COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN THE PHILIPPINES

Unlocking Private Sector Markets to Create Better Jobs

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THE WORLD BANK IBRD • IDA
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Photos: Cover, business process outsourcing center worker in Cagayan de Oro City: Manman Dejeto/World Bank; p. 1, bridge under construction over the sea bay connecting the two parts of Siargao island: Alexpunker/Adobe Stock; p. 3, Mactan-Cebu International Airport: Avigator Fortuner/Shutterstock; p. 5, construction site safety drill in Pasig City: John Raymond Tibay/Shutterstock; p. 8, Makati skyline: jonbilous/Adobe Stock; p. 15, man working inside a large reinforced steel tube: Nonie Reyes/World Bank; p. 25, solar panels study: Hanna Fernando-Pacua/IFC; p. 43, porters in Zamboanga port: Manman Dejeto/World Bank.

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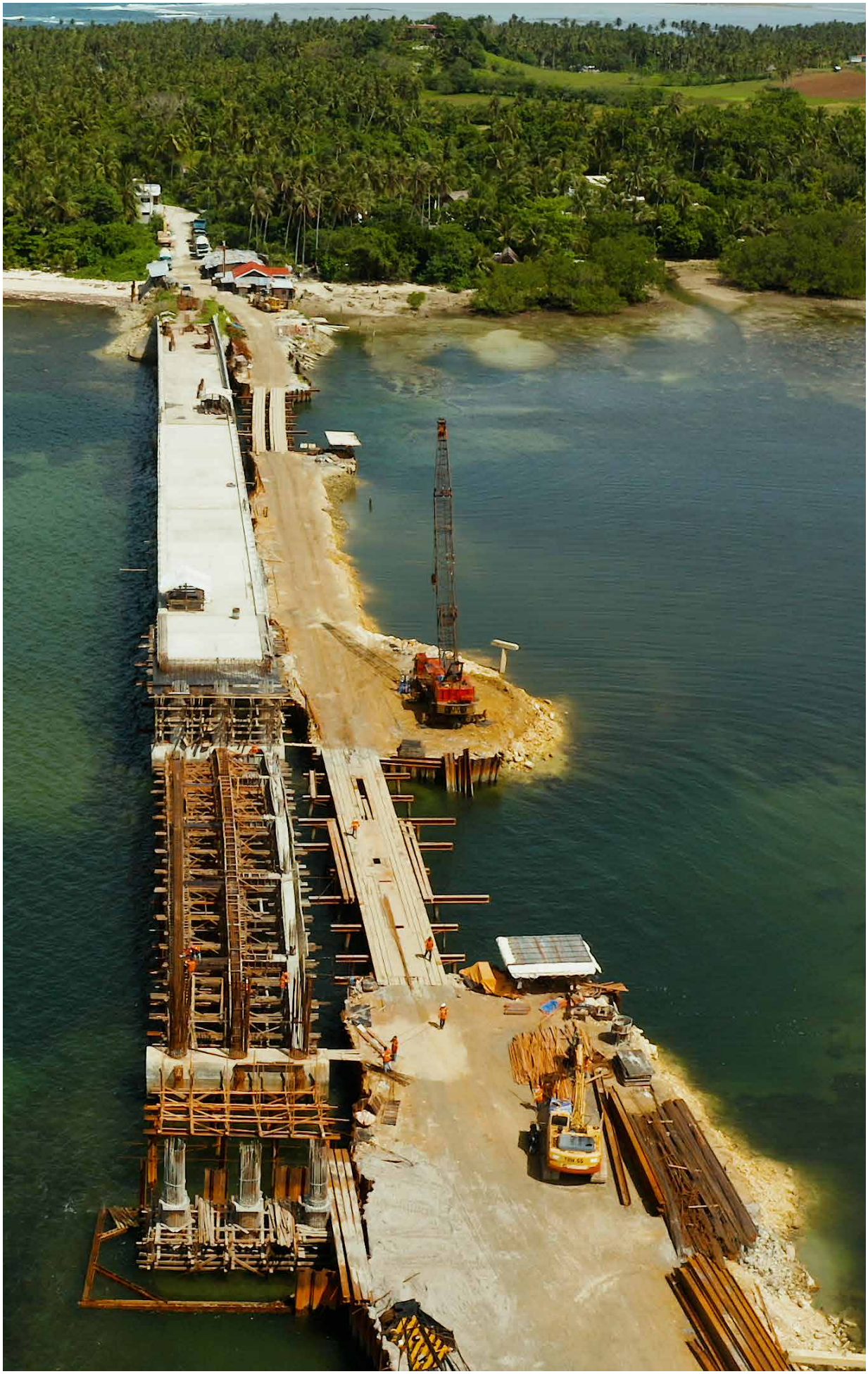
ABBREVIATIONS

ARTA	Anti-Red Tape Authority
ASEAN	Association of Southeast Asian Nations
BDO	Banco de Oro
BPI	Bank of the Philippine Islands
BSP	Bangko Sentral ng Pilipinas (Central Bank of the Philippines)
CMTA	Customs Modernization and Tariff Act
CPSD	Country Private Sector Diagnostic
EPIRA	Electric Power Industry Reform Act
FDI	foreign direct investment
FMI	food manufacturing industry
GDP	gross domestic product
HCI	Human Capital Index
ICT	information and communication technology
IFC	International Finance Corporation
IT-BPO	information technology and business process outsourcing
LGU	local government unit
NCR	National Capital Region
NEDA	National Economic and Development Authority
NGCP	National Grid Corporation of the Philippines
NTM	nontariff measure
₱	Philippine peso
PCC	Philippine Competition Commission
PCMs	price cost margins
PMR	product market regulation
PPA	Philippine Ports Authority
PPP	public-private partnership
PSA	Philippines Statistics Authority
R&D	research and development
SOE	state-owned enterprise
TFP	total factor productivity
TIEZA	Tourism Infrastructure and Enterprise Zone Authority
TTCI	Travel and Tourism Competitiveness Index
WEF	World Economic Forum



OVERVIEW

Strong private sector–led growth is essential for ending extreme poverty and boosting shared prosperity, the World Bank Group's twin goals.[1] *The objective of this Country Private Sector Diagnostic (CPSD) is to identify cross-cutting and sector-specific policy constraints that hinder the expansion of market opportunities, private sector investment, and the creation of better-quality jobs. This CPSD aims to be an important analytical underpinning of the World Bank Group's engagement in the Philippines by supporting the Bank Group's Systematic Country Diagnostic and Country Partnership Strategy and the International Finance Corporation's (IFC) Country Strategy. In a second phase, this CPSD will be translated into a joint World Bank–IFC implementation plan to deliver development outcomes within three to five years.*

The main finding of this CPSD is that complex regulations and lack of competition in key economic sectors hamper the creation of good-quality jobs. The private sector generates the majority of formal jobs in the Philippines; however, new firm generation rates are low because entrepreneurs are discouraged by complex regulations, including those regulations that protect incumbents. While bureaucratic complexities make it difficult for firms to formalize and enter markets, the viability of businesses in the market is undermined by high input costs because of limited competition in the provision of infrastructure. The resulting economic landscape is dominated by national conglomerates, especially in nontradable sectors such as retail, banking, telecommunications, infrastructure, utilities, real estate, and transport. Reducing bureaucratic restrictions and promoting competition would allow new businesses to enter markets, lower input prices, and support the generation of better-quality jobs. The recent passage of key legislation (for example, to address competition, ease of doing business, digital payments) could be the momentum needed for the Philippines' government to generate reforms that would unlock private sector markets.

This CPSD is structured around five chapters. Chapter 1 provides a brief description of the country context focused on the key development challenges facing the Philippines. Chapter 2 examines the key drivers of growth, including macroeconomic policies, investment dynamics, productivity dynamics, and international trade. Chapter 3 assesses key cross-cutting policy constraints to private sector growth, including policy restrictions to competition, trade, public-private partnerships, and in land, capital, and labor markets. Chapter 4 assesses the performance and the role of the private sector in infrastructure (energy, water and sanitation, transport, and digital infrastructure) and tradeable markets (agriculture, manufacturing, and services). And, finally, chapter 5 provides a succinct conclusion. ■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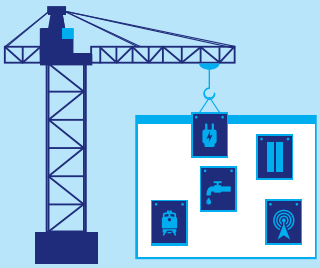
01

KEY DEVELOPMENT CHALLENGES

THE PHILIPPINES' KEY DEVELOPMENT CHALLENGES TO CREATING MARKETS

Insufficient creation of
good quality jobs



Insufficient
infrastructure

Wide disparities in **human capital** development

Vulnerability to frequent
natural disasters

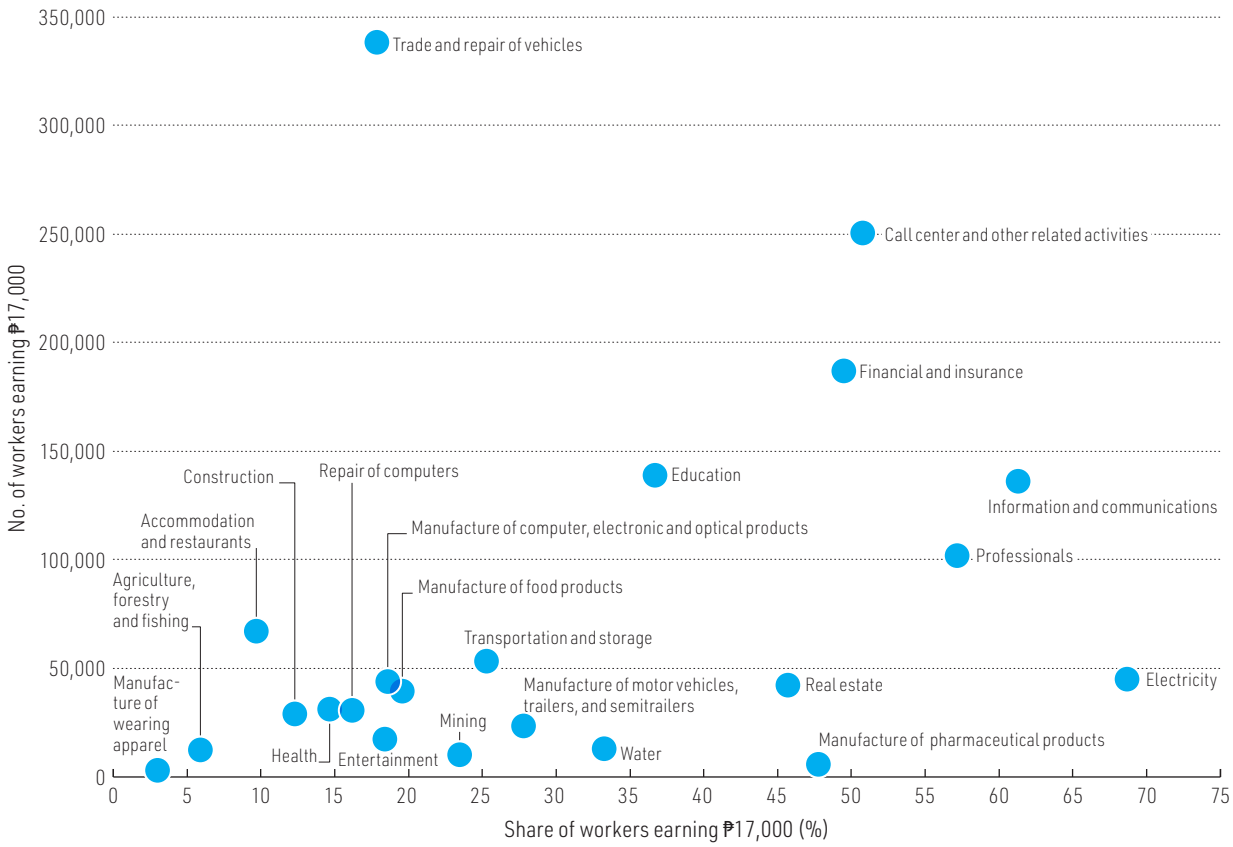
The Philippines' key development challenges include (a) insufficient creation of good quality jobs, (b) wide disparities in human capital development, (c) insufficient infrastructure, and (d) vulnerability to frequent natural disasters.

