMM suffer from massive poverty, but also that its poor people are the poorest in the country.”³⁴

Among ARMM provinces, Lanao del Sur posted the highest *poverty incidence* in recent years – 51% in 2009 and 69% in 2012. Interestingly, Basilan, Sulu and Tawi-Tawi’s poverty incidence dropped in 2012, with Tawi-Tawi posting the most dramatic drop from 48.3% in 2009 to 20.8% in 2012.³⁵ However, data over the last two (2) decades suggest that the island provinces have exhibited a higher and more variable incidence of poverty.

Table 5. Per Capita Threshold and Poverty Incidence

| Region | Per Capita | | | Poverty Incidence | | |
|--------------------|-------------------------|--------------|--------------|--------------------|-------------|-------------|
| | Poverty Threshold (PhP) | | | among Families (%) | | |
| | 2006 | 2009 | 2012 | 2006 | 2009 | 2012 |
| Philippines | 6,703 | 8,448 | 9,385 | 23.4 | 22.9 | 22.3 |
| NCR | 7,718 | 9,456 | 10,084 | 2.8 | 3.7 | 3.8 |
| CAR | 7,031 | 8,492 | 9,734 | 25.6 | 22.7 | 22.6 |
| Region 1 | 7,086 | 8,729 | 9,224 | 23.3 | 18.5 | 16.7 |
| Region 2 | 6,984 | 8,566 | 9,503 | 22 | 22.3 | 19.8 |
| Region 3 | 7,344 | 9,251 | 10,121 | 13 | 12.5 | 12.2 |
| Region 4-A | 6,611 | 8,481 | 9,601 | 10.1 | 10.8 | 11.2 |
| Region 4-B | 6,238 | 7,751 | 8,527 | 34.1 | 30.6 | 28.4 |
| Region 5 | 6,618 | 8,420 | 9,022 | 36.2 | 36.5 | 34.1 |

³⁴ State of Local Democracy in ARMM... op. cit. pg 46.

³⁵ Take note that data from 2009 show a lower index compared to 2006 due to a “refined methodology” implemented by the NSCB (Assessment of the State of Local Democracy in the ARMM, op cit.). This year, President Benigno Aquino III expressed his doubts on the reliability of the latest poverty numbers given that the population numbers have not been as accurate prior to 2010, when his administration assumed power. (Rappler, 2013).

| | | | | | | |
|----------------------|--------------|--------------|---------------|-------------|-------------|-------------|
| Region 6 | 6,421 | 8,153 | 8,957 | 27.5 | 26.7 | 24.7 |
| Region 7 | 7,269 | 8,648 | 9,296 | 35 | 31.6 | 28.8 |
| Region 8 | 6,266 | 8,107 | 8,989 | 33.3 | 36.2 | 37.2 |
| Region 9 | 6,159 | 8,053 | 8,881 | 41 | 41.5 | 36.9 |
| Region 10 | 6,450 | 8,456 | 9,604 | 35.1 | 35.4 | 35.6 |
| Region 11 | 6,721 | 8,547 | 9,927 | 26.9 | 27.3 | 28.6 |
| Region 12 | 6,619 | 8,126 | 9,243 | 34.7 | 31.1 | 37.5 |
| Caraga | 6,996 | 8,905 | 9,779 | 43.3 | 43.3 | 34.1 |
| ARMM | 6,319 | 8,257 | 10,027 | 43.0 | 42.0 | 46.9 |
| <i>Basilan</i> | 6,347 | 8,191 | 9,541 | 31.2 | 37.4 | 32.5 |
| <i>Lanao del Sur</i> | 6,443 | 8,309 | 10,970 | 38.1 | 51.4 | 68.9 |
| <i>Maguindanao</i> | 6,241 | 8,048 | 9,530 | 47.7 | 37.6 | 57.8 |
| <i>Sulu</i> | 6,860 | 8,837 | 9,996 | 42.9 | 37.9 | 30.3 |
| <i>Tawi-Tawi b/</i> | 5,691 | 7,289 | 8,244 | 50.6 | 48.3 | 20.8 |

Notes:

a/ Province with sample size less than 100.

b/ Coefficient of variation of 2012 first semester provincial poverty incidence among families is greater than 20%.

Source: National Statistical Coordination Board

Most of the poor in the ARMM are in rural areas, particularly in the conflict areas. Weather phenomena also exacerbate the incidence of poverty. The incidence of poverty is highest for women, followed by the youth, then senior citizens.³⁶

Social Indicators

ARMM provinces have consistently been ranked in the bottom 10 provinces in the Philippines in terms of the **Human Development Index (HDI)** – a composite statistic of life expectancy, education, and income indices prepared by the United Nations Development Programme (UNDP). In 2009, ARMM had the lowest rating – 0.362 - in the Philippines, and was well below the country's average of 0.633. Sulu's HDI of 0.266 is almost as low as those of Niger, Democratic Republic of Congo, and Zimbabwe, which are ranked lowest in human development in the world³⁷.

³⁶ State of Local democracy in ARMM... op. cit. pgs. 47-49.

³⁷ UNDP, 2013.

Table 6. Human Development Index

| Area | 2003 | 2009 |
|----------------------|--------------|--------------|
| Philippines | 0.721 | 0.633 |
| ARMM | 0.547 | 0.362 |
| <i>Basilan</i> | 0.578 | 0.478 |
| <i>Lanao del Sur</i> | 0.601 | 0.432 |
| <i>Maguindanao</i> | 0.498 | 0.312 |
| <i>Sulu</i> | 0.540 | 0.266 |
| <i>Tawi-Tawi</i> | 0.518 | 0.322 |

Sources: National Statistical Coordination Board³⁸

Health

ARMM fares badly in terms of basic social services. In 2009 the ARMM had only one (1) barangay health station (BHS) for every 7,806 people, and was surpassed only by the National Capital Region.³⁹

Table 7. Population, Number of Barangays and Number of Barangay Health Stations, 2009

| | Population | Number of Barangays | Number of BHS | Population per BHS | % of Total Popn | % to Total BHS |
|----------------------|------------------|---------------------|---------------|--------------------|-----------------|----------------|
| Philippines | 91,048,692 | 41,770 | 17,407 | 5,231 | | |
| ARMM | 3,473,600 | 2,475 | 445 | 7,806 | 4 | 3 |
| <i>Basilan</i> | 316,200 | 210 | 58 | 5,452 | 9 | 13 |
| <i>Lanao del Sur</i> | 826,081 | 1,068 | 82 | 10,074 | 24 | 18 |
| <i>Maguindanao</i> | 1,048,500 | 488 | 185 | 5,668 | 30 | 42 |
| <i>Sulu</i> | 722,900 | 410 | 67 | 10,790 | 21 | 15 |
| <i>Tawi-Tawi</i> | 396,600 | 203 | 45 | 8,813 | 11 | 10 |
| <i>Marawi City</i> | 161,319 | 96 | 8 | 20,165 | 5 | 2 |

Source: Department of Health Field Health Services Information System Annual Report 2009, Lavado, et. al.

This deficit in health stations is replicated in the number of government physicians, nurses, and midwives as well, with the ARMM among those regions with the lowest numbers of these health workers. In 2009, one government doctor served almost

³⁸ Note: Values for the ARMM are the computed average for all provinces.

Computations made by the Human Development Network (HDN) based on the refined methodology agreed by the NSCB and HDN in consultation with the Task Force on HDI Estimates

³⁹ Prof. Ramon Fernan, Assessment of the State of Local Democracy in ARMM, 2013

18,000 people in the ARMM; this number is far from the ideal public health ratio of one doctor to almost 10,000 people.⁴⁰

Table 8. Health Workers

| Health Personnel | Health worker to Population Ratio | Actual Standard |
|------------------|-----------------------------------|-----------------|
| ARMM | | |
| Physicians | 1:17,989 | 1:10,000 |
| Dentists | 1:113,333 | 1:50,000 |
| Nurses | 1:13,127 | 1:20,000 |
| Midwives | 1:8,970 | 1:5,000 |

Raw Data Source: List of Hospitals and Other Facilities, BHFS-DOH (2009), Lavado et. al.

It is clear that the ARMM's citizens are poorly served by both the National and Regional Governments. The health system in the region is not devolved to the local government units, and is managed by the Regional Government's own Department of Health.

Despite the poor health sector situation in the previous years, there was good news in 2011. *Maternal mortality rate (MMR)* dropped to 66 from 162 in 2008. At the same time, the *infant mortality rate (IMR)* went down from 55 in 2008 (compared to the national rate of 25) to 18 in 2011, even better than the national Millennium Development Goal of 19 by 2015.⁴¹ Infant mortality in the ARMM appears to be far lower than that for the country as a whole. In fact, infant mortality in the ARMM has improved more over the years since 1995 than has been the case of the Philippines. This was despite the fact that the ARMM as a region was least likely to spend its funds on social services for its citizens.⁴²

Education

In 2003 and 2008, ARMM had the *lowest basic and functional literacy rate* in Mindanao. The basic literacy rate for ARMM of 81.5 in 2008 was well below the national average of 95.6, while in functional literacy ARMM recorded a rate of 71.6 compared with the national average of 86.4.

⁴⁰ Prof. Ramon Fernan, in Assessment of the State of Local Democracy in ARMM, op cit.

⁴¹ Philippine Daily Inquirer, 2012.

⁴² Prof. Ramon Fernan, Assessment of the State of Local Democracy in ARMM op cit.

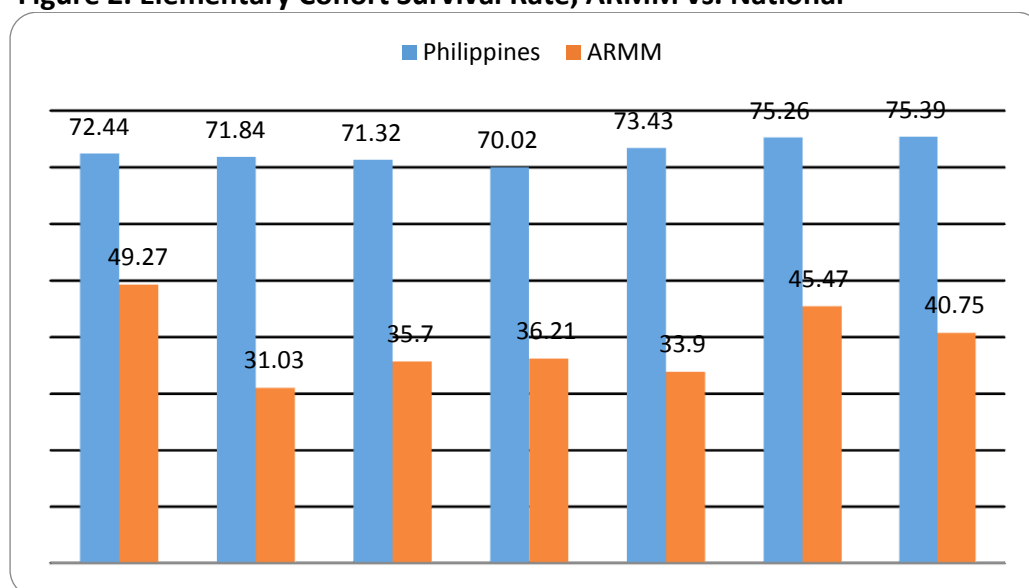
Table 9. Basic Literacy of Population 10 years old and over and Functional Literacy Rate of Population 10-64 years old, by Region

| Region | Basic | | Functional | |
|-------------|-------------|-------------|-------------|-------------|
| | 2003 | 2008 | 2003 | 2008 |
| Region 9 | 88.9 | 94.1 | 74.8 | 79.6 |
| Region 10 | 91.8 | 94.0 | 83.7 | 86.0 |
| Region 11 | 90.3 | 93.7 | 77.8 | 81.8 |
| Region 12 | 87.3 | 92.1 | 77.1 | 78.4 |
| Caraga | 92.1 | 94.8 | 81.0 | 85.8 |
| ARMM | 70.2 | 81.6 | 62.9 | 71.6 |

Source: Functional Literacy, Education and Mass Media Survey (FLEMMS), 2003 and 2008

Meanwhile, *elementary education survival rate* is also mediocre in the ARMM, with a mere 59.5% compared to the national average of 75.1%.

Figure 2. Elementary Cohort Survival Rate, ARMM vs. National



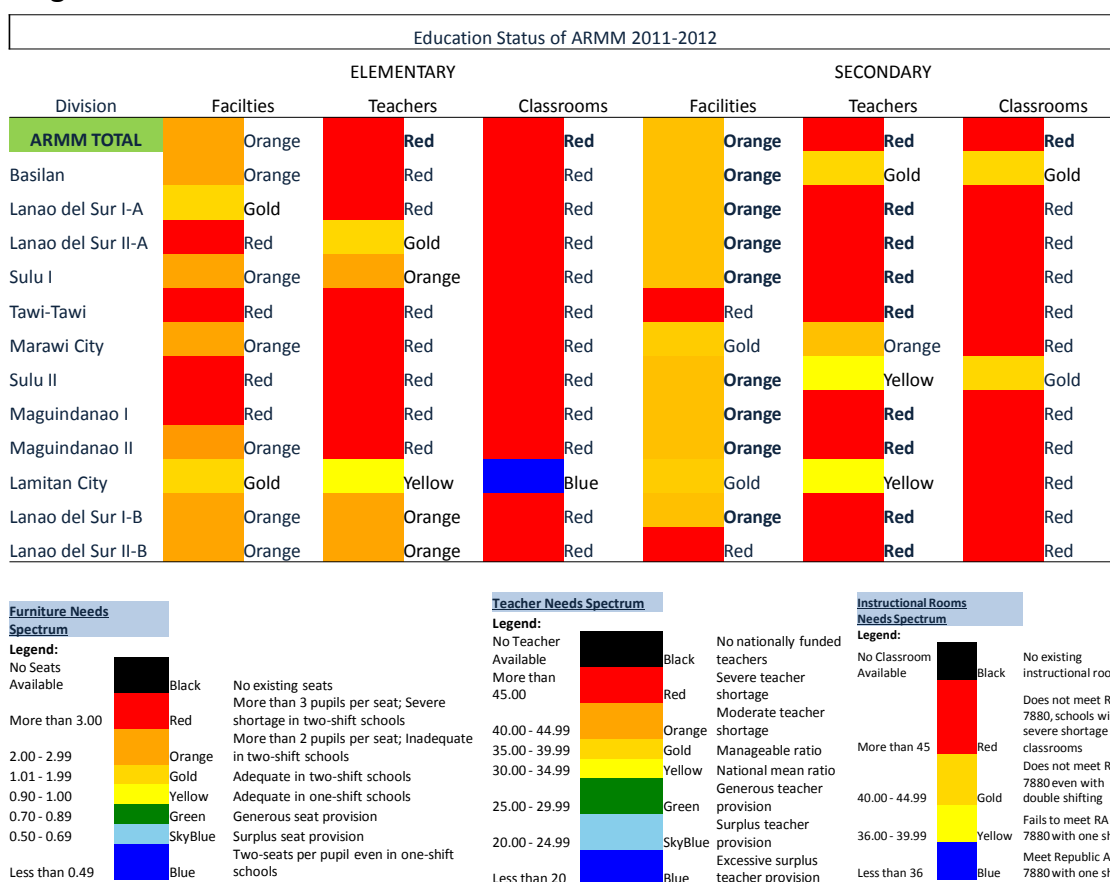
Source: Research and Statistical Division Office of Planning Service, Department of Education

Moreover, schools in ARMM lack necessary facilities, instructional classrooms and teachers.⁴³ The colors in Graph 3 below show the severity of shortage of facilities, classrooms and teachers in the region; red and orange/gold being severe and moderately severe.

⁴³ ARMM Bureau of Madaris Education, 2013.

The poor state of education in ARMM may be attributed to the poverty and peace and order situation of the region. Apart from the critical shortage of classrooms in the ARMM, school infrastructure and facilities are generally in poor physical condition and lack basic facilities such as water, electricity, toilets and health clinics. Schools also suffer from furniture and textbook shortages and lack technological facilities such as computers and science laboratory facilities.⁴⁴ Sadly, at the receiving end of this grave situation are the ARMM school-aged children, albeit the future of this fragile region.⁴⁵

Figure 3. Education Status of ARMM 2011 to 2012



Source: ARMM Bureau of Madaris Education, 2013

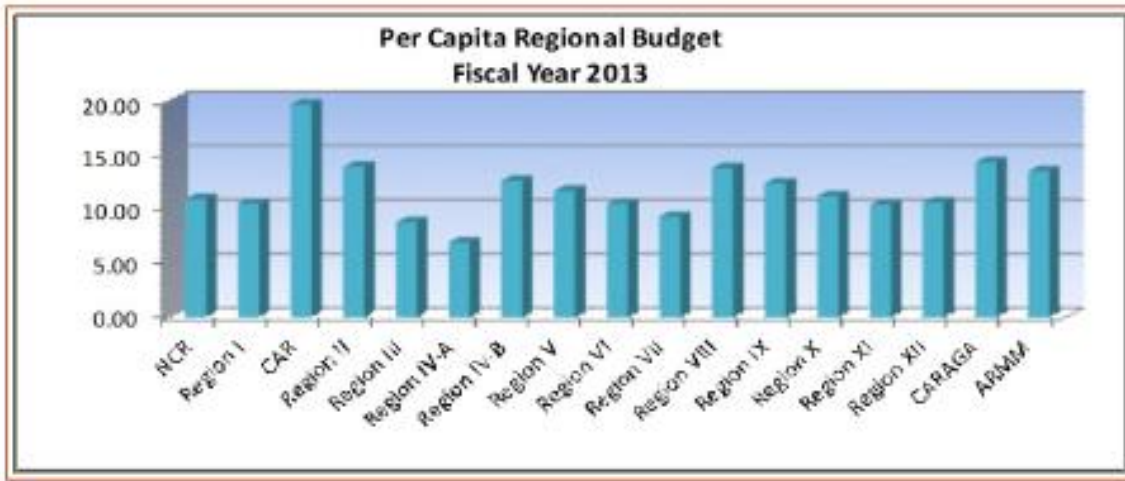
⁴⁴ (Department of Education-ARMM, 2013).

⁴⁵ Statement from the IAG Scenario Building Session, ARMM Leadership Assessment and Planning Workshop, May 10-12, 2012, Davao City).

Fiscal Resources

With its abject poverty, one would think that ARMM was one of the least supported regions in terms of the allocation of resources. Considering the revised number of population of ARMM in 2010, a scrutiny of the average regional allocation of the national budget for the past three years (2010-2012) would show that ARMM rated as one of the highest in terms of Per Capita Regional Budget.

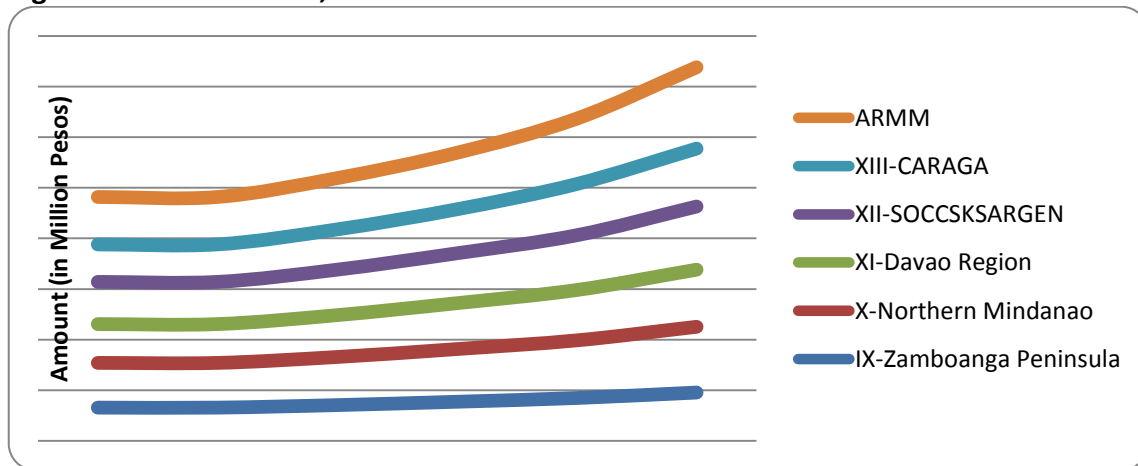
Figure 4. Per Capita Regional Budget, Fiscal Year 2013



Source: Legislative Budget Research and Monitoring Office 2013

Furthermore, looking at the data for 2003 to 2008 shows that ARMM received the highest IRA among regions in Mindanao.

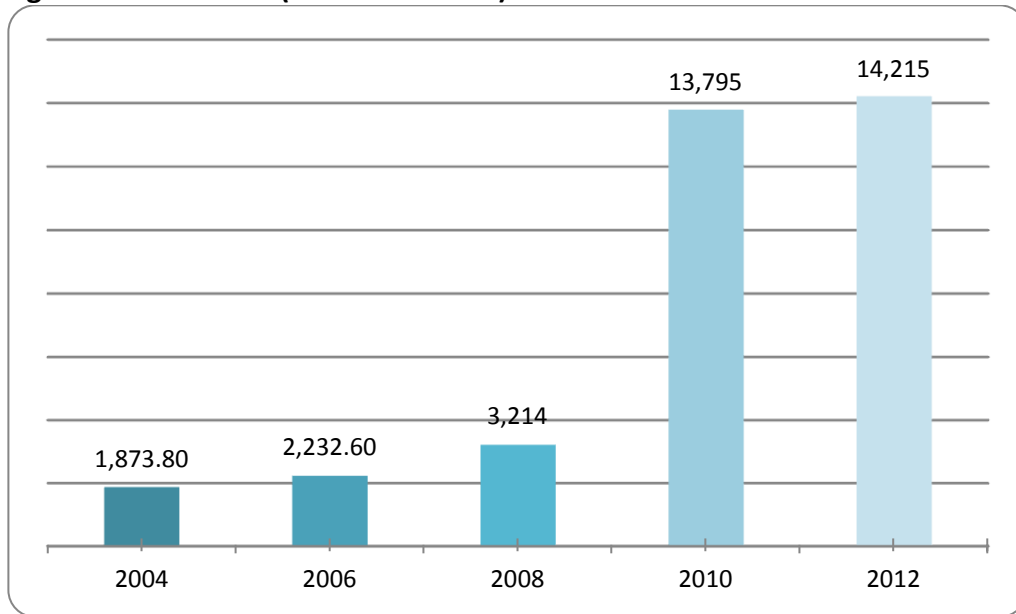
Figure 5. Mindanao IRA, 2003-2008



Source: NEDA

In 2010, during the change of administration both at the national and regional levels, the IRA of ARMM was drastically increased (based on the change in the population, which is one of the bases for IRA computation).

Figure 6. ARMM IRA (in Million Pesos)



Sources: NEDA, DBM-LBM No. 63 (2010); and DBM-LBM No. 66 (2012)

Development Challenges for the Bangsamoro

The challenges in the Bangsamoro are grouped into four (4) categories: transitional, geographical, cultural, and developmental.

The **transitional challenges** emanate from the move from a conflict and war-torn region to a (hopefully) peaceful and autonomous one. These challenges include the:

- Creation of new political, economic and social laws and institutions;
- Resettlement of displaced communities;
- Re-deployment of armed forces;
- Creation of jobs and income earning opportunities; and
- Restoration of law and order and effective dispensation of justice.

The implications – and possibilities for resolution – of conflicts of the Moro Islamic Liberation Front (MILF) with the Moro National Liberation Front (MNLF) and with splinter groups (such as the Bangsamoro Islamic Freedom Fighters or BIFF) will need to be assessed, as well as the implications of the continued presence of armed bandits (such as the Abu Sayyaf) and local war-lords.

The **geographical challenges** emanate from the dispersed nature of the Bangsamoro region that encompasses the “mainland” provinces of Maguindanao and Lanao del Sur, and the “island” provinces of Basilan, Sulu and Tawi-Tawi.⁴⁶ As well as posing political and administrative challenges, integration is handicapped by the difficulties of transportation and communications, and by the historical linkages of the island provinces with nearby Sabah and surrounding Muslim countries,⁴⁷ and their ties to the City of Zamboanga, which is often referred to as the gateway to the island provinces.

The **cultural challenges** reflect the diversity and richness of the traditions, customs and religious heritage of the population. These impact on the ways of doing business, particularly when dealing with land and property rights, financial arrangements, and settling disputes.

The **development challenges** arise from the years of carnage and neglect of the physical and social infrastructures, and from the inability to attract the business investment essential for creating sufficient employment and income-earning opportunities for the large and growing population. The economic and social indicators for the Bangsamoro vis-a-vis the Philippines reflect the dire conditions in the region, and thus the magnitude and nature of the development challenges facing the Bangsamoro authorities. The role of the private sector in meeting these challenges will be critical.

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⁴⁶ It will include the cities of Cotabato, Isabela and Marawi, and possibly six municipalities in Lanao del Norte, some barangays in North Cotabato, and other contiguous areas. The final composition will be determined by plebiscite in these areas.

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Annex 1

HISTORICAL AND CULTURAL BACKGROUND OF THE BANGSAMORO⁴⁸

By its name alone, Muslim Mindanao and now Bangsamoro (Moro Nation), shows the strong influence of Islam. The collective term “Moro” was first applied to Southeast Asian Muslims by 16th century Portuguese and Spanish adventurers, for whom the struggle with Iberian Moors was a recent memory. It was taken up by American colonial officials in the Philippines at the turn of the 20th century and appropriated by Philippine Muslim nationalists in the 1960s. (Collier, 2006)

Islam was introduced in the Philippines as early as 10th century AD. Transmission of Islam to Mindanao is a complex historical and archeological question that must be answered through multi-layered analysis of available data. Historically, it is sufficient to say that after the death of the Prophet Muhammad (SAW) in 632 AD, Islam gradually expanded westwards into Eastern Europe, Middle East, North Africa, Spain, and eastwards into Central Asia, South Asia and Southeast Asia. In terms of this historical spread east, the arrival of Islam to the shores of the Sulu Archipelago and Mindanao is regarded as the furthest eastern historical bastion of Islam.

The most instrumental Muslim in the propagation of Islam for Mindanao was an Arab missionary named Shariff Muhammad Kabungsuwan. In the year 1475, Kabungsuwan landed at the coastal town of Malabang, along Illana Bay. Islam, as introduced by Shariff Kabungsuwan, rapidly became a “way of life” in Central Mindanao. In addition to the Islamic beliefs and practices he introduced, Shariff Kabungsuwan also institutionalized the sultanate system of government. This evolution is marked as something of a starting point for the claims later Cotabato rulers reference as the historical transition point from nobility to moral authority. Similarly, the traditional system of hereditary ranked statuses is also traced to the arrival of Kabungsuwan.

Mindanao is the ancestral homeland of the more than 30 ethno-linguistic groups. Thirteen of these indigenous groups were “Islamised” and count themselves as Muslim Filipinos. The others are popularly known as the *lumad* or the native “un-Islamized/un-Christianized” tribes of Mindanao.

The 13 Islamized ethnolinguistic groups are:

1. Badjao
2. Iranun (also known as Ilanun)
3. Jama-mapun
4. Kalagan
8. Molbog (Melebugnon)
9. Palawani
10. Samal

⁴⁸ This Annex was prepared by Mussolini Lidasan.

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|----------------|------------|
| 5. Kalibugan | 11. Sangil |
| 6. Maguindanao | 12. Tausug |
| 7. Maranao | 13. Yakan |

Muslims in Mindanao

The Muslim population in Mindanao comprises about one-fifth of the whole population. Muslims are a majority in only five of Mindanao's 26 provinces: Maguindanao, Lanao del Sur, Sulu, Tawi-Tawi and Basilan. In other nearby provinces, they are significantly a minority (ranging from 15-30%) in (North) Cotabato, Sultan Kudarat and Lanao del Norte provinces.

The five (5) provinces, including the Islamic city of Marawi and Isabela City, comprise the Autonomous Region in Muslim Mindanao (ARMM) that was established in 1990.

Out of the 13 Muslim tribes mentioned above, the largest of which are the Maguindanaon, Tausug, Maranao, Samal, Iranun and Yakan. The most fundamental socio-political distinction is between the mainland Maguindanaon, Maranao and Iranun on the one hand, whose languages are closely related, and the archipelagic Tausug, Samal and Yakan on the other, whose languages are more diverse but have historically shared common orientation towards the Sulu sultanate rather than its mainland Maguindanao rival. (Collier, 2005)

Values System of the Bangsamoro

The culture of the Bangsamoro is rich and diverse. As early as the 10th century, there was interaction with Southeast Asian and European countries. Even the 19th century American and Japanese interventions all left their marks in the way of life of the people. The following are key value systems that influenced their world view and judgments:

Process of Decision-making. Like traditional Filipino culture, the people in the Bangsamoro need to consult their elders, family members, and the clan before they decide or commit to do anything. The decision of the family is far more important than the individual's judgment or decision on a particular issue. In the process of dealing with people, the Bangsamoro need to know the background of the person that they are dealing with. The family and personal background of the person are vital information before they can give their trust and confidence.

Essence of Maratabat. The Bangsamoro are family-oriented and they cling to their clan as a source of support and stability. Thus, they value the honor of the clan/family more than their life. This is the essence of *maratabat*. An act of a family member is an act of the whole family, thus the whole clan may be shamed by an

action or omission of one of their family members. The same goes with the marriage of a member of the family. It is actually a marriage of clans or communities. Thus, there are several rituals and traditions that need to be followed before a wedding is conducted. These factors give stability of life, which is connected to their traditions and cultural practices.

The Concept of *Datuism*

The *datu* system is one of the oldest potent institutions in Southern Philippines. Families and clans in Maguindanao, Lanao, Basilan, Sulu, and Tawi-Tawi, and in traditional domains of non-Islamized indigenous groups are centered in recognizing the power and influence of the *datu*s. With the introduction of Islam, these *datu*s have confederated themselves in establishing the sultanate.

Muslims in Mindanao and Sulu have this distinct strong attachment to the *datu* and sultanate systems because of the existence of the *tarsila*, defined as *the genealogical lineage with particular reference to the succession of hierarchy and exercise of power*. The transmission of the *tarsila* has always been through oral means like songs and chants or *dhikir*. Only a few ruling families were able to record their *tarsilas*; in these cases, they were written down on goat's skin and engraved on brass gongs.

Tarsila is not only a cultural practice but also a religious recognition that a person and his/her family and clan, has a direct lineage to the Prophet Muhammad (SAW). The founding fathers of Islam in Sulu and Maguindanao were Shariff Makdum and Shariff Kabungsuwan, respectively. They were from Sumatra and Borneo of Arab descent related to the prophet of Islam as recorded in the *tarsilas*. Therefore, a *datu* or a sultan is believed to be a descendant of the Prophet and because of this, he is a political and a religious leader, thus the official title of sultan is both *Batara* (lord) and *Maulana* (religious scholar).

The term *tarsila* comes from the Arabic *silsilah*, which means a chain or a link. It is used in the Muslim south as in other parts of the Indonesian and Malay world to refer to written genealogical accounts.

Muslims in Mindanao believe that the primary function of the *tarsila* is to trace the ancestry of an individual or family. The ancestry may be an important political figure or religious leader or a shariff.

Taking this into consideration, the *tarsilas* were not meant to remain purely historical documents or remembrances of the past, but also as a warrant for the "legitimate claim of individuals or families to hold political power or to enjoy certain traditional prerogatives or at least some prestige in their respective communities."

Most present-day traditional and political leaders in the Muslim areas have their respective *tarsilas* supporting the legitimacy of the power and rule over the people. To this date, most of the *tarsilas* are kept by the different political and traditional ruling clans, who have their own keepers of the *tarsila*. Importantly, we must add that the *datu* system and sultanate existed exclusively of one another as two (2) separate political structures before they finally converged with the advent of Islam in the Southern Philippines. The old *datu* system of local overlords merged with the Islamic and Arabic sultanate system in which the sultan “commanded the allegiance of other *datu*s.” Since alliances were formed by marriages (the sultans’ daughter being married to a local *datu* or his marriage to a daughter of another *datu*) the *tarsila* made sure that the precious bloodline of the Prophet remained intact and the sultan’s legitimacy (owing to his direct lineage with the Prophet) was unquestioned by his Muslim constituents or followers.

Implications for Business Operations

It is important to recognize that the Bangsamoro is not a monolithic group. It is composed of different ethno-linguistic groups and they are usually clan-based. Further, religion and culture are two (2) main factors in the success of the business and investment. Working within the principles of these two (2) points is crucial.

Cultural Aspects. As with other communities in Mindanao, following the Austronesian cultural set up, the phrase “anarchy of families” is the most precise summary description of the different families, clans and communities in the Bangsamoro. In Southern Philippines, the most potent institution is family-centered: the *datu* system, which underlies the Sultanate Institution that persists even up to this day. In the absence of authority and an effective system of governance, clans define cooperation, maintain social control and, in many cases, act as enforcers of the law. Distribution of responsibility is among clansmen and descendants.

Religious Aspects. The Moros are a religious people. They give great respect to their religious leaders who teach them the Islamic way of life, especially since Islam is a scriptural religion having codified its tenets in the Koran. The religious thus play a prominent role in the lives of people. As in the rest of Southeast Asia, most Muslims in Mindanao follow the Shafi’l school of thought, formally manifested in the mid-18th century Maguindanaon code called *Luwaran*. The *Luwaran* is based on both local customary law (*adat*) and classical Shafi’l sources, including the 7th century *fiqh* text *Mir’aah al-Tullaab* [Mirror for Seekers]. Further references in the *Luwaran* are made to classical Arabic texts such as the *Minhaj al-Taalibiin* of Muhyi ud-Din Abu Zakariya Yahya an-Nawawi and other classical Arabic texts widely used in Southeast Asia (Buat 1976:119; Tan 2003a:39).

Importance of Interreligious and Intercultural Dialogue. Investors and the Muslim communities within the Bangsamoro need to understand the importance of

dialogue, mutual trust, and confidence in their working relationship. The investors need to know the culture and socio-political dynamics in the area. The communities must also understand the business component brought by investors into the community. The symbiotic relationship needs to define the common ground of working ethics.

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Working Paper No. 2

THE SECURITY AND LAW AND ORDER SITUATION IN ARMM⁴⁹

Introduction

The unstable peace and security situation in Mindanao, especially in the conflict-affected areas, is a national issue that “imperils the productivity and competitiveness of business firms in the Philippines,” according to Vicente Lao, Mindanao Business Council Chair.

“Generally speaking, this condition hampers trade and commerce. Conflict does not only increase the cost of doing business, it also affects revenues as it decreases the purchasing power of the consumers,” he further said.

Data from the Department of Trade and Industry (DTI), as well as the Regional Board of Investments (ARMM-RBOI), support his statements as far as investment in Autonomous Region in Muslim Mindanao (ARMM) is concerned. The low level of investment in industrial activities has been mostly attributed to investors’ fears. Armed conflict has also disrupted agricultural production, destroyed social and economic infrastructure, and deterred long-term investment at all levels: from farmers in conflict zones who are reluctant to invest in the next crop, to professionals who invest their training and family savings to obtain a job abroad, and to corporate investors who look for safer places to put their money.

The ARMM is host to all armed groups threatening the Philippines, except the communists. The Moro Islamic Liberation Front (MILF) is concentrated in the Mindanao mainland provinces of Maguindanao and Lanao del Sur, while the “rogue elements” of the Moro National Liberation Front (MNLF) and the Abu Sayyaf Group (ASG) are active in the island provinces of Sulu and Basilan.

Threat Situation

Southern Philippines Secessionist Groups

Moro National Liberation Front

⁴⁹ Prepared by Lt Col Fatima Irene T. Rasul-Borile (PA Res) and Philippine Center for Islam and Democracy

The MNLF, under Chairman Nurulaji Misuari, signed the Tripoli Agreement in 1976 and accepted autonomy in lieu of independence. Disagreeing with the decision to accept autonomy, MNLF Vice Chair Salamat Hashim, a Cairo-educated Maguindanaoan, broke away and assumed the mantle of armed struggle for the Bangsamoro nation's Islamic independence, and later established the Moro Islamic Liberation Front (MILF) in 1981.⁵⁰

Subsequently, the MNLF claimed that the Marcos government had violated the terms of the accord by unilaterally holding a plebiscite that made establishment of the autonomous region conditional instead of automatic, and pulled out of talks. Talks with the MNLF were resumed under the administrations of President Corazon C. Aquino and then President Fidel V. Ramos.

Misuari signed the final peace agreement with the Philippine government on September 2, 1996 and was subsequently elected ARMM Regional Governor. In 2001, Misuari was jailed, following an attempt by his loyalists to enter Zamboanga City in November 2001. He claims that the National Government had violated the terms of the 1996 final peace agreement.

Freed in 2008 for lack of evidence, Misuari had been removed from the Chairmanship of the MNLF by the Council of 15, a group of MNLF leaders led by then Cotabato City Mayor Muslimin Sema. Many believe that the organization of the Council of 15 was facilitated by Gloria Macapagal Arroyo's Chief Security Adviser, Norberto Gonzales, and purportedly supported by the Arroyo government.

On August 12, 2013, Misuari declared "independence" for Palawan, Zamboanga Peninsular, Basilan, Sulu, Tawi-Tawi⁵¹ and Sabah during a gathering of the MNLF separatist group he still controls in Talipao, Sulu. Subsequently, on September 8, 2013, MNLF troops identified as Misuari loyalists entered Zamboanga City, starting a siege in five (5) Muslim-dominated barangays that has left 120,000 evacuees. The Armed Forces of the Philippines (AFP) reported that as of September 23, 2013, the total number of casualties was 332 (132 fatalities and 200 wounded). Of the fatalities, 12 were soldiers, three (3) policemen, 12 civilians, and 105 MNLF rebels. Among the 200 wounded, 137 were soldiers, 49 policemen, and 14 civilians. It was also reported that 72 MNLF members have surrendered while 45 have been captured. A total of 174 hostages have been rescued.

⁵⁰ The present leader is Hadju Murad Ibrahim, who took over after the death of Salamat Hashim.

⁵¹ The leaders of the larger factions of the MNLF distanced themselves from the actions of Misuari, and assured the Philippine government of their continued recognition of the 1996 peace agreement.

Moro Islamic Liberation Front

The MILF, which has been engaged in a formal peace process with the Philippine government since the beginning of President Aquino's term of office, maintains forces in Maguindanao, Lanao del Sur and Basilan. The MILF Central Committee is based in Darapanan, Crossing Simuay, Sultan Kudarat, Maguindanao. Based on information from the AFP, there are around 2,120 identified MILF regulars and 2,040 armed reserves operating in the ARMM. Their presence is monitored in 954 barangays or 39% out of the 2,422 barangays in ARMM.

There have been reports of MILF presence in the Eastern part of Sulu and Tawi-Tawi. Undergoing validation is the reported existence of the MILF's Base Command located at Kamlon Hill in Northern Sulu, with Sulu and Tawi-Tawi as its area of operations. The said Base Command allegedly has a skeletal organization of 17 members.

The MILF forces in Basilan were non-confrontational until 2010. The ceasefire agreement had been holding until July 10, 2010, when government troops encountered combined MILF and ASG forces in Barangay Guinanta, Al Barka, Basilan. Subsequently, on October 18, 2011, MILF elements attacked the Special Forces (SF) of the Philippine Army in Barangay Cambog, Al Barka. The ensuing firefight resulted in the death of 19 soldiers, the wounding of 14 others, and the loss of 24 assorted firearms. This incident threatened to derail the rejuvenated peace talks between the government and the MILF.

In the meantime, the peace and ceasefire mechanisms that are in place – such as the International Monitoring Team (IMT), an essential aspect of the GPH-MILF Peace Process – have contributed to the significant reduction of violent activities in the conflict-affected areas in ARMM. Since its deployment in 2004, the IMT, together with the GPH-MILF Coordinating Committee on the Cessation of Hostilities (CCCH) and the Local Monitoring Team (LMT), have played a vital role in sustaining the cease-fire on the ground. The level of violence has significantly declined, with 32 violent incidents recorded in 2011 and only three (3) allegedly MILF-perpetrated incidents so far in 2013.

The MILF is currently focusing on the conduct of consultative meetings as part of its peace advocacy. On October 15, 2012, the MILF and the Philippine Government signed the Framework Agreement on the Bangsamoro that sets the basis for a peaceful resolution to the on-going conflict. A final peace agreement is hoped for by the end of this year once outstanding issues on power sharing and normalization have been resolved. However, some elements on the ground have been enhancing combat-ready posture through training.

The MILF also has to address a number of perceived challenges such as:

- The presence of spoilers to the on-going peace negotiations, like the breakaway Bangsa Moro Islamic Freedom Movement (BIMF) that is still pushing for independence;
- The violent incidents perpetrated by rogue MILF troops, allegedly in collusion with the Abu Sayyaf Group;
- The renegade MILF leaders (Abdullah Macapaar alias Commander Bravo, Ameril Umbra Kato, Aleem Sulaiman Pangalian alias Commander Pangalian) operating in Lanao province may wreak havoc, though this is expected to be localized and not on a wide scale; and
- Attacks in protest at the scuttled signing of the Memorandum of Agreement on Ancestral Domain,⁵² which left scores dead among both combatants and civilians, and triggered the ongoing military counter-offensive led by Commanders Bravo and Pangalian.

It must also look into the vacuum left by the death of MILF Vice-Chairman for Military Affairs Abdul Aziz Mimbintas in order to control the MILF forces in the Lanao provinces.

The many “*rido*” or clan wars involving some MILF leaders and other armed groups must also be settled.

The possibility of an MNLF-MILF unification, (although slim, per assessment of several political analysts) would provide legitimacy to the true representative of the Bangsamoro people. However, this eventuality will first require reconciling the MILF’s position with the 1996 GRP-MNLF Final Peace Agreement.

Terrorism

The Abu Sayyaf Group (ASG), whose original objective was to establish an independent Islamic society in Mindanao, veered away from the ideological orientation and degenerated into a loose coalition of criminal groups employing terror acts. The ASG operational base is principally in Sulu and Basilan, and to a lesser extent, in Zamboanga City and Tawi-Tawi.

⁵² In August 2008 the Supreme Court of the Philippines issued a temporary restraining order preventing the Philippine government and the MILF officially signing a Memorandum of Agreement on Ancestral Domain, which would have concluded all dispute and lead to formal talks to end the conflict.

Sustained AFP combat and civil military operations continue to reduce the armed capability of the ASG with the neutralization of several of its key leaders. From a peak of 1,200 in year 2000, ASG manpower is now placed at 380 with 350 firearms. Although the ASG's membership has been declining, the group continues to conduct terror attacks to generate funds and to project an image of strength. In 2011, they initiated a total of 81 violent incidents, mostly in the form of kidnap-for-ransom, harassment of government troops, extortion and improvised explosive device (IED) attacks.

The ASG's operational resiliency may be attributed to the group's alliances with other threat groups, its support network (comprising families, relatives, like-minded individuals, and in some instances, local politicians), and the availability of safe havens in the jungle and in areas contiguous to MNLF and MILF camps, especially in Sulu and Basilan.

In addition, foreign terrorists (FTs) have imparted demolition skills to local armed threat groups in exchange for sanctuary and security. They do not have an organized structure and remain dependent on the plans and activities of the local threat groups. Intelligence-driven operations have led to the neutralization of several FTs found in ARMM.

IEDs have become weapons of choice among local non-state armed groups due to their ability to inflict damage at a relatively low cost. IEDs had been used for political considerations, such as to assassinate political rivals or influence political decisions. The existence of "bombs for sale" and "bombers for hire" schemes has been confirmed in some areas.

Political Violence

Most of the political violence in the Philippines is related to elections. ARMM is no exception. In fact, the violent conflicts in ARMM over the last few decades seem to be more intense than elsewhere, and are the "direct result of political families possessing private armed groups that inflict physical harm, or at least the threat of it, on those who cross them."⁵³ In the 2010 elections, for example, incidence of election violence in ARMM was 21.5% of the national total – there were 28 incidents involving 15 fatalities and 26 wounded or injured.

The Independent Commission Against Private Armies (ICAPA) identified some 20 armed groups in ARMM with some 3,000 combined members. Sulu with seven identified private armies has the largest number, although Maguindanao, with three

⁵³ State of Democracy in the Autonomous Region in Muslim Mindanao 2013, UP-NCPAG and PCID. Pg. 66.

(3) identified private armies, has the most number of men under arms (around 1600).⁵⁴

On November 23, 2009, a politically-motivated massacre took place in the province of Maguindanao, claiming 57 victims, including 30 journalists, making it one of the worst election-related acts of violence in recent history. As a result, the Commission on Elections (COMELEC) instituted a gun ban prior to all future election cycles in an attempt to both curb violence among political rivals and curtail politically-related activities of armed partisan groups.

Many politicians and government officials once belonged to dissident groups, and while they may seem to have completely traded their guns for government posts, most consider that keeping their positions require maintaining ties and open lines of communication with religious leaders, dissident commanders, and even armed groups.

Law and Order

Crime

For statistical purposes and to create a standardized definition of crime classification, crime is divided into *index* and *non-index crimes*. *Index crimes*, as defined by the Philippine National Police (PNP), involve crimes against persons such as murder, homicide, physical injury and rape, and crimes against property such as robbery, theft, car-napping/car-jacking and cattle rustling. *Non-index crimes*, on the other hand, are violations of special laws, such as illegal logging or local ordinances.

While the average monthly crime rate nationwide was posted as 28.2% in 2010, 20.5% in 2011 and 18.9% in 2012, ARMM consistently recorded the lowest monthly average crime rate for the period with 2.8% for 2010, 2.0% for 2011 and 2.1% in 2012 (Table 1). This lower average crime rate for ARMM is reflected in both index and non-index crimes.

While the rate of murder and homicides in ARMM is more or less the same as the national average, the rate for rape is significantly lower. The rate of non-violent crimes in ARMM, such as robbery and theft, is also significantly lower than for the nation as a whole.⁵⁵

⁵⁴ State of Democracy..... op cit, pg 67.

⁵⁵ Although data is scant on domestic violence, 2008 data gathered by the NSCB suggests that the incidence of domestic violence in ARMM (.004 per 1000 inhabitants) is much lower than in other parts of the country.

Ironically, using the data provided by the PNP, ARMM appears to be the safest and most peaceful of the 17 regions in the country, despite the known presence of several lawless elements, armed and breakaway rebel groups, and Islamic militants. However, the low crime rate may be because Muslims do not generally report crimes to the police, and settle their differences through a Muslim court and, if all fails, through *rido* or clan wars.

Furthermore, apart from the secessionist and terrorist groups, ARMM is notorious as serving as a den for various bandit groups and dealers in arms and narcotics (see Working Paper No.9)

Table 1. Average Monthly Crime Rate by Region, 2010-2012
Per 1,000,000 population

| Region | 2010 | 2011 | 2012 |
|-------------|-------------|-------------|-------------|
| 1 | 26.08 | 16.32 | 21.01 |
| 2 | 21.32 | 10.97 | 9.27 |
| 3 | 44.46 | 28.83 | 17.80 |
| 4-A | 20.04 | 15.86 | 12.66 |
| 4-B | 18.24 | 9.49 | 7.38 |
| 5 | 24.33 | 16.94 | 14.94 |
| 6 | 21.33 | 9.96 | 8.79 |
| 7 | 40.42 | 28.85 | 24.15 |
| 8 | 10.35 | 14.02 | 8.65 |
| 9 | 42.88 | 19.60 | 19.59 |
| 10 | 34.86 | 29.56 | 22.89 |
| 11 | 38.60 | 29.63 | 24.29 |
| 12 | 22.66 | 19.06 | 14.38 |
| 13 | 20.75 | 16.63 | 12.81 |
| ARMM | 2.76 | 2.03 | 2.06 |
| CAR | 76.12 | 37.00 | 53.74 |
| NCR | 28.15 | 32.83 | 38.57 |

Source: PNP

Rido and Land Conflicts

At the macro level, the Muslim Mindanao conflict stems from issues surrounding land rights, which hopefully will find partial resolution in the course of negotiating and implementing the peace agreement between the Philippine government and the MILF. On top of this are the ancestral domain claims of the *Lumad*. The disputes arising from these issues are “not just about the physical land, but even more about

the valuable natural resources that are encompassed by that land, such as sources of water and valuable minerals.”⁵⁶

At the micro level, land disputes – particularly among the Muslims – have traditionally led to clan feuds called *rido*. However, while most important *ridos* involve conflicts about land, other causes include political rivalries (the second most important), murder, crimes involving gender relations and chastity, drug use, theft, property damage, etc. A study by Torres in 2007 found 782 cases of *rido* involving over 3,500 deaths in ARMM over the 1970 to 2004 period, a little more than half of which remained unresolved.⁵⁷ All provinces are affected by *rido*, although Sulu appears to be the bloodiest. “On the level of daily life, *rido* is probably more disruptive than the occasional and geographically more restricted clashes between the military and Muslim rebels.”⁵⁸

Very few of the clan feuds end up in the courts. Going to the courts is costly and tedious, and most people look to arbitration and mediation outside the formal legal system since they are less disruptive, and are more likely to result in more appropriate compensation. Mediation is often sought from local politicians and officials, clan elders, or religious leaders before full-blown *rido* takes hold.

Human Rights

The number of reported human rights violations in ARMM is low. In 2011, for example, there were only four cases filed with the Commission on Human Rights and 12 cases reported by the Mindanao Human Rights Action Center. However, these numbers do not include the killing of civilians, detentions, and kidnappings for ransom by insurgents or terrorist groups. Displacement of persons due to armed conflict is also included in the definition of human rights violations of the United Nations – in 2010 some 26,000 families were estimated by the International Organization for Migration to have been displaced from their homes and villages owing to military operations and a further 10,000 by clan feuds.

Corruption

Corruption has been widespread in ARMM (although this can be said for many areas of the Philippines, too). An audit report of by the Commission on Audit on the operations of the Office of the ARMM Regional Governor (ORG) for the years 2008 and 2009, for example, found that “funds received by the ORG for its own operations were not properly utilized and managed...transactions amounting to PhP

⁵⁶ State of Local Democracy... op cit pg 55. Land and property rights issues are more fully discussed in Working paper No.6.

⁵⁷ State of Local Democracy... op cit pg 56. Also, Torres W. Rido, Clan Feuding and Conflict Management in Mindanao. Asia Foundation. 2007.

⁵⁸ State of Local Democracy ...op cit pg 56.

1.003 billion may not be considered valid and legitimate.” The governor at the time was Zaldy Ampatuan; while no corruption charges were filed against him, he is currently under detention to be tried for involvement in the Maguindanao massacre and rebellion. Audits over the same period on the ARMM Social Fund, ARMM Public Works and Highways, and provincial governments of Maguindanao also raised doubts on the proper use of funds. Subsequent lifestyle checks on the Ampatuans revealed extensive wealth incongruent with incomes, and many assets not declared in the Statements of Assets and Liabilities of the Governor.⁵⁹

Even before this time, extensive corruption was apparent. A 1996 report by the Philippine Center for Investigative Journalism (Eric Gutierrez) noted that there was “little to show” for the “huge infusions of money” into ARMM since 1991, and argued that a large part of this money was “siphoned off” by regional and local officials. However, only two (2) cases of corruption were filed, but nothing came of these.

Framework Agreement of the Bangsamoro

On October 15, 2012, the MILF and the Philippine government signed the Framework Agreement on the Bangsamoro. This is a breakthrough in the on-going peace talks between the two parties, but it is not yet the final peace agreement.

At stake is the creation of a genuinely autonomous region in Muslim-majority Mindanao for the various ethnic groups collectively known as the Bangsamoro, with more powers, more territory, and more control over its resource than under ARMM. The framework agreement maps out a multi-step process to create a new government by the time President Benigno Aquino III’s term ends in 2016.

The MILF’s leaders, who claim to represent all Bangsamoro despite the undeniably fractious politics of the region, have agreed to make space for others to sit at the table and help them craft the new law that will create the Bangsamoro Government.

For the Bangsamoro and the Muslims in Mindanao, the framework agreement holds out the possibility of peace, a responsive government, and a better, more prosperous future for their children. Nothing has changed yet, but there is real hope that this time will be different.

The completion of the full peace agreement, which hopefully will be by the end of this year, will be a key factor in attracting investment into the region. “It is the only way for us to fully convince investors to put in their capital to the (autonomous)

⁵⁹ State of Local Democracy ... op cit, pg 75.

region and the rest of Mindanao,” said Datu Haron Bandila, a business leader and chair of the ARMM Business Council.

Aside from legal uncertainties in the near- to medium-term, the influx of private investments may be on hold for some time considering that the security situation has not yet substantially changed.

Working Paper no. 3

AUTONOMY AND ECONOMIC GOVERNANCE IN THE ARMM⁶⁰

Introduction

The 1987 Constitution granted limited self-rule to the Autonomous Region in Muslim Mindanao (ARMM) to address the aspiration of the country's Muslim minority to self-determination. With this limited self-rule, the region was expected to have more access to powers and resources than administrative regions in the country. With its autonomous status, ARMM was supposed to be empowered to enact public policies that could effectively respond to the unique conditions of the region.

Since its establishment in 1989, ARMM has struggled to improve the living conditions of its constituents, but with limited success. This is disappointing considering that the granting of autonomy was meant to bring peace and development to the war-torn region.

Theoretically, the more autonomous a region is, the better chances it has to develop its own unique political and economic systems. Autonomy also empowers a region to address concerns that hamper development. The link between autonomy and economic development has its roots in the history of the Muslims in the Philippines—before the Spaniards came, the Sultanates of Sulu and Maguindanao, as independent principalities, were already engaged in robust economic activities with their neighbors.

There is no question about the vast potential of the ARMM for economic growth. Economist Cielito Habito says that “like the rest of Mindanao, ARMM has excellent agro-climatic conditions conducive to production of a wide range of agricultural crops. Soils are so fertile that yields of certain crops, like cassava, white corn, and coffee are superior to those attained elsewhere.”

Unlike neighboring regions whose lands are now extensively farmed, there remain large tracts of land available for farming in ARMM. Labor costs are also lower: wages are 20% less than in Davao, 26% less than in Central Luzon, and 43% less than in Metro Manila.”

However, as pointed out in an earlier paper, development in ARMM has lagged the rest of the country in all key measures of socio-economic development.⁶¹

⁶⁰ Prepared by Benedicto Bacani, Executive Director, Institute for Autonomy and Governance.

⁶¹ See Socio-Economic Conditions in the Autonomous Region in Muslim Mindanao.

This paper explores the impact of ARMM's autonomy and governance to the region's development and in particular, on the development of the private sector. Do the region's policies and political institutions promote or inhibit business and investment climate in the region? This question is relevant as the region faces yet another make-over in governance with the advent of the new Bangsamoro political entity that will replace the current ARMM.

Doing Business in the ARMM: Policy Environment

The 1987 Philippine Constitution provides the basis for the ARMM to evolve its own economic systems and policies. Article X of the Constitution provides that autonomous regions like the ARMM are created in accordance with their unique social and economic structures. As such, they are empowered to evolve their own policies towards regional, urban and rural planning and economic, social, and tourism development. The autonomous regions have the power to determine administrative organizations for implementing these policies. They are empowered to create their own sources of revenues for regional development.

In order to spur economic development, investments and business in the region, Republic Act (R.A.) No. 9054 or the Organic Law of the ARMM grants the autonomous government the powers to:

- Enact laws pertaining to the regional economy and patrimony that are responsive to the needs of the region;
- Establish economic zones, industrial centers and ports to attract local and foreign investments and business enterprises;
- Grant incentives, rebates and tax holidays to investors;
- Establish a regional economic zone authority;
- Control and supervise the exploration, utilization, development, and protection of the mines and minerals and other natural resources within the autonomous region except for strategic minerals;
- Grant franchises and concessions and empower the Regional Governor to grant leases, permits, and licenses over agricultural, forest, or mineral lands;
- Create pioneering firms and other business entities to boost economic development in the autonomous region; and

- With the Bangko Sentral ng Pilipinas, establish Islamic Banking to spur development.

Legislation has been enacted to attract investments and business activities in the region. Notable is the Regional Economic Zone Authority (REZA) law that provides incentives to investors, such as a uniform tax of 5% on gross revenue, tax holidays, tax exemptions, duty-free privileges, waivers of fees and charges, including tax deductions.

In addition, Muslim Mindanao Authority (MMA) Act No. 254 created the Halal Certification Board and regulations for labelling halal-certified products to boost the region's entry into the huge halal market.⁶² In addition, Executive Order (E.O.) 458 devolved powers and functions from the national Board of Investments to the ARMM Regional Board of Investments (ARMM-RBOI), which is the primary office tasked to attract investments in the region. Most other regulations affecting business operations in ARMM are the same as those followed throughout the Philippines.⁶³

Regional Development Structures

The primary economic policy mechanism for the ARMM is the Regional Economic and Development Planning Board (REDPB), which serves as the planning, monitoring, and coordinating agency for all development plans, projects, and programs intended for the autonomous region.

The Board formulates a master plan for a systematic, progressive, and total development of the region (Sec. 10, Art. XIII, R.A. 9054). The REDPB serves as the Regional Development Council for the ARMM, and the Regional Governor participates in all meetings of the Regional Development Council (through E.O. 463).

Meanwhile, E.O. 207 provides for the representation of the autonomous region in the formulation of social and economic policies and plans in the whole country. It mandates that the ARMM Regional Governor shall be invited to attend the meetings of the NEDA Board, the Committee on Social Development and the Committee on Infrastructure. E.O. 463 also provides for the Regional governor to participate in the regular meeting of the National Cabinet Secretaries.

The Department of Trade and Industry (DTI), which is the primary, coordinative, facilitative and regulatory arm of the government for trade and industry activities in

⁶² The Framework Agreement between the Philippine Government and the MILF says that the Bangsamoro Basic Law “ may provide for the power of the Bangsamoro Government to accredit halal-certifying bodies in the Bangsamoro.”

⁶³ See the papers on Business Regulations and Labor Regulations in the Autonomous Region in Muslim Mindanao.

the ARMM (E.O. 481), has devolved the following national powers and functions to the DTI-ARMM:

- a. Plan, implement and coordinate activities of the government related to trade, industry and investments within the ARMM;
- b. Promote, initiate or conduct the annual trade and industry development conference between the government and the private sector;
- c. Build up and maintain the trade and industry data base;
- d. Develop and maintain an integrated computerized marketing information system for trade, industry and investments with a domestic scope;
- e. Encourage and support the formation of people's economic councils as well as other trade, industry and consumer protection institutions and associations;
- f. Formulate and implement programs to strengthen industries adversely affected by the economic crisis, particularly those that have a good probability of attaining financial viability;
- g. Formulate plans and programs that shall encourage projects which affect dispersal of industries to the rural areas, promote manufactured goods for export and develop small and medium scale industries;
- h. Upgrade and develop the manufacture of local capital goods;
- i. Coordinate efforts in formulating long-term industry sectoral plans with the private sector;
- j. Promote domestic trade, marketing and distributions to ensure the rational, economical and steady flow of commodities from producing and/or marketing centers to areas in short supply;
- k. After due notice and hearing, establish orderly marketing arrangements for locally produced and imported manufactured goods and for raw materials used for manufacturing and construction done within the Autonomous Region;

- l. Prepare, for consideration of the Monetary Board, proposed programs in the commercial banking sector for directing commercial lending facilities towards priority areas of commercial and development, as well as coordinate government direct funding and financial guarantee programs to achieve trade and industry growth;
- m. Create, in cooperation and coordination with the Regional Department of Labor and Employment, a center which shall provide assistance to the public relative to industrial relations; and
- n. Issue subpoena and subpoena *duces tecum* to compel attendance of witnesses and the production of necessary information, papers and documents which it may deem necessary in the exercise of its powers and functions.

As indicated earlier, the Board of Investments in the ARMM is the primary office to attract investments in the region. E.O. 458 devolves the following functions and powers to the ARMM-RBOI:

- Approval/denial of application for registration under the Omnibus Investment Code of 1987;
- Supervision of enterprises duly registered with the Autonomous Regional Government (ARG) and including those enterprises previously registered with the Board of Investments;
- Cancellation of Certificate of Registration of enterprises registered with the ARG, and including those enterprises previously registered with the BOI;
- Evaluation of incentives to be availed by enterprises registered with the BOI;
- Take over the operations of the Regional Extension Officer of the BOI, pertaining to:
 - Evaluation of applications for registration
 - Special tax credit on raw materials and supplies, net value earned and net local content, and domestic capital equipment
 - Employment of foreign nationals
 - Income tax holiday and reduced income taxes
 - Supervision of registered projects;

- Assume promotion of investments within the ARMM consistent with the Investment Priorities Plan; and
- Grant incentives to eligible enterprises.⁶⁴

Policies on Local Government and Economic Development

Under R.A. 7160 or the Local Government Code, Local Government Units (LGUs) in the country are vested with powers and functions not only to deliver basic services to their constituents, but also to help develop local economies. The applicability of R.A. 7160 to the ARMM is provided for in R.A. 9054 or the ARMM Organic Law. Under Section 3, Article III of R.A. 9054, the Regional Government is obliged to adopt legislation on local autonomy whereby regional powers are devolved to LGUs particularly in the areas of education, health, human resource, science and technology, and people empowerment.

Until such legislation is enacted by the Regional Assembly, the Local Government Code (R.A. 7160) continues to apply to all provinces, cities, municipalities and barangays within the autonomous region. In addition, the ARMM Organic Law provides that the powers and functions already vested upon these LGUs, and shares of the national taxes provided to them by R.A. 7160, are not to be reduced.

In so far as national policies are concerned, LGUs in the ARMM are responsible for providing basic services, revenue generation, regulatory functions, and corporate powers. The latter provides a mandate for the LGUs to form partnerships with the private sector and NGOs for undertaking skills improvement and livelihood projects, and for developing local enterprises and infrastructure facilities.

LGUs can also enter into build–operate–transfer agreements and operate infrastructure facilities to generate income. They can contract loans, credits and other forms of indebtedness to finance the construction, installation, improvement and maintenance of public utilities.

LGUs have the powers to levy taxes, fees and charges to support local programs. They are also mandated to promote a conducive environment for the development of the local economy. While they exercise regulatory powers over local businesses, they are required to do so in a way that encourages, not inhibit, business activities.

Various programs have been implemented by government and international aid agencies to promote efficiency and accountability in the issuance of local business licenses and imposition of local taxes in order to attract investments and business.⁶⁵

⁶⁴ See paper on Business Regulations in the Autonomous Region in Muslim Mindanao., Box 3.

⁶⁵ See paper on Business Regulations in the Autonomous Region in Muslim Mindanao.

Autonomy and Governance in Practice

While the 1987 Constitution and the ARMM Organic Act envision the development of an economic system suitable to the culture and context of the autonomous region, the current system in the ARMM is far from unique and empowered. The fundamental flaw of the ARMM is that it does not exist and operate as a single cohesive political entity. There is no unity in purpose and action in policies at the national, regional and local levels that could pave the way for strong, autonomous governance. The lack of coherence in policies and actions results in ineffective economic structures and weak implementation of economic policies.

Weak political and limited fiscal autonomy in ARMM has hampered the evolution of economic policies, programs and structures relevant to the region. ARMM is widely considered as a “paper tiger” with no real powers and resources of its own.

While the Constitution and its Organic Law have vested the ARMM Government with powers to legislate its own regional laws and policies, its leaders have been hesitant to assert its autonomy and to challenge the National Government policies which affect the region. The leaders of the autonomous regions are generally the candidates of the National Government in all elections in the ARMM. This interference by the National Government has stunted the development of regional economic policies anchored on principled cooperation.

This situation has been exacerbated by a flawed devolution where national agencies have decentralized personnel and functions but have retained control over programs and budgets.

For example, while the REDPB is supposed to be the primary agency to plan, monitor and coordinate development activities in the ARMM, it has functioned more-or-less as a regional NEDA office, rather than as an agency for independent macro-economic planning. DTI-ARMM serves mainly as an implementing agency of the national DTI, rather than as an empowered agency for developing a business environment responsive and suitable to the economic and cultural life of the region.

ARMM does not enjoy fiscal autonomy as it is largely dependent on funds from the National Government. Almost all funds in support of the Regional Government come from the National Government, with only 0.4% generated within the region.

These funds are appropriated annually by Congress in the General Appropriations Act. The National Government allocates around 56% of ARMM funds, with a further

40% going directly to the ARMM-LGUs. This means that only a negligible 4% is completely within the allocation authority of the ARMM Regional Government.⁶⁶

Table 1. Fiscal Resources of ARMM (2001-2005)

| Revenue Source | %of revenues | Allocated by | Disbursed by |
|--|--------------|--------------|--------------|
| NG Appropriations for ARMM-RG | 35 | NG | ARMM-RG |
| NG Appropriations for ARMM Public works | 2 | ARMM- RG | ARMM-RG |
| NG Congressional Allocations | 3 | NG | NG |
| NG ARMM-RG's share in Internal Revenue Collections in ARMM | 2 | ARMM-RG | ARMM-RG |
| NG Internal Revenue Allotment of ARMM-LGUs | 40 | ARMM-LGUs | ARMM-LGUs |
| NG Agency Funds Disbursed in ARMM | 17 | NG | NG |

Regional Revenues raised by ARMM-RG amounted to only 0.4% of fiscal resources

When looked at from the point of view of *disbursements*, around 40% of the total funds are under ARMM-RGs disposition. This higher percentage (i.e. than the 4% allocation authority to ARMM-RG) is accounted for by the inclusion of the national budget appropriations for ARMM-RG that, though allocated by the National Government, are disbursed by the ARMM-RG agencies.

These funds cover the cost of the administration and operations of the Regional Government, including departments and executive agencies. Personnel and maintenance of the ARMM bureaucracy account for the bulk of these expenditures, leaving very little for development programs. The INCITEGov Policy Paper points out that ARMM-RG has to propose and defend its appropriations for these costs – like any other department – to the National Government.

The weak fiscal autonomy of the ARMM also inhibits the passage of responsive economic laws because resources are limited for their implementation. A survey of laws passed by the Regional Legislative Assembly (RLA) shows that out of the 267 regional laws passed, most involved expenditure and only four (4) were related to business and investments in the region. The bulk of the laws were concerned with creating and renaming of local government units, although no Internal Revenue Allotments (IRAs) from the National Government can be given to 12 newly created

⁶⁶ The source of these figures is the INCITEGov Policy Paper “Towards Strengthening the Fiscal capabilities of ARMM, 2007” prepared by a team led by Prof. Emilia Boncodin. The figures may have changed since then, but the basic conclusions still hold.

municipalities in the ARMM since they were created in violation of legal requirements on population, size of territory and income.

The Regional Tax Code of the ARMM (MMA Act 49) was enacted to generate local funds for the region, but remains unimplemented. First, it is difficult to collect regional taxes that are assessed on top of local taxes when LGUs have a very low tax base. Second, the burden of collecting regional taxes has been placed on LGUs which do not have any incentive for acting as a tax agent for the Regional Government. Third, these regional taxes can be challenged as double taxation because the LGUs are already taxing the same subject and activities.

Aside from unstable security, economic development in the ARMM has been weighed down by a costly and inefficient power supply, limited water supply, an inadequate and expensive transport system, and weak information technology and telecommunications facilities.⁶⁷ ARMM relies on the National Government to address these infrastructure gaps. Lack of funds is always cited as the reason for the inadequate infrastructure, but the judicious use of limited resources and good governance within the ARMM government itself would help address these gaps.

The ARMM RLA is required to pass the Public Works Act annually to secure release of funding for infrastructure projects in the region. However, the Public Works Act is not based on sound development plans but on political dealings around the legislators' District Impact Projects – the equivalent of the pork barrel system in the ARMM.

The relationship of the Regional Government to the LGUs is dysfunctional and impedes economic development. Although IRAs for LGUs in ARMM amounted to PhP 11 billion in 2013 the utilization of these funds is not optimized.

First, the Regional Local Government Code has failed to provide for the devolution of functions for delivery of basic services from the Regional Government to the LGUs. The Regional Government agencies implement programs in the LGUs using funds from national agencies, and there is therefore little incentive for LGUs to develop capacity to deliver basic services. Consequently, around 70% of local legislative councils and local special bodies in the LGUs in the ARMM are not functioning. This is causing the near paralysis of local systems for governance, economic development and security in the local units.

Second, since local systems and structures are dysfunctional, most LGUs lack development plans and accurate databases to underpin their policies. For purposes of reporting to the Department of Interior and Local Government, local development plans are seasonably submitted, but these are neither a result of empirical study nor

⁶⁷ See the paper on Infrastructure in ARMM.

based on consultations with stakeholders. The forums envisaged for dialogue between local governments and the private sector are either weak or non-existent. This situation does not help in harnessing local businesses since local investors and business chambers do not have the opportunity to push for policies to boost economic activities.

Third, most LGUs consider the ARMM government less as a partner and more a competitor for scarce government resources. Since funding for LGUs largely comes from the National Government and not from the Regional Government, there is not much incentive for the local leaders to cooperate with the Regional Government, which they consider as just another layer in the complicated government bureaucracy. Thus, in the plebiscite for the expansion of the territory of the ARMM in 2001, the LGUs that are already part of the autonomous region demanded that they be allowed to opt out of the autonomous region. It does not help that the island provinces of Sulu, Tawi-Tawi and Basilan are remote from the seat of regional power in Cotabato City, making it difficult to develop synergy in policies and programs in the region.

Form of Government

A clear indication that the autonomous region has not evolved its own autonomous system of governance and policies is that its form of government is almost a “copycat” of the National Government.

ARMM has an executive branch consisting of the Regional Governor as chief executive, 26 departments and line agencies, and a unicameral legislative branch consisting of a 24-person Regional Legislative Assembly headed by the Speaker. By mirroring the National Government structure, the ARMM has acted more like an “extension” of the National Government than a real empowered autonomous region that crafts and implements policies that are responsive to the needs and culture of its inhabitants.

Under the proposed Bangsamoro Government, the form of government will be ministerial where the regional parliament and political parties play a central role. Policy-making and implementation of laws and programs will be lodged in the regional parliament, elected by districts and/or proportional representation. In this system, the Chief Minister, as head of government, will be elected from among the members of the parliament. The Chief Minister will appoint heads of executive department from among members or non-members of the parliament.

The proposed regional ministerial system has advantages among which are: (a) it affords the Bangsamoro a distinct governmental system that is attuned to its culture founded on building consensus; (b) the fusion of legislative and executive functions in the regional parliament promises for a more coherent and efficient formulation

and implementation of policies and programs; (c) it promotes more accountability and transparency in governance; and (d) it promotes the development of principled-based politics in place of the current patronage and personality-oriented politics.

The transition to the regional parliamentary system for the Bangsamoro will begin upon ratification of the Basic Law in the plebiscite by around late 2014 or early 2015. By then, the ARMM is deemed dissolved, and the MILF-led Bangsamoro Transition Authority (BTA) will prepare the structures, policies and processes for the establishment of the Bangsamoro parliamentary regional government after the May 2016 parliamentary elections. During the transition, the BTA may reorganize the bureaucracy into institutions of governance appropriate to a ministerial system of regional government.

Whether the MILF will have leadership of the regional government in 2016 will depend on whether its political party can win the majority seats in 2016 and/or it can successfully forge alliances with other political parties to form the first parliamentary regional government.

Judicial/Court System

The justice system in the ARMM is a microcosm of the weak and dysfunctional justice system in the country. The situation in the ARMM is more challenging because of factors that inhibit the development of the rule of law: Moro rebellion, clan and political conflicts, extremism, terrorism and the unstable interplay of the country's justice system on one hand, and the *Shari'ah* law, customary and indigenous laws on the other.

There are both civil and *Shari'ah* courts in the region. The civil courts have criminal and civil jurisdictions and functions, like all other courts in the country. The *Shari'ah* courts, on the other hand, are courts with jurisdiction limited only to personal and family issues under Islamic law and limited to disputes involving only Muslims as parties. Only the civil courts have jurisdiction over disputes relating to businesses and contracts.

Aside from the formal civil and *Shari'ah* courts, there are informal dispute settlement mechanisms in communities, such as the council of elders and leaders and other indigenous systems. These alternative systems are considered swift and cost-efficient relative to the formal systems and are commonly availed of in resolving family and personal disputes involving a broad menu of actions.

In order for the judicial system to help create a business friendly environment, it must interpret and decide on disputes in a way that is fair, consistent and fast. This assumes that public policies in the ARMM, especially those involving business activities such as mining, exploitation of natural resources, Islamic banking and the

like, are clear and settled. Currently, these policies are unclear and in most cases in conflict with each other. There are local, regional and national policies on the same subjects that need to be harmonized. But because of low business activities in the region, court rulings on economic policies are few and do not provide a stable body of rules that facilitate business development.

The various legal regimes on land ownership and possession in the autonomous region are also a source of instability for business activities. The historical claim to lands which is now recognized is arrayed against the Torrens titling and land reform systems. The weak rule of law and inordinate use of intimidation and violence in asserting land claims are contributing to unstable environment for investments and business.

One of the keys to economic development in the region therefore is to strengthen rule of law. This does not only mean strengthening the five (5) pillars of the justice system – police, prosecution, courts, penal system and community – but also to evolve and systematize clear, sound and viable regional and local laws that will help improve the business and investment climate in the region.

The forging of the peace agreement with the MILF is a first good step. The clear grant and allocation of powers between and among the national and regional government in the proposed Bangsamoro will be helpful in clarifying the conflicting jurisdictions and laws. With the Bangsamoro having competence over *Shari'ah* courts, there is an opportunity to put order on a regional justice system where processes and jurisdictions among civil and *Shari'ah* courts and indigenous conflict resolution systems can be harmonized.

Shari'ah courts can also be harnessed as legitimate interpreters of Islamic business practices such as Islamic banking and halal industry. This will entail the expansion of jurisdiction and capacities of the *Shari'ah* court judges to settle and adjudicate disputes involving Islamic business practices.

Some Success Stories

Despite weak institutions and governance that have largely contributed to the unfavorable business and investment climate in general in the ARMM, there have been some business ventures that are thriving in the region.⁶⁸

Economist and former NEDA Director-General Cielito Habito in the AusAID study “Braving it and Making it” examined a number of successful investors in the ARMM, and concluded that among others, the factors that contributed to the relative

⁶⁸ See the paper on On-Going Business Activities in ARMM

success of these investors are having an enlightened local leader as a partner, gaining the trust of communities, and understanding local cultures.

The success of La Frutera, for example, is credited to the resiliency and sensitivity of the investors to local cultures and to the partnership of the venture with the late Datu Paglas, who was a strong and development-oriented leader who acted as guarantor for the security and access to infrastructures of the venture.

The story of La Frutera presents a business model that can be institutionalized in governance and economic policies of the autonomous region. But considering the dysfunctional and disempowering relations among the national, regional and local governments, it is difficult to align relevant, culture-sensitive, and viable economic policies at all levels of governance. Unless economic policies that make sense to all are institutionalized, doing business in the ARMM will continue to be driven by strong persons and clans that will benefit only a few.

ARMM and BIMP-EAGA/ASEAN Integration

The Brunei Darussalam, Indonesia, Malaysia, and the Philippines–East ASEAN Growth Area (BIMP-EAGA) – which expands and develops economic cooperation between and among the border areas of Brunei Darussalam, Indonesia, Malaysia and the Philippines – looked promising as a way of boosting the ARMM economy. It comprises the following focus areas: the entire sultanate of Brunei Darussalam; the provinces in Kalimantan, Sulawesi, Maluku, and Papua in eastern Indonesia; the states of Sabah and Sarawak and the federal territory of Labuan in Malaysia; and Mindanao and Palawan in the Philippines.

BIMP-EAGA's short- to medium-term goal is to become a major location for high-value-added agro-industry, natural resource-based manufacturing, and high-end tourism. The longer-term goal is to ensure that non-resource-based industries are established in the sub-region.

The strategic objective is to accelerate economic development, improve export competitiveness and enhance the attractiveness of the sub-region to local and foreign investors by:

- Maximizing the participating countries' comparative advantages with respect to regional and global markets;
- The energetic exploitation of economic complementarities within the sub-region;

- The extensive and sustainable use of shared natural resources, technology, and information;
- Dynamic joint action to overcome constraints to economic development; and
- The active expansion of intra-industry and intra-businesses trade through the specialization and regionalization of production.

BIMP-EAGA offers a huge market for ARMM's goods and services, especially considering that majority of peoples in this economic bloc share a common culture, religion and history with Muslim Mindanao. Zainudin Malang, in a paper on the integration of ARMM in the ASEAN, asserts that the Moro people had a long history of free trading during colonial times with Johore and Ternate as if they were trading on their own backyard. The Sulu and Simuay trading zones of the Sulu and Maguindanao Sultanates, he adds, became important hubs in Southeast Asia, as part of a region-wide network of entrepots that served the China-Europe trade.

Yet, the opportunities presented by BIMP-EAGA and the ASEAN economic integration in 2015 cannot be optimized in the ARMM without large investment in the region's infrastructure especially in ports, road networks and energy supply.

For instance, the Polloc Port in Parang, Maguindanao, which has been touted as a major trading hub, lacks a good road network and basic facilities such as refrigeration. It also has a long history of meddling by extortionists and local politicians fighting for control. The current reform oriented ARMM administration has initiated efforts to revive the port.

In September this year, the ARMM-RBOI provisionally approved the registration of investment from Iron Blaze Petroleum, Inc. for building a 90-million oil depot in Polloc Port. Also approved was the registration of investment for La Frutera Inc. to expand to 300 hectares of banana plantations in nearby Pandag, which hopefully will use the port. These investments are welcome and could be indicative that a reform-oriented administration in the autonomous region is attracting some investments. But the oil depot project is relatively small and La Frutera is not a new investor.

Zainudin Malang proposes a number of key strategic action areas that should be pursued to maximize the opportunities of BIMP-EAGA and ASEAN integration to ARMM economic development. Among these are: identifying industries that are viable for development under the aegis of the ASEAN free trade area; providing at least one (1) major port of entry in the island provinces, with existing ports serving as feeder ports; setting up ASEAN trading zones in the ARMM; and mainstreaming and strengthening the informal trading sector in the island provinces.

There is also a need to evolve economic policies for ARMM's island provinces (Basilan, Sulu and Tawi-Tawi), which have their own unique challenges and opportunities. One of the challenges for greater economic integration of the island provinces and neighboring Malaysia is the political and security dimensions posed by the territorial dispute involving the Sulu Sultanate and Malaysia over Sabah. While ASEAN economic integration is on the horizon, the flow of trade, goods and business along the Philippines' southern borders will most likely be restricted unless this dispute is fully resolved.

Imagining Autonomy for Economic Development

As indicated above, the existing autonomy and governance arrangements in the ARMM do not provide a conducive environment for developing the region's businesses and economy. Among the reasons cited are:

- Intergovernmental relations are dysfunctional and disempowering to the autonomous ARMM government which does not have the capacity to craft and implement economic policies of its own;
- Lack of good governance in the regional and local government that inhibits flow of investments;
- Weak infrastructure because of limited resources, misplaced priorities and corruption; and
- Lack of security aggravated by the presence of rebel groups, extortion and kidnap for ransom gangs and terrorist groups.

The Framework Agreement on the Bangsamoro (FAB) between the Moro Islamic Liberation Front (MILF) and the Philippine government is opening opportunities to address these issues even as it seeks to replace the ARMM with a new Bangsamoro Government in 2016. Under the deal being worked out, the Bangsamoro Government will be vested with more political and fiscal autonomy. The following features of this peace agreement, when implemented meaningfully, can have a large, positive impact on business and economic development in the region.

Clearer relations and delineation of powers with the National Government. The agreement provides for the powers reserved to the National Government, exclusive powers of the Bangsamoro Government, and concurrent powers that can be exercised by both the national and Bangsamoro Government. This will facilitate an environment that clearly defines accountability and responsibility for particular governmental tasks and functions. Evolving a more independent system for regional

economic policies is possible under this framework. The Annex on Wealth Sharing provides that the Bangsamoro shall formulate its development plans consistent with national development goals, but recognizing the unique needs and aspirations of the Bangsamoro.

A ministerial-parliamentary Regional Government with its own electoral and political party systems. This provides an opportunity for a more representative Bangsamoro Government and for evolving genuinely principled political parties. Vested with both legislative and executive powers, the Bangsamoro Regional Parliament can craft, coordinate and implement economic policies more effectively. Unlike the present system where political patronage and subservience to the National Government drive governance in the region, this new formula promotes democratic and accountable governance founded on sound platforms of government. This system will promote articulation of economic policies and programs by those seeking office which can promote healthy environment for business and economic development.

Greater share in the national wealth and more taxing powers are given to the Bangsamoro. Under the wealth sharing annex of the peace deal, the Bangsamoro – on top of the taxes that ARMM collects – can levy capital gains tax, documentary stamp tax, donors tax and estate tax. It will also get 75% of central government taxes, fees, and charges collected in the Bangsamoro. Unlike in the ARMM where block grants are appropriated in detail by the Congress in the General Appropriations Act, the block grants shall be allocated by the Bangsamoro and shall be automatically appropriated and regularly released by Congress. As to natural resources, which could be a promising source of large and sustainable funding for the Bangsamoro, the new political entity will be entitled to 75% of revenues from metallic minerals, while the income from fossil fuels (petroleum, natural gas, and coal) shall be shared equally by the National and Bangsamoro Governments. The greater share of the Bangsamoro from the national wealth and the additional taxing powers granted to it can potentially increase the capacity of the Regional Government to invest in much needed infrastructure.

Principle of subsidiarity founded on good governance. The peace agreement recognizes the need to evolve a unified Bangsamoro regional entity where regional and local autonomies are aligned in policies, purpose and action. While the rights and privileges of LGUs in the new Bangsamoro entity will not be diminished, the FAB provides that they can be altered, modified or reformed for good governance pursuant to the provisions of the Bangsamoro local government code. If the Regional Government decentralizes the additional and new-found powers to the LGUs which in turn commit to good governance, accountability and transparency, then frontline services for businesses could significantly improve.

Disarming of armed groups and professional policing to promote security and stability. The peace agreement will have a section on normalization that will provide for measures which will enhance the ability of communities to achieve their desired quality of life, including the pursuit of sustainable livelihoods and political participation within a peaceful deliberative body. These measures involve establishment of an effective, efficient, fair and professional policing system and include:

- A graduated program for decommissioning the MILF;
- The transfer of law enforcement from the Armed Forces of the Philippines to the police force;
- Reduction and control of firearms in the area; and
- The disbandment of private armies and other armed groups.

The peace agreement will also provide for the rehabilitation, reconstruction and development of the Bangsamoro and institute programs to address the needs of MILF combatants, internally displaced persons, and poverty stricken communities. There will also be a program for transitional justices to address the legitimate grievances of the Bangsamoro people, correct historical injustices, and address human rights violations.

All of these measures, when implemented meaningfully, can address instability and insecurity in the region that hamper economic development. In particular (and hopefully), extortion groups that prey on businesses can be neutralized by a professional police and the control and reduction of firearms in the region.

Strengthening human rights, rule of law and justice system. The FAB guarantees the basic rights of all citizens in the Bangsamoro against all forms of discrimination by reason of religion, ethnicity, culture and political beliefs. Vested property rights shall also be recognized and respected, reinforcing security of tenure by owners who acquired their lands in accordance with law. Indigenous peoples' rights shall also be respected.

To develop the justice system in the region, the FAB provides for strengthening and expanding the jurisdiction of *Shari'ah* courts and improving the workings of civil courts. The justice system will also consider alternative resolution systems and customary rights and traditions of indigenous peoples. All of these measures can potentially promote an environment where there is level playing field for those doing business in the region, and there is integrity of contractual obligations and security of tenure over owned or leased lands or property.

Working Paper No. 4

BUSINESS AND ENVIRONMENTAL REGULATIONS IN THE ARMM⁶⁹

Introduction

The Philippines leapfrogged 30 places over the last year to rank 108 out of 189 economies in the 2014 “Ease of Doing Business” survey of the International Finance Corporation, the private sector arm of the World Bank. This jump reflects the Aquino government’s efforts to improve the climate for investment in the Philippines and, in particular, the efforts of organizations, such as the Philippine National Competitiveness Council, in pushing regulatory reforms. But all is not rosy.

The Philippines is still in the bottom half of the rankings, and has made little progress in some key “doing business” indicators. It is still difficult, for example, to start and end a business in the Philippines. Its complex regulations make the Philippines the costliest in East Asia to set up a business.⁷⁰ The average firm has to spend more than a month obtaining 15 permits just to start a business. Moreover, in many cases, firms engage in bribery and gift-giving in order to obtain these permits. Paying taxes and accessing credit are also difficult.

The barriers to doing business are all the more pronounced in the far-flung areas in the Philippines which are characterized by violence and conflict. Given that most of the rules, regulations, and institutional arrangements in the Autonomous Region in Muslim Mindanao (ARMM) are patterned after national laws governing businesses and industries, all business permits and business registration rules and procedures imposed by the National Government also apply to the region.

Business Regulations and Investment Promotion

Republic Act No. 9054

Embedded in Republic Act (R.A.) No. 9054 — the act amending R.A. 6734 or the ARMM Organic Law — are regulations, policies, and institutional arrangements pertinent to the establishment and operation of businesses and placing of investments within the autonomous region.

Business entities (partnerships, corporations, or firms, directly involved in business within the bounds of ARMM) should pay their respective fees, taxes, and charges in

⁶⁹ Prepared by the Institute for Development and Econometric Analysis Inc.

⁷⁰ World Bank. Philippine Development Report, 2013.

the specific province or city where their businesses operate, as provided for in Section 6, Article IX (Fiscal Autonomy).

Meanwhile, business entities whose main, central, or head offices are situated outside the region but are doing business within the ARMM's jurisdiction — for instance, by farming, utilizing, or developing ARMM's land, natural, or aquatic resources — should pay income taxes corresponding to income realized from their operations within the ARMM to the municipality or city where their business activities/operations or branch offices are located.

Investors in the autonomous region can avail of incentives granted by the Regional Legislative Assembly (RLA) of the ARMM. Consistent with the stipulations on Article XII (Economy and Patrimony), specifically Sections 3 and 17, the RLA has the authority to grant incentives — which include tax rebates and holidays — for investors in industries that contribute to the ARMM's development. Cooperatives that reinvest no less than 10% of their surplus and firms that reinvest at least 50% of their net profits into “socially-oriented projects” in the region can also be given the same incentives. In addition, cottage industries are also entitled to tax incentives and other ARMM government assistance e.g., financial support, marketing opportunities, and technical training.

Former National Economic Development Authority (NEDA) Director-General Cielito Habito cited one of the instances wherein the ARMM government exercised its power to grant incentives and exemptions to companies locating within its boundaries that are not legally possible in other parts of the country. In 1996, La Frutera — one of the successful enterprises in the ARMM — was allowed to operate beyond the then-existing total banana hectarage limit when it established its banana plantation in Datu Paglas, Maguindanao.⁷¹

Meanwhile, age-old traditional barter trade and counter-trade with Brunei, Malaysia, and Indonesia are subject to regulation by the regional government. However, Section 31 of Article XII states that items or goods bartered or counter-traded with these countries cannot be sold in other parts of the Philippines without the payment of appropriate customs or import duties.

Lastly, the ARMM government regulates and exercises authority over foreign investments within the region. The National Government may only intervene in matters concerning national security, as stated in Section 34 of Article XII.

⁷¹ C. Habito. *Braving It and Making It: Insights from Successful Investors in Muslim Mindanao*. 2012.

Muslim Mindanao Autonomy Act No. 25

The ARMM has its own local government code (LGC) enshrined in the Muslim Mindanao Autonomy Act (MMAA) No. 25, the Local Government Code of the Autonomous Region in Muslim Mindanao. However, as can be expected, the autonomous region's LGC is largely patterned after R.A. 7160 or the Local Government Code of 1991. As such, stipulations in R.A. 7160 and MMAA 25 regarding business and environmental regulations and policies of provinces, cities, municipalities, and barangays are similar.⁷²

According to MMAA 25, at the provincial level, the top-tier local governments of Sulu, Tawi-Tawi, Basilan, Lanao Del Sur, and Maguindanao have the authority to levy taxes on businesses engaged in the printing and/or publication of books, posters, cards, leaflets, certificates, handbills, pamphlets, receipts, and others of comparable nature. Printing and/or publishing of books and reading materials such as school texts or references as prescribed by the Department of Education are exempted from this tax.⁷³

The provincial governments of the ARMM may also impose franchise and amusement taxes within their respective territorial bounds. They may levy a tax on businesses enjoying a franchise and collect taxes from lessees, operators, or proprietors of cinemas, theaters, circuses, concert halls, boxing stadia and other amusement places.⁷⁴

Lastly, provinces have the power to impose an annual fixed tax for every van, truck, or any vehicle used by producers, manufacturers, dealers, wholesalers, or retailers in the distribution or delivery of cigars and cigarettes, fermented liquors, distilled spirits, soft drinks, and other products as determined by the *Sangguniang Panlalawigan*, to consumers, sales outlets, directly or indirectly, within their respective territories in an amount not more than PHP 500,000.

Meanwhile, Section 149 allows municipalities within the region to levy taxes on businesses listed in Box 1.⁷⁵

⁷² For verification, please see the Local Government Code of 1991, available at <http://ppp.gov.ph/wp-content/uploads/2010/11/The-Local-Government-of-the-Philippines.pdf>

⁷³ For the specific tax rates on existing and newly started businesses engaged in printing and/or publication of the aforementioned materials, please see Section 142 (Tax on Business of Printing and Publication), Article Two (Provinces), Chapter 2, Book II, of the Muslim Mindanao Autonomy Act No. 25.

⁷⁴ For specific rates and other conditionalities in collecting franchise and amusement taxes, please see Section 143 (Franchise Tax) and Section 146 (Amusement Tax), Article Two (Provinces), Chapter 2, Book II, of the Muslim Mindanao Autonomy Act No. 25.

⁷⁵ For specific rates and schedule in collecting these business taxes at the municipal level, please see Section 149 (Taxes on Businesses), Article Two (Municipalities), Chapter 2, Book II, of the Muslim Mindanao Autonomy Act No. 25.

Box 1. Industries Subject to Business Tax

- a) On manufacturers, assemblers, re-packers, processors, brewers, distillers, rectifiers, and compounders of liquors, distilled spirits, and wines or manufacturers of any article of commerce of whatever kind or nature;
- b) On wholesalers, distributors, or dealers in any article of commerce of whatever kind or nature;
- c) On exporters, and on manufacturers, millers, producers, wholesalers, distributors, dealers or retailers of essential commodities enumerated hereunder: (1) Rice and corn; (2) Wheat or cassava flour, meat, dairy products, locally manufactured, processed or preserved food, sugar, salt and other agricultural, marine, and fresh water products, whether in their original state or not; (3) Cooking oil and cooking gas; (4) Laundry soap, detergents, and medicine; (5) Agricultural implements, equipment and post- harvest facilities, fertilizers, pesticides, insecticides, herbicides and other farm inputs;(6) Poultry feeds and other animal feeds; (7) School supplies; and (8) Cement.
- d) On retailers;
- e) On contractors and other independent contractors;
- f) On banks and other financial institutions;
- g) On peddlers engaged in the sale of any merchandise or article of commerce;
- h) On any business, not otherwise specified in the preceding paragraphs, which the Sanggunian concerned may deem proper to tax

As per institutional arrangements set by Section 150 (Retirement of Business) of the Book II of MMAA 25, a business subject to tax shall submit a sworn statement of its present year gross sales or receipts. In an instance when the tax paid by the business during the year is less than the amount due on the aforesaid gross sales or receipts, the difference shall be paid first for the business to be considered as “officially retired.”

Further, the act spells out schemes of business tax payments for various cases. Franchise taxes shall be payable for every distinct or separate place or establishment where the business covered by the tax is conducted. In cases where an individual operates or conducts two or more of the businesses stated in Section 149 (Tax on Business), which have the same tax rate, the tax due shall be computed based on the combined total gross sales or receipts of such businesses. If, however, the businesses belonging to list in Section 149 are operated by the same person have different tax rates, the gross sales or receipts of each business shall be reported separately and the appropriate tax will be computed for each business.⁷⁶

⁷⁶ For more on this, please see Section 151 (Payment of Business Taxes), Article Two (Municipalities), Chapter 2, Book II, of the Muslim Mindanao Autonomy Act No. 25.

Barangays within the ambit of the ARMM, for their part, have the power to levy taxes, charges, and fees on retailers or stores with fixed business establishments;⁷⁷ on places of recreation that administer admission fees; on signboards, neon signs, billboards, and outdoor advertisement; and on commercial breeding of fighting cocks, cockpits and cockfights. Also, cities and municipalities are not allowed to issue a permit or license for any business without a clearance — obtained by paying a reasonable fee — from the barangay where such business will be conducted or located.

However, despite the many incentives mentioned to establish businesses in the ARMM, Professor Ike Tawasil of the University of the Philippines Institute for Islamic Studies said that constant conflict discourages outsiders from conducting business in the region. Within the ARMM, agriculture is the predominant activity and since lots are not usually titled banks, will not accept agricultural lands as collateral. The difficulty in accessing capital disenfranchises potential borrowers and business owners.

Focus of ARMM Line Agencies in Promoting Local Industries

In line with the goal of inclusive growth in the Philippine Development Plan 2011-2016, the ARMM is promoting and supporting growth of micro, small, and medium enterprises (MSMEs) by providing business development services and offering access to funding, especially for those involved in the agriculture and fisheries industries.

In the MSME development plan of 2011-2016, which was issued by the Department of Trade and Industry (DTI) and MSME development stakeholders, both public and private, the region aims to increase the contribution of the sector to 40% of the gross value added and to generate two (2) million jobs by 2016. The plan also targets the improvement of four (4) areas — business environment, access to finance, access to markets, and productivity and efficiency.

One of the projects that the previous Arroyo administration pushed for is the One Town, One Product (OTOP) Scheme to support MSMEs all over the country. However, its continuation under the Aquino administration has remained uncertain. Promoting business development in the region is not solely the responsibility of the DTI. Rather, it involves various line agencies, depending on their respective functions (see Box 2).

⁷⁷For the conditionalities in collecting taxes on these establishments, please see Section 157-A (Scope of Taxing Powers- Taxes), Article Five (Barangays), Chapter 2, Book II, of the Muslim Mindanao Autonomy Act No. 25.

Box 2. Roles of Line Agencies in Local Industry Promotion

| | Major Roles for Local Industry Promotion |
|--------------------------------------|---|
| DTI-ARMM | Promote, regulate, and coordinate trade and industry activities |
| DAF-ARMM (including BFAR-ARMM) | Develop agriculture, forestry, and fisheries in the region |
| DOST-ARMM | Processing technologies |
| DILG-ARMM | Supervise LGUs in the region, support in preparing and evaluating development plans |
| RBOI-ARMM | Promote, assess, and develop local and foreign investment opportunities |
| CDA-ARMM | Register, supervise, train, and assist in the direction of cooperatives in the ARMM |

Source: Development Study on Local Industry Promotion in ARMM (JICA, 2011)

Executive Order No. 458

According to Republic Act No. 6734, the Autonomous Regional Government (ARG) is tasked to oversee, regulate, and “exercise authority over the foreign investments within its jurisdiction in accordance with its goal and priorities, subject, however, to the Constitution and National policies. However, through E.O. No. 458, the powers and functions of the Philippine Board of Investments within ARMM were transferred to the ARG (see Box 3), and the Regional Board of Investments (ARMM-RBOI) in the ARMM was created.

Box 3. Powers and Functions of the ARRM-ARG /ARMM-RBOI Relating to Domestic and Foreign Investment

- a) Approval/denial of application for registration under the Omnibus Investment Code of 1987;
- b) Supervision of enterprises duly registered with the ARG and including those enterprises previously registered with the Board of Investments;
- c) Cancellation of Certificate of Registration of enterprises registered with the ARG, and including those enterprises previously registered with the BOI;
- d) Evaluation of incentives to be availed by enterprises registered with the BOI;
- e) Take over the operations of the Regional Extension Officer of the BOI, pertaining to:
 - a. Evaluation of applications for registration;
 - b. Special tax credit on raw materials and supplies, net value earned and net local content and domestic capital equipment;
 - c. Employment of foreign nationals
 - d. Income tax holiday;
 - e. Reduced income taxes; and
 - f. Supervision of registered projects.
- f) Assume promotion of investments within the ARMM consistent with the Investment Priorities Plan; and
- g) Grant additional incentives, aside from those incentives under Book I-Title III, Article 39 of Executive Order No. 226, series of 1987.

The RBOI-ARMM's main goal is to attract, register, and administer both domestic and foreign investments by granting incentives. Its Board possesses the directive to regulate and exercise authority over investments within the ARMM, subject to the Philippine Constitution and pertinent national policies.⁷⁸ The ARMM-RBOI can offer fiscal and non-fiscal incentives to registered firms.

⁷⁸ Board of Investments. Invest Philippines. 2010.

Box 4. Incentives Offered by the Regional Board of Investments in the ARMM

Fiscal incentives available to ARMM-RBOI-registered firms include:

- a) income tax holiday (six years for non-pioneer and pioneer enterprises alike);
- b) tax credits (on domestic capital equipment, on duty portion of genetic materials and breeding stocks, and for duties and taxes on raw materials);
- c) further deduction from taxable income; reduced duty on the importation of capital equipment;
- d) tax exemption on breeding stocks and genetic materials;
- e) exemption from wharfage dues and export tax, duty, impost and fee; exemption from taxes and duties on imported spare parts;
- f) and incentives for necessary and major infrastructure and public utilities.

Non-fiscal incentives that ARMM-RBOI-is authorized to grant consist of:

- a) employment of foreign nationals;
- b) simplification of customs procedures;
- c) importation of consigned equipment;
- d) and privilege to operate a bonded manufacturing warehouse

Registration with RBOI-ARMM is limited to business entities that are engaged in activities or have products that are listed in the annual Investment Priorities Plan prepared by the National Board of Investments, especially those belonging to the list pertaining to the ARMM. This list encompasses priority activities that have been determined by the ARMM-RBOI in congruence with E.O. 458, such as those shown in Box 5.

Box 5. Priority Investment Activities

- a) export activities;
- b) agriculture, agribusiness/aquaculture and fishery;
- c) basic industries (e.g. textile production);
- d) consumer manufactures; infrastructure and services;
- e) industrial service facilities;
- f) engineering industries;
- g) logistics;
- h) Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) trade and investment enterprises;
- i) tourism;
- j) health and education services and facilities; and
- k) Halal industry.

Also, business entities that wish to avail of the incentives offered by the ARMM-RBOI must be organized in accordance with national laws — no less than 60% of capital stocks outstanding should be owned and controlled by a Filipino citizen. Nonetheless, exempted from the “minimum Filipino requirement” are projects with pioneer status and those allotting 70-100% of their production for export.