Economic growth has created enough jobs to keep up with population growth—most people work and few are unemployed—but it has not been able to generate good-quality jobs to support the Filipino middle class. The typical structural transformation story, in which increases in agricultural productivity facilitate the transition into more productive jobs, has not occurred in the Philippines to the extent required to significantly reduce poverty and create well-paying jobs. As a result, most Filipino workers that transition out of agriculture generally end up in low-end service jobs, unlike their counterparts in neighboring, high-performing East Asian countries with booming manufacturing sectors that provide large numbers of labor-intensive jobs. Thirty percent of Filipino workers with a secondary education end up in unskilled jobs.

The private sector generates few middle-class jobs. Although the private sector generates nearly 40 million jobs (56 percent in services), there is a high rate of informality because only 20 percent of those jobs are created by registered businesses. The Philippines Statistics Authority's 2016 Occupational Wages Survey estimated that less than one quarter of wage workers earn middle-class wages (over ₱17,000 or $325 per month), with some variation across sectors (figure 1.1). For example, out of all retail trade and repair of vehicles jobs (one-quarter of all formal sector jobs), only 18 percent of those are middle-class jobs. A similar share of jobs is generated by manufacturing industries (for example, food products and electronics). In comparison, more than 50 percent of jobs generated by call centers and 61 percent by information and communication technology are considered middle-class jobs.

FIGURE 1.1 LESS THAN ONE-QUARTER OF WAGE WORKERS EARN MIDDLE-CLASS WAGES

Distribution of time-rate workers on full-time basis by selected industries and monthly basic pay, July 2016



Source: Philippines CPSD team's calculations using data from PSA 2017.

The ability of the economy to generate new private sector firms, which in turn creates new jobs, is restricted by complex regulations, including those that protect incumbents. Typically, new firms are responsible for most nations' net job growth. However, in 2016, only 300 new firms in the Philippines were registered per 1 million working-age people, compared with 1,000 new firms in Thailand and 2,300 new firms in Malaysia. Entrepreneurs are largely discouraged by the administrative burdens placed on startups, together with the complexity of regulatory procedures and the regulatory protection of incumbents. Incumbents in the Philippines include large conglomerates and fill the economic landscape, especially nontradable services sectors, such as retail, banking, telecommunications, infrastructure, utilities, real estate, and transport.

Human capital challenges constrain the job market. The prospects for continuing economic growth will depend on harnessing the rising tide of technological change and on expanding the high-skill services sector. However, the Philippines ranks 84th in the world and 14th in the East Asia and the Pacific region in the World Bank's 2018 Human Capital Index (HCI), with survival and health subcomponents lagging the most. The Philippines' overall HCI score of 0.55 reflects that the future productivity of a child born today is 45 percent below what could have been achieved with a complete education and full health. About 80 percent of unemployed workers have completed secondary education or higher. However, one-third of employers in the Philippines reported unfilled vacancies because of a shortage of applicants with the necessary skills.[2]

The Philippine economy suffers from large infrastructure gaps and high utility costs. The poor state of most of its infrastructure markets is reflected in the country's quality of infrastructure ranking of 92nd out of 140 countries in the World Economic Forum's (WEF) 2017–18 Global Competitiveness Report. Both households and firms suffer from the large infrastructure gaps. For instance, only 15 percent of households have access to fixed broadband because of its high cost and low quality. The network of piped sanitation is also limited, with only 4.5 percent of households having connected toilets. Filipino firms face some of the highest utility and trade costs in the region because of limited infrastructure and weak market competition in infrastructure markets. For instance, at over $0.14 per kilowatt hour, the Philippines has the highest cost of electricity in the region. The high input costs generated by these infrastructure markets discourage private sector investment and subsequent job creation.

Natural hazards are also a key development challenge. At least 74 percent of Filipinos are vulnerable to natural disasters and 60 percent of the total land area of the Philippines is exposed to multiple hazards.[3] Historically, the Philippines has experienced more than 90 destructive earthquakes and 40 tsunamis,[4] but the most frequent and widespread of the 2,754 natural hazard events from 2005 to 2015[5] were climate-related, including typhoons, floods, landslides, and droughts. The National Economic and Development Authority estimates that the annual direct costs of disasters are equivalent to around 0.5 to 0.6 percent of the country's gross domestic product.[6]■

"The prospects for continuing economic growth will depend on harnessing the rising tide of technological change and expanding the high-skill services sector."


SMDC

02

KEY DRIVERS OF ECONOMIC GROWTH

2.1 Recent Economic Developments

The Philippines is experiencing high economic growth supported by strong domestic demand. Growth averaged 6.4 percent during the past five years, with a peak of 6.9 percent in 2015. In 2018, growth moderated as the country faced both external headwinds and high domestic inflation. Private consumption growth decelerated to its slowest pace since 2014, due to high domestic inflation and weaker consumer sentiment. Inflation only retreated toward the end of the year because global fuel prices declined and the rice supply increased, and in response to monetary policy tightening by the Bangko Sentral ng Pilipinas (BSP; Central Bank of the Philippines). The combination of a slowdown in private consumption and the net export drag caused a moderation in economic growth for the second consecutive year, from 6.7 percent year-on-year in 2017 to 6.2 percent in 2018—below the government's percent target range of 6.5–7.0.

The Philippine economy is largely consumption-based, with private consumption representing around 70 percent of gross domestic product (GDP) and a key driver of near-term economic growth. Household consumption is largely fueled by remittances—$31.3 billion in 2017, representing 10 percent of GDP. In 2018, household consumption reached more than $240 billion (69 percent of GDP). The largest consumption share was on food and beverages (42 percent). During the last couple of years, education experienced the highest consumption growth (11 percent), followed by tourism (7 percent). On the production side, services sectors dominate, although manufacturing and exports of electronics and electrical equipment are important (65 percent of total exports). Business process outsourcing has emerged since the early 2000s to become a competitive and significant

sector of the economy, accounting for 8 percent of GDP and generating hundreds of thousands of jobs.

Despite accelerated economic growth, few Filipinos have made it into the middle class. The share of the population considered global middle class (making over $15 a day, adjusted for purchasing power parity) remains at less than 10 percent, having increased very little this decade. Similarly, the pace of poverty reduction has been slower than in many East Asian countries. Only in the past few years has there been any appreciable decline in the poverty rate, which reached 21.6 percent in 2015. However, the total number of poor remains where it was 10 years ago—at about 20 million.

2.2 Macroeconomic Policies

The macroeconomic framework has remained healthy in recent years. Strong macroeconomic fundamentals have supported the rapid economic growth. Indebtedness remains moderate with the public and publicly guaranteed debt to GDP ratio at 34.9 percent in 2017. The fiscal balance improved significantly, after some adverse effects during the global recession, owing to tighter expenditure policy while tax revenues picked up. By 2015, fiscal balance turned into a surplus of 0.8 percent of GDP from a deficit of 2.7 percent of GDP in 2009.

Increased revenue collection has created the space for increased expenditures. Government revenue has increased gradually because of both tax policy and administration reforms, including the Tax Reform for Acceleration and Inclusion, which reduced personal income tax rates; adjusted the estate and donor's tax; broadened the value-added tax base by limiting exemptions; adjusted excise taxes on tobacco, automobiles, oil, and mineral products; and introduced an excise tax on sugar-sweetened beverages and cosmetic procedures. As the government continues to benefit from improved fiscal space, expenditures will increase with the goal of making growth more inclusive by addressing a large gap in both the government's physical and human capital investment. As a result, public expenditure is expected to increase to 20.3 percent of GDP by 2021.

Monetary management has been critical to macroeconomic stability. Since 2002, the primary objective of the BSP's monetary policy has been to promote price stability conducive to a balanced and sustainable growth in the economy. The BSP explicitly announces its inflation target over a given period and uses various policy instruments, primarily, the reverse repurchase facility, to achieve its target. In 2018, the combined effect of rising global oil prices, excise tax on fuel, rice supply shocks, and peso depreciation put pressure on inflation; the inflation rate spiked briefly to 6.7 percent, but subsequently declined to 5.1 percent and it is expected to continue to fall.

2.3 International Trade

In 2017, the external position was broadly in line with fundamentals and desirable policies. The International Monetary Fund's 2018 Article IV highlights that the current account deficit has widened, following average surpluses of 3.2 percent of GDP from 2010–15, to −0.4 percent in 2016, and −0.8 percent in 2017.[7] The decline is largely explained by the widening deficits for trade in goods, which ultimately reflects the higher demand from strong investment growth in recent years. The real effective exchange rate was assessed as broadly consistent with fundamentals and desirable policy settings in 2017.

Goods dominate international trade. In 2017, the Philippines was the 37th largest exporter in the world, with exports valuing $99 billion, up from $73.7 billion in 2012. Most exports were integrated circuits (32 percent), distantly followed by office machine parts (10 percent), computers (5.2 percent), and semiconductor devices (3.4 percent). The top destinations of Philippine exports are China ($20 billion), Hong Kong SAR, China ($14.8 billion), the United States ($13 billion), and Japan ($11.4 billion).[8] Imports grew faster than exports. In 2017, the Philippines was the 33rd-largest importer in the world, with imports estimated at $105 billion, up from $74.6 billion in 2012. Integrated circuits also accounted for the largest share of total imports (11 percent), followed by refined petroleum (5.4 percent), and cars (4.5 percent). The Philippines' top import origins were China ($21.9 billion), Japan ($11.6 billion), and the United States ($8.3 billion).[9] This close trade relationship with China exposes the Philippines to external risks including the slowing Chinese growth and the ongoing U.S.–China trade disputes.

The composition of the Philippine export basket has not substantially changed over the past decade. Based on a product-space analysis, the Philippines' export products have generally remained the same since 2004, unlike China's, which have diversified successfully (figure 2.1).[10] The analysis also reveals

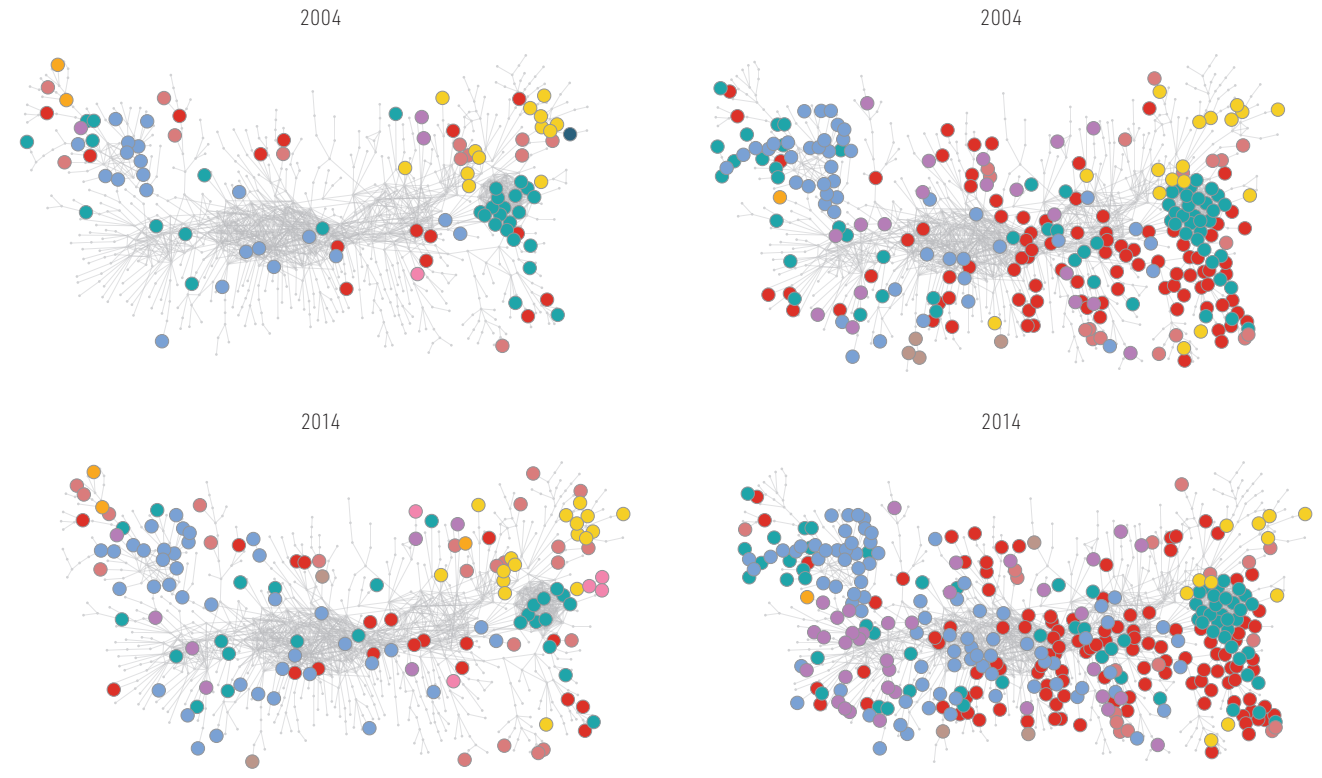
that Philippine exports are highly concentrated in a limited number of areas, such as electronics, textiles and apparel, and agricultural and food products, increasing the phenomenon of dependence and vulnerability. Furthermore, the Philippines has moved away from, rather than toward, the center of the product space (mineral products, metals); it has moved away from its comparative advantage in sophisticated products—to the detriment of transformation industries. The share of exporting firms across sectors is small but more productive. Based on World Bank Enterprise Surveys data, only 6.9 percent of domestic firms and 25.5 percent of foreign firms in the Philippines directly or indirectly export goods and services, far fewer than in peer countries: up to 61 percent of domestic firms in Thailand are exporters, while 78.7 percent of foreign firms in Vietnam, 84 percent in Malaysia, and 93 percent in Thailand directly or indirectly export. Furthermore, Philippine domestic firms export only 3.5 percent of their output, compared with Malaysia and Thailand domestic firms, which export 26 percent of their output. Nonetheless, Philippine firms that export are more productive on average than firms that focus on the domestic market because they face more competition in global markets, which forces them to be more productive.[11]

2.4 Investment Dynamics[12]

Investment restrictions affect the Philippines' ability to attract foreign direct investment (FDI). Among the 62 countries included in the Organisation for Economic Co-operation and Development's FDI Regulatory Restrictiveness Index, the Philippines is the most restrictive country in terms of FDI regulation. The country falls in the top five most restricted countries in almost all sectors and is the top country in terms of equity restrictions. Restrictions on foreign investment are largely embedded in the 1987

FIGURE 2.1 THE PHILIPPINES HAS NOT BEEN ABLE TO DIVERSIFY ITS EXPORTS, UNLIKE THAT OF CHINA

Product space evolution, 2004 and 2014



Source: Adapted from the Atlas of Economic Complexity.

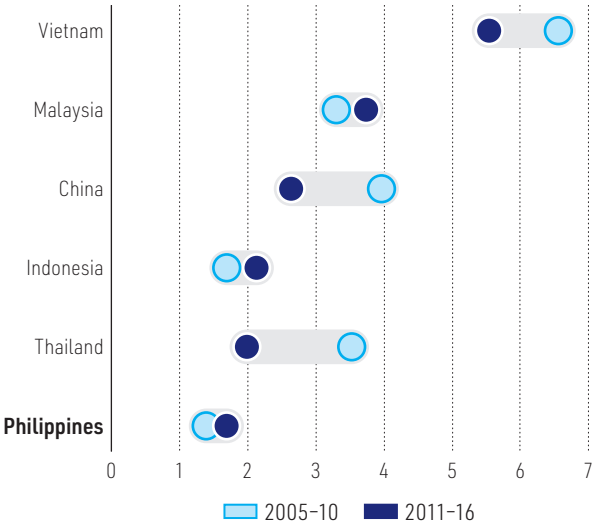
Philippine Constitution and reflected in the 11th Foreign Investment Negative List (see appendix A). There are restrictions in several industries typically open to FDI, including utilities, retail, and education.

The Philippines receives relatively low net inflows of FDI. Compared with its regional peers (figure 2.2), the level of FDI in the Philippines is low—2.6 percent of GDP in 2016 versus 4.3 percent of GDP in Malaysia. Most of the increase in net FDI has been due to an increase in intercompany investment through debt instruments rather than equity investments.[13]

The share of firms with foreign capital remains small, but they are more productive than those firms without foreign capital. Less than 10 percent of all firms in the Philippines have some degree of foreign ownership. Across sectors, firms in manufacturing and services, such as in information communication technologies, and professional services that have foreign ownership, receive on average more than 50 percent of their capital from foreign sources. Furthermore, subsectors that received FDI in the form of direct equity investment have either high productivity growth (manufacturing, financial, and insurance activities) or high productivity levels (real estate, financial, and insurance activities). Overall, firms with foreign ownership were more productive than firms with only domestic capital, suggesting that FDI contributes to productivity growth (figure 2.3).

FIGURE 2.2 THE INCREASING NET INFLOW OF FDI INTO THE PHILIPPINES IS LOW RELATIVE TO REGIONAL PEERS...

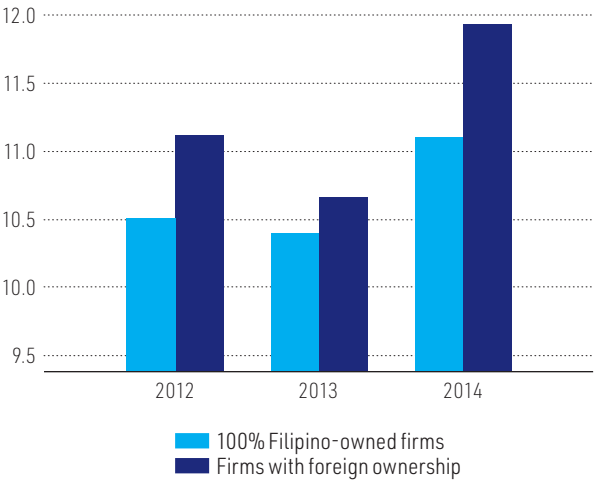
Net FDI, Philippines and regional peers (% of GDP)



Source: Adapted from World Bank 2018b.
Note: FDI = foreign direct investment; GDP = gross domestic product.

FIGURE 2.3 ...HOWEVER, FIRMS WITH FOREIGN OWNERSHIP ARE MORE PRODUCTIVE

Productivity and firm ownership (economywide log of value added per worker)



Source: Adapted from World Bank 2018b.

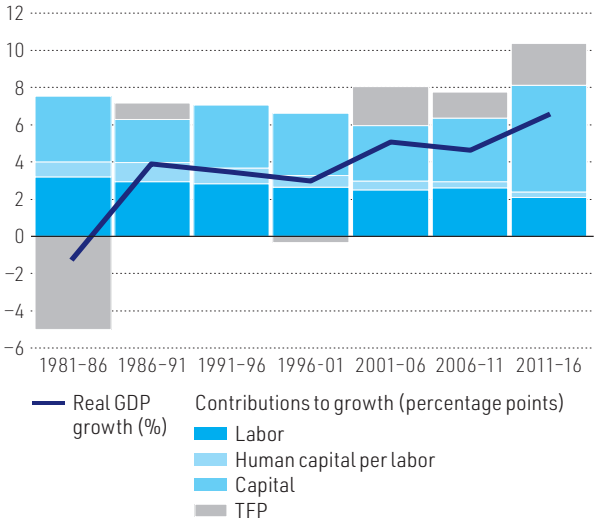
2.5 Productivity Dynamics[14]

The contribution of total factor productivity (TFP) to economic growth has increased since 2000, mirroring the evolution of the Philippine economy over the last two decades. TFP consistently contributed to growth during the economic recovery and acceleration of the 2000s and 2010s, contributing one-third of growth on average during this period (figure 2.4). Furthermore, between 1995 and 2010, TFP's contribution to growth was higher in the Philippines than in regional peers, with the exception of China (figure 2.5). This contribution to growth reflects the implementation of a wide range of structural reforms since the 1990s that also brought economic growth.

Limited innovation in the Philippines is hindering TFP growth. According to the latest Global Innovation Index, the Philippines ranked 73rd out of 128 countries, behind its regional peers: Thailand (51st), Vietnam (47th), Malaysia (37th), and China (22nd).[15] Filipino firms lag behind peers on adopting existing technologies (figure 2.6). For instance, only 9 percent of firms in the Philippines have internationally recognized quality certifications and only 11 percent of firms use technology licensed from foreign companies. ■

FIGURE 2.4 TFP'S CONTRIBUTION TO GROWTH HAS INCREASED IN THE PHILIPPINES SINCE 2010...

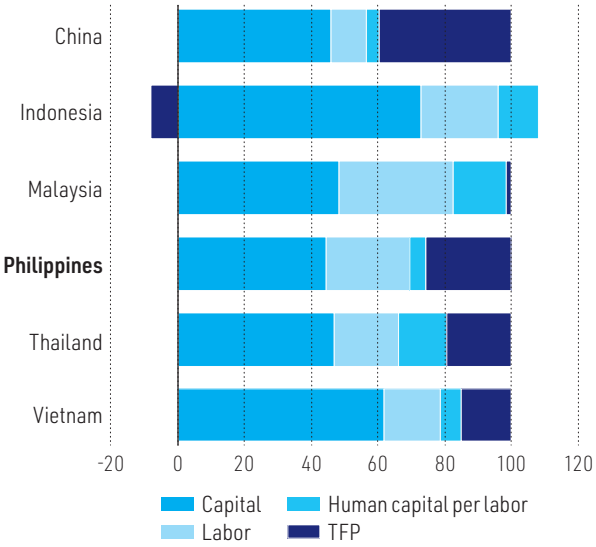
Real GDP growth and contributions to growth (%)



Source: Adapted from World Bank 2018b.
Note: GDP = gross domestic product; TFP = total factor productivity.