Muslim Mindanao Autonomy Act No. 154

In October 2002, a proposal to create a Regional Economic Zone was filed in the Regional Legislative Assembly (RLA). This was passed by the RLA on August 2003. This Muslim Mindanao Autonomy Act No. 154, otherwise known as the “ARMM Special Economic Zone Act of 2003,” aims to push for economic growth in the region through the establishment of a trading mechanism which would offer both local and foreign businesses tariff and tax incentives to encourage entry to the ARMM. It is similar to the Special Economic Zone Act of 1995. The regulating body, the Regional Economic Zone Authority (ARMM-REZA), has similar powers to the Philippine Economic Zone Authority (PEZA).

To date, the only area declared as an Economic Zone under the ARMM Special Zone Act is the Polloc Port, located in the municipality of Parang, Maguindanao. In 2010, Polloc Port was declared a “free port/zone,” making it a non-Customs territory. Investors are granted tax exemptions, as well as duty free importations. Restrictions on foreign ownership were also lifted, except for those activities restricted by the Constitution. To date, very little investment has been attracted to the Polloc Freeport Zone.

Local Investment and Incentives Code

A Local Investments and Incentives Code (LIIC) enunciates the investment policies and programs of a local government unit (LGU), Investment Priority Areas (IPAs), incentives offered (fiscal, real property, green, and non-fiscal incentives) and the procedure for availing of them. It also delineates the composition, functions, and roles of the Investments Promotion Center (IPC) and the Local Investments and Incentives Board (LIIB). The LIIC’s overarching purpose is to improve the local investment climate’s competitiveness by having appropriate local policies and programs.⁷⁹ (DILG, n.d.; DILG and DTI Joint Memorandum, 2011)

Although the LIIC applies to LGUs within ARMM, it is not yet well-established in the region. Most of the local investment units in the ARMM are still in the formulation and consultation phase of the institutionalization of their respective LIIC, as can be

⁷⁹ DILG and DTI Joint Memorandum, 2011.

surmised from the RBOI's January-September 2012 Accomplishment Report.⁸⁰ As such, it is more relevant to talk about the provisions of LIIC with respect to other areas to be included in the Bangsamoro.

For the purpose of this paper though, the focus will be on regulations, policies, and institutional arrangements contained in the LIIC version of Cotabato City — one of the two (2) cities to be incorporated into the new autonomous region (with the other being Isabela City). Cotabato City is where the seat of power of the ARMM Regional Government rests, although it is presently under the ambit of Region XII (SOCCSKSARGEN).

The LIIC of Cotabato City is entrenched in Ordinance No. 1756 Series of 2000, otherwise known as the "Revised Cotabato City Investment Code of 2000" and guided by a set of the Implementing Rules and Regulations (IRR) contained in Resolution No. 2902 Series of 2001. Investment priority areas in Cotabato City are shown in Box 6.

Incentives that are available for registered enterprises in the city include exemptions from payment of:

- Building permit fees and other charges;
- Mayor's permit fees, business sales taxes, and other fees; and
- Basic real property tax on land and building improvements machinery.

However, depending on what category they belong to, firms may enjoy these incentives for different numbers of years.

⁸⁰ According to the RBOI's *January-September 2012 Accomplishment Report*: the municipality of Parang in Maguindanao Province is on the finalization stage of drafting its LIIC, which is patterned on the Midsayap, Cotabato LIIC; same with LGU-Lamitan City, Province of Basilan, adopting the Sta. Cruz, Davao del Sur LIIC; other ARMM areas have only started to commit in formulating their own LIIC and establishing IPCs, e.g. Tawi-Tawi Province, LGUs in Lanao del Sur, Province of Maguindanao, and the municipal government of Jolo, Sulu. Meanwhile, the homepage of Basilan admits that while their province "had an existing Provincial Investment Incentive Ordinance (PIIO) or the SP Ordinance No. 97-03," and that the "PIIO booklet was printed and distributed for investment campaign", the relevant office wasn't fully operationalized owing to a dearth of funds.

Box 6. Investment Priorities Areas in Cotabato City

1. Category A
 - a. commercial complex/malls
 - b. industrial estates
 - c. tourism-related projects
2. Category B
 - a. light industries (i.e. food processing, wood products manufacturing, architectural and related metal works manufacturing and processing, and herbal, pharmaceutical and beauty care products manufacturing and processing)
 - b. real estate development for housing
 - c. “state of the art” recreational facilities
3. Category C
 - a. restoration of cultural and historical sites/properties
 - b. operation of franchise business
 - c. other facilities for tourists accommodation
4. Category D
 - a. new investment with minimum capitalization of two million pesos (PhP2,000,000.00)

Environmental Regulations

Republic Act No. 9054

R.A. 9054 mandates the ARG to put at the upper echelon of its priorities the “protection, rehabilitation, and the sustainable development of forests, coastal, and marine resources, including the adoption of programs and projects to ensure the maintenance of ecological balance” within the region (Section 17, Article III- Guiding Principles and Policies, R.A. 9054). Several sections in Article XII of the Act cover environmental regulations, policies, and institutional arrangements germane to businesses wanting to establish in the autonomous region.

First and foremost, the control, regulation, and supervision over the “exploration, utilization, development, and protection of the mines and minerals and other natural resources within the autonomous region” are vested in the ARMM government — with the exception of strategic minerals, e.g., petroleum, uranium, and other fossil fuels, all sources of potential energy, mineral oils, as well as aquatic parks, national reserves, and watershed and forest reservations.⁸¹ Given this, the regional government has the right to “prescribe the rules and regulations and impose regulatory fees” with respect to such activities (Sections 5-A and 8 of Article XII). Consequently, the ARMM regional assembly has the power to give concessions

⁸¹ For more information on these exceptions, please see Section 5(A), Article XII, of R.A. 9054.

and franchises and the regional governor can grant licenses, permits, and leases over agricultural, mineral, and forest lands, subject to constitutional limits.

Second, the exploration, utilization, and development of the ARMM's natural resources — save for the exceptions mentioned earlier — are allowed to “all citizens and to private enterprises, including corporations, associations, cooperatives, and such other similar collective organizations with at least 60% of their capital investment or capital stocks directly controlled or owned by citizens” (Section 6, Article XII). Nonetheless, citizen-inhabitants of ARMM retain “preferential rights” over these activities, as provided for in Section 7 of Article XII.

Third, the ARMM government should be responsible for regulating the small-scale mining industry that exists — taking into account ecological balance, safety and health, and the interests of all stakeholders including the indigenous cultural communities and the miners. The regional government is also in charge of prohibiting “the use, importation, deposit, disposal, and dumping of toxic or hazardous substances within the autonomous region” (Sections 9 and 15 of Article XII).

Currently, ARMM and the National Capital Region (NCR) are the only regions in the country that prohibit mining operations in their respective areas. Owing to the ongoing Bangsamoro peace agreement process between the National Government and the Moro Islamic Liberation Front (MILF), the region has stopped issuing permits to mining operations.

Muslim Mindanao Autonomy Act No. 25

The MMAA 25 — the Local Government Code of the ARMM — also has some provisions with regards to environmental policies and regulations, as stated in Section 144. It allows ARMM provinces to levy and collect taxes on sand, ordinary stones, gravel, and other quarry resources extracted from the beds of seas, rivers, lakes, creeks, stream, and other public waters, or from public lands situated within their respective territorial domains.⁸² The provincial governor exclusively issues permits to extract such quarry resources, pursuant to an ordinance from the *Sangguniang Panlalawigan*. Meantime, the power to grant fishery privileges in municipal waters and impose appropriate rentals, charges, and fees lies within ARMM municipalities.

⁸²For specific rates and other conditionalities in collecting taxes on these quarry resources, please see Section 144 (Tax on Sand, Gravel, and Other Quarry Resources), Article Two (Provinces), Chapter 2, Book II, of the Muslim Mindanao Autonomy Act No. 25.

Conclusions

The Muslim Mindanao has potential to grow given its resources and assets such as climate conditions suitable for agriculture and fisheries, abundant land, mineral reserves, as well as lower wage rates. However, the cycle of uncertainty in the peace and order situation and the lack of credible regional government have posed threats for investors to set up businesses in the ARMM.

A few corporations, nevertheless, attempted and succeeded in launching their businesses. According to former NEDA Director-General Cielito Habito (2012), beyond the laws and legislations passed by the National Government for the benefit of the local government of ARMM, there are three (3) major principles that an investor must keep in mind in order to flourish in the region. One is to collaborate with a powerful and open-minded local leader. Second is to form a relationship with the local partners and the community built on trust and confidence. Lastly, it is important for the investor to show respect for the region's culture and customs.

Much as business policies and regulations assist in encouraging investments to enter the region, the primary problem that must be dealt with is the continuing struggle in the region. With the signing of the Bangsamoro Framework Agreement, trust that peace will finally arrive, as well as economic and human development, is renewed.

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Annex A

SECURING BUSINESS PERMITS AND BUSINESS REGISTRATION

(Sources: Board of Investment, Department of Trade and Industry)

Doing business in the Philippines, either as single proprietorship, partnership or corporation, calls for licenses or permits from government. An investor or businessman needs to obtain a business license in the locality where he will establish his business, as well as register his business with the Department of Trade and Industry in case of sole proprietorship, or with the Securities and Exchange Commission in the case of partnerships and corporations.

Basic Registration Requirements

Following are the government agencies that a start-up business needs to register with:

Department of Trade and Industry (DTI)

This is where you register if your enterprise is a single proprietorship. The agency will issue a certificate of registration of business name.

Securities and Exchange Commission (SEC)

If your enterprise is a partnership or a corporation, this is where you will register. It will issue a certificate of registration.

Cooperative Development Authority (CDA)

If your set-up is a cooperative, register with this body. The agency will issue the certificate of registration.

Board of Investments (BOI)

If you wish to avail of incentives under Executive Order 226 or the Omnibus Investment Code, your enterprise needs to be registered with this body.

Economic Zone Authority (EZA)

If you wish to avail of incentives and locate in an economic zone/freeport, your enterprise will need to be registered with the relevant zone authority.

Local Government Unit (LGU)

You register with the municipality or city where you will set up your business. This office will issue the business permit.

Barangay Hall

You register with the specific barangay in the municipality or city where you will operate your business. This office will issue the barangay clearance.

Bureau of Internal Revenue (BIR)

You register your business with this office and apply for your business's taxpayer identification number (TIN), registration of books of accounts, authority to print.

Social Security System (SSS)

You register your business as an employer, yourself as a self-employed or as employee, and your workers as employees. This office will issue an SSS number for your business, for yourself, as well as for your workers.

Department of Labor and Employment (DOLE)

If you employ five workers or more, register your business with this agency. The DOLE is asked to promote gainful employment opportunities, protect workers and promote their welfare, develop human resources, and maintain industrial peace.

Home Development Mutual Fund (HDMF)

RA 7742 requires all SSS members earning at least Php 4,000 a month to register with this agency. HDMF administers the Pag-Ibig Fund.

Philippine Health Insurance Corp. (PhilHealth)

The New National Health Insurance Act (RA 7875) as amended by RA 9241 requires all employers of the government and private sectors and their employees to register with this agency. PhilHealth manages and administers the government health care system.

Other Registration Requirements

Some enterprises, by nature of their operations, are required to secure a special clearance, license, or permit from some other government agencies. The following table will guide you about some of the types of businesses that require a special certificate or permit and the agencies that issue them:

Animals and animal products, registration of veterinary drugs and animal facilities
Registration certificate — Bureau of Animal Industry (DA-BAI)

Aquatic animals, importation, Fishpond lease agreement
Permit — Bureau of Fisheries and Aquatic Resources (DA-BFAR)

Fertilizer products and registration of pesticide products

*Registration certificate — **Fertilizer and Pesticide Authority (DA-FPA)***

Fiber and fiber products processing and trading

*Registration certificate; commodity clearance — **Fiber Development Authority, (DA-FIDA)***

Film and television production, export and import, booking, etc.

*Registration certificate — **Movie & Television Review and Classification Board (MTRCB)***

Food, chemicals, health related business

*Registration certificate – **Bureau of Food and Drugs, Dept. of Health (DoH-BFAD)***

Flour processing, Grains wholesaling & retailing, milling, warehousing, exporting, importing, indenting, packaging, threshing, corn shelling, mechanical drying

*License – **National Food Authority (DA- NFA)***

Meat plant accreditation for meat & meat products, slaughterhouse operations

*Accreditation certificate, Registration certificate – **National Meat Inspection Commission (DA-NMIC)***

Pawnshop & lending investor

*Registration certificate – **Bangko Sentral ng Pilipinas, Dept. of Finance (DoF-BSP)***

Plants & plant products: nursery accreditation, seed certification and phytosanitary certificate

*Permit/Registration Certificate- **Bureau of Plant Industry (DA-BPI)***

Recruitment or placement agency for foreign employment

*Registration certificate – **Philippine Overseas Employment Administration, Dept. of Labor and Employment (DOLE-POEA)***

Recruitment or placement agency for local employment

*Registration certificate – **Bureau of Local Employment (DOLE-BLE)***

Schools & educational institutions: Educational institution (nursery, primary, elementary, secondary levels); Tertiary level; Technical-vocational education, training program registration and accreditation

*Permit - **Dept. of Education (DepEd); Commission on Higher Education (CHED); Registration and accreditation certificate - Technical Education Skills Development Authority (DOLE-TESDA)***

Security agency business

*Permit – **Philippine National Police, Dept. of Interior & Local Government (DILG-PNP)***

Service and repair shops for: Motor vehicles; automotive & heavy equipment; engine & engineering works, & machine shops; electronics, electrical, air conditioning & refrigeration; office & data processing equipment; medical & industrial equipment; appliances or devices; and private emission centers

Accreditation license – Bureau of Trade Regulation and Consumer Protection, (DTI-BTRCP); DTI regional offices

Sugar trading, muscovado converting & trading, processing or manufacturing sugar-based products for export

Registration certificate – Sugar Regulatory Administration (DA-SRA)

Telecom business

License – National Telecommunication Commission, Dept. of Transportation & Communication, (DOTC-NTC)

Tourism-related projects

Registration and accreditation certificate – Department of Tourism (DOT)

Transportation: Land transport service; Sea transport service

Land Transport Franchise & Regulatory Board (DOTC-LTFRB)/ Maritime Industry Authority (DOTC-MARINA)

Video production, sales and rental

Optical Media Board (formerly Videogram Regulatory Board), Office of the President (OP-OMB)

Special Permits/Clearance/Registration

Special Permits / Clearance / Registration are required for the following projects / activities:

Various types of visas

Bureau of Immigration

Alien Employment Permit (AEP)

Department of Labor and Employment

Clearance for garment and textile exporters

Garments and Textile Export Board

Registration for operation of Customs Bonded Manufacturing Warehouse

Bureau of Customs

Environmental Compliance Certification

Environmental Management Bureau - Department of Environment and Natural Resources

Projects involving land use/conversion

Housing and Land Use Regulatory Board /National Housing Authority/Department of Agrarian Reform

Permit to construct/operate pollution control devices

Department of Environment and Natural Resources

Trademarks/Patents registration

Intellectual Property Office

Registration of power-generation projects

***Department of Energy
National Power Corporation***

Philippine Standard (PS) Quality Mark to ensure that locally- manufactured consumer products conform to Philippine national standards

Bureau of Products and Standard

Import Commodity Clearance (ICC) Quality Mark to ensure that imported consumer products conform to Philippine national standards

Bureau of Products and Standards

License-to-Operate for projects which involve food, chemicals and others

Bureau of Food and Drugs

Registration of tourism projects

Department of Tourism

Franchise for mass transit operation

Land Transportation Franchising and Regulatory Board

Telecommunications projects

National Telecommunications Commission

Registration of advanced technology

Department of Science and Technology

Clearance for health-related projects

Department of Health

Securing Locational Clearances / Business Permits from Municipality / City Offices where the Business will be set-up

All businesses are required to secure a mayor's permit or municipal license from the municipality or city where they are located. Various cities and municipalities have different registration procedures. The following are the general requirements:

Where to File

- 1) Concerned Municipal or City Government Office
- 2) Municipal/City Hall (View Directory)

Requirements

A) Mayor's/ Business Permit

1) Renewal:

- a. Latest Mayor's Permit
- b. Barangay Clearance
- c. Community Tax Certificate with Gross Receipt
- d. Financial Statement (Partnerships and Corporations)
- e. BIR Clearance
- f. SSS Clearance
- g. ECC (or CNC)
- h. Sanitary Permit

2) Additional Requirements for New Business:

- a. DTI Registration
- b. SEC Registration (Partnerships and Corporations)
- c. Building Permit and Occupancy Permit (for newly constructed)
- d. Zoning Clearance

B) Building Permit & Occupancy Permit

1) Building Permit (4 copies each):

- a. Barangay Clearance
- b. Building Plan
- c. Bill of Materials
- d. Tax Declaration
- e. Land Title
- f. Building & Sanitary Permit Application Form

2) Fire Safety Certificate

- a. Certificate of Completion

3) Occupancy Permit

Working Paper No. 5

LABOR REGULATIONS IN THE ARMM⁸³

Introduction

Labor continues to be one of the foremost concerns of most Filipinos, as it provides them the means to cope with their daily needs. Even as employment rate in the Philippines continues to be high (92.9%),⁸⁴ many are still worried about the state of employment and working conditions in the country. Some are uneasy about the high underemployment,⁸⁵ and many workers believe that the minimum wages are too low to provide the basic needs of the average family. In addition, certain policies, such as contractualization, continue to be under fire by unions that argue such policies contradict, rather than support, job security and gainful employment.

Apart from the workers, employers also have their fair share of concerns when it comes to labor regulations. While these regulations are not considered major hindrances to the welfare of a business, many employers nevertheless believe the minimum wage is too high, discouraging employment and reducing competitiveness. They also express concerns about the stringent cost of termination and the inflexibility of contracts. These conditions put a strain on many businesses, and may, eventually, force some to close down.⁸⁶ As a consequence, working conditions, compensation, and labor policies are frequently under scrutiny, not only from employees, but also from employers.

The Autonomous Region in Muslim Mindanao (ARMM) is no exception to the aforementioned concerns. To begin with, the labor force participation rate in the region stands at only 54%, the lowest among the regions of the Philippines. Moreover, employment opportunities are relatively low compared to other, less turbulent parts of the country, since there are fewer businesses willing to set up shop in the region. To add to that, most of its labor force is unskilled,⁸⁷ thereby limiting the chances of being gainfully employed.

While the region has autonomy, its rules and regulations are still subject to the provisions of the Philippine Constitution. For example, provisions for a preference

⁸³ Prepared by the Institute for Development and Econometric Analysis.

⁸⁴ (National Statistics Office, 2013)

⁸⁵ According to the Labor Force Survey conducted by the National Statistics Office, the underemployed are those who expressed the desire to have additional hours of work in their current job, an additional job, or a different job with longer work hours.

⁸⁶ (World Bank, 2013).

⁸⁷ (Philippine Center for Investigative Journalism, 2013)

for local labor and products, as well as creating policies and measures that would increase their competitiveness are shared by the Constitution and the expanded Organic Act for ARMM (Republic Act (R.A.) No. 9054). Although the Regional Government has the authority over foreign direct investments⁸⁸ in its region, actions must still be within the provisions of the Philippine Constitution.

As such, it follows that labor institutions, regulations, and rulings are still bound by the Philippine Constitution. In fact, most of the labor mechanisms in existence in ARMM are parallels of existing national institutions and regulations in the region are still subject to the National Labor Code.

Institutional Arrangements

ARMM may be viewed as a microcosm of the National Government. R.A. 9054, which outlines the Regional Government's territory, scope, functions, and powers and which amended R.A. 6734 or the ARMM Organic Law, is analogous to the Philippine Constitution. Similarly, the said act stipulates the creation of institutions such as bureaus, offices, agencies, and commissions that are considered necessary to address the needs of the region, including labor-related needs.

With regard to labor policies and regulations, the ARMM has a regional agency for labor, the Department of Labor and Employment-ARMM (DOLE-ARMM). Meanwhile, the region has a Regional Tripartite Wages and Productivity Board to set the rates for minimum (or basic) wage.

Republic Act No. 9054 and Executive Order No. 425

The setting up of the DOLE-ARMM stems from Article VII Section 2 of R.A. 9054. This article provided that the Regional Government of ARMM shall have a department that deals with matters relating to labor standards and conditions in the region. Section 19 of the same article states that, as with other departments, offices, agencies, commissions, and bureaus under the Regional Government, the DOLE-ARMM shall be defined and prescribed by the Regional Assembly.

The autonomous government acknowledges the importance of labor in the region. Thus Article XV Section 9 of R.A. 9054 recognizes the importance of the full protection of labor; full employment; equal job opportunities among individuals regardless of sex, beliefs, and race; and a regulated relationship between employers and their employees. In order to better meet such a provision, it is, then, necessary to have a regional arm of DOLE.

⁸⁸ Sections 33 and 34, Republic Act 9054.

Executive Order (E.O.) No. 425 specified that a labor department be established under the control and supervision of the Regional Governor of the ARMM. The functions of the National Government's line agency have been transferred to the local government to better respond to the needs of the autonomous region. As such, Section 5 of E.O. 425 enumerates the specific functions devolved to the respective departments.

While there are no differences with respect to the functions and powers in the national agency, DOLE, and its ARMM counterpart, DOLE-ARMM has the ability to create or suggest policies, programs, and interventions that may be specific to the region.

Box 1. Functions⁸⁹ of DOLE-ARMM, EO No. 425, Section 5

SEC. 5. Functions Transferred. Pursuant to the foregoing section, the functions of the following line agencies and offices of the National Government are hereby transferred to the Autonomous Regional Government of the ARMM, viz.

A. Department of Labor and Employment

- 1) Formulate and recommend to the Regional Governor regional policies, plans and programs for manpower development, training, allocation, and utilization;
- 2) Protect and promote the interest of every constituent desiring to work locally or overseas by securing to him the most equitable terms and conditions of employment, and by providing social and welfare services;
- 3) Regulate the employment of aliens within the ARMM, including the establishment of a registration and/or work permit system for such aliens;
- 4) Formulate general guidelines concerning wage and income policy;
- 5) Recommend to the Regional Governor necessary adjustments in wage structures with a view to develop a wage system that is consistent with national economic and social development plans;
- 6) Provide for safe, decent, humane and improved working conditions and environment for all workers, particularly women and young workers;
- 7) Maintain harmonious, equitable and stable labor relations system that is supportive of national and regional economic policies and

⁸⁹ Functions also include issuing permits for children working in media; regulating relations between employee and employer; and enhancing intellectual, social, and material wellbeing of labor force. (Department of Labor and Employment - Autonomous Region in Muslim Mindanao, 2012).

- programs;
- 8) Uphold the rights of workers and employers to organize and to promote free collective bargaining as the foundation of the labor relations system; and,
 - 9) Provide and ensure the fair and expeditious settlement and disposition of labor and industrial disputes through collective bargaining, grievance machinery, conciliation, mediation, voluntary arbitration, compulsory arbitration as may be provided by law, and other modes that may be voluntarily agreed upon by the parties concerned.⁹⁰

Republic Act No. 6727

The minimum wage setting mechanism in the ARMM is guided by R.A. 6727 or the Wage Rationalization Act through the Regional Tripartite Wages and Productivity Board (RTWPB), but with the supervision of the National Wages and Productivity Commission (NWPC). The regional directors of DOLE, the National Economic Development Authority (NEDA), and two representatives for each from workers and firms in the region sit as members of the RTWPB (National Wages and Productivity Commission, 2013). This Law amended Article 99 of Presidential Decree No. 442 (see below).

The NWPC is given the power to prescribe the rules and guidelines for determining minimum wage and productivity measures at the regional, provincial, and industry levels. The ARMM-RTWPB has the power to issue wage orders subject to the guidelines of the NWPC. The Organic Act Creating ARMM (R.A. 6374 as amended by R.A. 9054) does not enable the ARMM Regional Assembly to pass legislation relating to the minimum wage, as this power has been given by law to NWPC and ARMM-RTWPB.

Labor Regulations

Presidential Decree No. 442

Presidential Decree No. 442, which institutionalized the Labor Code of the Philippines, also applies for the Bangsamoro. As such, labor standards — requirements outlined by existing laws with regard to aspects of labor such as

⁹⁰ Lifted directly from Executive Order No. 425 - October 12, 1990: "Placing under the Control and Supervision of the Autonomous Regional Government the Line Agencies and Offices of the National Government within the Autonomous Region in Muslim Mindanao dealing with Labor and Employment, Local Government, Tourism, Environment and Natural Resources, Social Welfare and Development, and Science and Technology, and for other purposes"

wages, hours, and allowances — are also applicable to ARMM. It lays out workers' rights directly in line with provisions in the Labor Code.

Box 2. Some Provisions, Labor Standards under the Labor Code

Also applicable to ARMM

Hours of Work

- An employee's work hours should not exceed 8 hours per day;
- Employees are entitled to not less than 60 minutes of non-compensable break for regular meals and 5- to 20-minute compensable rest and coffee breaks;
- An employee is entitled to not less than 24 hours of rest after 6 consecutive work days.

Rules for Pay (Regular Holidays and Special Days)

- On holidays, employees are still paid 100% of their daily wage if the day is unworked. If an employee is asked to work on a holiday, he is paid 200% of his normal daily work wage and 260% of his normal work wage if an employee is asked to work on his holiday that happens to fall on his rest day as well provided that the employee is present or has filed a leave with pay absence on the work day prior to the holiday;
- Additional compensation shall be given if work is performed for more than eight hours. An additional 25% of the pay shall be given during ordinary work days, and 30% during rest days, special days, and regular holidays.
- On night shifts, if the employee works between 10 pm–6 am, the employee is entitled to not less than 10% of his regular daily compensation for every hour worked (DOLE-ARMM, 2012).

Source: DOLE-ARMM, 2012

While the Labor Code appears to be reasonable and applicable, a number of studies criticize its efficacy. From its datedness to its susceptibility to undue influence, the code has its fill of censure. The following offers a summary:

Too complex. One of the biggest issues of the Labor Code, together with different legislative acts, executive orders, and other rulings, is that it is too complex and difficult to comply with. This multitude of regulations sometimes deals with conflicting or overlapping aspects of labor policy, which results in high rates of non-compliance. Apart from this, the complexity of the labor regulations has further worsened the wall between formal and informal sectors. This is especially apparent

for ARMM, where relationships between employers and their work force are often dictated by local religious and cultural norms, and where there is a large informal sector and a formal sector dominated by small and medium scale enterprises in dispersed locations.

Out of date. In 1948, the Philippines joined the International Labor Organization (ILO), embracing labor policies aligned with international standards. Signed in 1974, the Labor Code of the Philippines was patterned after highly-developed markets (Imperial, 2004). It has been a few decades since it was penned. As such, there is a view that aspects of the Labor Code might no longer be relevant and a thorough review should therefore be undertaken to determine if reforms and revisions are needed.

Lop-sided. Existing labor regulations are viewed as lop-sided against the promotion of employment generation. One reasons out that the Labor Code is focused too much on employment protection (Imperial, 2004). This gives birth to a difference between labor policies being pro-employment and pro-employed. The former (pro-employment) is focused on a more palatable set of labor benchmarks for the employers to bring more businesses and investors in the country. This may be the more suitable choice for the country, given the increasing labor force and alleged high level of underemployment. Similar consideration applies to ARMM, reinforced by the need to provide jobs for demobilized forces and unemployed youth. Labor policies in this group tend to give more freedom to firms. The latter (pro-employed), meanwhile, focuses only on the welfare of employed individuals. It focuses on benefits and welfare of employees as voiced out by labor unions and is not necessarily reflective of what the majority of the labor force wants (Sicat, 2004).

Pro-employed policies are seen to be unsupportive of employment, such as the regularization process as explained by Sicat (2004). According to the Labor Code, an employee starts off as a non-regular employee for up to six (6) months to undergo training. Once an employee is regularized, employees may tend to be complacent since they have already achieved security of employment, especially when it is not easy to fire individuals except when there are crucial violations to a person's contract or agreement with the employer. Due to the complacency of regularized individuals, their productivity, or lack thereof, often does not match the salaries they receive.

Moreover, Philippine labor laws are designed to favor workers rather than employers. Where there are doubts in the implementation and interpretation of the law, the Labor Code, *de jure*, rules in favor of the employee. While the Code is more pro-employee, it fails to assimilate regulations that will be in favor of the informal sector. This is problematic, especially for areas in the country, such as ARMM, where the informal sector may be considered the norm. (World Bank, 2013)

May not have the proper focus. DOLE falls under the social branch of the executive arm of the government. One suggests that it would have been more appropriate if DOLE was grouped in the economic branch. Since the government does not recognize the fact that labor is part of a productive process, the government has enacted laws that do not enforce and encourage its improvement (Sicat, 2004). With the labor code as a social policy, its primary concern is not how economic development in the country would unfold. It is but a supporting mechanism to labor-intensive development. Should there be reforms in labor policy, other policies should be reviewed such as those related to population, health, and education which also influence employment conditions (Imperial, 2004).

Worker perspective not well-recorded and recognized by legislators. Estimates of the National Statistics Office show that the informal sector contributed 12.5% of the country's GDP in 2008. This sector includes those who are self-employed, working in the family business, and employed in the household.⁹¹ The relationship between the employer and employees in the informal sector are guided by kinship, social relations, and casual employment, without any formal enforceable contracts (Pastrana, 2009). The ILO estimates that about 40% to 80% of the labor force in the Philippines belongs to the informal sector.⁹²

While they are part of the formal sector characterized by written labor contracts, there are employed workers that do not have security of tenure like probationary employees, project staff, casual workers, seasonal workers, and apprentices. Referred to as non-regular employees, their period of service is definite but they are not entitled to non-wage benefits.

Too much intervention. With the significant size of workers belonging to the informal sector, it can be said that the labor force is largely unregulated. The remainder is described by Sicat (2004) as overly regulated. Compared to that of its Asian neighbors, the Labor Code of the Philippines is too restrictive and makes the government a too powerful force the labor market.⁹³ Although there are a few sets of standard rules for the promotion of the welfare of laborers that is applicable across countries, our Asian neighbors give employers freedom in crafting rules in giving bonuses, and hiring and firing of employees (Sicat, 2004).

Heavily influenced by politics. A well-crafted labor policy should be able to bridge the employer and the employee, whether regular, non-regular, or informal. This would lead to improving the quality of employment and the workforce, and at the

⁹¹ It also includes those engaged in illegal activities.

⁹² The range is wide since labor agreements in the informal sector do not strictly require official documentation.

⁹³ The extent of government regulation may in part explain the magnitude of the informal sector. Many people may operate in the informal sector specifically so that they can avoid the onerous restrictions in the formal sector.

same time make job opportunities, both here and abroad, more accessible to the public since people are better equipped with skills that are in-demand (Imperial, 2004).

In the various aspects concerning labor conditions, DOLE has adopted a tripartism method where the department, labor groups, and firms participate in labor dialogues. As a democratic arrangement, this method has arguably been identified as something that is very political. (Imperial, 2004).

Wage Order ARMM 14

Through Wage Order ARMM 14 signed in 2012, the minimum wage in the region is PhP 232/day across all industries, which is among the lowest rates in the country. In setting this wage, four main factors were considered: (1) needs of workers and their families, (2) capacity to pay of employers or industry, (3) comparable wages, and (4) requirements for national development.

Box 3. Criteria for Fixing Minimum Wage⁹⁴

There are 10 criteria for minimum wage fixing under R.A. 6727 and one under the Rules of Procedures for Minimum Wage Fixing, categorized into four major groups, namely:

1. Needs of workers and their families
 - a. Demand for living wage
 - b. Wage adjustment vis-à-vis Consumer Price Index (CPI)
 - c. Cost of living and changes therein
 - d. Needs of workers and their families
 - e. Improvements in standards of living
2. Capacity to pay of employers/industry
 - a. Fair return on capital invested and to pay of employers
 - b. Productivity
3. Comparable wages with prevailing levels
4. Requirements for national development
 - a. Need to induce industries to invest in the countryside
 - b. Effects on employment generation and family income
 - c. Equitable distribution of income and wealth along the imperatives of economic social development

⁹⁴ (National Wages and Productivity Commission, 2013)

However, some ARMM agricultural enterprises have been able to negotiate with their workers a lower minimum wage rate,⁹⁵ arguing that the viability of their enterprises would be threatened, especially given the challenges and problems they have faced as a result of, for example, nature calamities, market challenges from lower cost producers, and even currency fluctuations. They also point to the importance of their enterprise to the local economy, and to the much lower Community Wage Rates (currently between PhP 80-120 per day) paid to part-time workers in planting, harvesting etc. corn and other seasonal crops.

Other Factors Affecting Labor Interventions

There are several factors related to its religion, culture, and practices that set the labor situation in ARMM apart from the other parts of the country. As such, it is important to consider the following factors when it comes to policy-making, interventions, and regulation.

Official Muslim Holidays

Aside from nationally-observed holiday of Eid al-Fitr, the ARMM observes four (4) additional holidays. It is said that all five (5) official Muslim holidays should be observed in Muslim provinces and cities and in other areas as proclaimed by the President. Moreover, all Muslims, regardless of the location of their work in the Philippines, are entitled for paid leaves during the observance of these holidays.

The Philippines has 25 non-working holidays on the average. In the ASEAN region, the closest to the country in terms of the number of holidays is Hong Kong at an average of 17 holidays annually (Belena, 2012). Although holidays are said to promote domestic consumption and tourism, holidays have negative implications as well. According to the Labor Code, should employees go to work on a holiday, workers get a premium pay as much as double their daily wage. DOLE Secretary Rosalinda Baldoz said that holidays may affect the capability of firms to find a mutually desired equilibrium between wage and work hours (ELR, 2012). This has negative implication on both employees and employers. On the employee side, holidays mean foregone income for those who have a “no work, no pay” labor arrangements. On the other hand, if the employees work on a holiday, labor cost increases and it is not accompanied by an increase in productivity. Small and medium enterprises might have as much ability to shoulder the added cost of labor if the firm decides to make its employees work on a holiday.

⁹⁵ Although, in some cases, the lower minimum wage is supplemented with productivity bonuses and/or other benefits. The RTWPB has approved these agreements under the powers vested in it through R.A. 6267 (Wages Rationalization Act).

Gender Issues

High fertility rate. According to 2008 National Statistical Coordination Board data, total fertility rates in the ARMM are the highest at 4.3, along with Eastern Visayas, and CARAGA region. Mean number of births that a woman has had by the time a woman has reached 49 is at 5.7. It means that each woman has around six (6) children of her own. This is the highest among regions in the country.

Roles in society. In ARMM, traditional constraints on women working outside the home land religious considerations that discourage women from seeking work, is major factor accounting for the low labor force participation rate for ARMM.⁹⁶ This cultural and religious norm makes it difficult for women to claim their right to education, employment, health benefits, and the like.

The women and children are the most vulnerable group amidst the turmoil in the region. As stated earlier, they are often displaced since women are not likely to be targets of revenge killings. Thus, in order to avoid getting in the middle of conflict, women opt to flee. In turn, the women now take on roles such as engaging in economic activities to support their families. Others end up being exploited and become victims of human trafficking. However, some people who flee and return find it difficult to have a normal economic activity because they have to constantly adjust. (Dwyer & Guiam, 2010)

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Working Paper No. 6

LAND USE AND PROPERTY RIGHTS IN THE ARMM⁹⁷

Introduction

Agriculture and agribusiness will continue to be the primary drivers of the Bangsamoro economy for the foreseeable future. In 2012, agriculture accounted for 65% of real ARMM Gross Domestic Product (GDP), compared to only 12% for the Philippines as a whole. Unfortunately over the period 2010-2012, agricultural GDP in ARMM declined by an average of 1.6% per annum, compared to the national agricultural GDP growth of 2.7%. There is an urgent need to reverse this decline and to achieve faster and more inclusive growth.

Faster growth of agriculture will require considerable quantities of investment, particularly from the private sector. However, for decades, armed conflict and insecure property rights have been binding constraints on increased agribusiness investment. In particular, security of land tenure has been a key obstacle to establishing commercial and export-oriented farms in the region.

With the imminent resolution of the conflict with the MILF there is now a golden opportunity for growth. To sustain the gains from political settlement, there must be continued growth of economic opportunity. While *peace for development* is a widely accepted strategy, *development for peace* is a no less valid flipside.

This is demonstrated by successful cases of agribusiness investment, even today, in conflict areas of Mindanao. How did these businesses overcome problems of tenure security in the region? What are the appropriate business strategies for overcoming tenure insecurity in agribusiness investments? What are the prospects for widely replicating these and similar arrangements in Bangsamoro?

This paper distills insights from an earlier study of Briones (2012), and a scoping report on land conflict by the World Bank (2013), that has been updated in view of the forthcoming establishment of the Bangsamoro.

⁹⁷ Prepared by Roehlano M. Briones, Ph.D. Senior Research Fellow, Philippine Institute for Development Studies.

Land Tenure Situation

Land Tenure in the Philippines

The Philippines adopts a Torrens title system for land ownership. The official registry is kept by the Land Registration Authority (LRA), under the Department of Justice. In addition, there are related instruments of land ownership in the Philippines, as follows:

- The Land Management Bureau (LMB) under the Department of Environment and Natural Resources (DENR) administers the distribution of public alienable and disposable lands using patents of various forms. It also maintains technical information on land records based on cadastral surveys;
- The Forest Management Bureau (FMB) under DENR issues an instrument of land rights for inalienable public lands, e.g. uplands, to communities and private entities;
- The Department of Agrarian Reform (DAR) implements the Comprehensive Agrarian Reform Program (CARP), and issues the Certificate of Land Ownership Award as proof of land transfer. This is registered with LRA with encumbrances, i.e. a 10-year proscription period, and amortization over a 30-year period; and
- The National Commission on Indigenous Peoples issues instruments over lands in the ancestral domain, i.e. Certificate of Ancestral Domain Title, and Certificate of Ancestral Domain Claim.

Other key players in the land administration system are the courts, which have the power to settle ownership claims which are then reflected in the registered title, as well as local government units (LGUs), which collect real property taxes and enforce land use laws and ordinances. In the absence of formal title, a tax certificate is a key document to establish possession.

The country's present land administration situation is plagued with the following problems (Dealca, 2009):

- Multiple agencies with duplication and overlapping functions;
- Multiple laws, leading to inconsistencies, especially on agency functions and mandate;

- Multiple land titling process, in particular the introduction of a judicial mode of titling (in contrast to the rest of Southeast Asia, which uses administrative titling);
- Multiple forms of ownership; and
- Multiple standards for land valuation and multiple agencies undertaking valuation.

Dealca (2009) further refers to inefficient land record management due to lack of resources, facilities, trained personnel, failure to archive or preserve documents, and faulty information systems.

The country suffers from an incomplete and deficient cadastral survey. According to Llanto and Rosellon (2013), a cadastral survey refers to a survey conducted to delineate political boundaries and to determine the metes and bounds of all parcels within an entire municipality or city for land registration, land titling, and other purposes. In the 1980s, the cadastral survey program of government was suspended, with funding diverted to the agrarian reform program. In 2007, the cadastral survey was revived. Currently, the balance of land to be subject to cadastral survey is about 10.9 million hectares; completion of the survey appears feasible over a five-year period (at a significant but not exorbitant cost of about PHP16.7 billion).

Agricultural Land Tenure in Muslim Mindanao

Based on DENR records, the formal land tenure system is performing well in ARMM (Table 1). The percent of parcels that are titled is 10 percentage points higher than the national figure; the percent documented by tax declaration approaches 95%, compared to 89% nationally and 85% in Mindanao. However these figures conceal the true scale of the land tenure problem in the region.

According to the World Bank (2013), where information on land tenure exists, its legitimacy is frequently questioned. Better educated, more powerful individuals or groups could register land that is being claimed by others, usually poorer and more vulnerable parts of the population who neither understand the importance of title registration, nor have access to the complicated and corruption-prone process of land titling.

Gulane (2013) highlights the dysfunctionality of formal land administration in Muslim Mindanao. Her case studies examine two (2) municipalities in Maguindanao: in South Upi, out of 32,000 hectares, only 2,000 hectares are covered by valid land titles; in Gen. SK Pendatun, only 1,500 out of 19,000 hectares are titled.

When ARMM took over the DENR, funds for cadastral surveys were diverted to other uses; the LMB was relegated to surveys of land acquired by DAR, or approval of small surveys carried out by private surveyors. For public alienable lands, LMB is unaware of the location or size of land already covered by patents (an issue for 293,000 out of the 983,424 hectares of Maguindanao). Cases of double patents (over the same or overlapping lands) have been reported. To issue 2,279 hectares of free and sales patents took the LMB five (5) years (2006–2011).

Land tenure in agricultural lands throughout the Philippines must be understood in the context of the country's CARP. The scope of CARP in ARMM is about 0.34 million hectares, distributed across the five (5) ARMM provinces (of which the largest in scope is Lanao del Sur, followed by Maguindanao; see Table 2). Note that this figure is far below the aggregate farm size for temporary and permanent crops according to the Census of Agriculture (about 0.52 million ha). This suggests a large number of exclusions at the scoping stage.

Table 1: Land parcel documentation in ARMM, Mindanao, and the Philippines, 2004

| | Total parcels | Percent titled parcels | Percent tax parcels |
|-------------|---------------|------------------------|---------------------|
| ARMM | 527,440 | 64 | 94 |
| Mindanao | 4,503,520 | 50 | 85 |
| Philippines | 24,200,575 | 54 | 89 |

Source: Kadtuntaya Foundation et al (2009)

Table 2: Scope and accomplishment of CARP in ARMM, as of 2011

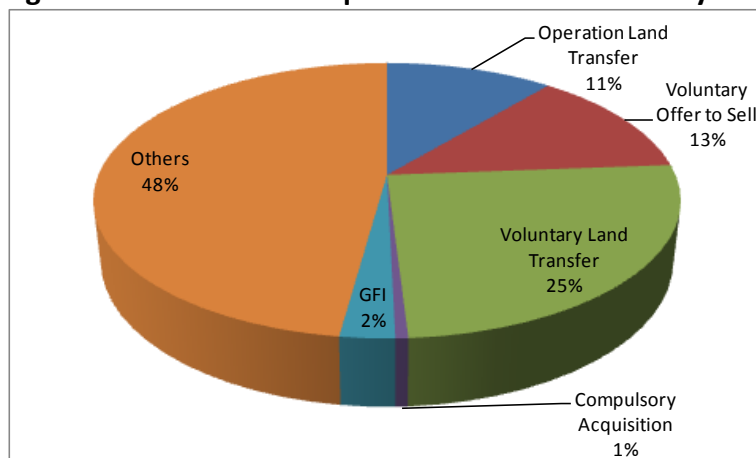
| | Scope (ha) | Accomplishment (percent of scope) | Balance (percent of scope) | Number of ARBs benefited |
|---------------|------------|-----------------------------------|----------------------------|--------------------------|
| Basilan | 36,288 | 69 | 31 | 7,904 |
| Lanao del Sur | 163,964 | 80 | 20 | 44,407 |
| Maguindanao | 95,115 | 58 | 42 | 20,303 |
| Sulu | 17,387 | 42 | 58 | 2,430 |
| Tawi-Tawi | 28,499 | 67 | 33 | 7,873 |
| TOTAL | 341,253 | 70 | 30 | 82,917 |

Source: ARMM – DAR

Furthermore, the bulk of the accomplishment in ARMM under private agricultural lands is in the form of Voluntary Land Transfers (VLT) and Voluntary Offer to Sell (VOS), whereas compulsory acquisition holds for only 1% of lands (

Figure 1). Borrás (2005) argues, based on Commission on Audit reports, that VLT is effectively a form of land reform evasion, while VOS often turns into an opportunity to exact revenue from the state via fraudulent sales. Guitterez and Borrás (2004) document that evasion and plunder via VLT and VOS is worse in ARMM compared with the rest of the Philippines.

Figure 1: ARMM: Land acquisition and distribution by mode of acquisition



Source: ARMM – DAR

Evolution of land rights in ARMM

How did this dismal situation arise? Kadtuntaya Foundation et al. (2009) describe the evolution of land tenure systems in Muslim Mindanao. Traditionally, land rights in Muslim Mindanao were based on *adat* or customary law. This law recognized the Sultan’s land, which may be granted or leased, and communal land, for which usufruct rights may be allocated to tribal members. Owing to the belief that resources are owned by God, property rights are not absolute but rather convey stewardship over land; the stewards are expected to make the land productive, benefit the common good, and provide support for the neediest (*zakat*).

The Spanish colonial period introduced instead the “Regalian doctrine” in which Spain claimed state ownership over all lands in the colony. The doctrine was imposed in most of Luzon and Visayas but not in the Moro-controlled areas. After the Treaty of Paris, Spain transferred their claim of sovereignty to the American government, which then – by bloody conquest – imposed its colonial rule over both Christian and Moro populations.

During the American period, the colonial government introduced the Land Registration Act of 1902, which imposed the Torrens system on all private and public lands. The Public Land Act of 1903 provided for the automatic classification of all

unregistered lands as public lands under ownership of the state, while Act 718 of 1903 nullified all grants of titles made by non-Christian chieftains, *datus*, and sultans. Legal recognition of property rights of Moros and *Lumads* was denied. Jubair (1999) cites the Cadastral Act of 1907 as an added tool for acquisition, as it favored educated natives, moneyed bureaucrats, and American speculators who were more familiar with bureaucratic procedures and not above resorting to fraudulent surveys.

Aside from these legal maneuverings, the colonial government actively attempted to open up Moro and *Lumad* lands to Christian settlers and corporations. Act 441 of 1939 created the National Land Settlement Administration to facilitate acquisition, settlement, and cultivation of lands acquired either from government or private properties.

Following independence in 1946, the government of the Philippine Republic was to continue these land policies, which accelerated the opening up of Mindanao to settlements. Gutterez and Borrás (2004) identify several types of settlement:

- State-sponsored settlement;
- Voluntary settlement by the rural poor – various landless poor, whether Christian settlers, displaced Muslims and *Lumads*, would independently occupy “public” land for subsistence farming’
- Enterprising middle classes and bureaucrats – educated persons with a middle class background, whether Christian or Muslim, would take advantage of the legal framework and secure full ownership by cultivating land, either directly or by hiring poor cultivators to work as tenants; and
- Elite and multinational companies – elite and big business interests would play a key role in displacing Muslims and *Lumads*, to acquire lands to establish plantations and logging concessions.

Migration and settlement of vast areas of Mindanao exacerbated land conflicts between settlers and Muslims and indigenous peoples. Land-related strife and political grievances precipitated the Bangsamoro insurgency, officially launched in 1973. World Bank (2013) identifies several ways in which usurpation of land rights transpired within a wider context of conflict, and itself worsening the scale and intensity of conflict:

- Forced displacement of earlier claimants, followed by titling by a new set of occupants. For example, in North Cotabato many Moros and *Lumads* were displaced in the 1970s, with their lands being titled subsequently by Christian

settlers;

- Local elite actors titling land that belonged to poor people, or by means of the land reform program, as described previously;
- Land acquisition through fraud – for instance, original rental agreements during periods of conflict were fraudulently altered into permanent sales;
- Acquisition of land under duress – a typical scenario is during an insecure period, a family head may depart or sell land under unfavorable terms, with later heirs reclaiming the land or seeking redress in the terms of sale; and
- *De facto* acquisition of land through physical occupation – in some cases families settled on land they thought was unclaimed, or which they knew was claimed, with the intent to later convert possession into ownership.

Agribusiness and Land Tenure in the ARMM

The aforementioned problems give the impression of total infeasibility of agribusiness investment in conflict-prone areas of Mindanao. Such nihilism is simply not the case. There is a settled system of tenure (albeit customary and fragile in some areas) in ARMM, and agribusinesses do function and even flourish in selected places.

Bossism and datuism

A key to understanding how tenure is secured in practice is to look at it under the lens of *bossism*. Sidel argues that this pertains to “prevalence of local power brokers who achieve sustained monopolistic control over both coercive and economic resources within given territorial jurisdictions or bailiwicks” (Sidel 1997, page 952). He traces the rise of bosses to the practice of democracy under pre-war colonial rule, under which American officials were already complaining that, in a “large majority of cases,” the municipal police were serving as henchmen of local politicians. This facilitated the post-war emergence of the small-town boss, and upwards in the hierarchy, the provincial warlord, and ultimately an authoritarian president.

Sidel (2004) advances the following theses:

- Local bosses succeed when they seize opportunities for monopolistic control over illegal activities, nodal transport or commercial chokepoints, as well as regulated crops and industries. Control is imposed by appropriating the relevant state apparatus;

- Where economic power is derived from state-based sanction, bosses must rely on super-ordinate power brokers. Withdrawal of support by these brokers may spell the downfall of the local boss; and
- Where economic power results from a solid base of proprietary wealth outside state intervention, bosses are able to perpetuate their clan in power by dynastic succession.

These theses contradict some past notions, such as: landholdings as a base of political power; and bossism as an obstacle to economic progress. Sidel argues that landholdings are typically accumulated *after* the political ascendance of the boss. Furthermore bosses are not necessarily obstacles to economic progress, but may serve as “handmaidens to economic growth.” Even in modern urban or peri-urban settings in Cavite and Cebu, bosses are able to serve as gatekeepers and facilitators for outside investment, by their control over zoning, construction contracts, business regulation, and the local police (Sidel, 1997).⁹⁸

In case of Muslim Mindanao, powerful clans are headed by a local strongman (often self-styled as a *datu* regardless of bloodline). *Datuism* as an authority structure shares considerable affinities with bossism. The problem of conflict and prevalence of bossism is not unique to Muslim Mindanao, although the degree is perhaps more intense than in the rest of the country, with a few exceptions, e.g. Abra (Paredes, 2010). The intensity is highlighted by the dominance of warlords in command of private armies. It is also exemplified by the activity of armed groups or “entrepreneurs in violence,” who operate under tacit support of the political clans, offering protection of properties and persons from other armed groups or even government forces (Gutterez and Borrás, 2004).⁹⁹

Within this context, there are several important features of the current land tenure system in Bangsamoro. First, in regard to land tenure in conflict-prone areas, modern practices and institutions overlie traditional institutions. This reflects the status of the clans themselves, “who enjoy both the authority of traditions (*agama* and customary law) and the state laws, because they are the ‘elected’ local officials in their own domain” (Mercado 2011, p. 20). Clearly, any business arrangement involving land within the bailiwick of a clan would require blessing of the local *datu*. While the *datu* acts as “gatekeeper” for gaining access to land, he also provides a service by securing boundaries and property rights within his territory.

Second, progressive elements among the dominant clans are open to joint commercial opportunities that would enhance their wealth and standing in the

⁹⁸ However, it could be argued that such arrangements introduce considerable uncertainty and stifle investment, and are often cited as a major reason for the poor performance of the Philippines.

⁹⁹ In a more settled environment, these are called “security firms.”

community. Certainly there are local kingpins who are bent only on extortion or even outright plunder of businesses within their jurisdiction. However this does not generalize. As Sidel has argued, there are progressive bosses who serve to facilitate investments, so long as it builds up their own political and economic base. For example, the investor would almost certainly be required by the boss to hire rank-and-file employees locally, which reinforces loyalty of the community to the boss. The more progressive boss combines both development concerns for the communities, and commercial interests of his clan, and would function as an essential ally for outside investors.

Third, clan rivalry and vagaries of local and national politics may disrupt control exercised by the *datu* and impact adversely on his business arrangements. Nevertheless, clans with a history of dynastic succession within their respective bailiwicks are more likely to maintain their long-term dominance. In particular, clans provide continuity over any long-term arrangements negotiated by a clan leader.

Land tenure in practice

Based on field investigation reported in Briones (2012), the overriding consideration for customary tenure is possession, seen as legitimate occupation at the community level. Possession may not necessarily be well documented by formal title.

Gulane (2013) confirms that informal tenure is sufficiently established even to effect an orderly transfer of rights, supplanting the need for a formal sale. However, legitimacy will typically require mediation by local strongmen, i.e. clan and village chieftains, or local politicians. The informal market mimics the formal one but *sans* the transaction costs of notaries, surveyors, tax assessors, and the like, hence opening up the land market to the poor, and improving efficiency of land use. The system however is not foolproof; local strongmen may, on occasion, act not as a referee, but an interested party—either as a buyer of land, a seller, or a seller; in such cases the outcome of a transaction may be questioned by some members of the community and even exacerbate conflict. The popularity of informal land markets implies perpetuation of the poor level of land documentation.

In Sulu, for instance, many properties are untitled, or under a mother title that does not reflect subdivision by inheritance. Similarly in Basilan, outside the plantation lands (Menzi, JAKA, Sime Darby, etc.), formal title (if any) is largely through free or homestead patent. In other cases the formal title may mask true tenure relations. For some parcels, the immediate cultivator maintains possession, but may defer to ownership or ownership-like claims asserted by a *datu* or clan leader. While this is true throughout ARMM, the tendency may be stronger for the mainland provinces, namely Lanao del Sur and Maguindanao, where economic and political power has often been associated with consolidation of landholdings.

It is often not clear what extent of control, formal or informal, is exerted by the clan leaders. According to farmer interviews, tenancy relations in Maguindanao do persist, although owner-cultivation is also common. In most cases though, tenancy relation is between relatives, which obviates somewhat the exploitative features of agrarian tenancy. For instance, in rice and corn areas the tenant is required to pay 20% of the harvest as rent. In coconut areas there may not even be a sharing arrangement, but rather a piece rate payment for planting coconut trees, with laborers given harvest rights until the piece rate (about PhP 350/tree) is fully paid by the landowner.

In cases where maximal interpretation of "landholding" does indeed prevail, consolidation persists despite implementation of the agrarian reform program. According to DAR and Department of Agriculture (DA) officials, it is possible that lapses in implementation in land reform implementation occur at the field level in connivance with some local officials. Farmers are also responsible, as they fail to assert their rights, particularly those who are less educated. Government's responsibility, meanwhile, is to provide better social preparation for Agrarian Reform Beneficiaries (ARBs).

In the island provinces, there is less of a tendency for the prominent clans to consolidated large farm landholdings; landholding inequality is therefore not as extreme as in the mainland provinces. A modest accumulation of land is apparent in a few political families, such as the Jainan (Indanan), and the Tans. However their investments are generally directed outside of agriculture, and even outside of BASULTA (e.g. Zamboanga City). Average farm sizes in Sulu for instance, range from three (3) to seven (7) hectares. These are mostly tenanted, based on 50:50 sharing of net income (for coconut lands). Landowners are usually their relatives. However these landowners are also persons of modest means; farmers do not rely on landowners for cash advances, but rather borrow from traders (on occasion even the landowners would reportedly resort to traders for credit!)

A special case of formal tenure is land held by agrarian reform communities (ARCs) and/or resettlement areas (Table 3).

Table 3: Selected resettlement areas in ARMM

| Province | Area | Approximate size |
|---------------|---|------------------------|
| Maguindanao | Resettlement I and II (Barira, Buldon, Matanog) | > 2,000 ha 4,000 ha |
| | Resettlement III (Labungan) | |
| | Basilan | Sumisip |
| Lanao del Sur | Capay | 3,000 ha |
| Sulu | Patikul | 1,000 ha |

Source: Briones (2013)

Given that land redistribution is premised on proper land documentation and the formation of ARCs on installation of a critical mass of ARBs, these lands showcase the exercise of *de facto* and *de jure* property rights by smallholders in ARMM. DAR officials attest to the availability of these resettlement areas for large-scale operations of any interested agribusiness investor. While lands have been titled to ARBs, large portions remain uncultivated owing to inaccessibility or lack of capital. DAR officials are able to coordinate with all concerned parties (see below) to facilitate investments in these ARCs.

Outside the resettlement areas, large ARCs are found in the former rubber and coconut plantations of Basilan. Expansion is patent in the case of rubber, propelled by a historic run up in prices. About a third of rubber farms are farmed by cooperatives, with the rest being farmed by smallholders. Despite the departure of previous plantation owners, rubber farm cooperatives have managed to find buyers for their product. They have also taken over processing operations which allow them to market semi-processed output (in bales) and move up in the value chain. DAR, DA, DTI, and LGUs have provided considerable support to these cooperatives. Currently, funding is being secured for the upgrading of the antiquated processing equipment.

Alliances for agribusiness success

The Focus Group Discussions (FGDs) all confirmed that any significant business venture in ARMM would require cooperation from the local dominant clan, represented by elected officials – typically the mayor, who is also likely to be the *datu*. The ARMM Business Council members agreed that formal title is subordinate to actual control exerted by clans, headed by a *datu*. Rather than undermining property rights, this assures property rights as the *datu* is in charge of protecting property of the clan and its allies.

The Mayor of Paglat discussed the formation of Southern Liguasan Alliance of Municipalities (SLAM) in terms of doing away with *datu*-ism. However, in the course of the discussion with SLAM mayors, it became clear that they are only targeting the more objectionable features of *datuism*. The *datu* remains essential for maintaining harmony within Muslim society.

Incidence of violence is undeniable, but in terms of daily life of the common people, Muslim Mindanao is generally peaceful if the *datu* is performing his role as peacemaker (rather than being a trouble-maker). A recent experience of ending a *rido* (violent family feud) involving some MILF combatants is often cited as an example. The *datu* convened a meeting of the disputing parties and arranged for arbitration with the *ulama* (Muslim elders). A blood money settlement was reached. To avoid an escalation of the conflict, neither the MILF nor the military were

involved at any stage of dispute resolution, although both the military and the insurgents approved the final resolution. Finally, the mayor himself donated the blood money. The mayor believed that this was the best course of action since it would make the settlement permanent (actual payment would often keep resentment alive on the side of the paying party), not to mention the debt of gratitude the mayor would earn from the disputing parties.

Likewise the well-known "Arms to Farms" program in Sulu, initiated by a former governor, was also effective in creating zones of peace. Covering about 12,000 hectares, the program aimed to encourage safe enclaves for normal farming to proceed uninterrupted. The LGU provided assistance in the form of planting materials, inputs, and land preparation services. Instrumental in these special zones were extensive negotiations with all major armed groups to guarantee peace, safety, and non-incursion in the designated areas.

On the economic front, the mayors were unanimous in their assurance of security for any outside investor willing to invest in their jurisdictions (in a similar vein as the assurance from Toto Paglas in the celebrated example of Paglas Corporation, La Frutera, and UniFrutti). Within the four (4) municipalities a total of 5,000 hectares could be made available for plantation crops, e.g. oil palm, together with a mill based in Maguindanao. This would give healthy competition to the only other oil mill in the area (Agumil, in Sultan Kudarat). Consolidation of land would not be a problem as the *datu* knows how to approach farmers and convince them to join the plantation venture both because of his stature in the community, as well as the prospect of financial gain on the part of the farmer.

On the side of the farmers, FGDs with smallholders tend to confirm their readiness to engage in agribusiness ventures, plant new crops, and even lease their lands (where applicable). However they insist that the investor assume all the risk, including provision of planting materials, land preparation and so forth; furthermore they demand to be hired as workers on their lands.

The ARMM Business Council did mention in passing that there are a few cases in which business deals go awry owing to "local politics." This suggests that the local strongman was unable to maintain his grip on power. On the other hand, Datu Paglas is an example in which the clan maintains continuity; since the most untimely demise of Toto Paglas in 2008, his brother, now Mayor Mohammed Paglas, has continued to exercise leadership over PagCorp, even moving towards the expansion of plantation lands through lease agreements in the surrounding barangays.

The ARMM Business Council members pointed out that there were a number of progressive-minded mayors in ARMM. It would be difficult however to pin down a number because some mayors have not had an opportunity to cooperate with investors. A demonstration effect, similar to Paglas, may encourage more local

politicians to welcome agribusiness investors. Perhaps 10 out of the 26 municipalities in Maguindanao may be promising venues for investment, at least for now.

There are ways of detecting progressive-mindedness among electoral officials. The easiest is to obtain referrals from career professionals in ARMM agencies, such as BOI, DA, and DAR (for agrarian reform areas or settlements). Engagement and public investment (using the LGU budget) in development projects is another. According to the ARMM Business Council, in Basilan, the expansion of rubber plantations owes a lot to the support of the provincial government, under the late Governor Akbar, for a DA project providing seedlings, fertilizers, and technical assistance. Projects could also be in the area of human development, as evidenced by the health human resources project among the SLAM municipalities.

The key officials themselves may personally have the benefit of professional development and practice (the Paglas mayor was a long-time engineer in Saudi Arabia), as well as current capacity building (seminars and trainings organized by civil society and/or donor organizations). Lastly, independent outside recognition is another reliable signal; the Galing Pook, for instance, has recently created an award category for outstanding ARMM municipalities.

One final point is that adequate measures should be in place to promote a more equitable sharing of benefits for smallholders. In the establishment phase, entry of investments should be strongly incentivized. However the facilitator should be wary of very long-term contracts that "lock-in" smallholders, create impressions of gross unfairness, and are ultimately unsustainable. For instance, lease rates may be held ridiculously low even if a plantation is seen to generate extraordinarily high profit, creating resentment in the community. Small farmers or even LGU officials may not have the business experience to protect long term interests of smallholders, hence National Government officials (DAR, DTI, and other relevant agencies) may have to continue to exercise an oversight function over these business deals, accepting this may not be an attractive proposition to many investors.

Implications for investment

A feasible scenario for a potential investor in agribusiness who has scoped ARMM as an investment destination is as follows.

The investor may find an entry point through a business-oriented office in the regional ARMM, such as the BOI, the DA, or the DAR. The ARMM Business Council is also a suitable entry point. The objective is to secure referral to a *datu* who is business-friendly and progressive-minded. Signs of being progressive-minded have been discussed previously, i.e. the LGU invests in human development, is supportive

of local business, welcomes civil society engagement, and perhaps has won recognition from independent award-giving bodies.

On the other hand, one sign of an unsuitable ally is a reputation for extreme aggression (as opposed to retention of armed escorts, which is *de riguer* for politicians in Muslim Mindanao). Another is excessive reliance on patronage of key persons in the national or regional government. Rather the *datu* should be well established and secure within his bailiwick.

In turn, the *datu* would serve as facilitator, particularly for farmers who possess customary tenure over the land to be utilized, as well as secure clearance from armed groups within his territory (i.e. MILF, the military, and the militias). It is likely that interlocking clan-based business would also have to be part of the cooperation arrangement (i.e. as provider of land and other services, including labor contracting). Given the absence of a truly competitive business environment in the area, relying on the clan or its allies for non-tradable inputs would probably make good business sense as well. This is no different from other business ventures outside of Muslim Mindanao, although the outside investor would have to adjust to the local context and culture.

Way Forward

Threat and opportunity

The World Bank (2013) points to a number of issues regarding land tenure, conflict, and the establishment of Bangsamoro. First, *the signing of the Framework Agreement on the Bangsamoro (FAB) is creating new dynamics that are bringing latent land claims to the fore*. With resolution of armed conflict, displaced populations are looking to return; landowners or land claimants are now more aggressively asserting their rights and [ejecting/seeking to eject] occupants. These active and latent actions have a potential to trigger renewed violence.

Without minimizing these threats, the creation of Bangsamoro on the other hand opens unprecedented opportunity for land conflict resolution, and indeed the overhaul of the land administration system of the whole of the Philippines.

The new power-sharing arrangement in relation to land administration is yet to be defined. However the resulting system will certainly build on current practice. In ARMM, Philippine law recognizes three (3) justice systems to resolve land conflict, namely: Barangay, *Shari'ah*, and court systems (World Bank, 2013). Only barangay and civil courts are in common with the rest of the Philippines. The *Shari'ah* system has original jurisdiction over cases of inheritance and communal properties. It is effectively limited to cases where both parties are Muslim, does not apply to criminal cases or commercial law, and remains under the Supreme Court. In some

cases, a *Shari'ah* court may constitute an Agama Arbitration Council to settle disputes amicably.

The FAB reserves certain powers to the central government, namely: defense and external security; foreign policy; common market and global trade; coinage and monetary policy; citizenship and naturalization; and postal service. Resolution of land disputes is not in the list.

Moreover, FAB provides for strengthening of *Shari'ah* courts, including expanded jurisdiction, while placing them under Bangsamoro, with its supremacy asserted over Muslims. It also provides for strengthening of civil courts, and alternative dispute resolution systems. FAB also recognizes the customary rights and traditions of indigenous peoples, as well as indigenous processes as alternative modes of dispute resolution.

Regarding land tenure, FAB states: *Vested property rights shall be recognized and respected. With respect to the legitimate grievances of the Bangsamoro people arising from any unjust dispossession of their territorial and proprietary rights, customary land tenure or their marginalization shall be acknowledged. Whenever restoration is no longer possible the Central Government and the Government of the Bangsamoro shall take effective measures for adequate reparation collectively beneficial to the Bangsamoro people in such quality, quantity and status to be determined mutually.*

None of these provisions are specified in detail in the FAB, but are expected to be covered in detail in the Bangsamoro Basic Law now being drawn up. Nevertheless, based on these principles, there appears to be policy space for Bangsamoro to implement its own reforms in land administration. In line with the problem areas noted earlier, these reforms may be along the following lines:¹⁰⁰

- Installation of its own professional bureaucracy for land administration with streamlined procedures, realistic compensation scale, and checks to minimize corruption and influence peddling;
- Expedited cadastral survey and land title computerization, which has suffered serious implementation delay at the national level (Llanto and Rosellon, 2013);
- Alternative land transfer and transaction system – the Bangsamoro may adopt an alternative track in issuance of titles, placing greater reliance on administrative approaches. For instance, it may legislate a version of the Free

¹⁰⁰ Others may be added, depending on the nature of the legal space provided and the human resource in the Bangsamoro authorities.

Patent Act for Bangsamoro, a feat that has been repeatedly frustrated at the national level (Chikiamco and Fabella, 2012);

- Introduce variations in the instrument for CARP land transfer (the CLOA) by shortening the proscriptio period, waiving the amortization requirement, and permitting land to be used as collateral; and
- Introduce flexibility in pursuing alternative venture agreements (AVAs) with Agrarian Reform Beneficiaries and Agrarian Reform Communities, with capacity building for Bangsamoro authorities to regulate AVAs to maintain equity and enforceability of contracts.

Concluding remarks

There are reasons to be optimistic about the outlook for agribusiness, conditional on overcoming two (2) major constraints. The first major constraint is *supply of progressive-minded local elected officials*. The *datu* should serve as “development entrepreneurs” (Faustino and Fabella, 2011) who identify clan interests broadly in terms of development outcomes of communities within their jurisdiction. This should not be seen as somehow fixed, as successful demonstrations could trigger virtuous replication cycles (as perhaps is already happening after the case of PagCorp). It is no use lamenting that there are too few such progressive-minded officials now, when those who are ready to welcome investors even now are hard-pressed to find an investment match.

The second major constraint is the *lack of interest on the side of external capital to invest in Bangsamoro*. As argued in this paper, security of tenure can be addressed by existing institutional arrangements in ARMM (albeit outside the formal land titling system). Therefore this should not be an obstacle towards increasing the level of interest among outside capitalists. ***Coordinating business in the context of bossism is hardly unique to Muslim Mindanao. Any differences are in terms of degree but not in kind.*** Investors who have long developing country experience are surely familiar with this style of doing business. In many cases such institutions are transitioning –or have transitioned – towards more modern and less personalistic types of investment, over the course of economic development. The key is to look past these superficial differences and evaluate Muslim Mindanao within essentially the same evaluation framework of risk and return.

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Working Paper No. 7

BANKING AND FINANCE IN ARMM

Introduction

This paper tackles issues relating to banking and finance that the Autonomous Region in Muslim Mindanao (ARMM) currently faces. The region is the least banked in the country. This is a symptom of more fundamental and interconnected issues challenging ARMM such as lack of opportunities for wealth creation, unclear property rights, and the presence of risk and instabilities caused by political conflict and clan wars.

Supply of and Access to Financial Services

Under Republic Act (R.A.) 9054 or the Expanding the Organic Act for the ARMM of 2001, the Regional Government can, subject to the supervision of the *Bangko Sentral ng Pilipinas* (BSP), encourage the establishment of banks and financial institutions and their branches, and off-shore banking units of foreign banks. However, access to banking services has always been extremely limited in ARMM, more so after major outbreaks of armed conflicts. The traditional sources of credit are traders and informal lenders. As such, credit is expensive (in some communities 20% per month) and involves small amounts and short maturities.¹⁰¹

ARMM is the least banked region in the country. The number of banks and automated teller machines (ATMs) in ARMM is far less than in any other region of the Philippines. From 2006 to 2012, the number of banks declined from 26 to 19, with one (1) new bank opening in the first quarter of 2013 to bring the current total to 20 (see Table 1). Moreover, as of 2012, of the more than 12,000 ATMs in the Philippines, only 25 are located in the ARMM (see Table 2).

On a per capita basis, there were only 0.1 banks and 0.1 ATMs per 10,000 adults in the region in 2011.¹⁰² On average, each bank office served 200,000 persons, far more than any other region in the country (see Table 3).¹⁰³

¹⁰¹ World Bank. Joint Needs Assessment for Mindanao Conflict Areas. 2005.

¹⁰² Eastern Visayas, the second least-banked region in the country, had figures of 0.6 banks and 0.5 ATMs per 10,000 adults.

¹⁰³ Average number of persons served by each banking office in Eastern Visayas was more than around 26,000 in 2012.

Almost all of the banks operating in the ARMM are branch offices of universal and commercial banks. There is one thrift bank in addition to two (2) rural/cooperative banks.¹⁰⁴

Further, about 93% of municipalities in the ARMM have no banking presence.¹⁰⁵

Table 1: Regional Distribution of Banks

| Region | Dec-06 ¹ | Dec-12 | Mar-13 |
|--------------------------------|---------------------|--------------|--------------|
| NCR | 2,649 | 2993 | 3,016 |
| CAR | 110 | 148 | 148 |
| I Ilocos | 379 | 413 | 419 |
| II Cagayan Valley | 231 | 286 | 290 |
| III Central Luzon | 812 | 975 | 982 |
| IV-A CALABARZON | 1,170 | 1406 | 1,417 |
| IV-B MIMAROPA | 86 | 206 | 207 |
| V Bicol | 219 | 315 | 318 |
| VI Western Visayas | 439 | 543 | 547 |
| VII Central Visayas | 503 | 627 | 632 |
| VII Eastern Visayas | 133 | 174 | 176 |
| IX Zamboanga Peninsula | 122 | 190 | 190 |
| X Northern Mindanao | 252 | 328 | 327 |
| XI Davao Region | 253 | 338 | 360 |
| XII SOCCSKSARGEN | 168 | 192 | 195 |
| XIII Caraga | 114 | 199 | 198 |
| ARMM | 26 | 19 | 20 |
| Universal and Commercial Banks | 21 | 16 | 17 |
| Thrift Banks | 1 | 1 | 1 |
| Rural Banks | 4 | 2 | 2 |
| TOTAL | 7,666 | 9,352 | 9,442 |

Source: BSP
¹ Updated 01 April 2008

Table 2: Regional Distribution of ATMS

| Region | 2009 | 2012 | Change (%) |
|------------------------|--------------|---------------|------------|
| NCR | 3,867 | 5,324 | 38 |
| CAR | 114 | 162 | 42 |
| I Ilocos | 241 | 356 | 48 |
| II Cagayan Valley | 112 | 165 | 47 |
| III Central Luzon | 681 | 1,066 | 57 |
| IV-A CALABARZON | 1,133 | 1,748 | 54 |
| IV-B MIMAROPA | 69 | 140 | 103 |
| V Bicol | 178 | 261 | 47 |
| VI Western Visayas | 400 | 518 | 30 |
| VII Central Visayas | 605 | 921 | 52 |
| VII Eastern Visayas | 122 | 181 | 48 |
| IX Zamboanga Peninsula | 129 | 176 | 36 |
| X Northern Mindanao | 238 | 327 | 37 |
| XI Davao Region | 301 | 480 | 59 |
| XII SOCCSKSARGEN | 168 | 259 | 54 |
| XIII Caraga | 77 | 115 | 49 |
| ARMM | 23 | 25 | 9 |
| On-Site | | 21 | |
| Off-Site | | 4 | |
| Total | 8,458 | 12,224 | 45 |

Source: BSP

Table 3: Banking Services Coverage

| Region | 2011 | | 2012 |
|------------------------|-------------------------|------------------------|--|
| | Banks per 10,000 adults | ATMs per 10,000 adults | No. of persons served by each banking office |
| NCR | 3.5 | 5.1 | 4,066 |
| CAR | 1.3 | 1.1 | 11,840 |
| I Ilocos | 1.1 | 0.8 | 13,170 |
| II Cagayan Valley | 1.2 | 0.6 | 12,339 |
| III Central Luzon | 1.3 | 1.1 | 10,985 |
| IV-A CALABARZON | 1.6 | 1.6 | 8,979 |
| IV-B MIMAROPA | 1.0 | 0.4 | 16,212 |
| V Bicol | 0.7 | 0.5 | 20,198 |
| VI Western Visayas | 1.0 | 0.8 | 14,718 |
| VII Central Visayas | 1.2 | 1.4 | 12,231 |
| VII Eastern Visayas | 0.6 | 0.5 | 26,324 |
| IX Zamboanga Peninsula | 0.8 | 0.7 | 19,102 |
| X Northern Mindanao | 1.1 | 0.8 | 13,401 |
| XI Davao Region | 1.1 | 1.0 | 12,971 |
| XII SOCCSKSARGEN | 0.7 | 0.7 | 21,835 |
| XIII Caraga | 1.2 | 0.5 | 13,381 |
| ARMM | 0.1 | 0.1 | 195,174 |

Source: BSP

Table 4: Municipal Banking Presence

| Region | No banking presence | No banks but with alternative access points | No access points at all |
|------------------------|---------------------|---|-------------------------|
| NCR | 0 | 0 | 0 |
| CAR | 65 | 4 | 60 |
| I Ilocos | 27 | 11 | 18 |
| II Cagayan Valley | 27 | 5 | 22 |
| III Central Luzon | 8 | 7 | 2 |
| IV-A CALABARZON | 6 | 5 | 3 |
| IV-B MIMAROPA | 37 | 21 | 8 |
| V Bicol | 36 | 22 | 17 |
| VI Western Visayas | 21 | 25 | 2 |
| VII Central Visayas | 37 | 37 | 9 |
| VII Eastern Visayas | 70 | 44 | 39 |
| IX Zamboanga Peninsula | 63 | 25 | 28 |
| X Northern Mindanao | 35 | 6 | 29 |
| XI Davao Region | 20 | 4 | 12 |
| XII SOCCSKSARGEN | 34 | 10 | 15 |
| XIII Caraga | 29 | 3 | 25 |
| ARMM | 93 | 8 | 86 |

Source: Adopted from BSP [2012] Financial Inclusion Report

¹⁰⁴ The rural/cooperative banks are Bagong Bangko Rural ng Malabang Inc. (Lanao del Sur) and Rural Bank of Datu Paglas Inc. (Maguindanao).

¹⁰⁵ The figures in Table 4 – Municipal Banking Presence - refer to percentages.

The minimal presence of banking offices in the region could be partly attributed to the low level of household income, reinforced by the inability of a significant proportion of the population to readily access market centers where bank offices would normally be located because of the poor state of barangay or farm-to-market roads. The 2009 Family Income and Expenditure Survey (FIES) results tag the ARMM as the poorest region in terms of average household income, some 80% lower than the country average. As of the first semester of 2012, subsistence incidence among population is roughly three (3) times than that of national average and 20 times than of Metro Manila.

Another reason for the hesitance of investors to expand the banking network in ARMM is the security problem plaguing the region. This increases the risks and instabilities that financial institutions have to contend with. Political conflict, violence, and organized crimes (such as kidnap-for-ransom operations) disrupt banking and everyday economic activities.

Moreover, many conventional banking practices do not conform with the social and religious norms of the people of ARMM. In this respect, there is scope for providing banking services that respect Islamic *Shari'ah* principles. However, the one serious attempt to do this – the Al-Amanah Islamic Investment Bank – failed to take off.¹⁰⁶ No serious attempt has been made to encourage other Islamic banking models reflecting, among other things, inadequate expertise in Islamic banking and the lack of a coherent legal and a regulatory framework that can support banks in adhering to the Islamic *Shari'ah* principles, while still practicing prudentially sound measures.

Bank offices are usually located in urban areas where household incomes are higher and there is a wide customer base. Almost all of the banking offices operating in the ARMM (or within the vicinity of ARMM) are located in cities. In Basilan, for example, five (5) banks have offices in Isabel City (not part of ARMM). In Lanao del Sur, three (3) of its five (5) bank offices are in Marawi City. All the bank offices in Sulu are found in the capital, Jolo. Cotabato City (also not formally part of ARMM but host of the regional capitol), has the greatest banking presence, with about 13 banks having a total of around 18 offices.

¹⁰⁶ The reasons for the failure of Al-Amanah Bank are discussed in later section of this note.

| | |
|--|---|
| <p>Isabela City</p> <ol style="list-style-type: none"> 1 Allied Bank 2 Development Bank of the Philippines 3 Landbank 4 Metrobank 5 Philippine National Bank <p>Cotabato City</p> <ol style="list-style-type: none"> 1 Allied Bank - Cotabato City 2 Allied Bank - S.K. Pendatun 3 Banco De Oro - Cotabato City 4 Bank of the Philippine Islands - Cotabato Main 5 Bank of the Philippine Islands - SouthSeas Mall 6 Chinabank - Cotabato City 7 Development Bank of the Philippines - Cotabato City 8 EastWest Bank - Cotabato City 9 Landbank - Cotabato 10 Landbank - Rosary Heights 11 Landbank - Cotabato City Hall EO 12 Metrobank - Cotabato (Main) 13 Metrobank - Cotabato (Quezon Avenue) 14 Philippine National Bank - Cotabato City 15 Rizal Commercial Banking Corporation (RCBC) - Cotabato City 16 Rural Bank of Cotabato, Inc. 17 UCPB - Cotabato 18 Al Amanah Islamic Bank of the Philippines-Cotabato City | <p>Basilan</p> <ol style="list-style-type: none"> 1 UCPB Savings Bank <p>Lanao del Sur</p> <ol style="list-style-type: none"> 1 Landbank - Wao 2 Landbank - Marawi City 3 Philippine National Bank - Marawi City 4 Bagong Bangko Rural ng Malabang, Inc. 5 Al Amanah Islamic Bank of the Philippines-Marawi City <p>Maguindanao</p> <ol style="list-style-type: none"> 1 Landbank - Buluan 2 Landbank - Parang 3 Rural Bank of Datu Paglas, Inc. <p>Sulu</p> <ol style="list-style-type: none"> 1 Allied Bank - Jolo 2 Development Bank of the Philippines - Jolo 3 Landbank - Jolo 4 Metrobank - Sulu 5 Philippine National Bank - Jolo 6 Al Amanah Islamic Bank of the Philippines <p>Tawi-tawi</p> <ol style="list-style-type: none"> 1 Allied Bank - Tawi-Tawi 2 Landbank - Bongao 3 Philippine National Bank - Bongao |
| Sources: BSP; BPAP; various bank websites | |

Demand for Financial Services

Banks serve as an important link in the economy. They connect savers and borrowers, those who have excess cash to spare and those who need cash for business or personal purposes. For individual account holders, banks provide security of savings from theft or loss. Not many in the ARMM, however, avail themselves of banking services. As indicated earlier, this could be partially attributed to the low levels of household income and the limited scope for wealth accumulation in the region. It is also due to low accessibility. A survey by the Japanese International Cooperation Agency (JICA 2011) on ARMM business-owners reveals that only 32% of the respondents kept their money in banks while 78% kept their cash at home or in the business office.¹⁰⁷ Among the reasons cited by respondents for not opening a bank account was the distance from a bank.

Not surprisingly, ARMM has the lowest levels of bank deposits and loan portfolio in the country. ARMM's basic loan-deposit ratio of just over 11% is the lowest among all regions (See Table 5). This reflects the minor role that the banking system currently plays as a source of finance in the region. JICA's survey of business owners in the ARMM found that 83% of entrepreneur respondents used their own money

¹⁰⁷ JICA 2011. "Development Study on Local Industry Promotion in ARMM" Final report. Note some respondents had multiple answers, hence the numbers do not total 100.

for their initial funding while 34% of them received funding from family members, friends, or relatives. The same study observes that the entrepreneurs' borrowing experience in the past three (3) years had been very limited.

Table 5: Regional distribution of deposits and loans

| Region | Deposit Liabilities | Loan Portfolio |
|------------------------|---------------------|----------------|
| NCR | 3,581.17 | 2,908.34 |
| CAR | 52.216 | 7.065 |
| I Ilocos | 101.384 | 20.686 |
| II Cagayan Valley | 59.628 | 20.087 |
| III Central Luzon | 272.358 | 71.769 |
| IV-A CALABARZON | 379.55 | 67.114 |
| IV-B MIMAROPA | 30.485 | 8.782 |
| V Bicol | 64.036 | 19.822 |
| VI Western Visayas | 149.841 | 38.6 |
| VII Central Visayas | 264.501 | 69.031 |
| VII Eastern Visayas | 47.363 | 12.27 |
| IX Zamboanga Peninsula | 50.321 | 14.553 |
| X Northern Mindanao | 78.94 | 23.338 |
| XI Davao Region | 106.387 | 33.783 |
| XII SOCCSKSARGEN | 55.54 | 17.27 |
| XIII Caraga | 31.11 | 9.699 |
| ARMM | 3.891 | 0.435 |
| Total | 5,328.72 | 3,342.64 |

Source: BSP

Table 6: 2009 Family Income and Expenditure Survey Accounts

| Region | Income | Expense | Saving | Saving Rate (%) | Bank deposits/ Investments | Interest Income |
|------------------------|----------------|----------------|---------------|-----------------|----------------------------|-----------------|
| NCR | 356,194 | 308,976 | 47,218 | 13.26 | 16,639 | 561 |
| CAR | 218,805 | 174,482 | 44,323 | 20.26 | 19,072 | 460 |
| I Ilocos | 186,430 | 151,903 | 34,527 | 18.52 | 8,294 | 368 |
| II Cagayan Valley | 181,102 | 141,444 | 39,659 | 21.90 | 10,871 | 440 |
| III Central Luzon | 220,960 | 188,650 | 32,310 | 14.62 | 4,747 | 155 |
| IV-A CALABARZON | 248,600 | 212,633 | 35,967 | 14.47 | 8,541 | 71 |
| IV-B MIMAROPA | 141,346 | 120,574 | 20,773 | 14.70 | 3,041 | 278 |
| V Bicol | 151,973 | 137,042 | 14,932 | 9.83 | 4,903 | 187 |
| VI Western Visayas | 159,396 | 143,004 | 16,392 | 10.28 | 9,657 | 126 |
| VII Central Visayas | 183,724 | 151,857 | 31,867 | 17.35 | 3,346 | 168 |
| VII Eastern Visayas | 160,267 | 128,220 | 32,047 | 20.00 | 8,776 | 182 |
| IX Zamboanga Peninsula | 144,129 | 115,712 | 28,417 | 19.72 | 10,629 | 119 |
| X Northern Mindanao | 164,769 | 139,064 | 25,705 | 15.60 | 6,065 | 154 |
| XI Davao Region | 165,577 | 141,527 | 24,050 | 14.52 | 6,298 | 176 |
| XII SOCCSKSARGEN | 153,687 | 131,798 | 21,888 | 14.24 | 7,586 | 417 |
| XIII Caraga | 148,530 | 125,330 | 23,200 | 15.62 | 7,212 | 116 |
| ARMM | 112,655 | 97,854 | 14,801 | 13.14 | 1,315 | 58 |
| Philippines | 206,179 | 175,551 | 30,628 | 14.86 | 8,338 | 238 |

Source: 2009 Family Income and Expenditure Survey

The low loan deposit ratio also indicates that there are not many opportunities for lending and/or banks are hesitant to lend to begin with. The limited extent of opportunities for lending can be proxied from the extent of economic activities reflected in the regional national income accounts and the Annual Survey of Philippine Business and Industry (ASPBI) conducted by the National Statistics Office.

From 2010 to 2012, the ARMM's economy accounted for only 0.8% of the country's GDP.¹⁰⁸ In terms of composition, agriculture, hunting, fishing and forestry (AHFF) accounted for 61.9% of ARMM's economy in 2012 as compared to the national average of 11.1%. Of all regions in the country, it is only ARMM where the contribution of AHFF is largest. The industry sector only contributed 5.3% (vis-à-vis the national average of 32%) and the services sector, 32.8% (national average is 56.9%). The drivers in ARMM's services sector were public administration and defense and compulsory social security, accounting for 11.6% of the regional GDP – the third largest sub-sector of the region's economy after agriculture and forestry (47%) and fishing (15%).

¹⁰⁸ National Statistical Coordination Board www.nscb.gov.ph.

Table 7:

| INDUSTRY/YEAR | 2010 | 2011 | 2012 |
|---|---------------|---------------|---------------|
| I. AGRI., HUNTING, FORESTRY & FISHING | 64.55 | 63.37 | 61.92 |
| a. Agriculture and Forestry | 49.02 | 47.55 | 47.00 |
| b. Fishing | 15.53 | 15.83 | 14.92 |
| II. INDUSTRY SECTOR | 4.79 | 5.44 | 5.32 |
| a. Mining and Quarrying | 0.22 | 0.23 | 0.23 |
| b. Manufacturing | 1.10 | 1.14 | 1.17 |
| c. Construction | 0.68 | 1.18 | 1.06 |
| d. Electricity, Gas and Water Supply | 2.78 | 2.88 | 2.87 |
| III. SERVICE SECTOR | 30.66 | 31.19 | 32.76 |
| a. Transport, Storage & Communication | 3.36 | 3.44 | 3.68 |
| b. Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods | 0.94 | 0.95 | 0.98 |
| c. Financial Intermediation | 2.22 | 2.28 | 2.49 |
| d. R. Estate, Renting & Business Activities | 7.23 | 7.39 | 7.66 |
| e. Public Administration & Defense; Compulsory Social Security | 11.27 | 11.11 | 11.62 |
| f. Other Services | 5.64 | 6.02 | 6.32 |
| GROSS DOMESTIC PRODUCT | 100.00 | 100.00 | 100.00 |

Source : National Statistical Coordination Board

Further, the bulk of activity in all these sectors are in informal and small and medium scale activities. The 2010 ASPBI counted only seven (7) establishments in ARMM employing 20 or more persons in agriculture, forestry and fishing, all of which were involved in either growing Cavendish bananas or growing rubber trees. They had a total output of about PhP1.1 billion and value-added of PhP458 million.¹⁰⁹

The survey also counted only five (5) manufacturing establishments in ARMM employing 20 or more persons. Of these, three (3) were involved in manufacturing starches and starch products, one (1) in manufacturing refined coconut and other vegetable oils and margarine, and one (1) in manufacturing veneer sheets and plywood.

Stability, Property Rights, and Financial Services

Even if the business opportunities in the region show promise of materializing, security issues stand in the way for banks to actually lend. The eruption of violence can disrupt business operations, and affect the ability of firms to pay back bank loans. The JICA report details cases of these. The Kidapawan branch of the Land Bank of the Philippines (LBP), for example, had a past due rate as high as 75% when businesses had to suspend operations due to the conflict. Anecdotal evidence from the experience of BJ Coconut Oil Mill also points out that the owner was able to procure a loan from the LBP only after the respective provincial commanders of the

¹⁰⁹ Agriculture and forestry contributed about PhP44.6 billion (in current value) to ARMM's GDP in 2010.

Armed Forces of the Philippines (AFP) and the Philippine National Police (PNP) provided him hand-written certificates of guarantee of protection for the firm.¹¹⁰

Property rights issues also pose direct challenge for banks. Banks normally ask for collateral and land readily comes in handy for the purpose. Agumil Investments Inc. (see Habito 2012), a palm oil manufacturer in Maguindanao, was turned down for a loan by the Development Bank of the Philippines (DBP) because of concerns over land titles. JICA found that a plan to operate a large-scale palm oil plantation in Lanao del Sur was suspended due to issues with land titles. Even many microfinance institutions (MFIs) limit agricultural loans to those with proper land titles (JICA 2011).

The issue on property rights is not limited to lending. The far larger issue is the negative impact of conflicts related to the ownership and control of land and natural resources on law and order in the region and, in turn, on the level of economic activity.¹¹¹

Banking Regulation

R.A. 8791 or the General Banking Law of 2000, mandates that the “operations and activities of banks shall be subjected to the supervision of the *Bangko Sentral*.”¹¹² The BSP, its regional offices and their respective branches¹¹³ are, among other things, tasked to perform assistance in supervising the operations of banks in the respective regions, as well as to perform functions as cash operations, cash administration, loans and rediscounting, and gold buying.

While R.A. 9054 (Organic Act for the ARMM) provides the legislation for establishment of a Bangko Sentral Regional Bank in the capital city or any suitable municipality¹¹⁴ in the region, this has not yet materialized. There is, however, a branch office of the BSP in Cotabato City (not strictly ARMM although host of the ARMM Regional Government) under the Davao BSP Regional Office.

For a branch of a regional office to be opened, there are certain criteria to be met.¹¹⁵ First, an area must have significant economic activity. It must have at least 15 bank

¹¹⁰Habito, C. [2012]*Braving it and making it: Insights from successful investors in Muslim Mindanao*, ARMM Regional Board of Investments, ARMM Business Council, Management Association of the Philippines.

¹¹¹ National Economic and Development Authority (NEDA) [2010] “Mindanao Strategic Development Framework 2010-2020” Regional Development Office.

¹¹² Section 4, RA 8791.

¹¹³ There are only three BSP regional offices: La Union, Cebu and Davao. Davao has branches in the cities of Cagayan de Oro, Cotabato, General Santos, Ozamis, and Zamboanga.

¹¹⁴Section 30, RA 9054.

¹¹⁵ BSP [2013] “Branching Operations”, Available at <http://121.127.5.21/downloads/Publications/FAQs/branch.pdf>

branches, at least 20 non-bank financial institutions, and at least a PhP 5 billion deposit base. Economic activity is also gauged in terms of the presence of a significant industry and service sectors. Among the factors considered by the BSP is the presence of a business development plan for the region. Second, there has to be infrastructure support – such as regular land, air or water transport facilities, and reliable telecommunications facilities – and the absence of significant security risks. Third, the area should not be in the catchment area of an existing BSP regional or branch office.¹¹⁶

Alternative Sources of Financing

Microfinance Institutions

While banks may be out of reach for most locals, micro-finance institutions (MFIs) step into the picture as providers of financial services. From 2009 to 2012, the Philippines was ranked first worldwide by the Economist Intelligence Unit in terms of policy and regulatory framework in microfinance.¹¹⁷

MFIs target certain sectors of the economic stratum, especially women and the marginalized. As such, the MFIs do social service in providing finance to sectors that conventional banks overlook. This social enterprise of lending to the poorest of the poor, rural fisher folks, and subsistence farmers, can be a catalysts for more financial inclusion and, more generally, economic inclusion.

In 2011, JICA identified 13 MFIs and two (2) rural banks that provided microfinance services in the ARMM. Together, they provided financial services to around 22,000 beneficiaries (or 4% of ARMM's population) and covered 34 municipalities (or 29% of ARMM's municipalities).

Two (2) rural banks – the Rural Bank of Datu Paglas in Maguindanao and Bagong Banko Rural ng Malabang Inc. of Lanao del Sur – have benefited from technical assistance programs of the Rural Bankers Association of the Philippines. These programs fall under the Microenterprise Access to Banking Services (MABS) funded by USAID. The Rural Bank of Cotabato is also a recipient of MABS. The technical assistance program helped these rural banks in setting up and implementing profitable microfinance operations.

Like commercial banks, MFIs also face the problem of security. Armed conflict results in disruptions of business operations, making it difficult for any borrower to repay. In the case of MFI borrowers, money borrowed may be diverted to

¹¹⁶ also, a new branch should not be within a 100 km radius of any existing regional office or branch,

¹¹⁷ Bangko Sentral ng Pilipinas [2012] "BSP Financial Inclusion Initiatives 2012", December 5, 2012.

consumption instead during the period of conflict (Rivera, 2003).¹¹⁸ Their operations and expansion plans are also compromised. The security situation makes it difficult for the MFIs to handle cash transactions in the absence of a branch network. Kidnapping is also a concern – among the bad experiences is the kidnapping of an MFI official in Basilan.¹¹⁹

Islamic Banking

Islamic banking is yet to gain a strong foothold in Muslim Mindanao. As mentioned earlier, credit is not readily available in a manner consistent with Islamic *Shari'ah* principles, making it difficult for Muslims in the Bangsamoro to live in full accord with Islam.

So far, the only Islamic bank in the country is the Al-Amanah Islamic Investment Bank¹²⁰, but its efforts have not been very successful, and it has had to resort to commercial banking practices to stay afloat. Al-Amanah was set up in 1973 under its own specific act – R.A. 6864 (Charter of Al-Amanah Islamic Investment Bank of the Philippines). Its head office is in Zamboanga City, and it has nine (9) branches (including one in Makati) with assets of a little over PhP 700 million, 70% of which are still due from the BSP. It no longer is operating effectively as an Islamic bank. A BSP official describes Al-Amanah's operations as small scale, owing to its limited presence.¹²¹

In 2008, DBP took over 69% of the shares of Al-Amanah and commenced a five-year rehabilitation program with the aim of shifting it back to Islamic banking as soon as possible. Personnel have been sent to Malaysia for training with the Islamic Financial Services Board (IFSB), a standard setting organization which issues global prudence standards and guiding principles for Islamic financing (banking, capital markets, and insurance). The aim is for Al-Amanah to be an accredited member/observer of IFSB. DBP now wishes to privatize Al-Amanah, and expects it could be fully operational and geared to effectively serve the market again by 2015.

A weak regulatory framework for Islamic banking has been cited as one of the main obstacles for the development of Islamic banking in the country. R.A. 6864 is specific

¹¹⁸ Rivera [2003] "Managing risk and sustainability in microfinance: War and its impact on microfinance clients and NGOs in the Philippines", ORPAS Institute of Social Studies, Working Paper Series No. 375.

¹¹⁹ Davao Today, 10 July 2010, "Microfinance group wary of conflicts in the ARMM" Available at <http://davaotoday.com/main/2010/07/10/microfinance-group-wary-of-conflicts-in-the-armm/>

¹²⁰ In the General Banking Law of 2000 (RA 8791), "Islamic banks" are a separate classification of banks like universal banks and commercial banks. RA 8791 refers to RA 6864 (Charter of Al-Amanah Islamic Investment Bank of the Philippines) for the definition of an Islamic bank. RA 6864, in turn, defines Islamic banking as the "banking business whose aims and operations do not involve interest (riba), which is prohibited by the Islamic *Shari'ah* principles."

¹²¹ Business World, 24 September 2013, "BSP eyes regulations for Islamic finance."

to Al-Amanah, and no other law provides for the setting up and regulation of Islamic banking, whether government or privately-owned. Therefore, legislation encouraging the founding of other Islamic banks would have symbolic value (World Bank, 2005). Alternatives to specialized Islamic banking institutions like Al-Amanah, such as Islamic finance windows in conventional banks, would create more options for developing Islamic finance in Muslim Mindanao and elsewhere in the country. Accordingly, the BSP is proposing amendments to the Central Bank Act of 1993 (or a separate law) so as to include provisions for the regulatory framework for Islamic banking.¹²²

Of course, laws and regulations alone will not be enough. The institutional and other arrangements for a sound *Shari'ah* governance system will have to be set up, including the enumeration of guiding principles for the conduct of business, risk management, corporate governance, etc. A concerted effort will also have to be made to educate the Islamic population on the nature of the Islamic financial instruments available, and how they can be accessed and utilized to their benefit.¹²³

While Islamic banking offers huge potential for Muslim Mindanao investors, Islamic microfinance can perform a complementary role to the unbanked segments of the population. Like Islamic banking, Islamic microfinance has to adhere to Islamic finance principles, and the *Shari'ah* governance system would have to ensure that it is effectively covered.

Development Banks

There are a number of projects sponsored by the international donor community that provide funds – directly and indirectly – to support business activities in the conflict affected areas, some of which are part of Mindanao-wide or national programs. The Asian Development Bank (ADB) and Japan, for example, have put in place a program of support for agribusiness, which involves providing some 2,000 householders with financial support based on Islamic financing modes, such as non-interest bearing loans. DBP and Al-Amanah Bank are contributing to this facility. The ADB has also supported microfinance in the Philippine countryside through the Rural Microenterprise Finance Project, with a focus on the 20 poorest provinces. However, due to the lack of qualified MFIs in Sulu, Basilan and Tawi-Tawi, the project did not reach these areas¹²⁴. The Growth with Equity in Mindanao Program

¹²² As well as banking, other areas of Islamic financing, principally *Shari'ah*-compliant capital market instruments and insurance, will need to be provided for in the legislative and regulatory base.

¹²³ ADB and Islamic Development Fund set up an Islamic Infrastructure Fund in mid-2009. According to an ADB press release, this Fund, targeted at \$500 million, will make *Shari'ah*-compliant equity investments in the 12 countries that are borrowing members of both development banks. To date, there has been no call on this fund in the Philippines.

¹²⁴ ADB [2006] "Project Performance Evaluation Report on Rural Microenterprise Finance Project in the Philippines" Operations Evaluation Department.

(GEM) of USAID has helped proponents of projects in ARMM obtain funds through bank loans and joint venture investments.

The two (2) government development banks, LBP and DBP, both have a presence in ARMM, though limited. LBP is more active than DBP in the region. The LBP has some 10 offices throughout ARMM (including Isabela City and Cotabato City), while DBP has only three (3) offices. DBP has no office in Lanao del Sur, Maguindanao, and Tawi-Tawi provinces, while LBP has five (5) branches in these locations. Although there is only one DBP office in Cotabato City, there are three (3) LBP offices. Neither bank has offices in Basilan outside Isabela city. Furthermore, government transactions, including handling of the employee payroll, are coursed through the LBP.

DBP and LBP have provided funds to some of the larger entities. LBP, for example, provided funds to grower cooperatives for palm oil (through its Innovative Financing Scheme) production for the Agumil project in Maguindanao.¹²⁵

It is therefore crucial for these two (2) government banks to step in and have a stronger and more visible presence in the ARMM region. DBP has been envisioned to raise the country's economic competitiveness by supporting infrastructure development, responsible entrepreneurship, and efficient social services and protection of the environment.¹²⁶ LBP, meanwhile, has a "social mandate of promoting countryside development" by targeting specific sectors such as fisherfolk, farmers and other priority sectors.¹²⁷ Across the nation, LBP does this indirectly by providing financial and technical support to cooperatives and rural banks.¹²⁸ However, there is still much room for ARMM to benefit from the developmental objectives of both LBP and DBP.

¹²⁵ It is interesting to note that DBP did not participate – it was willing to provide loans to individual borrowers, but only if land titles could be produced as collateral.

¹²⁶ DBP [2011] Annual Report

¹²⁷ LBP [2011] Annual Report

¹²⁸ Interview with Ms Ma. Celeste A. Burgos, Group Head, LBP Mindanao Lending Group

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Interview:

Ma. Celeste Burgos (Land Bank of the Philippines) on October 114, 2013.

Ikram Tawasil (National Commission on Muslim Filipinos) on September 24, 2013

Working Paper No. 8

PHYSICAL INFRASTRUCTURE IN THE ARMM¹²⁹

Introduction

Adequate and sustainable land, sea, air and communications connectivity is critical in the efficient operations of any business activity, whether serving the local or foreign markets. The geography of the Bangsamoro poses particular challenges.

This brief paper explores the status of the road, sea, air, energy and telecommunication infrastructure in the Autonomous Region in Muslim Mindanao (ARMM). The underlying data shows that ARMM has reasonable national road infrastructure, with a pavement ratio higher than the national ratio. It has base seaports that have been improved and rehabilitated. It has airports that could provide rapid passenger and cargo movements from and to other regions. It has a telecommunication system that connects people through local telephone networks and nationwide carriers, and via wireless communication. Moreover, it has potential energy sources that could provide a stable power supply to the entire region.

While within ARMM the national road infrastructure is on its way to being completely paved, paved farm-to-market roads are negligible. Non-paved farm-to-market roads are frequently unusable, and many areas have no road access at all. The base seaports do not have adequate facilities despite the improvements and rehabilitations. There is no direct sea or air connectivity between island provinces and the mainland provinces. Power outages are common, and system distribution losses are excessively high. While most barangays have access to electricity, there are many households that have no connection. The potential energy sources still remain largely untapped. Drainage and flood control infrastructures are lacking in vulnerable watershed and river basin areas. The landline communication connections are limited only to capital towns or city. The prospect for attracting new private investment and the expansion of existing businesses will be very much dependent on dealing effectively with these infrastructure deficiencies.

¹²⁹ Prepared by *Apashra R. Tulawie, CPA, MDE.*

Transport Networks

Road Transport

National and Provincial Roads and Bridges

Roads are classified administratively into national roads, provincial roads, city roads, municipal roads and barangay roads. The national roads in ARMM are under the administration of Department of Public Works and Highways (DPWH)-ARMM and the rest are administered by the concerned Local Government Units (LGUs). Roads are also classified into function.

The 2010 Japan International Cooperation Agency (JICA) study “Infrastructure (Road Network) Development Plan for the Autonomous Region in Muslim Mindanao” showed that ARMM in 2010 had 891 kilometers of national roads and 177 kilometers of provincial roads (excluding provincial roads in island provinces). Some 77% of the national roads were paved, the remainder being just gravel and earth (Table 1).

The study found that the mainland provinces of ARMM had a higher pavement ratio (82%) than the island provinces (68%), and that ARMM had the highest pavement ratio in Mindanao and a higher ratio than the national average (72%).

Table 1. ARMM: Inventory of National and Provincial Roads as of 2010

| | | | | National Road | | | Prov. Road | | |
|--------------------|------------------|---------------|-------|------------------|------------|------------------|-----------------|---------------|------------------|
| | | | | National Road | Prov. Road | PCC | Asp. | Gravel& Earth | PCC |
| Mainland | Lanao del Sur I | 133.7 | 8 | 94.7 | 0 | 39 | 6 | 0 | 2 |
| | Marawi City | 27.1 | 0 | 27.1 | 0 | 0 | 0 | 0 | 0 |
| | Lanao del Sur II | 161.5 | 19 | 138 | 0 | 23.5 | 14.2 | 0 | 4.8 |
| | Maguindanao-I | 146 | 113.3 | 125.6 | 0 | 20.4 | 13.9 | 0 | 99.4 |
| | Maguindanao-II | 98.5 | 37.2 | 65.4 | 12.4 | 20.7 | 25.5 | 0 | 11.7 |
| | Sub Total | 566.8 | 177.5 | 450.8 | 12.4 | 103.6 | 59.6 | 0 | 117.9 |
| | | | | 79.5% | 2.2% | 18.3% | 33.6% | 0% | 66.4% |
| Island | SULU-1 | 91.6 | 0 | 82 | 0 | 9.6 | - | - | - |
| | SULU-2 | 45.2 | 0 | 25.2 | 6 | 14 | - | - | - |
| | Tawi-Tawi | 42.9 | 0 | 26.8 | 0 | 16.1 | - | - | - |
| | Basilan | 144.2 | 0 | 80.2 | 0 | 64 | - | - | - |
| | Sub Total | 323.9 | 0 | 214.1 | 6 | 103.7 | - | - | - |
| | | | | 66.1% | 1.9% | 32.0% | | | |
| GRAND TOTAL | | 890.7 | 177.5 | 683.4 (76.7%) | | 207.3 (23.3%) | 59.6 (33.6%) | | 117.9 (66.4%) |
| | | 1068.1 | | 890.7 | | | 177.5 | | |

Source: JICA Study on Infrastructure (Road Network) Development Plan for ARMM

The JICA study also found that in the mainland provinces of ARMM, 71% of national roads were in good or fair condition, with a similar figure for the island provinces. (Table2). Some 68% of the provincial roads in the mainland provinces were also found to be in good or fair condition; unfortunately, similar data on provincial roads in the island provinces is not available.

Of the 173 national bridges in ARMM (of which around 70% are in mainland provinces), only eight (8) were in good condition and 112 structurally sound. Only eight (8) of the national bridges were in good condition and 112 fairly structurally sound. All of the 16 provincial bridges in the mainland provinces were fairly structurally sound.¹³⁰

Table 2. ARMM: Road Condition of Paved Roads as of 2010

| | | National Roads | | | Provincial Roads | | |
|--------------------|------------------|----------------|---------------|---------|------------------|--------------|---------|
| | | Good/Fair | Bad/Very Bad | Unknown | Good/Fair | Bad/Very Bad | Unknown |
| Mainland | Lanao del Sur I | 66.5 | 27.7 | 0.5 | 0.8 | 1.2 | 4 |
| | Marawi City | 10.1 | 10.4 | 6.6 | 0 | 0 | 0 |
| | Lanao del Sur II | 112.1 | 25.9 | 0 | 6 | 8.2 | 0 |
| | Maguindanao-I | 95.3 | 30.3 | 0 | 9.3 | 4.6 | 0 |
| | Maguindanao-II | 46.7 | 31.1 | 0 | 24.5 | 1 | 0 |
| | Sub Total | 330.7 | 125.4 | 7.1 | 40.6 | 15 | 4 |
| | | 71.40% | 27.10% | 1.50% | 68.10% | 25.20% | 6.70% |
| Island | SULU-1 | 53.2 | 11.2 | 17.6 | 0 | 0 | 0 |
| | SULU-2 | 16 | 4.8 | 10.4 | 0 | 0 | 0 |
| | Tawi-Tawi | 17.2 | 5 | 4.6 | 0 | 0 | 0 |
| | Basilan | 68.9 | 5.9 | 5.4 | 0 | 0 | 0 |
| | Sub Total | 155.3 | 26.9 | 37.9 | 0 | 0 | 0 |
| | | 70.50% | 12.20% | 17.20% | - | - | - |
| GRAND TOTAL | | 486.0 (71.1%) | 152.3 (22.3%) | 45.0 | 40.6 | 15.0 | 4.0 |
| | | 71.1% | 22.3% | 6.6% | 68.1% | 25.2% | 6.7% |
| | | 683.4 | | | 59.6 | | |

Source: JICA Study on Infrastructure (Road Network) Development Plan for ARMM

¹³⁰ As in provincial roads, only provincial bridges in the mainland provinces were covered by the JICA study.

A more detailed look at the JICA study suggests that the ARMM mainland provinces are adequately linked by road to the other regions in Mindanao. Most of these roads are in fairly good condition – in 2010, some 78% of the national roads providing connectivity were paved, and about 72% of the paved roads were in good or fair condition (Table 3).

Table 3. Road Connectivity of Mainland ARMM to Other Regions, 2010

| Mainland Provinces | Name of Road | Station No. | | National Road Length | Pavement Type | | | | Pavement Condition (C, A) | | | |
|--------------------|---|----------------|-------------|----------------------|---------------------------------------|-------------------------------|--------------------|----------------|---------------------------|-------|-------|----------|
| | | Beginning (kp) | Ending (kp) | | Portland Cement Concrete Pavement (C) | Asphalt Concrete Pavement (A) | Gravel Surface (G) | Earth Road (E) | Good | Fair | Bad | Very Bad |
| Lanao del Sur | Iligan-Marawi Road | 1554+222 | 1558+483 | 4.200 | 4.20 | 0.00 | 0.00 | 0.00 | 0.00 | 0.10 | 1.40 | 2.70 |
| | Wao-Mulondo (Mulondo-Maguig sect) | 1582+952 | 1590+752 | 7.800 | 7.80 | 0.00 | 0.00 | 0.00 | 5.80 | 0.80 | 1.20 | 0.00 |
| | | 1590+752 | 1596+732 | 5.980 | 0.00 | 0.00 | 0.00 | 5.98 | -- | -- | -- | -- |
| | Wao-Mulondo Road (Bumbaran-Wao sect) | 1603+744 | 1614+644 | 10.900 | 10.90 | 0.00 | 0.00 | 0.00 | 10.60 | 0.00 | 0.30 | 0.00 |
| | | 1614+644 | 1639+044 | 24.400 | 0.00 | 0.00 | 0.00 | 24.40 | -- | -- | -- | -- |
| | Mulondo-Wao Road (Wao-BRD, North COT) | 1602+944 | 1623+344 | 20.400 | 17.30 | 0.00 | 3.10 | 0.00 | 11.60 | 2.90 | 2.30 | 0.50 |
| | Wao-Mulondo Road (Bumbaran-Talakag sect) | 1617+744 | 1623+444 | 5.700 | 0.50 | 0.00 | 0.00 | 5.20 | -- | -- | -- | -- |
| | Cotabato - Malabang-Lanao del Norte Road | 1095+680 | 1970+180 | 64.500 | 64.50 | 0.00 | 0.00 | 0.00 | 49.40 | 4.10 | 10.20 | 0.80 |
| | Ganassi Tubod Road | 1596+540 | 1607+540 | 11.000 | 5.20 | 0.00 | 5.80 | 0.00 | 2.90 | 1.30 | 1.00 | 0.00 |
| Maguindanao | Davao-Cotabato Road | 1716+050 | 1724+850 | 8.800 | 8.80 | 0.00 | 0.00 | 0.00 | 0.80 | 3.90 | 4.10 | 0.00 |
| | WYE Length Davao-Cotabato Road | 1724+503 | 1724+879 | 0.376 | 0.376 | 0.00 | 0.00 | 0.00 | 0.00 | 0.376 | 0.00 | 0.00 |
| | Cotabato-Lanao Road | 1854+502 | 1865+302 | 10.800 | 10.80 | 0.00 | 0.00 | 0.00 | 0.90 | 8.90 | 1.00 | 0.00 |
| | | 1876+351 | 1906+011 | 29.660 | 29.66 | 0.00 | 0.00 | 0.00 | 8.10 | 21.06 | 0.50 | 0.00 |
| | Cotabato-Lanao Road/BALUT BUDAKAN Section | 1865+103 | 1876+503 | 11.400 | 6.00 | 0.00 | 5.40 | 0.00 | 1.70 | 2.60 | 1.70 | 0.00 |
| | Lamsan-Simuay Jct. Road | 1862+750 | 1863+750 | 1.000 | 1.00 | 0.00 | 0.00 | 0.00 | 0.10 | 0.60 | 0.30 | 0.00 |
| | Marbel-Ala-Cotabato Road | 0000+000 | 0027+200 | 27.200 | 27.20 | 0.00 | 0.00 | 0.00 | 6.60 | 7.60 | 10.70 | 2.30 |
| | Marbel-Ala-Cotabato Road | 1789+285 | 1822+185 | 32.900 | 32.10 | 0.80 | 0.00 | 0.00 | 14.60 | 9.70 | 5.90 | 2.70 |
| | Awang-Upi-Lebak Road | 1845+215 | 1883+415 | 38.200 | 23.20 | 0.00 | 15.00 | 0.00 | 10.50 | 3.90 | 5.60 | 3.20 |
| | Awang-Upi-Lebak Road | 1822+200 | 1852+815 | 30.600 | 9.90 | 0.00 | 20.70 | 0.00 | 9.90 | 0.00 | 0.00 | 0.00 |
| | Dulawan-SSB-Marbel Road | 1722+523 | 1715+523 | 7.000 | 7.00 | 0.00 | 0.00 | 0.00 | 6.80 | 0.00 | 0.20 | 0.00 |
| | Kidapawan-Ala Jct. Road | 1644+758 | 1659+018 | 14.260 | 2.66 | 11.60 | 0.00 | 0.00 | 2.60 | 1.06 | 4.20 | 6.40 |
| | KABACAN-PAGALUNGAN | 1653+634 | 1667+334 | 13.700 | 13.70 | 0.00 | 0.00 | 0.00 | 1.00 | 1.00 | 2.90 | 8.80 |

Source: JICA Study on Infrastructure (Road Network) Development Plan for ARMM

The latest data sourced from DPWH-ARMM shows the inventory of national roads has now risen to 993 kilometers (from 891 kilometers in 2010) and the number of national bridges is now 210, covering a further eight (8) kilometers of road (Table 4).

The increase in both roads and bridges is due partly to the conversion of provincial roads to national roads and partly due to incomplete coverage of the JICA Study because of the peace and order situation in the island municipalities. The pavement ratio of ARMM national roads now stands at 81% (concrete and asphalt), up from 77% in 2010 and still higher than the current national pavement ratio.

All national roads in the ARMM are expected to be fully paved by 2014. Funding for some 71 kilometers of national roads for ARMM, amounting to PhP 1.5 billion, was included in the General Appropriations Acts of 2012 and 2013 for implementation by DPWH-ARMM. The DPWH-National has also addressed the ARMM national roads in the Transition Investment Support Program (TISP), with 38 kilometers being funded under the first tranche of the TISP-ARMM in 2011 (PhP 1.1 billion). Funding for another 71 kilometers is included in the second tranche of the TISP-ARMM (PhP 2.2 billion).

Table 4. ARMM: Inventory of National Roads and Bridges as of June 30, 2013

| District Engineering Offices | Total National Roads | | | | Bridges | | Total Roads & Bridges |
|------------------------------|----------------------|----------------|-----------------|------------------|------------|----------------|-----------------------|
| | Concrete | Asphalt | Gravel | Total | Number | Length | (Km) |
| | (Km) | (Km) | (Km) | (Km) | | (Km) | |
| Basilan | 125.2366 | 0.6667 | 28.0176 | 153.9209 | 35 | 1.0211 | 154.942 |
| Sulu I | 68.2987 | 0.24 | 21.336 | 89.8747 | 24 | 0.1953 | 90.07 |
| Sulu II | 38.68 | - | 6.22 | 44.9 | 5 | 0.04 | 44.94 |
| Tawi-Tawi | 52.63915 | - | 62.46 | 115.09915 | 10 | 0.39885 | 115.498 |
| Maguindanao I | 137.33698 | - | 7.262 | 144.59898 | 22 | 1.05417 | 145.65315 |
| Maguindanao II | 117.8297 | 9.446 | 10.4 | 137.6757 | 36 | 1.5721 | 139.2478 |
| Lanao del Sur I | 116.33105 | - | 29.604 | 145.93505 | 43 | 1.43795 | 147.373 |
| Lanao del Sur II | 146.2626 | - | 14.322 | 160.5846 | 35 | 1.0044 | 161.589 |
| ARMM Total | 802.61477 | 10.3527 | 179.6216 | 992.58907 | 210 | 6.72388 | 999.31295 |
| Percentage | 80.32 | 1.04 | 17.97 | 99.33 | - | 0.67 | 100 |

Source: DPWH-ARMM Planning Division

The maintenance of the national roads and bridges is the responsibility of DPWH-ARMM, except for national roads and bridges in the province of Basilan, where administration has not yet been fully devolved to ARMM.

The JICA Study also included a traffic and logistics survey, supplementing and updating traffic volume data of the DPWH-National Survey. It provides data on traffic flows by vehicle category and trade routes within ARMM, and between ARMM mainland provinces and the rest of Mindanao. The study also captured freight movements, and identified the influence area of logistic facilities such as

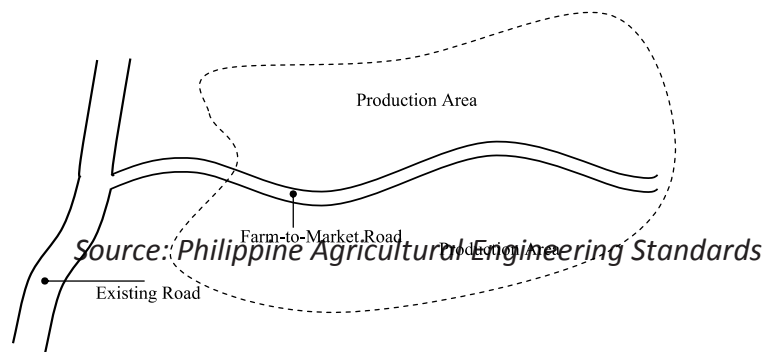
ports, airports, processing plants and transport companies. Annexes 2 to 18 details the recorded traffic and logistic flows.

Farm-to-Market Roads

There were only 5,626 kilometers of recorded farm-to-market roads in ARMM in 2005 (Joint Needs Assessment–Rural Development Report 2005), and only a negligible 1% of these were paved (Table 5). The National Economic and Development Authority (NEDA) also reported that in 2009, 35 kilometers of farm-to-market roads in ARMM were completed for the period 2001 to 2008.¹³¹ Allowing for additional construction through 2009 to 20013 at around the same rate, this would mean that there is currently around 5,700 kilometers of farm-to-market roads.

Farm-to-market roads refer to access roads that connect major road arteries to the agricultural production areas where farm produce are being mobilized and transported to the market by the farmers and fishermen. They are funded by DAR-ARMM and by DAF-ARMM. Those funded by DAR-ARMM are meant to improve accessibility to and from the Agrarian Reform Communities (ARC). The specific objective is to improve the mobility of rural people and their farm produce within and outward the ARC. Those funded by DAF-ARMM are access roads to production areas that are not classified as national, provincial, city or municipal, and the target beneficiaries are farmers in general.

Typical Location of Farm-to-Market Roads



¹³¹ Unfortunately, data is scant on the farm-to-market roads, handicapped in part by the difficulty of access to many areas in ARMM due to the conflict. However, the earlier data still provides a fairly reasonable picture of the current situation.

Table 5. ARMM: Farm to Market Roads as of 2005

| Provinces | Brgy Roads / FMR (Km) | Paved (Km) | Paved Ratio |
|-------------|-----------------------|------------|-------------|
| Lanao | 3,709.44 | 16.00 | 0.43 |
| Maguindanao | 1,050.00 | 35.00 | 3.33 |
| Basilan | 212.34 | 10.44 | 4.92 |
| Sulu | 655.00 | 18.00 | 2.75 |
| ARMM Total | 5,626.78 | 79.44 | 1.41 |

Source: Joint Needs Assessment – Rural Development Report

While there is connectivity and accessibility between provincial centers within the ARMM mainland provinces and with neighboring regions, connectivity between agricultural areas and markets and social services in provincial centers is minimal. Likewise, municipalities within each island provinces are also well connected by land, but rural constituents do not have easy access to basic social services and market facilities.

The ARMM Social Fund Project has tried to address this gap. It implemented and completed 2,262 community-based infrastructure projects covering 987 barangays as of 2011. The projects were aimed at increasing farmers' and rural productivity through the provision of post-harvest facilities and access roads. However, there are still 1,499 un-served barangays (60%) of the 2,490 barangays in ARMM.

The Department of Agriculture and Fisheries (DAF) in ARMM has also proposed concreting some 327 kilometers of farm-to-market roads in the five (5) provinces, targeting an influence area of 27,245 hectares by FY 2014 (see Table 6).

Table 6. ARMM: Proposed Farm-to-Market Roads, Concreting

| Provinces | Minor | | Major | | Total 2014 | |
|---------------|-------|---------------------|-------|---------------------|------------|---------------------|
| | Kms | Influence Area (Ha) | Kms | Influence Area (Ha) | Kms | Influence Area (Ha) |
| Basilan | 24 | 2480 | 37.7 | 2730 | 61.7 | 5210 |
| Sulu | 38.7 | 3870 | 59.3 | 4010 | 98 | 7880 |
| Tawi-Tawi | 17.4 | 2020 | 28.1 | 2070 | 45.5 | 4090 |
| Maguindanao | 24.4 | 2445 | 37.4 | 2640 | 61.8 | 5085 |
| Lanao del Sur | 23.4 | 2540 | 36.8 | 2440 | 60.2 | 4980 |
| ARMM Total | 127.9 | 13355 | 199.3 | 13890 | 327.2 | 27245 |

Source: DAF-ARMM

Sea transport

There are four (4) base ports, 11 sub-ports and five (5) private ports in ARMM (see Figure 1). Except for the base port intended to serve the ARMM mainland provinces – Polloc Port in Parang, Maguindanao – these ports are under the management and supervision of the Regional Ports and Management Authority (RPMA).

The three (3) ARMM island province base ports are Jolo Port in Sulu, Bongao Port in Tawi-Tawi, and the Lamitan Port in Basilan. The ARMM Social Fund Project (ASFP) implemented the rehabilitation and improvement of the Jolo Base Port Terminal in Sulu (at a cost of PhP 16.5 million) and the Bongao Base Port Terminal in Tawi-Tawi (at a cost of PhP 16.7 million). These World Bank-funded projects started in 2005 and were completed and functional by 2006. In 2010, the ASFP also carried out the expansion and improvement of Lamitan port (at a cost of PhP 18.5 million, funded by JICA); it was completed and functional by early 2012.

Other port projects that were funded by JICA through the ASFP were those in Tongkil and Pata. The Banguingui Rock Causeway Wharf in Tongkil, Sulu was constructed in 2009 (at a cost of PhP 19.1 million) and was functional by 2010. The Pata Sub-Port was improved in 2010 (at a cost of PhP 11.7 million) and was functional by 2011.

It is important to note that despite the existence of base ports in the ARMM mainland and island provinces, there is no vessel traversing directly between the island provinces and the mainland. Travel from island provinces to mainland ARMM is via Zamboanga City. Additionally, the base ports are not along the nautical highway (see Annex 1).

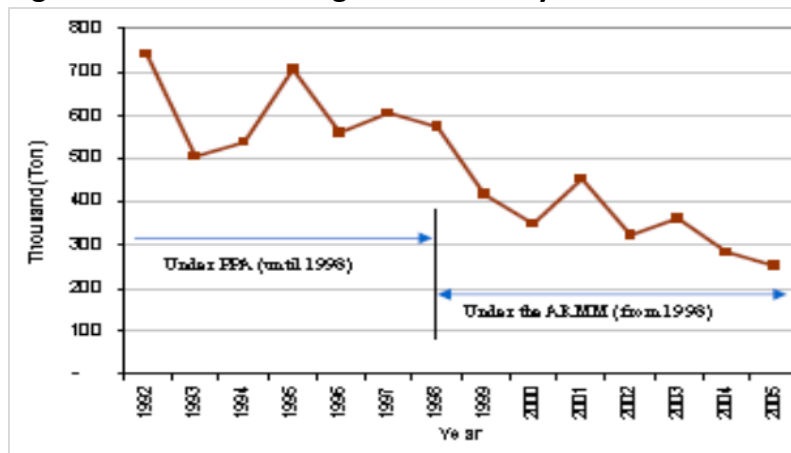
Figure 1. Sub-Ports and Private Ports Under the Administration of RPMA

| PMO - Jolo | PMO - Bongao | PMO - Lamitan | TMO - Malabang, LDS |
|--|---|---|---|
| <ul style="list-style-type: none"> • Sub-Ports <ul style="list-style-type: none"> • Siasi Sub - Port (Siasi) • Banguigui Sub - Port (Tongkil) • Pata Sub - Port (Pata) • Maimbung Sub - Port (Maimbung) • Private Ports <ul style="list-style-type: none"> • Jun D. Lan Private Port (Jolo) • Hji. Warid Private Port, Maubuh (Patikul) • Hji. Tanni Private Port, Maubuh (Patikul) • BJ Coco Mill, Baragay Buansa, Jolo | <ul style="list-style-type: none"> • Sub-Ports <ul style="list-style-type: none"> • Sitangkai Sub - Port (Sitangkai) • Cagayan De Tawi-Tawi (Mapun) • Chinese Sub - Port (Bongao) • Sibuto Sub - Port (Sibuto) • Taganak Sub - Port (Turtle Island) | <ul style="list-style-type: none"> • Sub-Port <ul style="list-style-type: none"> • Maluso Sub-Port (Maluso) | <ul style="list-style-type: none"> • Sub-Port <ul style="list-style-type: none"> • Malabang Sub-Port • Private Port <ul style="list-style-type: none"> • Matling Industrial Development, Malabang |

Source: Regional Port and Management Authority, ARMM

The Polloc Port is under the administration of the Port Management Office (PMO)-Polloc. Figure 2 below shows that the volume of cargoes handled by the Polloc Port has been steadily declining through to 2005.

Figure 2. Volumes of Cargoes Handled by Polloc Port



Source: JICA Study

To improve the delivery and movement of goods, a 6,000-meter access road in Polloc was rehabilitated and rubber fenders were installed at berthing area at a cost of PhP 23 million (funded by JICA also through the ASFP). The Polloc Port has been declared a free port making it the only free port in Mindanao. In 2010, ARMM

forged a trade arrangement with Malaysia (Sabah Business Council) and a Memorandum of Understanding to the effect was signed.

Despite the improvements implemented in the major ports, ARMM has not made any headway in moving goods through them. The recent JICA study¹³² listed the following problems:

- Exceeded life span of some concrete structures;
- Inadequate and dilapidated concrete pavements of port entry roadways;
- Inadequate cargo handling equipment (e.g., some use construction cranes for loading);
- Lack of provision for the RORO Transport System;
- Lack of provision for hazard and safety equipment (fire hydrants, fire extinguishers, medical aid kits and skull guards for utility workers); Lack of covered warehouse storage facilities;
- Lack of maintenance of the infrastructure facilities;
- Right of way problems for future expansion;
- Relocation problems for squatters in adjacent areas for future expansion;
- Lack of covered walkways for walk-in passengers;
- Lack of parking spaces for public utility passenger vehicles and the like; and
- Lack of the provision of cargo and passenger security measures (e.g., scanning equipment).

On a more general level, the high cost of inter-island shipping is one of the most critical factors affecting the competitiveness of ARMM and of Mindanao as a whole. Increased competition in inter-island shipping should be encouraged by the government to help alleviate this competitive disadvantage. One way is allowing international shipping to carry domestic cargo by repealing the Cabotage Law, which favors domestic shippers.

While there are questions about the efficacy of Roll on/Roll off (RORO) in many

¹³² Source: The Development Study on Local Industry Promotion (2011)

cases, there is a strong case to be made for expanding and improving the RoRo services between Zamboanga and the main ports in the Sulu Archipelago. Co-loading arrangements with agribusiness multinationals for the export shipment of fruits should also be encouraged. The government should support the provision of appropriate post-harvest and cold storage facilities at key ports, perhaps through appropriate public-private partnerships.

Air Transport

Airports are classified as international, principal class 1, principal class 2 and community airports.

Presently, ARMM has no international airport.¹³³ ARMM, however, has:

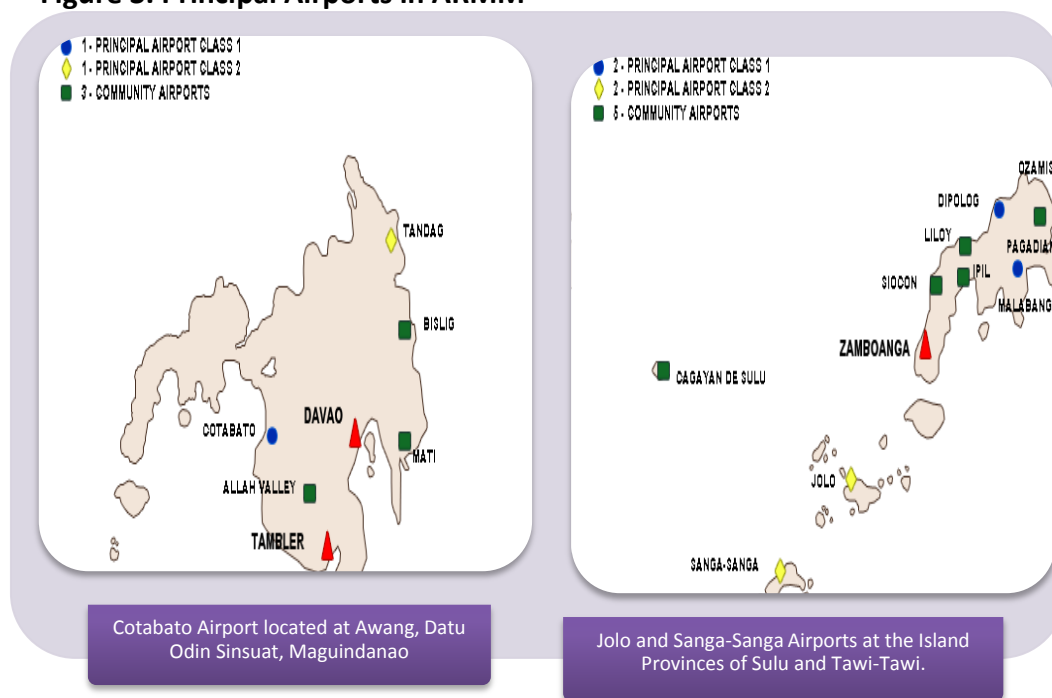
- One (1) principal class 1 airport located at Awang, Datu Odin Sinsuat (Maguindanao)
- Two (2) principal airports class 2 airports located at Bongao (Tawi-Tawi) and Jolo (Sulu)
- Two (2) community airports located at Cagayan de Sulu (Tawi-Tawi) and Malabang (Lanao del Sur)

The community airport in Malabang is reportedly no longer functioning.

Presently, there is no direct flight connectivity within ARMM. The island and mainland provinces are connected via flights through the Zamboanga-Manila-Cotabato route, the Zamboanga-Davao route, and the Zamboanga-Cagayan de Oro route.

¹³³ The international airports in Mindanao are located at the cities of Davao, General Santos and Zamboanga.

Figure 3. Principal Airports in ARMM



Source: Civil Aviation Authority of the Philippines

The ARMM air cargo traffic has been increasing (Table 7), but is still minimal. In 2010, it amounted to 1.5 million kilograms, or only about 0.3% of the total air cargo traffic of 563 million kilograms for the Philippines as a whole.

The volume of passengers in ARMM has also been increasing (Table 8). In 2010, 243,263 passengers passed through the ARMM airports. Almost 99% of the ARMM passenger traffic passed through the Awang Airport in Datu in Maguindanao, as it is the gateway to Central Mindanao.

Table 7. ARMM: Cargo Movement (in Kilograms)

| Airports | 2006 | 2007 | 2008 | 2009 | 2010 |
|-------------|-------------|-------------|-------------|-------------|-------------|
| Awang | 759,924 | 958,351 | 632,921 | 1,111,080 | 1,540,601 |
| Jolo | 11,124 | 9,256 | 13,496 | 17,197 | 20,081 |
| Sanga-Sanga | 6,839 | | | | 2,025 |
| ARMM Total | 777,887 | 967,607 | 646,417 | 1,128,277 | 1,562,707 |
| Philippines | 539,229,834 | 678,306,757 | 537,669,657 | 595,804,359 | 563,080,822 |
| Percentage | 0.14% | 0.14% | 0.12% | 0.19% | 0.28% |

Source: Civil Aviation Authority of the Philippines

Table 8. ARMM: Passenger Movement

| Airports | 2006 | 2007 | 2008 | 2009 | 2010 |
|-------------|------------|------------|------------|------------|------------|
| Awang | 125,539 | 127,198 | 104,535 | 199,133 | 219,104 |
| Jolo | 7,331 | 14,245 | 18,749 | 9,029 | 9,931 |
| Sanga-sanga | 2,410 | 14,489 | | 5,539 | 14,230 |
| ARMM Total | 135,280 | 155,932 | 123,284 | 213,701 | 243,265 |
| Philippines | 34,259,543 | 34,259,543 | 36,162,930 | 40,934,947 | 40,862,311 |
| Percentage | 0.39% | 0.46% | 0.34% | 0.52% | 0.60% |

Source: Civil Aviation Authority of the Philippines

Power

Electricity generation, transmission and distribution in ARMM cannot be looked in isolation of the Mindanao grid. In the Mindanao Strategic Development Framework 2010-2020 (NEDA), it was affirmed that energy security is one of the main concerns of the business sector and is key to the continued growth of ARMM and Mindanao.

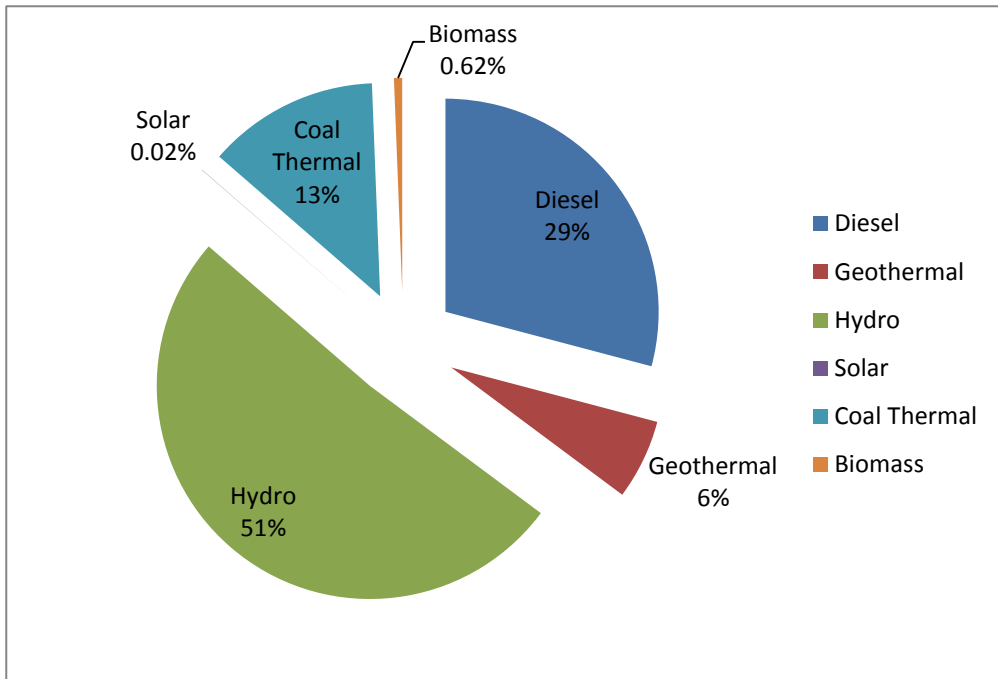
Electricity Generation

The entire island of Mindanao is supplied by 28 power plants, dominated by hydroelectric plants that account for more than 51% of the total dependable power.

Of the 826.1 megawatts (MW) of dependable capacity of all Mindanao hydroelectric plants, 20.8% is supplied by the two (2) Agus plants in the ARMM Province of Lanao del Sur. These two (2) plants are part of the Lanao-Agus river basin hydroelectric complex. The complex consists of six (6) plants¹³⁴ with an installed capacity of 727.1 MW, and account for almost 70% of all hydropower generation in Mindanao. Overall, ARMM power plants accounted for 27.3% of the installed and 22.9% of the dependable 2012 power generation capacity of Mindanao (Table 9).

¹³⁴ The other four plants are located in the province of Lanao del Norte

Figure 4 . Mindanao Power Generation by Type of Plant, 2012.



Data Source: DOE, www.doe.gov.ph/power-and-electrification/list-of-existing-power-plants

Table 9. Mindanao Power Generation by Type of Plant, 2012

| FACILITY TYPE | CAPACITY, MW | | | | PLANTS IN ARMM | | CONTRIBUTION TO MINDANAO (%) | |
|---------------|----------------|---------------|----------------|---------------|----------------|-----------------|------------------------------|--------------|
| | Installed | | Dependable | | Qty | Name | Installed | Depend. |
| Diesel | 625.0 | 30.5% | 470.0 | 29.1% | 1 | Cotabato Light | 1.6% | 2.1% |
| Geothermal | 108.5 | 5.3% | 98.0 | 6.1% | 0 | -none- | - | - |
| Hydro | 1,047.0 | 51.1% | 826.1 | 51.2% | 2 | AGUS 1 & AGUS 2 | 25.7% | 20.8% |
| Large Hydro | 1,024.7 | 50.0% | 812.0 | 50.3% | 2 | AGUS 1 & AGUS 2 | 26.3% | 21.2% |
| Small Hydro | 22.3 | 1.1% | 14.1 | 0.9% | 0 | -none- | - | - |
| Solar | 1.0 | 0.05% | 0.3 | 0.02% | 0 | -none- | - | - |
| Coal Thermal | 232.0 | 11.3% | 210.0 | 13.0% | 0 | -none- | - | - |
| Biomass | 35.9 | 1.8% | 10.0 | 0.6% | 0 | -none- | - | - |
| TOTAL | 2,049.4 | 100.0% | 1,614.4 | 100.0% | 3.0 | | 27.3% | 22.9% |

Data Source: DOE, www.doe.gov.ph/power-and-electrification/list-of-existing-power-plants

The details of the three (3) ARMM power plants are presented in the following table.

Table 10. List of Power Plants in ARMM

| FACILITY NAME | TYPE | CAPACITY, MW | | NO OF UNITS | OWNER | LOCATION |
|----------------|--------|--------------|------------|-------------|------------------------------------|----------------------------|
| | | Installed | Dependable | | | |
| AGUS 1 | Hydro | 80 | 50 | 2 | PSALM/ NAPOCOR | Marawi City, Lanao del Sur |
| AGUS 2 | Hydro | 189 | 122 | 3 | PSALM/ NAPOCOR | Saguiran, Lanao del Sur |
| Cotabato Light | Diesel | 10 | 9.9 | 6 | Cotabato Light/ Aboitiz Power Corp | Cotabato |

Source: Source: DOE, 2012 List of Existing Plants – Mindanao, www.doe.gov.ph/power-and-electrification/list-of-existing-power-plants (September 2013)

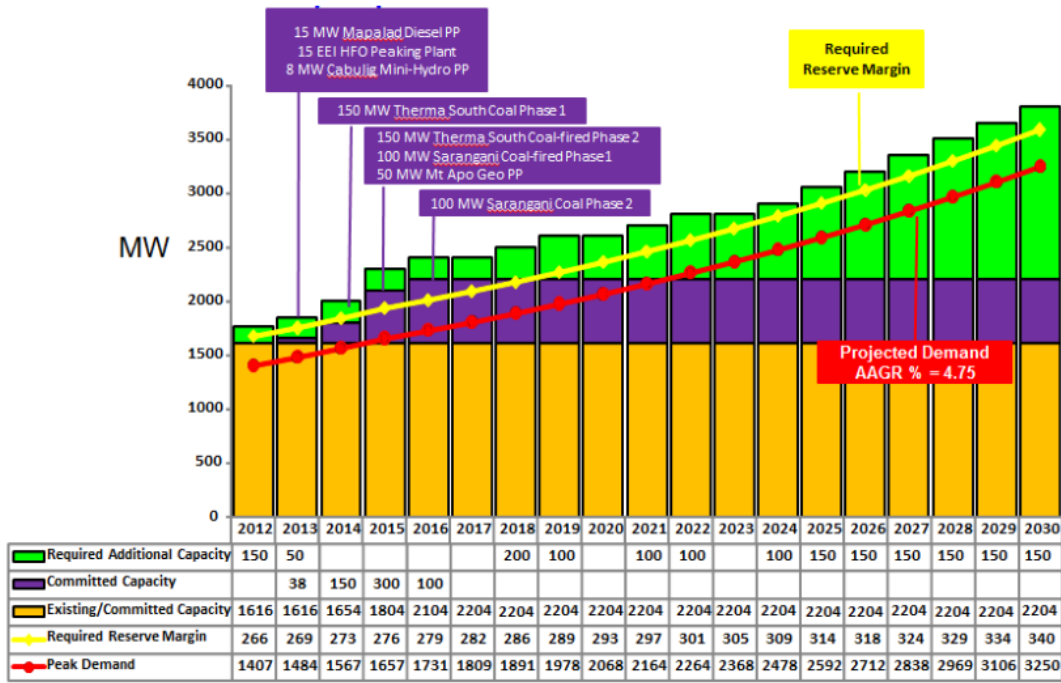
There is also a 950- kilowatt (kW) mini-hydropower projects in Basilan, and 12 diesel-fired generator sets with a total installed capacity of 27 MW operating in ARMM. Some enterprises have their own back-up generators.

Electricity Demand and Supply

Although the Mindanao grid has experienced under generation since 2010, of the three (3) energy grids in the country, it has the largest growth rate projection.¹³⁵ At an average expected annual growth rate of 4.75%, 1,600 MW of additional capacity will be needed by 2030 to meet the electricity demand and the required reserve margin of the grid.

¹³⁵ DOE, 2013. *2013 Supply-Demand Outlook*, <http://www2.doe.gov.ph/news/2013%20Supply-Demand%20Outlook.pdf>

Figure 5. Mindanao Grid Supply-Demand Outlook, 2012-2030



In the summer of 2010, Mindanao began experiencing power shortages due mainly to an inadequate baseload capacity¹³⁶ compounded by the decrease in the available capacity of the government-owned hydro plants.¹³⁷ Factors that have exacerbated the decrease in hydropower generation include climate change, the El Niño and degradation of Mindanao’s watersheds.¹³⁸ Navarro (2012) further posits that the siltation in the Agus River and the Pulangui River, alongside delays in the rehabilitation and maintenance of the Agus and Pulangui hydropower complexes have also added to the continuing Mindanao electric power crisis.¹³⁹

In addition, the Department of Energy (DOE) estimates that there are still barangays in Mindanao without electricity. These barangays can be found in the ARMM provinces of Maguindanao (12 barangays) and Lanao del Sur (seven barangays)¹⁴⁰.

¹³⁶ Baseload capacity is the minimum amount of power that a power plant must make available for distribution

¹³⁷ Navarro, Adoracion M., November 2012, *The urgent need to increase baseload generating capacity in Mindanao*, PIDS Policy Note No. 2012-17

¹³⁸ NEDA, 2010. *Mindanao Strategic Development Framework 2010-2020*, p.9

¹³⁹ Navarro, p.2.

¹⁴⁰ NEDA, 2010, p.20

Electricity Distribution

The power generated in ARMM, through its two (2) hydroelectric plants, one (1) diesel power plant and several power barges, combined with the power generated by the rest of Mindanao, is distributed within the ARMM provinces by seven (7) electric companies (ECs) and one (1) private investor-owned utility (PIOU).¹⁴¹

The Maguindanao Electric Corporation (MAGELCO) and the Lanao del Sur Electric Cooperative (LASURECO) provide the energy requirement of mainland provinces of Maguindanao and Lanao del Sur, respectively. The energy requirement of island provinces is supplied by the National Power Corporation (NPC) through the Small Power Utilities Group (SPUG).

Figure 6. Utilities Distributing Electricity

| | |
|---------------|---|
| Basilan | <ul style="list-style-type: none">• Basilan Electric Cooperative (BASELCO) |
| Lanao del Sur | <ul style="list-style-type: none">• Lanao del Sur Electric Cooperative (LASURECO)• Bumbaran Electric Light System (PIOU) |
| Maguindanao | <ul style="list-style-type: none">• Maguindanao Electric Cooperative (MAGELCO) |
| Siasi | <ul style="list-style-type: none">• Siasi Electric Cooperative (SIASELCO) |
| Sulu | <ul style="list-style-type: none">• Sulu Electric Cooperative (SULECO) |
| Tawi-Tawi | <ul style="list-style-type: none">• Cagayan de Sulu Electric Cooperative (CASELCO)• Tawi-Tawi Electric Cooperative (TAWELCO) |

Source: National Power Corporation

The electric cooperatives in ARMM, by virtue of their distribution activities, are also in charge of the electrification of a total 2,617 potential barangays. In 2006, these cooperatives had energized 1,832 or 70% of the potential barangays. By the end of 2012, the cooperatives had fully energized the barangays in the following target areas:

- Tawi-Tawi (186 barangays);
- Sulu (396 barangays);
- Basilan (269 barangays); and
- Lanao del Sur (1,175 barangays).

¹⁴¹ National Power Corporation, 2006, *ARMM: Autonomous Region in Muslim Mindanao at a Glance*, [http://www.napocor.gov.ph/PEP2006/Regional%20\(PDF%20files\)/ARMM.pdf](http://www.napocor.gov.ph/PEP2006/Regional%20(PDF%20files)/ARMM.pdf)

The balance of barangays for energization can be found in Cagayan de Tawi-Tawi – Mapun, where there are three (3) unenergized barangays, and Maguindanao where there are six (6) unenergized barangays.

While there has been success in energizing barangays, system losses of the electric cooperatives remain high. MAGELCO, in 2005, registered system losses of 23%; based on data provided by NEC, the system losses in 2012 were 43%. Basilan’s BASELCO, on the other hand, posted system losses of 17% in 2005 and 27% in 2012. The electric cooperatives in other areas in ARMM also suffered significant system losses in 2012: Tawi-Tawi (26%), Sulu (30%) and Lanao del Sur (18%). These system losses need to be brought under control.

With the expected increase in energy demand, the NPC’s development plan includes doing continuous reliability and maintenance activities in the Agus 1 & 2 complex in addition to the 800 MW of new capacity addition which will be put up in Mindanao, supposedly during the planning period from 2005 to 2016. As electricity demand in ARMM’s small island grids was expected to grow at an average annual rate of 10.7% over the same period, it planned to install capacity addition of 10.50MW in 2005, 3.45MW in 2006 and 1.15 MW in 2010. The Cumulative Installed Capacity in the Small Island Grids is 40.78 MW in 2005, 42.98 MW in 2006, 57.73 MW in 2010 and 72.18 MW in 2014. All these development plans were meant to meet the energy demand. But with the ongoing persistence of power deficits, these plans may well not have been implemented.

There are four (4) potential sources of energy in ARMM namely hydropower, wind, coal and oil. The hydropower sites in Maguindanao and Lanao are possible sources of 84 MW of hydropower. Basilan, Sulu and Tawi-Tawi are favorable wind resource areas. Also, ARMM has a coal resource potential of 21 million metric tons (MMMT) located in Maguindanao and oil resource potential in the Sulu Basin.

Telecommunication

The National Telecommunication Commission reported that in 2011, ARMM had by far the lowest number of installed and subscribed telephones among all the regions in the Philippines (Table 13). It posted a tele-density of 1.04 for installed (compared to 7.04 for the Philippines) and 0.07 for subscribed (compared to 3.70 for the Philippines) telephone lines.

ARMM has 47 broadcast and cable stations that include 17 AM stations, 16 FM stations, six (6) TV and eight (8) CATV stations.

Table 13. Estimated Number of Telephone Subscribers Per Region, 2011

| Regions | Population (Estimated) | Installed Lines | Subscribed Lines | Teledensity | |
|-------------|---------------------------|--------------------|---------------------|-------------|------------|
| | | | | Installed | Subscribed |
| NCR | 11,685,780 | 3,090,105 | 1,888,123 | 26.44 | 16.16 |
| CAR | 1,729,240 | 84,608 | 44,821 | 4.89 | 2.59 |
| Region I | 5,273,040 | 189,716 | 90,276 | 3.60 | 1.71 |
| Region II | 3,422,560 | 56,997 | 33,531 | 1.66 | 0.98 |
| Region III | 10,532,320 | 502,395 | 252,638 | 4.77 | 2.40 |
| Region IV | 15,249,940 | 1,120,865 | 421,638 | 7.35 | 2.77 |
| Region V | 5,824,800 | 145,138 | 60,188 | 2.49 | 1.03 |
| Region VI | 7,725,960 | 318,635 | 143,507 | 4.12 | 1.86 |
| Region VII | 7,171,620 | 398,030 | 222,272 | 5.55 | 3.10 |
| Region VIII | 4,540,300 | 86,615 | 28,392 | 1.91 | 0.62 |
| Region IX | 3,558,400 | 52,929 | 44,054 | 1.49 | 1.24 |
| Region X | 4,439,380 | 191,075 | 89,541 | 4.30 | 2.02 |
| Region XI | 4,431,680 | 232,570 | 98,137 | 5.25 | 2.21 |
| Region XII | 4,169,120 | 111,262 | 99,696 | 2.67 | 2.39 |
| Region XIII | 2,599,440 | 134,892 | 36,033 | 5.19 | 1.39 |
| ARMM | 3,630,040 | 37,864 | 2,752 | 1.04 | 0.07 |
| Total | 95,983,620 | 6,753,696 | 3,555,951 | 7.04 | 3.70 |

Source: National Telecommunication Commission

The capitals of the island provinces have their own telephone systems. The Jolo Telephone System is the sole landline provider in Jolo, Sulu. It is connected with national direct dial through Bayantel. Bongao Nationwide Telephone System provides Bongao, Tawi-Tawi with landline communication alone. It is connected with national direct dial through PLDT. Lamitan City, Basilan is served by the state-owned Provincial Telephone System and also connected with national direct dial through PLDT. All ARMM provinces and cities have digital/wireless communications that encompasses internet accessibility provided by Globe Telecom and Smart Communications.

In 2006, Muslim Mindanao Autonomy Act No. 202 was passed by the ARMM Regional Legislative Assembly (RLA) granting 3G Communications International Inc., in partnership with Bentleytel International a franchise to establish, construct, install, work, maintain, upgrade, manage and operate networks to provide local and international telecommunication and broadcast services into and originating from the ARMM with fixed and mobile services. As of date, nothing concrete seems to have come out of it.

As far back as 1996, the RLA had passed ARMM Act. No 47 granting a franchise to Trilink Corporation (founded by then Regional Environmental Secretary Datu Hadji Nasser D. Sampaco in a joint venture with Malaysian investors) to set up a telecommunications facility in ARMM. The ARMM National Telecommunications Commission followed this in 1999 by granting the company the authority to

“establish, operate and maintain the intra-regional BIMP-EAGA Gateway and International Gateway facility and to levy fees, charges, tolls, or rates therefor.”¹⁴²

The project was put on hold when former President Joseph Estrada declared an all-out war on the MILF. It was revived in 2009, following a confirmation of Trilink’s license to operate. In 2011, the ARMM-RBOI approved the registration of Trilink project, and this was followed by a formal go signal by the BIMP-EAGA authorities in 2012. Trilink aimed to provide services under four (4) components: International Gateway Facility (IGF), Information and Communications Technology (ICT), Broadband, and Wireless Landline.

The establishment of the IGF in Mindanao would enable residents and enterprises to access voice, data and broadband services, as well as support Trilink’s other three (3) components. Under its ICT component, the company would pilot a rural ICT program under the BIMP-EAGA organization, and established a satellite-based hub in Cebu supporting the ICT services network. Meanwhile, broadband services would be provided through a targeted 24,000-strong network of e-Kiosks in all barangays in the ARMM, with services such as internet access, internet-based voice calls, wireless broadband, and electronic financial services. Lastly, mobile connectivity would be offered to homes, offices, and establishments through wireless landline services.

The likelihood of this project coming into fruition, however, seemed to have dissipated. The first phase of the project was set for implementation in the second quarter of 2011 and the second phase in the third quarter of 2011. The project was to be financed through a soft loan from the ADB, but the telecommunications project has not progressed thus far. One of the terms and conditions of ARMM-RBOI is the submission of clearances and permits to establish and operate plant, but EA Trilink Corporation has not complied up to the present time. **s**

Gateway to BIMP-EAGA

The island provinces of ARMM, specifically Basilan, Sulu and Tawi-Tawi, are within the nautical geography of Greater Sulu Sulawesi Corridor (GSSC). The GSSC is a maritime corridor covering North Sulawesi in Indonesia, Sabah in Malaysia, and Mindanao and Palawan in the Philippines (BIMP-EAGA Implementation Blueprint 2012-2016). However the island provinces are under the subcorridor of Zamboanga Peninsula to Sabah (east coast) and the gateway port is via Zamboanga as shown in Figure 6 below.

¹⁴² See Habito.C.F. (2012). Braving it and making it: Insights from Successful Investors in Muslim Mindanao.

Figure 6. GSSC Subcorridors and Gateway Ports

| Subcorridors | Gateway Ports |
|---|--|
| <ul style="list-style-type: none"> • Palawan Province (Philippines) to Sabah (tip of Borneo or Kudat); • Zamboanga Peninsula (Philippines) to Sabah (east coast); • Zamboanga Peninsula (Philippines) to Sabah (east coast) through the island provinces of Basilan, Sulu, and Tawi-Tawi in the Philippines • Davao area (Davao del Sur Province, Philippines); and • General Santos area (South Cotabato Province, Philippines) with North Sulawesi (Indonesia). | <ul style="list-style-type: none"> • Brookes' Point (Palawan, Philippines) and Kudat (Sabah); • Zamboanga (Mindanao, Philippines) and Sandakan (Sabah); • Zamboanga, Jolo, and Bongao (Mindanao) and Sandakan (Sabah); • Davao and General Santos (Mindanao, Philippines) and Manado and Bitung (North Sulawesi, Indonesia) |

ARMM has no international airports linking it to East Asia Growth Areas. The nearest international airports to ARMM are located in nearby regions: the Davao International Airport in Region XI and Zamboanga International Airport in Region IX. The existing air connectivity in the East Asia Growth Area is between Davao and Manado; meanwhile there is proposed link between Zamboanga City and Sandakan.

The GSSC areas are linked through port-to-port trade flows and shipping services within the Sulu Sulawesi Sea though trade is limited and shipping services are few. The existing sea connectivity is between Zamboanga and Sandakan. Under proposal too, are the links between Zamboanga and Muara and Davao General Santos–Bitung.

According to the BIMP-EAGA Implementation Blueprint 2012-2016, evidence would suggest that there is flourishing barter trade. The practice and history of barter trade between ARMM particularly Sulu and Tawi-Tawi with other East Asia Growth Areas like North Borneo (now Sabah) dates back to the 15th century. It boomed in the 18th century due to the enhanced commodity flows among China, South-East Asia and the West. Despite these old trade routes and recent evidence of flourishing trade, the ARMM serves only as local hubs to primary growth centers like Zamboanga City.

While the ARMM areas appear to be along the Mariculture and Trade Corridor and on the Food and Agri-Business Corridor, government programs or activities are minimal at best to propel the production of agro-based and fishery products in the

ARMM. The proposed improvement of Bongao and Sitangkai Ports in the Implementation Blue Print seem only incidental to the development of corridor between the Philippine primary growth center and the other East Asia Growth Areas.

Conclusions

While the national roads of ARMM are significantly paved, the same cannot be said of the provincial roads and farm-to-market roads, which spur economic activities. The lack of improvement in farm-to-market roads and also provincial roads means farmers have no easy physical access to markets thereby negatively affecting productivity and transport costs. It also prevents access to wider market.

The base ports in ARMM have been improved with funding from the World Bank and JICA. But improvements are limited to passenger terminals like in Tawi-Tawi and Sulu. And though the Polloc Port in Maguindanao has been rehabilitated, provided with access roads and been declared a free port, it hasn't attracted substantial investors yet. The existing trade between the ARMM government and Sabah Business Council has not prospered. The tax exemptions inherent in economic zones have not incentivized the investors either.

Aside from lack of provision for RORO transport system, all base ports in ARMM are not along the nautical highway. Access to RORO ports is via land, which takes about four (4) to eight (8) hours-drive to Davao and Cagayan de Oro, respectively. Thus ARMM is denied of the benefits inherent in the RORO system like reduced transport cost and shipment period. The high cost of inter-island shipping linking Mindanao to the rest of the country also needs to be addressed.

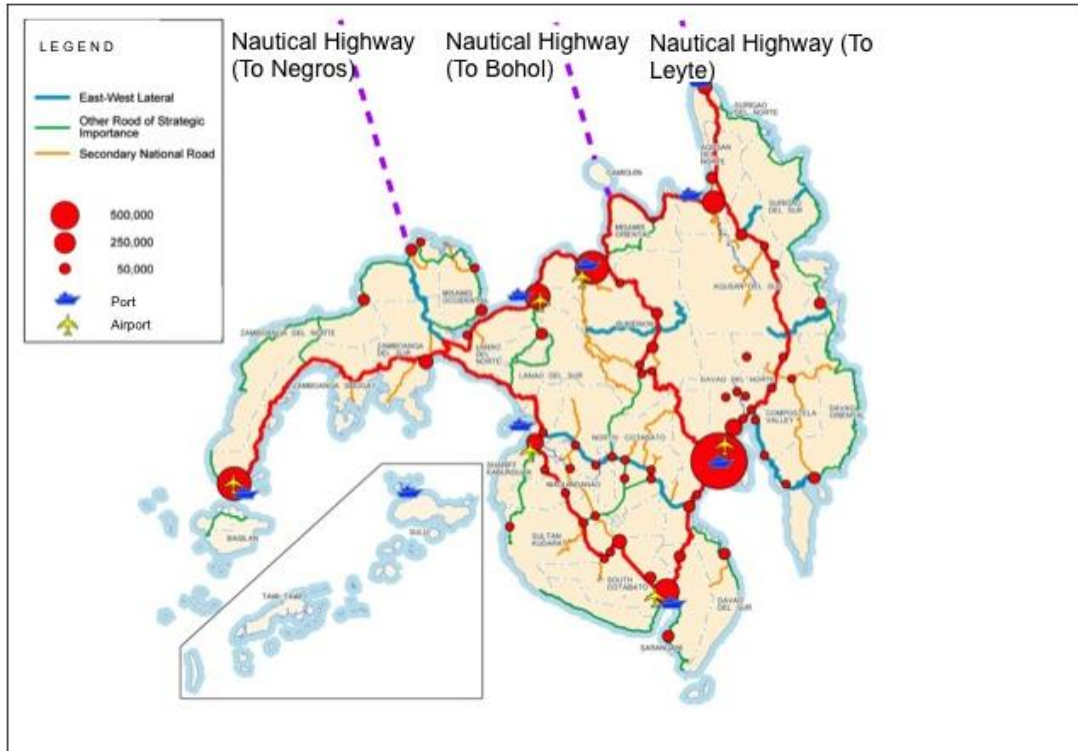
The inexistence of direct sea and air connectivity between the island Provinces and the mainland Provinces of ARMM, or the lack of short flight route from Awang, Maguindanao to Zamboanga (main airport hub of Island Provinces) for easier access to the Island Provinces, deters the building of business relationships and opportunities. It hampers business activities and operating efficiencies, and government services in ARMM.

The existing telephone system does not provide full coverage for ARMM municipalities. The limited interconnection of municipalities within and outside ARMM curtails business and social connectivity. Just like the inexistence of air and sea connectivity, the limited link through telecommunication technology hampers efficiency of economic and government activities in ARMM. Also, since technological improvement is one of the factors of production, the limited interconnection is a deterrent to economic growth.

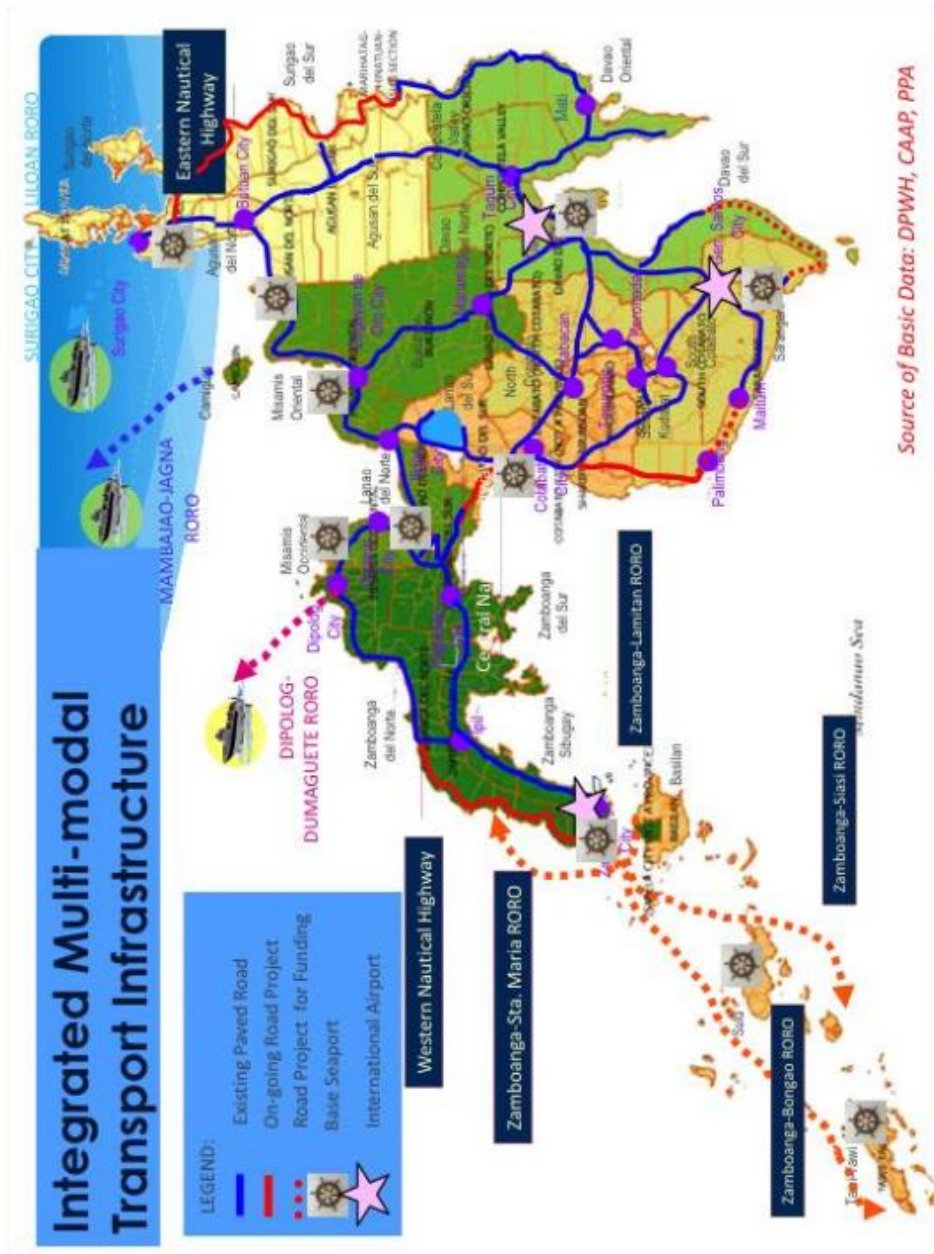
The lack of stable and cheap electricity supply, especially in the island provinces,

translates to higher input cost and spoilage for processed products. The fluctuating energy supply coupled with limited capacities of the base ports in island provinces is deterrent to processing plants.

Annex 1
Road Network in ARMM
 (Showing Sea Ports and Airports)



Annex 2 Integrated Multi-modal Transport Infrastructure



(from MinDA)

Working Paper No. 9

BUSINESS ACTIVITIES IN THE ARMM¹⁴³

Introduction

The Autonomous Region in Muslim Mindanao (ARMM) is predominantly an agricultural economy. Though the agriculture sector employs the most people in ARMM, its worker productivity is the lowest of all the sectors and has been declining. Formal industrial activities in ARMM are limited due to compounding factors such as peace and order concerns, inadequate infrastructure and high transportation costs.

To understand the developmental challenges plaguing the ARMM, the nature of informal activities and the factors underpinning their persistence in the region also needs to be understood. Conflict and weak governance in the ARMM, and the corresponding erosion of trust in the roles of the state and its institutions, have allowed shadow economies – such as illegal arms trade, informal land market, smuggling, and illegal drugs transactions – to prosper.

There is a vicious link between the growth of the shadow economy and the violence and poor socioeconomic conditions (i.e. poverty and migration) in the ARMM. Good governance is an important key to addressing the challenges faced by the business sector: the peace and order situation, security of property rights, infrastructure and resource constraints, and human development needs.

Formal Economy: Industrial Structure of the ARMM¹⁴⁴

The formal economy of the Autonomous Region in Muslim Mindanao (ARMM) is valued at PhP 48 billion as of 2012, of which 61.9% can be attributed to the agriculture, forestry and fishing sectors. The service sector is the second largest contributor at 32.8%, while Industry contributes a meager 5.3%. The potential for processing its primary products is, however, present in the region.

¹⁴³ This paper was prepared by the Institute for Development and Econometric Analysis Inc.

¹⁴⁴ Data are from the Regional Gross Domestic Product (RGDP) of the National Statistical Coordination Board (NSCB) that dis-aggregate the GDP by industrial origin and by region. The data only includes formal economic activities. These numbers differ significantly from the numbers provided by the National Statistics Office (see Figure 1 in Agriculture Base and Physical Environment of ARMM), which indicate that the agriculture, forestry and fisheries sector account for 49% of GRDP in 2012. Clarification is being sought on the differences.

Table 1. Percentage Share to Gross Regional Domestic Product, ARMM
Constant 2000 prices, 2010 to 2012

| INDUSTRY/YEAR | 2010 | 2011 | 2012 |
|---|-------------|-------------|-------------|
| I. AGRI., HUNTING, FORESTRY & FISHING | 64.5 | 63.4 | 61.9 |
| a. Agriculture and Forestry | 49 | 47.5 | 47 |
| b. Fishing | 15.5 | 15.8 | 14.9 |
| II. INDUSTRY SECTOR | 4.8 | 5.4 | 5.3 |
| a. Mining and Quarrying | 0.2 | 0.2 | 0.2 |
| b. Manufacturing | 1.1 | 1.1 | 1.2 |
| c. Construction | 0.7 | 1.2 | 1.1 |
| d. Electricity, Gas and Water Supply | 2.8 | 2.9 | 2.9 |
| III. SERVICE SECTOR | 30.7 | 31.2 | 32.8 |
| a. Transport, Storage & Communication | 3.4 | 3.4 | 3.7 |
| b. Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods | 0.9 | 1 | 1 |
| c. Financial Intermediation | 2.2 | 2.3 | 2.5 |
| d. Real Estate, Renting & Business Activities | 7.2 | 7.4 | 7.7 |
| e. Public Administration & Defense; Compulsory Social Security | 11.3 | 11.1 | 11.6 |
| f. Other Services | 5.6 | 6 | 6.3 |
| GROSS DOMESTIC PRODUCT | 100 | 100 | 100 |

Source: National Statistical Coordination Board

According to the 2008 Annual Survey of Philippine Business and Industry (ASPBI)¹⁴⁵ conducted by the National Statistics Office (NSO), 45 out of the 67 establishments in ARMM with more than 20 employees are in the service sector, 15 in the industrial sector, and seven (7) are agriculture-related. In the same year, these establishments had 7,689 employees, with industry accounting for the bulk (2,711), followed by agriculture (2,600), and services (2,378). On the average, agriculture employs more workers per establishment (371 employees) vis-à-vis services (53) and industry (181). From 2006 to 2008, the ARMM has seen a decrease in the number of enterprises with more than 20 employees from 74 to 67.

According to a 2011 study by the Japan International Cooperation Agency (JICA),¹⁴⁶ the average value added per worker of PhP 167,000 in the ARMM was the lowest in the Philippines. Value added in industry was PhP 267,000 while agriculture had less

¹⁴⁵ The 2008 survey is the most recent with disaggregation by region.

¹⁴⁶ Development Study on Local Industry Promotion in ARMM. JICA Nov.2011

than half the amount of the industrial sector. The services sector, meanwhile, has the largest number of establishments while agriculture employs the most people.

Agricultural enterprises are therefore said to have the greatest impact on employment generation, while industrial processing activities have the best potential to raise wages and incomes. The above-mentioned figures reinforce the idea that while the region should strongly support its agricultural sector, it is also worthwhile to promote industrial activities especially if the region hopes to improve its economic performance in the coming years.

Agriculture in the region is mainly concentrated on food crops and coconut production, though rubber and oil palm production have increased over the years. Expansion of banana and cacao production areas has also been noted. The main challenge to food production, particularly in *palay*, has been a deficiency in irrigation. Livestock and fisheries are also major business activities in the ARMM, particularly goat, cattle, poultry, commercial fisheries and seaweed aquaculture.

Profile and Characteristics of Industries and Establishments

The JICA 2011 study found that the extent of formal business activities in ARMM remains limited due principally to the unavailability of materials, peace and order, insufficient infrastructure and high transport costs.

While a total of 23 projects worth PhP 9.7 billion have been registered with the Regional Board of Investment (RBOI) as of end of 2010, only 14 of these (worth PhP 3.3 billion) were operational. This leaves approximately PhP 6 billion in unrealized investment commitments. (JICA, 2011)

The reported reasons for the unrealized investment commitments were management problems, insufficient feasibility studies, and land ownership problems. The projects that became operational are characterized by locations with good security and supportive local leaders, the use of local natural resources, strong management partnership and/or secured market, and openness to outsiders or investment from outside the ARMM or the Muslim community.

Box 1: ARMM-BOI Project Approvals

From mid-1992 to early 2013, ARMM-BOI listed about 21 registrations of pioneering and non-pioneering activities, including expansion of operations. Business operations include building and woodworks, public utility, manufacture of coconut oil and copra meat, Cavendish banana plantation, manufacture of vinegar and production of distilled coconut juice, cassava starch production, virgin coconut oil manufacturing, production of industrial root crops, palm oil milling, veneer plywood

manufacturing, fresh pineapple production, and housing development. These activities cater to both domestic and international markets.

In 2011, for the first time, the ARMM-BOI reported total private investment approvals exceeding the one billion peso mark. The single largest investment was EA Trilink Corporation's proposed PhP1.5 billion telecommunications project.

Only one project was approved by ARMM-BOI in 2012, a (Cavendish banana plantation in August 2012). However, NSCB data showed no record of this approved investment.

In the first quarter of 2013, ARMM-BOI approved the project of Bumbaran Development Corporation, a real property developer, involving an investment PhP365 million in a mass housing project intended for Armed Forces of the Philippines (AFP) and the Philippine National Police (PNP) personnel.

Provisionally approved investments during the third quarter of 2013 totaled PhP390 million. Iron Blaze Petroleum, Inc., involved in the importation, distribution and sales of petroleum products, registered the construction in Maguindanao of a PhP 90 million oil depot. La Frutera, Inc. proposed to invest about PhP300 million for the expansion of a Cavendish banana plantation in Maguindanao.

Table 2. Summary: Active Operating Projects Approved by ARMM-RBOI

As of December 2010

| Product or Service | Number of enterprises | Location | Cost (PhP million) | Status (as of Nov - Dec. 2010) |
|---|-----------------------|-------------------------------|--------------------|---|
| Fruit plantations (banana and pineapples) | 5 | Lanao del Sur and Maguindanao | 2,040 | Exporting to Middle East, Japan, Korea & China. Two large exporters outside of the ARMM send management staff and conduct quality control and marketing. One of them plans further expansion. |
| Palm oil milling | 1 | Maguindanao | 361 | Under the network of a large company in Manila. Started operations in 2009 and has not yet reached the maximum operation capacity due to material shortages. |
| Coconut processing | 3 | Sulu and Maguindanao | 155 | Crude oil sold to San-Miguel Corporation, a joint business partner at the start-up. Coconut oil/lip cream sold to Hong Kong & Manila. Coconut vinegar and brandy are sold to clients in Manila. |
| Corn/cassava starch | 3 | Lanao del Sur and Maguindanao | 434 | No information on corn starch processing, but one enterprise is said to have been expanding facilities. Cassava starch is sold to Manila. Shortage of cassava is a challenge in meeting demand. |
| Wood processing | 1 | Maguindanao | 61 | Providing seedlings to residents to secure material trees. Recent information is not available. |
| Bus operator | 1 | Davao and Maguindanao | 234 | No information available |

Source: *Development Study on Local Industry Promotion in ARMM, JICA, 2011*

Among the 14 active projects, the JICA 2011 study found the following common characteristics:

- *Favorable location.* There are a few municipalities where investments are concentrated, including Sultan Kudarat, Datu Paglas, Buluan, and Wao. These municipalities are more attractive to investors due to the relatively stable peace and order situation and the political leaders' active promotion of industries in their localities. One example of this is in Datu Paglas, where one of the former leaders established the Datu Paglas Corporation. This

corporation owns transportation services, security services, insurance companies, and the Rural Bank;

- *Use of local natural resources.* Out of the 14 enterprises, 12 are registered under the agriculture sector, and six (6) involve plantations, including the largest investor in ARMM, Unifrutti (Oribonex group). Unifrutti has reported that the pineapples and the bananas grown in Lanao del Sur and Maguindanao were among the highest quality grown in plantations they run;
- *Strong business fundamentals and secure markets.* The plantations are under a network of large exporters or a processing enterprise. These companies have management teams, quality control teams, marketing teams, and trained staff, including financial and budget allocation personnel; and
- *Open for external or non-Muslim investments.* All but two of the 12 agriculture related enterprises involved private entities outside ARMM (five with large external private partners and two with non-ARMM businessmen) or non-Muslims from within ARMM (three owned and managed by resident Chinese). This widened the scope for technical, management, and marketing expertise.

Box 2: Cooperatives in the ARMM

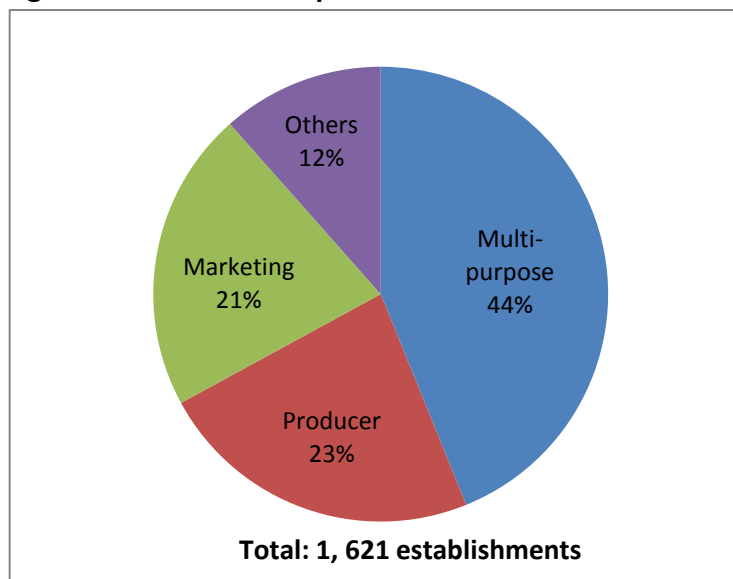
As of 31 December 2012, the ARMM houses 1,621 cooperatives. Around 40% of the ARMM's cooperatives (711) are multi-purpose. Marketing (347) and producer (376) cooperatives also form a significant number. Almost all (96.4%) of the ARMM's cooperatives are classified as micro cooperatives or those that have assets PhP3 million and below. Together, these cooperatives hold about PhP4.3 billion worth of assets. While the ARMM houses about 7.2% of the country's total cooperatives, it holds only less than 2% of the total assets. During the fiscal year of 2012, 386 new cooperatives were registered in the ARMM. More than half of the newly registered were producer cooperatives, which could be an indication of more economic activities being generated in the region. The newly registered cooperatives covered nearly 11,000 members, bringing total membership to more than 66,000.

The success and sustainability of the cooperatives has been attributed to strong leadership, composition of membership, and networks and linkages. Former MNLF leaders, who have vision and aspirations, provided strong leadership. In some project-based cooperatives, family-based leadership is exercised not only for economic reasons, but also for the preservation of family traditions. Networks and linkages with local and international organizations or institutions provide technical, financial, logistics and other forms of support to cooperatives.

Failures of cooperatives can be traced to poor management, natural calamities, and the erosion of cooperation among members. Dole-out mindset is unintentionally created in project-based cooperatives, as the motivation of members to contribute voluntary services declines in times when there are no projects or assistance from agencies.

Given the technical assistance to improve productivity and efficiency, cooperatives can be agents of economic transformation as they utilize the assets of the community. In 2010, for example, indirect employment generated by cooperatives in the ARMM was nearly 11,000, aside from the nearly 16,000 direct employees hired. As well as their economic significance, cooperatives can also be partners in local governance as they articulate their agenda into formal government programs and policies.

Figure 1: Nature of cooperatives in the ARMM



Source: JICA; Cooperative Development Agency

High-potential industries and business activities

Most of the products sold outside the region are agriculture-based, such as copra, rubber, seaweeds, and abaca. In the same report by JICA (2011), a survey of potential products for the ARMM was also conducted. Agriculture (abaca, cacao, cassava, coconuts, coffee, and mangosteen), fisheries (abalone, grouper, milkfish, mud crab, seaweed, and tilapia), and livestock (cattle, chicken, and goat) products were prioritized for local industry promotion. The banana and mango industries, however, were not included in the list as these were deemed to be well-established industries.

The main issues for agriculture products are limited production, low productivity, lack of quality control, low quality of input (e.g. seeds), absence of value added processing, difficulty of transportation and distribution, lack of post-harvest technology, and lack of access to credit and technical support. For fisheries, the issues are insufficient inputs, lack of knowledge and skills, low output quality and

productivity, and limited processing activities. Lastly, the livestock sector faces low productivity, difficulty in accessing technical support, and lack of market linkage and consolidation.¹⁴⁷

Halal products have high potential. The Halal industry is constrained by limited production volumes, low productivity, and poor quality of products. There is also a need to develop knowledge and expertise in halal certification, and to step up the promotion of the industry. Greater cooperation is also needed in establishing necessary resources and support facilities including capable human resources and experts.

Box 3: Seaweed production

The ARMM is a major producer of seaweed, with production sites located mostly in Tawi-Tawi, Sulu, Paranag and Maguindanao. The technology for producing is fairly simple; seaweeds are cultured by local fishermen on floating rafts made of non-complex materials. Most of the seaweed products (e.g. chips, carrageenan powders) are exported to other countries in Europe, to the United States and to Japan. (JICA, 2011) Recognizing the robust export performance of the industry, in 2011, a PhP 4.4 million tissue culture laboratory for seaweed production was set up in the ARMM by the Department of Agriculture (FIS, 2011). The international market for seaweed products remains strong, particularly its marketability as a carrageenan material (JICA, 2011).

Box 4: Halal Production in the ARMM

In the Islamic sense, halal means “lawful”; what is deemed unlawful is “haram.” Examples of haram are: dead inland animals; pork; animals slaughtered that are dedicated to anyone other than Allah. Slaughtering has to be in accordance to prescribed Islamic laws. Traditionally, halal has been associated with food and beverages. Recently, the application of halal has been extended to non-food items such as perfumes and pharmaceuticals, and services such as banking and finance.

Worldwide, the demand for halal-certified products has significantly increased. Aside from the increase in the global population of Muslims and the increase in their incomes, awareness of Islamic laws has also increased. Also, there is gaining worldwide acceptance that halal foods and food products are safe and healthy. With these developments, the business community recognized the opportunities as regards the production of halal goods and need for certification. For food and consumer goods to be permissible for consumption and utilization by believers of the Islam religion, they have to be processed or manufactured according to Islamic principles.

The Philippines has come to recognize the importance of the halal industry to its Muslim population, though numbering only a few millions. Indeed, the 2012 Investment Priorities Plan lists ARMM activities as among the four priority investment areas. The Regional Board

¹⁴⁷ JICA Industry Study.2011. op. cit.

of Investments of the ARMM (RBOI-ARMM) identified activities that included the Halal industry.

Recent developments include the ongoing construction of the Philippine National Halal Laboratory building in Koronadal City by the Department of Science and Technology. The Regional Development Council Region XII, in a resolution¹⁴⁸, endorsed the institutionalization of the Philippine National Halal Laboratory and Science Center. The Center, accordingly, “shall serve as the country’s clearing house of all Halal products coming in and going out of the country, manufactured and processed for domestic and international consumption for the protection of the Philippine Halal market, and as the country’s center for coordination on Halal, conduct of Halal Research, Development and Extension, Halal Education and Training, as well as, Halal Science Incubation” and “be recognized as the Competent Authority for Halal Science, an Accrediting body for Halal laboratories, and a Certifying body for Halal products in terms of scientific and technical aspects/requirements considering its capabilities (advanced Halal laboratory equipment and competent Muslim Scientists).”

Source: BOI; JICA; RDC XII

Success Story: La Frutera

Despite the many difficulties inherent in the investment environment of Muslim Mindanao, there have been a number of business ventures that have managed to not only establish themselves, but also thrive in the region.¹⁴⁹ The experience of one of these enterprises is presented to demonstrate the region’s viability in attracting and nurturing investments, notwithstanding the many challenges to doing business there.

La Frutera Inc. (LFI) is the largest foreign direct investment in Muslim Mindanao to date. LFI started when one of the country’s largest banana exporters, Unifrutti Philippines Inc. (UPI), decided to invest in a banana plantation and packinghouse in Datu Paglas, Maguindanao to the tune of US\$ 27 million. LFI has been described by UPI Chief Executive John Perrine as Unifrutti’s most successful investment in Mindanao, in partnership with Senen Bacani of Ultrex Management and Investments Corp. and then mayor Datu Ibrahim “Toto” Paglas.

La Frutera had its own share of birthing pains. At the onset, Paglas had to gain the nod of both the Moro Islamic Liberation Front (MILF) and the military. The company also had to get the regional government to invoke its autonomy in getting an

¹⁴⁸ Regional Development Council XII [2011] “A Resolution Endorsing the Institutionalization of the Philippine National Halal Laboratory and Science Center”, RDC Resolution No. 150, series of 2011.

¹⁴⁹ Habito, C. F. (2012). Braving it and Making it: Insights from Successful Investors in Muslim Mindanao.

exemption from then-prevailing banana hectareage limits, as well as secure an exemption from the new regional minimum wage order.

Unifrutti leased 1,251 hectares from Paglas and his associates at US\$ 70 per hectare, much lower than the US\$ 160 rate elsewhere. Paglas accepted the price without question, understanding that they needed to first prove that arrangement was profitable in a Muslim area that was starved of investments.

From then on, Unifrutti became an unqualified success. The hectareage was eventually increased to 1,600 hectares and employment grew to nearly 3,000 people. As of 2005, it was estimated that the venture pumped in as much as US\$ 400,000 a month into the local economy in the form of salaries to its residents, apart from capital used to build roads, offices, irrigation systems, and other infrastructure.

There were also social benefits to the locality in the form of rising school enrolment and falling crime rates. The company's workers are almost entirely Muslim, and the company now provides jobs to a lot of women and also former MILF combatants.

The "secrets" to Unifrutti's success include trust and confidence building, worker discipline under a strong leadership, and deliberate values formation and cross-cultural understanding. Partnering with a local leader was key to winning trust in the project, as shown with the experience of Toto Paglas, along with willingness on the part of Unifrutti's leaders to accept the local cultural environment and not impose their own enterprise culture as the external investors.

While Unifrutti initially enjoyed a reprieve from the newly issued minimum wage order at that time, it also developed a productivity-based compensation system that featured a piece-rate basis of payment and productivity bonuses. The system eventually resulted in their workers' pay exceeding the minimum wage requirements, highlighting innovative ways of looking after worker welfare without compromising the firm's economic viability.

Business issues and concerns

Infrastructure remains a prime concern in the ARMM, with the potential for enhancing and expanding the market area for goods and services produced in the region. This is especially important given that most of its products are agriculture-based and perishable.

With a total national road length of 891 kilometers, the ARMM has the shortest road network among the regions. While progress has been made in paving national and provincial roads in ARMM, farm-to-market roads are in bad condition. When it comes to sea transport, there are links to the network of domestic container transport and passenger ferries nationwide, but the local ports, such as Polloc Port

at Parang, Maguindanao, lack facilities such as cold storage and cargo handling equipment. Furthermore, the region can also benefit from roll-on/roll-off facilities.

Apart from transport infrastructure itself, physical distribution facilities are also a concern. All three (3) major economic sectors (agriculture, industry, and service) note the lack of cold storage facilities for their products. For agriculture, there is a need to develop consolidation areas that can serve as a trading and auction zone for both farmers and traders. For fisheries, not all coastal areas have access to ports, and some of the available ports lack equipment and refrigeration facilities. The livestock sector is hobbled by inadequate provision of hygiene and sanitary facilities, inadequate drainage and sewerage systems, and inappropriate waste disposal and waste treatment facilities.

Quality control in sanitation is also an issue in the ARMM, given that most of its products are food-related. Also, as most food-related businesses are family-based and use traditional methods, they seldom know or use modern product preparation practices. This is compounded by the lack of administrative capabilities in providing guidance to food-related organizations by local governments, and the high cost of acquiring and maintaining certification from the appropriate bodies.

Of businesses registered with the ARMM-RBOI, there are challenges they continue to encounter despite the incentives they enjoy. In fact, there were nine (9) enterprises registered under the RBOI that ceased operations due to one of the following reasons:

- *Shortages in materials.* Such a problem is persistent in businesses that utilize local natural resources, which implies that most of the active businesses are still challenged by erratic resources. Apart from material inputs, there are also some problems in land ownership, as reported by the palm oil processing business. Moreover, some businesses expressed the need to train farmers and improve farming technologies;
- *Price competition.* This is true for processors of coconut oil, cassava starch, wood products, and other coconut products as they constantly try to compete with other processors and the global market;
- *Insufficient infrastructure.* The rough roads in the ARMM proved to be detrimental to their businesses, mainly due to the damage the produce sustains while in transit and the delays experienced in product delivery. Some enterprises, such as in Datu Paglas, resorted to improving the roads by themselves;

- *High transportation costs.* The irregular operation of Port Polloc has forced enterprises to transport their products by road to Davao, just to have them shipped to Manila, Cebu, or other countries. This results in high transportation costs and long transit times; and
- *Need for a new market.* While some businesses have large-scale business partners, other enterprises are not as fortunate and are constantly struggling to establish a market and find opportunities for export.

In addition, a report by the USAID-funded Growth with Equity in Mindanao (GEM), assessed some of the non-operational businesses registered with the RBOI, and found the major reasons for investment failure in the region: (1) unpreparedness of businessmen for the demands of the ventures, and (2) insufficient knowledge in conducting credible feasibility studies and sound business proposals. The said report also outlined several strategies for improving the business situation and investment promotion in the region.

Box 5. USAID GEM Report Strategy Recommendations¹⁵⁰

There are several strategies that the region can employ in order to improve business and investment promotion.

1. Address peace and order situation.
2. Strengthen the ARMM business sector.
3. Strengthen the region's capacity to create business policies and encourage private sector participation in policy-making.
4. Address infrastructure constraints.
5. Increase efficiency in delivery of education
6. Improve access to formal credit by increasing land titling efforts and encouraging the establishment of bank branches

Informal Sector Activities in the ARMM¹⁵¹

Less-developed countries and regions are usually characterized by a large informal sector,¹⁵² and the Philippines and the ARMM are no exception.

¹⁵⁰ Lifted from *Development Study on Local Industry Promotion in ARMM* by the Japan International Cooperation Agency (JICA), 2011.

¹⁵¹ This section of the report is principally drawn from 'Out of the Shadows: Violent Conflict and the Real Economy of Mindanao' Ed. Lara and Schoofs. International Alert. 2013.

¹⁵² There is no clear-cut definition of the informal economy. Early studies related it to principally subsistence activities. In their report in the Real economy of Mindanao, Lara and Schoofs use the term informal economy to denote "those actions of economic agents that fail to adhere to the

A survey of business enterprises (JICA, 2011) in the ARMM reveals that almost a quarter or 24% of respondents were not registered with the government, mainly because of lack of knowledge and because the enterprises saw no need for registration.¹⁵³ Moreover, over half do not keep financial records and the majority (69%) has less than PhP 250,000 in capital.

Most of the enterprises started out in response to the resource and demand situation in the locality, and are family-owned and community-based.

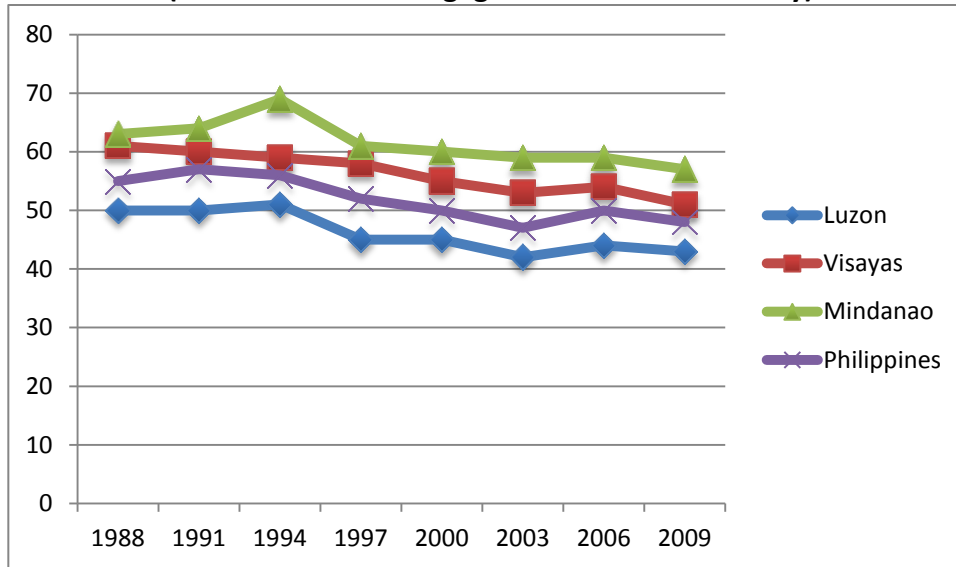
Thus, their business transactions are usually confined within the ARMM although 25% do sell products and services outside the region. Moreover, financing is mostly sourced from personal networks of families and friends rather than through the financial system. A good number of the enterprises have owners or managers with college/university education (44%) been operating for more than 10 years (33%), and employ more than 10 people (22%).

While most enterprises are optimistic of the future of their industries, major challenges include the lack of capital, insufficient infrastructure, unstable security situation, and lack of support from local governments.

established institutional rules, or are denied their protection". The term "shadow economy" is also used frequently in areas marked by armed-conflict- Lara and Schoofs use the term to highlight the "shadowy margins" between formal and informal economic activities.

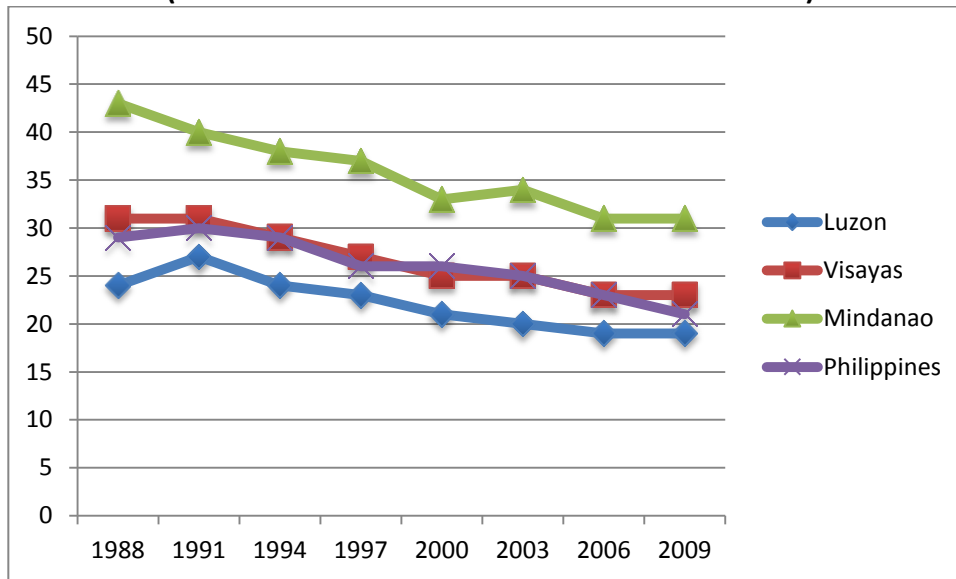
¹⁵³ Although not mentioned specifically in the JICA study, other factors include the transaction costs associated with going through the formal business approval process and the low probability of being detected and sanctioned.

**Figure 2a: Size of informal sector
(Share of workers engaged in informal economy)**



Source: 2009 Labor Force Survey

**Figure 2b: Size of Informal Economy
(Share of informal workers in household income)**



Source: 2009 Family Income and Expenditure Survey

In general, we can glean from the charts above that the number of workers in the informal economy is quite large in all parts of the Philippines, with Mindanao exhibiting figures well above the levels for the Philippines as a whole. In 2009, the workers in the informal sector in Mindanao accounted for roughly 55% of all

workers, a decrease of some five (5) percentage points from its 1988 level. The decrease in the share of informal workers in household income in Mindanao is more marked – registering 43% in 1988, the share had fallen to 30% in 2009.

The ARMM is estimated to have a significant informal economy. Based on the 2009 Labor Force Survey, the region accounted for the highest number of workers engaged in informal activities, while the National Capital Region (NCR) registered the least. Given that data are not readily accessible, studying the informal sector becomes a methodological challenge.

One way of examining informal activities is by researchers observing local farmers and gathering data on them day-by-day. They attempt to record the overlooked details of their economic activities, such as the farmer's pawning of land in the local pawnshop. Quantitative data are painstakingly gathered to deepen understanding of the informal economy, whose unrecorded and often illegal nature makes it challenging to track and pin down. This very nature makes it an interesting subject of inquiry, as the informal sector could possibly provide a missing picture of economic activity in the ARMM.

The ARMM has repeatedly registered the highest poverty incidence in the tri-annual Family Income and Expenditure Survey. Moreover, the Labor Force Survey shows that the region also has high informal employment. It is apparent that informal employment and the number of families living below the poverty threshold go together. Interestingly, 2009 data from the Disaster Response Operation Monitoring Information System (DROMIS) reveal that regions with higher shares of informal employment also register higher incidence of conflict.

These issues of poverty, informality, and conflict all play a prominent role in the development and institutional-building challenges of Muslim Mindanao. It therefore pays to look into some of the prominent aspects of informal activities, particularly the "shadow economies" that impinge on the shaping of "genuine and lasting peace in Mindanao."¹⁵⁴

Conflict and the illegal arms trade

Given the prevalence of conflict in Muslim Mindanao, the illegal trade of arms figures prominently in informal sector activities in the region. The legal framework for gun trading in the Philippines is patterned after that of the United States. The gun industry is highly porous and even registered gun traders are sometimes involved in illicit affairs.

¹⁵⁴ "Out of the Shadows," International Alert, op. cit.

Acquiring a gun locally involves massive paperwork and numerous procedures, making the whole process prone to bargaining on the part of end users. Such tactics figure, for example, when settlements happen between politicians and local strongmen. Influential private individuals and families can also get a hold of illegal weapons due to weak implementation of the law. Gun proliferation is abetted by old war inventories and captured weapons being lost in areas of armed conflict, and the poor performance of enforcement agencies. Crimes are often attributed to armed groups and the skirmishes initiated by gun-wielding groups and individuals. Thereby, as the number of guns in civilian hands increases, so does the threat to peace and order in the region.

Exacerbating the issue is the active participation of state officials in illicit gun-trading practices, contributing to the so-called criminalization of the state. The proliferation of guns in the shadow economy can only be addressed if the government would take a serious look into the specific issues behind it and be more conflict-sensitive in addressing the problem.

Dangerous drugs

A similar thread of inquiry shows a link between weak governance and the spread of illegal drugs. The illicit drug market is not isolated to Muslim Mindanao - it exists and thrives across the whole country. The bulk of high-grade shabu in Mindanao comes by trading and from the local shabu laboratories in the region. Drug dens, or places where drug users convene, have been discovered by the Philippine Drug Enforcement Agency (PDEA) in Cotabato, Maguindanao, and Marawi.

A pertinent factor of the drug problem is the region's high poverty incidence. Locals find it hard to make ends meet given limited economic opportunities, and impoverished individuals see drug pushing as a means to easily access a large amount of money. Data from PDEA show that 58% of drug-related crime involves individuals who are underemployed, while 21% involve the unemployed.

The fragile security situation in the region and the constant threat of violence contribute to the nesting of the illegal drugs market in the ARMM. These factors also aggravate the socio-economic status of its residents, pushing some into the drug trade in a self-reinforcing cycle. It is the local governments that are in the best position to end this cycle, not only in terms of better anti-drug enforcement activities, but also through the adequate provision of basic services. As it is, paltry service delivery in healthcare and education only worsens the situation.

Informal land markets and property rights

Another aspect of the shadow economy in Muslim Mindanao is that of land and property markets. In order to transfer land, the owner must answer to the requirements set out by regional offices of the Department of Environment and Natural Resources, which provides patent, and the Department of Agriculture, which supplies title. After a series of approvals from bureaucrats, the patent is then given to the landowner, but he must sell his land within a designated time frame. Tax regulations also discourage buyers and impede the sale of land.

Given these factors, farmers and landowners, especially those located in impoverished areas like the villages of Kayu and Ramcor, engage in arrangements with local strongmen to liquidate their land. This so-called informal land market sprung from landowners' urgent need for money.

The immediate gains, however, are traded off against the increased possibility of armed conflicts in the locality. Local strongmen, albeit powerful entities, can sometimes come into conflict with local authorities such as the barangay captain with competing claims over ownership of land.

Violence can also arise through the multiplicity of land transfers from one person to another. Without a transfer title, subsequent owners find it hard to prove their status as the legal owners of the land. In the same vein, it is also difficult to determine the value and price of land.

Cross-border Illicit Trade in Sulu and Tawi-Tawi

Adding to the list of informal activities in the ARMM region is the presence of cross-border illicit trade in Sulu and Tawi-Tawi. The relationship between neighboring countries Philippines and Malaysia can be traced back many centuries, when trade was thriving in the South East Asian region and borders between political entities were less clearly defined.

The arrival of European powers – the Dutch in what is now Indonesia, the British in Malaysia, and the Spanish in the Philippines – resulted in more formal borders which disrupted former “borderless” maritime flow of goods in the region. As a result, traders and rent-seeking authorities were encouraged to carry out smuggling and illegal trading to avoid state taxes.

Traders, on one hand, commit to this activity because they can take advantage of their assets, such as boats to transport goods. State authorities, on the other hand, engaged in smuggling activities to amass wealth. Both the traders and state authorities reap in rewards from the existence of illegal activities.