FIGURE 2.5 ...OUTPERFORMING MANY REGIONAL PEERS

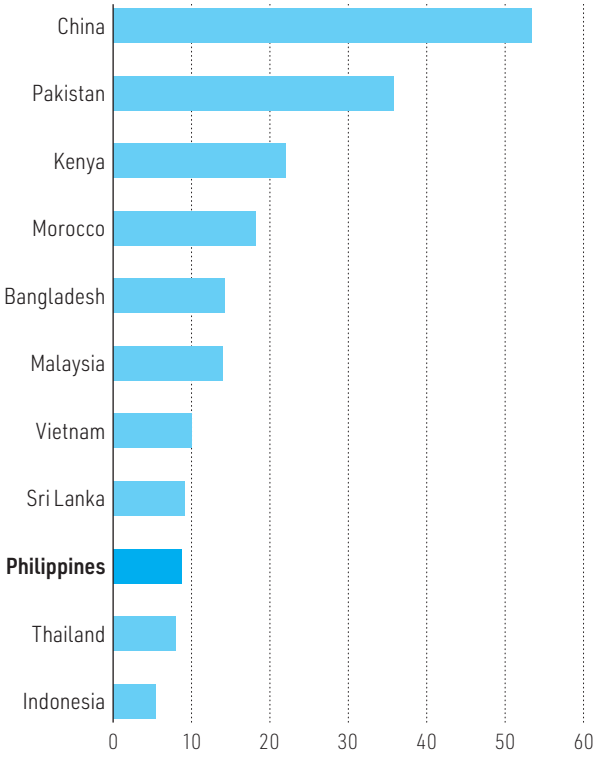
Contributions to growth, Philippines and regional peers, 1995 – 2010 (%)



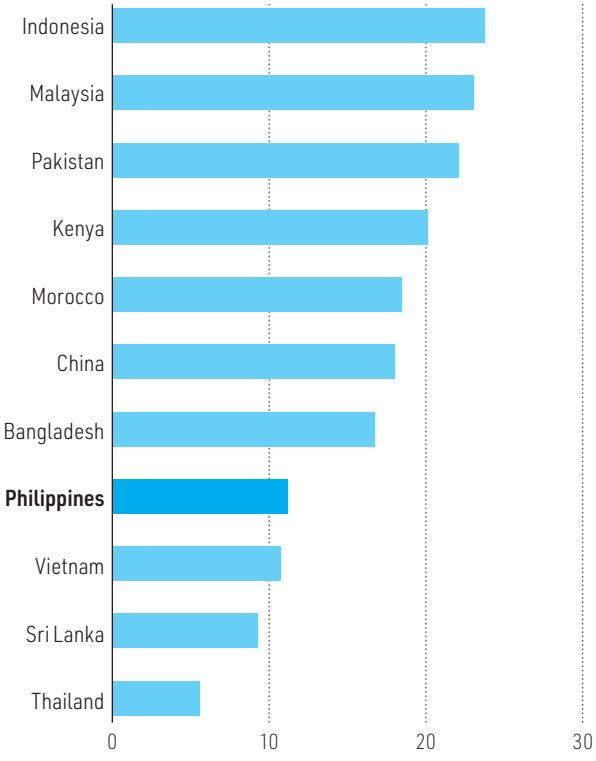
Source: Adapted from World Bank 2018b.

FIGURE 2.6 PHILIPPINE FIRMS LAG IN TECHNOLOGY ADOPTION

a. Share of firms with an internationally recognized quality certification (%)



b. Share of firms using technology licensed from foreign companies* (%)



Source: Adapted from World Bank 2018b.
*Only for manufacturing firms.

03

CROSS-CUTTING CONSTRAINTS TO PRIVATE SECTOR GROWTH

3.1 Competition and Regulatory Constraints[16]

Limited competition in key economic sectors is one of the Philippines' main development challenges. A recent analysis by the World Bank[17] confirms that a notable proportion of markets[18] in transport, agriculture, wholesale and retail, and manufacturing would be classified as highly concentrated.[19] As the 2016 World Development Report highlighted, without competitive pressure, market leaders have little incentive to invest in technologies new to the firm because they do not face competitive pressures to reduce their costs—while laggard firms are too far away from the frontier to bridge the cost gaps and enter the market.[20] Those firms that do enter the market may instead use old production technologies and focus on local market niches to survive.

Private sector markets face several anticompetitive restrictions. Product market regulation (PMR) indicators provide an assessment of the extent to which public policies promote or inhibit market forces in several areas of product markets. For the Philippines, the PMR indicators identified numerous anticompetitive restrictions: regulatory protection of incumbents, public ownership of firms in competitive sectors, and administrative burdens for start-ups (figure 3.1). These restrictions include barriers to foreign investments in utilities, price controls on more than 40 products deemed as staples, and cumbersome registration procedures for corporations that may discourage entry.

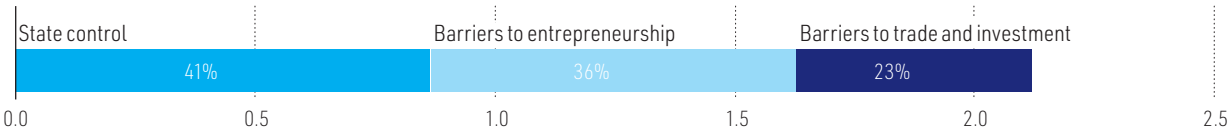
A number of markets face high price cost margins (PCMs), which may be an indication of limitations to competition. PCMs provide a way to measure competition as a proxy for firms' ability to raise prices above marginal costs. In this case, more than 70 percent of agriculture markets, 60 percent of manufacturing markets, 80 percent of wholesale and retail markets, and 90 percent of transport and storage markets have an average PCM of more than 40 percent.[21] The ability to charge prices above marginal costs is a potential indicator of the exercise of market power by firms. In some cases, such outcomes can be facilitated by market rules and regulations, for example, price controls.

There are several markets with only one firm operating in the sector, in an environment in which competition usually would be considered viable. In agriculture, 15 national markets have only one firm operating; in manufacturing, 16 national markets have only one firm operating; in wholesale and retail, 5 national markets have only one firm operating; and in transport and storage, 15 national markets have only one firm operating. Strikingly, except for a small number of transport markets

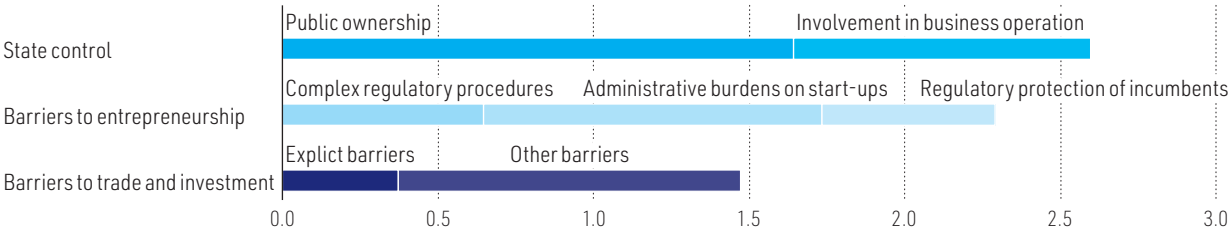
FIGURE 3.1 ANTICOMPETITIVE RESTRICTIONS CREATE MULTIPLE PRIVATE SECTOR BARRIERS

Product market regulation

a. Product market regulations indicators



b. Breakdown of each indicator



Source: Adapted from World Bank 2018a.

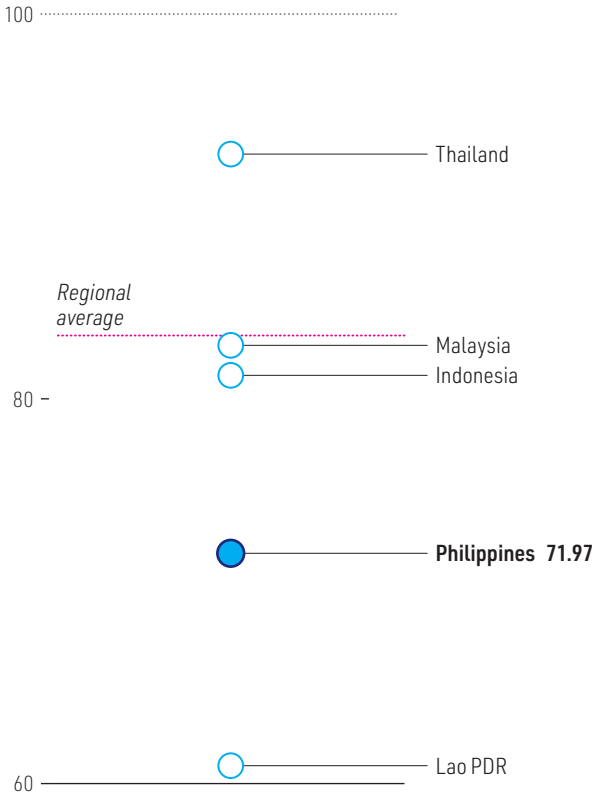
where monopolies are common (such as railway and postal activities), in most of these single-firm markets, there is viable competition. This indicates that market rules and regulations hinder competition.

High administrative burdens on start-ups make it costly for firms to enter the market. In 2018, the Philippines ranked 166th out of 190 economies on starting a business, according to the World Bank's Doing Business report (figure 3.2). It takes 31 days and 13 procedures to start a business, way above the East Asian average. In addition, for many industries, numerous operating permits and licenses are required from unrelated agencies that must be renewed annually. For example, companies operating in the logistics sector are required to secure permits from the Marine Industry Authority for their shipping assets and from the Land Transport Franchising Board for their trucks, as well as a client profile registry from the Bureau of Customs and a sea freight forwarding accreditation from the Fair Trade and Enforcement Bureau. These are in addition to permits paid to local entities, such as the Mayor's Business Permit, and permits for passage from local government units (LGUs), economic zones, and ports.

Incumbent firms are also protected by high barriers in network sectors at the expense of new entrants. In telecommunications, unbundling of the local loop is not required although it is relevant for broad-

FIGURE 3.2 IT IS MORE BUREAUCRATIC TO START A COMPANY IN THE PHILIPPINES

Starting a business scores, Philippines and regional peers, 2019



Source: Adapted from the World Bank Doing Business database.

band access.[22] In addition, legal barriers restricting the number of competitors allowed in the market are pervasive across transport subsectors including road freight,[23] maritime transport,[24] operation of air transport infrastructure,[25] and railways.[26]

Weak governance systems also contribute to the difficulty of doing business in the Philippines. According to the Worldwide Governance Indicators, although most governance indicators for the Philippines improved between 2011 and 2016, the country still scores lower than most of its peers. Scores range from −2.5 (weak) to 2.5 (strong) for governance performance—the Philippines received a negative score in most of the indicators (table 3.1). For instance, it scored −1.24 in political stability and absence of violence and terrorism, among the bottom 10 percent, largely due to armed conflict and terrorist threats. Similarly, the country's control of corruption, one of the most often cited problematic factors for doing business in the country, is also frail with a score of −0.48. Similarly, inefficient government bureaucracy, the top-most problematic factor for doing business in the country according to the World Economic Forum's (WEF) Global Competitiveness Report 2017–18, stands out as the only negative score among its peers at −0.06.