The limited supply of goods in Sulu and Tawi-Tawi and the porosity of the borders and proximity to Malaysia, have been the primary reasons for traders to actively participate in the shadow economy. Below is the breakdown of costs of goods that are being transported from islands of Malaysia to Sulu.

Table 3: Computation of Expenses and Profit from Rice Trading

| A. Cost Summary per 25-kg sack of rice | Amount (Pesos) |
|---|----------------|
| 1. Base price at Malaysian port | 610.00 |
| 2. Transshipment (freight and handling) | 60.00 |
| 3. "Special arrangement" (kotong) | 20.00 |
| 4. Docking fee (private port) | 5.00 |
| 5. Labor (private port) | 5.00 |
| 6. Hauling (pokol-pokol) | 2.00 |
| <i>Subtotal</i> | 702.00 |
| B. Computation of Profit | |
| Wholesale price | 720.00 |
| Expenses | 702.00 |
| Net Profit (wholesale) | 18.00 |
| Retail Price | 825.00 |
| Net Profit (retail) | 123.00 |

Source: Out of the Shadows . International Alert op. cit.

From the table, we can see an apparent discrepancy in the earnings of small traders who glean PHP 18 per boat ride or 2.6% of the base price computed per sack of 25 kilos, from the earnings of state authorities whose collection totals to PHP 20 per boat ride. It is thus economical for small traders to conduct retail outlets in the island of Sulu and Tawi-Tawi to take advantage of additional benefits from retail trading.

Table 4. Comparative Income Estimates and Boat Carrying Capacities

| Value Chain Actors | Estimated Income per Trip | | |
|--|-------------------------------|--------------------------------|--------------------------------|
| | Small Kumpit (5,000 sacks) | Medium Kumpit (7,000 sacks) | Large Kumpit (10,000 sacks) |
| 1. Broker/boat owner (freight and handling) | 300,000 | 420,000 | 600,000 |
| 2. State agents ("special arrangement" or kotong) | 100,000 | 140,000 | 200,000 |
| 3. Port operators/owners (docking fee) | 25,000 | 35,000 | 50,000 |
| 4. Laborers (download of cargoes) | 25,000 | 35,000 | 50,000 |
| 5. Pokol-pokol drivers (hauling of cargoes to warehouse) | 10,000 | 14,000 | 20,000 |
| 6. Traders (based on wholesale price) | 90,000 | 126,000 | 180,000 |
| Total | 550,000 | 770,000 | 1,100,000 |

Source: Out of the Shadows. International Alert. op. cit.

The table above shows that figures do increase in proportion to the size of the boat. Officials have been more lenient in charging “extra fees” to the smaller *kumpits* since the pay is smaller. Millions of pesos are involved in the illegal activities. In terms of the accounted income, the value of these activities reaches up to 88 % of the annual revenues of around PhP 600 million generated in ARMM. Aside from these, there are still unaccounted for illegal activities in the other provinces in ARMM.

It is counterproductive for both sides to carry out violent actions, for it might affect the business and political status quo. But this does not mean that violence cannot arise from the presence of such activities. War-torn areas flourish in an economy where there is an existence of state officials who benefit through illegal activities and control of resources. Add to this, when the economic interest of illicit trade actors converge with regional conflict complexes, then violence can exist and damage the legitimacy of the state.

At the fore of these activities are often state officials. Their permission to continue the exchange of goods in lieu of extra fees institutionalizes the actions. Furthermore, the interplay of actions amongst the traders – who are driven by absence of functional grievances, fear of violent repercussion, and lack of alternative livelihood – and state authorities seep through the weaknesses of the state in implementing its laws. An array of solutions should include a concord of economic, political, and socio-cultural policies.

Borrowing Money and Violence: The Pagsanda Credit System in Sulu

The rise in the number of informal credit market stems from structural deficiencies in the legal and regulatory framework in the ARMM, and in the law and order situation. Operating in a heavily agriculture-based economy, the banks and other formal credit providers fail to cater to the needs of local farmers, who are generally unable to meet the credit terms required by banks. As a result, locals turn to an interrelated market of informal credit, or locally known as *pagsanda*. Another impetus force for locals is the flexible and personalistic character of informal credit transactions, where they can also negotiate with credit providers – oftentimes relatives and neighbors – on the collaterals and schedule of disbursement of funds.

Previous evidence shows that there is a concurrence of cultural and economic issues that enable a thriving informal credit market in the region. Ascribed to the Chinese traders, the existence of *pagsanda* has been entrenched into the social practices in the region, and has long been viewed as an easy access to amounts of cash.

Table 5. Summary of basic data on traditional moneylenders in Sulu

| | |
|--|------|
| Number of lenders | 51 |
| Total number of loans held by lenders | 1228 |
| Number of current loans per lender (average) | 25.3 |
| Number of current loans per lender (median) | 15 |
| Number of years in business (average) | 24.4 |
| Number of years in business (median) | 22.5 |

Source: Out of the Shadows. International Alert. op. cit.

There are at least 51 lenders in the informal credit market in the Sulu. Given that this a conservative estimate, there are far more credit lending businesses that are unaccounted for. Moreover, the number of barangays in the areas reaches up to 410, and according to reports, there is at least one *manananda* in each barangay that could lend money to the locals.

The large proceeds from the *pagsanda* enable the moneylenders to climb up the social ladder and gain political stature. *Manananda*, as they are locally known, utilize the system to garner wealth which permits them to acquire influence amongst the debtors and become powerbrokers in Tausug politics. Furthermore, moneylenders also run for office, and most of the time, they win. Even in position of governance, they still retain their businesses, which fortify their presence in the political arena.

Conflict and lawlessness contribute to the growth of informal activities. In particular, it is the erosion of trust in the roles of the state and its institutions that result in the multiplication of informal land transactions. This displays yet again the interplay between the shadow economy and weak governance.

Conclusions

The long-standing problems that have plagued Muslim Mindanao have held back economic activity and development. If the region is to improve its situation, it must start with the recognition that its economy is primarily agricultural in nature and is characterized by extensive informality. Agricultural enterprises are likely to have the greatest impact on employment generation, while industrial processing activities have the best potential to raise wages and incomes.

The development of the agricultural sector should be pursued. At the same time, efforts must be exerted to promote industry. However, the former is threatened by the insecurity of property rights given the prevailing conflict and the extent of the informal land market in the region. The latter can start from processing of primary agricultural products, but will need key improvements in the investment climate such as peace and order, infrastructure, support facilities, and human resources.

Despite the inherent difficulties of doing business in Muslim Mindanao, the experiences of a number of business ventures have shown that it is possible for

enterprises not only to establish themselves, but also to thrive in the region. It has also been shown that a degree of relative peace and order, active partnerships with local leaders, and resourcefulness and innovative approaches to solving problems, among other things, have benefited successful businesses. Apart from learning from these successful projects, they can also be used as a selling point for promoting investments into the region. Businesses can be enticed with the first-mover advantage in many areas of the regional economy, effectively being one-step ahead of the competition.

Governance is critical. It is because of weak governance that people seek alternative informal arrangements to facilitate their activities. Governance is also key to addressing the challenges faced by the formal business sector: the peace and order situation, security of property rights, infrastructure and resource constraints, and human development needs.

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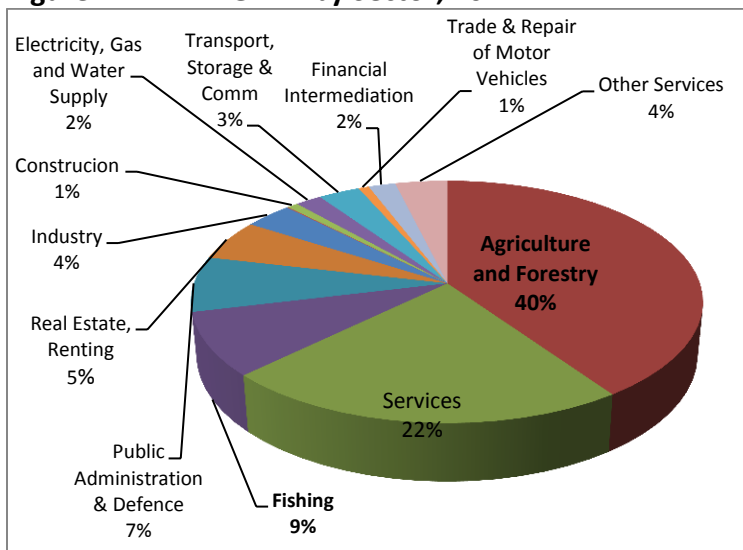
Working Paper No. 10

AGRICULTURE BASE AND PHYSICAL ENVIRONMENT OF THE ARMM¹⁵⁵

Introduction

Half of the Autonomous Region in Muslim Mindanao's (ARMM) economy is driven by agriculture, forestry and fishing sub-sectors. In 2012, these sectors accounted for 49% of ARMM's Gross Regional Domestic Product (GRDP) with agriculture and forestry contributing the bulk at 40% and fishing with 9%.¹⁵⁶ Of the total 3.3 million hectares of land in ARMM, 533,410 or 16% is agricultural in nature.

Figure 1. ARMM GRDP by Sector, 2012



Source: National Statistics Office

Agriculture

The region's agriculture sector is mainly anchored on food crops and coconut production. Data from the Bureau of Agriculture Statistics (BAS) shows that 202,801 hectares were devoted to palay and 298,812 hectares to corn in 2012. Cassava, the major temporary crop in the region, was planted to a total area of 95,777 hectares

¹⁵⁵ This paper was prepared by J.A. Cabanbang

¹⁵⁶ Source: National Statistics Office. These figures differ from the numbers of NSCB, which show for 2011, 63% of the ARMM GRDP is accounted for by agriculture, forestry and fishery. This discrepancy will be looked into.

of land in 2012. Coconut, on the other hand, is the most dominant among permanent crops with 315,939 hectares planted in 2012.

Table 4. Area Planted/Harvested by Crop, Province, in hectares, 2012^{d/}

| COMMODITY | AREA PLANTED (has) | | | | | | |
|-----------|--------------------|---------|----------|---------------|-------------|--------|-----------|
| | PHILIPPINES | ARMM | PROVINCE | | | | |
| | | | Basilan | Lanao del Sur | Maguindanao | Sulu | Tawi-Tawi |
| Corn | 2,593,825 | 298,812 | 509 | 114,507 | 181,525 | 1,129 | 1,142 |
| Palay | 4,689,960 | 202,801 | 1,547 | 62,921 | 136,277 | 1,632 | 350 |
| Coconut | 3,573,805 | 315,939 | 66,763 | 46,381 | 95,895 | 66,840 | 40,060 |
| Coffee | 119,999 | 13,746 | 3,296 | 2,440 | 4,275 | 3,610 | 125 |
| Rubber | 176,244 | 32,079 | 30,000 | 79 | 2,000 | .. | .. |
| Banana | 454,178 | 32,488 | 7,104 | 5,205 | 16,942 | 2,511 | 726 |
| Cassava | 217,977 | 95,777 | 17,474 | 31,000 | 700 | 27,665 | 18,938 |

.. Data not available

^{d/} Data Source: <http://countrystat.bas.gov.ph>

In recent years, areas for rubber production have increased from 22,034 in 2010 to 32,165 in 2012. There is also a noted increase in oil palm plantation from 805 hectares in 2010 to 1,935 hectares in 2012. The newly appointed agriculture secretary of the Department of Agriculture and Fisheries (DAF), Atty. Makmod Mending, is encouraging investors to invest in both palm oil and rubber plantations in the region. He is working closely with the Regional Board of Investments in enticing foreign investors to pour in capital inputs for profitable agricultural projects in the ARMM provinces. Mending said there are foreign investors willing to put up an oil palm processing plant in the first district of Maguindanao, provided local farmers comply first with a starting “cut off” of no less than 5,000 hectares of oil palm plantations in the area, as a requisite.¹⁵⁷ Production areas for the rest of the main crops in the region largely remained the same although there is increased demand for new sites for banana and cacao production areas.

Among ARMM’s five (5) provinces, Maguindanao has the most area devoted to agriculture at 154,708 hectares,¹⁵⁸ which accounts for 29% of the total agricultural area in ARMM. The potential expansion area for the province is also highest at 75,000 hectares. The province of Lanao del Sur is second in terms on potential expansion area but its current cultivated area is only 8% of the region’s total. Sulu, accounting for 17% of the total cultivated land in ARMM, has a potential expansion area of less than 10,000 hectares.

¹⁵⁷ Zamboanga Times, October 6, 2013

¹⁵⁸ RBOI-ARMM, *ARMM Regional Profile*,

www.rboiarmm.org/uploads/basic_facts/ARMM_Regional_Profile.doc (September 2013).

Table 3. Agricultural Area by Province in ARMM

| PROVINCE | AREA (has) | % OF ARMM TOTAL | EXPANSION AREA ^{c/} (has) |
|-----------------------------|--------------------|-----------------|------------------------------------|
| ARMM ^{b/} | 533,410 | | |
| Maguindanao ^{c/} | 154,708 | 29% | 75,575 |
| Lanao del Sur ^{c/} | 42,153 | 8% | 54,403 |
| Sulu ^{c/} | 92,165 | 17% | 9,227 |
| Tawi-Tawi ^{c/} | 32,320 | 6% | 20,150 |
| Basilan | data not available | -- | data not available |
| Total | | | 159,355 |

^{b/} Data Source: BAS, *Regional Profile: Autonomous Region in Muslim Mindanao (ARMM)*

^{c/} Data Source: RBOI-ARMM, *ARMM Regional Profile*.

Due to its topographical features, with a considerably large lowland area fed by the Rio Grande de Mindanao and other smaller rivers, Maguindanao, among ARMM's five (5) provinces, has the most area devoted to agriculture at 154,708 hectares,¹⁵⁹ which accounts for 29% of the total agricultural area in ARMM.

The suitability of Maguindanao to agriculture is further supported by a Type IV climate that has a relatively even distribution of rainfall throughout the year¹⁶⁰. The uncultivated area covered by Liguasan Marsh falls under the estimated 96,727 hectares preservation areas and the 293 hectares wetland areas of the province.

The province of Lanao del Sur, on the other hand, has a topography that is 60% rolling and 40% plain. Although it only accounts for 8% of the total cultivated agricultural land in ARMM, 54,400 hectares have been identified as its potential expansion area.

Of the island provinces, Sulu, with its mountain ranges, has the most land dedicated to agricultural 92,000 hectares. This area contributes 17% to the region's total agricultural land. With 3,610 hectares planted to coffee, Sulu contributes close to 5,000 metric tons or 46.9% to the region's total coffee production.

Basilan, predominantly planted to coconut, rubber and coffee, has an undulating rolling terrain suitable to perennial crops. This province supply 98% of the total rubber production of the region (see Annex 2).

¹⁵⁹ RBOI-ARMM.

¹⁶⁰ RBOI-ARMM.

Generally more marine-dependent, the province of Tawi-Tawi accounts for only 6% of the total agricultural area in ARMM at 32,000 hectares. The area is further challenged by the limitation of freshwater and irrigation source as some islands – such as South Ubian, Tandubas, Sapa-Sapa, Bongao, Simunul, Sitangkai and Turtle islands – have no underground water table.¹⁶¹

The trend in food production has been declining. In 2012, a total of 542,760 metric tons of palay was harvested in the ARMM. This is lower than that previous years' palay harvest of more than 576,000 metric tons as shown in Table 2. The slowdown in palay production can be partly attributed to the slow development of irrigation systems. Some 115,803 hectares remained as potential areas for irrigation as of 2012. This is only 18,087 hectares lower than the 133,890 hectares potential irrigation areas recorded in 2008, which means an irrigation accomplishment of only 13% in the last four (4) years. The limited irrigation facilities are attributed by the Institute for Autonomy and Governance (IAG) as one of the factors that ails the ARMM, resulting in low agricultural and industrial productivity. The IAG noted that two of the biggest Irrigation Projects are in ARMM (Kabulnan and Mal-Mar), yet there is no National Irrigation Agency (NIA) in ARMM.¹⁶²

The BAS also noted a declining corn production in the region in the last five (5) years. From 867,673 metric tons harvested in 2008, corn production has declined to 764,774 in 2012.

Table 4. Palay and Corn Production, ARMM, 2008-2012 (in M.T)

| | Annual | | | | |
|-------|------------|------------|------------|------------|------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 |
| Palay | 631,691.00 | 579,747.00 | 623,343.00 | 576,873.00 | 542,760.00 |
| Corn | 856,673.00 | 950,429.00 | 855,666.00 | 796,661.00 | 764,774.00 |

Source: Bureau of Agriculture Statistics

As shown in Table 5, the Crops Sector contributed most of the GVA in agriculture in 2011 and 2012, with PhP 48.6 billion (71%) and PhP 51.9 billion (73%), respectively. The Fisheries Sector, with a contribution of PhP 14 billion in 2012 is the second highest contributor to the regional GVA at 20%. Livestock, at PhP 3.5 billion, contributed 5% to the region's agricultural sector in 2012.

¹⁶¹ RBOI-ARMM.

¹⁶² IAG Policy Brief, "What ails ARMM", June 2011

Table 5. Value of Production in Agriculture of Selected Commodities by Subsector and Year at Current Prices (in million pesos) ^{a/}

| SUBSECTOR / COMMODITY | 2011 | | 2012 | |
|--------------------------|---------------------------|-------------------------------------|---------------------------|-------------------------------------|
| | Value (in PHP million) | Contribution to Regional GVA (%) | Value (in PHP million) | Contribution to Regional GVA (%) |
| CROPS | 48,632 | 70.9% | 51,945 | 73.4% |
| Palay | 7,660 | 11.2% | 8,157 | 11.5% |
| Corn | 10,683 | 15.6% | 9,636 | 13.6% |
| Coconut | 10,344 | 15.1% | 7,539 | 10.6% |
| Sugarcane | 111 | 0.2% | 149 | 0.2% |
| Banana | 2,267 | 3.3% | 5,000 | 7.1% |
| Coffee | 568 | 0.8% | 605 | 0.9% |
| Cassava | 11,918 | 17.4% | 12,716 | 18.0% |
| Rubber | 2,820 | 4.1% | 2,170 | 3.1% |
| Other Crops | 1,690 | 2.5% | 5,354 | 7.6% |
| LIVESTOCK | 4,108 | 6.0% | 3,525 | 5.0% |
| Carabao | 653 | 1.0% | 826 | 1.2% |
| Cattle | 1,543 | 2.3% | 1,152 | 1.6% |
| Hog | 1,301 | 1.9% | 1,050 | 1.5% |
| Goat | 610 | 0.9% | 496 | 0.7% |
| POULTRY | 1,245 | 1.8% | 1,279 | 1.8% |
| Chicken | 739 | 1.1% | 614 | 0.9% |
| Duck | 104 | 0.2% | 107 | 0.2% |
| Chicken Eggs | 303 | 0.4% | 405 | 0.6% |
| Duck Eggs | 97 | 0.1% | 152 | 0.2% |
| FISHERIES | 14,579 | 21.3% | 14,065 | 19.9% |
| Tilapia | 766 | 1.1% | 819 | 1.2% |
| Yellowfin Tuna | 732 | 1.1% | 828 | 1.2% |
| Seaweed | 4,324 | 6.3% | 3,544 | 5.0% |
| Others | 7,022 | 10.2% | 7,074 | 10.0% |
| TOTAL | 68,565 | | 70,815 | 100.0% |

^{a/}Source: <http://countrystat.bas.gov.ph>

Cassava production is the topmost agricultural product of ARMM by value, contributing PhP 2.7 billion (18%) to ARMM'S 2012 GVA. Other major commodities, in terms of GVA, are corn, palay, coconut and bananas.

The ARMM is a major producer of livestock. The BAS reported in 2012 that the region produced 12,446 metric tons of goats and 10,620 metric tons of cattle. The BAS also reported that chicken production in the region nearly reached 1.5 million metric tons with chicken eggs production at 421,058 metric tons.

Former National Economic and Development Authority (NEDA) Secretary Cielito Habito, citing background studies prepared by Rolando Dy and Roehlano Briones, describes the ARMM as full of contradictions. It is blessed with good agro-climatic environment and certain crops have better yields compared to other areas. Vast tracts of land are still available and wage rates are low, yet poverty rate has risen faster than in the rest of the country in the past decade. In the same presentation, Habito highlighted the fact that many areas in ARMM are prone to conflict mainly due to insurgency, presence of armed groups, clan rivalries and feuds (*rido*). He also mentioned the existence of conflict due to land tenure issues.

Despite the ARMM economy's dependence on the agriculture, fisheries and forestry sector, their value in terms of production relative to the country's total is yet to prove significant. In a policy brief by the Institute for Autonomy of Governance and Konrad-Adenauer-Stiftung in 2011, agricultural productivity was deemed low.¹⁶³ The potential for this sector, however, is large. With at least 160,000 hectares for potential expansion in the five (5) provinces, if fully realized, ARMM's total cultivated land may cover at least 7% of the country's total agricultural land of 9.7 million hectares.

Furthermore, as of 2012, irrigation in ARMM is only at 34% for its total irrigable land of 1162,300 hectares.¹⁶⁴ This is despite the location of Kabulnan and Mal-Mar, two (2) of the country's biggest irrigation projects. If the remaining potential area for irrigation of 132,000 hectares is developed, agricultural production will certainly increase.

Fisheries

With a total coastline of 3,232.29 kilometers, the region accounts for 19% of the country's total. In 2012, ARMM posted the highest fisheries production among all regions with an 18% (0.9 million metric tons) share of the national fisheries production. However, in terms of value of fish production, ARMM does not rank the highest – in 2010, for instance, it only ranked 6th with PhP 14 billion.¹⁶⁵

Seaweed accounted for the majority of the region's total fisheries production¹⁶⁶ with the provinces of Sulu and Tawi-Tawi contributing 72% of the country's total seaweed

¹⁶³ Institute for Autonomy and Governance, 2011 June, *What Ails ARMM?*, IAG Policy Brief 2011, kas_23597-1522-1-30.pdf

¹⁶⁴ NSCB, 2012. 2012 PSY.

¹⁶⁵ BFAR, PHILIPPINE FISHERIES PROFILE 2010, [http://www.bfar.da.gov.ph/pages/AboutUs/maintabs/publications/pdf%20files/2010%20Fisheries%20Profile%20\(Final\).pdf](http://www.bfar.da.gov.ph/pages/AboutUs/maintabs/publications/pdf%20files/2010%20Fisheries%20Profile%20(Final).pdf) (August 2013).

¹⁶⁶ BFAR, HIGHLIGHTS, <http://www.bfar.da.gov.ph/pages/aboutus/maintabs/publications/highlights.html> (September 2013)

production.¹⁶⁷ Endowed with rich aquatic and marine resources, especially in the provinces of Basilan, Sulu and Tawi-tawi, the region covers a total Territorial Water Area of 18,426,613 hectares¹⁶⁸ or 8% of the Philippines 220 million hectares¹⁶⁹ of total Territorial Waters (Table 6).

Table 6. Breakdown of Philippine and ARMM Marine Resources.

| MARINE RESOURCES | PHILIPPINES ^{d/} | ARMM | |
|--------------------------|---------------------------|--------------------|---------------|
| | | AREA ^{e/} | % TO NATIONAL |
| Coastline (km) | 17,460.00 | 3,232.29 | 19% |
| Shelf Area (has) | 18,460,000.00 | 2,811,141.07 | 15% |
| Territorial Ocean Waters | 220,000,000.00 | 18,426,613.00 | 8% |

^{d/}Source: BFAR, BFAR Fisheries Profile 2010.

^{e/}Source: BFAR-ARMM, ARMM Fisheries Profile, 2011

Apart from its marine resources, ARMM's fishery sector also has inland resources, supporting freshwater fisheries, located mostly in the mainland provinces of Maguindanao and Sulu.

Table 7. List of Major Inland Resources in ARMM¹⁷⁰

| INLAND RESOURCE | AREA (has) | LOCATION |
|--------------------------|---------------|----------------------------------|
| 1. Wetlands/ Swamp Lands | 68,801 | |
| Liguasan Marsh | more than 1.0 | Maguindanao |
| Butilen Marsh | | Datu Piang, Maguindanao |
| 2. Lakes | | |
| Lake Lanao | 34,700 | Lanao del Sur |
| Lake Dapo | 1,000 | Pualas, Lanao del Sur |
| Lake Buluan | 6,500 | Buluan, Mangudadatu, Maguindanao |
| Lake Darapanan | 9 | Sultan Kudarat, Maguindanao |
| Lake Balut | 206 | Sultan Mastura, Maguindanao |
| Seit Lake | 120 | Panamao, Sulu |
| 3. Major Rivers | | |
| Rio Grande de Mindanao | | transverses Maguindanao |
| Agus River | | Lanao del Sur |

¹⁶⁷ RBOI-ARMM, Basic Facts, www.rboiarmm.org/Default/Info_Center/Basic_Facts?performAction=Display&article_id=20 (September 2013).

¹⁶⁸ BFAR, PHILIPPINE FISHERIES PROFILE 2010.

¹⁶⁹ BFAR, FISHERIES SECTOR OVERVIEW, <http://www.bfar.da.gov.ph/pages/Programs/gma-fisheriessector.html> (September 2013).

¹⁷⁰ Source: BFAR-ARMM, ARMM Fisheries Profile, 2011.

As shown in the table above, ARMM’s major lakes and wetlands cover more than 112 thousand hectares. This total does not include the minor lakes and marshlands in the region.

These aquatic ecosystems not only present a rich source of fisheries, but are also critical to the island-region of Mindanao’s energy sector. Other fisheries-related resources are listed in detail in Annexes 3 – Fishery Resources of ARMM and 4 – ARMM Production Areas.

Forestry

The forestry sector covers all forestry-related activities and products such as timber tract operations, forest nurseries, gathering of forest products, and logging. This sector, however, does not only involve production and supply-side, but emphasis is now shifting to the sustainable management of forest resources in the interest of securing the watersheds, regulating climate and preventing soil erosion.¹⁷¹

In a 2010 ESSC study, it was determined that 21% of ARMM’s total land area is covered by forest.¹⁷² This indicates an 8% decrease in forest cover. From the observation of de la Paz & Colson (2008), forest cover in ARMM was 29% in 2002, the lowest among the Philippine regions.

Table 5. Status of Land Classification by Province in ARMM, as of 31 December 2006

| REGION/ PROVINCE | TOTAL LAND AREA (has) ^{g/} | A & D LAND (has) ^{g/} | TOTAL FOREST LAND (has) ^{g/} | FOREST COVER (has) ^{f/} |
|-----------------------|--|-----------------------------------|--|--|
| Philippines | 30,000,000 | 14,207,582 | 15,792,418 | |
| ARMM | 1,160,829 | 542,827 | 618,002 | |
| Lanao del Sur | 387,289 | 133,135 | 254,154 | 177,949 |
| Maguindanao | 504,760 | 306,622 | 198,138 | 38,669 |
| Sulu | 160,040 | 47,687 | 112,353 | 25,400 |
| Tawi-Tawi | 108,740 | 55,383 | 53,357 | 23,290 |
| Basilan ^{f/} | 110,310 | 76,873 | 33,437 | 17,332 |

^{g/} Data Source for Forest Cover & Basilan: DENR-ARMM at <http://denarmmgov.ph/index.php/land-management-services/82-land-management-services/92-forest-land-cover-in-armm> (September 2013)

^{f/} Data Source: NSCB, 2012 Philippine Statistical Yearbook

¹⁷¹ De la Paz & Colson, 2008.

¹⁷² Walpole, Pedro, 2010, ESSC at cited by Tan, Antonio, & Habito, 2012. p. 16.

As indicated in the table above, the province of Lanao del Sur accounts for most of the forest land (41%), followed by Maguindanao (32%). Basilan, has the smallest forest cover at 33,000 hectares or roughly 9% of the region's total.

According to the National Statistical Coordination Board (NSCB, 2012), of the 618,002 hectares of forest land in 2006, only 56,302 hectares (9%) are protected as Forest Reserve or National Park. Seventy-five percent (75%) of the ARMM forest land, on the other hand, is classified as established timberland.¹⁷³

The Physical Environment

Given the emphasis on the holistic “ridge-to-reef” approach to sustainable development, the island of Mindanao and ARMM, in particular, offers the potential to showcase how the breadth of ecosystems present in the Philippines, ranging from the upland to the coast and islands, could support sustainable and equitable development.

Key natural resources that shape the environment and economy of ARMM also cover and influence other regions.

The Liguasan Marsh

A major wetland covering 288,000 hectares of swamp in the provinces of Maguindanao, North Cotabato and Sultan Kudarat, this marsh serves as a source of water and irrigation for the lowlands of Central Mindanao.¹⁷⁴ The marsh supports the livelihood of around 1.1 million people, mostly Maguindanaon Muslims in the area,¹⁷⁵ mainly through fishing and agriculture.

The marsh supports a rich wildlife. In an inventory of wildlife and vegetation in 1999, a total of 218 species of flora and fauna were identified. It is known to be the home of the following species: rare oriental darter (*Anhinga melanogaster*), purple swamp hen (*Porphyrio porphyrio*), the threatened Philippine hawk eagle, spotted imperial pigeon, and the rufous-lored kingfisher. It is believed to be the last home of the endangered Philippine crocodile (*Crocodylus mindorensis*).¹⁷⁶

The marsh is considered one of the main strongholds of insurgents, making the area the regular venue of violent encounters between the government and armed

¹⁷³ NSCB, PSY 2012.

¹⁷⁴ De la Paz, Ma. Corazon & Colson, Lisa, *Population, Health, and Environment Issues in the Philippines: A Profile of the Autonomous Region in Muslim Mindanao (ARMM)*, 2008, Population Reference Bureau, <http://www.prb.org/Publications/Reports/2008/armm.aspx> (August 2013).

¹⁷⁵ NSO, 2000 as cited by NEDA, *Mindanao Peace and Development Framework: 2011-2030 (Mindanao 2020)*, p.70.

¹⁷⁶ De la Paz & Colson, 2008.

insurgents. Key threats to the marsh, as identified by de la Paz & Colson, include logging, siltation, diversion of and obstruction of river flows, infill of marshlands for conversion to agriculture, conflicts, and the introduction of exotic species.¹⁷⁷

Lake Lanao

Located in Lanao del Sur, it is the second largest lake in the country. Lake Lanao covers an area of 340 km² and is the largest in Mindanao.

Figure 2. The Lake Lanao - Agus River Basin

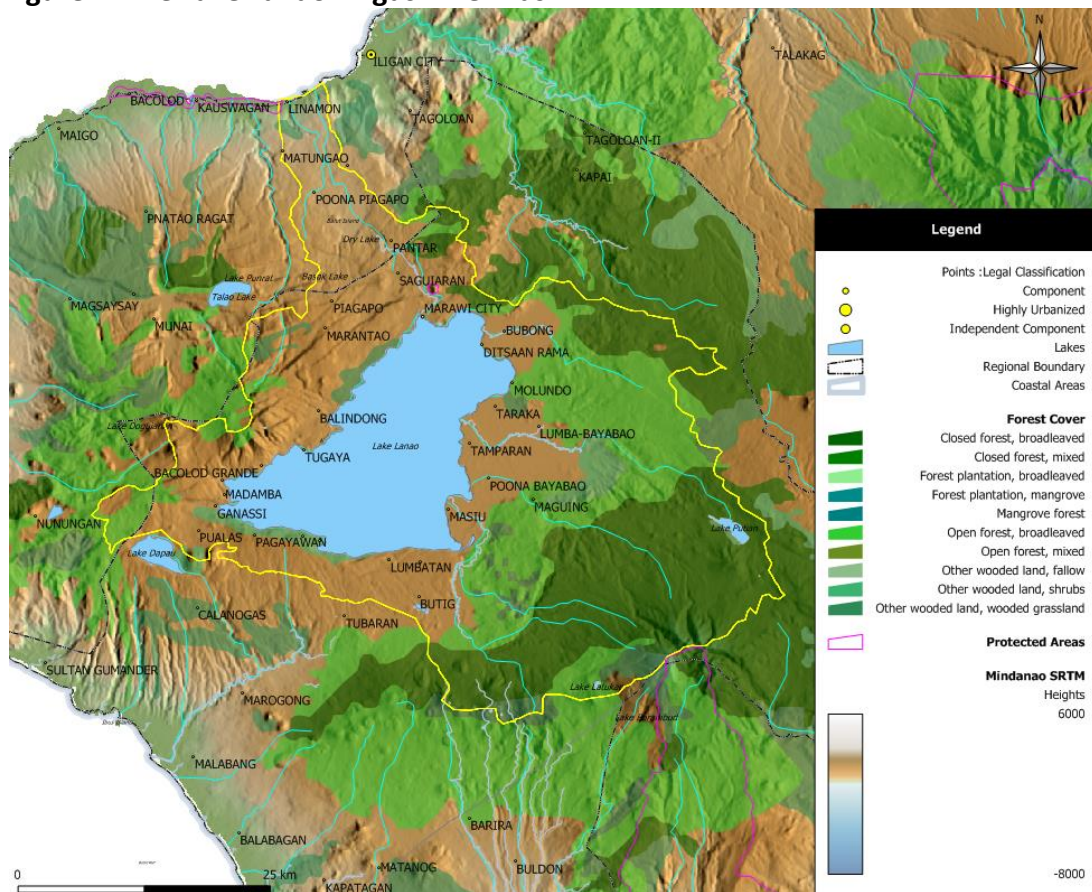


Image Source: MinDA, <http://now.minda.gov.ph:32706/SitePages/Riverbasin%20Profile.aspx>

It supports the Maria Cristina hydroelectric plant, the largest source of hydroelectric power in Mindanao, and serves as the source of water for six (6) Agus hydropower plants of NAPOCOR, “which contribute about 35-40% of the power needs of Mindanao.”¹⁷⁸ Of the six (6) Agus Hydroelectric Power Plants, two (2) are within the

¹⁷⁷ De la Paz & Colson, 2008.

¹⁷⁸ Gonzales, Iris, *Lake Lanao water level dropping, says Napocor*, April 10, 2013, <http://www.philstar.com/nation/2013/04/10/928804/lake-lanao-water-level-dropping-says-napocor> (August 2013)

administrative province of Lanao del Sur (Agus 1 & 2). The rest are in Lanao del Norte.

Figure 3. Location Map of the Agus (1-7) Hydroelectric Power Plants



Image Source: NPC

According to de la Paz & Colson (2008), the lake was once considered one of the most biodiverse lakes in the world, but persistent abuse through logging and pollution, particularly from Marawi City, have significantly degraded its water quality.¹⁷⁹

Pulangi Watershed

Although the headwaters of the Pulangi River, one of the largest river systems in the country, is not located in ARMM but in Bukidnon, it feeds the rivers and water systems of almost half of Mindanao.

¹⁷⁹ De la Paz & Colson. 2008.

Figure 4. The Pulangi Watershed

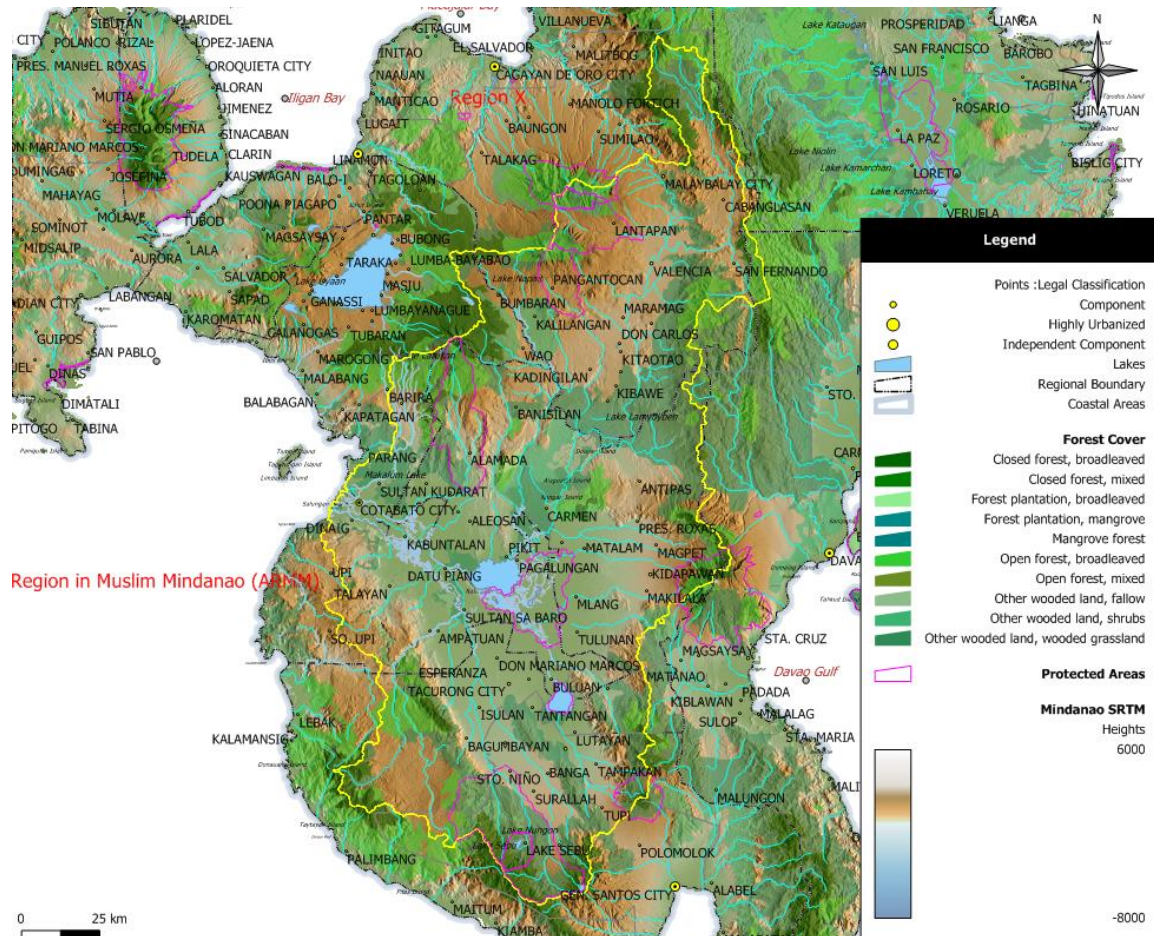


Image Source: MinDA, <http://now.minda.gov.ph:32706/SitePages/Riverbasin%20Profile.aspx>

As shown in the figure above, Pulangi flows southward to the Rio Grande de Mindanao, the largest river system in Mindanao which, in turn, feeds the plains of Cotabato and eventually empties into Illana Bay.

Fortunately, Mindanao is blessed with extensive water systems with two (2) of its river systems among the largest in the country. It has 256 watersheds,¹⁸⁰ of which Agusan and Pulangi are among the largest in the country.¹⁸¹

¹⁸⁰ NEDA, *Mindanao Peace and Development Framework: 2011-2030 (Mindanao 2020)*.

¹⁸¹ Mindanao Development Authority (2012), *Revisiting the Mindanao Power Sector Paper* presented at the Roundtable Discussion organized by Aksyon Klima Pilipinas and Ateneo de Davao University's Centre for Renewable Energy and Alternative Technologies (CREATE) on July 28, 2012, Davao City.

Island ecosystems of Sulu and Tawi-Tawi

Twenty-five percent of the remaining coral reef structures in the Philippines are within the provincial boundaries of Tawi-Tawi in ARMM (de la Paz & Colson, 2008). With the strain brought about by uncontrolled population growth and illegal fishing practices, these ecosystems have been experiencing significantly high environmental stress and degradation.

Other features of the marine ecosystems of Sulu and Tawi-Tawi include:

- Forty-three percent (43%) of Mindanao's total mangrove area can be found in ARMM, most of which are found in Sulu and Tawi-Tawi;¹⁸² and
- The Tubbataha Reefs National Marine Park, located in the center of the Sulu Sea and northwest of ARMM, is the nation's first marine park and the first natural UNESCO World Heritage Site in the country.¹⁸³

Environmental Concerns

The area of natural resources has been identified in Mindanao 2020 as one of the 16 key drivers to Mindanao's present and future development. As a challenge, depletion is the key concern on this "driver," while the opportunity posed is regeneration.¹⁸⁴ In a related paper by Lorenzo Tan, et al. (2012), an economy-environment trade-off in Mindanao was posited. Tan, et al identified the socio-economic activities of the private sector, along with failures in public and private policy, as the main cause of environmental, coastal and marine degradation in Mindanao.¹⁸⁵ They further listed following threats to the environment¹⁸⁶:

In the coastal zone

- illegal and destructive fishing methods;
- silted and degraded mangroves;
- mangrove cutting; and

¹⁸² Tan, Jose Ma. Lorenzo, Antonio, Ella & Habito, Cielito, *Managing Mindanao's Natural Capital: The Environment in Mindanao's Past, Present and Future*, Brain Trust: Knowledge and Options for Sustainable Development, Inc., 2012. p. 19.

¹⁸³ De la Paz & Colson. 2008.

¹⁸⁴ NSO, 2000 as cited by NEDA, *Mindanao Peace and Development Framework: 2011-2030 (Mindanao 2020)*, p.65.

¹⁸⁵ Lorenzo Tan, Jose Ma., Antonio, Ella & Habito, Cielito, 2012. *Managing Mindanao's Natural Capital: The Environment in Mindanao's Past, Present and Future*, Brain Trust: Knowledge and Options for Sustainable Development, Inc., 2012. p. 23.

¹⁸⁶ Lorenzo Tan et al., 2012, p.22.

- intrusion of commercial fishing vessels in municipal waters resulting to overfishing.

In the *uplands*

- depletion of forest resources;
- siltation due to uncontrolled timber poaching;
- siltation due to traditional agricultural practices;
- pollution due to farm residues and wastes;
- poorly managed land conversion;
- mining; and
- lack of appropriate water and soil conservation measures.

However, despite the dismal picture painted on the ARMM environment, the opportunity is there for the private sector to step in and lead an “enlightened Mindanao-centric” development that could “evolve into the realm of participative and expanding public-private endeavors.”¹⁸⁷

With the recognition of the watersheds as the “lifeblood of Mindanao,”¹⁸⁸ it is now becoming the center of integrated development. Connected to this is the importance of alliances that cross over political boundaries where critical ecosystems are located. Of special mention in Mindanao 2020 is the Southwestern Liguasan Alliance of Municipalities (SLAM) consisting of the following Maguindanao local government units (LGUs): Paglat, Datu Paglas, Sultan sa Barongis, and S.K. Pendatun. The SLAM cluster, as an environmental alliance, focuses on working together to find solutions to common problems of the LGUs¹⁸⁹, one of which is the preservation and sustainable development of the Liguasan Marsh.

¹⁸⁷ Lorenzo Tan et al, 2012, p.25.

¹⁸⁸ NEDA, 2011. *Mindanao Peace and Development Framework: 2011-2030 (Mindanao 2020)*, p.70

¹⁸⁹ NEDA, 2011. *Mindanao Peace and Development Framework: 2011-2030 (Mindanao 2020)*, p.81.

Annex 1. Regional Profile: Autonomous Region in Muslim Mindanao (ARMM)

9/4/13

Regional Profile: Autonomous Region in Muslim Mindanao (ARMM)

Regional Profile: Autonomous Region in Muslim Mindanao (ARMM)

| | |
|-----------------------------------|--|
| Characteristics | |
| Total Land Area: | 3,351,129 has. |
| Provinces: | 5 |
| Cities: | 2 |
| Municipalities: | 116 |
| Barangays: | 2,490 |
| Agricultural Land Area: | 533,410 ha. |
| Temporary Crop Land: | 282,687 ha. |
| Idle Land: | 1,924 ha. |
| Permanent Crop Land: | 235,761 ha. |
| Meadows/Pasture: | 922 ha. |
| Forest Land: | 2,407 ha. |
| Other Land: | 6,919 ha. |
| Population (2010) | |
| Total Population: | 3,256,140 |
| Growth Rate (2000-2010): | 1.51 percent |
| Climate: | Type III & IV |
| Dialect: | Banguingul, Maguindanao, Maranao, Tausug, Yakan, Samal |
| Poverty incidence among families: | 38.10 percent |

| | |
|-----------------------------------|--|
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| Poverty incidence among families: | 38.10 percent |

Gross Output in Agriculture: Growth Rate by Subsector, ARMM, 2011

| Sector | Growth Rate 2010-2011 (percent) |
|-------------|---------------------------------|
| Agriculture | (2.17) |
| Crops | (3.67) |
| Livestock | 3.30 |

Geographical Background

The Autonomous Region in Muslim Mindanao (ARMM) is located in Southern part of the Philippines. It was created by virtue of the Republic act No. 6734 which signed into Law by the Late President Cory C. Aquino on August 1, 1989. The plebiscite was conducted in the proposed area of ARMM on November 17, 1989. These were the provinces of Maguindanao, Lanao del Sur, Sulu and Tawi-Tawi.

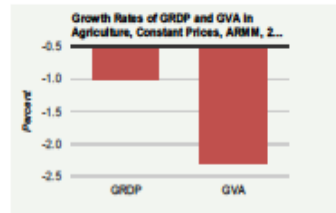
The Region was strengthened and expanded through ratification of Republic Act No. 9054, amending for the purpose of Republic Act No. 6734, entitled "An Act Providing for the ARMM" as amended in September 2001, the plebiscite paved way to the inclusion of the Province of Basilan and the City of Marawi as part of ARMM.

Economy

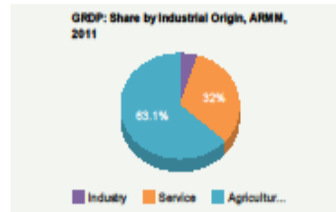
GRDP and GVA in Agriculture, ARMM, 2011

| Item | At Current Prices | At Constant 2000 Prices |
|--------------------|-------------------|-------------------------|
| (In million pesos) | | |
| GRDP | 86,048 | 45,212 |
| GVA | 58,287 | 28,505 |

GRDP = Gross Regional Domestic Product
GVA = Gross Value Added in Agriculture, Fishery, and Forestry



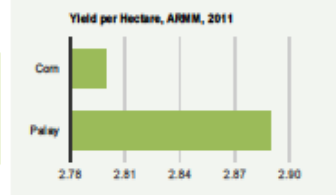
ARMM contributed 0.76 percent to the country's Gross Domestic Product. In 2011, GRDP declined by 1.00 percent. Agriculture, Fishery and Forestry Sector accounted for 63.10 percent of the regional economy. It recorded a 2.30 percent decline in 2011.



Production

Production and Area, ARMM, 2011

| Crop | Production (metric ton) | Area (hectare) |
|-------|-------------------------|----------------|
| Palay | 576,873 | 199,524 |
| Corn | 796,661 | 284,128 |



In 2011, palay production was 576,873 metric tons. It was 7.45 percent lower than 2010 level. Area harvested at 199,524 hectares decreased by 3.90 percent from 2010 record. Corn production at 796,661 metric tons and area at 284,128 hectares decreased by 6.90 percent and 9.03 percent from 2010 levels, respectively.

In 2011, agricultural production decreased by 2.17 percent. This was due to the output declines in Crops and Poultry Sector by 3.67 and 5.73 percent, respectively. The crop subsector comprised 69.89 percent of the total agricultural production in

Annex 1. Other Crops: Volume of Production by Crop, Geolocation and Year (MT).

| COMMODITY | AREA | YEAR | |
|------------------------------|------------------------|---------------|---------------|
| | | 2011 | 2012 |
| Coconut (with husk) | PHILIPPINES | 15,244,609.30 | 15,862,385.83 |
| | ARMM | 1,269,268.40 | 1,311,218.90 |
| | Basilan | 196,102.00 | 204,023.35 |
| | Lanao del Sur | 175,153.50 | 174,345.60 |
| | Maguindanao | 541,040.90 | 563,370.50 |
| | Sulu | 200,492.00 | 206,917.70 |
| | Tawi-Tawi | 156,480.00 | 162,561.75 |
| | Coffee (dried berries) | PHILIPPINES | 88,526.09 |
| ARMM | | 10,889.62 | 10,628.57 |
| Basilan | | 1,938.75 | 1,878.68 |
| Lanao del Sur | | 290.92 | 292.47 |
| Maguindanao | | 3,355.35 | 3,369.05 |
| Sulu | | 5,186.70 | 4,985.25 |
| Tawi-Tawi | | 117.90 | 103.12 |
| Oil Palm (fresh fruit bunch) | | PHILIPPINES | 540,913.49 |
| | ARMM | 18,795.20 | 60,426.75 |
| | Basilan | .. | .. |
| | Lanao del Sur | .. | .. |
| | Maguindanao | 18,795.20 | 60,426.75 |
| | Sulu | .. | .. |
| | Tawi-Tawi | .. | .. |
| | Rubber (cuplump) | PHILIPPINES | 425,704.83 |
| ARMM | | 35,634.93 | 40,848.60 |
| Basilan | | 34,981.24 | 40,048.10 |
| Lanao del Sur | | 476.69 | 493.50 |
| Maguindanao | | 177.00 | 307.00 |
| Sulu | | .. | .. |
| Tawi-Tawi | | .. | .. |
| Banana | | PHILIPPINES | 9,165,046.44 |
| | ARMM | 416,909.57 | 440,198.01 |
| | Basilan | 24,664.83 | 23,789.45 |
| | Lanao del Sur | 106,669.37 | 105,856.56 |
| | Maguindanao | 258,562.86 | 283,940.49 |
| | Sulu | 17,970.00 | 17,814.00 |
| | Tawi-Tawi | 9,042.51 | 8,797.51 |
| | Cassava | PHILIPPINES | 2,209,684.03 |
| ARMM | | 1,007,453.58 | 1,018,968.97 |
| Basilan | | 245,923.55 | 249,966.00 |

| COMMODITY | AREA | YEAR | |
|-----------|---------------|------------|------------|
| | | 2011 | 2012 |
| | Lanao del Sur | 485,744.67 | 495,878.00 |
| | Maguindanao | 3,732.00 | 3,653.00 |
| | Sulu | 173,800.00 | 172,990.00 |
| | Tawi-Tawi | 98,253.36 | 96,481.97 |

.. Data not available

Source: <http://countrystat.bas.gov.ph>

Annex 3. Fishery Resources of ARMM (Source: BFAR-ARMM, *ARMM Fisheries Profile*, 2011)

A. General Information

| | Mag | LDS | Basilan | Sulu | Tawi-Tawi | ARMM |
|-------------------------------|--------------------------------------|--------------------------------------|----------------|-------------|------------------|-------------|
| No. of Coastal Municipalities | 25 (6- Marine, 19 – Inland) | 26 (4- Marine, 22 – Inland) | 12 | 19 | 11 | 93 |
| No. of Coastal Barangay | 357 | 1,190 | 88 | 124 | 196 | 1,955 |
| No. of Fishing Households | 61,385 | 26,791 | 5,083 | 93,500 | 25,035 | 211,974 |
| No. of Municipalities | 36 | 34 | 12 | 19 | 11 | 113 |

Note: NSCB Reports as [of] 2009

B. Marine Resources

1. Total Territorial Water Area = 18,426,613 ha
2. Shelf Area = 2,811,141.07 ha
3. Coastline (length) = 3,232.29 km

C. Inland Resources

| INLAND RESOURCE | AREA (has) | LOCATION |
|--------------------------|-------------------|-------------------------------------|
| 1. Wetlands/ Swamp Lands | 68,801 | Maguindanao |
| Liguasan Marsh | more than 1.0 | Datu Piang, Maguindanao |
| Butilen Marsh | | |
| 2. Lakes | | |
| Lake Lanao | 34,700 | Lanao del Sur |
| Lake Dapo | 1,000 | Pualas, Lanao del Sur |
| Lake Buluan | 6,500 | Buluan, Mangudadatu, Maguindanao |
| Lake Darapanan | 9 | Sultan Kudarat, Maguindanao |
| Lake Balut | 206 | Sultan Mastura, Maguindanao |
| Seit Lake | 120 | Panamao, Sulu |
| 3. Major Rivers | | |
| Rio Grande de Mindanao | | transverses Maguindanao |
| Agus River | | Lanao del Sur |

D. Fisheries Support Service

| Sector | Province | | | | |
|---|--------------------------------|------------------------------------|--------------------------------------|-------------------|----------------------|
| | Mag | LDS | Basilan | Sulu | Tawi-Tawi |
| Commercial | | | | | |
| No of Commercial Fishing Boat Operators | 8 | 38 Small scale | 26 | 3,700 | 20 |
| Fishing Gear | Bag net, Purse Seine, Ring net | Bag net, Ring net | Mini ring net, Purse Seine, Ring net | Ring net, bag net | Ring net |
| Fishing Ground | Illana Bay, Moro Gulf | Illana Bay, Moro Gulf | Basilan Straits, Zamboanga City | Sulu Sea | Celebes Sea Sulu Sea |
| Municipal | | | | | |
| No of Fishermen (full time) | 10,744 | 5,319 | 15,249 | 3,618 | 154,545 |
| No of Fishermen (part-time) | 1,873 | 500 | 3,740 | - | 51,515 |
| No of Motorized Banca | 1,346 | 495 | 3,748 | 10,400 | 10,790 |
| No of Non-Motorized Banca | 6,887 | 1,691 | 8,053 | 12,765 | 9,605 |
| Aquaculture | | | | | |
| Brackish water Fishpond (Privately-Owned) | 501.30 | | 2.00 | 94.00 | - |
| Freshwater Fishpond (Privately-Owned) | 15.100 | 255.559 1.5000 (Marawi City) | 5.3000 | - | - |
| Mariculture Marine Fish Cage | 1.10 | - | 3.55 | 39.00 | 1.01 |
| Marine Fish Pen | | | 4.71 | 28.00 | 15.35 |
| Freshwater Cages & Pens | 655.00 | 1.74 | - | - | - |
| Freshwater Fish Cage | | | | | |
| Freshwater Fish Pen | 1,248.00 | 2.25 | - | - | - |

E. Fisheries Regulation Implementation, Monitoring and Enforcement

| | Mag | LDS | Basilan | Sulu | Tawi-Tawi |
|--|-----------------------------------|-----|---------|------|-----------|
| Commercial Fishing License | | | | | |
| No of Licensed Commercial Fishing Vessel | - | - | 26 | 4 | 7 |
| No of Licensed Fish Workers | - | - | 260 | 36 | |
| No of Licensed Fishermen | - | - | 260 | 36 | |
| Protected Area | | | | | |
| Total Area | 305 | - | 150 | 38 | 250 |
| Total No of Mangrove Rehabilitation | 6 Municipalities (16 Brgys) | - | 23 | 32 | 5 |
| Total No of Fish Sanctuaries | - | - | 11 | 1 | 25 |

Annex 4. ARMM Fisheries Production Areas (Source: BFAR-ARMM, ARMM Fisheries Profile, 2011)

A. Fishpond Lease Agreement (FLAs)

| Province | Area (has) | |
|-------------|-------------|-----------------|
| | Operational | Non-Operational |
| Maguindanao | 93.00 | 32.356 |
| Sulu | 50.00 | - |
| Basilan | 367.25 | 1,478.733 |
| Total Area | 510.25 | 1,511.089 |

B. Brackishwater Fishpond (Privately-Owned)

| Province | Area (has) | |
|-------------|-------------|-----------------|
| | Operational | Non-Operational |
| Maguindanao | 501.30 | 160.50 |
| Sulu | 94.00 | - |
| Basilan | 2.00 | - |
| Total Area | 597.30 | 160.5 |

C. Freshwater Fishpond (Privately-Owned)

| Province | Area (has) | |
|---------------|-------------|-----------------|
| | Operational | Non-Operational |
| Maguindanao | 15.100 | - |
| Lanao del Sur | 227.059 | - |
| Basilan | 5.300 | - |
| Total Area | 247.459 | |

D. Freshwater Cages and Pens

| Province | Fish Cage Area (has) | Fish Pen Area (has) |
|---------------|----------------------|---------------------|
| Lanao del Sur | 1.74 | 2.25 |
| Maguindanao | 655.00 | 1,248.00 |
| Total Area | 656.74 | 1,250.25 |

E. Marine Cages and Pens

| Province | Fish Cage Area (has) | Fish Pen Area (has) |
|-------------|----------------------|---------------------|
| Basilan | 3.55 | 3.71 |
| Maguindanao | 1.10 | - |
| Tawi-Tawi | 39.00 | 28.00 |
| Sulu | 1.01 | 15.35 |
| Total | 44.66 | 47.06 |

F. Seaweed Farms

| Province | Existing Area (has) | Potential Area (has) |
|-------------|---------------------|----------------------|
| Basilan | 209.00 | 605.00 |
| Maguindanao | 255.00 | 80.00 |
| Sulu | 5,325.00 | 976.00 |
| Tawi-Tawi | 23,990.00 | 20,750.00 |
| Total | 29,779.00 | 22,411.00 |

Annex 5. ARMM Fisheries Infrastructure and Post-Harvest Facilities (Source: BFAR-ARMM, ARMM Fisheries Profile, 2011)

A. Fish Landing Centers (FLC) by Province

| Province | No. of FLC |
|---------------|------------|
| Basilan | 31 |
| Lanao del Sur | 80 |
| Maguindanao | 34 |
| Marawi City | 11 |
| Sulu | 52 |
| Tawi-Tawi | 65 |
| Total | 273 |

B. No. of Fish Port and Pier

| Province | No. of FPP |
|---------------|----------------------|
| Basilan | 1 Fishport & 3 Piers |
| Lanao del Sur | - |
| Maguindanao | 1 |
| Marawi City | 4 |
| Sulu | 1 |
| Tawi-Tawi | 11 |
| Total | 21 |

C. No. of Existing Fisheries Processing Plants

| Province | No. of Fish Processing Plants | Seaweeds Processing Plants |
|---------------|--------------------------------|----------------------------|
| Lanao del Sur | 34 individual small processors | - |
| Maguindanao | 3 | 1 |
| Sulu | 1 | - |
| Tawi-Tawi | - | 1 |
| Total | 4 & 34 small processors | 2 |

D. No. of Hatcheries / Fish Farms

| Province | No. of Hatcheries / Fish Farms |
|---------------|--------------------------------|
| Lanao del Sur | 1 |
| Maguindanao | 1 |
| Tawi-Tawi | 2 |
| Total | 4 |

E. No. of Mariculture Parks

| Province | No. of Mariculture Parks |
|-----------|--------------------------|
| Basilan | 1 |
| Tawi-Tawi | 2 |
| Total | 3 |

Annex 6. List of ARMM Natural Tourist Spots

Maguindanao

- o Barurao Springs – Balabagan
- o Blue Lagoon (Margues Lagoon), Datu Odin Sinsuat
- o Bongo Diving Spot – Parang
- o Hot Spring – Benolen, Datu Odin Sinsuat
- o Iga-Bai Waterfalls – Balabagan
- o Kanapnapan Falls – Marogong
- o Kiga Falls, Sapalan Falls and Tubuan Falls – North Upi
- o Lake Balut - Sultan Kudarat

- o Lake Dapao – Pualas
- o Limpongo Hotspring - Shariff Aguak
- o Mabul Beach – Malabang
- o Maputi na Lupa – Masiu
- o Mt. Magaturing – Butig
- o Punta Beach - Parang
- o Sapalan Waterfalls Hotspring – Sapalan, Datu Odin Sinsuat
- o Sumpitan Falls – Balindong
- o Tumungay Lake - Sultan Kudarat

Lanao del Sur

- o Agus River - Marawi City
- o Angoyao Hills
- o Bagang Beach - Marawi City
- o Barurao Springs - Balabagan
- o Iga-Bai Waterfalls - Balabagan
- o Islets Balindong, Tugaya, B.Kalawi and Binidayan in Lake Lanao
- o Kanapnapan Falls - Marawi City
- o Lake Dapao - Pualas
- o Sacred Mountain National Park - Marawi City
- o Signal Hill, Arumpac Hill & Mt. Mupo - Marawi City
- o Sumpitan Falls - Balindong
- o The Sleeping Lady

Basilan

- o Balagtasan Falls – Malawani Island
- o Balas Beach - Lamitan
- o Block 35 Falls – Menzi Plantation
- o Bulingan Falls - Lamitan
- o Kumalarang Waterfall – Maluso
- o Malamaui Island – Malamawi Island
- o Palm Beach – Lamitan

- o Tabiawan and Busay Waterfalls – Malawani Island
- o White Beach – Malamaw Island

Sulu

- o Bangas Island – Panglima Tahil
- o Jikiri Cave – Patian Island, Pata
- o Kabingaan Island - Siasi
- o Lahat-Lahat Island - Jolo

- o Lake Panamao - Talipao
- o Lake Seit - Talipao
- o Laminusa Island - Siasi
- o Maubuh Beach - Jolo
- o Mount Datu – Indanan
- o Mt. Bud Daho - Patikul
- o Mt. Bud Tumantangi - Jolo
- o Pala River – Talipao
- o Quezon Beach
- o Tandu Beach - Patikul

- o Tapaan Island – Pandami
- o Tara Island - Siasi

Tawi-Tawi

- o Biraddali Waterfalls – Languyan
- o Bolobok Cave - Bongao
- o Bongao Peak – Bongao
- o Gusong Reef - Cagayan de Tawi-Tawi (Mapun)
- o Kaban-Kaban Natural Swimming Pool – Simunul
- o La Island Beach - La Island
- o La Island Beach – Tubig, Indangan
- o Manuk – Mangkaw (Floating Island) – Manuk-Mangkaw
- o Marlboro Beach - Cagayan de Tawi-Tawi (Mapun)
- o Panampangan Island Beach - Sapa-sapa
- o Pearl Farm – Languyan
- o Salaug Island Beach – Sitangkai
- o Sangay Siapo Island – Simunul
- o Sibutu Natural Wildlife Sanctuary – Sibutu
- o Sikulan Island Beach – Sitangkai
- o Sukarno Beach - Simunul
- o Tahing-Tahing Beach - South Ubian
- o Tai-Tai Beach - Simunul, Sibutu
- o Tangu Beach - Panglima Sugala
- o Tawi-Tawi Beach (Sandbar) – Bongao
- o Turtle Islands - Taganak

Working Paper No. 11

INDICATIVE BUSINESS AND INVESTMENT OPPORTUNITIES IN THE ARMM¹⁹⁰

Introduction

The strategic economic and investment policies and programs of the Autonomous Region in Muslim Mindanao (ARMM) are largely governed by national policies and programs. Some of the national policies are adopted and mainstreamed in the region through the ARMM Regional Legislative Assembly (RLA). Among the regional laws with economic importance are the Revenue Code of ARMM (MMA 49), the Aquatic and Fisheries Code (MMA 86), and the Regional Economic Zone Authority (REZA) Law (RLA 34).

National programs and projects, on the other hand, are principally mainstreamed through the regional agencies tasked with coordinating the economic agenda of the region. These include the Regional Planning and Development Board (RPDO), the Regional Board of Investment (RBOI), the Department of Trade and Industry (DTI-ARMM), and the Department of Agriculture Fisheries (DAF).

The economic policies and programs implemented in ARMM are the springboard for identifying economic and investment opportunities in the region. However, the tradition, culture and informal relationships that prevail in the region also play a significant role in defining business opportunities.

Regional Investment Priorities

Investors in the ARMM can refer to the Regional Board of Investment (RBOI) for the priorities for investment in the region and the various incentives available for investment in these activities. The RBOI is the agency mandated to implement regional investment policies and priorities as outlined in the Executive Order 458, issued by then President Corazon Aquino.¹⁹¹

RBOI Priorities

The RBOI listed the following priority investment areas in the ARMM under the Philippine Investment Priorities Plan (PIPP) in 2012:

¹⁹⁰This paper was prepared by Rizalino Barandino.

¹⁹¹ See paper on Business Regulations and Investment Promotion.

- *Export Activities.* These include export traders, service exporters, and support activities for exporters;
- *Agriculture, Agribusiness/Aquaculture & Fisheries.* These include the production and processing of agricultural and fishery products (production of “Halal” meat and foods), vegetable oils, food crops, integrated coconut processing and plantation, activated carbon, production of beverage crops and plantation, seaweeds production and processing, fruit processing, aquaculture (fish production and processing), young/sweet corn production, potato and sweet potato plantation and processing, cutflower production and processing, abaca plantation and processing, oil palm plantation/processing/refining and germinated oil palm seeds, feeds production, jatropha plantation and processing, sugarcane plantation and processing and refineries, quality seed and seedlings of fruit trees and other planting materials propagated asexually or by tissue culture, pearl culture and processing, production of livestock and poultry that includes processing, crocodile farming and processing, sericulture, feeds production, and production of plantation crops and other pharmaceuticals, medical herbs/essential oil plants, biomass, rubber, carrageenan, mangosteen and moringa;
- *Basic Industries.* These include the production of pharmaceuticals such as antibiotics and medical devices, textile and textile products, inorganic and organic fertilizers using solid wastes materials, mining exploration and development of mineral resources (mining and quarrying of metallic and non-metallic minerals which includes small scale as defined under Presidential Decree (P.D.) 1899 but to exclude river beds in operations and processing of minerals such as beneficiation and other metallurgical methods), and cement production of at least 1.0 million MTPY capacity (clinker based);
- *Consumer Manufactures.* These include the processing of rubber products to be integrated with plantation and leather products;
- *Infrastructure and Services.* These include public utilities¹⁹² such as common carriers, electric transmission/distribution, water supply/waterways and sewerage systems, buses/cargo trucks, other specialized mass transport systems, power generation (hydro power, geothermal and natural gas,) and telecommunications with international gateways;

¹⁹² These utilities should serve to link provinces and cities of ARMM and other adjacent cities and provinces.

- *Industrial Service Facilities.* These include testing and quality control laboratories, training and demonstration centers, tool shops and similar facilities, metal casting, metal working, furniture, ceramics and food processing, petrochemical complex and industrial gases;
- *Engineering Industries.* These include engineering products, electronics and telecommunication products, fabrication of construction materials and hydropower plants;
- *Logistics.* This covers the transportation (air, sea and/or land) of cargoes and/or passengers and freight/cargo forwarding;
- *BIMP–EAGA Trade and Investment Enterprises.* These include enterprises located or having their base of operation in the BIMP– EAGA (namely, Brunei; Sabah and Sarawak in Malaysia; Maluku, Sulawesi, Kalimantan and Iringaya in Indonesia; and Mindanao and Palawan in the Philippines), and that invest and engage in economic activity in the ARMM, including in the Traditional Barter Trading System in the BIMP – EAGA;
- *Tourism.* This covers the establishment of tourism estates (subject to guidelines developed jointly by RBOI-ARMM and the Department of Tourism), including tourist accommodation, tourist transport facilities, and retirement villages;¹⁹³
- *Health and Education Services and Facilities.* These include the establishment of private hospitals, medical clinics, wellness centers, primary education, secondary education, tertiary education (colleges, universities and vocational–technical schools) and ancillary services, including any and all health and education related investment; and
- *Halal Industry.* This covers services and the production and processing of products under Muslim or Islamic law.

In addition to the priorities set in the 2012 priority investment areas, the RBOI listed the following as priority industry in the agriculture and fishery sector:

- *Mangosteen.* There is a high demand for Mangosteen in both domestic and export markets. In Europe, it is considered as a health food and one of the

¹⁹³ These include health and medical facilities including amenities required by the Philippine Retirement Authority (PRA) and subject to the guidelines to be approved by RBOI-ARMM in consultation with the PRA, the Department of Health (DOH), the Regional Planning and Development Office (RPDO) and other concerned agencies.

best fruits in the tropics. In Mindanao, this fruit is one of the most sought after, and is in abundant supply, especially in the ARMM region;

- *Canned Tuna*. Canned tuna is made from tuna's white meat, and is presented in different forms - solid, chunks, flakes, grated or smoked. It is packed in oil, brine or sauce. A range of flavoring and seasoning additives are used in canning including salt, Monosodium glutamate, hydrolysed protein and various spices;
- *Mangoes*. Mango, the country's national fruit, is considered one of the finest fruits in the world. It is the third most important fruit crop of the country based on export volume and value.¹⁹⁴ It has an established domestic market and has bright opportunities in the international market both in fresh and processed forms;
- *Rubber*. Rubber planters in the Philippines are predominantly small landholders, each farmer owning and cultivating an average of three (3) to 10 hectares. About 70% of the rubber produced in the country is absorbed by the tire and footwear industries. World consumption has been increasing approximately by 208,000 metric tons per year since 1995. The leading rubber exporting countries include Thailand, Indonesia and Malaysia; and
- *Poultry*. The broiler-producing industry has been one of the most flourishing in the livestock and poultry sector over a number of decades. It will continue to be the growth leader in the both the local and export markets

Business Opportunities Identified in Special Studies

Former NEDA Secretary Dr. Cielito Habito, based on the papers of Briones and Dy,¹⁹⁵ identified the following agribusiness opportunities in the ARMM:

- *Coconut* – needs massive revival (fertilization, replanting), new products other than copra/oil;
- *Oil Palm* – great potential, much scope for new investments; steady cash flow for farmers;
- *Rubber* – attractive to small landholders, easy to grow, steady cash flow; needs more processors;

¹⁹⁴ Bananas and pineapples top the list.

¹⁹⁵ C. Habito, *Braving it and Making It*. 2012. R. Briones *Land Tenure and Agribusiness Investment in Muslim Mindanao*. 2012. R. Dy, *Priming the ARMM through Agribusiness Development*, 2012.

- *Coffee, Cacao* – scope for import substitution; Nestle buys bulk of production; good intercrop;
- *Cassava* – San Miguel Corp. will reportedly buy all production; existing processing capacity;
- *Banana* – time-tested dollar earner; and
- *Seaweed* – large market, but credit is the constraint.

These priority crops can be developed in phases.¹⁹⁶ For example, coconut fertilization, coconut intercropping with cardava (*saba*), massive seedling production (coconut, oil palm, rubber) can all be done over the short term (1-2 years). Coconut intercropping with coffee, cacao, oil palm, new rubber (4 years gestation) can be developed in the medium term (3-6 years), with coconut replanting in the long term (over 6 years).

The above crops were selected based on the criteria of large market, adaptable technology, agro-climatic suitability, gestation period, and cash flows (over 15% financial internal rate of return). Habito also suggested possible business models to effectively implement the investments:

- *Corporate farming*, such as the La Frutera banana plantation, that depends on an “enlightened leader or partner” for its development – this, of course, runs the danger that the local partner becomes “unenlightened” and/or loses the trust of the farmers;
- *Contract farming*, such as the Agumil oil palm project, which contracts growers through cooperatives – this model is essentially a monopsony and involves possible “pole-vaulting” risks;
- *Central management approach (Develop-Manage-Transfer)*, along the lines undertaken by Malaysia’s FELDA (public lands) and FELCRA (private lands); and
- *Cluster farming*, which can be NGO/PO-managed, such as the projects of Kasanyangan Foundation and Normin Veggies.

Habito also noted some hurdles and roadblocks to investments in the ARMM. Among the factors cited are:

¹⁹⁶ Habito, op. cit.

- access to adequate-sized lands for large agri-enterprises and land tenure issues;
- security concerns, both personal and investment related;
- infrastructure bottlenecks in the areas of power, transport, and logistics; and
- cost of doing business in the region.

The Institute of Autonomy and Governance (IAG), in its policy brief issued in June 2011 entitled “What ails ARMM?” highlighted land tenure issues and the unstable peace and order situation in the region (in the form of recurring armed confrontation and displacement of people, proliferation of loose firearms, presence of lawless armed groups, family feuds or *rido*) as the key factors ailing the ARMM.

To address these concerns, Habito offered the following recommendations to improve the investment environment in the ARMM:

- To address land tenure concerns, potential agriculture and agri-business investors could start their ventures based on customary tenure arrangements, engaging local chiefs/clan leaders as business partners to secure tenure (a la Frutera). He argues that there is no need to wait for resolution of formal title issues before proceeding, as this could take many years in some localities;
- Investors should identify progressive local leaders i.e., those willing to engage civil society and form alliances with relevant local governments, and are externally recognized for good governance;
- Explore the possibility of obtaining additional investment incentives via ARMM Omnibus Incentives Law, and seek employment flexibilities via exemptions/deviations from the Labor Code and minimum wage policies; and
- In more conflict-prone areas: explore solutions such as zones of peace (sustained by consensus among active armed groups, e.g. “Arms to Farms” in Sulu).

Halal Industry Development

Access to products and services that are deemed *Halal* (allowed or permissible by the Holy Qur’an) is an important concern for Muslims who comprise the majority of the population of ARMM. The ARMM Regional Government has consistently

pursued the development of *Halal* industry in the region, an effort supported by the National Government with the identification of *Halal* as a priority development strategy for the ARMM under the Philippine Development Plan.

The Regional Government has slowly but surely put in place the foundations for facilitating a vibrant *Halal* industry, in tandem with the regional departments of Agriculture and Fisheries (DAF-ARMM) and Trade and Industry (DTI-ARMM).¹⁹⁷ Financial and technical assistance has been provided by the Canadian International Development Agency's (CIDA) Local Government Support Program in ARMM (2005-2010), and later by other funding agencies such as the Japan International Cooperation Agency (JICA). Among the steps taken:

- A certification body has been formed and a certification standard defined and approved;
- ARMM has been specifically identified as the production and processing center for the development of the *Halal* industry by the Philippine Medium Term Development Plan;
- The enactment into law of the Muslim Mindanao Autonomy Act No. 254, otherwise known as the Halal Labeling Act of 2009;
- The availability of support services that can be tapped and further strengthened at all levels of government, such as agricultural extension and technology transfer;
- *Halal*-compliant training modules have been set up or are under development for crops and livestock. Packages of halal-complaint farming practices and technology are acknowledged as a key requirement to spur production; and
- Pilot projects have been implemented (*Halal* feed, organic-*Halal* vegetables, etc.) in a number of localities.

There is awareness, interest, and in most cases enthusiasm, among departmental and local government officials about the prospects of a *Halal* industry in ARMM. On the other hand, there is more guarded interest among farmers and business investors.

However, here are major weaknesses and challenges that need to be addressed. These include:

¹⁹⁷ Most other departments and agencies in ARMM also provide support to the initiative.

- An underdeveloped agriculture and food sector from production through processing and marketing, presenting a weak basis and starting point for the development of a *Halal*-based industry, e.g. the region is a net food importer while having potential to be self-sufficient or a net exporter;¹⁹⁸
- Poor and limited infrastructure support, such as transportation (i.e., farm-to-market roads), storage, quality control measures, and other supply chain infrastructure;
- Limited support and technical services to transform current farming practices to *Halal* practices;
- Weak cooperatives and farmers associations to support the *Halal* value-chain; and
- Financial constraints of the concerned line agencies involved in the implementation of support programs. Further National Government and donor support are needed.

Oil and Natural Gas

As indicated in an earlier paper, apart from mining, the ARMM is also noted for its oil and gas reserves. Estimates of the value and specifics of ARMM's oil and natural gas resources, in the absence of a comprehensive and consolidated baseline grounded on field surveys, remain patchy. There are however, efforts to generate field-based information on the oil and natural gas potentials of key areas such as Tawi-Tawi and the Sulu Sea for oil and gas,¹⁹⁹ and Liguasan Marsh for natural gas²⁰⁰. The ongoing cadastral survey in ARMM is also hoped to facilitate the identification and comprehensive inventory of ARMM's natural resources.²⁰¹

Former Energy Undersecretary Zamzamin L. Ampatuan reported that the Philippine National Oil Co. has conducted exploration work in the *Liguasan Marsh* – which

¹⁹⁸ James Lowe. "Assessment for the Further Development of the ARMM Halal Agriculture and Food Industry".

¹⁹⁹ PAREB, 15 June 2012, *Oil/Gas Exploration In Sulu Sea Seen To Benefit ARMM Economy*, http://skeptronsolutions.com/PAREB/index.php?option=com_content&view=article&id=111:oilgas-exploration-in-sulu-sea-seen-to-benefit-armm-economy&catid=34:northern-luzon&Itemid=70 (September 2013).

²⁰⁰ *Philippine Energy Digest*, 5 April 2010, Natural gas deposits of marsh areas in ARMM, Caraga cited, <http://philenergydigest.wordpress.com/2010/04/05/natural-gas-deposits-of-marsh-areas-in-armm-caraga-cited-04052010/> (September 2013).

²⁰¹ Unson, John, 18 July 2013. *Cadastral surveys in ARMM to start after Ramadhan*, Philippine Star: <http://www.philstar.com/nation/2013/07/18/984791/cadastral-surveys-armm-start-after-ramadhan> (September 2013).

straddles Maguindanao and Cotabato provinces – although armed conflict in the area has been a problem for investors.²⁰² There have been claims that the Liguasan Marsh holds around 158 million barrels of oil²⁰³ and significant natural gas reserves. In mid-2011, the government offered to investors 15 so-called energy blocks, or areas for oil and gas exploration, covering a total of some 100,339 square kilometers, which are “mainly located in frontier regions.” One energy block is in the Cotabato Basin, covering around 456,000 hectares that straddles parts of South Cotabato, North Cotabato, Davao del Sur, Maguindanao and Sultan Kudarat provinces. The Department of Energy (DOE), in a report, said the estimated amount of oil in the area is 202 million barrels and at least 821 billion cubic feet of gas.

Another area for exploration is in the *Sulu Sea* covering 432,000 hectares with water depths ranging from 1,500 to 5,000 meters. Of the eight (8) wells drilled in the Sulu Sea, “five have significant oil and gas shows,” the DOE said. This area, the DOE said, has around 209 million barrels of oil and 716-billion cubic feet of gas.²⁰⁴ A partnership between Total SA of France and Malaysia’s Mitra Energy Ltd is exploring this area.

Also, anecdotal evidence indicates that the area around Cagayan de Tawi-Tawi (Mapun Island) has a potential of 750 million barrels to 1 billion barrels of oil as well as extensive gas reserves.²⁰⁵ Natural gas volume is pegged at 1.5 trillion cubic feet. In 2004, efforts were underway to obtain a more accurate picture of the reserves through the DOE-sanctioned joint exploration of the oil and natural gas reserves off Mapun by Union Oil of California, Australian BHP Billiton Petroleum and Sandakan Oil.²⁰⁶ The results of this exploration project remain unreported. A similar exploration effort is currently being pursued in the same area by Exxonmobil Exploration and Production B.V.²⁰⁷ through its service contract 56 (SC 56).²⁰⁸ Mapun Island is inside the so-called *Sandakan Basin*, said to be rich in oil and natural gas.

²⁰² Philippine Energy Digest, “Natural gas deposits of marsh areas in ARMM, Caraga cited,” April 5, 2010.

²⁰³ Ateneo Economics Association, *On the Mindanao Economy*, <http://ateneoeconomics.org/?p=301> (September 2013).

²⁰⁴ Philippine Daily Inquirer, “Aquino suspends-oil-drilling in ARMM,” October 31, 2012.

²⁰⁵ Philippine Energy Digest, 2010.

²⁰⁶ Unson, John, 10 July 2004, *ARMM traders bullish on Tawi-Tawi natural gas, oil explorations*, Philippine Star: <http://www.philstar.com/nation/256996/armm-traders-bullish-tawi-tawi-natural-gas-oil-explorations> (September 2013).

²⁰⁷ PAREB, 2012.

²⁰⁸ ARMM- Bureau of Public Information, 5 March 2010, *ARMM’s right over ‘strategic minerals’ asserted Amendment of ‘castrating’ autonomy law pressed*, <http://bpiarmm.blogspot.com/2010/03/armms-right-over-strategic-minerals.html> (September 2013).

There have been explorations for almost four (4) decades now in the Malaysian side of the Sandakan Basin.²⁰⁹

In an October Philippine Daily Inquirer report, President Benigno Aquino III put on hold all oil and gas drilling projects in the ARMM, as requested by the Moro Islamic Liberation Front (MILF). Aquino said he agreed with MILF chair Murad Ebrahim's suggestion that no bidding or contract award should be done until the government and MILF reach a final peace agreement, which would include sharing of revenues from ARMM of oil, gas and mineral resources.

The policy framework for access and control of strategic resources in ARMM is governed by Republic Act (R.A.) No. 9054 or the Organic Law. The law provides that ARMM is authorized to exploit its natural resources, except strategic minerals. It says: "The control and supervision over the exploration, utilization, development, and protection of the mines and minerals and other natural resources within the autonomous region are hereby vested in the Regional Government in accordance with the Constitution and the pertinent provisions of this Organic Act except for the strategic minerals such as uranium, petroleum, and other fossil fuels, mineral oils, all sources of potential energy, as well as national reserves and aquatic parts, forest and watershed reservations already delimited by authority of the central government or National Government and those that may be defined by an Act of Congress within one (1) year from the effectivity of this Organic Act."

Minerals

There have only been sporadic efforts to identify and explore potential sites and to estimate the volume of mineral reserves in ARMM. Because of the peace and order situation, only a few exploration initiatives have prospered in ARMM, and thus there is limited data on the "rich mineral resources" of the region.²¹⁰

Basalt, chromite, manganese gold, silver and copper are a few of the minerals claimed to be abundant in ARMM.²¹¹ Nickel and copper are in line for exploration in Tawi-Tawi and Lanao,²¹² and – according to National Power Corporation – there are

²⁰⁹ Unson, John, "ARMM traders bullish on Tawi-Tawi natural gas, oil exploration," Philippine Star, July 10, 2004.

²¹⁰ Petronic, Ljiljana, Huang, Lisa & Musembi, Victor, *The State-Moro Conflict in the Philippines*, <http://www4.carleton.ca/cifp/app/serve.php/1391.pdf> (September 2013) claims that "Mindanao is likewise endowed with rich mineral resources. Its metallic deposits include lead, zinc, ore, iron, copper, chromite, magnetite and gold".

²¹¹ RBOI-ARMM, 15 May 2012, *Basic Facts – Autonomous Region in Muslim Mindanao*, http://www.rboiarmm.org/Default/Info_Center/Basic_Facts?performAction=Display&article_id=20 (September 2013).

²¹² Mining Journal Online.

some 21 million metric tons of coal reserves which could be exploited in Maguindanao.²¹³

The ARMM does not currently allow mining operations. ARMM ceased issuing permits due to the on-going peace process between the MILF and the National Government.²¹⁴

Tourism

Tourism also makes use of the region's physical environment as a base.

In 2010, the ARMM reported a total of 120,608 local and 541 foreign tourist arrivals in the region.²¹⁵ Although this number is a far cry from the 3.5 million foreign tourist arrivals in the Philippines that same year,²¹⁶ the ARMM remains a priority development area with the Sulu Archipelago-Maguindanao-Lanao del Sur Cluster included in the Destination Development Framework of the Department of Tourism's Philippine National Tourism Development Plan 2011-2016.²¹⁷ Tawi-Tawi is seen as a priority area for development. Moreover, tourism is one of the 12 key industries/areas under the Preferred Activities of the Proposed 2012 Investments Priorities Plan of ARMM.²¹⁸

Some of the natural resource "tourist spots" that could serve as basis for attracting tourists to the region are listed in Annex 2. However, the security situation has to be brought under control before many tourists would be willing to access these sites.

Small and Medium Enterprises Development

The ARMM Regional Government has adopted R.A. No. 9501 or the Magna Carta for Micro, Small and Medium Enterprises (MSMEs) as the governing policy for the promotion of small and medium-scale enterprises in ARMM.

²¹³ National Power Corporation, 2006, *ARMM: Autonomous Region in Muslim Mindanao at a Glance*, [http://www.napocor.gov.ph/PEP2006/Regional%20\(PDF%20files\)/ARMM.pdf](http://www.napocor.gov.ph/PEP2006/Regional%20(PDF%20files)/ARMM.pdf) (September 2013).

²¹⁴ Lailani Chavez, "9 things you need to know about mining in the Philippines", Rappler.com, September 19, 2012

²¹⁵ DBM, 2012, *Organizational Performance Indicator Framework (OPIF) 2012*, p.763.

²¹⁶ NSCB, 2012 PSY, p.8-4

²¹⁷ Department of Tourism, June 2011, *Formulation of the Philippine National Tourism Development Plan 2011-2016 Appendix 1 - Destination Development Framework*.

²¹⁸ RBOI-ARMM, 2012, Proposed CY 2012 Investments Priorities Plan of the Autonomous Region in Muslim Mindanao (ARMM).

Table 1. MSME Categories

| Company Size | Capitalization | Number of Employees |
|--------------|----------------------------------|---------------------|
| Micro | Less than PHP 1.5 million | One to 9 |
| Small | PHP 1,500,001 to PHP15.0 million | 10 to 99 |
| Medium | PHP 15,000.01 to PHP60 million | 100 to 199 |
| Large | More than PHP 60 million | 200 and above |

Source: Department of Trade and Industry

The DTI-ARMM is responsible for mobilizing technical support and coordination mechanisms for promoting MSMEs and entrepreneurship development in the LGUs. Among the programs developed to support the MSME promotion and development is the “*One-Town-One Product (OTOP)*” initiative. The OTOP is a priority program of the National Government to promote entrepreneurship and create jobs. Through OTOP, local chief executives of various cities and municipalities lead in identifying, developing, and promoting a specific product or service, which has a competitive advantage. OTOP supports MSMEs to manufacture, offer, and market distinctive products or services by using indigenous raw materials and local skills and talents.

At the forefront of the identification and facilitation of MSMEs, particularly through the OTOP, are the local governments. As early 2008, various OTOP industries were already identified and promoted by the local governments. Among the priority OTOPs are the following:

Table 2. List of Identified OTOP, ARMM Municipalities

| Name of LGU | Identified OTOP | Sustainability |
|-------------------------|-------------------------------|----------------------------------|
| Basilan Province | | |
| 1. Ungkaya Pukan | Rubber - 1st Priority | SB Resolution No. 08-11, s. 2008 |
| | Coconut - 2nd Priority | |
| | Seaweeds - 3rd Priority | |
| 2. Lamitan City | Rubber - 1st Priority | SB Resolution No. 2008-16 |
| | Coconut - 2nd Priority | |
| | Marine/Fishery - 3rd Priority | |
| 3. Sumisip | Rubber - 1st Priority | SB Resolution No. 02 s, 2008 |
| | Cassava - 2nd Priority | |
| | Fish Industry - 3rd Priority | |
| 4. Lantawan | Coconut - 1st Priority | Resolution No. 47, s. 2008 |
| | Rubber-2nd Priority | |
| | Seaweeds-3rd Priority | |

| Name of LGU | Identified OTOP | Sustainability |
|-------------------------------|--------------------------------------|---------------------------------------|
| Sulu Province | | |
| 1. Kalingalan Caluang | Seaweeds Production | SB Resolution No. 004, s. 2008 |
| 2. Talipao | Coffee | SB Resolution No. 05,s. 2008 |
| 3. Siasi | Red Clay Bricks | SB Resolution No. 06, s. 2008 |
| 4. Patikul | Abaca Fiber | SB Resolution No. 026, s. 2008 |
| 5. Parang | Piz Cloth | SB Resolution No. 08-082 |
| Maguindanao | | |
| 1. Sultan Kudarat | Inaul (Loom Woven Fabric) | SB Resolution No. 08-01, s. 2008 |
| 2. Ampatuan | Rice & Corn | SB Resolution No. 2208-30 |
| 3. Rajah Buayan | Rice & Corn | SB Resolution No. 022, s 2008 |
| 4. Shariff Kabunsuan Province | Halal Products | SB Resolution No. 20, s.2008 |
| 5. Parang | Seaweeds | SB Resolution No. 07-15-08s.2008 |
| 6. Datu Odin Sinsuat | Livestock Production | SB Resolution No. 332, s.2008 |
| 7. Mother Kabuntalan | Aqua Fresh Water Fish Production | SB Resolution No. 42s.2008 |
| Tawi-Tawi Province | | |
| 1. Sitangkai | Seaweeds | Resolution No.008-012 |
| 2. Languyan | Processed Fish & Marine Products | SB Resolution No. 009, series of 2008 |
| 3. Panglima Sugala | Cassava & Fresh Fruits | Draft already presented to SB |
| 4. Simunul | Native delicacies | Draft already presented to SB |
| 5. Bongao | Cassava & Native Delicacies | Draft already presented to SB |
| Lanao del Sur | | |
| 1. Balabagan | Abaca Production | Resolution No.001 |
| 2. Buadipuso-Buntong | Rice Production | Resolution NO. 10, Series of 2008 |
| 3. Butig | Gravel & Sand (By Concrete Products) | Resolution No. 45-07 |
| 4. Ditsaan-Ramain | Rice Production | Resolution No. 032-008 |

| Name of LGU | Identified OTOP | Sustainability |
|--|--------------------------------------|-----------------------------|
| 5. Malabang | Fish Processing (Smoke Tuna-Fish) | Resolution No. 08-005 |
| 6. Maranatao | Corn Production (By-Products) | Resolution No. 19, s. 2008 |
| 7. Masiu | Gravel & Sand (By-Concrete Products) | Resolution No. 20., S. 2008 |
| 8. Pualas | Food processing (Halal Spice-Palapa) | Resolution No. 0055-08 |
| 9. Tugaya | Metal & Woodcraft | Resolution No. 09-08 |
| ***Municipalities with validated OTOP but still waiting for the SB Resolution | | |
| LANAO DEL SUR | | |
| 1. Bacolod-Kalawi | Loom Weaving | |
| 2. Kapai | Ginger Production | |
| 3. Madalum | Bamboo Rattan Craft | |
| 4. Madamba | Bamboo Rattan Craft | |
| 5. Mulondo | Livestock & Corn | |
| 6. Wao | Feeds | |
| MAGUINDANAO | | |
| 1. Northern Kabuntalan | Rice | |
| 2. North Upi | Corn | |
| 3. Matanog | High Value Fruits | |
| 4. Paglat | Kawilan Rice | |
| 5. Buluan | Banana Chips | |
| 6. South Upi | Abaca | |
| 7. Datu Paglas | Rice | |
| 8. SK Pendatun | Corn | |

Source: Department of Trade and Industry-ARMM

Local Industry Promotion

In one of its recent technical assistance programs to the Regional Government, JICA has recommended a local industry approach as a strategy for economic development in the ARMM. In the study entitled "Development Study on Local Industry Promotion in the ARMM," both the key issues and strategic actions to address the promotion of local industries in the ARMM are presented in great detail.

The key issues identified in their local surveys relating to local industry promotion are as follows:

Table 3. Major Issues for Local Industry Promotion

| Areas | Concerns |
|--|--|
| Supporting Institution including Government and Private Entities | <ul style="list-style-type: none">⇒ Lack of inputs⇒ Low capacity of governmental organizations on technology dissemination⇒ Difficulty to access to finance (inadequate loan product, capacity of financial institutions, etc.) |
| Production and Processing | <ul style="list-style-type: none">⇒ Low productivity⇒ Unstable and low quality of products⇒ Poor post-harvest facilities⇒ Immature processing technology and sanitation control⇒ Inactive processing for high value processed products |
| Distribution and Infrastructure | <ul style="list-style-type: none">⇒ Inadequate local transportation facilities (Consolidation areas and cold storage)⇒ Poor fishing ports⇒ Poor hygienic and sanitary facilities, sewerage system, and waste disposal and treatment facilities for livestock |
| Marketing | <ul style="list-style-type: none">⇒ Less opportunity to know market information⇒ Limited sales channel⇒ Low level of selling know-how⇒ Distance to large consumer market |

Source: Development Study on Local Industry Promotion in the ARMM, JICA, 2011

To deal with these concerns, the JICA study structured its recommendations according to five (5) development areas:

- Production and processing;
- Product distribution/infrastructure;
- Marketing;
- Finance; and
- Organizational Strengthening/Business Development Support.

The details of the proposed strategies in these development areas are highlighted in Annex 1.

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Annex 1.

Recommended Strategic Actions for Promoting Local Industries in ARMM

1. Production and Processing

1.1 . For *agriculture production and processing*:

- a. Increasing productivity by introducing appropriate farming technology with quality-assured planting materials and maximizing the use of on-farm resources as inputs to reduce production cost (e.g., compost);
- b. Improving the quality of products through pre-harvest and postharvest operations by introducing appropriate farming, proper harvesting methods, and the collective use of modified postharvest machinery and facilities;
- c. Bolstering the extension ability of the ARMM government in farming and processing through fundamental activities such as the implementation of nursery, compost, and demonstration farms; and conducting Training of Trainers (TOT) and On-the-Job Training (OJT), tapping the human resources from both the public and private sectors in the Philippines;
- d. Linking producers and cottage-level processors with other successful models within and outside the ARMM to sensitize and expose producers and consolidated groups to knowledge and practical experiences in production and processing; and
- e. Supporting producers and processors through financial institutions in obtaining inputs in farming, and equipment and facilities for small-scale processing businesses, together with technical supervision.

1.2 . For *fisheries*:

- a. Improving skills and methodology - improved skills and methods for production and processing of fisheries products should be introduced to raise production and productivity, which will contribute to product promotion, distribution and markets ability;
- b. Introducing quality management - in order to sell the fisheries products at higher and stable prices, their quality must be controlled under certain standards. Local producer groups must regularly check the quality of the products and adhere to production and processing procedures;
- c. Improving seed supply condition - Only three (3) public hatcheries are located in the ARMM, two (2) for tilapia and one (1) for marine species. To strengthen their capacity for seed production and meet

local seed demands, the hatcheries' facilities should be rehabilitated and expanded;

- d. Establishment of extension coordination structure for fisheries product promotion -To operate and monitor field activities of local fishers and fish farmers properly, Bureau of Fisheries and Aquatic Resources-ARMM (BFAR), LGUs (provincial and municipal) and financial institutions will make a close coordination structure for extension programs on marine fisheries and aquaculture promotion. These organizations shall coordinate with each other to offer proper technical and financial services to local fishers and fish farmers; and
- e. Introduction of micro-financial schemes for local fisheries activities - for local fishers and small-scale fish farmers, it is too difficult to access loans from commercial banks because they cannot present or put up the collateral for the loans. Proper unsecured loan schemes, such as microfinance programs, should be arranged in cooperation with microfinance institutions, cooperatives and government financial institutions such as the Land Bank, in order to support and sustain the general fisheries operation in the region.

1.3 . For ***livestock***:

- a. Providing required technical extension activities to farmers - increasing the productivity of small-scale farmers by introducing appropriate livestock technologies, such as:
 - ⇒ Improvement of general feeding technology;
 - ⇒ Improvement of forage production and pasture management technology;
 - ⇒ Improvement of livestock reproduction technology; and
 - ⇒ Improvement of the utilization of by-product from agriculture and industry;
- b. Improving market channels for livestock through the grouping of farmers – improving the livestock marketing system by introducing producer's grouping in the area will generate more advantageous sales, as well as direct sales to the market; and
- c. Improving access to technical support concerning veterinary services - the veterinary services of DA should be strengthened by utilizing the livestock's extension program currently undertaken by the said agency.

1.4 . For ***Quality Control (Sanitation)***:

- a. Establishing and operating a body which will continuously educate, instruct and give guidance to the food-related organizations on hygiene. The operating body will work independently from the local

government units, having the collaboration or assistance from them;
and

- b. Making the food related organizations recognize the importance of having the hygienic work environment and assist them in acquiring sanitary permit, License to Operate (LTO) and/or *Halal* certificate. Those permits or certificate are the evidences which prove that the holders have established and satisfactorily maintain the level of hygiene and conducive working environment requirement of DOH, FDA or MMHCBI.

2. Product distribution/Infrastructure

- 2.1 Improvement of distribution facilities and infrastructure in local farming and fishing communities, e.g., local markets, cargo pickup points, and local roads.
- 2.2 Installation of storehouses in cargo pickup points to prevent product deterioration during the distribution process.
- 2.3 Reinforcement of existing community-based infrastructure.

3. Marketing

- 3.1 Identifying market needs and improving local producer's access to market information, e.g. by installing satellite shops and enhancing the provision of market information
- 3.2 Supporting producers in extending the sales channels of their products through business matching, trade fairs, and seminar
- 3.3 Optimizing strategies 1) and 2) in accordance with the range of their targeted market, i.e., regional, domestic, or overseas markets.

4. Finance

- 4.1 Promotion of financial services by private and government financial institutions for production and processing groups and cooperatives
- 4.2 Promotion of financing systems/services for small-scale farmers and fishermen utilizing existing value chain actors such as processors and traders
- 4.3 Strengthen cooperatives and production groups for their capital build up, savings and credit activities

5. Organizational Strengthening/BDS

- 5.1 Development of leadership among local farmers and fishermen, and enhancement of cooperative activities
- 5.2 Promotion of cooperative formation and reinforcement of existing cooperative activities

- 5.3 Strengthening of organizational activities that help boost and stabilize the production of small-scale farmers and fishermen, with appropriate quality control
- 5.4 Promotion of entrepreneurships by offering basic business knowledge, e.g. business planning, accounting, financial control and monitoring strategy

Annex 2.

List of Natural Tourist Spots in ARMM

Maguindanao

- Barurao Springs – Balabagan
- Blue Lagoon (Margues Lagoon), Datu Odin Sinsuat
- Bongo Diving Spot – Parang
- Hot Spring – Benolen, Datu Odin Sinsuat
- Iga-Bai Waterfalls – Balabagan
- Kanapnapan Falls – Marogong
- Kiga Falls, Sapalan Falls and Tubuan Falls – North Upi
- Lake Balut - Sultan Kudarat
- Lake Dapao – Pualas
- Limpongo Hotspring - Shariff Aguak
- Mabul Beach – Malabang
- Maputi na Lupa – Masiu
- Mt. Magaturing – Butig
- Punta Beach - Parang
- Sapalan Waterfalls Hotspring – Sapalan, Datu Odin Sinsuat
- Sumpitan Falls – Balindong
- Tumingay Lake - Sultan Kudarat

Lanao del Sur

- Agus River - Marawi City
- Angoyao Hills
- Bagang Beach - Marawi City
- Barurao Springs - Balabagan
- Iga-Bai Waterfalls - Balabagan
- Islets Balindong, Tugaya, B.Kalawi and Binidayan in Lake Lanao
- Kanapnapan Falls - Marawi City
- Lake Dapao - Pualas
- Sacred Mountain National Park - Marawi City
- Signal Hill, Arumpac Hill & Mt. Mupo - Marawi City
- Sumpitan Falls - Balindong
- The Sleeping Lady

Basilan

- Balagtasan Falls – Malawani Island

- Balas Beach - Lamitan
- Block 35 Falls – Menzi Plantation
- Bulingan Falls - Lamitan
- Kumalarang Waterfall – Maluso
- Malamaui Island – Malamawi Island
- Palm Beach – Lamitan
- Tabiawan and Busay Waterfalls – Malawani Island
- White Beach – Malamaw Island

Sulu

- Bangas Island – Panglima Tahil
- Jikiri Cave – Patian Island, Pata
- Kabingaan Island - Siasi
- Lahat-Lahat Island - Jolo
- Lake Panamao - Talipao
- Lake Seit - Talipao
- Laminusa Island - Siasi
- Maubuh Beach - Jolo
- Mount Datu – Indanan
- Mt. Bud Daho - Patikul
- Mt. Bud Tumantangi - Jolo
- Pala River – Talipao
- Quezon Beach
- Tandu Beach - Patikul
- Tapaan Island – Pandami
- Tara Island - Siasi

Tawi-Tawi

- Biraddali Waterfalls – Languyan
- Bolobok Cave - Bongao
- Bongao Peak – Bongao
- Gusong Reef - Cagayan de Tawi-Tawi (Mapun)
- Kaban-Kaban Natural Swimming Pool – Simunul
- La Island Beach - La Island
- La Island Beach – Tubig, Indangan
- Manuk – Mangkaw (Floating Island) – Manuk-Mangkaw
- Marlboro Beach - Cagayan de Tawi-Tawi (Mapun)
- Panampangan Island Beach - Sapa-sapa
- Pearl Farm – Languyan
- Salaug Island Beach – Sitangkai
- Sangay Siapo Island – Simunul

- Sibutu Natural Wildlife Sanctuary – Sibutu
- Sikulan Island Beach – Sitangkai
- Sukarno Beach - Simunul
- Tahing-Tahing Beach - South Ubian
- Tai-Tai Beach - Simunul, Sibutu
- Tangu Beach - Panglima Sugala
- Tawi-Tawi Beach (Sandbar) – Bongao
- Turtle Islands - Taganak

Working Paper No. 12

THE BANGSAMORO AND THE CONSTITUTION: Land and Property Rights²¹⁹

Introduction

The creation of the Bangsamoro will inevitably create opportunities for a region that has remained comparatively under-developed in many aspects of economic life. Animated by the idea, expressed in the Framework Agreement, that the “the status quo is unacceptable,” the Government and the MILF have decided to take a leap of faith and move forward to a peaceful arrangement that will resolve the so-called Bangsamoro Question.

Once the region enters a regime of peace and stability, and the political infrastructure for the Bangsamoro is set in place, we can assume that market forces will gravitate towards the region and seek opportunities for development and growth. An important fulcrum in this new opportunity will be the ability of the Bangsamoro to engage aspects of development that are land-centric, especially considering that years of conflict have made opportunities that are related to land for the most part either non-viable or unstable. And so the introductory question is, at least insofar as land rights are concerned: *How flexible is the Constitution to the demands of genuine autonomy? At what levels of generality does the Constitution speak of this flexibility?*

Legal Background and Bases

The source norm under the Constitution is found in Article X, Section 20:

Within its territorial jurisdiction and subject to the provisions of this Constitution and national laws, the organic act of autonomous regions shall provide for legislative powers over:

- (1) Administrative organization;
-
- (3) Ancestral domain and natural resources;
- (4) Personal, family, and property relations;

²¹⁹ Prepared by Solicitor General Florin T. Hilbay, former Associate Professor of Law, University of the Philippines, College of Law. A.B., Ll.B., Ll.M

(5) Regional urban and rural planning development;

(6) Economic, social, and tourism development;

... ..

(9) Such other matters as may be authorized by law for the promotion of the general welfare of the people of the region.

Another source norm for local autonomy, if read in negative form, is Section 17 of Article X: "All powers, functions, and responsibilities not granted by this Constitution or by law to the autonomous regions shall be vested in the National Government." Read properly, what this means is that, in the pursuit of autonomy, the Constitution is as flexible as Congress wants it to be, save for limitations that are provided for in the Constitution itself.

The combined effect of Sections 17 and 20 of Article X is to provide justification for the position that in the absence of a specific constitutional prohibition, the Congress has the widest possible constitutional license to devolve powers to autonomous regions; and while the Constitution incorporates a general policy of local autonomy for local governments, such policy of autonomy is especially heightened in the case of the autonomous regions considering the special attendant circumstances that justify their existence. To put it in more gripping terms, this is autonomy on steroids.

This brings us to the next question: *To what extent are the political departments willing to use the Constitution's flexibility?* At least with respect to the Executive Department, the answer is already clearly expressed in the Comprehensive Agreement. Of course, whether Malacañang is willing to provide even greater autonomy to the Bangsamoro is a matter we shall soon discover, when the President finally transmits the certified bill for the Bangsamoro Basic Law (BBL) to Congress. This major event will happen as soon as the legal team reviewing the draft BBL of the Transition Commission is done with the vetting process and the President is convinced that the draft in their hands is simultaneously politically and legally justifiable.

Of course, once the matter is before the legislature, the entire text of the submission will be open to scrutiny by our representatives and, as of now, no one really knows how the legislature will treat the certified bill. The hope is that there will be a reasonable identity among the Comprehensive Agreement, the certified bill, and the BBL. Or, even if the final product that comes out of the legislative mill is different from what was submitted by the Transition Commission and by the President, both parties would still accept the Basic Law.

We should also be aware that there are some sectors who are opposed to the Comprehensive Agreement and therefore we expect that the two (2) petitions that have already been filed before the Supreme Court challenging the Framework Agreement will find additional company once the BBL is passed. This is an important consideration because even if the political departments are willing to flex the Constitution's muscles to promote genuine autonomy, the Supreme Court might not be of similar mind. This is a reality outside of our control at the moment.

We now proceed to the practical question: *What are the autonomy provisions of the Comprehensive Agreement insofar as rights over land are concerned?* These licenses are found in the Annex on the Power Sharing to the Framework Agreement.

Part Three II.3 Land registration

The Bangsamoro Government, in accordance with the land registration system of the Central Government, shall administer land registration in the Bangsamoro territory through an office it shall create for the purpose. The Bangsamoro Government shall furnish copies of the titles, deeds and other instruments to the relevant Central Government agencies. The Bangsamoro Government can act on *consultas*.

The Bangsamoro Government may institute processes to promote more efficient registration of lands in the Bangsamoro.

Interestingly, this power is designated as "concurrent" with the national government. Given the language of this power, we can assume that this means that the Bangsamoro will take over the function of land registration within the Bangsamoro region, but complying with the forms and processes of the national land registration system. Apart from the power to register land, the other locus of flexibility, and the one that may be a source of great administrative power, is the second sentence of the license, giving the Bangsamoro the power to "institute processes to promote more efficient registration of lands in the Bangsamoro."

The second set of licenses is termed in the Annex as "exclusive powers."

Part Three III.29 Ancestral domain and natural resources

This license seems to be quite controversial, which is why we need to see the draft law to get a sense of the political arrangements and how the Constitution's flexibilities were utilized and articulated.

Part Three III.31 Land management, land distribution, and agricultural land use reclassification

The classification of public lands into alienable and disposable lands shall be initiated and recommended by the Bangsamoro Government to the President for the timely implementation of Bangsamoro development plans and targets.

Part Three III.32 Cadastral land survey

The Bangsamoro Government shall have the authority to conduct cadastral surveys, lot surveys, and isolated and special surveys in the Bangsamoro. The Bangsamoro Government shall furnish the results of these surveys to, and coordinate with, relevant Central Government agencies to effect inclusion into the national cadastral survey.

Part Three III.33 Expropriation and eminent domain

Part Three III.34 Environment, parks, forest management, wildlife, nature reserves and conservation

The Bangsamoro Government shall have the authority to protect and manage the environment. It shall have the power to declare nature reserves and aquatic parks, forests, and watershed reservations, and other protected areas in the Bangsamoro. The Bangsamoro Basic Law will provide for the process that will transfer the management of national reserves and aquatic parks, forests and watershed reservations, and other protected areas already defined by and under the authority of the Central Government.

In sum, these are important administrative powers of the Bangsamoro which seems to be the centerpiece concession of the National Government on the matter of land rights. These powers of the Bangsamoro will have to be squared with the primary constitutional norms governing lands. In essence, these provisions are the specific constitutional limitations that cannot be bargained away at the negotiating table.

Article XII, Section 2

All lands of the public domain, waters, minerals, coal, petroleum, and other mineral oils, all forces of potential energy, fisheries, forests or timber, wildlife, flora and fauna, and other natural resources are owned by the State. With the exception of agricultural lands, all other natural resources shall not be alienated. The exploration,

development, and utilization of natural resources shall be under the full control and supervision of the State.

The State may directly undertake such activities, or it may enter into co-production, joint venture, or production-sharing agreements with Filipino citizens, or corporations or associations at least sixty per centum of whose capital is owned by such citizens. Such agreements may be for a period not exceeding twenty-five years, renewable for not more than twenty-five years, and under such terms and conditions as may be provided by law. In cases of water rights for irrigation, water supply fisheries, or industrial uses other than the development of water power, beneficial use may be the measure and limit of the grant.

Article XII, Section 3

Lands of the public domain are classified into agricultural, forest or timber, mineral lands and national parks. Agricultural lands of the public domain may be further classified by law according to the uses to which they may be devoted.

Alienable lands of the public domain shall be limited to agricultural lands. Private corporations or associations may not hold such alienable lands of the public domain except by lease, for a period not exceeding twenty-five years, renewable for not more than twenty-five years, and not to exceed one thousand hectares in area.

Citizens of the Philippines may lease not more than five hundred hectares, or acquire not more than twelve hectares thereof, by purchase, homestead, or grant.

Taking into account the requirements of conservation, ecology, and development, and subject to the requirements of agrarian reform, the Congress shall determine, by law, the size of lands of the public domain which may be acquired, developed, held, or leased and the conditions therefor.

Thus, so long as these two (2) primary constitutional norms governing lands are complied with, the Bangsamoro ought to have sufficient leeway in determining its own policies with respect to land, consistent with the Comprehensive Agreement.

There are two (2) justifications for this view:

First. While the Constitution provides for nationalistic controls over natural

resources, its special provisions on autonomy and its specific reference to natural resources may justify the concept that, insofar as the autonomous regions are concerned, the Bangsamoro may be constituted as a delegate/agent of the State in the management and control of natural resources. As a practical matter, what this means is that whenever we speak of “full control and supervision of the State” we might have some space for interpreting such phrase as referring to the “Bangsamoro, as agent of the State.” Thus, whatever constitutional flexibility may be needed to justify any special powers for the Bangsamoro can be grounded on this concept.

Second. Many of the powers of the Bangsamoro over land have already been previously given to both the ARMM and the CAR, whether expressly or by implication, and therefore should not pose any constitutional problems. On the assumption that the BBL remains true to the Comprehensive Agreement, then the Constitution will probably not be a hindrance to investment opportunities over land.

If at all, the most significant constitutionally justifiable change with the potential passage of a Bangsamoro Basic Law will be the extent of the delegation of administrative powers to the new entity; that is, whatever opportunities over land can be eked out of the new political situation will rest on how the Bangsamoro exercises its administrative powers to make acquisition and use of rights over land more efficient.

An analysis of the Comprehensive Agreement will show that, insofar as land and land rights are concerned, the biggest concession of the National Government to the Bangsamoro is its constitution as a special general agent over land rights, in effect making it a one-stop shop of an institution for determining and creating rights over land. This is a major administrative change considering that the National Government generally retains administrative control over land even in the face of devolution. And so while the National Government has been open to sharing revenues with local governments, it has retained administrative control over the bureaucracies, effectively nationalizing forms and processes. This is the narrative of local governments in the Philippines.

In the case of the Bangsamoro, however, it appears that the National Government has delegated, within the limits set by Article XII, full administrative powers to the new entity, thereby concentrating the regulatory mechanism in one institution instead of disaggregating, as is the usual practice with the national government, administrative authority to various entities and offices with disparate, sometimes even conflicting, jurisdictions. From the standpoint of our constitutional history, this is at once unique and unparalleled, but reflective of the breadth and scope of autonomy envisioned by the language of our present Constitution.

Working Paper No. 13

SOCIO-ECONOMIC TRENDS IN MINDANAO²²⁰

Introduction

The Autonomous Region in Muslim Mindanao (ARMM) is composed of the provinces of Basilan, Lanao del Sur, Maguindanao, Sulu and Tawi-Tawi.

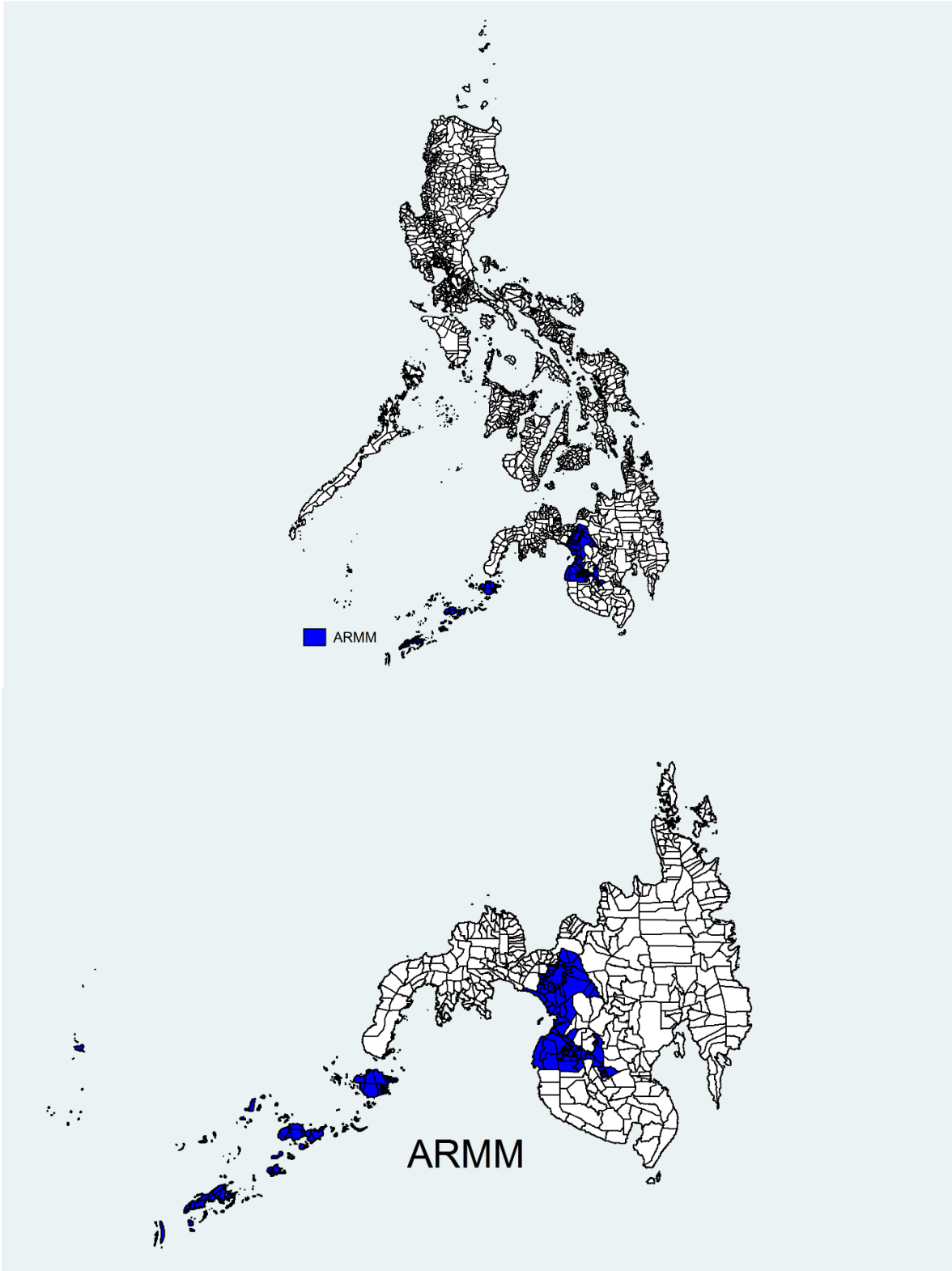
The core territory of the Bangsamoro is composed of provinces of the ARMM: Cotabato City, Isabela City; the six (6) municipalities in Lanao del Norte that voted for inclusion in ARMM in 2001 (Baloj, Munai, Pantar, Nunungan, Tagaloan, Tangkal); and 39 barangays in six (6) municipalities of North Cotabato that voted for inclusion in 2001 (Kabacan, Carmen, Aleosan, Pigkawayan, Pikit and Midsayap).

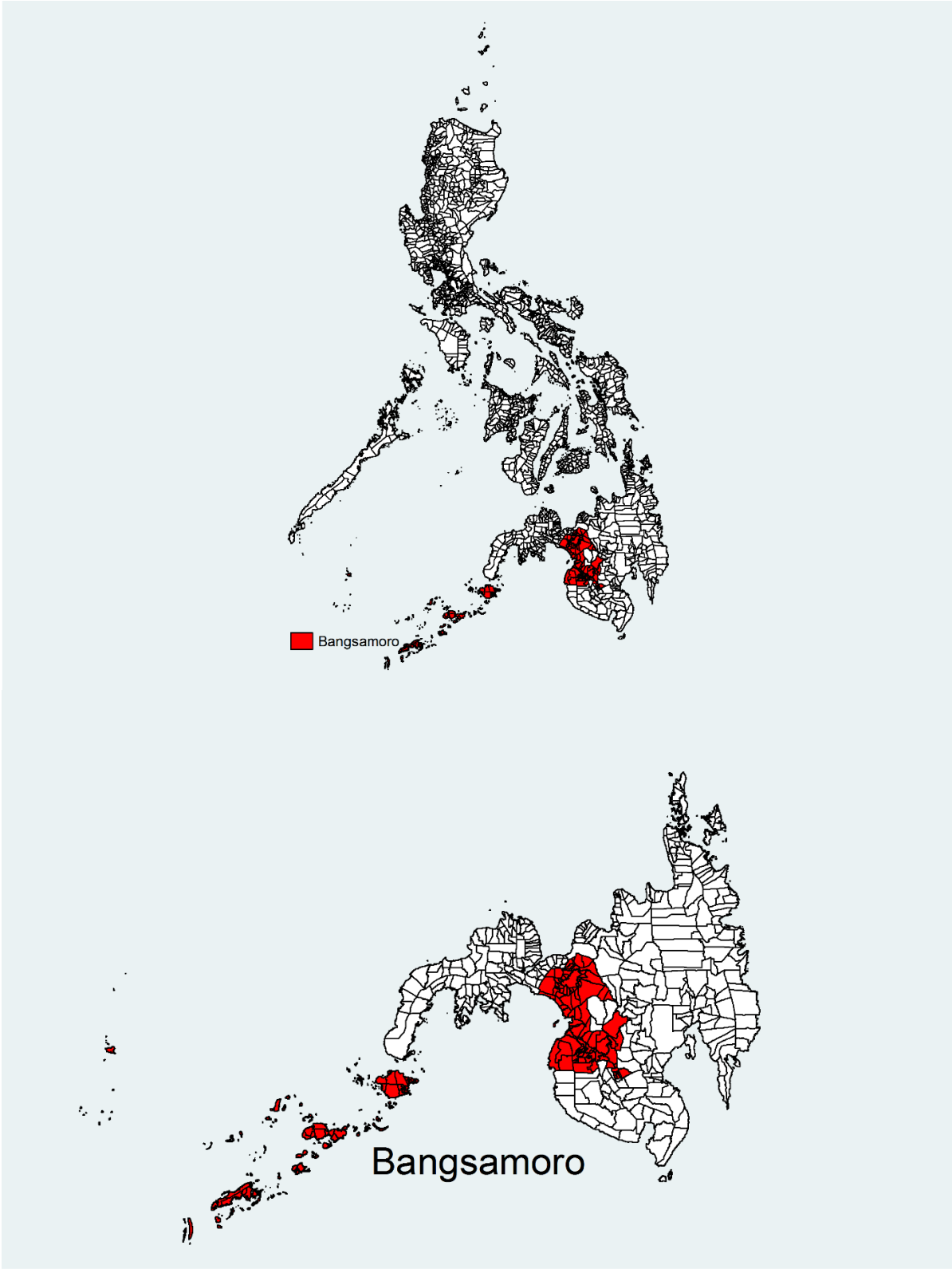
The 39 barangays located in six (6) municipalities in the province of North Cotabato that voted for inclusion in the 2001 ARMM plebiscite are:

| Municipality | Barangay |
|---------------------|--|
| Aleosan | Dunguan, Lower Mingading, Taodoc |
| Carmen | Nasapian, Manarapan |
| Kabacan | Nangaan, Sanggadong, Simbuhay |
| Midsayap | Damatulan, Kadigasan, Kadingilan, Kapinpilan, Kudarangan, Central Labas, Malingao, Mudseng, Nabalawag, Olandang, Sambulawan, Tugal |
| Pigkawayan | Damatuluan, Kadigasan, Kadingilan, Lower Baguer, Lower Pangangkalan, Matilac, Patot |
| Pikit | Bagoinged, Balatican, Balong, Balungis, Batulawan, Buliok, Gokoton, Kabsalan, Lagunde, Macabual, Macasendeg |

All other contiguous areas where there is a resolution of the local government unit or at least 10% of the qualified voters in the area may ask for their inclusion in the plebiscite, at least two (2) months prior to its conduct, for the ratification of the Bangsamoro Basic Law (BBL) and the process of delimitation of the Bangsamoro.

²²⁰ This paper was prepared by Kevin Thomas G. Cruz (Research Analyst), Noel B. del Castillo (Research Assistant), and Justin Chan (Research Assistant), under the supervision of Karl Kendrick Chua (Senior Country Economist, World Bank).





Economic Growth

Mindanao's contribution to the national economy

Mindanao accounts for 40% of land area of the entire country but contributes only 16% to total Philippine Gross Domestic Product (GDP).

Aside from the relatively small contribution to total GDP, contribution of both Mindanao and Visayas to total Philippine GDP has been decreasing, whereas the contribution of Luzon has been increasing. Mindanao's contribution to total GDP decreased from an average of 21% in the late 1970s to 16% in the past decade, while Luzon's contribution to total GDP increased by nearly 8 percentage points.

Within Mindanao, Region XI continues to contribute the largest share to Philippine GDP, with a long-run average of 6.3% since 1975. ARMM had the smallest contribution to total GDP, averaging 0.9% contribution over the past two (2) decades.

Table. 1 Average share to total GDP

| | 1975-1980 | 1981-1990 | 1991-2000 | 2000-2013 | Average |
|--------------------|-----------|-----------|-----------|-----------|---------|
| Philippines | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Luzon | 61.7 | 63.5 | 66.0 | 69.3 | 66.0 |
| NCR | 28.3 | 29.9 | 33.2 | 36.3 | 32.8 |
| Visayas | 16.9 | 16.4 | 16.0 | 14.6 | 15.7 |
| Mindanao | 21.4 | 20.1 | 18.0 | 16.0 | 18.3 |
| Region IX | 3.4 | 3.2 | 2.7 | 2.2 | 2.7 |
| Region X | 5.7 | 5.6 | 4.6 | 4.2 | 4.9 |
| Region XI | 8.3 | 7.5 | 6.5 | 4.5 | 6.3 |
| Region XII | 3.9 | 3.8 | 3.1 | 3.0 | 3.3 |
| ARMM | | | 1.0 | 0.9 | 0.9 |
| CARAGA | | | 1.2 | 1.3 | 1.2 |

Source: Philippine Statistics Authority

However, Mindanao has historically contributed a larger share to the country's agriculture production. Since 1975, Mindanao has on average, contributed more than a third of agricultural production to the Philippine economy. This share has remained relatively stable, only decreasing by an average of two (2) percentage points since 1975.

Within Mindanao, Regions X and XI contributed the most to agriculture production, averaging 8.2 and 11.6%, respectively, since 1975. From 2001-2013, Region X averaged the largest contribution to agriculture in Mindanao with 8.1%, followed by Region XII with 7.6%, and Region XI with 7.5%.

ARMM and CARAGA both contribute the least to agriculture production, with a long-run average of 3.2% and 2.6%, respectively.

Table 2. Average share to total GDP (agriculture)

| | 1975-1980 | 1981-1990 | 1991-2000 | 2001-2013 | Average |
|--------------------|-----------|-----------|-----------|-----------|---------|
| Philippines | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Luzon | 42.8 | 42.8 | 46.6 | 47.2 | 45.4 |
| NCR | | | | 0.3 | 0.4 |
| Visayas | 20.5 | 19.5 | 18.8 | 18.0 | 18.9 |
| Mindanao | 36.6 | 37.7 | 34.6 | 34.8 | 35.7 |
| Region IX | 6.6 | 6.8 | 6.3 | 5.6 | 6.2 |
| Region X | 8.3 | 9.2 | 7.3 | 8.1 | 8.2 |
| Region XI | 15.1 | 14.6 | 13.0 | 7.5 | 11.6 |
| Region XII | 6.6 | 7.1 | 5.6 | 7.6 | 6.8 |
| ARMM | | | 2.6 | 3.4 | 3.2 |
| CARAGA | | | 2.3 | 2.7 | 2.6 |

Source: Philippine Statistics Authority

In the industry sector, Mindanao (and Visayas) contributes a small amount to total industry production compared to Luzon.

Since 1975, Mindanao has contributed on average, 14% to total industry Gross Value Added (GVA), which is slightly higher than Visayas' 13.2% contribution. Luzon continues to contribute a large amount to industry production, averaging more than 70% of industry production since 1975.

Within Mindanao, contribution to total industry production is limited to just a few regions. Most of the contribution to industry production is limited to Regions X, XI and XII which account for more than 80% of Mindanao's contribution to industry production.

ARMM has an almost non-existent contribution, with an average of only 0.3% to industry production in the Philippines, CARAGA and Region IX have slightly higher contribution, both averaging a little over 1% contribution to industry GDP.

Table 3. Average share to total GDP (industry)

| | 1975-1980 | 1981-1990 | 1991-2000 | 2001-2013 | Average |
|--------------------|-----------|-----------|-----------|-----------|---------|
| Philippines | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Luzon | 73.4 | 72.6 | 73.7 | 72.6 | 73.0 |
| NCR | 40.0 | 38.4 | 35.6 | 29.1 | 34.5 |
| Visayas | 12.7 | 13.3 | 12.9 | 13.4 | 13.2 |
| Mindanao | 13.9 | 14.1 | 13.4 | 14.0 | 13.9 |
| Region IX | 1.3 | 1.4 | 1.3 | 1.5 | 1.4 |
| Region X | 4.6 | 4.5 | 3.8 | 4.2 | 4.2 |
| Region XI | 4.8 | 4.8 | 4.4 | 4.2 | 4.5 |
| Region XII | 3.2 | 3.4 | 3.1 | 2.9 | 3.1 |
| ARMM | | | 0.5 | 0.2 | 0.3 |
| CARAGA | | | 1.1 | 1.1 | 1.1 |

Source: Philippine Statistics Authority

The same overall trend for industry follows in manufacturing, where both Mindanao and Visayas have a relatively small share of total manufacturing production compared to Luzon.

Mindanao has contributed an average of 13.8% to total manufacturing production since 1975, which is slightly higher than the 13.3% average for Visayas. However, both are well below Luzon's contribution to total manufacturing production of 72.9% since 1975.

Within Mindanao, Regions X, XI, and XII make up most of the manufacturing production. Region X has the largest contribution at 4.5%, followed by Region XI at 4.3%, and Region XII at 3.4%.

ARMM has the smallest contribution to total manufacturing production, at 0.1%, followed by CARAGA, at 0.5%.

Table 4. Average share to total GDP (manufacturing)

| | 1975-1980 | 1981-1990 | 1991-2000 | 2001-2013 | Average |
|--------------------|-----------|-----------|-----------|-----------|---------|
| Philippines | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Luzon | 72.9 | 72.7 | 71.8 | 73.8 | 72.9 |
| NCR | 46.9 | 43.8 | 42.9 | 34.1 | 40.5 |
| Visayas | 12.6 | 13.2 | 14.0 | 13.0 | 13.3 |
| Mindanao | 14.5 | 14.1 | 14.2 | 13.2 | 13.8 |
| Region IX | 1.1 | 1.2 | 1.1 | 1.6 | 1.3 |
| Region X | 4.7 | 4.5 | 4.6 | 4.3 | 4.5 |
| Region XI | 5.0 | 5.0 | 4.5 | 3.5 | 4.3 |
| Region XII | 3.6 | 3.4 | 3.5 | 3.3 | 3.4 |
| ARMM | | | 0.2 | 0.1 | 0.1 |
| CARAGA | | | 0.8 | 0.4 | 0.5 |

Source: Philippine Statistics Authority

The situation is similar for the service sector, where Mindanao has a relatively small contribution to total services production.

Mindanao, on average, contributes roughly 14% to total production in services since 1975, the lowest in the Philippines. Recently, it has averaged even less, at 12% since 2001. While the contribution of Mindanao to services GVA continues to decrease, the contribution of Luzon continues to increase, reaching an average 73.7% since 2001.

Majority of the contributions to total service GVA in Mindanao comes from Region XI and Region X, which contribute less than a percent to total services production in the country, which is similar to CARAGA, both contribute the lowest to services GVA within Mindanao.

Table 5. Average share to total GDP (services)

| | 1975-1980 | 1981-1990 | 1991-2000 | 2001-2013 | Average |
|--------------------|-----------|-----------|-----------|-----------|---------|
| Philippines | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Luzon | 65.9 | 67.7 | 70.5 | 73.7 | 70.4 |
| NCR | 38.1 | 39.7 | 44.1 | 48.3 | 43.7 |
| Visayas | 17.8 | 17.2 | 16.1 | 14.3 | 16.0 |
| Mindanao | 16.3 | 15.1 | 13.3 | 12.0 | 13.7 |
| Region IX | 2.8 | 2.6 | 2.1 | 1.7 | 2.2 |
| Region X | 4.7 | 4.5 | 3.6 | 3.1 | 3.8 |
| Region XI | 6.4 | 5.8 | 5.2 | 3.8 | 5.0 |
| Region XII | 2.3 | 2.2 | 1.7 | 1.8 | 1.9 |
| ARMM | | | 0.6 | 0.6 | 0.6 |
| CARAGA | | | 0.8 | 0.9 | 0.9 |

Source: Philippine Statistics Authority

GDP growth

Economic growth in Mindanao has generally lagged behind Philippine growth; within Mindanao, growth has been uneven.

Except for a brief period in the last 1970s, Mindanao has generally lagged behind Luzon and Visayas, averaging a long-run growth rate of 3.3% compared to 4% in Luzon and 3.8% in Visayas since 1975.

Recently, Mindanao has been growing at a fast pace, growing at an average of 5.9% since 2009; however it still lags behind both Luzon and Visayas. Growth has been uneven among regions in Mindanao. The highest average growth was recorded in CARAGA while the lowest average growth was recorded in ARMM.

CARAGA has averaged a 4.6% growth rate since 1995, mostly due to the fast pace of growth in recent years. CARAGA was consistently one of the fastest growing regions in the Philippines since 2009, averaging a 9.4% growth rate in the past four (4) years, while Region X has kept pace with the Philippines as a whole, growing at an average of 6.3% over the same period.

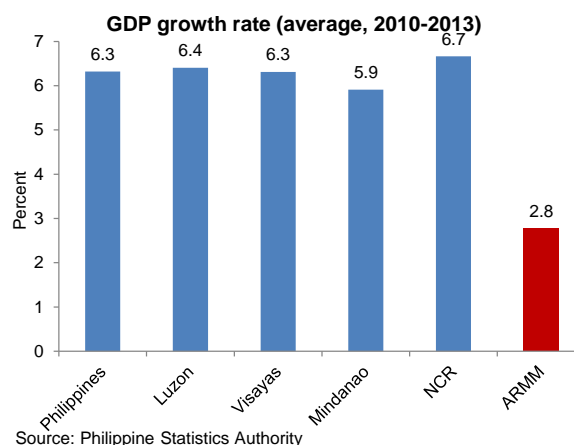
ARMM has performed poorly relative to both Mindanao and the Philippines, growing at the second slowest pace in the Philippines since 2009. In recent years, GDP growth averaged 2.8%, well below the average for both Mindanao and the Philippines.

Table 6. Average economic growth (1975-2013)

| | 1975-1980 | 1981-1990 | 1991-2000 | 2001-2008 | 2009-2013 | Average |
|--------------------|-----------|-----------|-----------|-----------|-----------|---------|
| Philippines | 6.1 | 1.8 | 2.9 | 4.8 | 6.3 | 3.8 |
| Luzon | 6.2 | 2.2 | 2.9 | 4.9 | 6.4 | 4.0 |
| NCR | 6.5 | 2.3 | 3.0 | 5.9 | 6.7 | 4.3 |
| Visayas | 5.4 | 1.8 | 3.0 | 4.9 | 6.3 | 3.8 |
| Mindanao | 6.1 | 0.5 | 2.7 | 4.6 | 5.9 | 3.3 |
| Region IX | 5.9 | 1.0 | 2.6 | 4.0 | 4.7 | 3.1 |
| Region X | 7.7 | 0.1 | 0.0 | 5.6 | 6.3 | 2.9 |
| Region XI | 5.1 | 0.4 | 1.9 | 4.5 | 5.9 | 2.9 |
| Region XII | 5.9 | 0.8 | 0.5 | 4.4 | 6.0 | 2.7 |
| ARMM | | | 2.5 | 2.0 | 2.8 | 2.4 |
| CARAGA | | | 3.0 | 3.1 | 9.4 | 4.6 |

Source: Philippine Statistics Authority

Figure 1. GDP growth rate (2010-2013)



Sectoral composition and growth

Mindanao is mainly an agricultural economy yet growth in the sector is lower than the national average.

Agriculture comprises around 31% of the Mindanao economy over the past decade. It is the largest sector in ARMM, Region IX and Region XII.

However, since 1975, the share of agriculture in Mindanao continues to decrease. Once averaging close to 50% in the late 1970s, it is now down to an average of 31% since 2000.

In ARMM, agriculture continues to be the dominant source of production for the region, averaging a 54% share to total GDP since 1995.

Like the Philippines as a whole, growth in agriculture slowed down since the mid-1970s and remains the slowest growing sector in Mindanao. Between 2001 and 2008, agriculture in Mindanao grew the fastest at 4.7%. However, in recent years, growth decelerated to 0.8%, which is the lowest in the Philippines.

The Philippines relies on Mindanao for its agriculture exports, as it is the dominant source of production for agriculture exports. Mindanao is also home to some of the country's largest agri-business firms.

In 2012, Mindanao exported more than US\$ 3 billion in agricultural products, which accounts for 60% of the country's total agriculture exports²²¹. As a result of the

²²¹ See: <http://minda.gov.ph/site/about-minda/news-and-events/view/Davao-Chamber-chief-lauds-Aquino-admin-for-Moody%E2%80%99s-rating-upgrade>

region's heavy focus on export-led agriculture, some of the largest agri-business multinational firms are located within Mindanao.

Pineapple is one of the country's primary agriculture exports. In fact, the Philippines is the fourth biggest producer of pineapples in the world and the second largest net exporter (Fairfood International). Most of this production is focused in two (2) regions in Mindanao, where 87% of pineapples in the Philippines are produced. These are Region X and Region XII, which account for 54% and 33% of pineapple production in the Philippines, respectively (Fairfood International).

Most of the production in the domestic pineapple industry comes from multinational companies, with 80% coming from multinationals (Fairfood International).

The DOLE Food Company, one of the largest producers and marketers of fresh fruit and vegetables in the world, operates as DOLE-Stanfilco in the Philippines with operating zones in the Davao provinces, as well as South Cotabato, Sarangani, North Cotabato, Compostela Valley, Bukidnon, and Surigao.

Del Monte Philippines, which operates the world's largest pineapple operation in Southern Philippines, also has a number of its operations located in the Mindanao region.

In addition, the Philippines is the world's second largest banana exporter, and Mindanao plays an important role in the production of banana exports.

The Philippines has a total of 449,442 hectares of land used for banana plantations, of which about 51% located in Mindanao²²². Region XI accounts for the largest area of production for bananas in Mindanao, accounting for 19% (87,313 hectares) of the total land area for banana production in the Philippines. Region X has the second largest share with 11.5%, followed by ARMM at 7%. Region IX has the smallest share of land area for banana plantations in Mindanao, with a 4.4 % share.

Major exporters include agri-business firms found mainly in the Davao region. It is led by Lapanday Foods (25% share), TADECO–Del Monte Fresh (20%) with DOLE–Stanfilco, Marsman–Drysdale and other smaller exporters sharing the remaining 55% (Digal).

²²² Based on data from the Philippine Statistics Authority (BAS)

**Table 7. Sector share to total RGDP
(Agriculture)**

| | Average Sector Share to total RGDP, Agriculture | | | | |
|--------------------|---|-----------|-----------|-----------|---------|
| | 1975-1980 | 1981-1990 | 1991-2000 | 2001-2013 | Average |
| Philippines | 29 | 24 | 20 | 14 | 20 |
| Luzon | 20 | 16 | 14 | 9 | 14 |
| NCR | | | | 0.1 | 0.1 |
| Visayas | 35 | 28 | 24 | 17 | 24 |
| Mindanao | 49 | 45 | 39 | 31 | 39 |
| Region IX | 56 | 52 | 47 | 35 | 45 |
| Region X | 41 | 39 | 32 | 27 | 33 |
| Region XI | 52 | 46 | 40 | 24 | 38 |
| Region XII | 49 | 45 | 37 | 37 | 40 |
| ARMM | | | 51 | 56 | 54 |
| CARAGA | | | 37 | 30 | 31 |

Source: Philippine Statistics Authority

Table 8. Average agriculture growth (1975-2013)

| | Average agriculture growth, constant prices | | | | | |
|--------------------|---|-----------|-----------|-----------|-----------|---------|
| | 1975-1980 | 1981-1990 | 1991-2000 | 2001-2008 | 2009-2013 | Average |
| Philippines | 5.1 | 1.2 | 1.8 | 3.8 | 1.6 | 2.5 |
| Luzon | 4.9 | 2.3 | 2.0 | 3.5 | 2.3 | 2.9 |
| NCR | | | | -1.0 | -10.4 | -5.3 |
| Visayas | 4.7 | 0.8 | 2.0 | 2.9 | 1.2 | 2.2 |
| Mindanao | 5.5 | 0.1 | 1.3 | 4.7 | 0.8 | 2.1 |
| Region IX | 4.7 | 1.1 | 2.7 | 3.6 | -3.5 | 2.0 |
| Region X | 7.2 | 0.2 | -2.4 | 6.4 | 2.4 | 1.8 |
| Region XI | 4.6 | -0.8 | 0.4 | 3.7 | -1.1 | 0.9 |
| Region XII | 6.2 | 1.0 | -1.4 | 5.0 | 2.8 | 1.9 |
| ARMM | | | 2.3 | 3.6 | 1.6 | 1.7 |
| CARAGA | | | -0.3 | 2.9 | 0.6 | 2.1 |

Source: Philippine Statistics Authority

Among the sectors, industry is the least important in Mindanao. From 2001-2013, the average share of industry to total GDP in Mindanao was 28%, slightly higher than the long-run average of 27%.

Within Mindanao, the share of industry to GDP has been uneven, with industry accounting for about a third of the share of GDP in Region XII, Region X and CARAGA, but with regions like ARMM and Region IX averaging less than 20% share.

In ARMM, industry is becoming even less important, only averaging a 9% share of total GDP since 2001, down from 17% in the mid-1990s.

In spite of industry being the least important sector to Mindanao, growth in the sector has outpaced the Philippines as a whole since 1975.

In Mindanao, growth in industry averaged 4% since 1975, compared to the 3.5% average for the Philippines. More recently, the average growth rate of 9% since 2009 has been faster than the 7.5% growth rate for the Philippines as a whole. This was a result of the fast pace of growth in both the construction sector, and the manufacturing sector in the region.

Within Mindanao, CARAGA had the highest average growth during that period at 20.8 %, this was largely driven by fast pace of growth in the Mining sector, averaging 25% since 2010.

ARMM had the lowest growth rate, at 5.7%, well below the average for the region and the Philippines as a whole.

**Table 9. Sector share to total RGDP
(industry)**

| | Average Sector Share to total RGDP, Industry | | | | |
|--------------------|--|-----------|-----------|-----------|---------|
| | 1975-1980 | 1981-1990 | 1991-2000 | 2001-2013 | Average |
| Philippines | 36 | 37 | 33 | 32 | 34 |
| Luzon | 43 | 42 | 35 | 33 | 37 |
| NCR | 53 | 48 | 37 | 27 | 38 |
| Visayas | 29 | 30 | 29 | 30 | 30 |
| Mindanao | 24 | 26 | 26 | 28 | 27 |
| Region IX | 15 | 16 | 17 | 23 | 19 |
| Region X | 30 | 29 | 31 | 33 | 31 |
| Region XI | 21 | 23 | 23 | 29 | 25 |
| Region XII | 30 | 33 | 36 | 31 | 33 |
| ARMM | | | 17 | 9 | 11 |
| CARAGA | | | 29 | 29 | 29 |

Source: Philippine Statistics Authority

Table 10. Average industry growth (1975-2013)

| | Average growth industry, constant prices | | | | | |
|--------------------|--|-----------|-----------|-----------|-----------|---------|
| | 1975-1980 | 1981-1990 | 1991-2000 | 2001-2008 | 2009-2013 | Average |
| Philippines | 7.2 | 0.6 | 2.6 | 3.8 | 7.5 | 3.5 |
| Luzon | 7.2 | 0.8 | 2.3 | 3.6 | 7.1 | 3.4 |
| NCR | 7.0 | -0.1 | 2.0 | 4.4 | 7.3 | 3.2 |
| Visayas | 6.5 | 1.0 | 3.2 | 3.9 | 8.3 | 3.8 |
| Mindanao | 8.1 | -0.5 | 3.8 | 4.8 | 9.0 | 4.0 |
| Region IX | 10.2 | 0.6 | 3.6 | 3.6 | 9.5 | 4.4 |
| Region X | 9.2 | -2.1 | 1.9 | 4.8 | 8.7 | 3.1 |
| Region XI | 7.3 | 0.3 | 3.2 | 4.9 | 7.4 | 3.7 |
| Region XII | 7.1 | 0.4 | 2.2 | 4.3 | 8.7 | 3.5 |
| ARMM | | | 4.7 | 1.3 | 5.7 | 3.5 |
| CARAGA | | | 4.0 | 2.4 | 20.8 | 6.7 |

Source: Philippine Statistics Authority

The Philippines' lack of structural transformation is most evident in Mindanao. On average, manufacturing accounts for 19% of Mindanao's economy. In fact, it is limited to Region XII and Region X, the only regions where manufacturing has a greater than 20% share to total GDP.

The lack of structural transformation within Mindanao is also exhibited in ARMM²²³, where manufacturing only accounts for 4% of GDP, the lowest in Mindanao.

In spite of the low share of manufacturing in the Mindanao, it has grown at a faster pace than the Philippines as a whole. Some of the largest manufacturing firms in the region are mainly in food manufacturing, such as Nestle, DOLE, Del Monte, and Coca Cola, which are mostly located in Northern Mindanao.

**Table 11. Sector share to total RGDP
(manufacturing)**

| | Average Sector Share to total RGDP, Manufacturing | | | | |
|--------------------|---|-----------|-----------|-----------|---------|
| | 1975-1980 | 1981-1990 | 1991-2000 | 2001-2013 | Average |
| Philippines | 26 | 25 | 23 | 23 | 24 |
| Luzon | 30 | 29 | 25 | 24 | 26 |
| NCR | 42 | 37 | 30 | 21 | 30 |
| Visayas | 19 | 20 | 20 | 20 | 20 |
| Mindanao | 17 | 18 | 18 | 19 | 18 |
| Region IX | 9 | 10 | 10 | 16 | 12 |
| Region X | 21 | 20 | 24 | 23 | 22 |
| Region XI | 15 | 17 | 16 | 18 | 17 |
| Region XII | 24 | 23 | 27 | 25 | 25 |
| ARMM | | | 4 | 3 | 4 |
| CARAGA | | | 12 | 8 | 8 |

Source: Philippine Statistics Authority

**Table 12. Average manufacturing growth
(1975-2013)**

| | Average manufacturing growth, constant prices | | | | | |
|--------------------|---|-----------|-----------|-----------|-----------|---------|
| | 1975-1980 | 1981-1990 | 1991-2000 | 2001-2008 | 2009-2013 | Average |
| Philippines | 5.5 | 1.1 | 2.6 | 4.2 | 7.9 | 3.5 |
| Luzon | 5.6 | 1.3 | 2.6 | 3.8 | 7.6 | 3.4 |
| NCR | 6.1 | 0.4 | 2.1 | 5.2 | 8.2 | 3.5 |
| Visayas | 4.5 | 1.4 | 2.6 | 5.2 | 8.7 | 3.8 |
| Mindanao | 6.1 | -0.5 | 2.9 | 5.5 | 9.8 | 3.7 |
| Region IX | 9.3 | 0.1 | 2.0 | 6.6 | 9.9 | 4.2 |
| Region X | 6.0 | -1.3 | 2.4 | 4.9 | 10.2 | 3.2 |
| Region XI | 6.6 | -0.2 | 2.0 | 6.4 | 9.4 | 3.7 |
| Region XII | 4.4 | 0.0 | 3.0 | 5.7 | 10.3 | 3.7 |
| ARMM | | | 3.7 | 5.9 | 5.1 | 5.0 |
| CARAGA | | | 10.1 | 1.5 | 18.1 | 6.5 |

Source: Philippine Statistics Authority

²²³ ARMM's 5 % average growth rate for manufacturing is in large part due to the low base effect for manufacturing in the region.

Services is the largest sector in terms of value-added, with a large share coming from the informal²²⁴ services sector. The share of services to GDP has been increasing through time in Mindanao, a pattern which mirrors the situation of the Philippines as a whole.

Services now accounts for 41% of GDP in Mindanao since 2000, overtaking agriculture as the dominant source of production in the region. The same holds true for regions within Mindanao, where the sector share of services has been increasing since 1975.

Although ARMM is still heavily reliant on agriculture, services accounts for more than a third of its GDP, averaging 35% since 1995.

A more detailed look into the services sector reveals that in Mindanao, informal services makes up about half of the share of services to GDP. In recent years, formal services averaged 23% share to total GDP, with informal services averaging a 20% share.

In ARMM however, the difference in the contribution of formal services and informal services is much greater. Informal services only averaged a 5% share to total GDP²²⁵, whereas formal services averaged 27% since 2009.

Services has been the fastest growing sector in Mindanao, averaging a 4% growth rate since 1975. However, Mindanao still lags behind Luzon and Visayas.

Recently however, Mindanao has been outpacing the Philippines in terms of growth in the services sector, growing at an average of 7% compared to the 6.7% average for the Philippines.

Within Mindanao, ARMM lags with an average growth rate of 4.8% since 2009, the lowest growth rate for services in the region. ARMM is the only region where the services sector grows at less than 5% average since 2009.

This is mostly due to the slow pace of growth in the formal services sector, which makes up the bulk of services GDP in the region. The formal services sector only grew at an average of 4.9% in ARMM, compared to 7.4% for the Philippines as a whole.

²²⁴ The informal services sector is operationally defined to include the following subsectors: i) wholesale and retail trade, and ii) transportation, communication and storage (TCS).

²²⁵ This was a result of the low contribution of the transport sector to GDP in ARMM, averaging just 4% of total GDP for ARMM, and the even lower share of the trade sector, which only contributes an average of 1% to total GDP in the region.

In addition, the informal services sector grew at a relatively slower pace compared to the Philippines. The trade sector grew at an average of 1.36% since 2009 for ARMM, slower than the 6.2% average growth rate of the Philippines as a whole since 2009.

The transport sector also grew at a relatively slow pace in ARMM, growing at an average of 3.7% since 2009 compared to the 4.7% average for the Philippines.

Table 13. Sector share to total RGDP (Services)

| | Average Sector Share to total RGDP, Services | | | | Ave |
|--------------------|--|-----------|-----------|-----------|-----|
| | 1975-1980 | 1981-1990 | 1991-2000 | 2001-2013 | |
| Philippines | 35 | 39 | 47 | 54 | |
| Luzon | 37 | 42 | 50 | 58 | |
| NCR | 47 | 52 | 63 | 73 | |
| Visayas | 37 | 41 | 48 | 53 | |
| Mindanao | 26 | 30 | 35 | 41 | |
| Region IX | 29 | 32 | 36 | 42 | |
| Region X | 29 | 32 | 37 | 41 | |
| Region XI | 27 | 30 | 37 | 47 | |
| Region XII | 21 | 23 | 27 | 32 | |
| ARMM | | | 32 | 36 | |
| CARAGA | | | 34 | 40 | |

Source: Philippine Statistics Authority

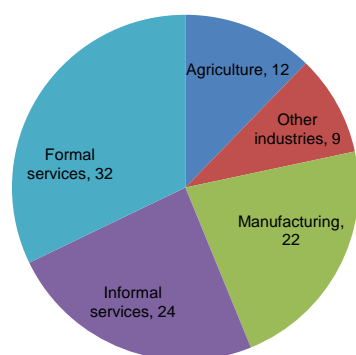
Table 14. Average services growth (1975-2013)

| | Average services growth, constant prices | | | | |
|--------------------|--|-----------|-----------|-----------|-----------|
| | 1975-1980 | 1981-1990 | 1991-2000 | 2001-2008 | 2009-2013 |
| Philippines | 5.5 | 3.4 | 3.7 | 6.0 | 6.7 |
| Luzon | 5.7 | 3.8 | 3.7 | 6.2 | 6.6 |
| NCR | 6.0 | 4.7 | 3.8 | 6.8 | 6.7 |
| Visayas | 5.1 | 3.0 | 3.5 | 6.3 | 6.8 |
| Mindanao | 5.3 | 2.2 | 3.4 | 4.9 | 7.0 |
| Region IX | 5.8 | 1.6 | 2.0 | 4.7 | 6.5 |
| Region X | 7.0 | 2.3 | 1.2 | 6.0 | 6.9 |
| Region XI | 4.3 | 2.6 | 3.2 | 5.3 | 7.6 |
| Region XII | 4.1 | 1.3 | 2.0 | 4.6 | 6.2 |
| ARMM | | | 4.5 | 3.6 | 4.8 |
| CARAGA | | | 6.7 | 4.4 | 8.2 |

Source: Philippine Statistics Authority

Figure 2. Sector share to GDP (Philippines)

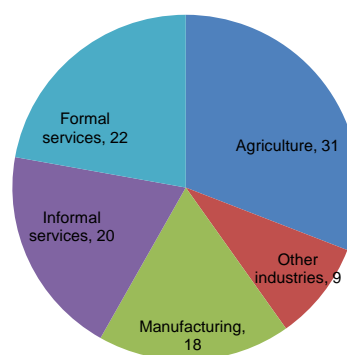
Philippines - Sector share to GDP (2009-2013 average)



Source: Philippine Statistics Authority

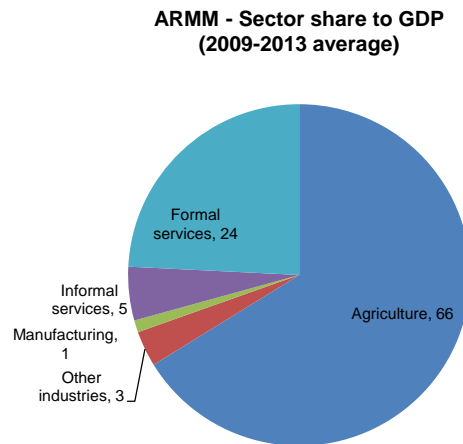
Figure 3. Sector share to GDP (Mindanao)

Mindanao - Sector share to GDP (2009-2013 average)



Source: Philippine Statistics Authority

Figure 4. Sector share to GDP (ARMM)



Source: Philippine Statistics Authority

The lack of structural transformation

By the end of the 20th century, Mindanao had transformed itself into a services-driven economy, following the same pattern of the Philippines as a whole.

The agriculture sector has generally remained backwards and unproductive, growing at the slowest pace and having the lowest labor productivity among the three (3) sectors.

Over the past few decades, agriculture's share of GDP fell from 30% to around 12% in 2013. Manufacturing continues to decline, from its peak of 30% share of GDP in the early 1970s, to around 22% in 2013.

In place of agriculture and manufacturing, the services sector has dominated growth.

In 1998, its share of GDP breached the 50% mark, and it continues to grow towards 60% of GDP.

Although the Philippines and Mindanao are moving away from agriculture into services, ARMM still relies heavily on agriculture for its production. In fact, it receives a much larger share of its production from agriculture than in 1995. The share of agriculture to GDP has now increased to 66% of GDP in 2013 from 57% in 1995.

At first glance, the pattern of growth for both Mindanao and the Philippines seems akin to the normal pattern of structural transformation: a first phase in which manufacturing grows, replacing agriculture as the dominant sector, followed by a second phase in which the services sector takes over as the engine of growth.

However, this seemingly normal pattern of structural transformation is actually far from normal.

This is because more than 80% of services sector employment is comprised of informal or low-skilled workers.

In addition, the informal service sector contributes only about 20% on average in Mindanao from 2009-2013, and 24% for the Philippines.

The picture that emerges is of a labor force that escapes the unproductive agriculture sector in depressed rural areas and looks for better-paying jobs in urban areas, only to find that such jobs are non-existent.

This unemployed²²⁶ and underemployed²²⁷ labor force then ends up in self-employment or informal employment in low-income services.

Figure 5. Sector share to GDP (Agriculture)

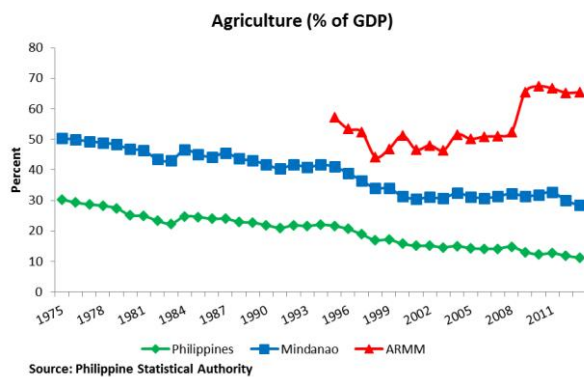
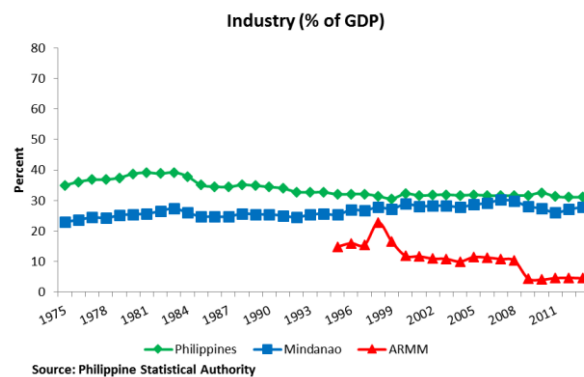


Figure 6. Sector share to GDP (Industry)



²²⁶ Unemployment is defined to include workers who are 15 years old and over as of their last birthday, and are reported as: i) without work and currently available for work and seeking work, or ii) without work and currently available for work but not seeking work for the following reasons: a) tired/believe no work is available, b) awaiting results of a job application, c) temporarily ill/disabled, d) bad weather, and e) waiting for rehire/job recall.

²²⁷ Underemployment is defined to include all employed persons looking for more work.

Figure 7. Sector share to GDP (Manufacturing)

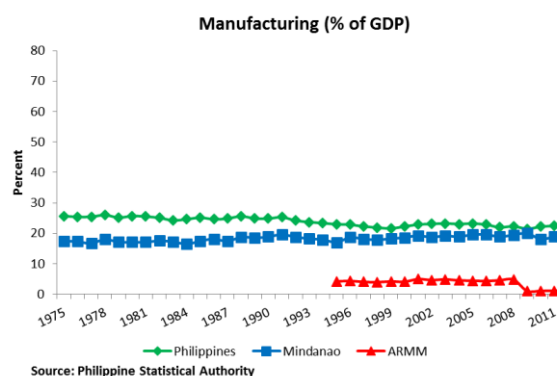
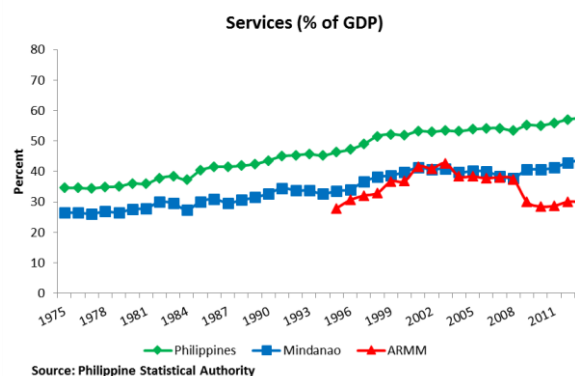


Figure 8. Sector share to GDP (Services)



Why the lack of structural transformation?²²⁸

Total Factor Productivity²²⁹

The first major reason for the country’s economic underperformance stems from the low levels of investment in human and physical capital alongside the lack of technological change.

A simple growth decomposition analysis covering the period 1961 to 2000 shows that the contribution of physical capital to Philippine growth is only 0.9 percentage point compared to an average of 2.4 percentage points in East Asia.

The contribution of human capital at 0.4 percentage point is comparable to the regional average of 0.5 percentage point but this figure does not capture large differences in the quality of the labor force.

More glaringly, the Philippines is the only country in the region where total factor productivity (TFP) contributed negatively to growth.

²²⁸ Section taken from the 2013 Philippine Development Report (World Bank)

²²⁹ Mindanao to be added in a future update.

Table 15. Total Factor Productivity
Total factor productivity of East Asian countries

| | Growth in output per worker | Contribution to growth of | | |
|-------------|-----------------------------------|---------------------------|------------------|------|
| | | Physical capital | Human capital | TFP |
| Philippines | 1.0 | 0.9 | 0.4 | -0.3 |
| East Asia | 4.4 | 2.4 | 0.5 | 1.4 |
| China | 4.8 | 1.7 | 0.4 | 2.6 |
| Indonesia | 3.0 | 1.8 | 0.5 | 0.6 |
| Korea | 4.8 | 2.8 | 0.7 | 1.2 |
| Malaysia | 3.6 | 2.2 | 0.6 | 0.8 |
| Singapore | 5.0 | 3 | 0.5 | 1.5 |
| Taiwan | 5.8 | 3 | 0.6 | 2.1 |
| Thailand | 4.1 | 2.5 | 0.4 | 1.2 |

Source: World Bank (WB) staff estimates using data from 1961 to 2000

Infrastructure and human capital (education, health) investment

The low levels of public investment in physical and human capital made the transformation difficult.

Mindanao has the lowest level of investment in the Philippines, averaging 15% of GDP since 1988. CARAGA had the highest average level of investment in Mindanao at 22% of GDP, comparable to Luzon and NCR.²³⁰

Region IX, Region X and Region XI had levels below the Mindanao average. Among the regions in Mindanao, ARMM averaged the lowest level of investment, averaging 9% share of GDP since 1995.

In addition, public spending on education and health²³¹ by the National Government has been inadequate. Based on the 2013 General Appropriations Act, less than 3% of Mindanao's GDP goes to investments in health and education²³².

Aside from the low level of spending from the National Government, local government units (LGUs) in Mindanao have lower levels of investment in human capital compared to the rest of the Philippines (see section on public finance).

²³⁰ This was mostly due to the relatively low levels of GDP for CARAGA. CARAGA has historically received the second lowest amount of investments in Mindanao, with ARMM receiving the least.

²³¹ The larger share for both Visayas and Mindanao compared to Luzon is also a product of the lower GDP for both Visayas and Mindanao compared to Luzon.

²³² Investment in education based on the budget both Department of Education and Commission on Higher Education, while investment in health based on the budget of the Department of Health.

The Philippines' low level of investment in human capital especially in rural areas compromised a successful transition of labor from farm to non-farm sectors. And without adequate investment in health and education in rural areas, rural and agricultural productivity itself remained stagnant.

As mandated by the 1987 Constitution, the biggest share of the National Government budget goes to basic education. However, because of perennially low revenues, the level of basic education spending was much lower than in neighboring countries.

Meanwhile, better services and higher wages in urban areas attracted migrants, which contributed to congestion in urban areas. However, without the necessary skills to transition to manufacturing and the lack of manufacturing jobs, migrants resorted to finding or creating work in the low-skill low-productivity informal services sector.

Figure 9. Gross Capital Formation

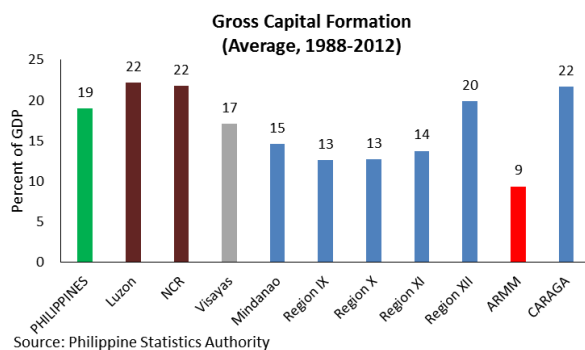


Figure 6. National Government education budget

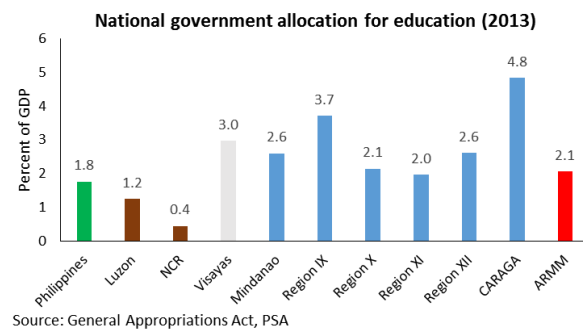


Figure 7. National Government health budget

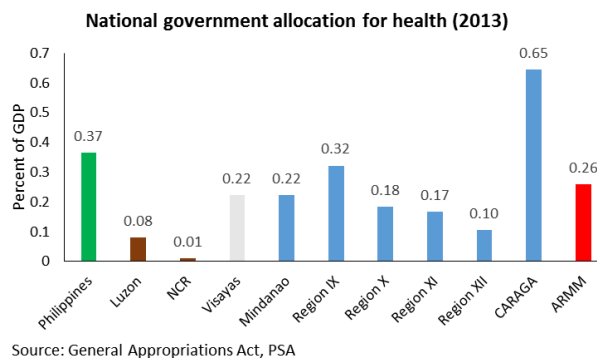
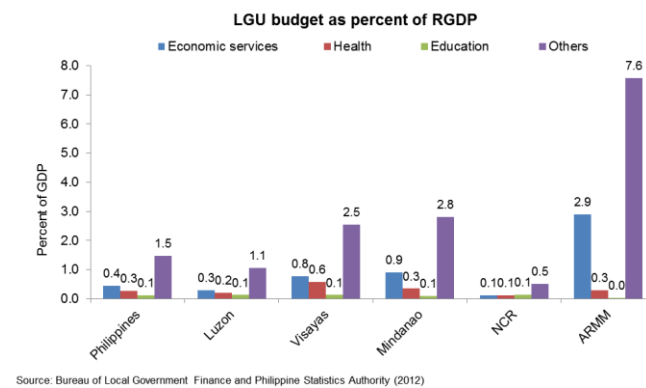


Figure 8. Local government expenditure



Conflict

Conflict in Mindanao is a long standing issue. The conflict between Christian Filipinos and Muslim Moros in the Philippines could be traced back to the 16th century as part of Spain’s attempt to colonize the Philippines. During this time, the Muslims of Mindanao and Sulu were more established and organized, most notable were the sultanates or royal kingdoms of Sulu and Maguindanao. This made it hard for Spanish colonization to take place in Mindanao, which led to initial attempts of colonization to be focused on the scattered areas of the Luzon and Visayas. Resistance from Spanish colonization continued for more than 300 years, without much success (Luga; Knack).

The Philippine revolution against Spanish rule in 1898, which turned into the Spanish-American War, led to the signing of the Treaty of Paris in 1898 between Spain and America. This was essentially an agreement giving the American colonial government control and ownership of the Philippines. The Philippine colonial government then passed laws legalizing confiscation of land owned by the Muslims of Mindanao, along with large-scale land grabbing, and policies implementing resettlement programs of Christian Filipinos to areas in Mindanao which were once dominated by Muslims in Mindanao (Luga; Knack).

Conflict between the Muslims of Mindanao continued in 1968 when Filipino Muslim military trainees were murdered when they refused to take part in a plot by the government to reclaim Sabah. This event was known to be the Jaidah Massacre. This culminated in the 1970s with the formation of the Moro National Liberation Front (MNLF in 1969), headed by Nur Misuari, which pushed for the independence of the Bangsamoro land.

In 1976, the peace agreement known as the Tripoli Agreement was signed by the Philippine government and the MNLF, in an attempt to establish an autonomous

Muslim region in Mindanao. However, the implementing rules and regulation of the agreement never materialized, and conflict continued as a result (CENSEI; Buendia).

However, the signing of the Tripoli Agreement brought about a rift within the MNLF. Hashim Salamat broke away from the MNLF and formed the Moro Islamic Liberation Front (MILF) in 1977 due to the belief that independence should be the goal of any agreement over autonomy. This led to continued armed conflict for the independence of the Moro nation in Mindanao (CENSEI; Buendia).

On August 1, 1989, as part of the mandate of the 1987 Constitution, the Autonomous Region in Muslim Mindanao (ARMM) was created.

Peace temporarily came in 1996 with the Philippine government and the MNLF Final Peace Agreement. This allowed MNLF Chairman Nur Misuari to assume the position of regional governor of the ARMM, and chairman of the Southern Philippines Council for Peace and Development (CENSEI; Buendia).

Peace talks between the government and MILF began in 1997, which would continue until the regime of then president, Joseph Estrada. Dissatisfaction with the negotiation process, and instances of armed conflict throughout 1999, and 2000 resulted in all-out war in 2000 with the MILF (CENSEI; Buendia).

As Gloria Macapagal-Arroyo assumed office in 2001, the peace process was revived by signing the “General Framework for the Resumption of Peace Talks and its Implementing Guidelines” on March, 2001 (CENSEI).

Seven (7) years of negotiations took place, before reaching an agreement on a draft accord on the Ancestral Domain Aspect of the Tripoli Agreement (MOA-AD), which was scheduled for signing on August, 2008. However, the MOA-AD was struck down by the Supreme Court due to the unconstitutionality of some of the provisions of the MOA-AD. As a result, armed conflict followed after the junking of the MOA-AD (CENSEI).

President Arroyo suspended military operations on July, 2009, in an attempt to salvage the negotiations between the MILF and the government of the Philippines. Negotiations were continued by the current administration of Benigno Aquino III, culminating in the recent submission of the draft Bangsamoro Basic Law (CENSEI).

Employment

Population and Labor Force

Mindanao is home to some 22 million people in 2010, as well as a diverse set of Indigenous People (IP).

In Mindanao, where around 60% of indigenous peoples reside, the top three (3) indigenous peoples in terms of population are the Maguindanao, who account for 6.5% of the population, the Maranao (5.7%) and the Tausug (5.4%).

In ARMM, indigenous people account for a larger share of the population. The Maranao has the largest share of the population at 26.7%, followed by the Tausug (26.2%) and the Maguindanao (19%). The top three (3) indigenous peoples account for more than 60% of the population, the highest among regions in Mindanao.

The top three (3) IP groups per region are listed in the table below.

Table 16. Top 3 highest population of Indigenous People per region (Mindanao)

| | Total | Share to population (%) | | Total | Share to population (%) |
|------------------|-------------------|-------------------------|-------------------|------------------|-------------------------|
| Mindanao | 21,911,661 | | Region XII | 4,103,105 | |
| Maguindanao | 1,417,766 | 6 | Maguindanao | 744,043 | 18 |
| Maranao | 1,238,751 | 6 | B'laan/Blaan | 205,193 | 5 |
| Tausug | 1,188,170 | 5 | T'boli/Tboli | 142,914 | 3 |
| Region IX | 3,397,838 | | CARAGA | 2,424,788 | |
| Subanen/Subanon | 433,506 | 13 | Manobo | 331,802 | 14 |
| Tausug | 285,465 | 8 | Mamanwa | 202,862 | 8 |
| Sama/Samal | 58,930 | 2 | Banwaon | 8,204 | 0.3 |
| Region X | 4,284,594 | | ARMM | 3,248,787 | |
| Maranao | 307,136 | 7 | Maranao | 865,266 | 27 |
| Higaonon | 306,310 | 7 | Tausug | 852,388 | 26 |
| Bukidnon | 91,044 | 2 | Maguindanao | 610,134 | 19 |
| Region XI | 4,452,549 | | | | |
| Mandaya | 273,387 | 6 | | | |
| Manobo | 96,947 | 2 | | | |
| B'laan/Blaan | 94,754 | 2 | | | |

Source: 2010 Census of Population and Housing

Mindanao's high population growth rate has added further pressure to the domestic labor market, mirroring the situation of the Philippines as a whole.

The average population growth in Mindanao from 2000-2010 is similar to that of the Philippines at 1.9%, which was the highest in the East Asia region.

Within Mindanao, Region XII has the highest average population growth rate, at 2.5%, with regions X, and XI as the other regions with population growth rates greater than that of Mindanao.

Both ARMM and CARAGA have relatively low annual average population growth rates at 1.5% and 1.4% respectively. In the past decade, the average population

growth rate in ARMM decreased by more than half, coming from 3.2% from 1990-2000, down to 1.5%.

Table 17. Population by region (in millions)

| | 1980 | 1990 | 2000 | 2010 |
|--------------------|-------------|-------------|-------------|-------------|
| Philippines | 48.1 | 60.8 | 76.5 | 92.3 |
| Luzon | 30.6 | 38.8 | 49.0 | 59.5 |
| Visayas | 8.5 | 10.0 | 12.1 | 14.3 |
| Mindanao | 10.9 | 14.2 | 18.1 | 22.0 |
| Region IX | 1.8 | 2.2 | 2.8 | 3.4 |
| Region X | 2.2 | 2.8 | 3.5 | 4.3 |
| Region XI | 2.2 | 2.9 | 3.7 | 4.5 |
| Region XII | 1.7 | 2.4 | 3.2 | 4.1 |
| CARAGA | 1.4 | 1.8 | 2.1 | 2.4 |
| ARMM | 1.6 | 2.1 | 2.8 | 3.3 |

Source: Philippine Statistics Authority

Table 18. Average annual population growth rate (%)

| | 1980-1990 | 1990-2000 | 2000-2010 |
|--------------------|------------|------------|------------|
| Philippines | 2.4 | 2.4 | 1.9 |
| Luzon | 2.4 | 2.4 | 1.9 |
| Visayas | 1.7 | 1.9 | 1.6 |
| Mindanao | 2.8 | 2.5 | 1.9 |
| Region IX | 2.3 | 2.5 | 1.8 |
| Region X | 2.4 | 2.2 | 2.1 |
| Region XI | 3.0 | 2.3 | 2.0 |
| Region XII | 3.6 | 3.1 | 2.5 |
| CARAGA | 2.6 | 1.7 | 1.4 |
| ARMM | 3.0 | 3.2 | 1.5 |

Source: Philippine Statistics Authority

The distribution of the population and the labor force is similar across all island groups and for ARMM and the Bangsamoro.

Majority of the labor force can be found in Luzon (54%), followed by Mindanao at 26%, and Visayas at 20%. This mirrors the distribution of the population among the three (3) island groups.

Both ARMM and the Bangsamoro account for 4% of the population, while accounting for 3% and 4% of the labor force, respectively.

Figure 9. Share to total population (ARMM)

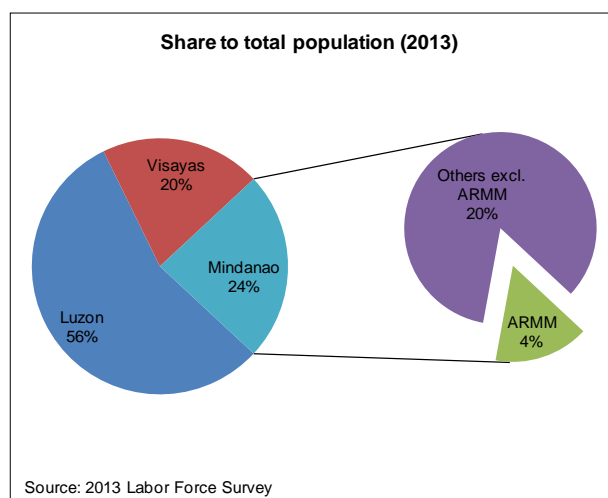


Figure 10. Share to total population (Bangsamoro)

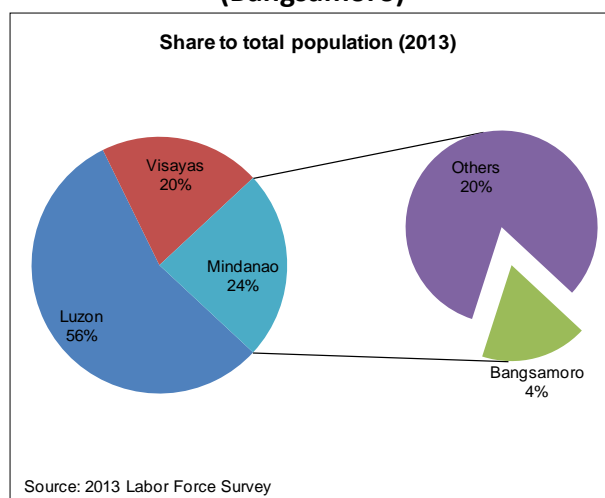


Figure 10. Share to total labor force (ARMM)

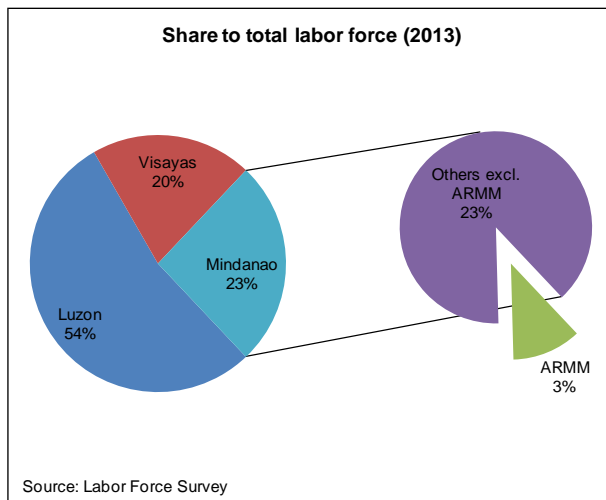
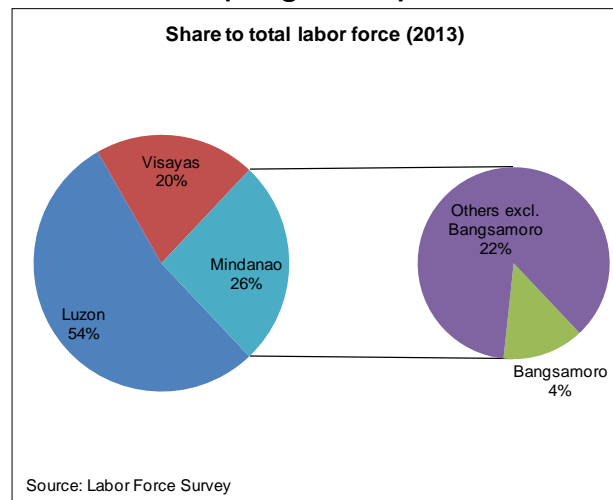


Figure 11. Share to total labor force (Bangsamoro)



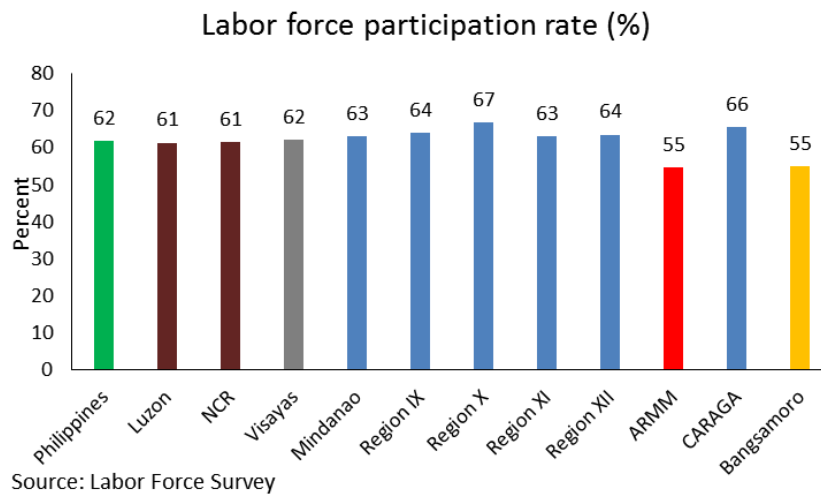
Labor force participation in Mindanao is the highest in the Philippines; yet some of the regions with the lowest labor force participation rates are in Mindanao.

Mindanao had the highest labor force participation rate in the Philippines in 2013 at 63%. Within Mindanao, Region X had the highest labor force participation rate at 67%, followed by CARAGA with 66%, and Region IX and XII with 64%.

Both the Bangsamoro and the ARMM however, have lower labor force participation rates compared to other regions in 2013 at 55%, the lowest among all regions in the Philippines.

The main reason for the disparity in labor force participation for both ARMM and Bangsamoro, is the discrepancy in labor force participation between male and female laborers.

Figure 12. Labor force participation rate (2013)



Women in the labor force

A closer look at the labor force participation rate by gender highlights the discrepancies in labor market outcomes between genders in Mindanao, specifically in ARMM and the Bangsamoro.

Females in Mindanao only have a slightly lower labor force participation rate compared to the rest of the Philippines. The 46.7% labor force participation rate for Mindanao females is just slightly lower than the Philippines (48.3%), and for both Luzon (48.4%) and Visayas (49.3%).

However, in ARMM and the Bangsamoro, the labor force participation rate of females is much lower compared to both Mindanao and the Philippines, while the labor force participation rate of males is just slightly higher. This leads to a much lower labor force participation rate as a whole for both ARMM and the Bangsamoro compared to other regions in the Philippines.

Additionally, women in Mindanao had a higher unemployment rate compared to males, and were largely employed in the services sector.

Among the three (3) island groups, only Mindanao had a higher unemployment rate for females than males (6.1% vs 4.8%). The disparity was much larger in both ARMM and Bangsamoro, where females had an unemployment rate of 8.2%, compared to just 3.7% for males in the region.

In terms of underemployment, Mindanao, ARMM and Bangsamoro follow the general pattern observed in the Philippines, where the underemployment rate is much lower among women than among men.

In terms of sectoral employment, females in Mindanao were mostly employed in the services sector, followed by the agriculture sector. However, in ARMM a larger share of females are employed in agriculture (53.9%), followed by services (43.4%).

Table 19. Male and female labor market outcomes (2013)

| Labor outcome | Philippines | | Luzon | | Visayas | | Mindanao | | ARMM | | Ba |
|---------------------------|-------------|--------|-------|--------|---------|--------|----------|--------|------|--------|------|
| | Male | Female | Male | Female | Male | Female | Male | Female | Male | Female | Male |
| Labor force participation | 75.5 | 48.3 | 74.4 | 48.4 | 74.4 | 49.8 | 79.1 | 46.7 | 78.2 | 31.9 | 78.0 |
| Employment share | | | | | | | | | | | |
| Agriculture | 38.1 | 20.1 | 29.1 | 13.7 | 44.0 | 23.8 | 52.9 | 32.9 | 74.2 | 53.9 | 69.8 |
| Industry | 19.0 | 10.1 | 22.2 | 12.4 | 17.2 | 8.8 | 13.7 | 5.5 | 2.9 | 2.7 | 3.9 |
| Services | 42.9 | 69.8 | 48.7 | 73.9 | 38.8 | 67.4 | 33.4 | 61.6 | 22.9 | 43.4 | 26.2 |
| Unemployment | 7.3 | 6.8 | 8.5 | 7.5 | 6.9 | 5.5 | 4.8 | 6.1 | 3.7 | 8.2 | 3.7 |
| Underemployment | 21.8 | 15.5 | 20.5 | 14.6 | 23.3 | 16.0 | 23.5 | 17.2 | 13.0 | 10.9 | 13.2 |
| Average wage | 342 | 361 | 386 | 390 | 272 | 310 | 279 | 311 | 290 | 387 | 294 |

Source: LFS 2013

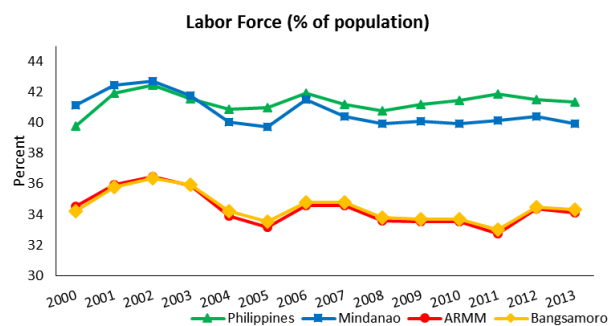
The growth of the labor force has consistently outpaced employment growth, and this gap has not changed for the Philippines as a whole, although the gap is much smaller for Mindanao.

Low economic growth and even lower growth in job creation, combined with fast population growth, have resulted in poor labor market outcomes in the Philippines.

The gap between the labor force and employment, as shares of the population, was around three (3) percentage points for the Philippines as a whole, indicating that Filipinos are having a more difficult time finding work.

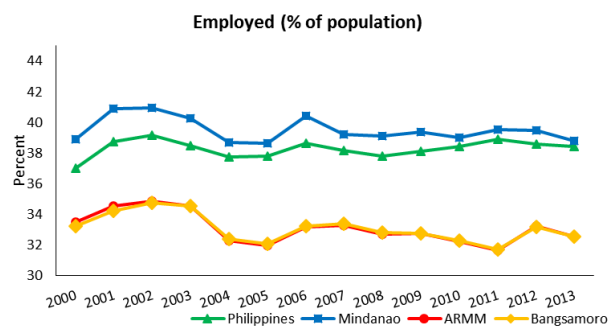
However, the gap between labor force and employment is less for Mindanao at 1.1 percentage point, but slightly higher for ARMM at around 1.6 percentage points.

Figure 13. Labor force as % of population



Source: Laor Force Survey

Figure 14. Employed as % of population



Source: Laor Force Survey

As a result, the unemployment in Mindanao has remained the same over the past 13 years, and underemployment has remained structurally high.

The smaller gap between the labor force and employment as share of the population for both Mindanao and the ARMM resulted in lower unemployment rates compared to the Philippines as a whole.

Figure 15. Unemployment rate (%)

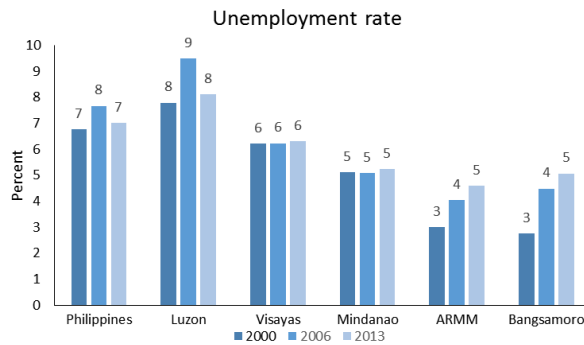
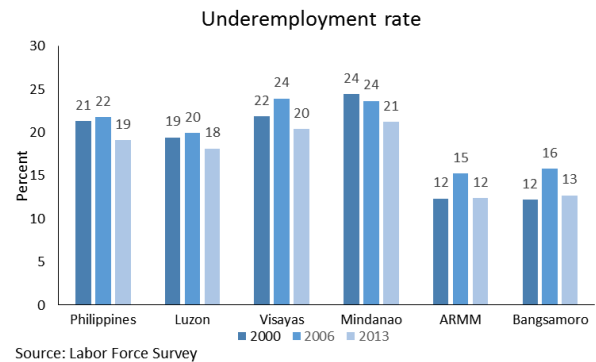


Figure 16. Underemployment rate (%)



Sectoral patterns of employment

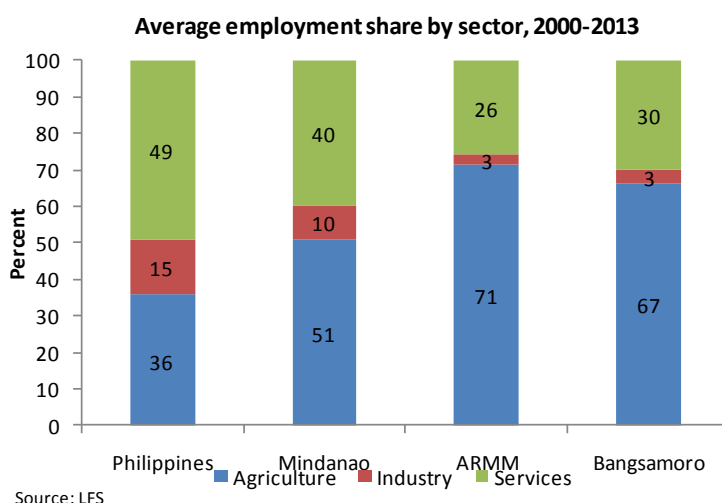
Even though Mindanao has been moving more towards services in terms of production, on average, majority of the employed can still be found in agriculture.

Employment in agriculture accounts for 51% of total employment in Mindanao since 2000, followed by services at 40%, and roughly 10% for industry. This is in contrast to the Philippines, where majority of the employed belong to the services sector, followed by the agriculture sector.

In ARMM, however, the difference is more pronounced among the three (3) sectors. A much larger share is employed in agriculture at 71%, followed by services at 26%, and industry at 3%.

The Bangsamoro shares the same basic pattern of sectoral employment, with agriculture still accounting for most of the employed in the region. Compared to ARMM however, the share of agriculture employment is slightly lower, with 67% of employed in the agriculture sector compared to 71% in ARMM over the past decade.

Figure 17. Average employment share by sector (2000-2013)



More recently, sectoral composition of employment has been even between agriculture and services in Mindanao. Services now accounts for 44% of total employment in Mindanao, which is now about even with agriculture, which accounts for 46% of total employment.

Majority of the employment in Mindanao's services sector comes from the informal services sector²³³, accounting for 24% of total employment, compared to 2% for formal services.

The same holds true for ARMM and Bangsamoro, with a much larger share of employment in the services sector comprising informal services compared to formal services. In ARMM informal services accounts for 20% of total employment compared to just 9% for formal services. The same trend holds for Bangsamoro with 22% of employment in informal services and just 10% in formal services.

However most of employment in both ARMM and Bangsamoro can still be found in agriculture. In ARMM, around 68% were employed in agriculture in 2013, while the Bangsamoro had a slightly lower share at 64%.

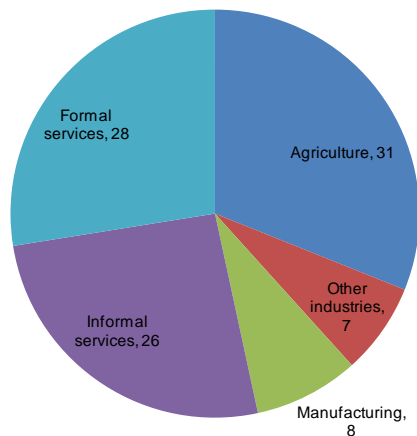
The low share of industry employment in both ARMM and Bangsamoro reflect the low share of production to total GDP in the region, with only 2% of total employment in industry for ARMM, and 4% for Bangsamoro.

²³³ Informal services are operationally defined to include the wholesale and retail trade and the transportation, communication, and storage services sectors.

Manufacturing employment in both ARMM and Bangsamoro is virtually non-existent, accounting for only 1% of total employed, once again reflecting the very small share of manufacturing to total production in the region.

Figure 18. Philippines - Employment share by sector (2013)

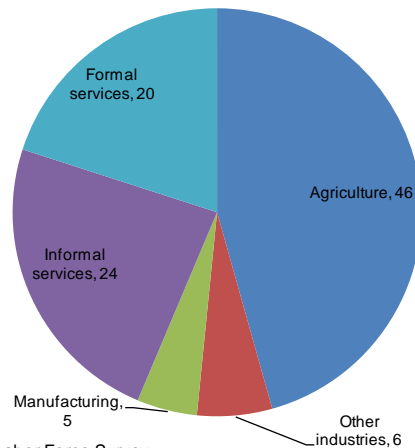
Philippines - Employment share by sector (2013)



Source: Labor Force Survey

Figure 19. Mindanao - Employment share by sector (2013)

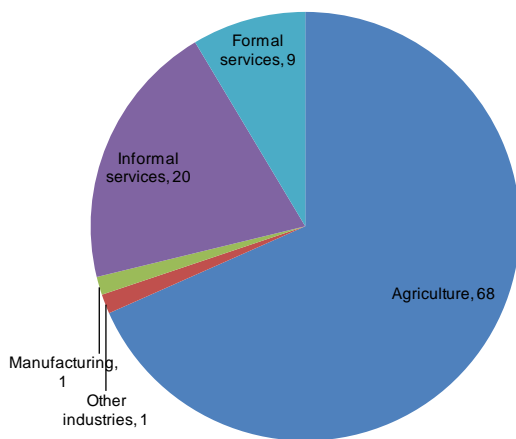
Mindanao - Employment share by sector (2013)



Source: Labor Force Survey

Figure 20. ARMM - Employment share by sector (2013)

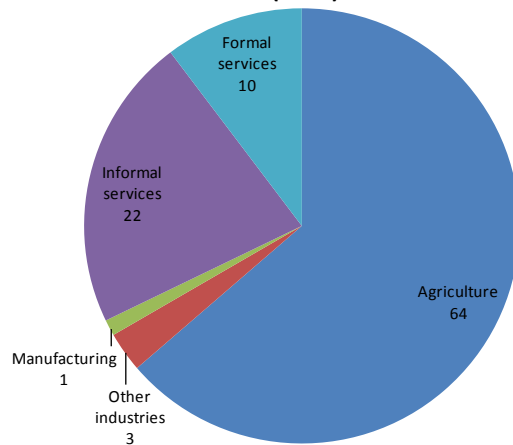
ARMM - Employment share by sector (2013)



Source: Labor Force Survey

Figure 21. Bangsamoro - Employment share by sector (2013)

Bangsamoro - Employment share by sector (2013)



Source: Labor Force Survey

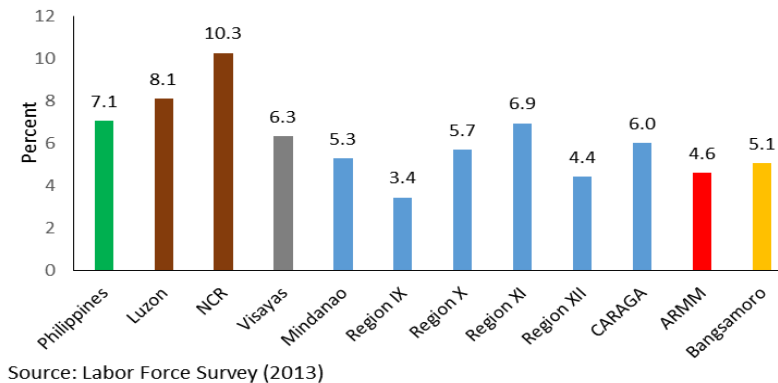
Unemployment

Unemployment in Mindanao is relatively low compared to the Philippines as a whole. In 2013, the unemployment rate in Mindanao was 5.3%, lower than the 7% unemployment rate for the Philippines, and the 8.5% and 6.3% unemployment rate for Luzon and Visayas, respectively.

Within Mindanao, Region XI has the highest unemployment rate in 2013 at 6.9%, the only region in Mindanao near the unemployment rate of the Philippines as a whole. CARAGA is the only other region with an unemployment rate above 5%.

Region IX has the lowest unemployment rate in Mindanao at 3.4%, followed by Region XII at 4.4%, both ARMM and the Bangsamoro have lower unemployment rates than Mindanao as a whole, at 4.6% and 5.1% respectively.

Figure 22. Unemployment rate (2013)
Unemployment rate (2013)

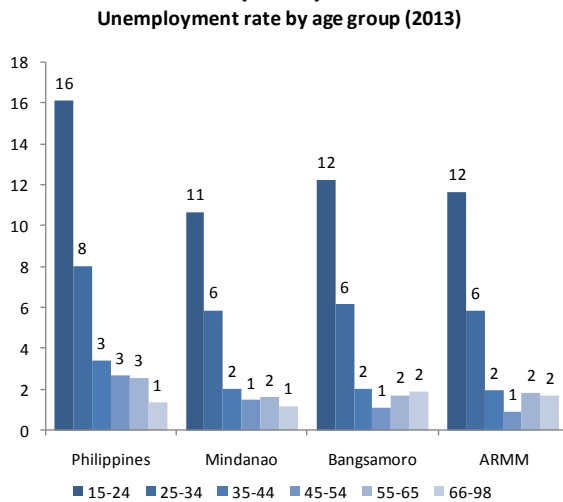


The unemployed are generally characterized as the young, the more educated, and the rich. Across the Philippines, Mindanao, ARMM and Bangsamoro, the young (aged 15-24) have the highest unemployment rate. However, the unemployment rate for those aged 15-24 is much less for Mindanao, ARMM and Bangsamoro compared to the Philippines as a whole.

Based on educational attainment, workers who are at least a college undergraduate tend to have the highest unemployment rates. While across the board, workers with no education have the lowest unemployment rate.

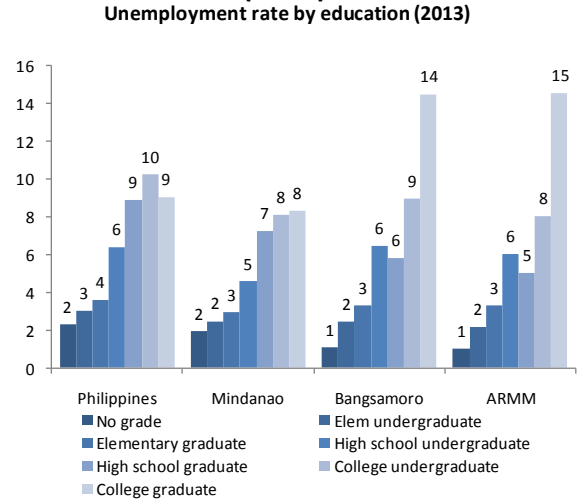
In general, the rich are those who are unemployed, however for the Bangsamoro, the unemployment rate is high across quartiles.

Figure 23. Unemployment rate by age group (2013)



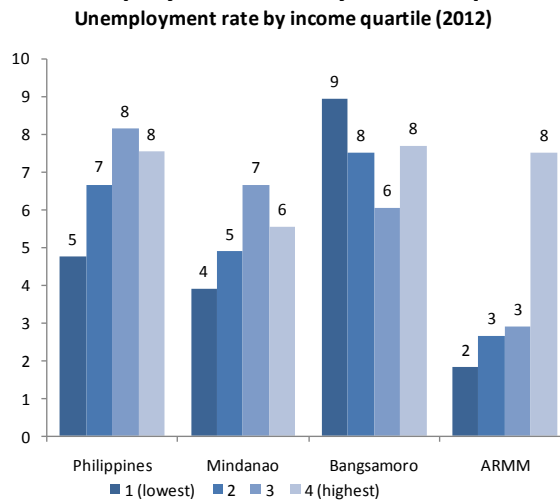
Source: Labor Force Survey

Figure 24. Unemployment rate by education (2013)



Source: Labor Force Survey

Figure 25. Unemployment rate by income quartile (2013)



Source: Labor Force Survey, FIES

Underemployment

While Mindanao fares well compared to the rest of the country in terms of unemployment, it has the highest underemployment rate in the Philippines.

Mindanao's 21.2% underemployment rate is the highest in the Philippines. Within Mindanao are some of the regions with the highest underemployment rates in the country.

In Mindanao, the underemployment rate is the highest in CARAGA at 27.1%, followed by Region X at 25.7%, and Region XII at 22.7%.

However, ARMM²³⁴ and the Bangsamoro stand out as having some of the lowest underemployment rates in the country, at levels comparable to NCR, at 12.4% and 12.7% respectively.

In general, a larger share of the underemployed is visibly underemployed as opposed to invisibly underemployed. Visible underemployment²³⁵ points to the lack of gainful employment, which could be a consequence of labor market rigidities, high cost of doing business, or weak investment climate, while invisible underemployment²³⁶ could indicate, among others, a mismatch between job demand and available skills.

Table 20. Underemployment rate (2013)

| | Underemployment rate | Visible underemployment | Invisible underemployment |
|--------------------|----------------------|-------------------------|---------------------------|
| Philippines | 19.3 | 11.3 | 8.0 |
| Luzon | 18.1 | 10.0 | 8.1 |
| NCR | 12.1 | 4.6 | 7.5 |
| Visayas | 20.4 | 12.5 | 7.9 |
| Mindanao | 21.2 | 13.4 | 7.8 |
| Region IX | 21.8 | 13.6 | 8.3 |
| Region X | 25.7 | 16.6 | 9.1 |
| Region XI | 17.3 | 10.6 | 6.7 |
| Region XII | 22.7 | 14.4 | 8.3 |
| ARMM | 12.4 | 8.5 | 3.9 |
| CARAGA | 27.1 | 16.4 | 10.7 |
| Bangsamoro | 12.7 | 8.3 | 4.4 |

Source: Labor Force Survey (2013)

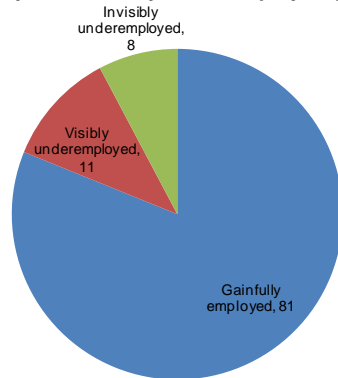
²³⁴ These are based on official statistics using the Labor Force Survey. However, they do not conform to stylized facts regarding poor regions & underemployment, the research team will look into this outcome.

²³⁵ Visible underemployment includes persons working less than 40 hours per week.

²³⁶ Invisible underemployment include persons working 40 hours or more per week.