The challenges facing public sector governance are greater at the local government levels. The Local Government Code of 1991 devolved the majority of service delivery responsibilities and it was intended to provide greater autonomy, authority, responsibilities, and resources to LGUs. However, nearly 30 years later, national line agencies retain a substantive role in the provision of subnational infrastructure and services with a much larger budget, resulting in fragmented planning and diffused accountability.[27] Aside from limited technical capabilities, local governance is faced with the challenge of achieving coherence in vertical planning and resource-sharing among LGUs at the provincial, municipal, or barangay (municipality subdivision) levels. As a result, most LGUs lack the technical capacity to implement infrastructure projects and to provide services in a timely and quality manner. This situation is even more complex in the Bangsamoro Autonomous Region for Muslim Mindanao, where the devolution of powers is more extensive, even as the processes for coordination between national and regional offices are less structured.

With the passage of the Philippine Competition Act in 2015, the government has taken the first step in minimizing competition constraints by creating the Philippine Competition Commission (PCC), an independent quasi-judicial body tasked with promoting and maintaining market competition and regulating anticompetitive conduct. After a two-year transition period, the law is now fully operational. PCC is fully staffed, having completed the secondary regulations for the Competition Act, and internal procedures for the review of mergers and the enforcement of anticartel behavior are in place. Between February 2016 and August 2018, PCC conducted 146 reviews of merger transactions worth ₱2.4 trillion and completed seven preliminary inquiries on anticartel behavior. However, PCC has yet to complete an enforcement ruling on companies engaged in anticompetitive behavior.

The country has been working toward reforming its business regulatory and licensing environment. In May 2018, the Philippines passed the Ease of

TABLE 3.1 POOR GOVERNANCE CONTRIBUTES TO THE DIFFICULTY IN DOING BUSINESS

Selected World Governance Indicators scores, Philippines and regional peers, 2017

Country	Political stability and absence of violence or terrorism	Government effectiveness	Regulatory quality	Rule of law	Control of corruption
China	−0.25	0.42	−0.15	−0.26	−0.27
Indonesia	−0.51	0.04	−0.11	−0.35	−0.25
Malaysia	0.16	0.84	0.68	0.41	0.03
Philippines	**−1.24**	**−0.06**	**0.02**	**−0.41**	**−0.48**
Thailand	−0.76	0.38	0.14	0.04	−0.39
Vietnam	0.31	0.00	−0.40	0.07	−0.58

Source: Adapted from the World Governance Indicators database.

Doing Business and Efficient Government Service Delivery Act. Among the provisions of the law are the automatic approval of applications beyond the prescribed processing time of between 3 and 20 days (depending on complexity), the promotion of automated procedures and electronic licenses, and the imposition of administrative and criminal penalties for noncompliance. The law mandates the creation of the Anti-Red Tape Authority (ARTA), an oversight regulatory body directly under the Office of the President, which has the task of implementing the law to reduce the regulatory burdens of the private sector to comply with business regulations. However, as of February 2019, a Director General of ARTA had yet to be appointed.

3.2 Trade Policy

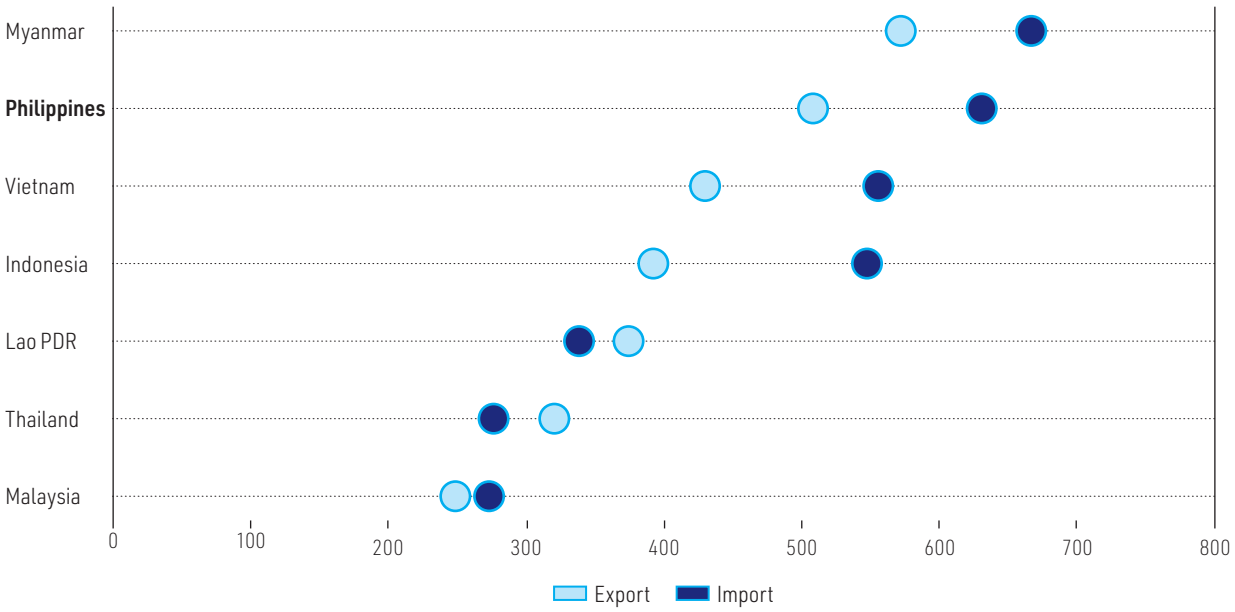
High trade costs further restrict competition and reduce domestic firms' opportunities to access larger markets. Trade costs in the Philippines are among the highest in the Association of Southeast Asian Nations (ASEAN), according to the World Bank's 2019 Doing Business report (figure 3.3). Investors in the Philippines pay twice as much to export or import a shipping container compared with investors in Thailand. In addition, the Philippines ranks lowest among its peer countries on the World Bank's Logistics Performance Index, and scores especially low on connectivity to international markets.[28]

Although the country has a liberalized trade regime, nontariff measures (NTMs) have become an increasingly important obstacle. The Philippines has a liberalized trade regime (in 2016, its low most-favored-nation tariff was 6.3 percent, only slightly higher than Malaysia's). However, aside from tariffs, importing and exporting firms need to comply with NTMs, which encompass a wide range of requirements, including technical regulations, product standards, and custom procedures. A survey conducted by the International Trade Center in 2015 shows that 60.7 percent of Philippine exporters and 69.6 percent of importers reported obstacles attributable to NTMs;[29] these figures are high compared with figures for regional peers.

Trade costs and regulatory burdens are worse for firms located outside metropolitan Manila. Few agencies are automated, requiring manual paperwork and personal visits to their respective offices for the completion and submission of the requirements. For example, the Bureau of Philippine Standards processes the Import Commodity Clearances through the different regional offices of the Department of Trade and Industry, while the processing is com-

FIGURE 3.3 TRADE COSTS IN THE PHILIPPINES ARE AMONG THE HIGHEST IN THE ASEAN REGION

Cost of importing and exporting a container, 2019 ($)



Source: Adapted from the World Bank Doing Business database.
Note: ASEAN = Association of Southeast Asian Nations.

pleted by its office in Manila. Internal estimates by the Department of Trade and Industry indicate that this process raises compliance costs by an additional 25 percent and increases the processing time by one month, as documents travel by mail from the regions to the capital and back. Although direct international shipping is available in large port cities like Cebu and Davao, most shipping lines call in Manila. Therefore, exporting usually requires trans-shipment through the capital and results in an additional freight burden for firms based in the other islands.

The country has started a trade reform process to reduce trade costs. The government signed the Customs Modernization and Tariff Act (CMTA) into law in 2016. The CMTA is a landmark law that aims to align Philippine customs laws, rules, and procedures with the mandatory standards of the Revised Kyoto Convention, the blueprint for modern and efficient customs procedures. Once fully implemented, the CMTA will provide the legal basis for the full automation of customs procedures and it will encourage the further simplification and harmonization of import and export procedures and bring them in line with international standards. Despite the passage of the CMTA, the Philippines has yet to complete the secondary regulations to fully implement it.

3.3 Public-Private Partnerships Policy

Upon its assumption to office, the current Administration introduced a new PPP policy strategy referred to as "Hybrid PPP". The policy called for splitting the procurement of projects into two: the construction component, to be financed using public resources; and the operations component, to be done via PPP arrangement under a long-term operations and management concession contract between the government a private operator. The model is driven by the objective to maximize the use of more concessional public financing that can reduce the overall cost for constructing the facility, and tapping efficiencies of the private sector in the day-to-day challenges of maintaining and operating the assets. The public contribution can be optimized if construction risks are efficiently shifted to the private contractor for the construction component, and there is proper management of interface risks that may arise between the construction and operations components. One major project, the Clark International Airport Modernization, was successfully concluded under this model in 2019.

Of the 4,895 projects currently listed in the Three-Year Rolling Infrastructure Program (2018–20), 33 projects are earmarked for PPPs. This percentage allocation to PPPs is not unusual, typically PPPs would cover few but more capital intensive projects in urban areas. What is key is ensuring that these are well-prepared, with reasonable risk allocation so that efficient financing can be mobilized, and competition is generated among well-qualified investors and operators.

With the large infrastructure investment gap, PPPs or hybrid PPPs can remain a viable implementation strategy of the government. The requirements and processes for the preparation, approval, and implementation of PPPs can be reviewed and streamlined to cut down the overall time to develop and award PPPs. Policies should continue to evolve and be rationalized against changing market conditions. As with any infrastructure project, whether PPP or traditional public procurement, early action of government in securing much-needed rights-of-way is critical in fast-tracking completion of facilities. Other reforms, such as those proposed under various draft bills to amend the PPP law can also strengthen the framework to facilitate development of more projects, and promote transparency and competition for PPP contracts. These include removing the 50 percent cap of government share in project costs for unsolicited proposals in order to facilitate the implementation of good projects that may require more support from the government to be successfully implemented; rationalizing the process for conducting the price challenge for unsolicited proposals to promote greater competition (more challengers); and subsuming joint ventures under the PPP Law (as an authorized variant) to promote transparency in the award of these contracts.

Other reforms, such as those for the Foreign Investment Negative List and to redefine public utilities that would ease legal restrictions on foreign investments in infrastructure, could increase the pool of potential bidders (currently dominated by a few big local conglomerates) and help attract greater capital from new sources.

3.4 Land Market Policy[30]

The Philippines ranks below its regional peers in terms of securing property rights, which restricts the

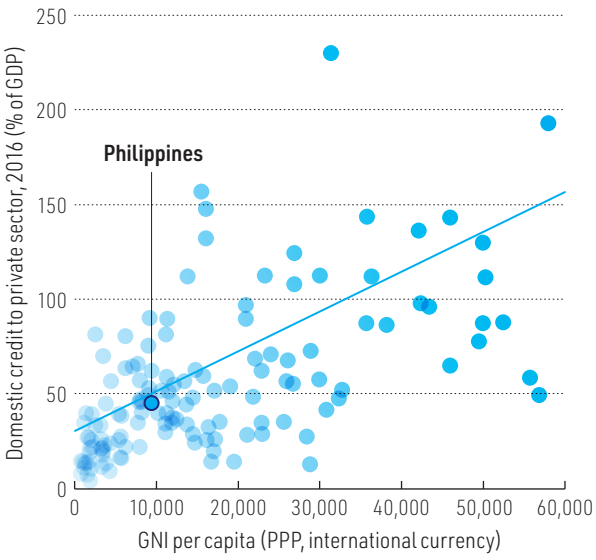
ability of the private sector to access finance. Secure property rights are essential because investments on land are often large, fixed, and expected to only payoff in the long run. According to the World Bank's 2019 Doing Business report, the Philippines ranks 116th out of 190 countries in terms of registering property, compared with China (27th), Malaysia (29th), Vietnam (60th), Thailand (66th), and Indonesia (100th). Registering property in the Philippines is one of the costliest in the region at 4.3 percent of the property's value. About half of all the land parcels in the Philippines are formally registered in the Torrens Title system largely because of the lengthy process, the delays, and the high cost of registration.[31]

Land administration is severely constrained by overlapping institutional mandates, complex regulations, and limited data sharing. Several institutions have the authority to grant or recognize ownership, approve surveys, manage land, or implement a complex set of regulations (including those for land reform). Reliance on paper maps and failure to integrate textual records (held by one agency) with spatial data (held by another) makes interinstitutional coordination difficult. These issues increase the likelihood of conflicting rights being assigned for a given plot of land and of relevant restrictions not being reflected in the register. Together with high registration fees, this increases transaction costs, encourages informality, and undermines the evidentiary value of land documents.