Figure 26. Philippines – Gainful employment (share to total employment, 2013)

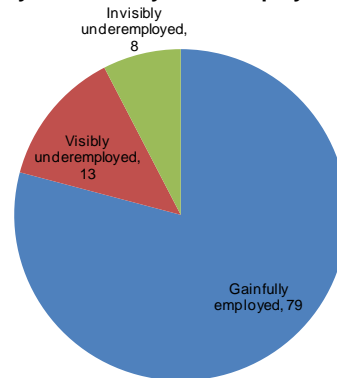
Philippines - Employment shares - Gainfully employed, visibly and invisibly underemployed (2013)



Source: Labor Force Survey

Figure 27. Mindanao – Gainful employment (share to total employment, 2013)

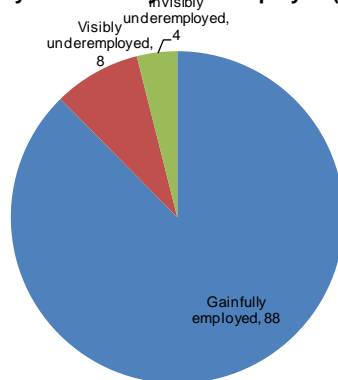
Mindanao - Employment shares - Gainfully employed, visibly and invisibly underemployed (2013)



Source: Labor Force Survey

Figure 28. ARMM – Gainful employment (share to total employment, 2013)

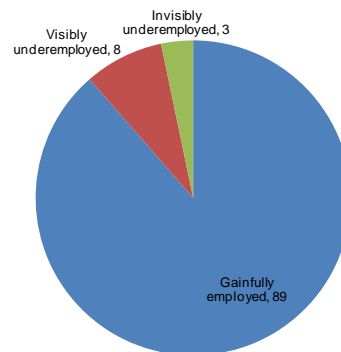
ARMM - Employment shares - Gainfully employed, visibly and invisibly underemployed (2013)



Source: Labor Force Survey

Figure 29. Bangsamoro – Gainful employment (share to total employment, 2013)

Bangsamoro- Employment shares - Gainfully employed, visibly and invisibly underemployed (2013)



Source: Labor Force Survey

Underemployment is characteristic of the middle-aged, the less educated, and the poor.

In both Mindanao and the Philippines, the middle-aged (aged 35-54), has the highest underemployment rates across all age groups. However within Mindanao, the young has the highest underemployment rates.

For both the Philippines and in Mindanao, the less educated generally have a higher underemployment rate.

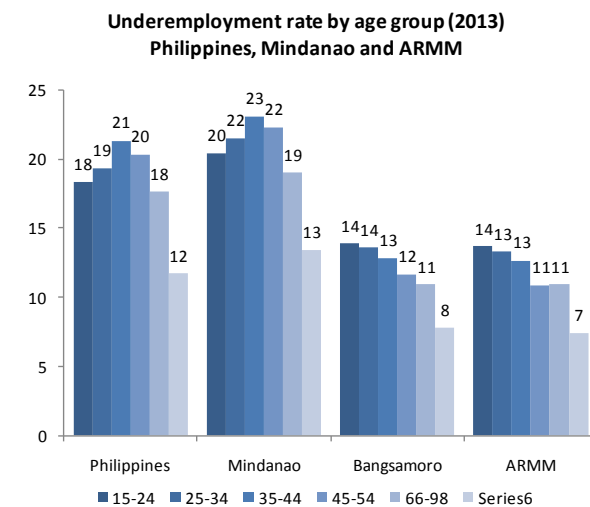
The underemployment rate is decreasing by level of educational attainment for both ARMM and Bangsamoro.

However, for most levels of educational attainment, the underemployment rate is roughly the same except for high school undergraduates and for college graduates (who have the lowest underemployment rate at 5%).

Based on educational attainment, workers who are at least a college undergraduate tend to have the highest unemployment rates. While across the board, workers with no education have the lowest unemployment rate.

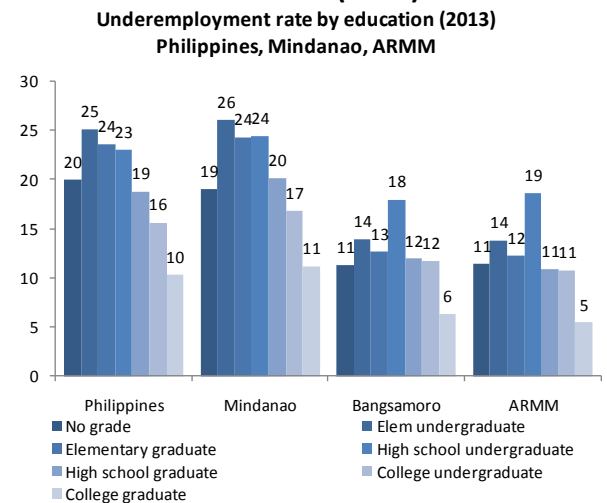
In general, individuals who belong to the richest quartile have the lowest underemployment rates across the Philippines, Mindanao, ARMM and Bangsamoro.

Figure 30. Underemployment rate by age group (2013)



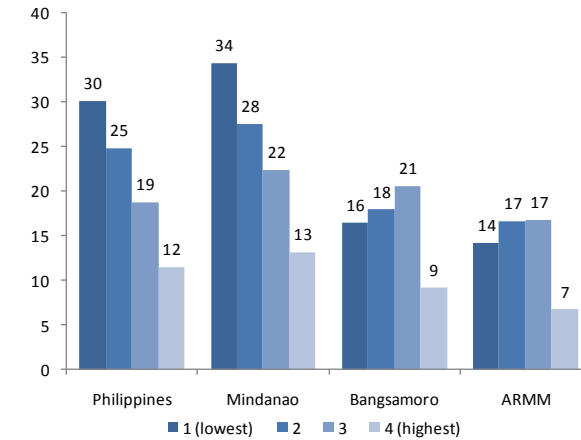
Source: Labor Force Survey

Figure 31. Underemployment rate by education (2013)



Source: Labor Force Survey

Figure 32. Underemployment rate by income quartile (2013)
Underemployment rate by income quartile (2012)



Source: Labor Force Survey, FIES

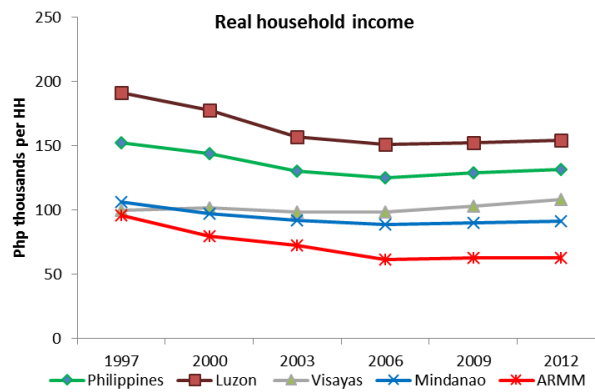
Real household income and real wages

With a fast-growing labor force and an economy that does not provide enough jobs, average real household income has declined.

Between 1997 and 2009, real household income as measured by the FIES fell by 14% in Mindanao, compared to the decrease of 19% for Luzon and the 13.8% decrease for the Philippines as a whole. After an initial decrease in the real household income for Visayas between 1997 and 2006, real household income has now increased by 8% compared to its 1997 level.

In comparison, real household income fell by 34% since 1997 in ARMM. This was the largest decline among regions in Mindanao. In addition, ARMM also has the lowest level of real household income in the Philippines.

Figure 33. Real household income



Source: FIES (1997-2012)

The decline in real household income can be explained largely by the decrease in real wages, mostly in the informal sector.

Although real wages for the formal sector have decreased from its 2001 level, it has been increasing since 2009, in large part due to the annual increase in the statutory minimum wage despite lower productivity growth.

Real wages across all sectors decreased by 19% overall since 2001 in Mindanao, by 22% for the formal sector, and by 16% in the informal sector.

In ARMM, the decrease in real wages is much larger, declining by 32% for all sectors since 2001, by 27% for the formal sector, and by 34% for the informal sector.

Figure 34. Real basic pay (All sectors)

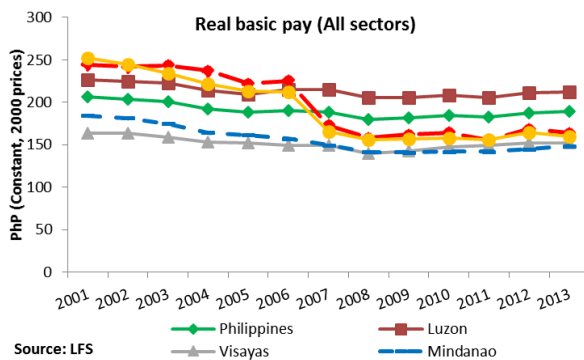


Figure 34. Real basic pay (Formal sector)

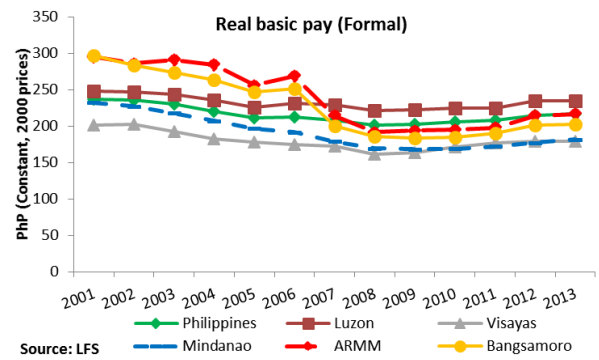


Figure 35. Real basic pay (Informal sector)

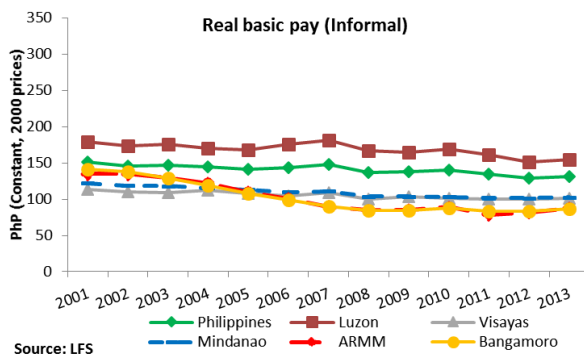
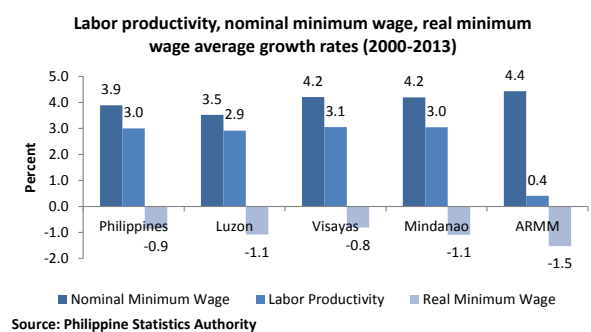


Figure 36. Labor productivity, minimum wage growth rates



Labor market outcomes, conflict²³⁷ areas (2013)

One of the primary concerns in Mindanao is the presence of armed conflict. In general, areas suffering from armed conflict are generally worse off in terms of both labor market outcomes and poverty.

Conflict provinces have a much higher poverty incidence compared to non-conflict provinces. In fact the poverty incidence is more than double in conflict compared to non-conflict provinces (43% vs. 20%).

Although conflict provinces only account for 23% of the population, a disproportionate amount of the poor live in conflict areas, with 43% of the poor living in conflict provinces.

Conflict provinces are worse off in terms of labor market outcomes as well.

In 2013, conflict provinces as a group had a lower unemployment rate, but a higher underemployment rate compared to non-conflict provinces (23% vs. 18%).

Workers are also more vulnerable in conflict areas, with employment in conflict provinces in general is focused on agriculture, and with the fraction of self-employed and unpaid laborers higher in conflict provinces.

In addition, workers in conflict provinces have lower wages than non-conflict provinces (PhP 282 vs. PhP 361).

These statistics show that recurring episodes of conflict can have a significant negative impact on the quality of jobs and the welfare of its citizens. Within types of conflict areas, labor market outcomes are mixed.

Muslim-related conflict areas have a much higher poverty incidence compared to provinces with New People's Army (NPA)-related conflict (48% vs. 40%), even though it accounts for a much lower share of the population.

Muslim-related conflict areas also have a lower unemployment rate and underemployment rate. In fact, the underemployment rate for areas affected by Muslim conflict is better than both the national average and non-conflict areas.

²³⁷ Conflict provinces are those with either Muslim or NPA-related conflict. Provinces with Muslim-related conflicts are: Basilan, Lanao del Norte, Lanao del Sur, Maguindanao, North Cotabato, Sulu, Tawi-Tawi, and Zamboanga del Sur. Provinces with NPA-related provinces are: Agusan Norte, Agusan del Sur, Albay, Camarines Norte, Camarines Sur, Catanduanes, Davao del Norte, Eastern Samar, Masbate, Negros Occidental, Northern Samar, Samar, Sorsogon, Surigao del Norte, Surigao del Sur, and Compostela Valley

Employment in Muslim-related conflict areas is dominated by agriculture, with 56% of all workers being employed in the sector. NPA conflict areas have a larger share of its employed in services (46%), with agriculture not far behind (40%).

Muslim-related conflict areas have a much larger share of its employed considered vulnerable, with 66% considered vulnerable workers. NPA conflict areas, however, have a much larger share of its workers as wage and salary workers at 51%, with 49% vulnerable.

The average daily wage²³⁸ is larger in Muslim conflict areas compared to NPA conflict areas (PhP 296 vs PhP 277).

Table 21. Poverty statistics and labor market outcomes (conflict vs non-conflict areas)

| Indicators | Philippines | Non-conflict provinces | Conflict provinces | Muslim provinces | NPA provinces |
|------------------------------------|-------------|------------------------|--------------------|------------------|---------------|
| Poverty Incidence | 25 | 20 | 43 | 48 | 40 |
| Share to population | 100 | 77 | 23 | 8 | 15 |
| Share to total poor | 100 | 61 | 39 | 15 | 24 |
| Labor Force | 100 | 100 | 100 | 100 | 100 |
| Employed | 93 | 93 | 95 | 96 | 94 |
| Unemployed | 7 | 7 | 5 | 4 | 6 |
| Underemployed | 19 | 18 | 23 | 17 | 27 |
| Visibly (share to underemployed) | 59 | 57 | 63 | 69 | 61 |
| Invisibly (share to underemployed) | 41 | 43 | 37 | 31 | 39 |
| Employed | 100 | 100 | 100 | 100 | 100 |
| <u>By sector</u> | | | | | |
| Agriculture | 32 | 27 | 47 | 56 | 42 |
| Industry | 15 | 17 | 10 | 7 | 12 |
| Services | 53 | 56 | 43 | 37 | 46 |
| <u>By class of worker</u> | | | | | |
| Wage and salary | 58 | 61 | 45 | 34 | 51 |
| Own-account | 32 | 30 | 39 | 45 | 35 |
| Employer | 11 | 9 | 16 | 21 | 14 |
| <u>By nature of employment</u> | | | | | |
| Permanent | 76 | 76 | 75 | 83 | 71 |
| Short term | 21 | 20 | 22 | 15 | 25 |
| Different employer | 4 | 4 | 3 | 2 | 4 |
| Mean Basic Pay | 348 | 361 | 282 | 296 | 277 |

Source: Labor Force Survey (2013), PSA

²³⁸ Measured using mean basic pay from the Labor Force Survey.

Poverty and Informality

A major consequence of Mindanao's weak employment record is its high incidence of poverty.

In 2012, Mindanao had the highest poverty incidence in the country, with 41% of its population considered poor compared to 33% for Visayas and 16% in Luzon.

Within Mindanao, poverty incidence is generally high, with ARMM having the highest poverty incidence in the region at 56%. In addition, Region XII, Region IX and CARAGA all have a poverty incidence of 40 or greater in 2012.

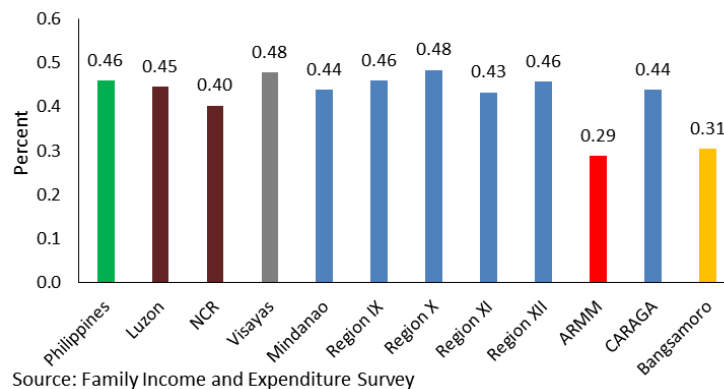
However, there is less inequality in Mindanao compared to the Philippines as a whole. Among the three island groups, Mindanao has the lowest level of inequality with a Gini coefficient²³⁹ of 0.44 in 2012.

Within Mindanao, the highest level of inequality can be found in Region X, with a Gini coefficient of 0.48, followed by both Region IX and Region XII, with a Gini coefficient of 0.46.

Inequality is much lower in ARMM compared to the Philippines, and Mindanao. It is the only region with a Gini coefficient below 0.3 in the Philippines. However, this should be taken in context, with the very high poverty incidence in the region.

Figure 37. Inequality

GINI coefficient (2012)

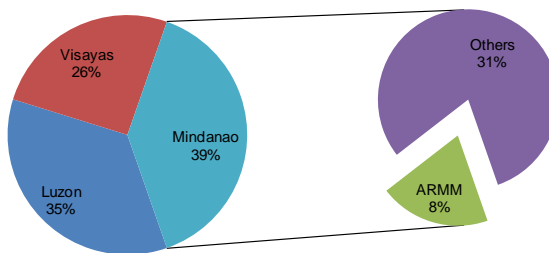


²³⁹ The Gini coefficient is a measure of inequality ranging between 0 (perfect equality) and 1 (perfect inequality).

Aside from having the highest poverty incidence in the Philippines, Mindanao also has for the largest share of the poor, accounting for roughly 40% of the poor in both 2009 and 2012. Even though ARMM and the Bangsamoro²⁴⁰ only account for 4% of the total population, they both account for 8% of the total poor.

Figure 38. Share to total poor population (ARMM)

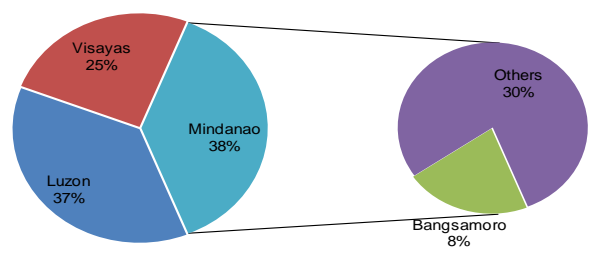
Share to total poor population (2012)



Source: Philippine Statistics Authority

Figure 39. Share to total poor population (Bangsamoro)

Share to total poor population (2009)



Source: Philippine Statistics Authority

In addition, poverty has continued to worsen for Mindanao compared to the rest of the Philippines, where poverty has remained unchanged for most of the past decade.

From a poverty incidence of 37% in 2003 in Mindanao, it increased to 42% in 2009, slightly decreasing to 41% in 2012.

Within Mindanao, the change in poverty incidence has been uneven. Poverty incidence has improved in Region IX, and CARAGA, while mostly remaining the same in Region X, and Region XI. Poverty has worsened in both Region XII, and ARMM, with both regions having the highest poverty incidence in Mindanao at 45% and 56% respectively. The increase in ARMM has been particularly sharp, increasing by 25 percentage points from 2003 to 2012.

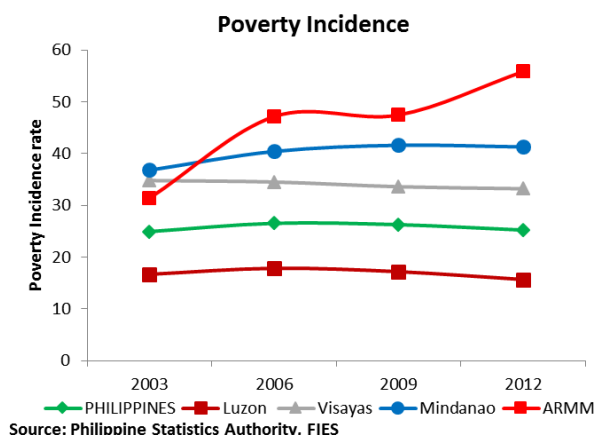
²⁴⁰ Small area estimates were used to estimate the poverty incidence for the Bangsamoro (data only available for 2009)

Table 22. Poverty Incidence (2003-2012)

| | 2003 | 2006 | 2009 | 2012 |
|--------------------|-----------|-----------|-----------|-----------|
| Philippines | 25 | 27 | 26 | 25 |
| Luzon | 17 | 18 | 17 | 16 |
| NCR | 3 | 5 | 4 | 4 |
| Visayas | 35 | 35 | 34 | 33 |
| Mindanao | 37 | 40 | 42 | 41 |
| Region IX | 46 | 45 | 46 | 40 |
| Region X | 39 | 39 | 40 | 39 |
| Region XI | 31 | 31 | 31 | 31 |
| Region XII | 33 | 38 | 38 | 45 |
| ARMM | 31 | 47 | 47 | 56 |
| Caraga | 45 | 49 | 54 | 40 |

Source: Philippine Statistics Authority, FIES

Figure 40. Poverty incidence

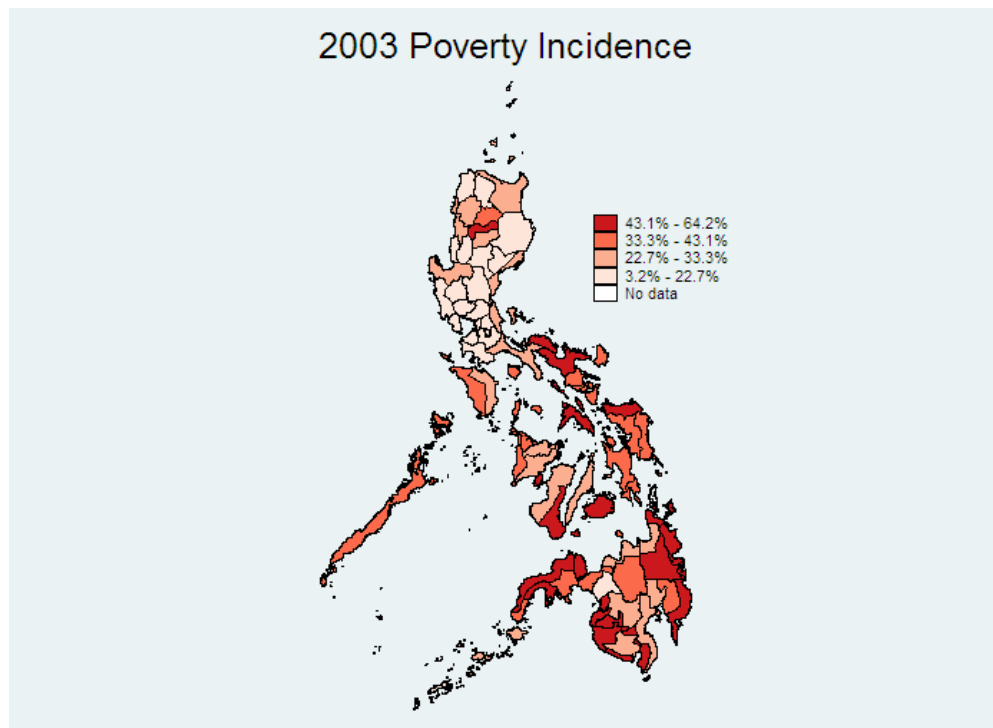


A closer look at the provinces in the Philippines shows that not much has changed over the past decade in Mindanao.

A map of the poverty incidence by province shows that, in 2003 the poorest of the poor can be found in Mindanao. More than half of the provinces in the highest quartile for poverty incidence are from Mindanao.

These are the provinces of Agusan del Sur, Davao Oriental, Maguindanao, Misamis Occidental, Sarangani, Sultan Kudarat, Surigao del Norte, Surigao del Sur, Zamboanga del Norte and Zamboanga Sibugay.

Figure 41. 2003 Poverty Incidence (by province)



After nearly a decade, the same is still true. Most of the poorest provinces belong in Mindanao in 2012.

Once again, more than half of the provinces in the highest quartile for poverty incidence are from Mindanao, these are the provinces of Agusan del Sur, Bukidnon, Camiguin, Davao Oriental, Lanao del Norte, Lanao del Sur, Maguindanao, North Cotabato, Saranggani, Sultan Kudarat, Sulu, Zamboanga del Norte, Zamboanga Sibugay.

Although in 2003, none of the provinces in the highest quartile for poverty incidence were from ARMM, in 2012 three (3) out of the five (5) provinces in ARMM were now part of the highest quartile for poverty incidence (Lanao del Sur, Maguindanao and Sulu).

Although Basilan was not in the highest quartile, poverty was still high in Basilan in 2012. Basilan belongs to the second highest quartile of poverty incidence, with a poverty incidence of 41.2. Tawi-Tawi had a relatively low poverty incidence compared to the other provinces in ARMM with a poverty incidence of 28.6 in 2012.

Taking a look the 2009 Small Area Estimates for poverty, reveals that most of the poorest municipalities in Mindanao were located in ARMM, CARAGA and Region IX.

Figure 42. 2009 Small Area Estimates for poverty

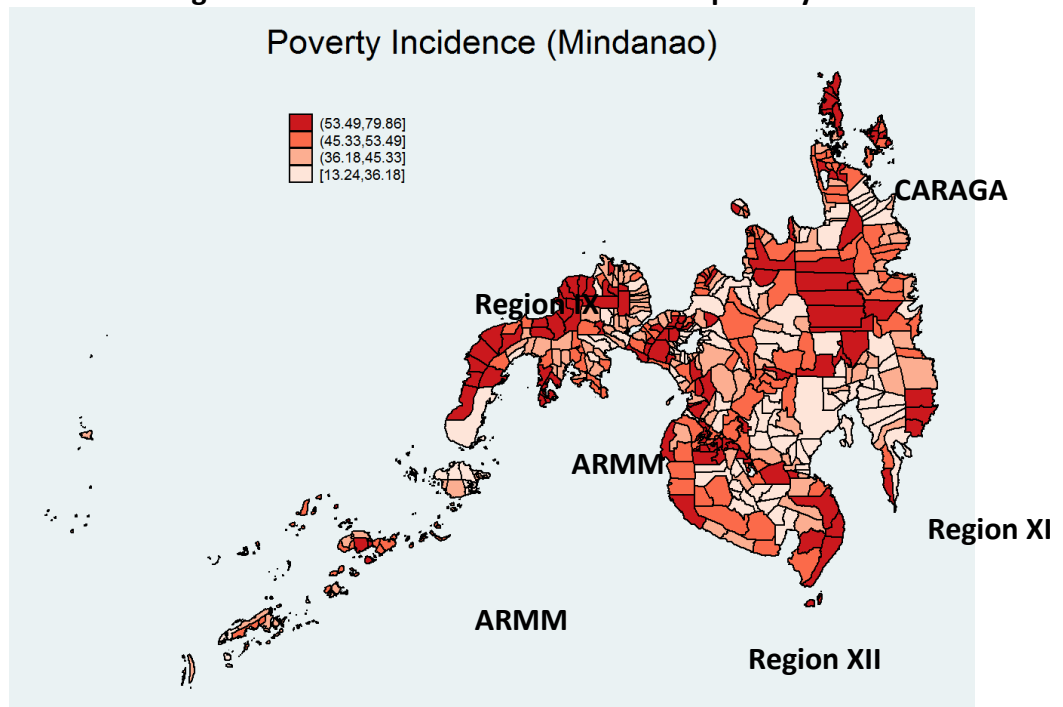
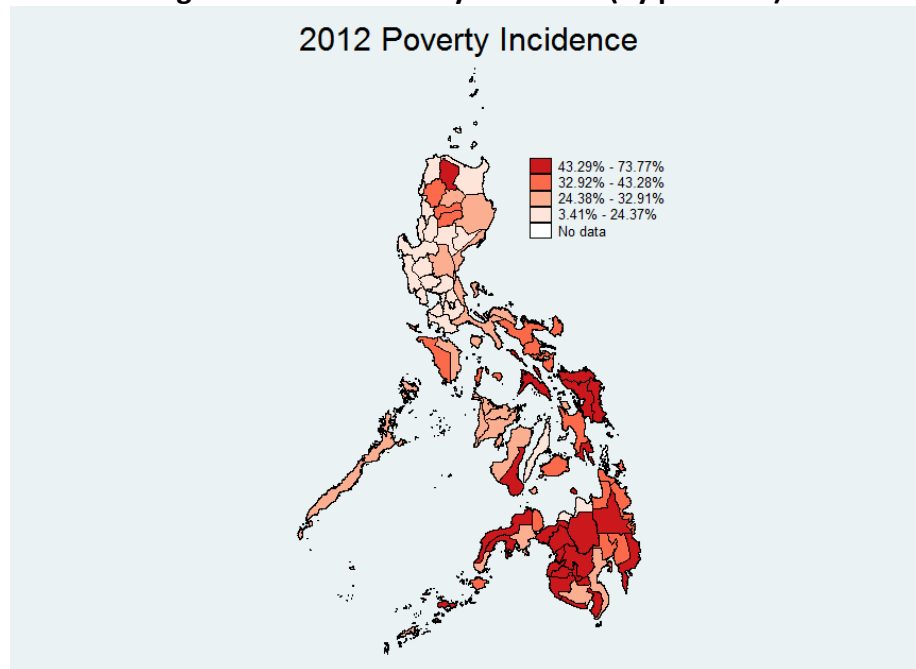


Figure 43. 2012 Poverty Incidence (by province)



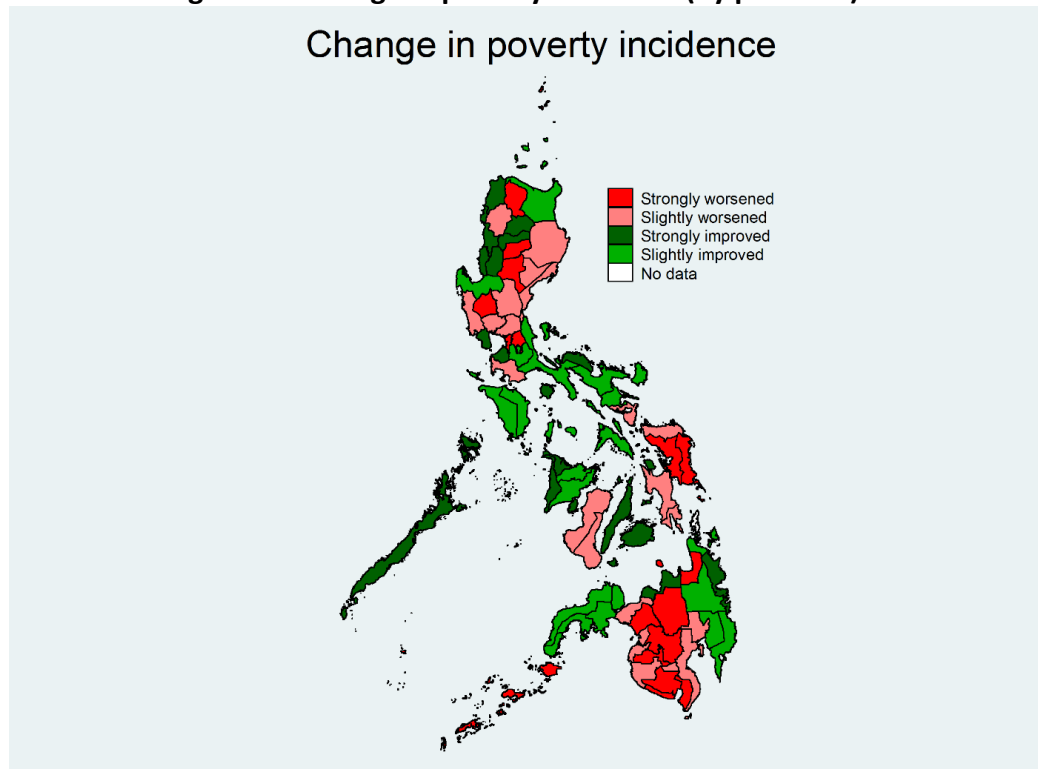
Most of the provinces where poverty incidence has worsened belong to Mindanao.

Fifteen out of the 39 provinces where poverty worsened from 2003 and 2012 belong to Mindanao. These are the provinces of Agusan del Norte, Basilan, Bukidnon,

Camiguin, Davao del Norte, Davao del Sur, Lanao del Norte, Lanao del Sur, Maguindanao, North Cotabato, Saranggani, South Cotabato, Sulu, and Tawi-Tawi.

Of these provinces, Agusan del Norte, Basilan, Bukidnon, Camiguin, Lanao del Sur, Maguindanao, North Cotabato, Saranggani, South Cotabato, Sulu and Tawi-Tawi were the provinces where poverty strongly worsened.²⁴¹

Figure 44. Change in poverty incidence (by province)



Poverty Profile

Poverty is characteristic of women, children, the youth, those in agriculture, as well as the employed and the vulnerable employed.

Unsurprisingly, across all the sub-groups, the poverty incidence is much greater for ARMM compared to the Philippines as a whole.

²⁴¹ Poverty strongly worsened within a province if the poverty incidence in 2012 increased by 15 % or more compared to 2003, whereas poverty slightly worsened if the poverty incidence in 2012 increased by less than 15 % since 2003. Poverty strongly improved within a region if the poverty incidence in 2012 decreased by 15 % or more compared to 2003, whereas poverty slightly improved if the poverty incidence in 2012 decreased by less than 15 % compared to 2003.

Table 23. Poverty incidence by sub-group

| | Philippines | | | ARMM | | |
|---|-------------|------|------|------|------|------|
| | 2006 | 2009 | 2012 | 2006 | 2009 | 2012 |
| Overall | 27 | 26 | 25 | 47 | 47 | 56 |
| Women | 26 | 26 | 26 | 46 | 47 | 55 |
| Youth | 21 | 22 | 22 | 40 | 40 | 49 |
| Children | 35 | 35 | 35 | 53 | 56 | 64 |
| Senior Citizens | 17 | 16 | 16 | 36 | 33 | 37 |
| Residing in urban areas | 13 | 13 | 13 | 43 | 28 | 40 |
| Migrant and formal sector workers | 16 | 17 | 17 | 23 | 24 | 36 |
| Farmers | 39 | 38 | 38 | 47 | 49 | 58 |
| Fishermen | 41 | 41 | 39 | 44 | 40 | 43 |
| Self-employed and unpaid family workers | 31 | 30 | 29 | 46 | 44 | 52 |
| Employed | 23 | 23 | 22 | 43 | 42 | 49 |
| Unemployed | 16 | 17 | 19 | 24 | 23 | - |

Source: Philippine Statistics Authority

Dimensions of the poor

In general, the poor in the Philippines and in Mindanao had the worst conditions on all dimensions of poverty compared to the whole population.

For example, a large majority of the poor belong to households whose heads did not even reach high school.

In general, the poor typically live in rural areas, belong to larger households, and have worse living conditions such as not having their own water source, living in houses with less sturdy build quality.

Table 24. Profile of the poor (Philippines)

| Profile of the Poor (Philippines) | | | |
|-----------------------------------|----------|------|---|
| <i>Out of 100...</i> | | | |
| All households | Not poor | Poor | Profile |
| 55 | 49 | 80 | Live in rural areas |
| 30 | 22 | 59 | Belong to households whose head works in agriculture |
| 31 | 25 | 56 | Belong to households with more than 5 members |
| 5 | 4 | 6 | Average household size |
| 77 | 74 | 87 | Belong to households headed by a male |
| 49 | 44 | 71 | Belong to households whose heads are informal sector workers |
| 20 | 21 | 11 | Belong to households whose heads are unemployed |
| 41 | 34 | 67 | Belong to households whose heads did not reach high school |
| 2 | 1 | 6 | Belong to households whose heads did not attend school |
| 77 | 84 | 48 | Live in dwellings built out of predominantly strong materials |
| 11 | 6 | 31 | Do not have access to electricity |
| 46 | 38 | 78 | Do not have their own water source |
| 4 | 2 | 12 | Do not have any toilet facility |

Source: WB staff estimates using 2012 FIES

Table 25. Profile of the poor (Mindanao)

| Profile of the poor (Mindanao) | | | |
|--------------------------------|----------|------|---|
| <i>Out of 100...</i> | | | |
| All households | Not poor | Poor | Profile |
| 60 | 50 | 78 | Live in rural areas |
| 46 | 35 | 67 | Belong to households whose head works in agriculture |
| 34 | 23 | 56 | Belong to households with more than 5 members |
| 5 | 4 | 6 | Average household size |
| 83 | 80 | 88 | Belong to households headed by a male |
| 63 | 55 | 78 | Belong to households whose heads are informal sector workers |
| 13 | 16 | 8 | Belong to households whose heads are unemployed |
| 50 | 40 | 69 | Belong to households whose heads did not reach high school |
| 5 | 3 | 9 | Belong to households whose heads did not attend school |
| 65 | 75 | 46 | Live in dwellings built out of predominantly strong materials |
| 22 | 13 | 39 | Do not have access to electricity |
| 61 | 49 | 83 | Do not have their own water source |
| 4 | 2 | 8 | Do not have any toilet facility |

Source: WB staff estimates using 2012 FIES

Within Mindanao, the situation is similar in both ARMM and the Bangsamoro, where the poor have the worst living conditions compared to the entire population.

However, for both regions, the problem of poor living conditions is not limited to poor families.

Compared to the Philippines, more households (including the non-poor) live in worse conditions in both ARMM and the Bangsamoro.

For example, there are more non-poor households in ARMM and the Bangsamoro who do not have access to their own water source compared to the Philippines as a whole.

Table 26. Profile of the poor (ARMM)

| Profile of the poor (ARMM) | | | |
|----------------------------|----------|------|---|
| Out of 100... | | | |
| All households | Not poor | Poor | Profile |
| 86 | 83 | 90 | Live in rural areas |
| 67 | 57 | 77 | Belong to households whose head works in agriculture |
| 49 | 32 | 68 | Belong to households with more than 5 members |
| 6 | 5 | 6 | Average household size |
| 90 | 86 | 95 | Belong to households headed by a male |
| 83 | 78 | 88 | Belong to households whose heads are informal sector workers |
| 5 | 7 | 3 | Belong to households whose heads are unemployed |
| 63 | 55 | 70 | Belong to households whose heads did not reach high school |
| 16 | 15 | 17 | Belong to households whose heads did not attend school |
| 60 | 64 | 56 | Live in dwellings built out of predominantly strong materials |
| 42 | 41 | 43 | Do not have access to electricity |
| 86 | 83 | 90 | Do not have their own water source |
| 7 | 3 | 11 | Do not have any toilet facility |

Source: WB staff estimates using 2012 FIES

Table 27. Profile of the poor (Bangsamoro)

| Profile of the poor (Bangsamoro) | | | |
|----------------------------------|----------|------|---|
| Out of 100... | | | |
| All households | Not poor | Poor | Profile |
| 78 | 73 | 84 | Live in rural areas |
| 59 | 49 | 70 | Belong to households whose head works in agriculture |
| 47 | 30 | 67 | Belong to households with more than 5 members |
| 5.5 | 4.7 | 6.5 | Average household size |
| 88 | 83 | 93 | Belong to households headed by a male |
| 78 | 71 | 85 | Belong to households whose heads are informal sector workers |
| 7 | 10 | 4 | Belong to households whose heads are unemployed |
| 58 | 51 | 67 | Belong to households whose heads did not reach high school |
| 14 | 13 | 16 | Belong to households whose heads did not attend school |
| 61 | 67 | 56 | Live in dwellings built out of predominantly strong materials |
| 37 | 34 | 40 | Do not have access to electricity |
| 79 | 72 | 87 | Do not have their own water source |
| 7 | 2 | 12 | Do not have any toilet facility |

Source: WB staff estimates using 2012 FIES

Poverty threshold

Recently, the poverty threshold²⁴² among regions in Mindanao has been approaching the poverty threshold in NCR.

From 2006 to 2012, the poverty threshold has increased from around 80-85% of NCR's poverty threshold, to as high as 101% for regions in Mindanao in 2012.

²⁴² The poverty threshold refers to the cost of the basic food and non-food requirements (valued in peso). The basic non-food requirements cover the non-food expenditure items of the Total Basic Expenditures. In the Philippine official methodology, the poverty line may be viewed as the minimum income required to meet the food requirements and other non-food basic needs. (1997 Philippine Poverty Statistics, NSCB).

The increase in poverty threshold in Mindanao is most evident in ARMM, where the poverty threshold was greater compared to NCR in 2012, after being significantly less in years prior.

The higher poverty incidence in the region, may suggest that cost of living in the region has been increasing.

A look at prices of some basic food commodities show that prices have been comparable to NCR, even exceeding the price in NCR for some commodities.

For example, in 2012, the prices of chicken and tilapia in ARMM were greater than that of NCR, while the price of bangus was similar to that of NCR. In fact, ARMM has some of the highest prices for basic food commodities in Mindanao in 2012.

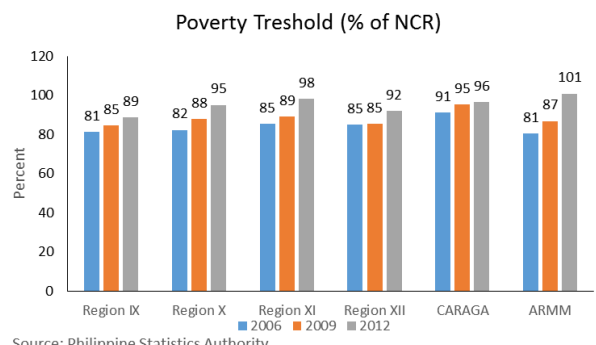
With prices in ARMM being comparable to NCR, in addition to lower wages and income in the region, a large reason for why people in ARMM are poor is because prices are prohibitive. Taking a look at the prices for key commodity goods in the region compared to NCR shows that the cost-of-living is increasing.

Table 28. Poverty threshold

| | 2006 | 2009 | 2012 |
|-------------|---------------|---------------|---------------|
| NCR | 15,699 | 19,227 | 20,344 |
| Region IX | 12,743 | 16,260 | 18,054 |
| Region X | 12,917 | 16,878 | 19,335 |
| Region XI | 13,389 | 17,120 | 19,967 |
| Region XII | 13,319 | 16,405 | 18,737 |
| CARAGA | 14,324 | 18,309 | 19,629 |
| ARMM | 12,647 | 16,683 | 20,517 |

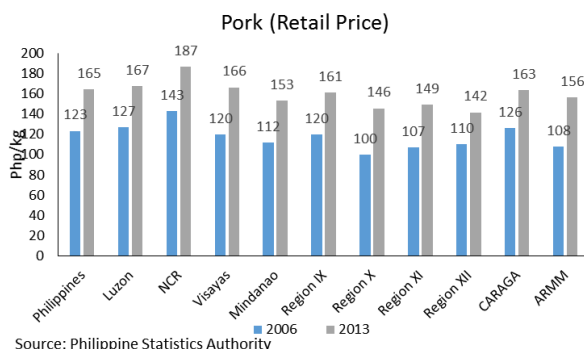
Source: Philippine Statistics Authority

Figure 45. Poverty threshold (as % of NCR)



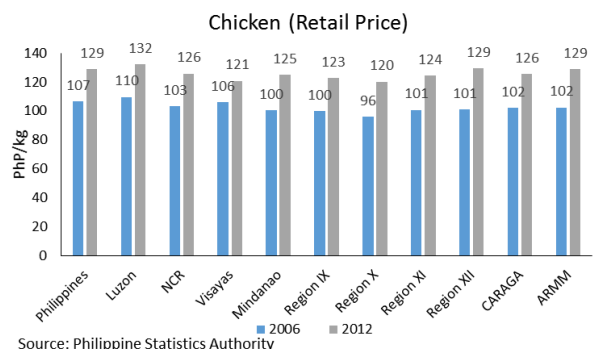
Source: Philippine Statistics Authority

Figure 46. Retail price of pork



Source: Philippine Statistics Authority

Figure 47. Retail price of chicken



Source: Philippine Statistics Authority

Figure 47. Retail price of bangus

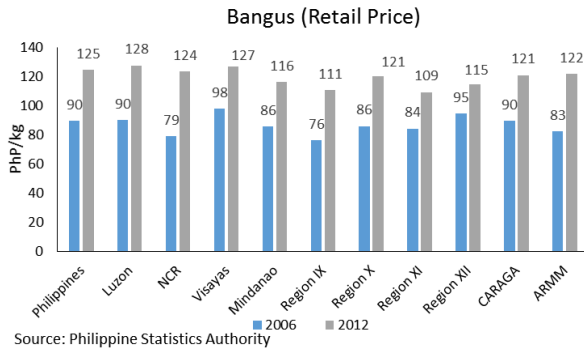


Figure 48. Retail price of tilapia

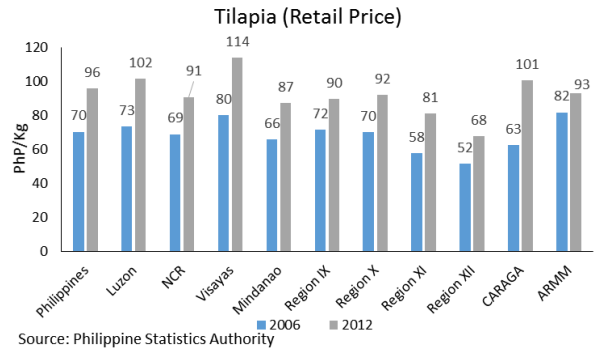


Figure 49. Retail price of beef

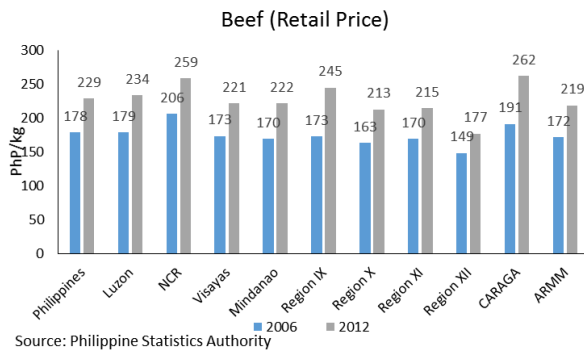


Figure 50. Retail price of yellow corn

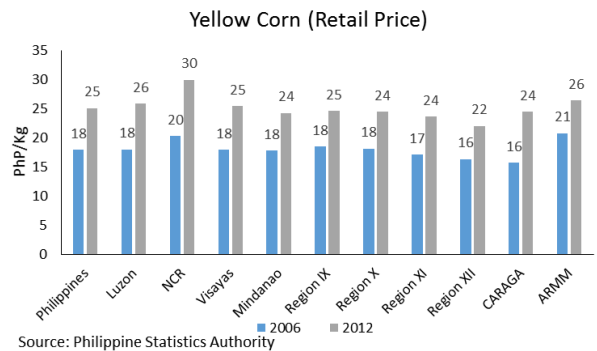
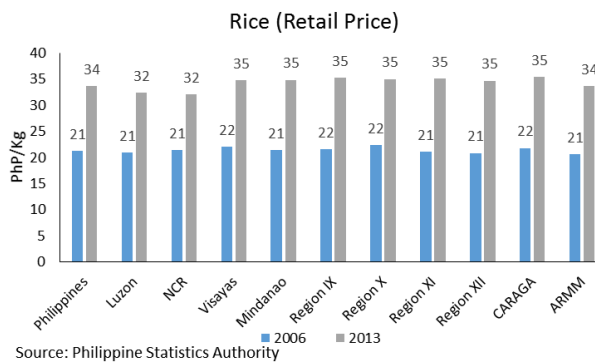


Figure 51. Retail price of rice



Informality²⁴³

Aside from the high poverty incidence in the region, informality is also relatively high compared to the rest of the Philippines. Around 83% of those employed in Mindanao are informally employed, the largest in the Philippines.

²⁴³ The report operationally defines informal workers to include all self-employed workers (not including employers), unpaid family workers, and wage workers with no written contract, social insurance or protection from dismissal using the 2008 Informal Sector Survey of the Philippine Statistics Authority.

Informality is generally high within Mindanao regions, where the share of informally employed are all greater than the share for the Philippine as a whole.

The region with the largest share of informally employed within the Philippines is ARMM, with a share of 92% of all employed in the informal sector.

These high levels of informality lead to vulnerability to income shocks or potential job losses, as those in the informal sector are not covered by the labor code and can be subject to abuse in the absence of protection.

Table 29. Informally employed (000's)

| Region | Informally Employed | Employed | Share of informally employed |
|--------------------|---------------------|---------------|------------------------------|
| Philippines | 25,150 | 32,782 | 77 |
| Luzon | 13,022 | 17,884 | 73 |
| NCR | 2,058 | 3,928 | 52 |
| Visayas | 5,393 | 6,768 | 80 |
| Mindanao | 6,735 | 8,130 | 83 |
| Region IX | 1,078 | 1,264 | 85 |
| Region X | 1,384 | 1,709 | 81 |
| Region XI | 1,264 | 1,630 | 78 |
| Region XII | 1,220 | 1,502 | 81 |
| CARAGA | 795 | 949 | 84 |
| ARMM | 994 | 1,076 | 92 |

Source: Informal Sector Survey

Vulnerability of workers

The magnitude of vulnerable workers, which include own-account and unpaid family workers, is still high, particularly in Mindanao.

In Mindanao, 52% are considered vulnerable (37% own-account workers, and 15% unpaid workers), compared to the 41% in the Philippines.

The prevalence of vulnerable workers is even greater in ARMM and the Bangsamoro.

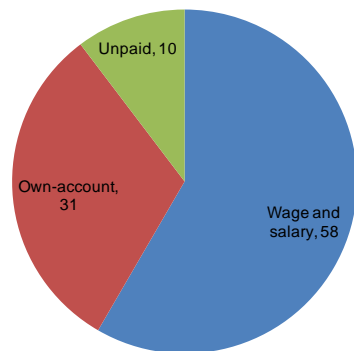
In ARMM, an overwhelming majority of all its workers are considered vulnerable, with 81% (57% own-account, 24% unpaid) considered vulnerable.

Bangsamoro has a slightly lower share of its workers considered vulnerable, however still relatively high with about 78% considered vulnerable (55% own-account, 23% unpaid). While non-wage work does not necessarily mean a bad job, it

is less desirable in most cases because workers in this category are less likely to have formal work arrangements, access to benefits and social security, and protection from income shocks or job losses.

Figure 52. Philippines – employment share by class of worker (2013)

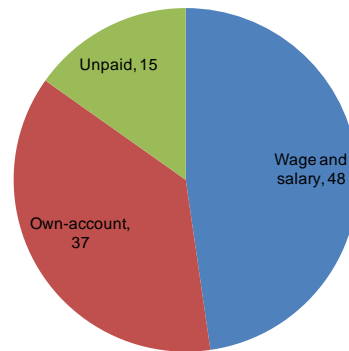
Philippines - Employment share by class of worker (2013)



Source: Labor Force Survey

Figure 53. Mindanao– employment share by class of worker (2013)

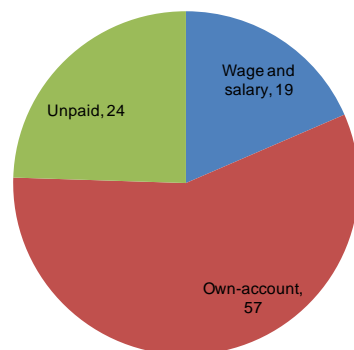
Mindanao - Employment share by class of worker (2013)



Source: Labor Force Survey

Figure 54. ARMM– employment share by class of worker (2013)

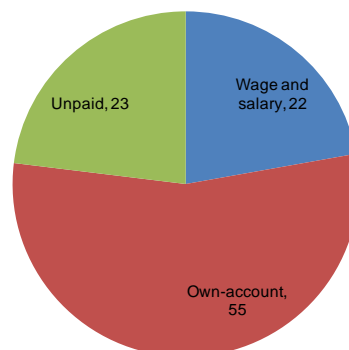
ARMM - Employment share by class of worker (2013)



SoSource: Labor Force Survey

Figure 55. Bangsamoro– employment share by class of worker (2013)

Bangsamoro - Employment share by class of worker (2013)

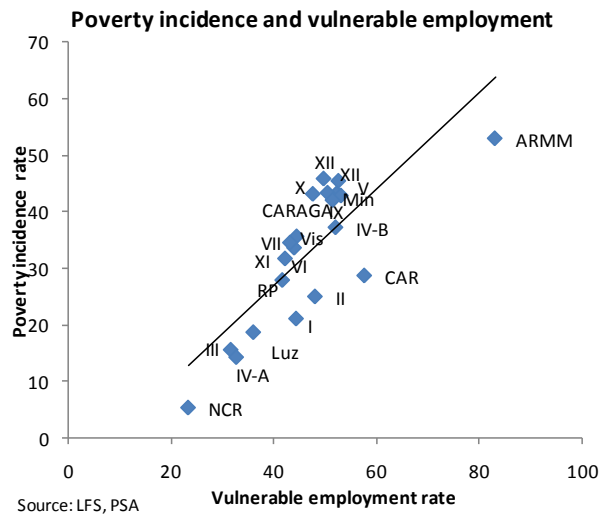


Source: Labor Force Survey

In fact, vulnerable employment is highly correlated with poverty incidence.

This has some important implications for both ARMM and Bangsamoro since 81% of the workers in ARMM are considered vulnerable, while 78% are considered vulnerable in Bangsamoro.

Figure 56. Poverty incidence and vulnerable employment



Measures of informality for wage workers

Even among wage workers, many are considered informally employed.

Data from the 2008 Informal Sector Survey shows that Mindanao has a slightly larger share of its wage workers with no written contracts compared to the Philippines as a whole (64.8 vs. 63.3).

However, within Mindanao, ARMM has a relatively large share of its wage workers with written contracts at 45.3% compared to 35.2% in Mindanao.

In spite of this, ARMM still has a large share of its wage workers with no written contracts. 31% of all wage workers in the region have no contracts, compared to 27% in Mindanao, and 23% in the Philippines as a whole.

In Mindanao, a large share of its workers have a high degree of income insecurity and a low degree of social protection, a pattern that holds true for the Philippines as a whole.

For example, 65.8% of wage workers in Mindanao do not have access to social insurance, which is larger than the national average of 61.9%. Protection from, and compensation for dismissal is also limited in Mindanao.

The same trend holds true for ARMM, however, a larger share of its wage workers have access to leave benefits compared to Mindanao, and the Philippines as a whole.

Table 30. Informality among wage workers
Measures of informality for wage workers

| | Written | Verbal | None | | |
|---|------------|--------------|----------------|-----------------|-------------|
| Philippines | 36.7 | 40.1 | 23.2 | | |
| Luzon | 39.8 | 39.9 | 20.3 | | |
| Visayas | 28.5 | 48.0 | 23.5 | | |
| Mindanao | 35.2 | 38.2 | 26.6 | | |
| ARMM | 45.3 | 23.7 | 31.0 | | |
| Have no access to... | Phl | Luzon | Visayas | Mindanao | ARMM |
| Social Insurance (Social Security System or Government Service Insurance System) | 61.9 | 59.6 | 67.8 | 65.8 | 65.9 |
| Protection from dismissal | 58.6 | 55.9 | 56.4 | 61.9 | 61.2 |
| Compensation in case of dismissal | 70.2 | 67.9 | 74.8 | 71.5 | 63.6 |
| Leave benefits | | | | | |
| Paid leave | 72.0 | 70.9 | 76.5 | 74.0 | 60.4 |
| Sick leave | 71.1 | 70.2 | 70.2 | 70.2 | 59.5 |
| Maternity/Paternity leave | 72.7 | 71.8 | 71.8 | 71.8 | 60.9 |

Source: Informal Sector Survey (2008)

Migration

Domestic migration: In-migration

Migration²⁴⁴ into Mindanao has decreased considerably over the past two (2) decades, and migrants make up a very small share of Mindanao's population.

In 1990, new migrants in Mindanao made up more than 10% of Mindanao's population, the majority coming from Region VII. However, in 2010, migrants now make up less than 1% of total population in Mindanao.

The pattern of migration into Mindanao was reversed within the past two (2) decades. In 1990, 8% of migrants in Mindanao originated from the Visayas; however in 2010, 63% of the migrants originated from Luzon.

²⁴⁴ Migration is observed in the Census of Population and Housing if the respondent had a different residence in the past five years.

Table 31. In-migration (Mindanao)

| Total in-migration (Mindanao) | | | | | | | | | |
|-------------------------------|--------------------|---------------|---------------|------------------------------|-------------|-------------|-----------------------------|------------|------------|
| | Total in-migration | | | Share to Mindanao population | | | Share to total in-migration | | |
| | 1990 | 2000 | 2010 | 1990 | 2000 | 2010 | 1990 | 2000 | 2010 |
| Total | 1,407,363 | 73,294 | 81,912 | 11.61 | 0.46 | 0.43 | 100 | 100 | 100 |
| Luzon | 206,196 | 38,787 | 51,201 | 1.70 | 0.25 | 0.27 | 15 | 53 | 63 |
| NCR | 12,709 | 20,716 | 24,863 | 0.10 | 0.13 | 0.13 | 1 | 28 | 30 |
| CAR | 29,190 | 957 | 843 | 0.24 | 0.01 | 0.00 | 2 | 1 | 1 |
| Region I | 1,622 | 1,367 | 1,551 | 0.01 | 0.01 | 0.01 | 0 | 2 | 2 |
| Region II | 1,215 | 1,557 | 1,647 | 0.01 | 0.01 | 0.01 | 0 | 2 | 2 |
| Region III | 2,800 | 4,565 | 5,544 | 0.02 | 0.03 | 0.03 | 0 | 6 | 7 |
| Region IV-A | 155,149 | 6,733 | 12,390 | 1.28 | 0.04 | 0.06 | 11 | 9 | 15 |
| Region IV-B | 966 | 1,030 | 1,158 | 0.01 | 0.01 | 0.01 | 0 | 1 | 1 |
| Region V | 2,545 | 1,862 | 3,205 | 0.02 | 0.01 | 0.02 | 0 | 3 | 4 |
| Visayas | 1,201,167 | 34,507 | 30,711 | 9.91 | 0.22 | 0.16 | 85 | 47 | 37 |
| Region VI | 20,908 | 8,714 | 6,327 | 0.17 | 0.06 | 0.03 | 1 | 12 | 8 |
| Region VII | 1,167,272 | 20,348 | 19,194 | 9.63 | 0.13 | 0.10 | 83 | 28 | 23 |
| Region VIII | 12,987 | 5,445 | 5,190 | 0.11 | 0.03 | 0.03 | 1 | 7 | 6 |

Source: Census of Population and Housing

There are very few new migrants going into ARMM, and this number has been decreasing over the past two (2) decades. Migrants in ARMM make up even less share of the population compared to Mindanao.

Over the past two (2) decades, migration into ARMM has been less frequent. In-migration has decreased by 68%, from more than 11,000 in 1990, down to 4,000 in 2010.

Historically, new migrants have been virtually non-existent in ARMM. Migrants in ARMM make up only 0.14% of the population, with most of the migrants coming from within Mindanao.

Table 32. In-migration (ARMM)

| Total in-migration (ARMM) | | | | | | | | | |
|---------------------------|--------------------|--------------|--------------|--------------------------|-------------|-------------|-----------------------------|------------|------------|
| | Total in-migration | | | Share to ARMM population | | | Share to total in-migration | | |
| | 1990 | 2000 | 2010 | 1990 | 2000 | 2010 | 2020 | 2030 | 2040 |
| Philippines | 11,529 | 8,476 | 4,000 | 0.64 | 0.35 | 0.14 | 100 | 100 | 100 |
| Luzon | 883 | 1,558 | 685 | 0.05 | 0.06 | 0.02 | 8 | 18 | 17 |
| NCR | 451 | 917 | 186 | 0.02 | 0.04 | 0.01 | 4 | 11 | 5 |
| Visayas | 772 | 1,199 | 368 | 0.04 | 0.05 | 0.01 | 7 | 14 | 9 |
| Mindanao | 9,874 | 5,719 | 2,947 | 0.55 | 0.23 | 0.10 | 86 | 67 | 74 |
| Region IX | 1,909 | 1,249 | 847 | 0.11 | 0.05 | 0.03 | 17 | 15 | 21 |
| Region X | 2,373 | 1,536 | 909 | 0.13 | 0.06 | 0.03 | 21 | 18 | 23 |
| Region XI | 607 | 374 | 127 | 0.03 | 0.02 | 0.00 | 5 | 4 | 3 |
| Region XII | 4,779 | 2,151 | 652 | 0.26 | 0.09 | 0.02 | 41 | 25 | 16 |
| CARAGA | 206 | 409 | 412 | 0.01 | 0.02 | 0.01 | 2 | 5 | 10 |

Source: Census of Population and Housing

Domestic Migration: Out-migration

Migration out of Mindanao has generally increased over the past two (2) decades, although migration has decreased in the last 10 years.

Out-migration in Mindanao has increased by 6% overall since 1990. Between 1990 and 2000, total out-migration increased by 43%. This sharp increase in total out-migration in Mindanao coincided with the return of heavy conflict in the region. In the past decade however, out-migration in Mindanao decreased by 25%.

Most of the people leaving Mindanao are from the working age population, with most migrants concentrating in three (3) regions, NCR, Region VII, and Region IV-A. In 2010, 84% of individuals who left Mindanao were of working age. This acts as a drain in the labor force of the region, as individuals seek better opportunities in Luzon or Visayas.

Table 33. Out-migration (Mindanao)

| Out-migration (Mindanao) | | | | | | | | |
|--------------------------|---------------------|----------------|----------------|---------------------------------|-----------|-----------|------------------------|------------|
| | Total out-migration | | | Share of working-age population | | | Share to total out-mig | |
| | 1990 | 2000 | 2010 | 1990 | 2000 | 2010 | 1990 | 2000 |
| Total | 105,928 | 151,589 | 112,964 | 77 | 82 | 84 | 100 | 100 |
| Luzon | 54,270 | 95,182 | 71,758 | 82 | 86 | 86 | 51 | 63 |
| NCR | 33,843 | 48,800 | 32,290 | 85 | 90 | 90 | 32 | 32 |
| CAR | 547 | 863 | 988 | 79 | 84 | 83 | 1 | 1 |
| Region I | 2,421 | 3,219 | 2,743 | 72 | 79 | 82 | 2 | 2 |
| Region II | 1,019 | 1,244 | 1,057 | 72 | 77 | 83 | 1 | 1 |
| Region III | 6,089 | 10,351 | 9,679 | 78 | 83 | 84 | 6 | 7 |
| Region IV-A | 5,966 | 25,090 | 20,572 | 80 | 84 | 84 | 6 | 17 |
| Region IV-B | 3,296 | 3,187 | 2,000 | 71 | 70 | 76 | 3 | 2 |
| Region V | 1,089 | 2,428 | 2,429 | 73 | 75 | 78 | 1 | 2 |
| Visayas | 51,658 | 56,407 | 41,206 | 72 | 76 | 79 | 49 | 37 |
| Region VI | 9,371 | 9,702 | 6,574 | 68 | 73 | 77 | 9 | 6 |
| Region VII | 32,757 | 38,274 | 28,810 | 75 | 78 | 80 | 31 | 25 |
| Region VIII | 9,530 | 8,431 | 5,822 | 68 | 70 | 74 | 9 | 6 |

Source: Census of Population and Housing

Migration out of ARMM has been decreasing over the past two (2) decades, with most of the migrants moving to other regions within Mindanao. Additionally, a large share of migrants out of ARMM are of working-age population.

Out-migration in ARMM has decreased by 17% since 1990, although the number of migrants out of ARMM has remained mostly the same compared to the year 2000.

Like Mindanao, most of the people leaving ARMM are of working age, around 75% of migrants leaving ARMM were from the working age population. This acts as a

drain on the work force of the region, as members of its working age population leave the region to look for opportunities elsewhere.

About 8% of migration out of Mindanao was from ARMM in 2010. However, over the past two (2) decades, most of migrants leaving ARMM stayed within Mindanao. In 2010, 66% of all migrants from ARMM simply went to nearby regions, mostly going to Region XII, Region X, and Region IX.

Twenty-eight percent of migrants out of ARMM relocated in Luzon in 2010, with 11% going to NCR. Visayas has the lowest share of total migrants from ARMM, only accounting for 6% of total out-migration.

Table 34. Out-migration (ARMM)

| Total out-migration (ARMM) | | | | | | | | |
|----------------------------|--------------------|---------------|---------------|---------------------------------|-----------|-----------|-----------------------|------------|
| | Total in-migration | | | Share of working age population | | | Share to total out-mi | |
| | 1990 | 2000 | 2010 | 1990 | 2000 | 2010 | 1990 | 2000 |
| Philippines | 32,426 | 27,723 | 26,753 | 73 | 74 | 75 | 100 | 100 |
| Luzon | 8,334 | 9,409 | 7,487 | 78 | 78 | 81 | 26 | 34 |
| NCR | 4,720 | 4,857 | 2,824 | 82 | 82 | 85 | 15 | 18 |
| Visayas | 2,832 | 2,298 | 1,705 | 71 | 73 | 75 | 9 | 8 |
| Mindanao | 21,260 | 16,016 | 17,561 | 71 | 71 | 72 | 66 | 58 |
| Region IX | 1,407 | 4,330 | 4,492 | 70 | 70 | 71 | 4 | 16 |
| Region X | 5,486 | 4,243 | 4,708 | 71 | 74 | 73 | 17 | 15 |
| Region XI | 3,138 | 1,084 | 1,782 | 72 | 70 | 76 | 10 | 4 |
| Region XII | 9,497 | 5,837 | 6,116 | 71 | 70 | 71 | 29 | 21 |
| CARAGA | 1,732 | 522 | 463 | 69 | 68 | 72 | 5 | 2 |

Source: Census of Population and Housing

International migration

With rising wage gaps between the domestic and global labor markets, and limited domestic job opportunities, more than two (2) million Overseas Filipino Workers (OFWs) leave the country to work abroad, of which, Mindanao accounts for the lowest number of OFWs.

Mindanao accounts for 15.8% of all OFWs since 2011, slightly lower than the 17.3% share of Visayas. Most of the OFWs in the Philippines originate from Luzon, averaging a 67% share of all OFWs in the Philippines since 2011.

Within Mindanao, Region XII accounts for the largest share of OFWs, accounting for a 4.3% share of OFWs since 2011, while CARAGA accounts for the lowest share of OFWs at 1.5% share since 2011.

ARMM accounts for a 2.6% share of OFWs since 2011, the third largest share in Mindanao.

Table 35. Total OFWs

| Total OFWs (millions) | | | |
|-----------------------|--------------|--------------|--------------|
| | 2011 | 2012 | 2013 |
| Philippines | 2,057 | 2,220 | 2,295 |
| Luzon | 1,356 | 1,494 | 1,551 |
| NCR | 257 | 280 | 294 |
| Visayas | 358 | 375 | 402 |
| Mindanao | 344 | 351 | 342 |
| Region IX | 39 | 40 | 39 |
| Region X | 72 | 71 | 62 |
| Region XI | 47 | 60 | 60 |
| Region XII | 91 | 95 | 94 |
| Region XIII | 33 | 29 | 34 |
| ARMM | 62 | 56 | 53 |

Source: Philippine Statistics Authority

Table 36. Distribution of OFWs

| Distribution of Overseas Filipino Workers | | | |
|---|-------------|-------------|-------------|
| | 2011 | 2012 | 2013 |
| Philippines | 100 | 100 | 100 |
| Luzon | 65.9 | 67.3 | 67.6 |
| NCR | 12.5 | 12.6 | 12.8 |
| Visayas | 17.4 | 16.9 | 17.5 |
| Mindanao | 16.7 | 15.8 | 14.9 |
| Region IX | 1.9 | 1.8 | 1.7 |
| Region X | 3.5 | 3.2 | 2.7 |
| Region XI | 2.3 | 2.7 | 2.6 |
| Region XII | 4.4 | 4.3 | 4.1 |
| Region XIII | 1.6 | 1.3 | 1.5 |
| ARMM | 3 | 2.5 | 2.3 |

Source: Philippine Statistics Authority

Although overseas employment for Filipinos has diversified, a large share of OFWs from Mindanao are still laborers and unskilled workers.

Among the regions in the Philippines, Mindanao has the smallest share of OFWs working in high-skill professions such as managers, professionals, technicians and associate professions. Only 19% of the OFWs from Mindanao in 2013 were employed in skilled professions, the lowest among migrants from the Philippines.

Conversely, Mindanao has the highest share of its OFWs working abroad as unskilled labor, with 81% share of all OFWs from Mindanao compared to 78.6% in Luzon, and 74% for Visayas in 2013.

Table 37. OFWs by major occupation group

Share of OFWs by major occupation group (2013)

| Occupation | Philippines | NCR | Luzon | Visayas |
|---|--------------------|-------------|--------------|----------------|
| Total | 100 | 100 | 100 | 100 |
| Skilled | 22.7 | 28.5 | 21.3 | 26 |
| Officials of government and special-interest organizations, corporate executives, managers, managing proprietors, and supervisors | 3.5 | 4.9 | 3.8 | 2.9 |
| Professionals | 11.6 | 13.8 | 10.8 | 13.4 |
| Technicians and associate professionals | 7.6 | 9.8 | 6.7 | 9.7 |
| Unskilled | 77.3 | 71.5 | 78.6 | 74 |
| Clerks | 5.2 | 7 | 5.3 | 5.8 |
| Service workers and shop and market sales workers | 16.7 | 21.3 | 16.4 | 14.9 |
| Farmers, forestry workers and fishermen | - | - | - | - |
| Trade and related workers | 12.9 | 15.3 | 13.7 | 13.4 |
| Plant and machine operators and assemblers | 11.7 | 10 | 10.9 | 14.7 |
| Laborers and unskilled workers | 30.8 | 17.9 | 32.3 | 25.2 |

Source: Survey on Overseas Filipinos (2013)

Agriculture

Although Mindanao has largely been an agricultural economy, the agriculture sector has underperformed over the past three (3) decades.

The agriculture sector in general has both grown at the slowest pace and has the lowest labor productivity among the three (3) sectors. Except during the 1980s, growth in agriculture has been the slowest in Mindanao, and in the Philippines in general.

Recent data shows that the trend still continues, where the average growth rate of agriculture was the lowest from 2009-2013.

The same holds true for ARMM, even though the region is largely reliant on agriculture, the sector continues to grow at the slowest pace among the different sectors.

Another aspect where agriculture underperforms is in labor productivity, where labor productivity is the lowest for the agriculture sector in Mindanao.

Aside from labor productivity, one of the key constraints to agriculture is the lack of infrastructure, especially rural infrastructure in Mindanao, and the Philippines as a whole. In ARMM, there were only 5,626 kilometers of farm-to-market roads recorded in 2005²⁴⁵ and only 1.4% of these were paved.

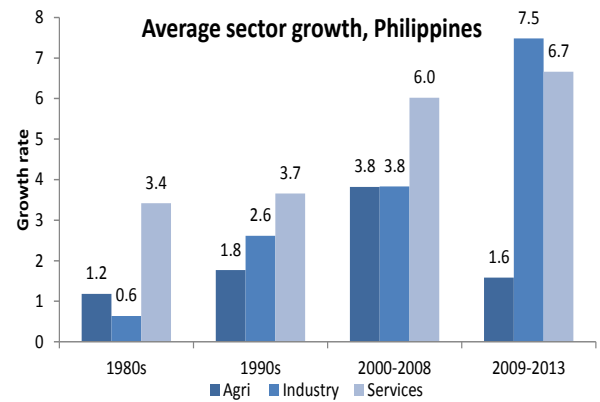
²⁴⁵ Based on data from the Rural Development Report (World Bank, 2005).

Table 38. Farm to market roads

| Farm to market roads, ARMM (2005) | | | |
|-----------------------------------|---------------------------|------------|-------------------|
| Provinces | Barangay roads / FMR (km) | Paved (km) | Percent paved (%) |
| Lanao | 3,709 | 16 | 0.4 |
| Maguindanao | 1,050 | 35 | 3.3 |
| Basilan | 212 | 10 | 4.9 |
| Sulu | 655 | 18 | 2.7 |
| ARMM | 5,627 | 79 | 1.4 |

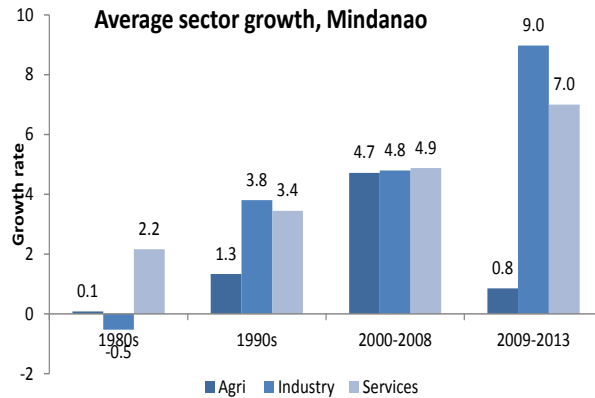
Source: World Bank, 2005

Figure 57. Sector growth (Philippines)



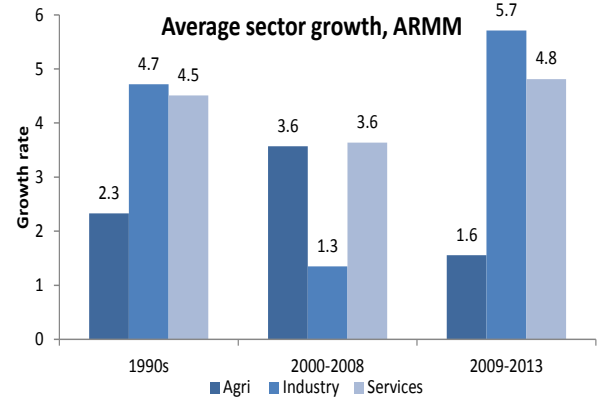
Source: Philippine Statistics Authority

Figure 58. Sector growth (Mindanao)



Source: Philippine Statistics Authority

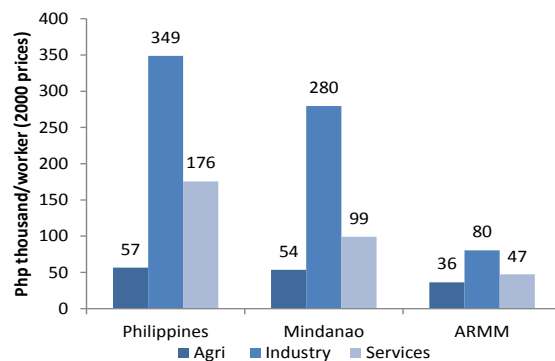
Figure 59. Sector growth (ARMM)



Source: Philippine Statistics Authority

Figure 60. Labor productivity

Sector labor productivity (2009-2013)



Source: Philippine Statistics Authority, LFS

Table 39. Growth rates of labor productivity

Average growth rates, RVA per worker, by sector (2000-2013)

| | Overall | Agriculture | Industry | Services |
|--------------------|---------|-------------|----------|----------|
| Philippines | 3.0 | 2.3 | 2.8 | 2.8 |
| Luzon | 2.9 | 2.4 | 2.9 | 2.9 |
| Visayas | 3.1 | 1.9 | 2.4 | 2.7 |
| Mindanao | 3.0 | 2.3 | 2.9 | 2.5 |
| ARMM | 0.4 | 0.2 | 4.3 | 1.0 |

Source: PSA, LFS

Agricultural land

Mindanao has the most amount of agricultural land in absolute terms, as well as having a relatively larger amount of agricultural land compared to the Philippines as a whole.

Mindanao has about 31% of its total land area for agriculture, which is greater than Luzon, but slightly less than Visayas, although it has a larger amount of land area (in hectares).

For a region that relies more heavily on agriculture for its production and employment, ARMM has a relatively small part of its total land area for agricultural land with only 17% of its land for agriculture.

Table 40. Land area statistics

| Land area (in millions) | | | |
|--------------------------------|---------------------------|--|---|
| | Land Area (ha) | Agricultural land area (ha) | Agricultural land / total land (%) |
| Philippines | 34 | 10 | 28 |
| Luzon | 15 | 4 | 24 |
| Visayas | 6 | 2 | 32 |
| Mindanao | 14 | 4 | 31 |
| Region IX | 2 | 1 | 46 |
| Region X | 2 | 1 | 36 |
| Region XI | 2 | 1 | 37 |
| Region XII | 2 | 1 | 35 |
| Region XIII | 2 | 1 | 24 |
| ARMM | 3 | 1 | 17 |

Source: Census of Agriculture and Fisheries

Agriculture prices

The continued underperformance of agriculture has not only led to an increase in farm gate and retail prices, but an increase between the farm gate-retail price gap as well.

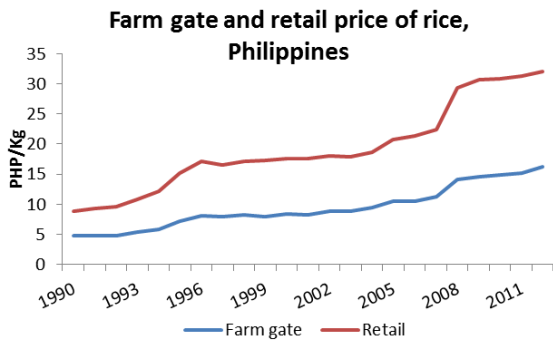
The gap between farm gate and retail prices for some key agricultural commodities has been increasing for the Philippines, and for the ARMM. This has led to consumers of key agriculture commodities, paying double the farm gate price.

While the general trend for the Philippines, Mindanao, and ARMM has been increasing, ARMM is worse off, where the retail price of key agricultural commodities is more than double farm gate prices.

In ARMM the gap between farm gate and retail price for rice increased from 89% in 1990 to 122% in 2012 compared to Mindanao, where the gap increased from 99% in 1990 to 110% in 2012. In Luzon, the increase in the price gap was not as large, coming from 70% in 1990, to only 93% in 2012.

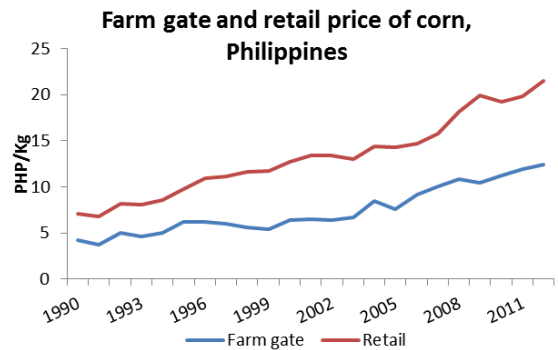
For yellow corn, the gap between farm gate and retail prices increased from 47% in 1990 to 110% in 2012 for ARMM, compared to Mindanao, where the gap between retail and farm gate price for corn has increased from 30% in 1990, to 98% in 2012.

Figure 61. Farm gate and retail price of rice, Philippines



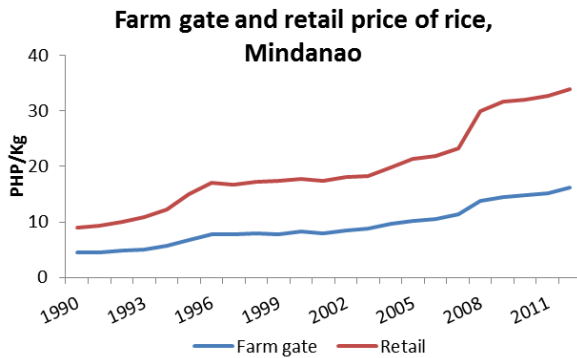
Source: Philippine Statistics Authority

Figure 62. Farm gate and retail price of corn, Philippines



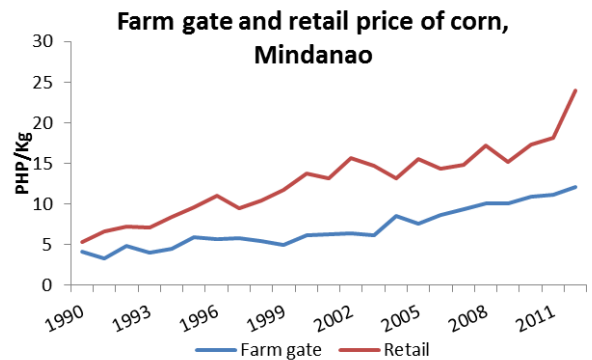
Source: Philippine Statistics Authority

Figure 63. Farm gate and retail price of rice, Mindanao



Source: Philippine Statistics Authority

Figure 64. Farm gate and retail price of corn, Mindanao



Source: Philippine Statistics Authority

Figure 65. Farm gate and retail price of rice, ARMM

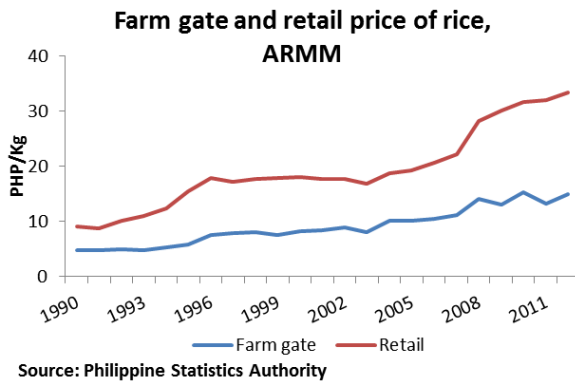
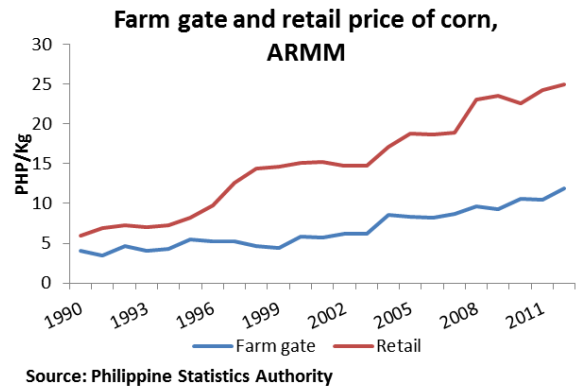


Figure 66. Farm gate and retail price of corn, ARMM



Manufacturing

The formal sector

Mindanao accounts for the smallest share of the formal sector in the Philippines. In 2012, there were 176,609 firms in the formal sector in Mindanao. This accounts for 18% of all formal sector firms. Most of the firms in the formal sector are located in Luzon, where 65% of all firms are located.

Region XI has the largest share of the formal sector within Mindanao, accounting for 4.8% of all formal sector firms in the Philippines, followed by Region XII, which accounts for 4%. ARMM accounts for the lowest share of formal sector firms in the country, accounting for only 1% of all firms in the country.

Although ARMM has the smallest share of formal sector firms within the region, growth of formal sector firms has outpaced both Mindanao and the Philippines as a whole. The increase from 4,586 firms in 2000 to 9,489 in 2012 represents an annual average growth rate of 8.2%, much larger compared to the 2.5% average growth rate of Mindanao, and 2.1% average growth rate of the Philippines.

The average growth rate for firms with employment of 20 or more is much faster, growing at an average of 19.2% since 2000 for ARMM. This resulted in firms increasing from 38 in 2000, to 133 in 2012.

Table 41. Number of formal sector establishments

| Number of establishments | | | | | | |
|--------------------------|---------|------------|--------------|---------|------------|--------------|
| | 2000 | | | 2012 | | |
| | All | 20 or more | Less than 20 | All | 20 or more | Less than 20 |
| Philippines | 742,925 | 28,235 | 714,690 | 943,493 | 44,299 | 899,194 |
| Luzon | 502,340 | 20,860 | 481,480 | 619,659 | 31,997 | 587,662 |
| NCR | 184,576 | 13,021 | 171,555 | 211,651 | 18,300 | 193,351 |
| Visayas | 107,201 | 3,844 | 103,357 | 147,225 | 6,565 | 140,660 |
| Mindanao | 133,384 | 3,531 | 129,853 | 176,609 | 5,737 | 170,872 |
| Region IX | 26,736 | 600 | 26,136 | 31,351 | 758 | 30,593 |
| Region X | 23,390 | 728 | 22,662 | 36,165 | 1,514 | 34,651 |
| Region XI | 44,838 | 1,551 | 43,287 | 45,143 | 1,920 | 43,223 |
| Region XII | 19,365 | 346 | 19,019 | 37,910 | 945 | 36,965 |
| Region XIII | 13,650 | 257 | 13,393 | 16,551 | 467 | 16,084 |
| ARMM | 4,586 | 38 | 4,548 | 9,489 | 133 | 9,356 |

Source: Census of Philippine Business and Industry

Most of the firms in Mindanao are considered small, with majority of firms in the region employing less than 20. In Mindanao, around 97% of all firms have employment of less than 20 in 2012. This is slightly higher than the 95% share for the Philippines as a whole. Among regions in Mindanao, ARMM has the largest share of small firms, with 99% of all formal sector firms with employment of less than 20.

Figure 67. Number of establishments by employment size (Philippines)

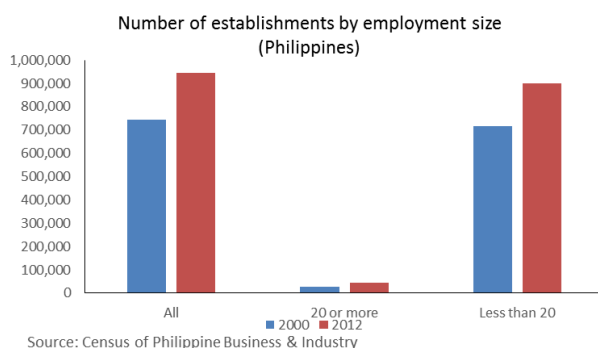


Figure 68. Number of establishments by employment size (Mindanao)

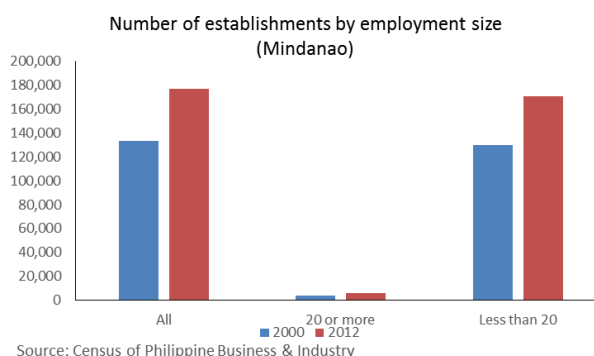
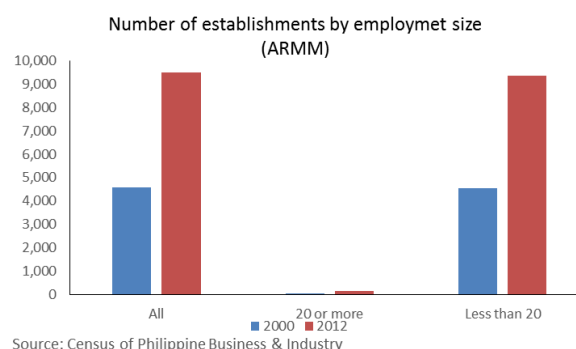


Figure 69. Number of establishments by employment size (ARMM)



The formal manufacturing sector in Mindanao is the smallest in the country, both in terms of the number of firms and employment²⁴⁶.

In 2006, the share of manufacturing firms in the formal sector in Mindanao decreased from 17.6% in 2000, to 13.3% in 2006. This represents the lowest share of manufacturing firms in the country.

The share of total employment in manufacturing also decreased over the same period. In 2000, Mindanao's share of employment in the manufacturing sector accounted for 10% of total employment. This decreased to 8% share in 2006.

Within Mindanao, Region XI accounts for the largest share of the manufacturing sector, accounting for 4.1% of all establishments in the country. However, Region XII accounts for the largest share of total employment in the sector.

In both 2000 and 2006, the manufacturing sector was virtually non-existent in ARMM, accounting for less than 1% of all manufacturing firms and employment.

²⁴⁶ Regional data for the manufacturing sector based on the Census of Philippine Business and Industry was only available until 2006, preliminary data from 2012 CPBI was only available at the national level for the manufacturing sector.

Table 42. Distribution of manufacturing firms (Philippines)

Distribution of manufacturing firms in the Philippines (2000)

| | Total | | Total employment of 20 or more | | Total Employment < 20 | |
|--------------------|-----------------------|-------------|--------------------------------|-------------|-----------------------|-------------|
| | No. of establishments | Employment | No. of establishments | Employment | No. of establishments | Employment |
| Philippines | 100 | 100 | 100 | 100 | 100 | 100 |
| Luzon | 67.7 | 76.6 | 80.9 | 80.0 | 66.9 | 68.7 |
| NCR | 19.4 | 31.4 | 46.0 | 34.7 | 17.7 | 23.7 |
| Visayas | 14.6 | 13.3 | 11.3 | 12.7 | 14.9 | 14.7 |
| Mindanao | 17.6 | 10.1 | 7.8 | 7.3 | 18.2 | 16.6 |
| Region IX | 2.7 | 1.2 | 0.3 | 0.4 | 3.1 | 2.9 |
| Region X | 3.0 | 2.0 | 1.1 | 0.7 | 2.8 | 2.6 |
| Region XI | 6.1 | 4.2 | 1.4 | 1.6 | 3.1 | 2.8 |
| Region XII | 2.9 | 1.1 | 3.9 | 3.6 | 6.3 | 5.6 |
| Region XIII | 2.2 | 1.1 | 0.7 | 0.4 | 3.1 | 2.6 |
| ARMM | 0.6 | 0.5 | 0.6 | 0.7 | 2.3 | 2.0 |

Source: Census of Philippine Business and Industry

Table 43. Distribution of manufacturing firms (Philippines)

Distribution of manufacturing firms in the Philippines (2006)

| | Total | | Total employment of 20 or more | | Total employment < 20 | |
|--------------------|-----------------------|-------------|--------------------------------|-------------|-----------------------|-------------|
| | No. of establishments | Employment | No. of establishments | Employment | No. of establishments | Employment |
| Philippines | 100 | 100 | 100 | 100 | 100 | 100 |
| Luzon | 71.7 | 77.3 | 79.0 | 78.0 | 69.0 | 71.4 |
| NCR | 36.9 | 23.4 | 39.2 | 21.7 | 36.0 | 37.8 |
| Visayas | 15.0 | 14.7 | 13.2 | 14.7 | 15.6 | 14.7 |
| Mindanao | 13.3 | 8.0 | 7.8 | 7.3 | 15.4 | 13.9 |
| Region IX | 1.9 | 0.9 | 0.8 | 0.8 | 2.4 | 2.1 |
| Region X | 3.4 | 1.9 | 2.1 | 1.8 | 4.0 | 3.5 |
| Region XI | 4.1 | 1.9 | 3.1 | 1.5 | 4.4 | 4.4 |
| Region XII | 2.2 | 2.3 | 1.3 | 2.3 | 2.6 | 2.2 |
| Region XIII | 1.3 | 0.9 | 0.5 | 0.8 | 1.6 | 1.4 |
| ARMM | 0.3 | 0.2 | 0.1 | 0.2 | 0.4 | 0.4 |

Source: Census of Philippine Business and Industry

Constraints

Road infrastructure

One of the constraints to Mindanao's small formal and manufacturing sector is the lacking road infrastructure in Mindanao compared to the rest of the country.

Mindanao has the lowest share of paved national roads in the Philippines, with only 71% of its national roads paved. In addition, Mindanao also has the lowest national road density in the Philippines, at 0.07 km/sq. km compared to 0.11 km/sq.km for Luzon and 0.13 km/sq.km in Visayas.

In general, regions within Mindanao have among the lowest share of paved national roads in the country. ARMM has the largest share of paved national roads at 82 %, while Region XII has the lowest share at 66%. However, ARMM has the lowest national road density among regions in Mindanao at 0.03 km/sq.km.

Table 44. National road statistics

| | National Road Density | Total National Road length (km) | Paved Roads (km) | Percent Paved (%) | Percent unpaved (%) |
|--------------------|-----------------------|---------------------------------|------------------|-------------------|---------------------|
| Philippines | 0.09 | 32,590 | 26,256 | 81 | 19 |
| Luzon | 0.11 | 15,940 | 13,093 | 82 | 18 |
| Visayas | 0.13 | 7,667 | 6,791 | 89 | 11 |
| Mindanao | 0.07 | 8,983 | 6,373 | 71 | 29 |
| Region IX | 0.08 | 1,448 | 1,023 | 71 | 29 |
| Region X | 0.09 | 1,900 | 1,351 | 71 | 29 |
| Region XI | 0.08 | 1,662 | 1,150 | 69 | 31 |
| Region XII | 0.07 | 1,521 | 997 | 66 | 34 |
| Region XIII | 0.07 | 1,460 | 1,040 | 71 | 29 |
| ARMMM | 0.03 | 993 | 813 | 82 | 18 |

Source: DPWH 2013

Power

In addition, Mindanao continues to be the least secure from power failure in the Philippines. Mindanao has the lowest amount of Gross System Reserves²⁴⁷ in the Philippines, which leads to Mindanao being the least secure from power outages in the country.

In March 2013 for example, the region was hit with daily rotating power outages as a result of the inability of electric cooperatives to meet demand. During this time, affected areas in Mindanao had as much as an average of eight (8) hours of power outages per day (in ARMM).

Region XI had the largest power deficit during this period, at 54.6 MW, with ARMM having the lowest deficit at 6.1 MW.

²⁴⁷ In order to discuss the power situation, compare system peak (demand) and dependable capacity (supply availability), the difference between dependable capacity and system peak is gross system reserves. Reserves are needed mainly for two things: i) to address fluctuations in demand, ii) to have back-up in case other plants need to go on outage for maintenance (this is expected or planned), or they just trip while in operation (this is unexpected, or what the industry refers to as forced). The larger the reserve, the more secure the grid is. The smaller the reserve, the more the availability of each power plant becomes crucial in meeting demand requirements

The consequences to business were significant, as losses to businesses in the region were losing as much as 50% of sales and business opportunities due to the power outages.²⁴⁸

Although the amount of gross system reserves is relatively similar between Visayas and Mindanao, Visayas has the advantage of being interconnected to Luzon (that is, it can import excess power from Luzon and vice versa). Mindanao is a concern because it is isolated from the two other grids.

The issue in Mindanao is the lack of generation capacity to meet current demand, which will be an issue in the short-term as several of the country's power projects²⁴⁹ are expected to come online in 2015 at the earliest.

Table 44.a. Power statistics
2012 Key power sector statistics

| | Dependable Capacity (MW) | System Peak (MW) | Gross system reserves (MW) |
|--------------------|---|---------------------------------|---|
| Philippines | 15,371 | 10,761 | 4,610 |
| Luzon | 11,519 | 7,889 | 3,630 |
| Visayas | 2,103 | 1,551 | 552 |
| Mindanao | 1,749 | 1,321 | 428 |

Source: Department of Energy, Power Statistics

²⁴⁸ See: <http://www.gmanetwork.com/news/story/303995/economy/business/s-mindanao-could-lose-p300m-in-business-due-to-power-outages-trader>

²⁴⁹ These are the 300 megawatt Coal-fired Thermal South Energy Project, and the 200 megawatt Southern Mindanao Coal-Fired project in Sarangani (both expected for 2015), and the 405 MW Coal-Fired Power Plant of FDC Utilities in Misamis Oriental (September 2016).

Table 44.b. Power statistics

| Region | Average power outage in hours (Q4 2012) | Average power outage in hours (March, 2013) | Capacity (MW) | Total demand (MW) | Deficit (MW) |
|------------|---|---|---------------|-------------------|--------------|
| Region IX | 2.5 | 5.8 | 115.9 | 169.6 | -53.7 |
| Region X | 1.4 | 2.9 | 132 | 175 | -43 |
| Region XI | 3.0 | 2.5 | 84.4 | 139 | -54.6 |
| Region XII | 1.2 | 3.4 | 159.8 | 207 | -47.2 |
| CARAGA | 1.5 | 3.3 | 86.2 | 124.8 | -38.6 |
| ARMM | 6.0 | 8.0 | 3.7 | 9.8 | -6.1 |

Source: Electric Power Industry Management Bureau, DOE

Note: Supply and demand data from electric cooperatives were from March, 2013

Public Finance

Revenues: Tax revenue

Local government units in Mindanao are less reliant on tax revenue as a source of income compared to Luzon and Visayas.

On average, only 9% of total LGU income comes from tax revenues, the lowest in the Philippines. Over the same period, Luzon averaged the highest at 32% of total LGU income, followed by Visayas at 13% of total LGU income.

ARMM and the Bangsamoro do not rely on tax revenue for its income, only contributing a small amount to total LGU income. The share of tax revenues to total income for LGUs in ARMM averaged 1% in the past decade, and at 2% for the Bangsamoro. This is below the average for Mindanao at 9%, and well below the Philippine average of 23%.

The share of tax revenue has remained constant through the past decade. LGUs typically rely less on tax revenue as a means to generate income.

A closer look at the specific types of taxes shows Mindanao collecting the lowest share of both real property tax and business tax in the Philippines.

In 2012, the share of real property tax to total LGU income for Mindanao was 3.7%, compared to 10.5% in Luzon and 5.3% in Visayas. The share of real property tax collections was even lower in ARMM and Bangsamoro in 2012. A mere 0.4% and 0.6% of total LGU income in Mindanao were from real property tax collections in ARMM and Bangsamoro respectively.

Additionally, only 4.5% of total income of Mindanao LGUs was from business taxes, compared to the 13.6% share for Luzon and 5.2% share for Visayas. Once again, both ARMM and Bangsamoro have a much smaller share, at 0.5% and 1.2%, respectively.

Figure 70. Share of tax revenues to LGU income

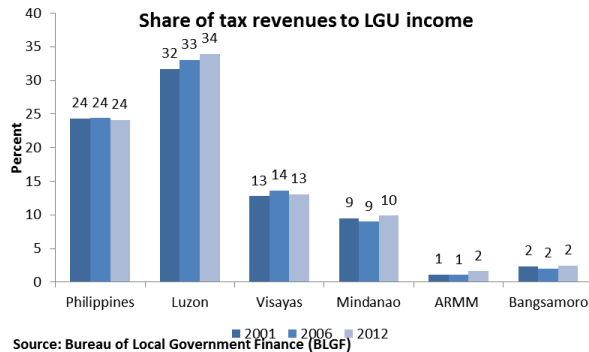


Figure 71. Share of real property tax to LGU income

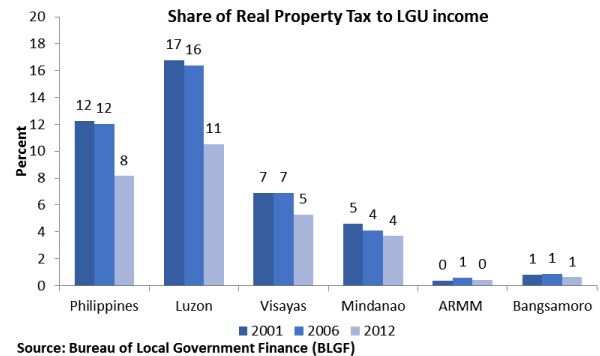
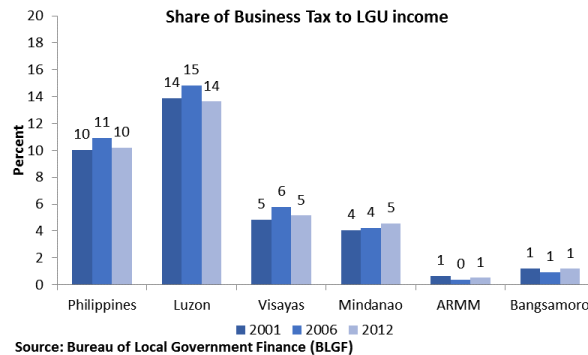


Figure 72. Share of business tax to LGU income



Revenues: Internal Revenue Allotment

As a result of low revenue generation by LGUs in Mindanao, there is heavy reliance on external sources of income as a main source of revenue.

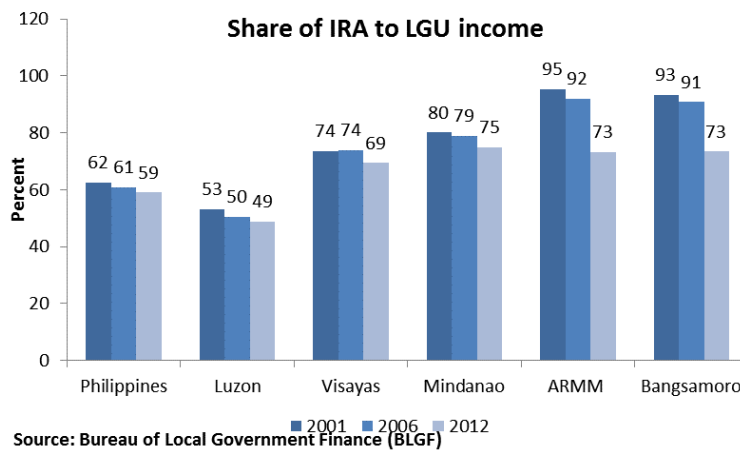
In Mindanao, a larger share of income for LGUs comes from Internal Revenue Allotments (IRA). The share of IRA to total LGU income is the largest in Mindanao at 75% in 2012, compared to 69% in Visayas, and 49% to Luzon.

LGUs in Mindanao averaged an 80% share of IRA to total LGU income compared to all LGUs in the Philippines which averaged about 62% share of IRA to total income over the past decade.

Within Mindanao, both ARMM and the Bangsamoro rely even more heavily on IRAs as a source of income. In the past decade, LGUs in ARMM averaged a 93% share of IRA to total LGU income, while the Bangsamoro averaged 91%.

In 2012, the share of IRA to total LGU income dipped to 73% for the ARMM and the Bangsamoro. This, however, was simply a result of increased external aid contribution, another external source of income.

Figure 73. Internal revenue allotment



Expenditure

General Public Services

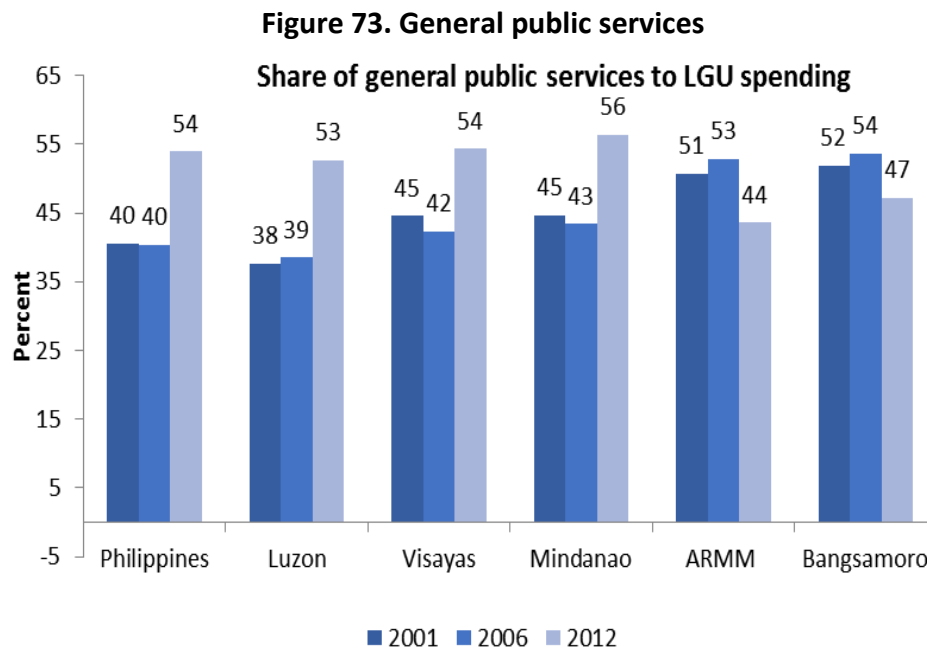
Spending on general public services²⁵⁰ takes up most of local government spending, at the expense of other key areas of spending.

Across the Philippines, a large share of local government spending goes to general public services, which pertain to the regular services provided by the local government. These are primarily the administrative costs essential to running a local government.

²⁵⁰ According to the Bureau of Local Government and Finance, general public services covers sector expenditures for services indispensable to the existence of an organized LGU. These include executive and legislative services; overall financial and fiscal services; the civil service; planning; conduct of foreign affairs; general research; public order and safety; and centralized services. These exclude general administration, regulation, research and other services of departments that can be identified directly under each specific sector.

In 2012, Mindanao LGUs had the highest share of total spending allocated to general public services in the Philippines. ARMM and Bangsamoro allocated much less to general public services in 2012 compared to both 2001 and 2006.

However, this is still a relatively large share of total spending, and the overall story remains the same, as spending on general public services still takes up most of the local governments spending.



Source: Bureau of Local Government Finance (BLGF)

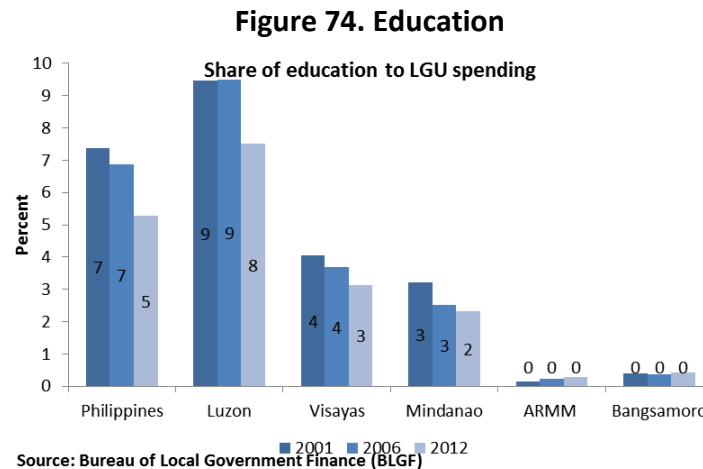
Education

As a result, education spending does not receive much attention in the Mindanao region.

Mindanao LGUs had the lowest share of education spending to total expenditure, with an average share of 2.6% in the past decade. Luzon had a higher share, averaging 8.6% over the same period, followed by Visayas at 3.6%.

Spending for education by ARMM LGUs remains very weak, averaging only 0.23% of total LGU spending during the past decade. The same holds true for the Bangsamoro, averaging only 0.39% of total LGU spending.

There is no improvement in the allocation of spending towards investment in human capital accumulation. In fact, the share decreased for Mindanao and remained roughly the same for both ARMM and the Bangsamoro.



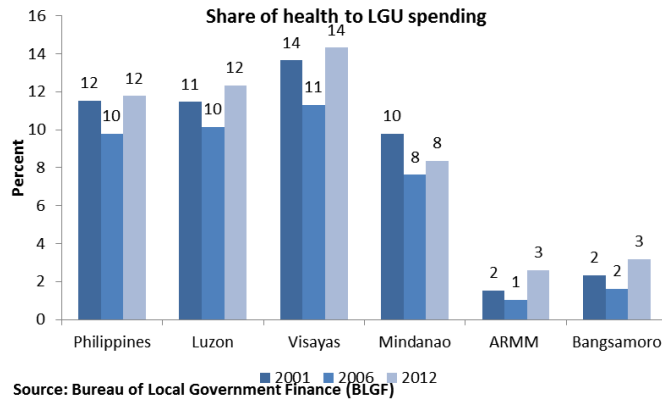
Health

In addition, Mindanao LGUs lag behind LGUs in Luzon and Visayas in health expenditure, another important component of human capital accumulation.

Mindanao LGUs once again have the lowest share of health spending to total LGU expenditure, averaging 8.5% over the past decade. Visayas LGUs had the highest share among the island groups, averaging 12% share, followed by Luzon with 11.2% share.

ARMM, by comparison, has a significantly smaller share of health spending over the past decade with an average share of 1.6%. The Bangsamoro performs only slightly better, averaging 2.2% over the same period of time.

Figure 75. Health



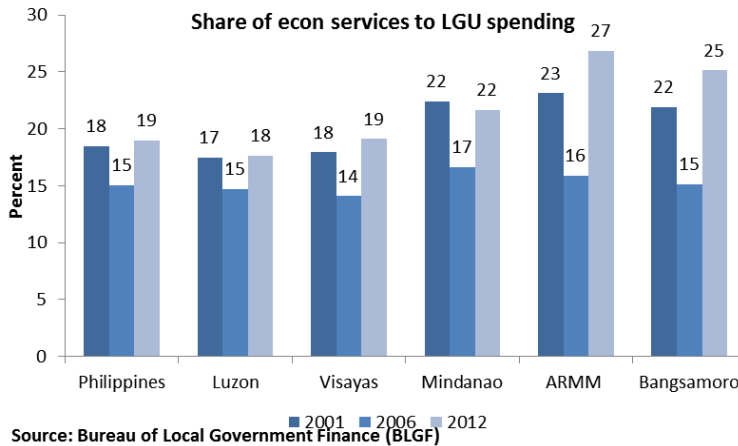
Economic services²⁵¹

An area of spending that receives relatively more attention from Mindanao LGUs compared to those in Luzon and Visayas is spending on economic services²⁵².

Over the past decade, spending on economic services by Mindanao LGUs averaged 22% share total spending compared to 19% in Visayas, and 18% in Luzon.

In comparison, ARMM and Bangsamoro allocate more on economic services, averaging 26% and 25% share to total spending, respectively since 2001.

Figure 76. Economic services



²⁵¹ Economic services refers to activities directed to the promotion and enhancement of economic growth, an important part of which, is infrastructure spending.

²⁵² An important part of economic services spending is infrastructure spending.

Business regulation²⁵³

Overall competitiveness

Taken as a whole, cities and municipalities in Mindanao are among the most competitive in Mindanao. Cities in Mindanao are on par with cities in Luzon, averaging roughly the same overall competitiveness score as Luzon in 2014.

Within Mindanao, cities in Region X had the highest average score for overall competitiveness²⁵⁴, followed by the cities in Region XI. Cities in Region X and CARAGA are just about on par with the overall average for Mindanao, while cities in Bangsamoro and Region IX have the lowest overall competitiveness score in the region.

In terms of overall competitiveness between the two (2) cities in the Bangsamoro, Cotabato City had an above average score of 34 for 2014, however, Isabela City had the fourth lowest overall competitiveness score in Mindanao for 2014.

Overall competitiveness scores are lower for municipalities compared to cities for 2014, a trend which continues for each individual criteria of competitiveness.

Municipalities in Mindanao are, on average, the most competitive compared to the rest of the Philippines, averaging an overall competitiveness score of 27 compared to 25 for Visayas, and 24 for Luzon.

Within Mindanao, municipalities in Region X have the highest overall competitiveness score, followed by municipalities in Bangsamoro and CARAGA. Municipalities in Region IX, Region XI and Region XII all had average overall competitiveness scores lower than the Mindanao average, but are on par with the overall competitiveness score for the Philippines as a whole.

²⁵³ Data from the National Competitiveness Council do not include cities and municipalities from the ARMM.

²⁵⁴ Cities and municipalities are ranked on an overall competitiveness scored, using the sum of scores on three main pillars of competitiveness based on the cities and municipalities competitiveness index. The three pillars are: economic dynamism, government efficiency, and infrastructure. Scores are determined by values of the actual data, as well as completeness of submitted data. The higher the score of a city or municipality, the more competitive it is.

Figure 77. Overall competitiveness (Cities)

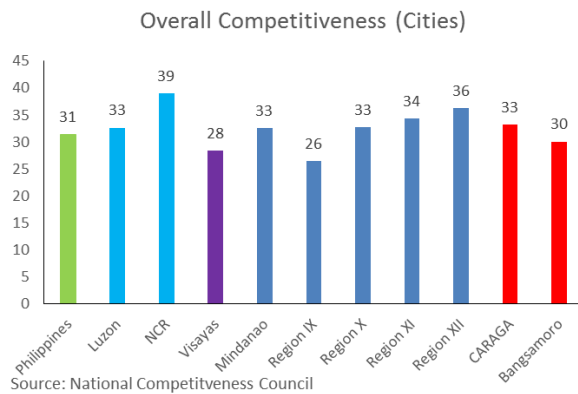


Figure 78. Overall competitiveness (Municipalities)

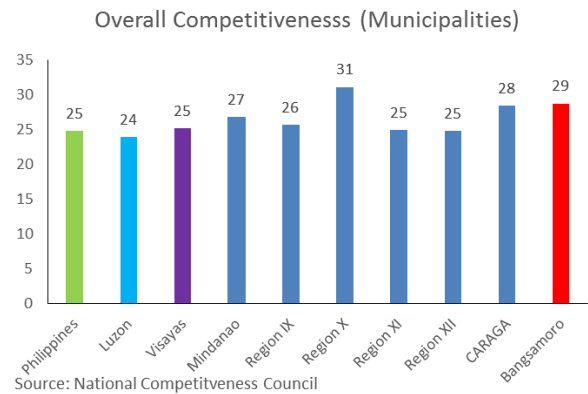
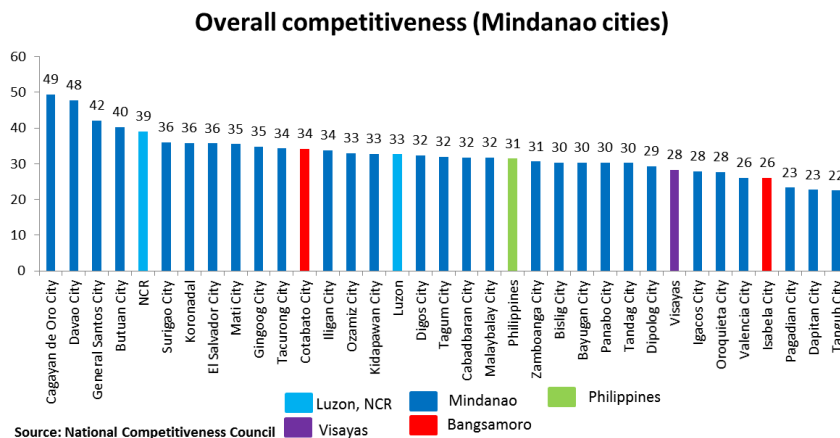


Figure 79. Overall competitiveness (Mindanao cities)



Economic dynamism^{255,256}

Cities and municipalities in Mindanao compare favorably to the Philippines as a whole in terms of economic dynamism. Mindanao cities were second to Luzon in terms of economic dynamism.

²⁵⁵ Economic dynamism looks at the stable expansion of businesses, industries and employment. A high score refers to an expanding economy accompanied by job creation, stable prices, financial institutions, high productivity, and organized business groups (NCC).

²⁵⁶ The eight indicators for economic dynamism are: i) size of the local economy (measured through business registrations, capital, revenue and permits), ii) growth of the local economy (measured through business registrations, capital, revenue and permits), iii) capacity to generate employment, iv) cost of living, v) cost of doing business, vi) financial deepening, vii) productivity, viii) presence of business and professional organizations.

Within Mindanao, cities in Region XII averaged the highest score in terms of economic dynamism in 2014, followed by CARAGA. Cities in Region IX performed poorly, on average, compared to the rest of the region with an average score of 6. The rest of the regions in Mindanao scored about on par with the Philippine average for cities in 2014.

Performance in economy dynamism between the two (2) cities in Bangsamoro is once again uneven. Cotabato City is one of the better performers among cities in Mindanao overall, however, Isabela City has one of the lowest scores in Mindanao.

Municipalities in Mindanao on average performed better than Luzon and Visayas in 201. Within Mindanao only Region XI scored below the Philippine average for 2014, while municipalities in Bangsamoro averaged the highest score for economic dynamism in 2014.

Figure 80. Economic dynamism (cities)

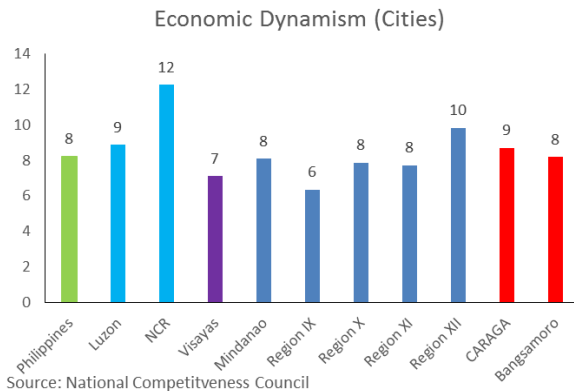


Figure 81. Economic dynamism (municipalities)

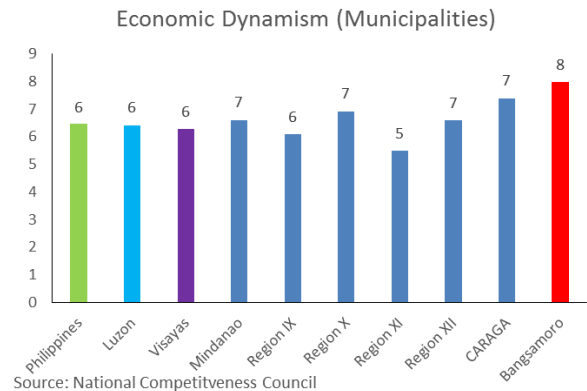
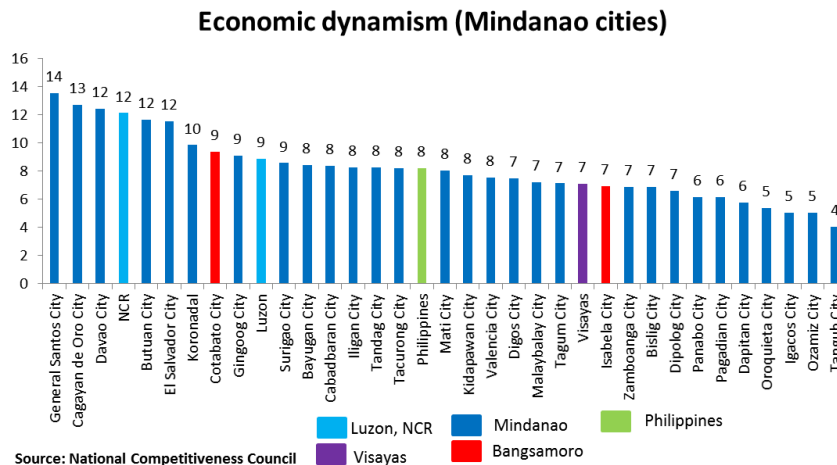


Figure 82. Economic dynamism (Mindanao cities)



Government efficiency^{257,258}

Mindanao LGUs for both cities and municipalities received the highest average score in terms of government efficiency in 2014. In fact, 16 out of the 31 cities in Mindanao scored in the top 50 in terms of government efficiency.

Most of the regions in Mindanao scored above the Philippine average for cities, with only Region IX and the Bangsamoro scoring less than the national average for 2014.

For municipalities, all regions scored favorably compared to the national average, with only Region XI scoring about on par with the Philippines as a whole.

Within the Bangsamoro, Cotabato City again scores relatively well compared to other cities in the Philippines. However Isabela City is one of the worst performing cities in the region, averaging well below the average for Mindanao.

Figure 83. Government efficiency (cities)

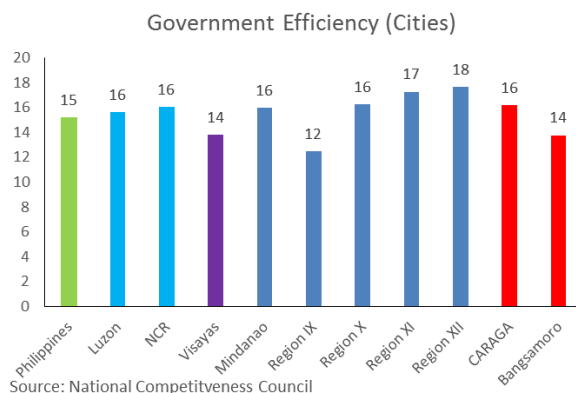
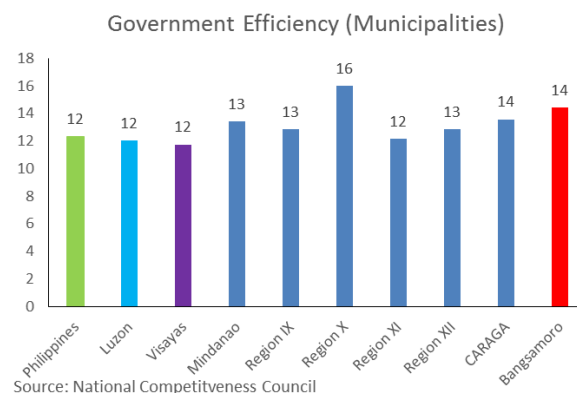


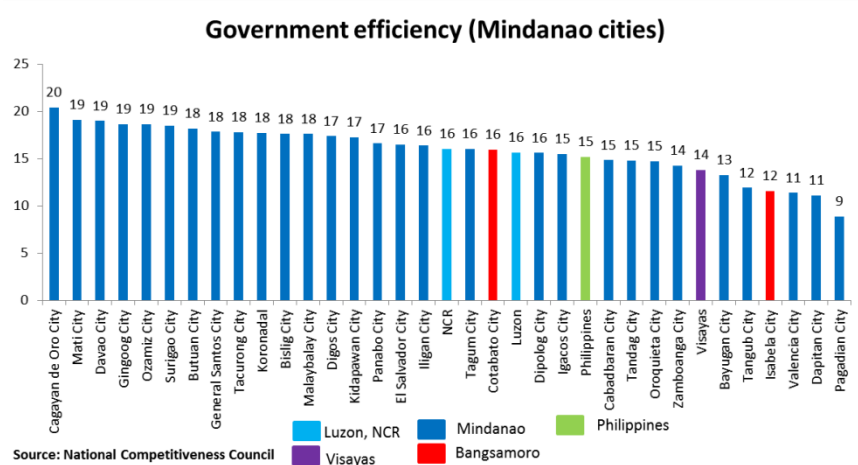
Figure 84. Government efficiency (municipalities)



²⁵⁷ Government efficiency refers to the quality and reliability of government services and support for effective and sustainable productive expansion. A high score on government efficiency points to a local government that is transparent, able to generate its own resources, facilitates doing business, promotes investments and provides for human and natural resources (NCC).

²⁵⁸ The ten indicators used to measure the government efficiency score are: i) transparency score in local governance performance management system, ii) economic governance score in local governance performance management system, iii) ratio of LGU-collected tax to LGU revenues, iv) LGU competition related awards, v) business registration efficiency, vi) investment promotion, vii) compliance to national directives for LGUs, viii) security, ix) health, x) education.

Figure 85. Government efficiency (Mindanao cities)



Infrastructure^{259,260}

Mindanao cities and municipalities also compare favorably in terms of infrastructure. Cities in Mindanao received the highest average score in terms of infrastructure in 2014. Of the 50 cities with the lowest infrastructure scores in the Philippines, only seven were from Mindanao.

Within Mindanao, Region XI, Region XII and Region X, on average perform better than cities in Luzon and Visayas. However, cities in the different regions in Mindanao still trail behind NCR considerably.

For municipalities, the average score for Mindanao is slightly lower than Visayas, although municipalities in Mindanao averaged a higher score than municipalities in Luzon.

Municipalities in Region X averaged the highest score in terms of infrastructure. Municipalities in the Bangsamoro are about on average with the Philippines as a

²⁵⁹ Infrastructure refers to the physical building blocks that connect, expand and sustain a city or municipality and its surroundings to enable the provision of goods and services. It involves basic inputs of production (such as energy and water), interconnection of production (such as transportation, roads and communications) and sustenance of production (such as disaster preparedness, environmental sustainability and human capital formation infrastructure). A high score on infrastructure points to the availability, reliability and predictability of roads, transportation, utilities and other infrastructure.

²⁶⁰ The ten indicators used to measure the infrastructure score are: i) existing road network, ii) distance from city/municipality center to major ports, iii) DOT accredited accommodations, iv) health infrastructure, v) education infrastructure, vi) availability of basic utilities, vii) annual investments infrastructure, viii) connection of ICT, ix) number of ATMs, x) number of public transportation vehicles.

whole, but scored lower than most regions, except for Region XII, which had the lowest infrastructure score among regions in Mindanao.

Within cities in the Bangsamoro, Cotabato City performs better than Isabela City, which received a lower score than the national average for 2014.

Figure 86. Infrastructure (Cities)

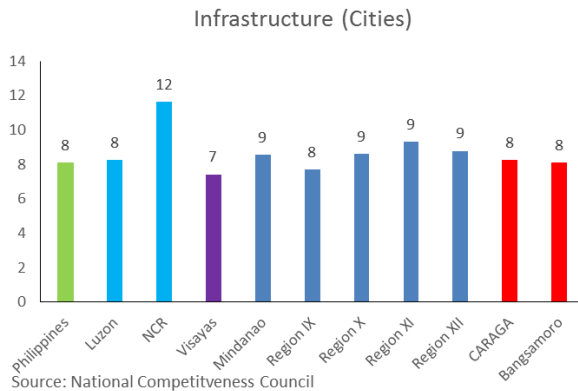


Figure 87. Infrastructure (Municipalities)

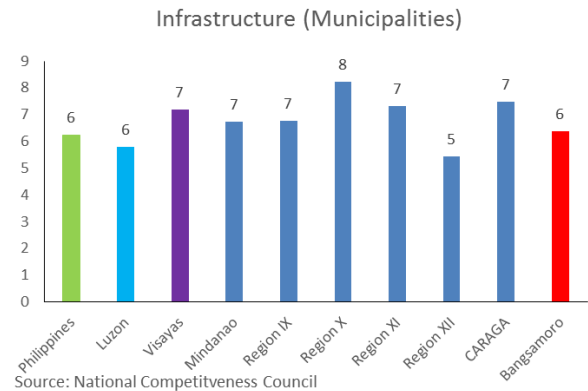
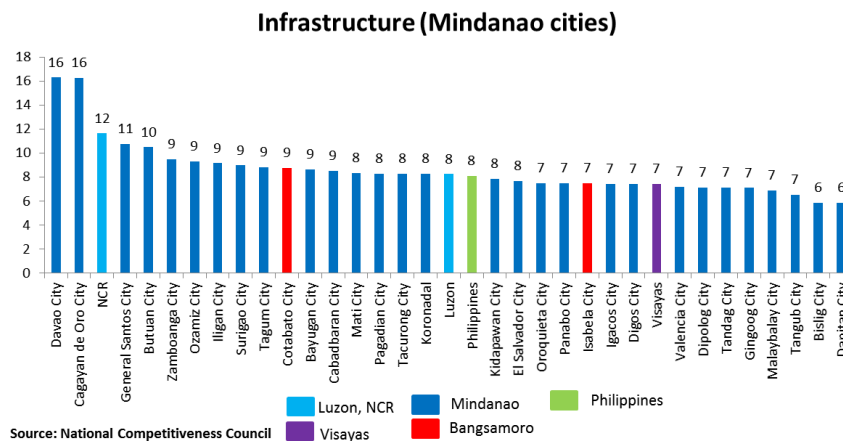


Figure 88. Infrastructure (Mindanao cities)



Doing Business Philippines

With the exception of registering property, in general, Mindanao cities observed in the Doing Business Philippines (2011) study all compare favorably to Quezon City²⁶¹.

²⁶¹ Quezon City is the reference city used in the Doing Business Report

Davao and General Santos are among the top cities in terms of starting a business and dealing with construction permits, with Zamboanga is not far behind, although Cagayan de Oro ranks worse than Quezon City.

It generally costs considerably less to start a business in Mindanao compared to Quezon City, with only Cagayan de Oro comparing poorly in terms of the cost of starting a business. It also takes fewer days to start a business in the cities observed.

It is also easier to deal with construction permits in Mindanao, where it takes a shorter amount of time, and where it costs less compared to Quezon City.

However, Mindanao cities fall short in registering property, where it takes a lot more time to register property, especially for Cagayan de Oro, at more than double the number of days in Quezon City and other Mindanao cities (except for General Santos).

Table 45. Doing Business Philippines

| Components | Quezon City | Cagayan de Oro | Davao | General Santos | Zamboanga |
|---|-------------|----------------|-----------|----------------|-----------|
| Starting a business (rank) | 12 | 14 | 2 | 1 | 6 |
| Number of procedures | 16 | 17 | 17 | 17 | 20 |
| Number of days | 36 | 32 | 27 | 22 | 28 |
| Cost (percent of per capita income) | 21 | 28 | 17 | 15 | 17 |
| Dealing with construction permits (rank) | 22 | 7 | 1 | 3 | 4 |
| Number of procedures | 33 | 30 | 27 | 29 | 32 |
| Number of days | 120 | 92 | 57 | 71 | 46 |
| Cost (percent of per capita income) | 804 | 280 | 94 | 645 | 609 |
| Registering property (rank) | 17 | 24 | 20 | 25 | 23 |
| Number of procedures | 8 | 8 | 8 | 9 | 9 |
| Number of days | 39 | 81 | 36 | 43 | 26 |
| Cost (percent of property value) | 5 | 5 | 5 | 6 | 6 |

Source: Doing Business Philippines (2011)

Labor regulations

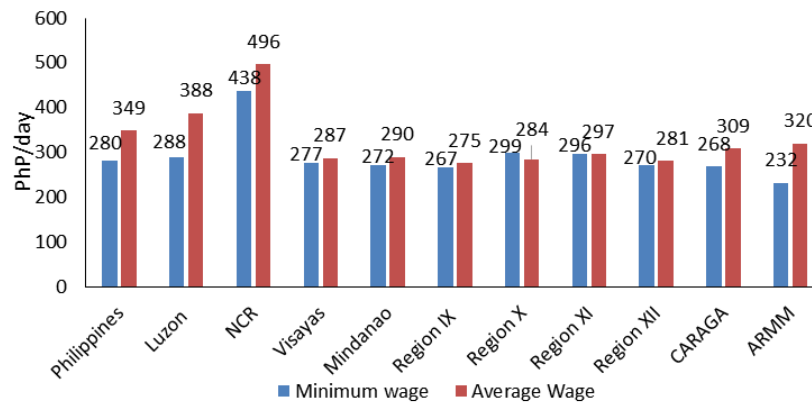
Minimum wages

Minimum wages are set too close to average wages in the Philippines. The ratio between the minimum wage rate and the average wage was 94% in Mindanao, slightly lower than the 96% ratio for Visayas, but well above the 74% average for Luzon.

Most of the regions in Mindanao have minimum wages close to the average daily wage. Region X stands out as having minimum wages greater than the average daily

wage for 2013, while the minimum is about equal with the average daily wage in Region XI. Region IX and XII also have minimum wage rates nearly equal the average daily wage for 2013. ARMM has the lowest minimum wage-average daily wage ratio in Mindanao at 74%.

Figure 89. Minimum wage vs. average daily wage
Minimum and average daily wage (PhP)



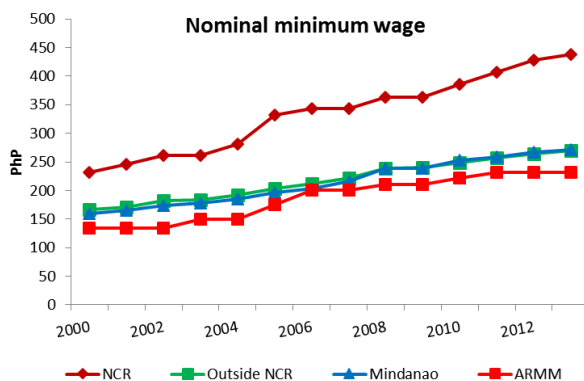
Source: Labor Force Survey (2013)

Minimum wages have been adjusted yearly to account for inflation in Mindanao and the Philippines as a whole.

In real terms however, minimum wages have been flat or falling, as nominal adjustments fall short of inflation. The general trend holds for Mindanao, and ARMM.

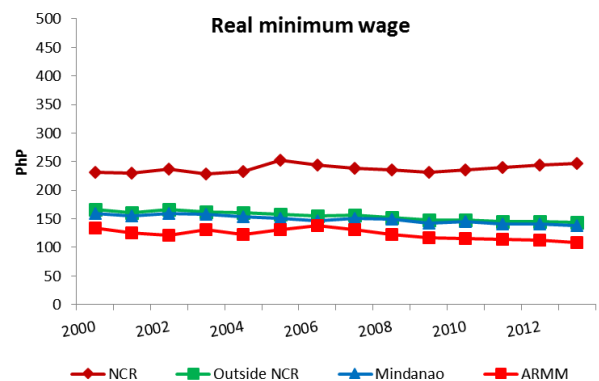
The almost annual increase in minimum wages has meant that more firms are seeking to be exempted given their inability to cope with the increase.

Figure 90. Nominal minimum wage



Source: Philippine Statistics Authority

Figure 91. Real minimum wage



Source: Philippine Statistics Authority

Unions/Collective Bargaining Agreements/Labor disputes

Protection of workers' rights continues to weaken in the Philippines as a result of declining union membership, and virtually non-existent coverage of Collective Bargaining Agreements.

Union membership in the Philippines continues to decline, with membership down to 1.85 million in 2013 from about 3.7 million in 1998.

Mindanao has the lowest number of unions in the Philippines, only accounting for 9% of all unions in the Philippines. Unions are almost non-existent in ARMM, totaling only 33, with membership of roughly 4,000.

Workers covered by Collective Bargaining Agreements in 2013 represented only 1% of wage and salary workers in the Philippines, and only 0.6% of all employed workers.

In Mindanao, workers covered by CBAs represented 1% of wage and salary workers, and only 0.55% of all employed workers.

Coverage of CBAs is virtually non-existent in ARMM with only 0.43% of wage and salary workers and 0.08% of all workers covered by CBAs.

The decrease in the amount of unions and union membership has resulted in a decrease in labor disputes, in terms of strikes and lockout notices.

Table 46. Union, workers organizations and CBAs

Unions, workers organizations, and collective bargaining agreements

| | Philippines | Luzon | Visayas | Mindanao | ARMM |
|---|-------------|---------|---------|----------|------|
| Number of existing workers' associations (2012) | 29,921 | 9,511 | 7,901 | 12,510 | |
| Membership in existing workers' associations | 1,163,967 | 395,753 | 311,131 | 457,090 | |
| Existing Unions (as of June 2013) | 18,460 | 14,482 | 2,154 | 1,679 | 3 |
| Federations/Labor Centers | 145 | | | | |
| Private Sector Unions | 16,546 | 13,463 | 1,802 | 1,281 | 2 |
| Public Sector Unions | 1,769 | 1,019 | 352 | 398 | 1 |
| Membership of Existing Unions (000's) | 1,857 | 1,475 | 161 | 221 | |
| Private Sector Unions | 1,392 | 1,114 | 111 | 167 | |
| Public Sector Unions | 465 | 360 | 50 | 55 | |
| Existing Collective Bargaining Agreements (2013) | 1,358 | 965 | 167 | 226 | 1 |
| Workers covered by CBAs (in 000s) | 228 | 157 | 21 | 51 | |

Source: Bureau of Labor and Employment Statistics

Note: Workers' associations are any association of workers organized for the mutual aid and protection of its members or for any legitimate purpose other than collective bargaining

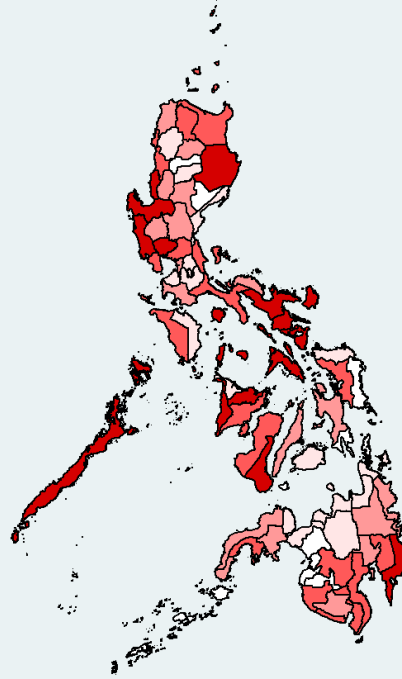
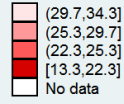
Table 47. Strikes, lockout notices and disputes
Strikes, lockout notices, and dispute settlement

| INDICATOR | 2008 | 2009 | 2010 | 2011 |
|---|--------|--------|--------|--------|
| PHILIPPINES | | | | |
| Strike/Lockout Notices Handled | 406 | 327 | 325 | 274 |
| New Strike/Lockout Notices Filed | 362 | 286 | 276 | 240 |
| Cases Disposed | 365 | 278 | 291 | 236 |
| Materialized into Actual Strike/Lockout | 4 | 4 | 5 | 1 |
| Settlement Rate (%) | 77 | 74 | 80 | 79 |
| Disposition Rate (%) | 90 | 85 | 90 | 86 |
| Workers Involved | 74,797 | 60,573 | 59,750 | 51,001 |
| LUZON | | | | |
| Strike/Lockout Notices Handled | 352 | 265 | 283 | 204 |
| New Strike/Lockout Notices Filed | 313 | 230 | 238 | 171 |
| Cases Disposed | 317 | 220 | 250 | 179 |
| Materialized into Actual Strike/Lockout | 2 | 1 | 3 | 1 |
| Settlement Rate (%) | 77 | 74 | 80 | 79 |
| Disposition Rate (%) | 90 | 83 | 88 | 88 |
| Workers Involved | 63,495 | 48,971 | 48,429 | 32,823 |
| VISAYAS | | | | |
| Strike/Lockout Notices Handled | 29 | 38 | 25 | 36 |
| New Strike/Lockout Notices Filed | 24 | 35 | 22 | 36 |
| Cases Disposed | 26 | 35 | 25 | 35 |
| Materialized into Actual Strike/Lockout | 1 | 2 | 1 | 0 |
| Settlement Rate (%) | 77 | 74 | 80 | 79 |
| Disposition Rate (%) | 90 | 92 | 100 | 97 |
| Workers Involved | 3,362 | 5,954 | 7,861 | 4,255 |
| MINDANAO | | | | |
| Strike/Lockout Notices Handled | 25 | 24 | 17 | 34 |
| New Strike/Lockout Notices Filed | 25 | 21 | 16 | 33 |
| Cases Disposed | 22 | 23 | 16 | 22 |
| Materialized into Actual Strike/Lockout | 1 | 1 | 1 | 0 |
| Settlement Rate (%) | 77 | 74 | 80 | 79 |
| Disposition Rate (%) | 88 | 96 | 94 | 65 |
| Workers Involved | 7,718 | 5,648 | 3,460 | 13,923 |

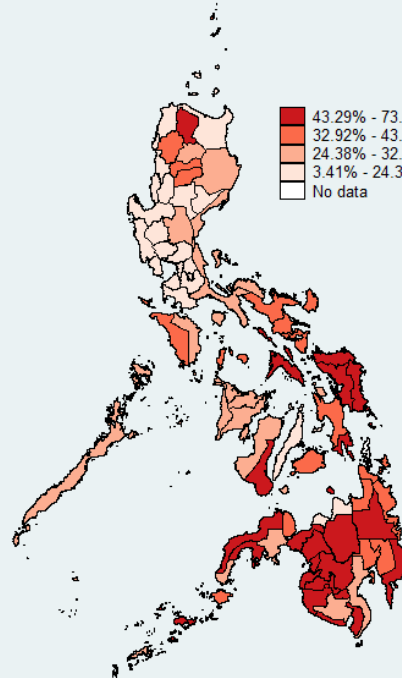
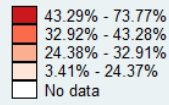
Source: Bureau of Labor and Employment Statistics

Appendix

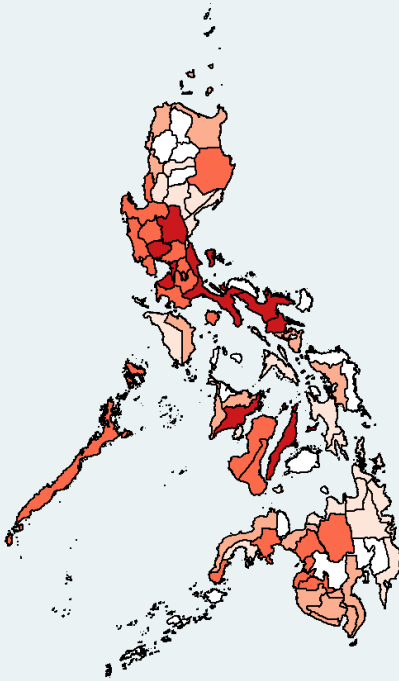
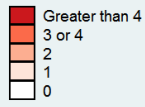
Overall competitiveness (municipalities)



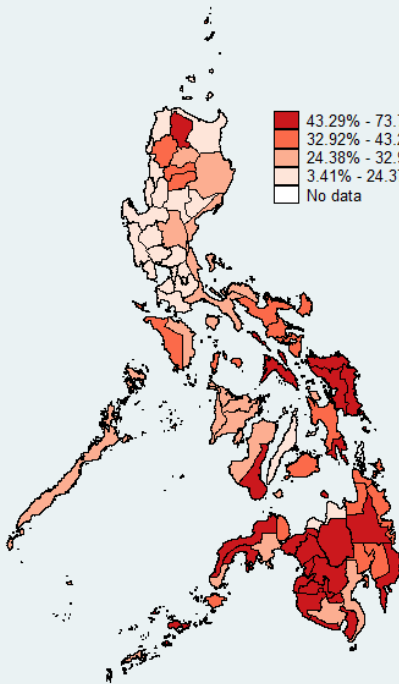
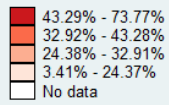
2012 Poverty Incidence



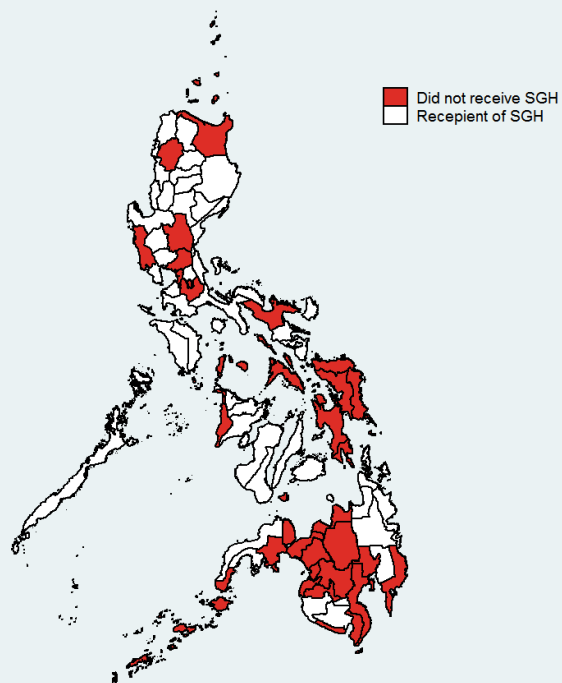
Political families in the Philippines



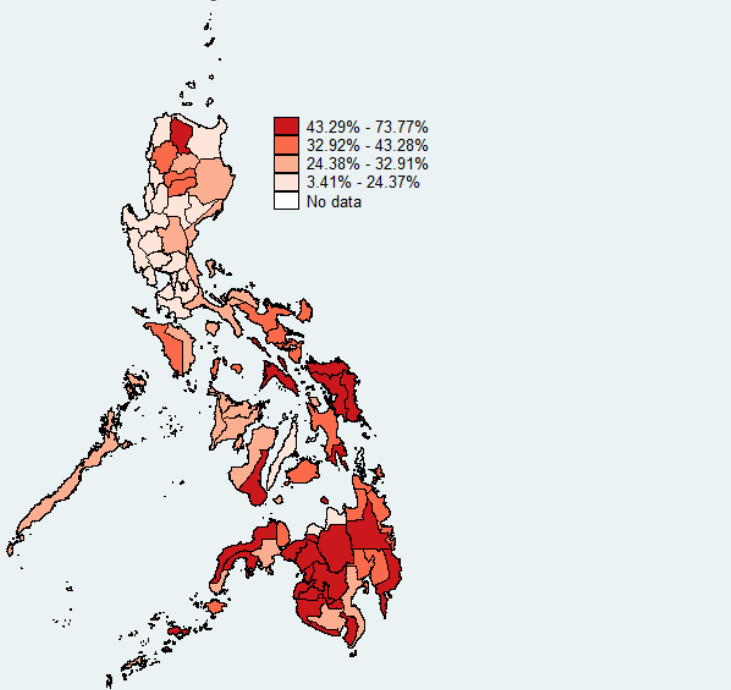
2012 Poverty Incidence



Seal of Good Housekeeping (2012)



2012 Poverty Incidence



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Working Paper No. 14

ARMM FISCAL ARRANGEMENTS AND BUDGETARY FLOWS²⁶²

National Government Appropriations for ARMM-RG. With the passage of Republic Act (R.A.) No. 9054 on March 31, 2001 to amend R.A. No. 6734 or the Organic Act for the Autonomous Region in Muslim Mindanao (ARMM), the National Government (NG) provided more funds for the annual operational requirements of the ARMM Regional Government (ARMM-RG). The fund covers the regular operating costs of NG agencies created under the Regional Government, such as personal services (salaries, allowances and other fringe benefits), maintenance and other operating expenditures (light, water, communication, supplies, materials, gasoline and others) and capital outlays (infrastructure, structures, equipment). Consistent with Section 11 of Article 18 of R.A. No. 9054, the NG is mandated to provide, by inclusion in the General Appropriations Act (GAA), annual assistance for the infrastructure projects of the ARMM-RG that are duly identified, endorsed, and approved by the ARMM Regional Economic and Development Planning Board for six (6) years after the approval of said law. The annual assistance is appropriated and disbursed through a Public Works Act duly enacted by the ARMM Regional Legislative Assembly. The national programs and projects in the autonomous region are continuously financed by National Government funds.

**Table 1. National Government Appropriations for ARMM-RG
FY 2002 to FY 2015
In Million Pesos**

| Year | Appropriations (Net of IRA) | Annual Increase/(Decrease) | % Annual Inc/(Dec) | Periodic Inc/(Dec) | % Of Periodic Inc/(Dec) | Period Covered |
|-------|--------------------------------|-------------------------------|-----------------------|-----------------------|-------------------------------|-------------------|
| 2002 | 5,073 | | | | | |
| 2003 | 4,724 | (350) | -6.9% | | | |
| 2004* | 5,658 | 934 | 19.8% | | | |
| 2005 | 6,391 | 733 | 13.0% | | | |
| 2006 | 7,307 | 916 | 14.3% | | | |
| 2007 | 8,020 | 713 | 9.8% | | | |
| 2008 | 7,895 | (126) | -1.6% | | | |
| 2009 | 8,987 | 1,092 | 13.8% | | | |
| 2010 | 8,823 | (164) | -1.8% | 3,750 | 73.9% | 2002-2010 |
| 2011 | 10,718 | 1,895 | 21.5% | | | |
| 2012 | 11,256 | 538 | 5.0% | | | |
| 2013 | 12,710 | 1,454 | 12.9% | | | |

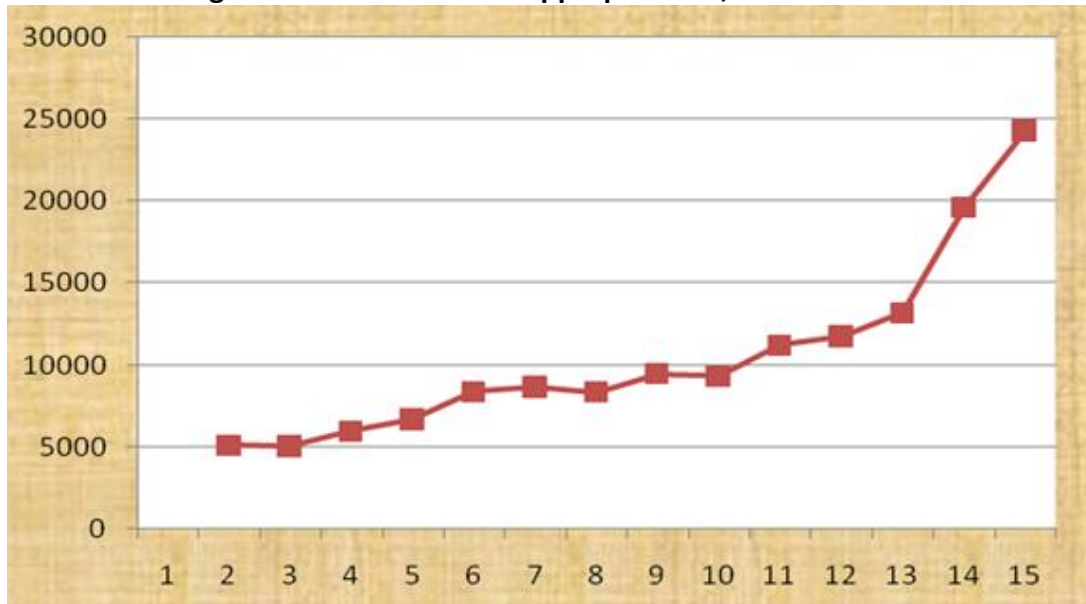
²⁶² Prepared by Elizabeth P. Makayan for the Workshop Series to Enhance the Business and Investment Climate in the Bangsamoro: Capacity Building for Effective Fiscal Management, March 11-12, 2015, Makati City.

| Year | Appropriations (Net of IRA) | Annual Increase/(Decrease) | % Annual Inc/(Dec) | Periodic Inc/(Dec) | % Of Periodic Inc/(Dec) | Period Covered |
|-------|-----------------------------|----------------------------|--------------------|--------------------|-------------------------|----------------|
| 2014 | 19,153 | 6,443 | 50.7% | | | |
| 2015 | 23,700 | 4,547 | 23.7% | 18,626 | 367.1% | 2002-2015 |
| | | | | 14,877 | 168.6% | 2010-2015 |
| Total | 140,415 | 18,626 | | | | |

Source: General Appropriations Act, FY 2002-2015 except FY 2004 from National Expenditure Program

The budgetary allocation for ARMM-RG (net of IRA allocations) grew almost 367.1% from PhP 5.07 billion in Fiscal Year (FY) 2002 to PhP 23.7 billion in FY 2015. Before the Aquino administration, the ARMM budget grew by only 74%, or an increase of PhP 3.8 billion. Its budget went down three (3) times during the previous administration, i.e. FY 2003, 2008 and 2010. Under the current administration, the budget grew faster with 169% increase from FY 2010 to FY 2015, from PhP 8.8 billion to PhP 23.7 billion or an increase of PhP 14.9 billion, as shown in above table and the graph below.

Figure 1. ARMM General Appropriations, FY 2002-2015



National Obligations Budget for ARMM-RG. The obligation budget is the programmed amount out of total appropriations to enable an agency to contract delivery of goods and services in a given fiscal period. An expenditure program, on the other hand, is the ceiling on the obligations that could be incurred by the government in a given budget year. The amount obligated is included in the National Expenditure Program (NEP) submitted by the President to Congress as basis for the

enactment of the General Appropriations Act or the national budget for the coming year. From FY 2002 to FY 2015, the ARMM-RG was budgeted an expenditure program amounting to PhP 146.9 billion (Net of IRA share) or 4.6% higher than the amount appropriated for the same period. From FY 2002 to 2015, the expenditure program allocated for the ARMM-RG grew remarkably by a 432% point increase, from PhP 4.6 billion to PhP 24.6 billion.

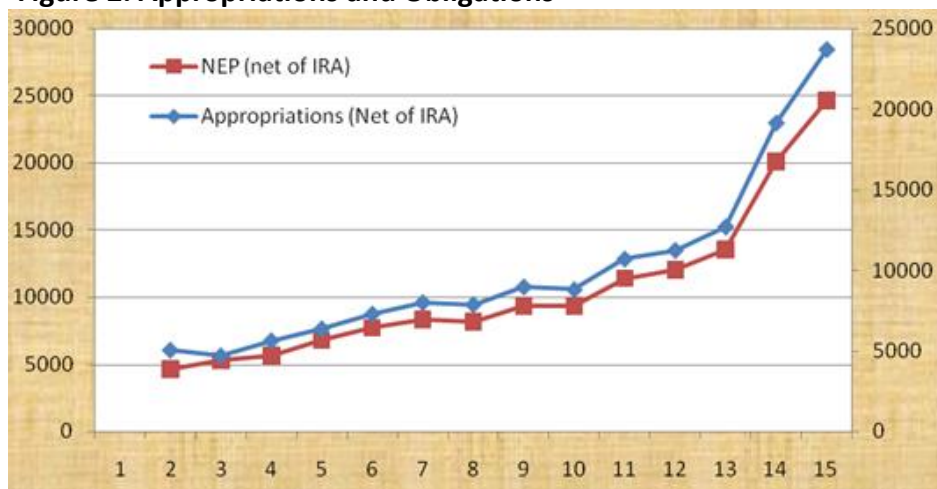
In FY 2010, the budget program increased by PhP 4.7 billion showing 102% increase over the FY 2002 program. From FY 2010 to FY 2015, the allocations increased by 163.0% for an increase of PhP 15.3 billion.

**Table 2. ARMM-RG National Obligations Budget
FY 2002- FY 2015
In Million Pesos**

| Year | Appropriations (Net of IRA) | NEP (Net of IRA) | Difference | % Inc/(Dec) | NEP- Periodic Inc/(Dec) | NEP-% of Periodic Inc/(Dec) | Period Covered |
|--------------|--------------------------------|------------------------|--------------|----------------|-------------------------------|--------------------------------------|-------------------|
| 2002 | 5,073 | 4,640 | (443.41) | -8.7% | | | |
| 2003 | 4,724 | 5,285 | 561.64 | 11.9% | | | |
| 2004* | 5,658 | 5,658 | - | 0.0% | | | |
| 2005 | 6,391 | 6,793 | 401.74 | 6.3% | | | |
| 2006 | 7,307 | 7,722 | 414.39 | 5.7% | | | |
| 2007 | 8,020 | 8,353 | 333.09 | 4.2% | | | |
| 2008 | 7,895 | 8,177 | 282.81 | 3.6% | | | |
| 2009 | 8,987 | 9,333 | 345.87 | 3.8% | | | |
| 2010 | 8,823 | 9,365 | 542.17 | 6.1% | 4,735 | 102.3% | 2002- 2010 |
| 2011 | 10,718 | 11,391 | 673.16 | 6.3% | | | |
| 2012 | 11,256 | 12,007 | 750.92 | 6.7% | | | |
| 2013 | 12,710 | 13,536 | 826.40 | 6.5% | | | |
| 2014 | 19,153 | 20,064 | 910.91 | 4.8% | | | |
| 2015 | 23,700 | 24,629 | 929.49 | 3.9% | 19,999 | 432.0% | 2002- 2015 |
| | | | | | 15,264 | 163.0% | 2010- 2015 |
| Total | 140,415 | 146,944 | 6,529 | | 6,529 | 4.6% | |

Sources: General Appropriations Act, FY 2002-2015 except FY 2004 and National Expenditure Program, FY2002 – FY 2015, DBM

Figure 2. Appropriations and Obligations



National Government Agency Funds Allocated to ARMM. The funds allocated by the different national government agencies (NGAs) in ARMM represent the regular operating costs of NGAs under the ARMM-RG. The NEP funds include the new appropriations plus automatic and continuing appropriations, making them higher than the GAA figures. These funds are used to pay for personal services, maintenance and other operating, capital outlays requirements of the different offices.

**Table 3. NGAs Funds to ARMM
FY 2002 to FY 2015 (In Million Pesos)**

| Year | Department of Education | State Universities and Colleges | Department of National Defense | Department of Public Works and Highways | Department of Social Welfare and Development | Others | Total |
|------------|-------------------------|---------------------------------|--------------------------------|---|--|--------|--------|
| 2002 | 2 | | | 224 | | 341 | 568 |
| 2003 | | | | 503 | | 201 | 704 |
| 2004 | | | | | | 310 | 310 |
| 2006 | | | | 128 | | 304 | 432 |
| 2007 | | | | 3 | | 247 | 250 |
| 2008 | | | | | | 220 | 220 |
| 2009 | | | | | | 358 | 358 |
| 2010 | | | | | | 256 | 256 |
| 2011 | | 1,729 | | | | 327 | 2,066 |
| 2012 | 2,652 | 1,869 | | 691 | 4,205 | 2,099 | 11,516 |
| 2013 | 1,485 | 3,189 | 2,590 | 2,689 | 1,125 | 3,743 | 14,822 |
| 2014 | | 2,473 | 3,519 | | | 945 | 6,987 |
| 2015 | | 2,796 | | | | 851 | 3,547 |
| Total | 4,139 | 12,057 | 6,109 | 4,240 | 5,329 | 10,202 | 42,076 |
| % of Total | 10% | 29% | 15% | 10% | 13% | 24% | 100% |

Note: No data available for FY 2005

Source: Budget of Expenditures and Sources of Financing (BESF), FY2002 – 2015, DBM

In addition to the budgetary allocation of ARMM-RG, other agencies provided budget for their operations and other expenditures in the region. A total of PhP 42.1 billion went to the region. For the entire period, the bulk of the NGAs expenditure program in the region came from the State Universities and Colleges (SUCs) or PhP 12.1 billion, representing 29% of the total funds transferred to the ARMM region, followed by the Department of National Defense (DND) for a total amount of PhP 6.1 billion or 15%, Department of Social Welfare and Development (DSWD) at PhP 5.3 billion or 13%, and Departments of Education (DepEd) and Public Works and Highways (DPWH) with 10% share each with obligations of PhP 4.1 billion and PhP 4.2 billion, respectively. The remaining 24% of the NGA allocations came from 17 other departments/agencies of the National Government, as shown in **Annex 1**.

However, prior to the Aquino administration (FY 2002 to FY 2010), the biggest agencies contributing to ARMM expenditures differ from those listed in Table 3 above which covered the entire period. The DPWH led with PhP 858.8 million, followed by the Department of the Interior and Local Government (DILG) at PhP 665.9 million, Commission on Audit (COA) at PhP 596.5 million and Department of Transportation and Communication (DOTC) with PhP 434.4 million. Total agency allocations to ARMM amounted to PhP 3.1 billion.

During the current administration, i.e., beginning FY 2011, expenditures of NGAs increased tremendously. The obligations of PhP 256 million in FY 2010 drastically increased to PhP 2.06 billion in FY2011, and skyrocketed to PhP 11.5 billion and PhP 14.8 billion in FY 2012 and FY 2013, respectively. The increased budgets of DepEd, SUCs, DSWD and DPWH contributed to the marked increases. There are six (6) SUCs located in ARMM namely: (1) Adiong Memorial Polytechnic State College; (2) Basilan State College; (3) Mindanao State University; (4) MSU-Tawi-Tawi College of Technology and Oceanography; (5) Sulu State College and (6) Tawi-Tawi Regional Agricultural College.

On health expenditures, the Department of Health allocated and spent PhP 1.9 billion for ARMM. The provincial health offices in the provinces of Sulu, Tawi-Tawi, Lanao del Sur and Maguindanao are funded by NG funds, together with several hospitals, as shown in the table below.

Table 4. Health Units in ARMM

| Particulars | Sulu | Tawi-Tawi | Lanao del Sur | Maguindanao |
|--------------------|------|-----------|---------------|-------------|
| IPHO | 1 | 1 | 1 | 1 |
| District Hospital | 4 | 1 | 2 | 2 |
| Municipal Hospital | 3 | 2 | 2 | 2 |
| Memorial Hospital | | 1 | 1 | |
| City Health Office | | | 1 | |

Source: GAA

Lump Sum Funds in ARMM. In addition to the NGAs allocation in the ARMM, some lump sum budgetary funds were also allocated to the region, namely: Budgetary Support to Government Corporations (BSGC), Agriculture and Fisheries Modernization Program (AFMP), DepEd School Building Program, the Priority Development Assistance Fund (PDAF) and the Assistance to Local Government Units (ALGU). The ALGU, which includes the IRA and other shares of LGUs in the revenues, fees and charges collected by the NG, comprised almost all of the funds allocated to the region with a total of PhP 145.4 billion or 96.2% of the total.

Congressional Allocations. A total of PhP 3.4 billion was allocated to the region from FY 2002 to FY 2015, representing 2.2% of total funding source of ARMM. From PhP 105 million, it grew by 433% or PhP 560 million in FY 2015. In 2011, the allocation increased to PhP 560 million and it remained within that level until 2015. The Priority Development Assistance Fund (PDAF) was the congressional allocation to the congressional district of their respective congressional representatives. Basically, PDAF is meant to fund infrastructure and other priority projects such as social services (education, livelihood, health, social welfare and micro finance projects). Details of the lump sum budgetary expenditure program for the region are shown in Table 5 below.

The allocations from the BSGC pertain to subsidy support of the NG to government-owned and/or controlled corporations (GOCCs) situated in the region. They totaled PhP 1.8 billion from 2013 to 2015. The Agriculture and Fisheries Modernization Act (AFMA) or R.A. No. 8435 was enacted on February 9, 1998. The AFMA provides funds to modernize the country's agriculture and fisheries sectors to make them competitive in the market. An amount of PhP 316 million was allocated in 2002. In 2002 and 2003, the DepEd also allocated a total of PhP176 million for school buildings.

**Table 5. Special Purpose Funds Allocated to ARMM
FY 2001 to FY 2015 (In Million Pesos)**

| Year | Budgetary Support to Government Corporations | Agriculture and Fisheries Modernization Program | DepEd School Building Fund | Priority Development Assistance Fund | Total |
|-------------------|---|--|-----------------------------------|---|---------------|
| 2002 | | 316 | 88 | 105 | 509 |
| 2003 | | | 88 | 120 | 208 |
| 2004 | | | | 120 | 120 |
| 2006 | | | | 160 | 160 |
| 2007 | | | | 160 | 160 |
| 2008 | | | | 160 | 160 |
| 2009 | | | | 160 | 160 |
| 2010 | | | | 160 | 160 |
| 2011 | | | | 560 | 560 |
| 2012 | | | | 560 | 560 |
| 2013 | 571 | | | 560 | 1,131 |
| 2014 | 785 | | | 560 | 1,345 |
| 2015 | 438 | | | | 438 |
| Total | 1,794 | 316 | 176 | 3,385 | 5,671 |
| % of Total | 31.6% | 5.6% | 3.1% | 59.7% | 100.0% |

Source: BESF, DBM; no data for FY 2005.

As shown in Table 6 below, the share of the ARMM in the LGU inclusive of IRA was only 4% from FY 2002 to FY 2015. However, during the earlier years in FY 2006 and FY 2007, the share reached more than 7% and then went down to around 2.5% in FY 2014 and FY 2015.

**Table 6. ARMM-RG Appropriations and Shares in LGU Allocations
FY 2003 – 2015
In Million Pesos**

| Year | Appropriations | IRA Share | Net of IRA | % of IRA to Appropriations |
|--------------------------------|----------------|-----------|------------|----------------------------|
| 2002** | 5,073 | | 5,073 | |
| 2003 | 5,024 | 300 | 4,724 | 6.0% |
| 2004 | 5,958 | 300 | 5,658 | 5.0% |
| 2005 | 6,691 | 300 | 6,391 | 4.5% |
| 2006 | 7,931 | 624 | 7,307 | 7.9% |
| 2007 | 8,644 | 624 | 8,020 | 7.2% |
| 2008 | 8,331 | 437 | 7,895 | 5.2% |
| 2009 | 9,449 | 462 | 8,987 | 4.9% |
| 2010 | 9,285 | 462 | 8,823 | 5.0% |
| 2011 | 11,180 | 462 | 10,718 | 4.1% |
| 2012 | 11,718 | 462 | 11,256 | 3.9% |
| 2013 | 13,172 | 462 | 12,710 | 3.5% |
| 2014 | 19,615 | 462 | 19,153 | 2.4% |
| 2015 | 24,300 | 600 | 23,700 | 2.5% |
| Total | 146,372 | 5,957 | 140,415 | 4.1% |
| % of Total | | 4.1% | 95.9% | |
| *used NEP data | | | | |
| ** IRA allocation undetermined | | | | |

Sources: GAA and NEP, DBM

Internal Revenue Allotment (IRA) for ARMM LGUs. Just like LGUs outside the ARMM, LGUs in ARMM are entitled to receive their IRA in line with the provisions of the 1991 Local Government Code. ARMM is composed of six (6) provinces, four (4) cities and 104 municipalities. From FY 2002 to FY 2015, the LGUs in ARMM received a total of PhP 158.1 billion or almost 5% of the total IRA that was allocated to the different LGUs across the country. In FY 2002, the IRA allocations to LGUs in ARMM amounted to PhP 6.4 billion. It doubled to PhP13.1 billion in FY 2009 and almost tripled to PhP 18.0 billion in FY 2015. Details can be found in **Annex 2**.

Lanao del Sur garnered the lion's share of 35% or PhP 5.2 billion, followed by Maguindanao with PhP 38.8 billion or 24.6% of the total IRA for ARMM. Sulu got 16.3% of the allocation at PhP 25.8 billion while Basilan and Tawi-Tawi got PhP 17.9 billion and PhP 18.0 billion, respectively. In 2007 and 2008, Shariff Kabunsuan got IRA amounting to PhP 1.1 billion and PhP 1.3 billion, respectively.

Map of ARMM

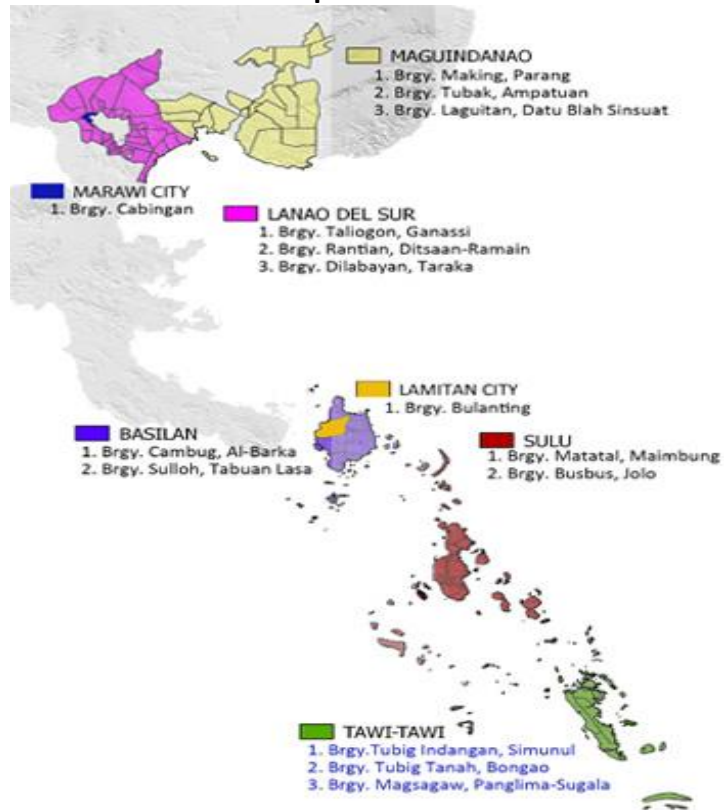


Image Source: ARMM website

**Table 8. IRA Allocations - Basilan
FY 2002 to 2013
In Million Pesos**

| Year | A C T U A L | | | | | | NATIONAL EXPENDITURE PROGRAM | | | | | | NEP vs Actual |
|-------|-------------|----------------|--------------|--------------|-----------|-----------|------------------------------|----------------|--------------|--------------|-----------|--------|---------------|
| | Province | Municipalities | Lamitan City | Isabela City | Barangays | Total | Province | Municipalities | Lamitan City | Isabela City | Barangays | Total | |
| 2002 | 238 | 239 | | 165 | 132 | 774 | 238 | 239 | | 165 | 132 | 774 | - |
| 2003* | 249 | 251 | | 172 | 139 | 811 | 249 | 251 | | 172 | 139 | 811 | - |
| 2004 | 250 | 251 | | 172 | 139 | 811 | 254 | 255 | | 175 | 142 | 826 | 14 |
| 2005 | 269 | 271 | | 183 | 150 | 872 | 269 | 271 | | 183 | 150 | 872 | - |
| 2006 | 295 | 297 | | 201 | 165 | 957 | 295 | 297 | | 201 | 165 | 957 | (0) |
| 2007 | 322 | 306 | 62 | 221 | 182 | 1,094 | 325 | 328 | | 222 | 182 | 1,058 | (36) |
| 2008* | 372 | 319 | 229 | 225 | 238 | 1,383 | 339 | 326 | | 254 | 209 | 1,128 | (256) |
| 2009 | 485 | 554 | | 285 | 283 | 1,608 | 441 | 379 | 267 | 272 | 284 | 1,642 | 35 |
| 2010 | 517 | 514 | | 313 | 302 | 1,645 | 517 | 514 | | 313 | 302 | 1,645 | - |
| 2011 | 560 | 556 | | | 268 | 1,384 | 558 | 554 | | 339 | 326 | 1,777 | 393 |
| 2012 | 534 | 432 | 294 | | 255 | 1,515 | 534 | 529 | | 320 | 310 | 1,694 | 179 |
| 2013 | 527 | 413 | 298 | | 235 | 1,473 | 530 | 408 | 310 | | 235 | 1,483 | 10 |
| | 4,617.48 | 4,402.91 | 883.83 | 1,936.43 | 2,487.97 | 14,328.62 | 4,548 | 4,351 | 576 | 2,616 | 2,575 | 14,667 | 338 |

* 2003 and 2008 actual data was taken from 2003/2008 Adjusted Program amount

Source: BESF, DBM

Lanao del Sur

Lanao del Sur is the biggest LGU in ARMM. It has one (1) city (Marawi City) and 39 municipalities, namely: Bacolod Kalawi (Bacolod Grande), Balabagan, Balindong (Watu), Bayang, Binidayan, Buadiposo Buntong, Bubong, Bumbaran, Butig, Calanogas, Ditsaan-Ramain, Ganassi, Kapai, Kapatagan, Lumba-a-bayabao, Lumbaca-Unayan, Lumbatan, Lumbayanague, Madalum, Madamba, Maguing, Malabang, Marantao, Marogong, Masiu, Molundo, Pagayawan, Piagapo, Picong (Sultan Gumander), Poon-a-bayabao, Pualas, Saguiaran, Sultan Dumalondong, Tagoloan, Tamparan, Taraka, Tubaran, Tugaya, and Wao.

Lanao del Sur garnered the largest IRA share in ARMM amounting to PhP 43.1 billion representing 35% of the total ARMM allocations as of end-FY 2013. From PhP 2.19 billion it rose to PhP 5.0 billion or an increase of 129.3%. For FYs 2014 and 2015, it received higher allocations at PhP 5.7 billion and PhP 6.5 billion. With merely PhP 1.65 billion in FY 2001, the IRA of Lanao del Sur rose to PhP 4.49 billion or 292% increase. The Table below shows that unlike Basilan, Lanao del Sur got more IRA during the period than what has been submitted to Congress as shown in the National Expenditure Program of the government. Actual total amounted to PhP 43.1 billion compared to total proposed of PhP 42.7 billion or a difference of PhP 417 million.

**Table 9. IRA Allocation - Lanao del Sur
FY 2002 to 2013
In Million Pesos**

| Year | A C T U A L | | | | | NATIONAL EXPENDITURE PROGRAM | | | | | NEP vs Actual |
|-------|-------------|----------------|-------------|-----------|--------|------------------------------|----------------|-------------|-----------|--------|---------------|
| | Province | Municipalities | Marawi City | Barangays | Total | Province | Municipalities | Marawi City | Barangays | Total | |
| 2002 | 555 | 990 | 163 | 478 | 2,186 | 515 | 962 | 168 | 478 | 2,123 | (63) |
| 2003* | 584 | 1,042 | 170 | 501 | 2,297 | 586 | 1,045 | 172 | 449 | 2,253 | (44) |
| 2004 | 584 | 1,042 | 170 | 501 | 2,296 | 594 | 1,061 | 173 | 455 | 2,283 | (13) |
| 2005 | 632 | 1,136 | 180 | 538 | 2,485 | 632 | 1,136 | 180 | 538 | 2,485 | - |
| 2006 | 696 | 1,252 | 198 | 589 | 2,735 | 696 | 1,252 | 198 | 589 | 2,735 | - |
| 2007 | 769 | 1,388 | 218 | 650 | 3,025 | 772 | 1,388 | 219 | 650 | 3,029 | 5 |
| 2008* | 968 | 1,754 | 243 | 797 | 3,762 | 886 | 1,599 | 250 | 742 | 3,478 | (284) |
| 2009 | 1,155 | 2,068 | 304 | 943 | 4,470 | 1,154 | 2,090 | 290 | 944 | 4,478 | 8 |
| 2010 | 1,231 | 2,194 | 331 | 1,003 | 4,759 | 1,231 | 2,194 | 331 | 1,003 | 4,759 | - |
| 2011 | 1,334 | 2,377 | 355 | 1,082 | 5,148 | 1,331 | 2,373 | 358 | 1,082 | 5,144 | (4) |
| 2012 | 1,269 | 2,302 | 311 | 1,031 | 4,913 | 1,269 | 2,262 | 338 | 1,031 | 4,900 | (14) |
| 2013 | 1,283 | 2,350 | 334 | 1,048 | 5,014 | 1,286 | 2,326 | 347 | 1,048 | 5,007 | (7) |
| | 11,058 | 19,896 | 2,977 | 9,160 | 43,092 | 10,953 | 19,689 | 3,023 | 9,008 | 42,674 | (417) |

* 2003 and 2008 actual data was taken from 2003/2008 Adjusted Program amount

Source: BESF and NEP, DBM

Maguindanao

In the earlier years of Maguindanao, Cotabato City was included and was provided IRA share, but now only the 28 municipalities are included. These are Ampatuan, Barira, Buldon, Buluan, Datu Abdullah, Sangki, Datu Odin Sinsuat (Dinaig), Datu Paglas, Datu Piang, Datu Saudi Ampatuan, Datu Unsay, Gen. S. Pendatun, Guindulungan, Kabuntalan, Mamasapano, Matanog, Pagagawan, Pagalungan, Paglat, Parang, Rajah Buayan, Shariff Aguak (Maganoy), South Upi, Sultan Kudarat, Sultan Mastura, Sultan sa Barongis, Talayan, Talitay, and Upi.

Maguindanao got the second largest slice of the IRA (24.4%), amounting to PhP 30.35 billion from FY 2002 to FY 2015. In FY 2002, it had an IRA of PhP 1.74 billion which grew 100% to PhP 3.49 billion in FY 2013. In FY 2001, Maguindanao received PhP 1.31 billion of IRA and this amount rose by 245% in FY 2015 with an allocation of PhP 4.52 billion. In FY 2014, the IRA of Maguindanao was PhP 3.95 billion. As shown below, Maguindanao got higher IRA during the period by PhP120 million.

**Table 10. IRA Allocation - Maguindanao
FY 2002 to 2013
In Million Pesos**

| Year | A C T U A L | | | | | NATIONAL EXPENDITURE PROGRAM | | | | | NEP vs Actual |
|-------|-------------|----------------|---------------|-----------|--------|------------------------------|----------------|---------------|-----------|--------|---------------|
| | Province | Municipalities | Cotabato City | Barangays | Total | Province | Municipalities | Cotabato City | Barangays | Total | |
| 2002 | 454 | 771 | 203 | 315 | 1,742 | 444 | 730 | 230 | 315 | 1,718 | (23) |
| 2003* | 477 | 812 | 212 | 331 | 1,831 | 479 | 814 | 214 | 386 | 1,893 | 62 |
| 2004 | 477 | 842 | 212 | 331 | 1,861 | 486 | 826 | 215 | 392 | 1,919 | 58 |
| 2005 | 516 | 930 | 224 | 357 | 2,027 | 516 | 930 | 224 | 357 | 2,027 | - |
| 2006 | 569 | 1,025 | | 344 | 1,937 | 569 | 1,025 | 247 | 394 | 2,234 | 297 |
| 2007 | 389 | 651 | | 210 | 1,250 | 631 | 1,136 | 273 | 437 | 2,478 | 1,228 |
| 2008* | 496 | 838 | | 287 | 1,621 | 448 | 750 | | 242 | 1,440 | (181) |
| 2009 | 1,080 | 1,731 | | 617 | 3,428 | 591 | 999 | | 343 | 1,932 | (1,496) |
| 2010 | 1,079 | 1,839 | | 657 | 3,575 | 1,079 | 1,839 | | 657 | 3,575 | - |
| 2011 | 1,169 | 1,994 | | 711 | 3,874 | 1,167 | 1,989 | | 711 | 3,867 | (8) |
| 2012 | 1,112 | 1,934 | | 676 | 3,722 | 1,112 | 1,897 | | 676 | 3,686 | (36) |
| 2013 | 1,048 | 1,826 | | 612 | 3,485 | 1,051 | 1,802 | | 612 | 3,466 | (19) |
| | 8,865 | 15,191 | 850 | 5,448 | 30,354 | 8,573 | 14,738 | 1,403 | 5,521 | 30,235 | (120) |

* 2003 and 2008 actual data was taken from 2003/2008 Adjusted Program amount

Source: BESF and NEP, DBM

Shariff Kabunsuan

Shariff Kabunsuan was established on October 29, 2006 through the Muslim Mindanao Autonomy Act No. 201. It was comprised of the municipalities of Barira, Buldon, Datu, Odin, Sinsuat, Kabumtalan, Matanog, Parang, Sultan Kudarat, Sultan Mastura and Upi. These municipalities are now part of Maguindanao after the law establishing the province was nullified by the Supreme Court in 2008 and reaffirmed in January 2009. The LGU got IRA share for FY 2007 and 2008 amounting to PhP 1.05 billion and PhP 11.307 billion, respectively.

**Table 11. IRA Allocation - Shariff Kabunsuan
FY 2002 to 2013
In Million Pesos**

| Year | A C T U A L | | | | NATIONAL EXPENDITURE PROGRAM | | | | NEP vs Actual |
|-------|-------------|----------------|-----------|-------|------------------------------|----------------|-----------|-------|---------------|
| | Province | Municipalities | Barangays | Total | Province | Municipalities | Barangays | Total | |
| 2002 | | | | - | | | | - | - |
| 2003* | | | | - | | | | - | - |
| 2004 | | | | - | | | | - | - |
| 2005 | | | | - | | | | - | - |
| 2006 | | | | - | | | | - | - |
| 2007 | 364 | 516 | 171 | 1,051 | | | | - | (1,051) |
| 2008* | 446 | 632 | 230 | 1,307 | 419 | 595 | 196 | 1,210 | (97) |
| 2009 | | | | - | 531 | 753 | 275 | 1,559 | 1,559 |
| 2010 | | | | - | | | | - | - |
| 2011 | | | | - | | | | - | - |
| 2012 | | | | - | | | | - | - |
| 2013 | | | | - | | | | - | - |
| | 810 | 1,148 | 400 | 2,358 | 951 | 1,347 | 471 | 2,769 | 411 |

* 2003 and 2008 actual data was taken from 2003/2008 Adjusted Program amount

Source: BESF, NEP, DBM

Sulu

Sulu Province is composed of 19 municipalities namely: Hadji Panglima Tahil (Marunggas), Indanan, Jolo, Kalingalan Caluang, Lugus, Luuk, Maimbung, Omar, Panamao (Old), Pandami, Panglima, Estino (New Panamao), Pangutaran, Parang, Pata, Patikul, Siasi, Talipao, Tapul, and Tongkil. Sulu got 16.2% of the total IRA of ARMM LGUs or PhP 20.12 billion. Its allocation increased by 135% between FY 2002 and FY 2013, i.e. from PhP 991 million to PhP 2.33 billion. Like the other provinces in ARMM, Sulu's actual IRAs were higher than the amounts proposed under the National Expenditures Program of the government by PhP 243 million, details shown below. From PhP 736.4 million in FY 2001, it jumped to PhP 2.64 billion in 2014 and PhP 3.03 billion in 2015 or a 311% increase, the biggest in ARMM.

**Table 12. IRA Allocation - Sulu
FY 2002 to 2013
In Million Pesos**

| Year | A C T U A L | | | | NATIONAL EXPENDITURE PROGRAM | | | | NEP vs Actual |
|-------|-------------|----------------|-----------|--------|------------------------------|----------------|-----------|--------|---------------|
| | Province | Municipalities | Barangays | Total | Province | Municipalities | Barangays | Total | |
| 2002 | 289 | 473 | 228 | 991 | 282 | 450 | 229 | 961 | (30) |
| 2003* | 304 | 498 | 241 | 1,044 | 306 | 500 | 241 | 1,046 | 2 |
| 2004 | 304 | 498 | 240 | 1,043 | 310 | 508 | 241 | 1,058 | 16 |
| 2005 | 330 | 541 | 259 | 1,129 | 330 | 541 | 259 | 1,129 | - |
| 2006 | 363 | 596 | 285 | 1,244 | 363 | 596 | 285 | 1,244 | (0) |
| 2007 | 400 | 662 | 316 | 1,377 | 403 | 661 | 316 | 1,380 | 3 |
| 2008* | 511 | 880 | 397 | 1,788 | 461 | 762 | 363 | 1,586 | (203) |
| 2009 | 610 | 1,037 | 473 | 2,120 | 609 | 1,049 | 473 | 2,131 | 12 |
| 2010 | 651 | 1,102 | 504 | 2,257 | 651 | 1,102 | 504 | 2,257 | - |
| 2011 | 707 | 1,196 | 545 | 2,447 | 704 | 1,192 | 545 | 2,441 | (6) |
| 2012 | 672 | 1,160 | 518 | 2,350 | 672 | 1,137 | 518 | 2,328 | (22) |
| 2013 | 663 | 1,155 | 514 | 2,332 | 666 | 1,137 | 514 | 2,317 | (15) |
| | 5,805 | 9,798 | 4,519 | 20,122 | 5,757 | 9,635 | 4,486 | 19,878 | (243) |

* 2003 and 2008 actual data was taken from 2003/2008 Adjusted Program amount

Source: BESF, NEP, DBM

Tawi – Tawi

Tawi-Tawi has 11 municipalities, namely; Bongao, Languyan, Mapun (Cagayan de Tawi-Tawi), Panglima Sugala (Balimbing), Sapa-Sapa, Sibutu, Simunul, Sitangkai, South Ubian, Tandubas, and Turtle Islands. Similar to Basilan, Tawi-Tawi got 11.3% out of the total IRA for ARMM LGUs. Its allocation increased by 134.4%, from PhP 695 million in FY 2002 to PhP 1.63 billion in FY 2013, with details shown below. The allocation given in FY 2001 amounted to PhP 422.5 million. In FY 2014 and 2015, the allocations soared by 400 times to PhP 1.85 billion and PhP 2.11 billion, respectively, compared to FY 2001. The actual allocation is higher by PhP 245 million than the amount proposed under the National Expenditures Program.

**Table 13. IRA Allocation - Tawi-Tawi
FY 2002 to 2013
In Million Pesos**

| Year | A C T U A L | | | | NATIONAL EXPENDITURE PROGRAM | | | | NEP vs Actual |
|-------|-------------|----------------|-----------|-----------|------------------------------|----------------|-----------|-----------|---------------|
| | Province | Municipalities | Barangays | Total | Province | Municipalities | Barangays | Total | |
| 2002 | 247 | 333 | 116 | 695 | 202.69 | 256.79 | 115.90 | 575 | (120) |
| 2003* | 259 | 351 | 122 | 732 | 260.38 | 351.56 | 122.25 | 734 | 3 |
| 2004 | 259 | 351 | 122 | 732 | 263.99 | 357.01 | 123.99 | 745 | 13 |
| 2005 | 281 | 380 | 131 | 792 | 280.50 | 380.13 | 131.21 | 792 | - |
| 2006 | 309 | 419 | 145 | 873 | 309.17 | 418.90 | 144.49 | 873 | (0) |
| 2007 | 340 | 465 | 160 | 965 | 342.91 | 464.53 | 160.14 | 968 | 3 |
| 2008* | 421 | 610 | 204 | 1,235 | 391.28 | 535.48 | 184.12 | 1,111 | (124) |
| 2009 | 503 | 719 | 243 | 1,465 | 502.05 | 727.04 | 243.55 | 1,473 | 7 |
| 2010 | 537 | 763 | 259 | 1,559 | 536.79 | 763.43 | 259.10 | 1,559 | - |
| 2011 | 583 | 828 | 280 | 1,691 | 580.54 | 825.59 | 280.26 | 1,686 | (4) |
| 2012 | 555 | 802 | 267 | 1,624 | 554.70 | 787.36 | 266.61 | 1,609 | (15) |
| 2013 | 563 | 808 | 258 | 1,630 | 566.17 | 798.15 | 258.50 | 1,623 | (7) |
| | 4,856.56 | 6,828.53 | 2,307.00 | 13,992.09 | 4,791.17 | 6,665.97 | 2,290.12 | 13,747.26 | (245) |

* 2003 and 2008 actual data was taken from 2003/2008 Adjusted Program amount

Source: BESF, NEP, DBM

ARMM-RG Share in National Internal Revenue Taxes, Fees and Charges, and Taxes Imposed on Natural Resources Collected within the ARMM Area. Under Section 6 of Article 9 on Fiscal Autonomy of R.A. No. 9054, corporations, partnerships and firms directly engaged in business in ARMM are to pay their income and other national internal taxes in the city or municipality where their business operations are located.

Section 9 of Article 9 of R.A. No. 9054 provides the basis for computing the respective shares of the LGUs in ARMM including the ARMM-RG, as shown in Table 14 below.

Table 14. Sharing of National Internal Revenue Taxes, Fees and Charges Collected in ARMM

| Province or City | AR-Regional Government | National Government | Total |
|------------------|------------------------|---------------------|-------|
| 35% | 35% | 30% | 100% |

The ARMM-RG and the concerned provinces/cities in the ARMM get 35% each of the total collections of taxes and other fees/charges. The NG gets the remaining 30% share.

Under the law, the province or city concerned shall automatically retain its share and remit the shares of the Regional Government and the National Government to their respective treasurers who shall, after deducting the share of the RG, remit the balance to the NG within the first five (5) days of every month after the collections were made. Whereas, the share of the province and the city are to be allocated as follows:

| Province Share | City Share |
|------------------|--------------|
| 45% Province | 50% City |
| 35% Municipality | 50% Barangay |
| 20% Barangay | |

From FY 2003 to FY 2015, the share appropriated for ARMM-RG amounted to PhP 5.96 billion. This amount is part of the total appropriations of the ARMM and is intended to cover the operational requirements of the Office of the Regional Governor, Vice Governor, the departments, other executive agencies and the Regional Legislative Assembly. From PhP 300 million in FY 2003, the share of the ARMM-RG doubled to PhP 600 million in FY 2015. Below is a table showing the shares of the ARMM-RG through the years.

**Table 15 ARMM-RG Share in National Internal Taxes and Fees Collected in ARMM
In Million Pesos**

| Year | ARMM Share | Year | ARMM Share |
|-------|------------|--------------------|--------------|
| 2003 | 300 | 2010 | 462 |
| 2004* | 300 | 2011 | 462 |
| 2005 | 300 | 2012 | 462 |
| 2006* | 624 | 2013 | 462 |
| 2007 | 624 | 2014 | 462 |
| 2008 | 437 | 2015 | 600 |
| 2009 | 462 | | |
| | | Grand Total | 5,957 |

Obligations by Expense Class. More than 67% of the appropriations for ARMM-RG are allocated to Personal Services (PS). PS costs include payment of salaries, wages and other compensation (e.g., merit, salary increase, cost-of-living-allowances, honoraria and commutable allowances) of permanent, temporary, contractual, and casual employees of the government. This percentage allocation is considered very high since it leaves only 33% of the budget for Maintenance and Other Operating

Expenses (MOOE) and Capital Outlays (CO) which will eventually affect the completion of infrastructure and other development projects.

Total PS appropriations were PhP 68.9 billion while actual obligations were PhP76.76 billion, showing an excess of PhP7.8 billion. Total appropriations for MOOE and CO were PhP 20.5 billion and PhP 13.0 billion, respectively, accounting for 20.0% and 12.7% of total appropriations. Actual obligations for MOOE and CO reached PhP 22.9 billion and PhP 17.3 billion. The excesses of obligations over appropriations effectively changed the distribution of the budget. The share of Capital Outlays was increased while those of PS and MOOE were reduced, as shown in Table 16 below.

**Table 16. Appropriations and Obligations by Expense Class
FY2002-FY2013
In Million Pesos**

| Year | Appropriations | | | | Actual Obligations | | | | Actual vs Appropriations | |
|-------|----------------|--------|--------|---------|--------------------|--------|--------|---------|--------------------------|--------|
| | PS | MOOE | CO | TOTAL | PS | MOOE | CO | TOTAL | Amount | % |
| 2002 | 3,667 | 710 | 696 | 5,073 | 3,871 | 752 | 693 | 5,316 | 242 | 4.8% |
| 2003* | 3,780 | 762 | 482 | 5,024 | 4,118 | 1,011 | 496 | 5,625 | 601 | 12.0% |
| 2004 | 4,460 | 1,004 | 493 | 5,958 | 4,486 | 1,058 | 353 | 5,896 | (62) | -1.0% |
| 2005 | 4,456 | 1,338 | 897 | 6,691 | 4,752 | 1,397 | 717 | 6,867 | 176 | 2.6% |
| 2006 | 4,594 | 1,845 | 1,493 | 7,931 | 5,734 | 1,660 | 899 | 8,293 | 361 | 4.6% |
| 2007 | 5,075 | 2,149 | 1,420 | 8,644 | 5,535 | 2,091 | 1,083 | 8,709 | 64 | 0.7% |
| 2008 | 5,145 | 2,164 | 1,023 | 8,331 | 6,219 | 2,322 | 1,462 | 10,003 | 1,672 | 20.1% |
| 2009 | 6,174 | 2,093 | 1,182 | 9,449 | 6,697 | 1,890 | 1,797 | 10,385 | 936 | 9.9% |
| 2010 | 6,411 | 1,952 | 922 | 9,285 | 7,711 | 1,918 | 1,062 | 10,690 | 1,405 | 15.1% |
| 2011 | 7,480 | 2,223 | 1,476 | 11,180 | 8,666 | 2,252 | 2,014 | 12,932 | 1,752 | 15.7% |
| 2012 | 8,195 | 2,157 | 1,366 | 11,718 | 9,166 | 2,440 | 2,631 | 14,237 | 2,520 | 21.5% |
| 2013 | 9,497 | 2,104 | 1,571 | 13,172 | 9,801 | 4,073 | 4,069 | 17,942 | 4,770 | 36.2% |
| Total | 68,934 | 20,500 | 13,022 | 102,457 | 76,756 | 22,863 | 17,276 | 116,896 | 14,439 | 142.1% |
| % of | 67.3% | 20.0% | 12.7% | 100.0% | 65.7% | 19.6% | 14.8% | 100.0% | | |

*2003 actual used 2003 adjusted program

Sources: GAA, NEP and BESF, DBM

Comparing the ARMM percentages with national data, the allocation among expense classes is quite different – PS has 30.8% share, MOOE accounts for the largest share at 55.7% and CO has the smallest share at 13.5%. It should be noted that there is a legally mandated cap on PS of 40 to 45% of regular income. Table 17 below shows the Philippine-wide allocations by expense class.

**Table 17. ARMM-Budget by Expense Class
FY 2002-2013 (In Million Pesos)**

| Year | Philippine wide Total | | | | Percent of Actual to Phil-wide | | | |
|------------|-----------------------|-----------|-----------|------------|--------------------------------|-------|-------|-------|
| | PS | MOOE | CO | TOTAL | PS | MOOE | CO | TOTAL |
| 2002 | 268,094 | 400,574 | 73,354 | 742,022 | 1.44% | 0.19% | 0.94% | 0.72% |
| 2003* | 276,011 | 454,954 | 80,497 | 811,462 | 1.49% | 0.22% | 0.62% | 0.69% |
| 2004 | 285,788 | 501,370 | 79,853 | 867,010 | 1.57% | 0.21% | 0.44% | 0.68% |
| 2005 | 295,182 | 585,579 | 66,893 | 947,554 | 1.61% | 0.24% | 1.07% | 0.72% |
| 2006 | 323,634 | 615,627 | 105,567 | 1,044,827 | 1.77% | 0.27% | 0.85% | 0.79% |
| 2007 | 341,748 | 656,062 | 157,698 | 1,155,509 | 1.62% | 0.32% | 0.69% | 0.75% |
| 2008 | 369,308 | 750,317 | 194,989 | 1,314,614 | 1.68% | 0.31% | 0.75% | 0.76% |
| 2009 | 396,645 | 811,675 | 225,825 | 1,434,146 | 1.69% | 0.23% | 0.80% | 0.72% |
| 2010 | 457,560 | 812,994 | 202,423 | 1,472,977 | 1.69% | 0.24% | 0.52% | 0.73% |
| 2011 | 502,966 | 876,758 | 200,302 | 1,580,017 | 1.72% | 0.26% | 1.01% | 0.82% |
| 2012 | 556,144 | 946,435 | 326,702 | 1,829,281 | 1.65% | 0.26% | 0.81% | 0.78% |
| 2013 | 611,752 | 1,045,663 | 340,960 | 1,998,376 | 1.60% | 0.39% | 1.19% | 0.90% |
| | 4,684,822 | 8,457,909 | 2,055,064 | 15,197,794 | 1.64% | 0.27% | 0.84% | 0.77% |
| % of Total | 30.83% | 55.69% | 13.52% | 100.00% | | | | |

*2003 actual used 2003 adjusted program

Sources: GAA, NEP and BESF, DBM

Staffing Summary. The ARMM-RG has a total manpower of 32,861, of which 29,777 positions are filled as of the end of FYs 2013 and 2014. There are 385 key positions consisting of the Regional Governor, Regional Vice Governor, Speaker, Regional Assembly, Regional Cabinet Secretary, Member, Regional Assembly, Commission Chairman II, Regional Legislative Secretary, Regional Executive Secretary and other heads of offices/agencies; and the rest consisted of Administrative Positions (3,196), Support to Technical (556) and Technical (28,724) positions. From FY 2002 with 21,761 permanent positions, it increased by 11,100 positions – 30 new key positions and 11,070 other new positions, mostly technical positions.

Total basic salaries amounted to PhP 2.6 billion in FY 2002 but rose to PhP 7.4 billion in FY 2014, net of unfilled positions. The increase of PhP 4.78 billion was due to the new positions included in the budget. Table 18 shows the summary data while **Annex 3** shows the details of positions and the corresponding salaries.

**Table 18. Staffing Summary
FY 2002, FY 2011-2014 (In Thousand Pesos)**

| Permanent Positions | 2002 Actual | | 2011 Actual | | 2012 Actual | | 2013 Program | | 2014 NEP | |
|--|---------------------|------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|
| | Number of Positions | Amount | Number of Positions | Amount | Number of Positions | Amount | Number of Positions | Amount | Number of Positions | Amount |
| Key Positions | 355 | 93,649 | 370 | 182,015 | 384 | 222,423 | 385 | 256,413 | 385 | 256,413 |
| Regional Governor | 1 | 485 | 1 | 833 | 1 | 957 | 1 | 1,080 | 1 | 1,080 |
| Regional Vice Governor | 1 | 347 | 1 | 683 | 1 | 815 | 1 | 947 | 1 | 947 |
| Speaker, Regional Assembly | 1 | 347 | 1 | 683 | 1 | 815 | 1 | 947 | 1 | 947 |
| Regional Cabinet Secretary | 10 | 3,040 | 10 | 6,226 | 10 | 7,499 | 10 | 8,772 | 10 | 8,772 |
| Deputy Regional Governor | 3 | 912 | 3 | 1,868 | 3 | 2,250 | 3 | 2,632 | 3 | 2,632 |
| Member, Regional Assembly | 23 | 6,992 | 23 | 14,320 | 26 | 19,497 | 26 | 11,806 | 26 | 11,806 |
| Commission Chairman II | 1 | 304 | 1 | 623 | 2 | 1,500 | 2 | 1,754 | 2 | 1,754 |
| Regional Legislative Secretary | 1 | 304 | 1 | 623 | 1 | 750 | 1 | 877 | 1 | 877 |
| Regional Executive Secretary | 1 | 304 | 1 | 623 | 1 | 750 | 1 | 877 | 1 | 877 |
| Administrator I | 1 | 292 | 1 | 583 | 1 | 698 | 1 | 812 | 1 | 812 |
| Other Key Positions | 312 | 80,322 | 327 | 154,950 | 337 | 186,892 | 338 | 225,909 | 338 | 225,909 |
| Other Positions | 21,406 | 2,669,099 | 29,253 | 5,917,307 | 29,783 | 6,629,704 | 32,476 | 7,841,625 | 32,476 | 7,841,625 |
| Administrative | 2,936 | 299,872 | 3,177 | 505,114 | 3,190 | 557,498 | 3,196 | 609,137 | 3,196 | 609,137 |
| Support to Technical | 480 | 62,566 | 531 | 113,633 | 555 | 130,672 | 556 | 143,772 | 556 | 143,772 |
| Technical | 17,990 | 2,306,661 | 25,545 | 5,298,560 | 26,038 | 5,941,534 | 28,724 | 7,088,716 | 28,724 | 7,088,716 |
| For the difference between the Authorized and Actual Salaries | | 130,448 | | 841,112 | | 809,252 | | 204,755 | | 204,755 |
| Total Permanent Positions | 21,761 | 2,893,196 | 29,623 | 6,940,434 | 30,167 | 7,661,379 | 32,861 | 8,302,793 | 32,861 | 8,302,793 |
| Less: Number and amount of Salary Lapses/Savings from Unfilled Position/Chargeable against Savings | 65 | 273,727 | | | | | | | | |
| Total Permanent Filled Positions | 21,696 | 2,619,469 | 28,414 | 5,434,036 | 28,703 | 6,792,777 | 29,777 | 7,398,901 | 29,777 | 7,398,901 |

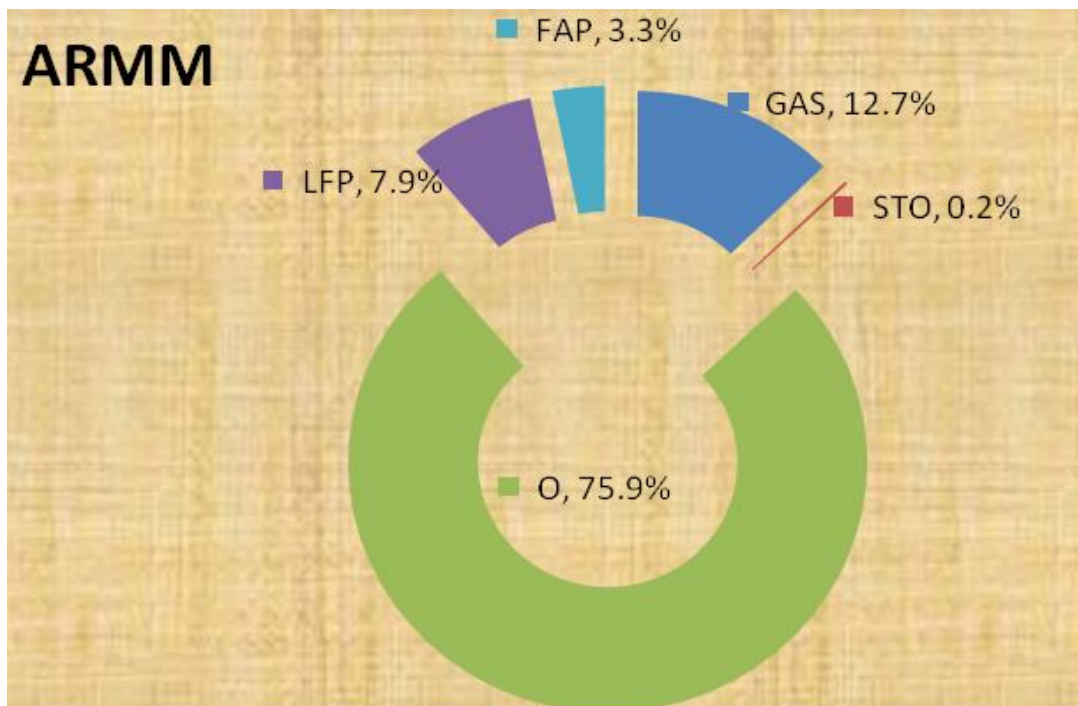
Source: DBM

Obligations by Function. Expenditures can be categorized by General Administration and Support (GAS), Support to Operations (STO), Operations (O), and Projects both locally funded (LFP) and foreign- assisted projects (FAPs). The GAS consists of activities and expenditures dealing with the provision of overall administrative management and operational support to the entire agency operations. The STO consists of programs and corresponding expenditures which provide staff, technical and/or substantial support to operations, but do not produce goods or deliver services or directly engage in regulation. Operations consist of programs and corresponding expenditures which relate to the main purpose for which an agency has been created. It involves direct production of goods or delivery of services or directly engages in regulation. On the other hand, projects are special agency undertakings which are to be carried out within a definite time frame and

which are intended to result in some pre-determined measure of goods and services.