Land policy restrictions limit investment and the rollout of infrastructure. Because of constitutional restrictions, foreigners cannot legally acquire and fully own land in the Philippines. Corporations with foreign ownership must have at least 60 percent domestic ownership to acquire land. Furthermore, issues linked to land tenure affect infrastructure investments because it is so difficult to legally acquire the right of way.

For most of the population, securing property rights through land governance reforms is urgently needed for the economy to generate more and better jobs. Key legislative reforms have long been identified but have proven difficult to implement. The core issues for the immediate reform agenda include (a) establishing one integrated land information system for all types of land at the LGU level that is free to access and that integrates information from the Department of Environment and Natural Resources, the Land Registration Authority, the Department of Agrarian Reform, the National Commission on Indigenous Peoples, and, in urban areas, the National Housing Authority; (b) transferring the

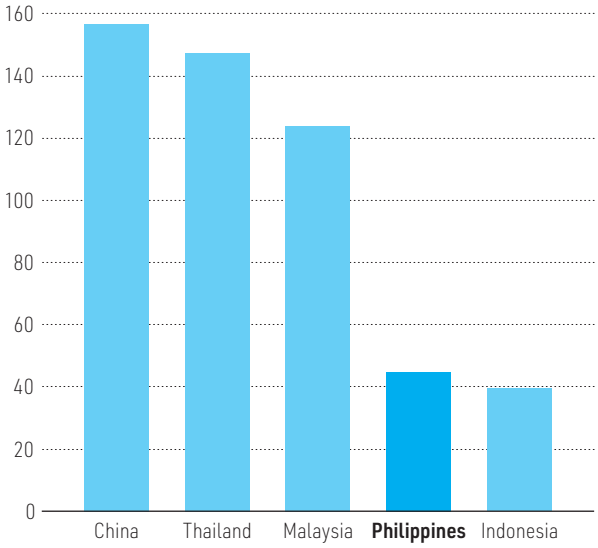
FIGURE 3.4 THE LEVEL OF DOMESTIC CREDIT TO THE PRIVATE SECTOR IS ADEQUATE RELATIVE TO THE COUNTRY'S INCOME LEVEL...



Source: Adapted from World Bank (2018b) using data from the World Development Indicators database.
Note: GDP = gross domestic product; GNI = gross national income; PPP = purchasing power parity.

FIGURE 3.5 ...BUT RELATIVELY LOW COMPARED WITH REGIONAL PEERS

Domestic credit to private sector by banks, Philippines and regional peers, 2016 (% of GDP)



Source: Adapted from World Bank (2018b) using data from the World Development Indicators database.
Note: GDP = gross domestic product.

recognition of ownership to the executive branch together with efforts to decentralize implementation; (c) promoting administrative titling and simplifying procedures to transfer and document owners' rights; (d) removing the bias against rural titles; and (e) clarifying land use regulations so they are clearly reflected in land documents and easily enforced.

3.5 Financial and Capital Markets Policy

The Philippines' level of domestic credit to the private sector is low compared with its regional peers for firms relying heavily on internal funds. At 45 percent of gross domestic product (GDP), the Philippines' credit to the private sector is at the level predicted by its income (figure 3.4), however, it is substantially lower than the average of its regional peers (114 percent of GDP) (figure 3.5). Less than 7 percent of working capital of the country's firms is financed by banks, much lower than the 18 percent among firms in regional peers. Even for the country's large firms, only 11.6 percent of funds used for investment originate from banks. However, most Philippine firms that apply for a loan through the banking system are approved. According to World Bank Enterprise Surveys data from 2015, more than 70 percent of small enterprises had their loan applications approved and more than 90 percent of medium-sized enterprises had their loan applications approved.[32] Applications are rejected because of insufficient or unacceptable collateral and adverse credit or repayment records.[33] This heavy reliance on internal funds seems to be the result of either high costs in the formal banking system or firm preferences, rather than a reliance on access.

The weakness of legal rights affects access to financial services. The degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and consequently facilitate lending is very poor in the Philippines (rated 1 out of 12 in the World Bank's 2019 Doing Business report).

More than half of the commercial banking sector is controlled by conglomerates. Banco de Oro (BDO), Bank of the Philippine Islands (BPI), Metrobank, and China Bank control more than 50 percent of the commercial expanded banking sector. Three of the top 10 conglomerates own shares in these banks—SM Investments owns shares in BDO (44 percent) and in China Bank (20 percent), Ayala Corporation owns shares in BPI (49 percent), and GT Capital owns shares in Metrobank (36 percent).

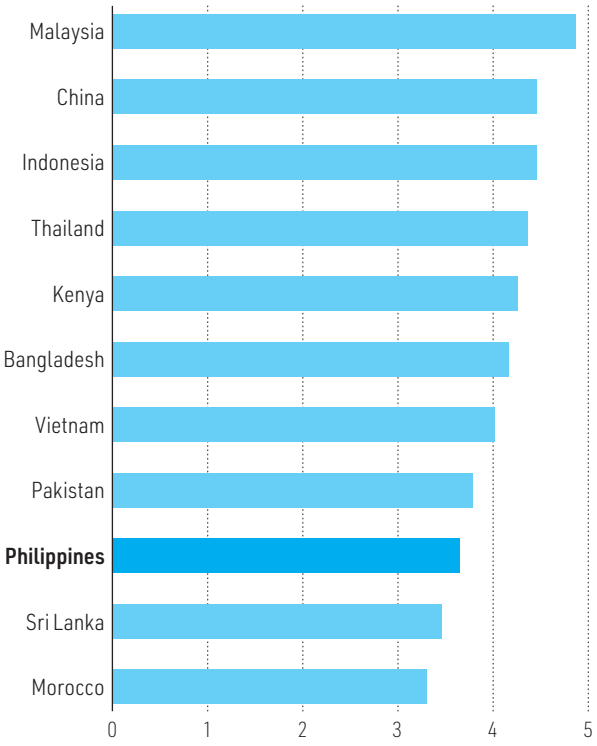
Only 1 percent of retail transactions are executed through electronic channels. Reforms in the payment system are ongoing, and are aimed at increasing the use of electronic payments (at least 20 percent of retail payments through digital means by 2020) and at expanding access to payment systems for those who are excluded. For example, BSP has launched two automatic clearing houses, PESONet in 2017 and InstaPay in 2018. However, only a small number of banks—and a few e-money issuers—actively participate in the market.[34] The recently approved National Payment System Act provides BSP with a clear mandate and the power to induce the change in the payment systems.

Capital markets are considered shallow, which restricts the financing of infrastructure investments. Issuances of private capital market products and government bonds each totaled 4 percent of GDP, on average, between 2013 and 2015—not much less than the 5-plus percent level in China, Malaysia, and Thailand, but well under the 9 percent threshold associated with the capital markets of developed economies. Nonetheless, the development of the Philippine capital market lags behind China, Malaysia, Singapore, and Thailand.[35] In particular, the Philippines' market is considered shallow in terms of financial depth of the primary market and the availability of investment opportunities across asset classes; shallow and long-term-oriented in terms of debt; inefficient in the quality of pricing information; and local-investor-oriented and predictable in terms of the availability and the stability of foreign investment.[36]

Capital markets have yet to be fully leveraged to finance infrastructure PPP projects. Firms engaged in PPPs have a large local component given that the constitution requires that facility operators of public utilities be majority Filipino-owned. Many of the largest Filipino conglomerates that have pursued PPPs relied on existing relationships with domestic banks. A liquid banking sector and local corporate involvement minimize risks. Similarly, conglomerates can raise corporate bonds to help finance infrastructure projects, with bonds rated and priced on the basis of the health of the company's balance sheet. This was the case of San Miguel Corporation's ₱30 billion issuance in 2016 that included funding for mass transit, airport, toll road, and water infrastructure purposes.[37] The Philippines has issued very few project bonds in which pricing is based on the financial health of the project and not on the financial health of the larger company, in part because of the absence of formal policy gov-

FIGURE 3.6 LABOR REGULATIONS IN THE PHILIPPINES ARE MORE RESTRICTIVE THAN IN ITS PEERS

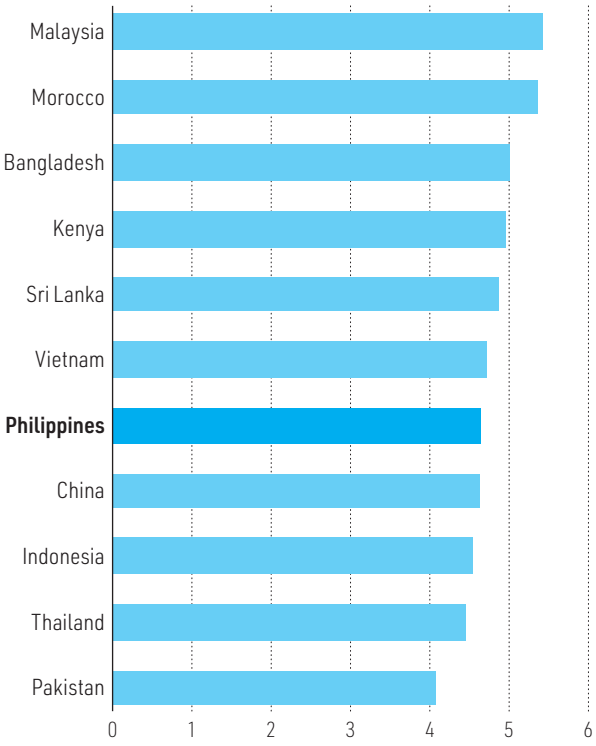
Hiring and firing practices, 1 – 7 (best)



Source: Adapted from World Bank 2018 using data from the World Economic Forum Global Competitiveness Index database.