Eighty-nine percent (89%) of the total budget of ARMM was used for the regular programs of the RG, leaving 11% for projects. Of the PhP 108.85 billion spent on regular programs and activities, PhP 93.04 billion was used to fund activities directly under Operations or 76% of the total budget; PhP 15.55 billion was spent for General Administrative Support or 12.7% of the total and PhP 255 million as STO. The amount spent for projects amounted to PhP 13.66 billion or 11.1%, broken into LFP (7.9%) and FAPS (3.3%), as presented below.

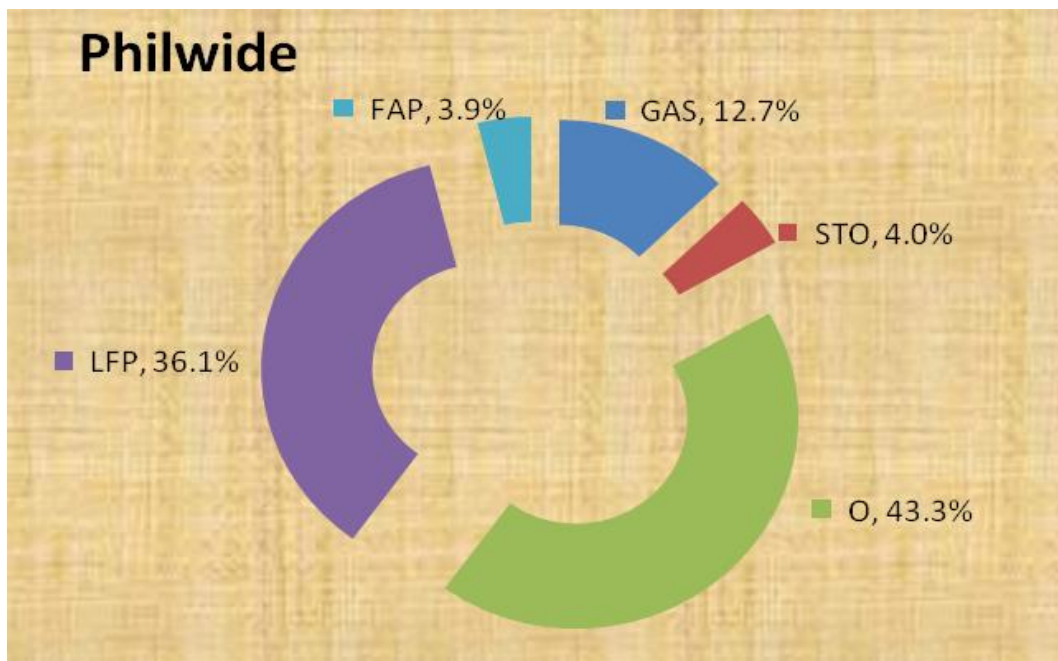
Figure 4. ARMM Expenditures by Function



Actual expenditures of the ARMM-RG grew by 219.4%, from PhP 5.62 billion in 2001 to PhP 17.94 billion in FY 2013. Please refer to **Annex 4** for more details.

Compared to the Philippine-wide accounts, a 60-40 sharing was observed on the average. Regular programs accounted for the 60% share, broken into GAS (12.7%), STO (4.0%) and Operations (43.3%) Projects were allocated into LFP (36.1%) and FAPS (3.9%), as shown hereunder.

Figure 5. Philippine-wide Obligations by Function



Most of the LF/FAPS projects of the ARMM-RG pertain to infrastructure projects such as construction of roads, bridges, water supply, among others, funded by loan proceeds or peso counterpart funds.

ARMM-LGUs Income. Under the Local Government Code, LGUs are mandated to raise taxes, fees and charges, and other sources of income locally or externally. Tax revenues are sourced from Real Property Tax, Special Education Fund, business and other local taxes. Non-tax revenues include regulatory fees, business and service/user fees, receipts from economic enterprises and other income/receipts. External sources include the IRA and other shares from other NG collections, grants, donations, loans, borrowings and other capital and investment ventures/activities. Details of the revenues are shown in **Annex 5**.

Total Receipts. Own-source revenues of the LGUs in ARMM reached PhP 3.1 billion for the period FY 2002 to FY 2012. The municipalities earned PhP 1.5 billion representing 48.4% of the total revenues generated by the region. The provinces earned 40.1% or PhP 1.2 billion and cities earned PhP 355.9 million. Of the three (3) LGU categories, only the provinces registered growth in income generation during the period while both the municipalities and cities experienced a decline in their incomes. In comparison with the nationwide receipts of all LGUs, the total income of ARMM LGUs is only 0.39%.

**Table 19. Total Receipts of ARMM LGUs
FY 2002-2012
In Million Pesos**

| Year | Municipalities | Provinces | Cities | Total | Philwide |
|----------------|----------------|-----------|--------|----------|------------|
| 2002 | 226.67 | 43.26 | - | 269.93 | 49,051.70 |
| 2004 | 44.75 | 87.46 | - | 132.21 | 62,093.86 |
| 2005 | 89.47 | 47.76 | - | 137.23 | 67,042.03 |
| 2006 | 298.10 | 133.61 | - | 431.71 | 74,464.26 |
| 2007 | 269.78 | 252.04 | 77.73 | 599.55 | 76,810.18 |
| 2009 | 133.90 | 173.77 | 125.27 | 432.94 | 96,463.24 |
| 2010 | 196.12 | 222.35 | 41.87 | 460.34 | 104,543.01 |
| 2011 | 103.72 | 162.69 | 42.26 | 308.67 | 123,184.47 |
| 2012 | 139.69 | 120.13 | 68.72 | 328.54 | 148,163.39 |
| Total | 1,502.20 | 1,243.07 | 355.85 | 3,101.12 | 801,816.14 |
| % of total | 48.4% | 40.1% | 11.5% | 100.0% | 0.39% |
| Amt. of growth | (86.98) | 76.87 | (9.01) | 58.61 | 99,111.69 |
| % of growth | -38.4% | 177.7% | -11.6% | 21.7% | 202.1% |

Note: No data for FY 2003 and 2008

Source: BESF, DBM

Tax Revenues. As shown in Table 20 below, the provinces collected taxes amounting to PhP 399.3 million and the municipalities collected PhP 395 million, accounting for 46.7% and 46.2%, respectively, of the total tax revenues in the region. The cities started reporting only in 2007, earning PhP 61.4 million representing only 7.2% of the total. In relation to other LGUs in the country, the ARMM's tax revenues is very low considering that the share to total tax revenues is merely 0.18%, as shown below.

**Table 20. Tax Revenues of ARMM LGUs
FY 2002-2012
In Million Pesos**

| Year | Municipalities | Provinces | Cities | Total | Philwide |
|------|----------------|-----------|--------|--------|-----------|
| 2002 | 18.75 | 16.63 | - | 35.38 | 32,226.60 |
| 2004 | 19.76 | 5.57 | - | 25.33 | 39,123.23 |
| 2005 | 61.44 | 34.00 | - | 95.44 | 41,911.64 |
| 2006 | 93.97 | 29.88 | - | 123.85 | 46,998.97 |
| 2007 | 43.68 | 58.38 | 16.49 | 118.55 | 43,740.43 |
| 2009 | 42.85 | 116.05 | 8.00 | 166.90 | 52,231.39 |

| Year | Municipalities | Provinces | Cities | Total | Philwide |
|------------|----------------|-----------|--------|--------|------------|
| 2010 | 56.94 | 53.84 | 4.50 | 115.28 | 55,818.94 |
| 2011 | 29.38 | 36.92 | 13.40 | 79.70 | 70,209.33 |
| 2012 | 28.30 | 48.00 | 19.02 | 95.32 | 82,275.08 |
| Total | 395.07 | 399.27 | 61.41 | 855.75 | 464,535.61 |
| % of total | 46.2% | 46.7% | 7.2% | 100.0% | 0.18% |
| Amt. of | 9.55 | 31.37 | 2.53 | 59.94 | 50,048.48 |
| growth | | | | | |
| % of | 50.9% | 188.6% | 15.3% | 169.4% | 155.3% |
| growth | | | | | |

Note: No data for FY 2003 and 2008

Source: BESF, DBM

Non-tax revenues. Non-tax revenues include income collected in exchange for direct services rendered by the LGUs to the public or those arising from the government's regulatory and investment activities (DBM definition, BESF). Total non-tax revenues of ARMM LGUs from FY2002 to FY2012 amounted to PhP 1.03 billion, representing 0.52% of the nationwide total.

Two-thirds or 65% of the collections were made by municipalities, while provinces collected 27% and cities 8%. Of the three (3) types of LGUs, only cities have shown positive growth, from PhP 14.7 million to PhP 45.2 million. Both the municipalities and provinces showed negative growth, notwithstanding the soaring jump in revenues in FYs 2002, 2006 and 2007. In FYs 2002 and 2006, the biggest increase came from its business and service/user charges income (PhP 191.7 million and PhP 153.5 million, respectively), and from other fees amounting to PhP 113.8 million in FY 2007. In relation to over-all Philippine-wide non-tax revenues, ARMM has a meager 0.52% share of the total.

**Table 21. Non-Tax Revenues of ARMM LGUs
FY 2002-2012
In Million Pesos**

| Year | Municipalities | Provinces | Cities | Total | Philwide |
|------|----------------|-----------|--------|--------|-----------|
| 2002 | 191.66 | | | 191.66 | 10,551.12 |
| 2004 | 12.91 | 52.91 | | 65.82 | 12,529.68 |
| 2005 | 13.85 | 4.65 | | 18.50 | 14,736.51 |
| 2006 | 153.50 | 65.19 | | 218.69 | 16,004.19 |
| 2007 | 113.82 | 16.48 | 14.65 | 144.95 | 15,415.44 |
| 2009 | 35.93 | 7.09 | 7.00 | 50.02 | 26,796.55 |
| 2010 | 80.60 | 100.44 | 4.00 | 185.04 | 30,290.90 |

| Year | Municipalities | Provinces | Cities | Total | Philwide |
|----------------|----------------|-----------|--------|----------|------------|
| 2011 | 41.24 | 11.88 | 7.13 | 60.25 | 32,218.35 |
| 2012 | 29.95 | 19.60 | 45.18 | 94.73 | 40,782.35 |
| Total | 673.46 | 278.24 | 77.96 | 1,029.66 | 199,325.09 |
| % of total | 65% | 27% | 8% | 100.0% | 0.52% |
| Amt. of growth | (161.71) | (33.31) | 30.53 | (96.93) | 30,231.23 |
| % of growth | -84.4% | -63.0% | 208.4% | -50.6% | 286.5% |

Note: No data for FY 2003 and 2008

Source: BESF, DBM

Other Sources of Revenues. In addition to internally generated revenues, LGUs also received income from other sources such as share from the other national tax collections (EVAT, National Wealth, Tobacco), grants and donations, subsidy support from other LGUs, NGAs, and/or capital/investment. A total of PhP 1.2 billion was generated from external and other receipts by the provinces, municipalities, and cities in ARMM. Provinces got 46.5%, municipalities 35.7% and cities 17.8%. Other receipts increased by 223%, from FY 2002 to FY 2012. Marked increases were noted in FY 2007 (municipalities), 2007 and 2011(provinces) and 2009 (cities) due to receipt of loans/borrowings and other income/subsidy. Please refer to **Annexes 5, 5A to 5D** for details.

**Table 22. Other Revenues of ARMM LGUs
FY 2002-2012 (In Million Pesos)
External and Other Revenues (other than IRA)**

| Year | Municipalities | Provinces | Cities | Total | Philwide |
|----------------|----------------|-----------|---------|----------|------------|
| 2002 | 16.26 | 26.63 | - | 42.89 | 6,273.98 |
| 2004 | 12.08 | 28.98 | - | 41.06 | 10,440.95 |
| 2005 | 14.18 | 9.11 | - | 23.29 | 10,393.88 |
| 2006 | 50.63 | 38.54 | - | 89.17 | 11,461.10 |
| 2007 | 112.28 | 177.18 | 46.59 | 336.05 | 17,654.31 |
| 2009 | 55.12 | 50.63 | 110.27 | 216.02 | 17,435.30 |
| 2010 | 58.58 | 68.07 | 33.37 | 160.02 | 18,433.17 |
| 2011 | 33.10 | 113.89 | 21.73 | 168.72 | 20,756.79 |
| 2012 | 81.44 | 52.53 | 4.52 | 138.49 | 25,105.96 |
| Total | 433.67 | 565.66 | 216.48 | 1,215.71 | 137,955.44 |
| % of total | 35.7% | 46.5% | 17.8% | 100.0% | 0.9% |
| Amt. of growth | 65.18 | 25.90 | (42.07) | 95.60 | 18,831.98 |
| % of growth | 400.9% | 97.3% | -90.3% | 222.9% | 300.2% |

Note: No data for FY 2003 and 2008

Source: BESF, DBM

Fiscal Accounting- ARMM Funds

A total of PhP 87.3 billion went to ARMM from FY 2002 to FY2007. The National Government appropriated funds for the ARMM-RG, ARMM-Public works through the DPWH, IRA for the ARMM-RG and ARMM-LGUs, Congressional initiatives and other special purpose funds, the allocations of national government agencies in ARMM and the local revenues generated during the period. In FY 2002, a total of PhP 12.7 billion was made available. Within six (6) years, funds were increased by almost 587% as of end FY 2007. The biggest source of funds came from the IRA allocation for the ARMM-RG and LGUs amounting to PhP 45.8 billion or 50% of the total, followed by NG appropriations to the ARMM-RG amounting to PhP 37.2 billion, representing 42.6% of the total while funds coming from the NGAs accounted for 2.6% of the total.

**Table 23. Fiscal Accounting
FY 2002 – 2007
In Million Pesos**

| Sources of Funds | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | Total 2002-2007 | % of Total |
|--|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-------------|
| 1 National Government Appropriations (net of IRA Share*) for ARMM -RG* | 5,073 | 4,724 | 5,658 | 6,391 | 7,307 | 8,020 | 37,174 | 42.6% |
| 2 National Government Agency Funds allocated to ARMM** | | | | | | | - | |
| DPWH | 224 | 503 | - | | 128 | 3 | 859 | 1.0% |
| DepEd | | | | | 2 | | 2 | 0.0% |
| SUCs | - | | | | | | - | |
| DSWD | - | | | | | | - | |
| Others | 341 | 201 | 310 | | 304 | 247 | 1,403 | 1.6% |
| 3 National Government Congressional Allocations within ARMM | | | | | | | - | |
| 4 Special Purpose Funds Allocated to ARMM | | | | | | | - | |
| Budgetary Support to GOCCs | | | | | | | - | |
| Agriculture and Fisheries Modernization Program | 316 | | | | | | 316 | 0.4% |
| DepEd School Building Fund | 88 | 88 | | | | | 176 | 0.2% |
| 5 National Government Internal Revenue Allotments to ARMM | | | | | | | - | |
| Regional Government | - | 300 | 300 | 300 | 624 | 624 | 2,148 | 2.5% |
| Local Government Units | 6,389 | 6,715 | 6,743 | 7,306 | 7,747 | 8,761 | 43,661 | 50.0% |
| 6 Revenues Raised by ARMM-LGUs | | | | | | | - | |
| Tax Revenues | 35 | | 25 | 95 | 124 | 119 | 399 | 0.5% |
| Non- Tax Revenues | 192 | | 66 | 19 | 219 | 145 | 640 | 0.7% |
| External and Other Revenues | 43 | | 41 | 23 | 89 | 336 | 532 | 0.6% |
| Total Resources | 12,702 | 12,530 | 13,143 | 14,134 | 16,544 | 18,255 | 87,309 | 100% |

Source: BESF, DBM

ARMM Funds

For 12 years, from FY 2002 to FY 2013, the ARMM was able to generate PhP 172.5 billion. Similar to the previous table, the biggest source of funds for ARMM is the IRA for the ARMM-RG and LGUs with 48.3%; the NG appropriations for the ARMM-RG representing 35% of the total or PhP 60.4 billion; NGAs funds disbursed in ARMM amounting to PhP 26.6 billion or 15.4% of the total funds. From FY 2008 to FY 2013, ARMM received PhP 172.5 billion, details shown below.

**Table 24. Fiscal Accounting
FY 2008 – 2013
In Million Pesos**

| Sources of Funds | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Total 2008-2013 | % of Total |
|---|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-------------|
| 1 National Government Appropriations (net of IRA Share*) for ARMM-RG* | 7,895 | 8,987 | 8,823 | 10,718 | 11,256 | 12,710 | 60,388 | 35.0% |
| 2 National Government Agency Funds allocated to ARMM** | | | | | | | - | |
| DPWH | | | | | 691 | 2,689 | 3,381 | 2.0% |
| DepEd | | | | | 2,652 | 1,485 | 4,137 | 2.4% |
| SUCs | | | | 1,729 | 1,869 | 3,189 | 6,788 | 3.9% |
| DSWD | | | | | 4,205 | 1,125 | 5,329 | 3.1% |
| Others | 220 | 358 | 256 | 327 | 2,099 | 3,743 | 7,003 | 4.1% |
| 3 National Government Congressional Allocations within ARMM | | | | | | | - | |
| 4 Special Purpose Funds Allocated to ARMM | | | | | | | - | |
| Budgetary Support to GOCCs | | | | | | 571 | 571 | 0.3% |
| Agriculture and Fisheries Modernization Program | | | | | | | - | |
| DepEd School Building Fund | | | | | | | - | |
| 5 National Government Internal Revenue Allotments to ARMM | | | | | | | - | |
| Regional Government | 437 | 462 | 462 | 462 | 462 | 462 | 2,747 | 1.6% |
| Local Government Units | 11,096 | 13,091 | 13,795 | 14,544 | 14,124 | 13,935 | 80,585 | 46.7% |
| 6 Revenues Raised by ARMM-LGUs | | | | | | | - | 0.0% |
| Tax Revenues | | 167 | 115 | 80 | 95 | | 457 | 0.3% |
| Non- Tax Revenues | | 50 | 185 | 60 | 95 | | 390 | 0.2% |
| External and Other Revenues | | 216 | 160 | 169 | 138 | | 683 | 0.4% |
| Total Resources | 19,648 | 23,331 | 23,797 | 28,088 | 37,686 | 39,910 | 172,459 | 100% |

Source: BESF, DBM

In summary, the ARMM got PhP 345.8 billion from all sources, from FY 2002 to FY 2015. As shown in the table below, the region is dependent on the IRA (47.4%) and from government appropriations (40.6%), amounting to PhP 158.1 billion and PhP

140.4 billion, respectively. The NGAs contributed 10.4% of which the SUCs accounted for PhP 12.1 billion. Details of the other departments/offices are reflected in Annex 1. The own source revenues of the ARMM-LGUs (net of IRA) are very minimal, contributing only 0.9% or less than 1% of total revenues.

**Table 25. Summary of Fiscal Accounting
FY 2002 – 2015
In Million Pesos**

| Sources of Funds | Total 2002-2007 | % of Total | Total 2008-2013 | % of Total | 2014 | 2015 | Grand Total 2002-2015 | % of Total |
|--|-----------------|-------------|-----------------|-------------|---------------|---------------|-----------------------|-------------|
| 1 National Government Appropriations (net of IRA Share*) for ARMM -RG* | 37,174 | 42.6% | 60,388 | 35.0% | 19,153 | 23,700 | 140,415 | 40.6% |
| 2 National Government Agency Funds allocated to ARMM** | - | | - | | | | - | |
| DPWH | 859 | 1.0% | 3,381 | 2.0% | | | 4,240 | 1.2% |
| DepEd | 2 | 0.0% | 4,137 | 2.4% | | | 4,139 | 1.2% |
| SUCs | - | | 6,788 | 3.9% | 2,473 | 2,796 | 12,057 | 3.5% |
| DSWD | - | | 5,329 | 3.1% | | | 5,329 | 1.5% |
| Others | 1,403 | 1.6% | 7,003 | 4.1% | 945 | 851 | 10,202 | 3.0% |
| 3 National Government Congressional Allocations within ARMM | - | | - | | | | - | |
| 4 Special Purpose Funds Allocated to ARMM | - | | - | | | | - | |
| Budgetary Support to GOCCs | - | | 571 | 0.3% | 785 | 438 | 1,794 | 0.5% |
| Agriculture and Fisheries Modernization Program | 316 | 0.4% | - | | | | 316 | 0.1% |
| DepEd School Building Fund | 176 | 0.2% | - | | | | 176 | 0.1% |
| 5 National Government Internal Revenue Allotments to ARMM | - | | - | | | | - | |
| Regional Government | 2,148 | 2.5% | 2,747 | 1.6% | 462 | 600 | 5,957 | 1.7% |
| Local Government Units | 43,661 | 50.0% | 80,585 | 46.7% | 15,784 | 18,048 | 158,078 | 45.7% |
| 6 Revenues Raised by ARMM-LGUs | - | | - | 0.0% | | | - | |
| Tax Revenues | 399 | 0.5% | 457 | 0.3% | | | 856 | 0.2% |
| Non- Tax Revenues | 640 | 0.7% | 390 | 0.2% | | | 1,030 | 0.3% |
| External and Other Revenues | 532 | 0.6% | 683 | 0.4% | | | 1,216 | 0.4% |
| | | | | | | | - | |
| Total Resources | 87,309 | 100% | 172,459 | 100% | 39,603 | 46,433 | 345,804 | 100% |

Source: BESF, DBM

ARMM Expenditures

ARMM-LGU Expenditures. Expenditures of LGUs during the study period amounted to PhP52.3 billion of which provinces got the largest share at 49.1%, municipalities with 46.2% and cities with 4.6% starting FY 2007. The expenditures of municipalities increased tremendously by 714.3%, from PhP 569.4 million to PhP 4.6 billion. The biggest expenditures were incurred in FY 2010 and FY 2012. The provinces grew at 256.9%, from PhP 889.7 million in FY 2002 to PhP 3.2 billion in FY 2012. Cities'

expenditures grew modestly by 33.46% from FY 2007 to FY 2012. Note that the expenditures share of the region is higher at 2.7% compared to the income share as discussed earlier.

**Table 26. Total Expenditures of ARMM LGUs
FY 2002-2012 (In Million Pesos)**

| Expenditures/Year | Municipalities | Province | Cities | Total | Philwide |
|-------------------|----------------|-----------|----------|-----------|--------------|
| 2002 | 569.42 | 889.74 | - | 1,459.16 | 140,106.43 |
| 2004 | 1,637.68 | 1,888.82 | - | 3,526.50 | 168,724.98 |
| 2005 | 1,489.69 | 1,947.86 | - | 3,437.55 | 178,231.88 |
| 2006 | 2,244.75 | 2,287.87 | - | 4,532.62 | 195,136.61 |
| 2007 | 2,813.42 | 2,852.52 | 479.32 | 6,145.26 | 199,047.24 |
| 2009 | 3,663.27 | 4,026.61 | 359.53 | 8,049.41 | 254,774.45 |
| 2010 | 4,889.09 | 4,193.69 | 372.73 | 9,455.51 | 268,160.02 |
| 2011 | 2,261.66 | 4,427.11 | 529.63 | 7,218.40 | 242,102.69 |
| 2012 | 4,636.90 | 3,175.47 | 639.72 | 8,452.09 | 295,044.11 |
| | 24,205.88 | 25,689.69 | 2,380.93 | 52,276.50 | 1,941,328.41 |
| % of total | 46.4% | 49.1% | 4.6% | 100.0% | 2.7% |
| Growth 2001-12 | 4,067.48 | 2,285.73 | 160.40 | 6,992.93 | 154,937.68 |
| % | 714.32% | 256.90% | 33.46% | 479.24% | 110.59% |

Note: No data for FY 2003 and 2008

Source: BESF, DBM

Philippine-wide Expenditures by Sector. Of the total expenditures of PhP 1.94 trillion nationwide, the bulk went to General Services amounting to PhP 931.7 billion or 48% of the total; PhP 415.2 billion or 21.4% for economic services; PhP 385.7 billion or 19.9% for social services; and the remainder of PhP 208.8 billion was allocated for others and debt service corresponding to 5.1% and 5.7% of the total, respectively. Expenditures for economic services grew faster at 185.3% compared to the expenditures for social services at 141.6% and general services at 95.2%, as shown below.

**Table 27. Philippine-wide LGU Expenditures
FY 2002-2012
In Million Pesos**

| Philippine wide | General Services | Economic Services | Social Services | Others | Debt Services | Total |
|------------------------|-------------------------|--------------------------|------------------------|------------------|----------------------|---------------------|
| 2002 | 69,580.14 | 28,946.58 | 26,352.69 | 15,227.02 | | 140,106.43 |
| 2004 | 81,690.64 | 31,721.59 | 33,727.44 | 21,585.31 | | 168,724.98 |
| 2005 | 84,900.97 | 33,093.64 | 31,757.61 | | 28,479.66 | 178,231.88 |
| 2006 | 89,268.62 | 36,409.21 | 38,079.07 | 31,379.71 | | 195,136.61 |
| 2007 | 92,299.25 | 38,793.20 | 37,754.14 | 30,200.65 | | 199,047.24 |
| 2009 | 121,660.51 | 53,313.50 | 47,611.55 | | 32,188.89 | 254,774.45 |
| 2010 | 130,297.17 | 61,618.20 | 50,546.65 | | 25,698.00 | 268,160.02 |
| 2011 | 126,113.17 | 48,669.56 | 56,209.88 | | 11,110.08 | 242,102.69 |
| 2012 | 135,851.35 | 82,589.53 | 63,662.54 | | 12,940.69 | 295,044.11 |
| Total | 931,661.82 | 415,155.01 | 385,701.57 | 98,392.69 | 110,417.32 | 1,941,328.41 |
| % of total | 48.0% | 21.4% | 19.9% | 5.1% | 5.7% | 100.0% |
| Growth 2001-12 | 66,271.21 | 53,642.95 | 37,309.85 | 14,973.63 | (15,538.97) | 154,937.68 |
| % | 95.2% | 184.3% | 141.6% | 98.3% | -54.6% | 110.6% |

Note: No data for FY 2003 and 2008

Source: BESF, DBM

Expenditures of Municipalities. Almost two-thirds or 62.7% of the expenditures of municipalities went to General Services amounting to PhP 15.2 billion, 21.5% went to economic services while only 9% went to social services. Debt Service and other services were allocated 2.9% and 3.9%, respectively. There is apparent imbalance in the distribution of funds which needs to be addressed.

**Table 28. Expenditures of ARMM Municipalities
FY 2002-2012
In Million Pesos**

| By Municipalities | General Services | Economic Services | Social Services | Others | Debt Services | Total |
|--------------------------|-------------------------|--------------------------|------------------------|---------------|----------------------|--------------|
| 2002 | 339.30 | 54.24 | 11.14 | 164.74 | | 569.42 |
| 2004 | 1,428.24 | 72.57 | 4.10 | 132.77 | | 1,637.68 |
| 2005 | 957.03 | 295.98 | 141.52 | | 95.16 | 1,489.69 |
| 2006 | 1,312.33 | 408.32 | 192.18 | 331.92 | | 2,244.75 |
| 2007 | 1,651.57 | 534.86 | 306.77 | 230.22 | | 2,813.42 |
| 2009 | 2,200.14 | 940.84 | 462.50 | | 59.79 | 3,663.27 |
| 2010 | 2,838.28 | 1,153.64 | 493.42 | | 403.75 | 4,889.09 |
| 2011 | 1,504.59 | 531.84 | 181.30 | | 403.75 | 4,889.09 |
| 2012 | 2,935.91 | 1,222.46 | 385.39 | | 93.14 | 4,636.90 |

| | | | | | | |
|----------------|-----------|----------|----------|--------|--------|-----------|
| Total | 15,167.39 | 5,214.75 | 2,178.32 | 949.65 | 695.77 | 24,205.88 |
| % of total | 62.7% | 21.5% | 9.0% | 3.9% | 2.9% | 100% |
| Growth 2001-12 | 2,596.61 | 1,168.22 | 374.25 | 155.48 | (2.02) | 4,067.48 |
| % | 765.3% | 2153.8% | 3359.5% | 94.4% | -2.1% | 714.3% |

Note: No data for FY 2003 and 2008

Source: BESF, DBM

Expenditures of Provinces. Unlike the municipalities, the expenditure pattern of provinces does not focus on General Services alone. Both the General Services as well as the Economic Services seem to be the thrust of provinces with 45.7% and 36.4% allocated, respectively. However, Social Services remain very low with only 8.2% of the funds.

**Table 29. Expenditures of ARMM Provinces
FY 2002-2012
In Million Pesos**

| By Municipalities | General Services | Economic Services | Social Services | Others | Debt Services | Total |
|-------------------|------------------|-------------------|-----------------|----------|---------------|-----------|
| 2002 | 335.89 | 318.01 | 6.60 | 229.24 | | 889.74 |
| 2004 | 774.09 | 742.51 | 227.21 | 145.01 | | 1,888.82 |
| 2005 | 781.92 | 921.62 | 73.75 | | 170.57 | 1,947.86 |
| 2006 | 923.12 | 700.93 | 205.48 | 458.34 | | 2,287.87 |
| 2007 | 1,160.78 | 901.38 | 143.45 | 646.91 | | 2,852.52 |
| 2009 | 2,171.22 | 1,397.11 | 252.78 | | 205.50 | 4,026.61 |
| 2010 | 2,369.70 | 1,443.76 | 141.38 | | 238.85 | 4,193.69 |
| 2011 | 2,012.99 | 1,671.79 | 553.34 | | 188.99 | 4,427.11 |
| 2012 | 1,214.34 | 1,265.62 | 499.67 | | 195.84 | 3,175.47 |
| Total | 11,744.05 | 9,362.73 | 2,103.66 | 1,479.50 | 999.75 | 25,689.69 |
| % of total | 45.7% | 36.4% | 8.2% | 5.8% | 3.9% | 100.0% |
| Growth 2001-12 | 878.45 | 975.61 | 493.07 | 417.67 | 25.27 | 2,285.73 |
| % | 261.5% | 298.0% | 7470.8% | 182.2% | 14.8% | 256.9% |

Note: No data for FY 2003 and 2008

Source: BESF, DBM

Expenditures of Cities. The data gathered for cities started only in FY 2007 up FY 2012 for a period of five (5) years. As shown in Table 30 below, the expenditure pattern of cities follows that of municipalities. Expenditures were concentrated on General Services with PhP 1.5 billion or 64.6% of the cities' budget. Economic Services got PhP 464.3 million or 19.5% while Social Services accounted for only

6.7% amounting to PhP 159 million. Actual expenditures for Debt Service and Other Services remain higher than that of Social Services. Debt Service and Other Services were allocated PhP 170.8 million and PhP 49.3 million or 7.2% and 2.1%, respectively.

**Table 30. Expenditures of ARMM Cities
FY 2002-2012 (In Million Pesos)**

| By Cities | General Services | Economic Services | Social Services | Others | Debt Services | Total |
|------------------|-------------------------|--------------------------|------------------------|---------------|----------------------|-----------------|
| 2007 | 362.32 | 39.64 | 28.06 | 49.30 | | 479.32 |
| 2009 | 330.73 | 11.66 | 17.14 | | | 359.53 |
| 2010 | 244.45 | 12.98 | 18.95 | | 96.35 | 372.73 |
| 2011 | 241.45 | 12.98 | 18.95 | | 42.57 | 529.63 |
| 2012 | 358.72 | 198.62 | 50.47 | | 31.91 | 639.72 |
| Total | 1,537.58 | 464.27 | 158.95 | 49.30 | 170.83 | 2,380.93 |
| % of total | 64.6% | 19.5% | 6.7% | 2.1% | 7.2% | 100.0% |
| Growth | (3.60) | 158.98 | 22.41 | (49.30) | (64.44) | 160.40 |
| 2001-12 | | | | | | |
| % | -1.0% | 401.1% | 79.9% | 100.0% | -66.9% | 33.5% |

Note: No data for FY 2003 and 2008

Source: BESF, DBM

Annex 1

**Regional Allocations of NGAs to ARMM
FY2001 -2015
In Million Pesos**

| Particulars | 2001 | 2002 | 2003 | 2004 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Total 2002-2015 |
|---|-------|------|------|------|------|------|------|------|------|-------|--------|--------|-------|-------|-----------------|
| DEPARTMENTS | 1,828 | 568 | 704 | 310 | 432 | 250 | 220 | 358 | 256 | 2,056 | 11,516 | 14,822 | 6,937 | 3,644 | 42,076 |
| | | | | | | | | | | | | | | | - |
| Office of the President | 54 | 22 | | | | | | | - | | | | | | 22 |
| Department of Agrarian Reform | | | | | | | | | - | | 173 | 434 | 399 | 261 | 1,266 |
| Department of Agriculture | | | | | | | | | - | | 514 | 780 | | | 1,294 |
| Department of Education | 11 | 2 | | | | | | | - | | 2,652 | 1,485 | | | 4,139 |
| State Universities and Colleges | | | | | | | | | - | 1,729 | 1,869 | 3,189 | 2,473 | 2,796 | 12,057 |
| Department of Environment and Natural Resources | 28 | 35 | 26 | 23 | 16 | 17 | 18 | 15 | 15 | 17 | - | | | | 182 |
| Department of Finance | | | | | | | | | 17 | 18 | 18 | 18 | | | 70 |
| Department of Health | 72 | | | | | | | | - | | 263 | 1,655 | | | 1,918 |
| Department of the Interior and Local Government | 74 | 74 | 74 | 74 | 79 | 85 | 88 | 94 | 97 | 105 | 707 | 586 | 233 | 241 | 2,537 |
| Department of Justice | | | | | | | | | - | | 18 | | 40 | 36 | 93 |
| Department of Labor and Employment | 3 | 3 | | | | | | | - | | 14 | 18 | 26 | 34 | 95 |
| Department of National Defense | | | | | | | | | - | | - | 2,590 | 3,519 | | 6,109 |
| Department of Public Works and Highways | 532 | 224 | 503 | | 128 | 3 | | | - | | 691 | 2,689 | | | 4,240 |
| Department of Social Welfare and Development | 7 | | | | | | | | - | | 4,205 | 1,125 | | | 5,329 |
| Department of Transportation and Communications | 514 | 91 | 7 | 23 | 119 | 47 | 11 | 137 | - | | 216 | 36 | | | 686 |
| National Economic and Development Authority | 22 | 21 | 21 | 20 | 17 | 20 | 21 | 23 | 21 | 22 | 25 | 27 | 28 | 35 | 302 |
| The Presidential Communications Operations Office | | | | | | | | | - | | - | 0 | | | 0 |
| Other Executive Offices | 68 | | | | | | | | | | - | | 27 | 54 | 81 |
| Civil Service Commission | | | | | | | | | 16 | 18 | 16 | 22 | 25 | 24 | 120 |
| Commission on Audit | 68 | 72 | 72 | 72 | 73 | 77 | 77 | 77 | 77 | 77 | 67 | 80 | 80 | 72 | 971 |
| Commission on Elections | 374 | 24 | | 98 | | | 6 | 13 | 13 | 71 | 70 | 88 | 88 | 93 | 564 |

Annex 2

**IRA Allocations of ARMM LGUs
FY 2002 to 2003 (Actual); 2003, 2008, 2013 and 2014(Adjusted Program), 2015
(NEP)**

In Million Pesos

| Particulars | 2002 | 2003* | 2004 | 2005 | 2006 | 2007 | 2008* |
|---|---------|---------|---------|---------|---------|---------|---------|
| Total IRA, Philippines | 134,422 | 141,000 | 141,000 | 151,623 | 166,466 | 183,938 | 210,730 |
| Total IRA, ARMM-LGUs | 6,389 | 6,715 | 6,743 | 7,306 | 7,747 | 8,761 | 11,096 |
| Basilan | | | | | | | |
| Province | 238 | 249 | 250 | 269 | 295 | 322 | 372 |
| Municipalities | 239 | 251 | 251 | 271 | 297 | 306 | 319 |
| Lamitan City | - | - | - | - | - | 62 | 229 |
| Isabela City | 165 | 172 | 172 | 183 | 201 | 221 | 225 |
| Barangays | 132 | 139 | 139 | 150 | 165 | 182 | 238 |
| Sub-total | 774 | 811 | 811 | 872 | 957 | 1,094 | 1,383 |
| Lanao Del Sur | | | | | | | |
| Province | 555 | 584 | 584 | 632 | 696 | 769 | 968 |
| Municipalities | 990 | 1,042 | 1,042 | 1,136 | 1,252 | 1,388 | 1,754 |
| Marawi City | 163 | 170 | 170 | 180 | 198 | 218 | 243 |
| Barangays | 478 | 501 | 501 | 538 | 589 | 650 | 797 |
| Sub-total | 2,186 | 2,297 | 2,296 | 2,485 | 2,735 | 3,025 | 3,762 |
| Maguindanao | | | | | | | |
| Province | 454 | 477 | 477 | 516 | 569 | 389 | 496 |
| Municipalities | 771 | 812 | 842 | 930 | 1,025 | 651 | 838 |
| Cotabato City | 203 | 212 | 212 | 224 | - | - | - |
| Barangays | 315 | 331 | 331 | 357 | 344 | 210 | 287 |
| Sub-total | 1,742 | 1,831 | 1,861 | 2,027 | 1,937 | 1,250 | 1,621 |
| Shariff Kabunsuan | | | | | | | |
| Province | | | | | - | 364 | 446 |
| Municipalities | | | | | - | 516 | 632 |
| Barangays | | | | | - | 171 | 230 |
| Sub-total | - | - | - | - | - | 1,051 | 1,307 |
| Sulu | | | | | | | |
| Province | 289 | 304 | 304 | 330 | 363 | 400 | 511 |
| Municipalities | 473 | 498 | 498 | 541 | 596 | 662 | 880 |
| Barangays | 228 | 241 | 240 | 259 | 285 | 316 | 397 |
| Sub-total | 991 | 1,044 | 1,043 | 1,129 | 1,244 | 1,377 | 1,788 |
| Tawi-Tawi | | | | | | | |
| Province | 247 | 259 | 259 | 281 | 309 | 340 | 421 |
| Municipalities | 333 | 351 | 351 | 380 | 419 | 465 | 610 |
| Barangays | 116 | 122 | 122 | 131 | 145 | 160 | 204 |
| Sub-total | 695 | 732 | 732 | 792 | 873 | 965 | 1,235 |
| 2003, 2008 and 2014* Amounts were based on Programmed Obligations and 2015 figures based on NEP | | | | | | | |

| Particulars | 2009 | 2010 | 2011 | 2012 | 2013 | 2014* | 2015 | Total | % of Total |
|---|---------|---------|---------|---------|---------|---------|---------|-----------|------------|
| Total IRA, Philippines | 249,989 | 287,142 | 286,944 | 273,310 | 302,304 | 341,545 | 389,860 | 3,260,273 | |
| Total IRA, ARMM-LGUs | 13,091 | 13,795 | 14,544 | 14,124 | 13,935 | 15,784 | 18,048 | 158,078 | 4.8% |
| Basilan | | | | | | | | - | |
| Province | 485 | 517 | 560 | 534 | 527 | 595 | 678 | 10,508 | |
| Municipalities | 554 | 514 | 556 | 432 | 413 | 467 | 534 | 9,807 | |
| Lamitan City | - | | - | 294 | 298 | 336 | 383 | 3,186 | |
| Isabela City | 285 | 313 | | - | - | | | 3,874 | |
| Barangays | 283 | 302 | 268 | 255 | 235 | 266 | 303 | 5,545 | |
| Sub-total | 1,608 | 1,645 | 1,384 | 1,515 | 1,473 | 1,664 | 1,899 | 17,891 | 11.3% |
| Lanao Del Sur | | | | | | | | - | |
| Province | 1,155 | 1,231 | 1,334 | 1,269 | 1,283 | 1,453 | 1,662 | 25,232 | |
| Municipalities | 2,068 | 2,194 | 2,377 | 2,302 | 2,350 | 2,666 | 3,049 | 45,507 | |
| Marawi City | 304 | 331 | 355 | 311 | 334 | 375 | 429 | 6,759 | |
| Barangays | 943 | 1,003 | 1,082 | 1,031 | 1,048 | 1,183 | 1,348 | 20,850 | |
| Sub-total | 4,470 | 4,759 | 5,148 | 4,913 | 5,014 | 5,676 | 6,489 | 55,256 | 35.0% |
| Maguindanao | | | | | | | | - | |
| Province | 1,080 | 1,079 | 1,169 | 1,112 | 1,048 | 1,187 | 1,358 | 20,275 | |
| Municipalities | 1,731 | 1,839 | 1,994 | 1,934 | 1,826 | 2,072 | 2,371 | 34,826 | |
| Cotabato City | | | | | | | | 1,700 | |
| Barangays | 617 | 657 | 711 | 676 | 612 | 693 | 793 | 12,381 | |
| Sub-total | 3,428 | 3,575 | 3,874 | 3,722 | 3,485 | 3,952 | 4,521 | 38,828 | 24.6% |
| Shariff Kabunsuan | | | | | | | | - | |
| Province | | | | | | | | 1,619 | |
| Municipalities | | | | | | - | | 2,295 | |
| Barangays | | | | | | | | 801 | |
| Sub-total | - | - | - | - | - | - | - | 2,358 | 1.5% |
| Sulu | | | | | | | | - | |
| Province | 610 | 651 | 707 | 672 | 663 | 750 | 859 | 13,219 | |
| Municipalities | 1,037 | 1,102 | 1,196 | 1,160 | 1,155 | 1,312 | 1,501 | 22,410 | |
| Barangays | 473 | 504 | 545 | 518 | 514 | 582 | 665 | 10,284 | |
| Sub-total | 2,120 | 2,257 | 2,447 | 2,350 | 2,332 | 2,644 | 3,025 | 25,791 | 16.3% |
| Tawi-Tawi | | | | | | | | - | |
| Province | 503 | 537 | 583 | 555 | 563 | 638 | 730 | 11,081 | |
| Municipalities | 719 | 763 | 828 | 802 | 808 | 918 | 1,050 | 15,625 | |
| Barangays | 243 | 259 | 280 | 267 | 258 | 293 | 334 | 5,241 | |
| Sub-total | 1,465 | 1,559 | 1,691 | 1,624 | 1,630 | 1,848 | 2,114 | 17,954 | 11.4% |
| | | | | | | | | - | |
| 2003, 2008 and 2014* Amounts were based on Programmed Obligations and | | | | | | | | | |
| 2015 figures based on NEP | | | | | | | | | |

Annex 3

**Staffing Summary
FY 2002 and FY 2011-2014
In Thousand Pesos**

| Permanent Positions | 2002 Actual | | 2011 Actual | | 2012 Actual | | 2013 Program | | 2014 NEP | |
|--|---------------------|--------|---------------------|--------|---------------------|--------|---------------------|--------|---------------------|--------|
| | Number of Positions | Amount | Number of Positions | Amount | Number of Positions | Amount | Number of Positions | Amount | Number of Positions | Amount |
| Key Positions | | | | | | | | | | |
| Regional Governor | 1 | 485 | 1 | 833 | 1 | 957 | 1 | 1,080 | 1 | 1,080 |
| Regional Vice Governor | 1 | 347 | 1 | 683 | 1 | 815 | 1 | 947 | 1 | 947 |
| Speaker, Regional Assembly | 1 | 347 | 1 | 683 | 1 | 815 | 1 | 947 | 1 | 947 |
| Regional Cabinet Secretary | 10 | 3,040 | 10 | 6,226 | 10 | 7,499 | 10 | 8,772 | 10 | 8,772 |
| Deputy Regional Governor | 3 | 912 | 3 | 1,868 | 3 | 2,250 | 3 | 2,632 | 3 | 2,632 |
| Member, Regional Assembly | 23 | 6,992 | 23 | 14,320 | 26 | 19,497 | 26 | 11,806 | 26 | 11,806 |
| Commission Chairman II | 1 | 304 | 1 | 623 | 2 | 1,500 | 2 | 1,754 | 2 | 1,754 |
| Regional Legislative Secretary | 1 | 304 | 1 | 623 | 1 | 750 | 1 | 877 | 1 | 877 |
| Regional Executive Secretary | 1 | 304 | 1 | 623 | 1 | 750 | 1 | 877 | 1 | 877 |
| Administrator I | 1 | 292 | 1 | 583 | 1 | 698 | 1 | 812 | 1 | 812 |
| Commission Member II | 2 | 585 | 2 | 1,166 | 4 | 2,790 | 4 | 3,248 | 4 | 3,248 |
| Director IV | 2 | 584 | 2 | 1,166 | 2 | 1,396 | 2 | 1,624 | 2 | 1,624 |
| Regional Chief of Staff | 1 | 292 | 1 | 583 | 1 | 698 | 1 | 812 | 1 | 812 |
| Executive Director III | 1 | 292 | 1 | 583 | 1 | 698 | 1 | 812 | 1 | 812 |
| Secretary of the Regional Commission | 1 | 292 | 1 | 583 | 1 | 698 | 1 | 812 | 1 | 812 |
| Board Chairman I | 1 | 292 | 1 | 583 | 1 | 698 | 1 | 812 | 1 | 812 |
| Regional Treasurer | 1 | 281 | 1 | 546 | 1 | 649 | 1 | 752 | 1 | 752 |
| Executive Director II | 2 | 562 | 2 | 1,092 | 2 | 1,298 | 2 | 1,504 | 2 | 1,504 |
| Assistant Regional Cabinet Secretary | 12 | 3,372 | 12 | 6,552 | 12 | 7,788 | 12 | 9,024 | 12 | 9,024 |
| Director III | 10 | 2,810 | 11 | 6,006 | 11 | 7,139 | 11 | 8,272 | 11 | 8,272 |
| Assistant Regional Executive Secretary | 1 | 281 | 1 | 546 | 1 | 649 | 1 | 752 | 1 | 752 |
| Board Member | 3 | 843 | 3 | 1,638 | 3 | 1,947 | 3 | 2,256 | 3 | 2,256 |
| Schools Division Superintendent | 5 | 1,350 | 7 | 3,584 | 7 | 4,228 | 8 | 5,568 | 8 | 5,568 |
| Provincial Environment and Natural Resources Officer | 4 | 1,080 | 5 | 2,560 | 5 | 3,020 | 5 | 3,480 | 5 | 3,480 |
| Provincial Agrarian Reform Program Officer | 1 | 270 | 2 | 1,024 | 2 | 1,208 | 2 | 1,392 | 2 | 1,392 |
| Local Government Operations Officer V | 4 | 1,080 | 5 | 2,560 | 5 | 3,020 | 5 | 3,480 | 5 | 3,480 |
| Executive Director I | 1 | 270 | 1 | 512 | 1 | 604 | 1 | 696 | 1 | 696 |
| Provincial Agricultural Officer | 4 | 1,080 | 4 | 2,048 | 4 | 2,416 | 4 | 2,784 | 4 | 2,784 |
| Director II | 16 | 4,321 | 17 | 8,702 | 17 | 10,268 | 17 | 11,834 | 17 | 11,834 |
| Provincial Trade and Industry Officer | 4 | 1,082 | 4 | 2,048 | 4 | 2,416 | 4 | 2,786 | 4 | 2,786 |
| Provincial Health Officer II | 4 | 1,080 | 4 | 2,048 | 4 | 2,416 | 4 | 2,784 | 4 | 2,784 |
| Vocational School Superintendent II | 2 | 540 | 2 | 1,024 | 2 | 1,208 | 2 | 1,392 | 2 | 1,392 |
| Provincial Health Officer I | 5 | 1,300 | 5 | 2,399 | 5 | 2,810 | 5 | 3,225 | 5 | 3,225 |
| Medical Officer V | | | 2 | 960 | 2 | 1,124 | 2 | 1,290 | 2 | 1,290 |
| Medical Officer VII | 2 | 520 | | | | | | | | |
| Executive Assistant VI | 2 | 520 | 2 | 960 | 2 | 1,124 | 2 | 1,290 | 2 | 1,290 |
| District Engineer | 4 | 1,040 | 4 | 1,920 | 4 | 2,248 | 4 | 2,580 | 4 | 2,580 |
| City Health Officer II | 1 | 260 | 1 | 480 | 1 | 562 | 1 | 645 | 1 | 645 |
| Board Secretary VI | 1 | 260 | 1 | 480 | 1 | 562 | 1 | 645 | 1 | 645 |
| Director I | | | 1 | 480 | 1 | 562 | 1 | 645 | 1 | 645 |
| Attorney V | | | 4 | 1,920 | 4 | 2,248 | 4 | 2,580 | 4 | 2,580 |

| Permanent Positions | 2002 Actual | | 2011 Actual | | 2012 Actual | | 2013 Program | | 2014 NEP | |
|---|---------------------|--------|---------------------|--------|---------------------|--------|---------------------|--------|---------------------|--------|
| | Number of Positions | Amount | Number of Positions | Amount | Number of Positions | Amount | Number of Positions | Amount | Number of Positions | Amount |
| Assistant Schools Division Superintendent | 6 | 1,560 | 8 | 3,839 | 8 | 4,496 | 8 | 5,160 | 8 | 5,160 |
| Community Environment and Natural Resources Officer | 8 | 2,000 | 10 | 4,499 | 10 | 5,231 | 10 | 5,970 | 10 | 5,970 |
| City Health Officer I | 1 | 250 | 1 | 450 | 1 | 523 | 1 | 597 | 1 | 597 |
| Chief Transportation Regulation Officer | | | | | 2 | 1,046 | 2 | 1,194 | 2 | 1,194 |
| Chief Trade-Industry Development Specialist | 7 | 1,750 | 7 | 3,146 | 7 | 3,663 | 7 | 4,179 | 7 | 4,179 |
| Chief Tourism Operations Officer | 1 | 250 | 1 | 450 | 1 | 523 | 1 | 597 | 1 | 597 |
| Chief Science Research Specialist | 1 | 250 | 1 | 450 | 1 | 523 | 1 | 597 | 1 | 597 |
| Chief Maritime Industry Development Specialist | | | | | 1 | 523 | 1 | 597 | 1 | 597 |
| Chief Labor and Employment Officer | 1 | 250 | 1 | 450 | 1 | 523 | 1 | 597 | 1 | 597 |
| Chief Investments Specialist | 2 | 500 | 2 | 900 | 2 | 1,046 | 2 | 1,194 | 2 | 1,194 |
| Chief Forest Management Specialist | 1 | 250 | 1 | 450 | 1 | 523 | 1 | 597 | 1 | 597 |
| Chief Environmental Management Specialist | 1 | 250 | 1 | 450 | 1 | 523 | 1 | 597 | 1 | 597 |
| Chief Education Program Specialist | 3 | 750 | 3 | 1,350 | 3 | 1,046 | 3 | 1,791 | 3 | 1,791 |
| Chief of Hospital I | 11 | 2,750 | 11 | 4,950 | 11 | 5,753 | 11 | 6,567 | 11 | 6,567 |
| Chief Communications Development Officer | | | | | 1 | 523 | 1 | 597 | 1 | 597 |
| Chief Agriculturist | 2 | 500 | 2 | 900 | 2 | 1,046 | 2 | 1,194 | 2 | 1,194 |
| Chief Agrarian Reform Program Officer | 2 | 500 | 3 | 1,350 | 3 | 1,569 | 3 | 1,791 | 3 | 1,791 |
| Chief Transportation Development Officer | | | | | 2 | 1,046 | 2 | 1,194 | 2 | 1,194 |
| Chief Administrative Officer | | | 28 | 12,600 | 29 | 15,167 | 29 | 17,313 | 29 | 17,313 |
| Chief Accountant | 2 | 500 | 2 | 900 | 2 | 1,046 | 2 | 1,194 | 2 | 1,194 |
| Autonomous Region Legislative Staff Officer | 6 | 1,500 | 6 | 2,700 | 6 | 3,138 | 6 | 3,582 | 6 | 3,582 |
| Development Management Officer V | 2 | 500 | 2 | 900 | 2 | 1,046 | 2 | 1,194 | 2 | 1,194 |
| Airport Manager III | | | | | 1 | 523 | 1 | 597 | 1 | 597 |
| Social Welfare Officer V | 6 | 1,500 | 6 | 2,700 | 6 | 3,138 | 6 | 3,582 | 6 | 3,582 |
| Sergeant-At-Arms I | 2 | 500 | 2 | 900 | 2 | 1,046 | 2 | 1,194 | 2 | 1,194 |
| Rural Health Physician | 87 | 21,743 | 87 | 39,123 | 87 | 45,529 | 87 | 51,939 | 87 | 51,939 |
| Planning Officer V | 7 | 1,750 | 7 | 3,150 | 7 | 3,661 | 7 | 4,179 | 7 | 4,179 |
| Local Treasury Operations Officer V | 1 | 250 | 1 | 450 | 1 | 523 | 1 | 597 | 1 | 597 |
| Cashier V | 1 | 250 | | | | | | | | |
| Budget Officer V | 2 | 500 | | | | | | | | |
| Human Resource Management Officer V | 2 | 500 | | | | | | | | |
| Administrative Officer V | 18 | 4,500 | | | | | | | | |
| Records Officer V | 1 | 250 | | | | | | | | |
| Public Relations Officer V | 1 | 250 | | | | | | | | |
| Management and Audit Analyst V | 2 | 500 | | | | | | | | |
| Legal Officer V | 2 | 500 | | | | | | | | |
| Supply Officer V | 1 | 250 | | | | | | | | |
| Information Officer V | 1 | 250 | | | | | | | | |

Annex 3 –Page 3

| Permanent Positions | 2002 Actual | | 2011 Actual | | 2012 Actual | | 2013 Program | | 2014 NEP | |
|--|---------------------|-----------|---------------------|-----------|---------------------|-----------|---------------------|-----------|---------------------|-----------|
| | Number of Positions | Amount | Number of Positions | Amount | Number of Positions | Amount | Number of Positions | Amount | Number of Positions | Amount |
| Local Government Operations Officer V | 6 | 1,500 | 6 | 2,700 | 6 | 3,138 | 6 | 3,582 | 6 | 3,582 |
| Librarian V | 1 | 250 | 1 | 450 | 1 | 523 | 1 | 597 | 1 | 597 |
| Land Management Officer V | 1 | 250 | 1 | 450 | 1 | 523 | 1 | 597 | 1 | 597 |
| Intelligence Officer V | 1 | 250 | 1 | 450 | 1 | 523 | 1 | 597 | 1 | 597 |
| Housing and Homesite Regulation Officer V | 1 | 250 | 1 | 450 | 1 | 523 | 1 | 597 | 1 | 597 |
| Security Officer V | 1 | 250 | 1 | 450 | 1 | 523 | 1 | 597 | 1 | 597 |
| Financial and Management Officer II | 5 | 1,250 | 5 | 2,250 | 5 | 2,615 | 5 | 2,985 | 5 | 2,985 |
| Executive Assistant V | 1 | 250 | 1 | 450 | 1 | 523 | 1 | 597 | 1 | 597 |
| Engineer V | 5 | 1,250 | 5 | 2,250 | 5 | 2,615 | 5 | 2,985 | 5 | 2,985 |
| Vocational School Administrator II | 2 | 480 | 2 | 844 | 2 | 974 | 2 | 1,106 | 2 | 1,106 |
| Local Government Operations Officer VI | | | 1 | 396 | 1 | 454 | 1 | 512 | 1 | 512 |
| Total Key Positions | 355 | 93,649 | 370 | 182,015 | 384 | 222,423 | 385 | 256,413 | 385 | 256,413 |
| | 355 | 93,649 | | - | 384 | 221,900 | 385 | 245,413 | 385 | 245,413 |
| | | | 370 | 182,015 | 384 | 221,900 | 385 | 245,413 | 385 | 245,413 |
| Other Positions | | | | | | | | | | |
| Administrative | 2,936 | 299,872 | 3,177 | 505,114 | 3,190 | 557,498 | 3,196 | 609,137 | 3,196 | 609,137 |
| Support to Technical | 480 | 62,566 | 531 | 113,633 | 555 | 130,672 | 556 | 143,772 | 556 | 143,772 |
| Technical | 17,990 | 2,306,661 | 25,545 | 5,298,560 | 26,038 | 5,941,534 | 28,724 | 7,088,716 | 28,724 | 7,088,716 |
| Total Other Positions | 21,406 | 2,669,099 | 29,253 | 5,917,307 | 29,783 | 6,629,704 | 32,476 | 7,841,625 | 32,476 | 7,841,625 |
| For the difference between the Authorized and Actual Salaries | | 130,448 | | 841,112 | | 809,252 | | 204,755 | | 204,755 |
| Total Permanent Positions | 21,761 | 2,893,196 | 29,623 | 6,940,434 | 30,167 | 7,661,379 | 32,861 | 8,302,793 | 32,861 | 8,302,793 |
| Less: Number and amount of Salary Lapses/Savings from Unfilled Position/Chargeable against Savings | 65 | 273,727 | | | | | | | | |
| Total Permanent Filled Positions | 21,696 | 2,619,469 | 28,414 | 5,434,036 | 28,703 | 6,792,777 | 29,777 | 7,398,901 | 29,777 | 7,398,901 |

Annex 4

**Expenditure Program (Net of Debt Burden) of ARMM
FY 2001-2013 (Actual)
In Million Pesos**

| By Function | 2001 | | 2002 | | 2003* | | 2004 | | 2005 | |
|--------------|---------------|-----------------|---------------|-----------------|---------------|------------------|---------------|-----------------|---------------|-----------------|
| | Actual | Philwide Actual | Actual | Philwide Actual | Actual | Philwide Actual* | Actual | Philwide Actual | Actual | Philwide Actual |
| GAS | 1,592 | 59,739 | 336 | 65,879 | 565 | 27,717 | 607 | 73,086 | 1,362 | 95,139 |
| STO | 13 | 20,556 | 14 | 18,868 | 14 | 14,148 | 14 | 27,356 | 14 | 46,164 |
| O | 4,013 | 244,919 | 4,346 | 258,409 | 4,554 | 265,284 | 4,969 | 276,936 | 4,775 | 278,924 |
| LFP | - | 163,010 | 620 | 168,173 | 492 | 228,622 | 307 | 187,464 | 667 | 184,535 |
| FAP | - | 40,091 | - | 42,206 | - | 39,495 | - | 35,591 | 50 | 41,278 |
| Total | 5,617 | 528,315 | 5,316 | 553,535 | 5,625 | 575,265 | 5,896 | 600,433 | 6,867 | 646,040 |
| In percent | | | | | | | | | | |
| GAS | 28.3% | 11.3% | 6.3% | 11.9% | 10.1% | 4.8% | 10.3% | 12.2% | 19.8% | 14.7% |
| STO | 0.2% | 3.9% | 0.3% | 3.4% | 0.2% | 2.5% | 0.2% | 4.6% | 0.2% | 7.1% |
| O | 71.4% | 46.4% | 81.8% | 46.7% | 81.0% | 46.1% | 84.3% | 46.1% | 69.5% | 43.2% |
| LFP | 0.0% | 30.9% | 11.7% | 30.4% | 8.7% | 39.7% | 5.2% | 31.2% | 9.7% | 28.6% |
| FAP | 0.0% | 7.6% | 0.0% | 7.6% | 0.0% | 6.9% | 0.0% | 5.9% | 0.7% | 6.4% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source: BESF, DBM

| By Function | 2006 | | 2007 | | 2008 | | 2009 | | 2010 | |
|--------------|---|-----------------|---------------|-----------------|---------------|------------------|---------------|------------------|---------------|------------------|
| | Actual | Philwide Actual | Actual | Philwide Actual | Actual | Philwide Actual | Actual | Philwide Actual | Actual | Philwide Actual |
| GAS | 1,582 | 102,820 | 1,821 | 130,325 | 1,422 | 122,416 | 1,019 | 127,738 | 1,137 | 150,832 |
| STO | 14 | 40,247 | 15 | 41,738 | 26 | 91,694 | 23 | 22,936 | 24 | 59,582 |
| O | 5,611 | 309,090 | 5,625 | 361,961 | 7,115 | 411,718 | 7,783 | 491,911 | 8,408 | 461,754 |
| LFP | 505 | 234,922 | 679 | 304,698 | 846 | 366,788 | 1,000 | 474,777 | 1,007 | 466,674 |
| FAP | 580 | 47,514 | 570 | 39,236 | 595 | 35,386 | 559 | 32,854 | 115 | 30,633 |
| Total | 8,293 | 734,592 | 8,709 | 877,959 | 10,003 | 1,028,003 | 10,385 | 1,150,216 | 10,690 | 1,169,475 |
| In percent | | | | | | | | | | |
| GAS | 19.1% | 14.0% | 20.9% | 14.8% | 14.2% | 11.9% | 9.8% | 11.1% | 10.6% | 12.9% |
| STO | 0.2% | 5.5% | 0.2% | 4.8% | 0.3% | 8.9% | 0.2% | 2.0% | 0.2% | 5.1% |
| O | 67.7% | 42.1% | 64.6% | 41.2% | 71.1% | 40.1% | 75.0% | 42.8% | 78.6% | 39.5% |
| LFP | 6.1% | 32.0% | 7.8% | 34.7% | 8.5% | 35.7% | 9.6% | 41.3% | 9.4% | 39.9% |
| FAP | 7.0% | 6.5% | 6.5% | 4.5% | 5.9% | 3.4% | 5.4% | 2.9% | 1.1% | 2.6% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Note: | | | | | | | | | | |
| | * used programmed amount, BESF 2005 not available | | | | | | | | | |

| By Function | 2011 | | 2012 | | 2013 | | Total | |
|---|---------------|--------------------|---------------|--------------------|---------------|--------------------|----------------|--------------------|
| | Actual | Philwide Actual | Actual | Philwide Actual | Actual | Philwide Actual | Actual | Philwide Actual |
| GAS | 1,074 | 168,389 | 1,298 | 181,561 | 1,737 | 261,573 | 15,551 | 1,567,215 |
| STO | 27 | 30,224 | 30 | 30,976 | 30 | 42,746 | 255 | 487,235 |
| O | 10,385 | 555,807 | 11,161 | 731,135 | 14,301 | 674,971 | 93,046 | 5,322,817 |
| LFP | 1,026 | 492,958 | 1,000 | 512,711 | 1,510 | 652,496 | 9,658 | 4,437,828 |
| FAP | 420 | 35,587 | 749 | 32,379 | 364 | 26,529 | 4,002 | 478,780 |
| Total | 12,932 | 1,282,966 | 14,237 | 1,488,761 | 17,942 | 1,658,316 | 122,513 | 12,293,875 |
| In percent | | | | | | | | |
| GAS | 8.3% | 13.1% | 9.1% | 12.2% | 9.7% | 15.8% | 12.7% | 12.7% |
| STO | 0.2% | 2.4% | 0.2% | 2.1% | 0.2% | 2.6% | 0.2% | 4.0% |
| O | 80.3% | 43.3% | 78.4% | 49.1% | 79.7% | 40.7% | 75.9% | 43.3% |
| LFP | 7.9% | 38.4% | 7.0% | 34.4% | 8.4% | 39.3% | 7.9% | 36.1% |
| FAP | 3.3% | 2.8% | 5.3% | 2.2% | 2.0% | 1.6% | 3.3% | 3.9% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Note: | | | | | | | | |
| * used programmed amount, BESF 2005 not available | | | | | | | | |

Source: BESF, DBM

Annex 5

**Receipts and Expenditures of ARMM LGUs
FY 2001-2012
In Million Pesos**

| PARTICULARS | 2001 | | | | 2001 | 2002 | | | | 2002 |
|---|----------------|--------------|----------|---------------|------------------|----------------|--------------|----------|---------------|------------------|
| | Actual | | | Total | Phil- wide | Actual | | | Total | Phil- wide |
| | Municipalities | Provinces | Cities | | Total | Municipalities | Provinces | Cities | | Total |
| RECEIPTS | | | | | | | | | | |
| Local Sources | | | | - | | | | | - | |
| Tax Revenues | | | | - | | | | | - | |
| Real Property Tax | 28.43 | 2.39 | | 30.82 | 9,734.78 | 5.74 | 1.32 | | 7.06 | 12,424.94 |
| Special Educ. Fund Tax | | | | - | | | | | - | |
| Business tax | | | | | | | | | | |
| Other Local Taxes | 22.08 | 15.88 | | 37.96 | 15,755.68 | 13.01 | 15.31 | | 28.32 | 19,801.66 |
| Total Tax Revenues | 50.51 | 18.27 | - | 68.78 | 25,490.46 | 18.75 | 16.63 | - | 35.38 | 32,226.60 |
| Non-Tax Revenues | | | | - | | | | | - | |
| Regulatory Fees | | | | - | | | | | - | |
| License Fees | | | | - | | | | | - | |
| Permit Fees | | | | - | | | | | - | |
| Other Fees | | | | - | | | | | - | |
| Business and Service/User Charge | 8.15 | 0.03 | | 8.18 | 8,763.19 | 191.66 | | | 191.66 | 10,551.12 |
| Receipts from Economic Enterprise | | | | | | | | | | |
| Other Income/Receipts | | | | - | | | | | - | |
| Total Non-Tax Revenues | 8.15 | 0.03 | - | 8.18 | 8,763.19 | 191.66 | - | - | 191.66 | 10,551.12 |
| TOTAL RECEIPTS FROM LOCAL SOURCES | 58.66 | 18.30 | - | 76.96 | 34,253.65 | 210.41 | 16.63 | - | 227.04 | 42,777.72 |
| External Sources | | | | - | | | | | - | |
| Share from GOCCs (PAGCOR and PCSO) | | | | - | | | | | - | |
| Share from Ecozone | | | | - | | | | | - | |
| Share from EVAT | | | | - | | | | | - | |
| Share from National Wealth | | | | - | | | | | - | |
| Share from Tobacco Excise Tax | | | | - | | | | | - | |
| Extraordinary Receipts | | | | - | 242.47 | 0.05 | | | 0.05 | 300.27 |
| Grants and Donations | 5.29 | | | 5.29 | 1,086.35 | 0.10 | | | 0.10 | 1,361.95 |
| Other Subsidy Income | | | | - | | | | | - | |
| Inter-local Transfers | | | | - | 608.72 | | | | - | 378.91 |
| Subsidy from LGUs | | | | - | | | | | - | |
| Subsidy from Other Funds | | | | - | | | | | - | |
| Capital/Investment Receipts | | | | - | 449.83 | 0.10 | | | 0.10 | 1,033.61 |
| Gain on Sale of Assets (Property, Plant, Equipment, securities) | | | | - | | | | | - | |
| Collection of Receivables | | | | | | | | | | |
| Gain on Investments | | | | - | | | | | - | |
| TOTAL RECEIPTS FROM EXTERNAL SOURCES | 5.29 | - | - | 5.29 | 2,387.37 | 0.25 | - | - | 0.25 | 3,074.74 |
| OTHER RECEIPTS | 11.04 | 33.80 | - | 44.84 | 1,487.42 | 2.02 | 26.63 | - | 28.65 | 1,753.68 |
| RECEIPTS FROM LOANS AND BORROWINGS | 29.52 | | | 29.52 | 3,012.66 | 13.99 | | | 13.99 | 1,445.56 |
| Total External and Other Receipts | 45.85 | 33.80 | - | 79.65 | 6,887.45 | 16.26 | 26.63 | - | 42.89 | 6,273.98 |
| TOTAL RECEIPTS | 104.51 | 52.10 | - | 156.61 | 41,141.10 | 226.67 | 43.26 | - | 269.93 | 49,051.70 |

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| PARTICULARS | 2004 | | | | 2004 | 2005 | | | | 2005 |
|---|----------------|--------------|----------|---------------|------------------|----------------|--------------|----------|---------------|------------------|
| | Actual | | | Total | Phil- wide | Actual | | | Total | Phil- wide |
| | Municipalities | Provinces | Cities | | Total | Municipalities | Provinces | Cities | | Total |
| RECEIPTS | | | | | | | | | | |
| Local Sources | | | | - | | | | | - | |
| Tax Revenues | | | | - | | | | | - | |
| Real Property Tax | 4.76 | 2.22 | | 6.98 | 14,746.64 | 7.76 | 12.82 | - | 20.58 | 13,797.26 |
| Special Educ. Fund Tax | | | | - | | | | | - | |
| Business tax | | | | | | | | | | |
| Other Local Taxes | 15.00 | 3.35 | | 18.35 | 24,376.59 | 53.68 | 21.18 | | 74.86 | 28,114.38 |
| Total Tax Revenues | 19.76 | 5.57 | - | 25.33 | 39,123.23 | 61.44 | 34.00 | - | 95.44 | 41,911.64 |
| Non-Tax Revenues | | | | - | | | | | - | |
| Regulatory Fees | | | | - | | | | | - | |
| License Fees | | | | - | | | | | - | |
| Permit Fees | | | | - | | | | | - | |
| Other Fees | | | | - | | | | | - | |
| Business and Service/User Charge | 12.91 | 52.91 | | 65.82 | 12,529.68 | 13.85 | 4.65 | | 18.50 | 14,505.53 |
| Receipts from Economic Enterprise | | | | | | | | | | |
| Other Income/Receipts | | | | - | | | | | - | 230.98 |
| Total Non-Tax Revenues | 12.91 | 52.91 | - | 65.82 | 12,529.68 | 13.85 | 4.65 | - | 18.50 | 14,736.51 |
| TOTAL RECEIPTS FROM LOCAL SOURCES | 32.67 | 58.48 | - | 91.15 | 51,652.91 | 75.29 | 38.65 | - | 113.94 | 56,648.15 |
| External Sources | | | | - | | | | | | |
| Share from GOCCs (PAGCOR and PCSO) | | | | - | | | | | - | |
| Share from Ecozone | | | | - | | | | | - | |
| Share from EVAT | | | | - | | | | | - | |
| Share from National Wealth | | | | - | | | | | - | |
| Share from Tobacco Excise Tax | | | | - | | | | | - | |
| Extraordinary Receipts | | | | - | 239.18 | | | | | |
| Grants and Donations | 0.84 | 6.30 | | 7.14 | 1,354.88 | 2.00 | | | 2.00 | 1,789.93 |
| Other Subsidy Income | | | | - | | | | | - | |
| Inter-local Transfers | | | | - | 481.69 | | | | | 987.10 |
| Subsidy from LGUs | | | | - | | | | | - | |
| Subsidy from Other Funds | | | | - | | | | | - | |
| Capital/Investment Receipts | | | | - | 1,067.19 | | | | | |
| Gain on Sale of Assets (Property, Plant, Equipment, securities) | | | | - | | | | | - | |
| Collection of Receivables | | | | | | | | | | |
| Gain on Investments | | | | - | | | | | - | |
| TOTAL RECEIPTS FROM EXTERNAL SOURCES | 0.84 | 6.30 | - | 7.14 | 3,142.94 | 2.00 | - | - | 2.00 | 2,777.03 |
| OTHER RECEIPTS | 11.24 | 22.68 | - | 33.92 | 3,325.80 | 12.18 | 9.11 | - | 21.29 | 5,078.54 |
| RECEIPTS FROM LOANS AND BORROWINGS | | | | - | 3,972.21 | | | | - | 2,538.31 |
| Total External and Other Receipts | 12.08 | 28.98 | - | 41.06 | 10,440.95 | 14.18 | 9.11 | - | 23.29 | 10,393.88 |
| TOTAL RECEIPTS | 44.75 | 87.46 | - | 132.21 | 62,093.86 | 89.47 | 47.76 | - | 137.23 | 67,042.03 |

Annex 5 – Page 3

| PARTICULARS | 2006 | | | | 2006 | 2007 | | | | 2007 |
|---|----------------|---------------|----------|---------------|------------------|----------------|---------------|--------------|---------------|------------------|
| | Actual | | | Total | Phil- wide | Actual | | | Total | Phil- wide |
| | Municipalities | Provinces | Cities | | Total | Municipalities | Provinces | Cities | | Total |
| RECEIPTS | | | | | | | | | | |
| Local Sources | | | | | | | | | | |
| Tax Revenues | | | | | | | | | | |
| Real Property Tax | 13.89 | 23.05 | | 36.94 | 17,187.32 | 17.35 | 21.38 | 11.44 | 50.17 | 15,988.46 |
| Special Educ. Fund Tax | | | | - | | | | | | |
| Business tax | | | | | | | | | | |
| Other Local Taxes | 80.08 | 6.83 | | 86.91 | 29,811.65 | 26.33 | 37.00 | 5.05 | 68.38 | 27,751.97 |
| Total Tax Revenues | 93.97 | 29.88 | - | 123.85 | 46,998.97 | 43.68 | 58.38 | 16.49 | 118.55 | 43,740.43 |
| Non-Tax Revenues | | | | | | | | | | |
| Regulatory Fees | | | | - | | | | | - | |
| License Fees | | | | - | | | | | - | |
| Permit Fees | | | | - | | | | | - | |
| Other Fees | | | | - | | 113.82 | 16.48 | 14.65 | 144.95 | 15,415.44 |
| Business and Service/User Charge | 153.50 | 65.19 | | 218.69 | 16,004.19 | | | | - | |
| Receipts from Economic Enterprise | | | | | | | | | | |
| Other Income/Receipts | | | | - | | | | | - | |
| Total Non-Tax Revenues | 153.50 | 65.19 | - | 218.69 | 16,004.19 | 113.82 | 16.48 | 14.65 | 144.95 | 15,415.44 |
| TOTAL RECEIPTS FROM LOCAL SOURCES | 247.47 | 95.07 | - | 342.54 | 63,003.16 | 157.50 | 74.86 | 31.14 | 263.50 | 59,155.87 |
| External Sources | | | | | | | | | | |
| Share from GOCCs (PAGCOR and PCSO) | | | | - | | | | | | |
| Share from Ecozone | | | | - | | | | | | |
| Share from EVAT | | | | - | | | | | | |
| Share from National Wealth | | | | - | | | | | | |
| Share from Tobacco Excise Tax | | | | - | | | | | | |
| Extraordinary Receipts | 9.80 | | | 9.80 | 791.83 | 12.50 | 22.23 | 6.90 | 41.63 | 446.56 |
| Grants and Donations | 2.20 | 7.00 | | 9.20 | 1,692.98 | 25.47 | 7.00 | | 32.47 | 2,296.19 |
| Other Subsidy Income | | | | - | | | | | | |
| Inter-local Transfers | | | | - | 765.09 | 2.00 | | | 2.00 | 1,064.20 |
| Subsidy from LGUs | | | | - | | | | | | |
| Subsidy from Other Funds | | | | - | | | | | | |
| Capital/Investment Receipts | 0.70 | | | 0.70 | 766.24 | 1.94 | | | 1.94 | 484.48 |
| Gain on Sale of Assets (Property, Plant, Equipment, securities) | | | | - | | | | | | |
| Collection of Receivables | | | | | | | | | | |
| Gain on Investments | | | | - | | | | | | |
| TOTAL RECEIPTS FROM EXTERNAL SOURCES | 12.70 | 7.00 | - | 19.70 | 4,016.14 | 41.91 | 29.23 | 6.90 | 78.04 | 4,291.43 |
| OTHER RECEIPTS | 4.23 | 31.54 | | 35.77 | 5,496.37 | 28.59 | 47.95 | 39.69 | 116.23 | 8,021.77 |
| RECEIPTS FROM LOANS AND BORROWINGS | 33.70 | | | 33.70 | 1,948.59 | 41.78 | 100.00 | | 141.78 | 5,341.11 |
| Total External and Other Receipts | 50.63 | 38.54 | - | 89.17 | 11,461.10 | 112.28 | 177.18 | 46.59 | 336.05 | 17,654.31 |
| TOTAL RECEIPTS | 298.10 | 133.61 | - | 431.71 | 74,464.26 | 269.78 | 252.04 | 77.73 | 599.55 | 76,810.18 |

Annex 5 – Page 4

| PARTICULARS | 2009 | | | | 2009 | 2010 | | | | 2010 |
|---|----------------|---------------|---------------|---------------|------------------|----------------|---------------|--------------|---------------|-------------------|
| | Actual | | | Total | Phil- wide | Actual | | | Total | Phil- wide |
| | Municipalities | Provinces | Cities | | Total | Municipalities | Provinces | Cities | | Total |
| RECEIPTS | | | | | | | | | | |
| Local Sources | | | | | | | | | | |
| Tax Revenues | | | | | | | | | | |
| Real Property Tax | 14.39 | 4.61 | - | 19.00 | 17,594.62 | 22.59 | 4.44 | - | 27.03 | 17,256.61 |
| Special Educ. Fund Tax | 0.67 | - | - | 0.67 | 1,012.79 | 0.01 | - | - | 0.01 | 3,257.16 |
| Business tax | | | | | | | | | | |
| Other Local Taxes | 27.79 | 111.44 | 8.00 | 147.23 | 33,623.98 | 34.34 | 49.40 | 4.50 | 88.24 | 35,305.17 |
| Total Tax Revenues | 42.85 | 116.05 | 8.00 | 166.90 | 52,231.39 | 56.94 | 53.84 | 4.50 | 115.28 | 55,818.94 |
| Non-Tax Revenues | | | | | | | | | | |
| Regulatory Fees | | | | | | | | | | |
| License Fees | 2.79 | - | - | 2.79 | 1,254.41 | 17.14 | - | - | 17.14 | 2,787.65 |
| Permit Fees | 4.78 | 0.02 | - | 4.80 | 461.27 | 5.09 | 1.57 | - | 6.66 | 1,346.42 |
| Other Fees | 1.58 | 0.12 | - | 1.70 | 2,716.20 | 40.50 | 33.55 | - | 74.05 | 3,621.34 |
| Business and Service/User Charge | 22.42 | 6.95 | - | 29.37 | 13,203.72 | 16.07 | 65.30 | - | 81.37 | 13,610.83 |
| Receipts from Economic Enterprise | | | | | | | | | | |
| Other Income/Receipts | 4.36 | - | 7.00 | 11.36 | 9,160.95 | 1.80 | 0.02 | 4.00 | 5.82 | 8,924.66 |
| Total Non-Tax Revenues | 35.93 | 7.09 | 7.00 | 50.02 | 26,796.55 | 80.60 | 100.44 | 4.00 | 185.04 | 30,290.90 |
| TOTAL RECEIPTS FROM LOCAL SOURCES | 78.78 | 123.14 | 15.00 | 216.92 | 79,027.94 | 137.54 | 154.28 | 8.50 | 300.32 | 86,109.84 |
| External Sources | | | | | | | | | | |
| Share from GOCCs (PAGCOR and PCSO) | 0.04 | 0.02 | - | 0.06 | 142.58 | 0.78 | 9.00 | - | 9.78 | 664.47 |
| Share from Ecozone | - | - | 30.00 | 30.00 | 405.50 | - | - | 27.37 | 27.37 | 829.49 |
| Share from EVAT | 0.45 | - | - | 0.45 | 13.46 | 3.76 | - | - | 3.76 | 47.65 |
| Share from National Wealth | - | 2.08 | - | 2.08 | 663.66 | 4.08 | 5.18 | 6.00 | 15.26 | 1,191.08 |
| Share from Tobacco Excise Tax | - | - | - | - | 59.84 | - | - | - | - | 5,229.00 |
| Extraordinary Receipts | | | | | | | | | | |
| Grants and Donations | 10.37 | 0.06 | - | 10.43 | 2,008.45 | - | - | - | - | 1,715.61 |
| Other Subsidy Income | 16.35 | 41.32 | 15.00 | 72.67 | 420.89 | 17.20 | 0.05 | - | 17.25 | 499.93 |
| Inter-local Transfers | | | | | | | | | | |
| Subsidy from LGUs | 27.80 | 6.00 | - | 33.80 | 233.11 | 0.05 | 48.24 | - | 48.29 | 114.29 |
| Subsidy from Other Funds | 0.11 | 1.15 | - | 1.26 | 1,222.03 | 12.20 | - | - | 12.20 | 1,439.63 |
| Capital/Investment Receipts | | | | | | | | | | |
| Gain on Sale of Assets (Property, Plant, Equipment, securities) | - | - | - | - | 1,506.69 | 0.11 | 5.60 | - | 5.71 | 253.40 |
| Collection of Receivables | | | | | | | | | | |
| Gain on Investments | - | - | - | - | 1,818.41 | - | - | - | - | 68.64 |
| TOTAL RECEIPTS FROM EXTERNAL SOURCES | 55.12 | 50.63 | 45.00 | 150.75 | 8,494.62 | 38.18 | 68.07 | 33.37 | 139.62 | 12,053.19 |
| OTHER RECEIPTS | | | | | | | | | | |
| RECEIPTS FROM LOANS AND BORROWINGS | - | - | 65.27 | 65.27 | 8,940.68 | 20.40 | - | - | 20.40 | 6,379.98 |
| Total External and Other Receipts | 55.12 | 50.63 | 110.27 | 216.02 | 17,435.30 | 58.58 | 68.07 | 33.37 | 160.02 | 18,433.17 |
| TOTAL RECEIPTS | 133.90 | 173.77 | 125.27 | 432.94 | 96,463.24 | 196.12 | 222.35 | 41.87 | 460.34 | 104,543.01 |

Annex 5 – Page 5

| PARTICULARS | 2011 | | | | 2011 | 2012 | | | | 2012 |
|---|----------------|---------------|--------------|---------------|-------------------|----------------|---------------|--------------|---------------|-------------------|
| | Actual | | | Total | Phil- wide | Actual | | | Total | Phil- wide |
| | Municipalities | Provinces | Cities | | Total | Municipalities | Provinces | Cities | | Total |
| RECEIPTS | | | | | | | | | | |
| Local Sources | | | | | | | | | | - |
| Tax Revenues | | | | | | | | | | - |
| Real Property Tax | 7.28 | 7.15 | 4.82 | 19.25 | 16,569.78 | 7.17 | 13.08 | 4.31 | 24.56 | 18,028.24 |
| Special Educ. Fund Tax | 2.65 | 2.92 | 0.74 | 6.31 | 14,759.14 | 8.59 | 17.41 | 6.16 | 32.16 | 18,756.59 |
| Business tax | | | | | | 9.28 | 16.35 | 7.68 | 33.31 | 40,966.75 |
| Other Local Taxes | 19.45 | 26.85 | 7.84 | 54.14 | 38,880.41 | 3.26 | 1.16 | 0.87 | 5.29 | 4,523.50 |
| Total Tax Revenues | 29.38 | 36.92 | 13.40 | 79.70 | 70,209.33 | 28.30 | 48.00 | 19.02 | 95.32 | 82,275.08 |
| Non-Tax Revenues | | | | | | | | | | - |
| Regulatory Fees | | | | | | 7.64 | - | 0.97 | 8.61 | 7,497.36 |
| License Fees | 8.11 | - | 1.09 | 9.20 | 5,775.05 | | | | - | |
| Permit Fees | - | - | - | - | - | | | | - | |
| Other Fees | 3.95 | 3.81 | 0.92 | 8.68 | 5,501.62 | | | | - | |
| Business and Service/User Charge | 25.15 | 7.55 | 5.08 | 37.78 | 12,807.37 | 5.89 | 1.59 | 0.83 | 8.31 | 6,964.77 |
| Receipts from Economic Enterprise | | | | | | 14.19 | 8.78 | 6.38 | 29.35 | 15,098.42 |
| Other Income/Receipts | 4.03 | 0.52 | 0.04 | 4.59 | 8,134.31 | 2.23 | 9.23 | 37.00 | 48.46 | 11,221.80 |
| Total Non-Tax Revenues | 41.24 | 11.88 | 7.13 | 60.25 | 32,218.35 | 29.95 | 19.60 | 45.18 | 94.73 | 40,782.35 |
| TOTAL RECEIPTS FROM LOCAL SOURCES | 70.62 | 48.80 | 20.53 | 139.95 | 102,427.68 | 58.25 | 67.60 | 64.20 | 190.05 | 123,057.43 |
| External Sources | | | | | | | | | | - |
| Share from GOCCs (PAGCOR and PCSO) | 0.98 | 0.09 | 0.13 | 1.20 | 439.67 | 1.94 | 12.42 | 0.04 | 14.40 | 692.39 |
| Share from Ecozone | - | - | - | - | 1,211.55 | | | | - | 2,009.95 |
| Share from EVAT | 2.14 | 6.33 | - | 8.47 | 993.08 | 0.20 | 5.79 | - | 5.99 | 54.98 |
| Share from National Wealth | 1.09 | 36.45 | 21.40 | 58.94 | 880.48 | 18.86 | 14.75 | 4.17 | 37.78 | 3,686.32 |
| Share from Tobacco Excise Tax | - | - | - | - | 3,460.62 | 0.57 | | | 0.57 | 3,016.20 |
| Extraordinary Receipts | | | | | | 41.75 | | | 41.75 | 3,620.68 |
| Grants and Donations | 24.06 | 0.07 | - | 24.13 | 1,651.94 | | | | - | |
| Other Subsidy Income | 0.07 | 55.02 | - | 55.09 | 643.64 | | | | - | |
| Inter-local Transfers | | | | | | 17.62 | 1.52 | 0.31 | 19.45 | 3,278.76 |
| Subsidy from LGUs | - | - | - | - | 2,141.05 | | | | - | |
| Subsidy from Other Funds | 0.26 | - | 0.20 | 0.46 | 3,540.51 | | | | - | |
| Capital/Investment Receipts | | | | | | | | | | - |
| Gain on Sale of Assets (Property, Plant, Equipment, securities) | 4.44 | 0.05 | - | 4.49 | 191.92 | | | | - | 933.50 |
| Collection of Receivables | | | | | | | 13.07 | | 13.07 | 110.07 |
| Gain on Investments | - | - | - | - | 20.41 | | | | - | |
| TOTAL RECEIPTS FROM EXTERNAL SOURCES | 33.04 | 98.01 | 21.73 | 152.78 | 15,174.87 | 80.94 | 47.55 | 4.52 | 133.01 | 17,402.85 |
| OTHER RECEIPTS | | | | | | | | | | - |
| RECEIPTS FROM LOANS AND BORROWINGS | 0.06 | 15.88 | - | 15.94 | 5,581.92 | 0.50 | 4.98 | | 5.48 | 7,703.11 |
| Total External and Other Receipts | 33.10 | 113.89 | 21.73 | 168.72 | 20,756.79 | 81.44 | 52.53 | 4.52 | 138.49 | 25,105.96 |
| TOTAL RECEIPTS | 103.72 | 162.69 | 42.26 | 308.67 | 123,184.47 | 139.69 | 120.13 | 68.72 | 328.54 | 148,163.39 |



The Foundation for Economic Freedom is a public advocacy organization dedicated to advancing the cause of economic and political liberty, good governance, secure and well-defined property rights, market-oriented reforms and consumer protection. It counts among its members former and present Cabinet secretaries and undersecretaries, leading figures in the academe, respected media personalities and opinion-makers, and prominent members in the business and finance community.

Vision

The Foundation envisions a free, caring and economic society that:

- Promotes equity and civic responsibility as its primary values.
- Is based on a market-oriented and sustainable economic regime.
- Values efficiency and equity in an interdependent global economy.
- Balances the need for economic growth with the development needs of its people.

Goals

The Foundation aims to:

- Present market-oriented reforms to government decision-makers;
- Influence policy-makers in government, business, and industry to aim for inclusive growth;
- Expose economic inefficiencies to government, business and industry, and the general public to guide decision-makers in pursuing policies that will strengthen institutions; and
- Promote well-defined and secure property rights

Corporate Philosophy

We believe that:

- Economic freedom is the capstone of any democratic society without which political, civil, social and other human rights will be rendered ineffective.
- Ensuring a secure property rights regime will result in a stable and fertile environment ripe for economic progress.
- Government has an important role in promoting, maintaining, equalizing and sustaining economic growth.
- Consumer protection is a vital component of long term economic growth.

- The Philippines has all the potential to be a vibrant economy and respected member of the community of nations.

Trustees, Officers and Fellows

The Foundation has for its Board of Advisers, former Prime Minister Cesar E.A. Virata, and former Socio-economic Planning Secretary Dr. Gerardo Sicat.

The Foundation is led by its Board of Trustees composed of former Finance Secretary Roberto de Ocampo, OBE as Chairman, and former Finance Undersecretary Romeo Bernardo as Vice-Chairman. Political economist and entrepreneur Mr. Calixto Chikiamco acts as President together with former Finance Secretary Ernest Leung as Treasurer and Atty. Ricardo Balatbat as Executive Director and Corporate Secretary.

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Current Projects

Partnership for Land Rights and Governance (PLG)

The Partnership for Land Rights and Governance (PLG) is a project of the Foundation for Economic Freedom supported by Australian Embassy – The Asia Foundation Partnership in the Philippines. PLG supports the implementation of the Residential Free Patent Law or RA 10023 that allows the administrative titling of residential lands through the Department of Environment and Natural Resources (DENR). FEF does this primarily by advocating for the creation of land management offices in various municipalities based on a formal partnership between DENR and the concerned LGU.

Series of Workshops to Enhance the Business and Investment Climate in Muslim Mindanao

Overview of the Business and Investment Climate in Bangsamoro. A forum on the Business and Investment Climate of the Bangsamoro was organized by FEF,

Philippine Center for Islam and Democracy (PCID) and DFAT, Australian Embassy on November 26-27, 2013 at the Waterfront Hotel, Davao City.

Islamic Banking and Finance. In partnership with the PCID and the Bangko Sentral ng Pilipinas (BSP), the second workshop was conducted on March 11-12, 2014 at the BSP Executive Business Center, Manila.

Land and Property Rights. In partnership with (PCID and the UP College of Law, the third workshop was conducted on June 4-5, 2014, at the Soliven Room, Malcolm Hall, UP Law, UP Diliman, Quezon City.

Business and Labor Regulations. Conducted in partnership with PCID and the AIM Policy Center, the fourth workshop was conducted on September 24-25, 2014, at the Fuller Hall, Asian Institute of Management, Makati City.

Fiscal Management. Conducted in partnership with PCID and the Development Bank of the Philippines (DBP), fifth and last workshop was conducted on March 11-12, 2015, at the Bulwagan ng Diwang Pilipino, DBP, Makati City.

FEF – Infrastructure Policy Group

The Infrastructure Policy Group of the Foundation for Economic Freedom (FEF-IPG) aims to contribute to improving the PPP framework through policy recommendations grounded on the principles of transparency, fair competition, appropriate risk allocation, and value-for-money project selection.

FEF-Center for Political Economy

Recognizing the importance of having a political environment conducive for economic development to occur, the Foundation for Economic Freedom – Center for Political Economy (FEF-CPE) was established to manage FEF’s political reform-oriented advocacy.

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Twitter: @RPeconfreedom



The **Philippine Center for Islam and Democracy (PCID)** is a non-partisan, non-profit organization dedicated to the study of Islamic and democratic political thought and the search for peace, democracy and development in Muslim communities.

First established as a Council in 2002, PCID was formed amidst global and domestic challenges confronting Islam and Muslims—such as the US led “War on Terror” and the “failed experiment” of the ARMM in the Philippines—fueling skepticism on the compatibility of Islam and Democracy.

Transitioning from Council to Center in June 2010, PCID has endeavored to counter that narrative, underscoring the idea that any attempt to address the problems of Muslim Mindanao should include and occur within the context of democracy. PCID seeks to articulate the voice of the Bangsamoro and Muslims in the Philippines, enabling their meaningful participation in both the global discourse on Islam and democracy, and the struggle for self-determination and development.

Through the years, PCID has become an important platform for the articulation of the Moro voices through its various publications and forums, focusing on the issues of the peace process, Islam and democracy, autonomy, the role of media, federalism and development.

INITIATIVES

- PCID is a partner of the Institute for Autonomy and Governance (IAG) for the project “Promoting Political Climate and Stability for Peace in the Bangsamoro (PRO Politics for Peace)”, supported by the Australian Aid. Recent activities include two forums: “Implications on Mamasapano Incident on the Peace Process: Moving Forward” (March 5, 2015) and “Women Moving the Peace Process Forward” (March 23, 2015)
- PCID, supported by Konrad Adenauer Stiftung (KAS), organizes lectures for leading academic institutions in the country to increase awareness and understanding of Islam, Bangsamoro history and related topics.
- PCID engages the influential Muslim religious leaders in peace building and discourse on democracy and economic development.

- Organized the National Ulama Conference of the Philippines (NUCP) and the Noorus Salam (Light of Peace, a women’s organization led by Muslim religious women teachers and leaders).
- Piloted a project known as “Action for Madrasah-based Advocacy and Learning” or “AMAL” (Arabic for action, hope or change). Project AMAL is designed to help change the community from within, by increasing the capacity of religious leaders in tackling social issues and to make the Madrasah the center for social outreach programs in the community.
- Promoted interfaith understanding and pluralism through initiatives such as “A Common Word” and the Maryam Movement.

Women Peace Table

PCID is a partner of the Women and Gender Institute (WAGI) to implement the Women Peace Table (WPT). WPT aims to consolidate women’s voices in achieving a just and lasting peace in Mindanao. It seeks to bring the voices of women from all sectors and walks of life into peace process, giving the women’s perspective on the issues covered in the peace negotiations but also on what women deem to be critical to a successful post peace agreement reconstruction and recovery.

Towards this end, the WPT is implementing a two-year project with the United States Agency for International Development entitled “*Women’s Peace and Security Project: Increasing Women’s Participation in Conflict Affected Areas in Mindanao.*”

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Australian Government

Department of Foreign Affairs and Trade

Department of Foreign Affairs and Trade – Australian Aid

The Department of Foreign Affairs and Trade – Australian Aid is responsible for managing Australia's overseas aid program, including in the Philippines.

The Australia-Philippines Development Cooperation Program's directions are determined in consultation with the Government of the Philippines and are set out in a Statement of Commitment between the Governments of Australia and the Philippines. This aligns with President Aquino's vision for the country as articulated in the 16 point 'Social Contract with the Filipino People' - which is the guiding framework for the 'Philippine Development Plan'.

The *Australia-Philippines Development Cooperation Program Statement of Commitment* reflects the intention of the Governments to work together to address some of the key issues that keep people poor and make others vulnerable to falling into poverty.

The goal of the Australia – Philippines development cooperation program is to assist the poor and vulnerable to take advantage of the opportunities that can arise from a more prosperous, stable and resilient Philippines.

Australian assistance to the Philippines in 2013-14 focuses on:

Promoting opportunities for all. Australia will support the largest and most significant reform in the Philippines education system in more than 20 years — introduction of a Kindergarten to Year 12 education program. The program will bring the current 10 year education system closer to international standards by expanding it to 13 years. Australian assistance will train teachers and decision makers, provide advice on curriculum development and help develop information technology systems. By 2017, Australian aid will support training programs for 41,000 teachers, provide health and hygiene programs to 120,000 children in 300 schools, and build 1,000 resource centres for teachers and students. Australia's support to the Philippine Government's social protection program is boosting demand for education services by increasing access, enrolment and retention rates. The scheme

targets eligible poor families to receive cash grants on the condition that they meet health and education requirements.

Sustainable economic development. Australia is providing up to \$30 million to support the Philippine Government's Public-Private Partnerships (PPP) reform agenda by investing in infrastructure development, including in classroom construction, health services and transport. Investment in these areas is critical to fostering sustainable growth in the Philippines. Australia is providing technical expertise to the Philippines and helping the Government build a PPP project pipeline. Australian support to the PPP reform agenda will help develop a stronger policy, legal, institutional and regulatory environment for PPPs in the Philippines.

Effective governance. Australia is supporting more than 10 national and local governments by providing government employees with a variety of short term training, together with Australia Awards Scholarships for study in Australia. By 2015, at least 600 Filipinos will have undergone postgraduate study in Australia. Australia is working with the Philippine Government to deliver an innovative program that uses provincial road maintenance funding as an incentive for local governance reforms. Australia is also assisting the Government to automate its public financial management system to improve the efficiency and transparency of public spending.

Australia has made a substantial contribution to peace in Mindanao through our aid program. We will continue to support the peace process in Mindanao by introducing education for youth in remote communities and providing new opportunities for youth formerly involved with armed groups. In 2013, Australia will support the conduct of more credible and legitimate elections in Mindanao.

Humanitarian and disaster response. Australia is strengthening climate change adaptation and disaster risk management in the Philippines. Australian support will generate state-of-the-art multi-hazard and vulnerability maps in 14 provinces. We will help improve urban planning to build safer, disaster-resilient housing for poor people living in hazardous areas.

For more information on the Australian Aid program's strategy priorities, activities and results in the Philippines please see:

<http://dfat.gov.au/qeo/philippines/development-assistance/pages/development-assistance-in-philippines.aspx>

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