FIGURE 3.7 WAGE DETERMINATION IS ALSO MORE RESTRICTIVE IN THE PHILIPPINES COMPARED WITH ITS PEERS

Flexibility of wage determination, 1 – 7 (best)



Source: Adapted from World Bank 2018 using data from the World Economic Forum Global Competitiveness Index database.

erning the trading of such securities. The Philippine Dealing System Group, which maintains the trading platforms for fixed-income and foreign exchange markets, announced that it would consider rules to allow for more PPP fixed-income trading on its platform in January 2017.[38]

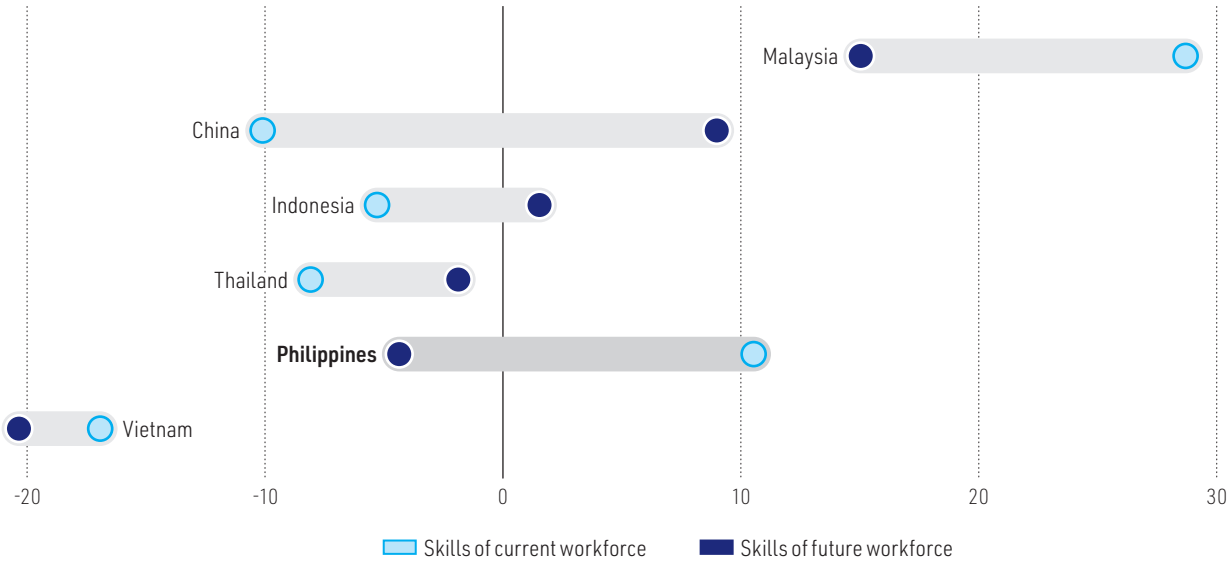
3.6 Labor Market Policy[39]

Labor regulations in the Philippines are some of the most stringent in the ASEAN region, limiting the creation of formal jobs. According to the WEF's Global Competitiveness Report 2017–18, the Philippines ranks 84th out of 137 countries in terms of labor market efficiency and 77th on ease of hiring and firing workers, making the country more restrictive than many of its peers (figure 3.6). The strict labor regulations contribute to informality by increasing the cost of formal economic activity compared to informal, which discourages employers from hiring workers formally and leads them to increasingly use temporary employment contracts. Moreover, wage determination is restrictive both relative to worker productivity in the Philippines and to the minimum wage of other countries with similar income levels (figure 3.7).[40] Finally, redundancy costs are very high in the Philippines—27 weeks of salary—resulting in a rank of 118th out of 136 countries.

The job market is experiencing a mismatch between demand and quality of supply, as reflected in vacancies that cannot be filled and a high unemployment rate among tertiary educated workers. About one-third of employers reported having unfilled vacancies because of a lack of applicants with the necessary skill set. Most of the missing skills are not related to academic knowledge or technical acumen, but rather are socioemotional skills.[41] Moreover, inadequate experience among applicants and lack of applicants for advertised positions are among the most frequently cited reasons for unfilled vacancies. Workers with tertiary

FIGURE 3.8 THE SKILLS OF TODAY ARE ABOVE AVERAGE, BUT NOT FULLY READY FOR THE FUTURE

Difference to regional peers' average scores (%)



Source: Adapted from WEF 2016.

education spend an average of 5.5 weeks searching for a job, far longer than the average time spent by workers with lower education levels. Unemployment rates also increase with education level. About 80 percent of unemployed workers have a secondary education or higher.

The skills needed for the future workforce are not the same skills currently needed. The WEF's 2016 Global Competitiveness Report differentiates the skills of the current workforce with the skills needed by the future workforce (figure 3.8). Current workforce skills cover years of schooling, extent of staff training, quality of vocational training, skill sets of secondary education graduates, and skill sets of university graduates. In comparison, future workforce skills cover school-life expectancy, quality of primary education, internet use in schools, and critical thinking in teaching. Looking at the skills of the current workforce, the Philippines' average is above regional peers' averages; however, in terms of the skills for the future workforce, the Philippines lags behind neighboring China and Malaysia.

Socioemotional skills are increasingly crucial to the types of jobs being created by the global economy.[42] Whereas in the past, literacy, numeracy, and various forms of administrative and technical know-how drove gains in worker productivity, today's structural economic transformation and technological advances are creating a burgeoning demand for jobs that require skills related to individual behavior, personality, attitude, and mindset. However, governments and educational institutions are only beginning to fully recognize the importance of socioemotional skills and to develop strategies to foster their development. ■

> "Using the skills of the current workforce, the Philippines is above regional peers' average; however, in terms of the skills for the future workforce, the Philippines lags neighboring China and Malaysia."

04
SECTOR SCAN

A sector scan identifies opportunities to create markets in infrastructure and tradeable sectors. This section assesses the performance of infrastructure (energy, water, transport, and ICT) and tradeable sectors (agriculture, manufacturing, and services) together with the main policy constraints and suggests possible solutions.

4.1 Infrastructure Sectors

Energy

Despite high levels of access, electricity in the Philippines is costly. In 2016, more than 90 percent of the population in the Philippines had access to electricity—ahead of Cambodia, the Lao People's Democratic Republic, and Myanmar but trailing behind countries that have achieved nearly 100 percent access (such as Malaysia, Thailand, and Vietnam). Despite the relatively high access, customers in the Philippines face some of the highest electricity prices in the region (figure 4.1).[43]

The quality and reliability of a stable electricity supply is also a problem. The Philippines ranks 92nd on quality of electricity supply in the World Economic Forum's (WEF) Global Competitiveness Report 2017–18, behind Indonesia (86th), China (65th), Thailand (57th), Malaysia (36th), and Singapore (3rd). The lack of clear responsibilities for the maintenance and upgrade of transmission lines between distribution utilities and the National Grid Corporation of the Philippines (NGCP) leads to unreliability. Reliability typically suffers outside the National Capital Region (NCR), Cebu, and Davao, where poor performing electric cooperatives experience high systems losses and pilferage.[44]

The electricity sector is operated by a combination of state-owned enterprises (SOEs) and private firms, including large conglomerates. Most of the generation capacity and IPP capacity (more than 70 percent) have been transferred to the private sector, which triggered open access and retail competition. Private corporations largely run the Philippine power generation sector, with some exceptions in Mindanao and in islands that are not connected to the main grid (such as Palawan and Mindoro). The transmission sector is operated and managed by the NGCP under a 50-year legislative franchise.[45] The distribution segment contains a hybrid of private corporations and electric cooperatives that have each been awarded monopoly licenses to distribute electricity to a specific franchise area. However, they have responsibility only over

captive customers. With open access, contestable customers can now choose their power generator or supplier.

Policy Constraints

Unbundling concerns and the overall limitations for FDI in utilities prevent the development of much-needed electricity infrastructure, resulting in limited capacity and high prices. Although the electricity sector has undergone significant changes in recent years, the implementation of key reforms is slow. The Electric Power Industry Reform Act (EPIRA) of 2001 fully restructured the legal and institutional framework of the sector. The law provided for the privatization of the state-owned generation and transmission entity, the creation of a wholesale electricity spot market, and the establishment of open access for competitive consumers. However, there are concerns regarding how long it is taking to implement the reforms mandated by EPIRA, notably on the need for compliance of the Energy Regulatory Commission with the implementation of open access provisions and competition in retail, as well as the separation between different market segments. The Commission recently ordered the separation between operators in the distribution and supply markets to foster competition in retail, but this decision was appealed before the Supreme Court.

The implementation of renewable energy projects is hindered by investment restrictions. According to the Department of Energy, the Philippines has enormous untapped potential for wind energy (70,000 megawatts), hydropower (13,097 megawatts), and geothermal energy (roughly 2,600 megawatts). Despite the passage of the Renewable Energy Law in 2008 and the adoption of the National Renewable Energy Program for 2012–30, only 7,013.9 megawatts of renewable energy has been installed. The Philippines is expected to become the most coal-dependent country by 2025. Developing more environmentally friendly energy projects is hindered by foreign ownership constraints (40 percent cap) and cumbersome permitting processes (for example, powerplant operators need to secure 162 clearances and 102 permits).[46] As a result, it will be challenging to achieve the renewable energy target share of 35 percent by 2030 from the 24 percent in 2016.[47]

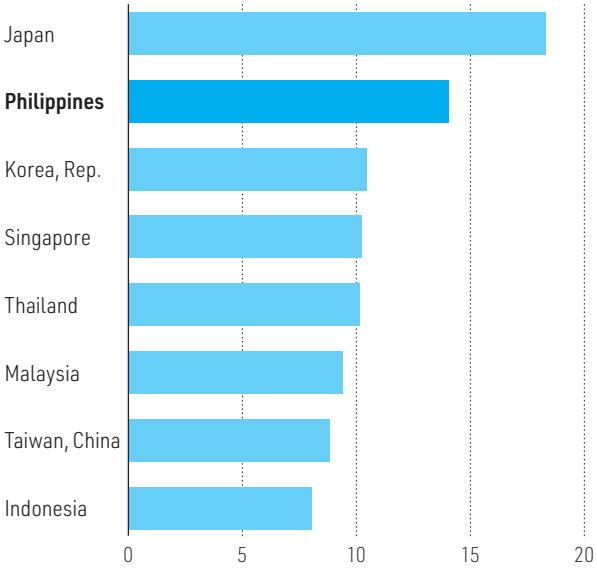
Possible Solutions

Additional regulatory reforms are needed to achieve the goal set by EPIRA of a more competitive electricity sector. Although the Philippines has made great strides in achieving a competitive energy market, there are still a few implementation issues that must be addressed. As there is no explicit prohibition on cross-ownership between generation and distribution, vertical integration is still possible;[48] therefore, reforms are needed to ensure vertical separation between distribution and supply because many supply companies are subsidiaries of distribution utilities. Moreover, open access and retail competition should be effectively implemented. Also, these additional reforms should be accompanied by improved and capacitated regulatory agencies.

Another solution is to streamline the approval process for constructing new power plants. The creation of the Energy Investment Coordinating Council aimed to streamline the regulatory procedures affecting energy projects to invite more participants, including private and other ASEAN states in the energy subsector. Similarly, the Conventional Energy Contracting Program for Petroleum and Coal was established to provide opportunity for interested parties or investors to participate year-round and to offer them a shorter processing time—30 working days from the opening of the application to awarding. However, these two initiatives have yet to be fully implemented.

FIGURE 4.1 THE PHILIPPINES HAS ONE OF THE HIGHEST ELECTRICITY COSTS IN THE REGION

Average retail electricity tariff, all customs, January 2018 (U.S. cents per kilowatt hour)



Source: IEC 2018.
Note: The average retail electricity tariff excludes value added tax but includes all other applicable taxes and charges.

One more solution is to promote greater private sector participation to enable the Philippines to shift more decisively toward green growth—not only in the financial system, but also in the real economy. Policy action is needed to create an incentive road map that increasingly values long-term, sustainable development in investment and financial transactions, such as in the improvement and deployment of various renewable energy sources (such as wind and solar) and efficient energy use (such as green buildings).

Water, Sanitation, and Waste Management

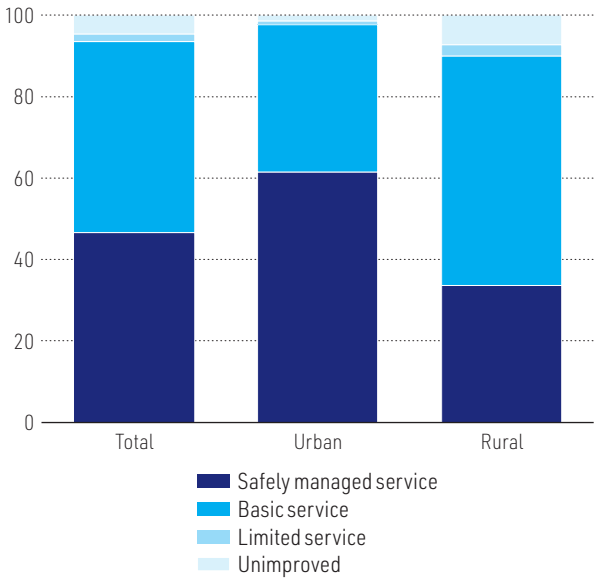
The provision of water and sanitation is largely basic, constraining private sector investment. Although most of the country has access to basic services for drinking water and sanitation, there is no provision for safely managed drinking water[49] or sanitation.[50] In particular, a significant portion of the country's population still sources its drinking water either from outside their premises, from unprotected sources, or directly from surface water such as rivers or ponds (figure 4.2). Meanwhile, the quality of sanitation remains basic (figure 4.3). Lack of adequate water and of sanitation infrastructure are constraints on water-intensive industries—including food and beverage manufacturing—and on tourism, starkly illustrated by the closure in 2018 of Boracay Island because of inadequate sanitation infrastructure and environmental compliance.

The Philippines' waste generation also continues to rise and remains a major challenge, especially in urban areas such as metropolitan Manila. According to the National Solid Waste Management Commission, the country's waste generation increased from 37,427 tons per day in 2012 to 40,087 tons per day in 2016, and it is projected to increase to 77,776 tons per day in 2025 due to the growing urban population and the projected doubling of solid waste generation per capita from 0.5 to 0.9 kilograms per day.[51] Disposed waste is dominated by biodegradable waste (52 percent), followed by recyclable waste (28 percent), residuals (18 percent), and special or hazardous waste (2 percent). Uncollected waste ends up mostly in rivers and other water bodies, causing water pollution and clogged drainage systems that eventually results in flooding during heavy rains. Open dumping remains the general practice for disposal, as controlled dump sites and sanitary landfills remain insufficient to service all LGUs.[52] As a result, the Philippines has the third-largest mass of mismanaged plastic waste in the world, some of which ends up in the ocean.[53]

Water and sanitation services are delivered by local governments, SOEs, and the private sector. In the Philippines, LGUs choose how water services are

FIGURE 4.2 SERVICES ON DRINKING WATER...

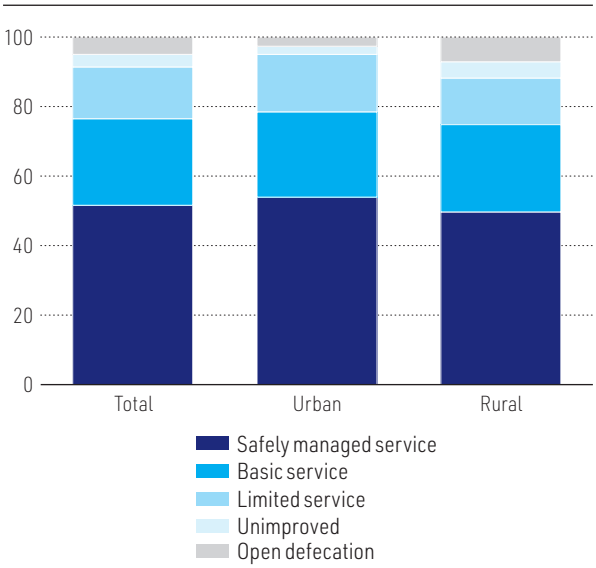
Population coverage, 2017 (%)



Source: Adapted from World Health Organization and United Nations Children's Fund Joint Monitoring Programme's Water Supply, Sanitation and Hygiene database.

FIGURE 4.3 ...AS WELL AS SANITATION REMAIN BASIC

Population coverage, 2017 (%)



Source: Adapted from World Health Organization and United Nations Children's Fund Joint Monitoring Programme's Water Supply, Sanitation and Hygiene database.

delivered, for example, through separate corporate water utilities or water districts, its own economic enterprise, or partnering or contracting with private firms.[54] Private companies can make unsolicited proposals to governments or local utilities to provide water supply and sanitation services through a PPP. These unsolicited proposals are subject to the Swiss challenge,[55] but once signed, the contracts are typically good for the long-term, at least 25 years.[56]

Policy Constraints

There are low levels of public and private sector investment for service expansion due to economies of scale, pricing, and legal restrictions. More than half of the more than 500 operational water districts have less than 3,000 service connections,[57] limiting economies of scale. The absence of common methodology in tariff review and the presence of political pressure to keep tariffs low—often below cost-recovery levels—discourage private investment.[58] As with other utilities, only a 40 percent of foreign equity is allowed for the operation and management of water and sanitation companies.[59] Investment is also constrained by difficulties in land acquisition and by a lengthy water permit application process.

Investment costs, management challenges, and lack of technical capacity for a comprehensive municipal solid waste management system prevent most LGUs from practicing modern, efficient solid waste management. Investing in such systems can be costly for a single LGU to shoulder, and some LGUs lack the technical competency to deliver the service without assistance from an outside entity. In addition, the existing Clean Air Act restricts incineration for municipal waste disposal that largely leaves engineered sanitary landfills as the acceptable method of final waste disposal.

Institutional fragmentation limits oversight. No single organization is responsible for overall sector performance. More than 30 agencies are involved in the sector including the Department of the Interior and Local Government, the Department of Health, the Department of Public Works and Highways, and the Local Water Utilities Administration. Furthermore, most water utilities are neither registered with the National Water Resources Board nor attached to a national agency.[60] Because a single regulatory body does not prescribe performance standards, a common methodology is not used to monitor and quantify actual improvements in water supply access and coverage.

Possible Solutions

A solution to resolve institutional fragmentation and to improve coordination mechanisms among national and local agencies is to form a department-level apex body for the water resources sector that will take the lead in the formulation and planning of water resources policy, resource regulation, and the overall coordination with implementing agencies.[61]

Another solution is to establish an appropriate tariff policy and tariff revenue collection for operations to be viable as well as allowing investments to improve coverage. Ensuring that sufficient finance is available for longer-term sustainability of water and sanitation services requires[62] a tariff policy that allows increases for improved services, and a financing support mechanism to cover the interim operational shortfall during the early years.

Transport

Underinvestment has adversely affected the capacity as well as the quality of the Philippines' logistics performance, which is manifested in restrictions and poor infrastructure, and has led to high costs. Given the archipelagic nature of the country, its transport infrastructure, especially maritime, is crucial for the ability to efficiently move goods across locations and for consumers to get goods at adequate prices. However, restrictions on cabotage in road freight and air transport, paired with limited public spending on infrastructure and FDI limitations, have led to inadequate infrastructure (table 4.1) and stifled competition in logistics.[63] The 2018 World Bank Logistics Performance Index places the Philippines below all of its regional peers (figure 4.4), suffering especially from poor customs and infrastructure. As a result, trade costs in the Philippines are some of the highest in the region (see figure 3.3 in chapter 3).

Poor infrastructure has led to transportation challenges that include chronic road traffic congestion, poorly performing seaports, and overcrowded airports. Urban transport is characterized by traffic jams, a saturated transport system, and few other alternatives. Traffic congestion results in an estimated productivity loss of about ₱2.4 billion ($54 million) a day or more than ₱800 billion ($18 billion) a year.[64] Metropolitan Manila generates approximately 13 million motorized trips per day and a total of about 19 million with the adjoining provinces. Only approximately 10 percent of the total daily trips within the NCR are serviced by rail, versus 25 to 75 percent in comparable world

FIGURE 4.4 LOGISTICS IS IMPAIRED BY MANY RESTRICTIONS...

Logistics Performance Index score cards, Philippines and regional peers, 2018

Source: Adapted from World Bank Logistics Performance Index data.

TABLE 4.1 ...AND INADEQUATE INFRASTRUCTURE DUE TO LOW INVESTMENT

Global Competitiveness Index scores, Philippines and regional peers, 2018

		Service efficiency		
Country	**Quality of Roads**	**Train**	**Seaport**	**Air transport**
China	42	25	48	63
Indonesia	75	19	61	49
Malaysia	20	13	17	19
Philippines	**88**	**100**	**84**	**92**
Thailand	55	91	68	48
Vietnam	109	61	78	101

Source: WEF 2018.

cities.[65] Furthermore, despite being an archipelago with hundreds of ports, only the ports of Manila, Davao, Cagayan de Oro, Subic, Batangas, and Cebu have quay cranes. As a result, the efficiency of the country's seaport services lag behind its neighbors.

The Philippines' government has supported some private sector participation in infrastructure development through the decades. It has included brought private participation in its primary transport infrastructure projects through PPPs, including the expressways on Luzon, rail in Manila, the seaports of Manila, Subic, and Batangas, and the Mactan-Cebu International Airport.

Policy Constraints

In the road transport sector, the most significant transport mode in the Philippines, key regulatory restrictions remain in place. Road transport accounts for 58 percent of cargo traffic, even in a country in which maritime transport plays an important role because of its archipelagic nature. Although road cargo is characterized by many small firms providing basic transportation services, Product Market Regulation data indicates several regulatory restrictions mainly due to entry barriers. For example, cargo trucks require a license to operate in the market, however to acquire a license may require interaction with up to eight government agencies. In addition, Filipino citizenship and hauling contracts are required to establish a business in national road freight services.

The restrictive regulatory framework contributes to the slow expansion of private sector investment in infrastructure. Complexities in the regulation of the transport sector, problems with right-of-way acquisition, and the inability to adhere to agreed-upon contractual obligations as contained in executed concession agreements, restrict further expansion by the private sector. For example, toll rate increases provided by the Toll Regulatory Board for two expressways, the Manila-Cavite Expressway in 2013 and the North Luzon Expressway in 2015, have yet to be implemented. Moreover, right-of-way issues have stalled the construction of the extension of the Light Rail Transit Line to Cavite and the extension of the South Luzon Expressway to Quezon.

Conflicts of interests arise from SOEs acting as regulators and operators. For example, although the Philippine Ports Authority (PPA) allows private corporations to build their own ports, it regulates the issuance of the clearance to develop private port facilities, subject to the premise of avoiding duplication of functional facility or service that is adequately provided by the nearest government port or private port authorized to operate. This regulatory basis to grant authority to develop and operate allows the PPA (or the Cebu Port Authority) to protect its own ports by restricting competing private ports.

Infrastructure issues are worsened by a complex regulatory framework governing trade and transport that further limits the efficiency of logistics and transport service providers. For example, the division of the Bureau of Customs' Manila operations into two separate port districts encourages foreign shipping companies to make separate stops at the two port terminals of Manila because shippers prefer to deal with their revenue district of choice. Import shipment clearance delays are caused not only by the Bureau of Customs, but also from the requirements of other trade-related agencies. In 2017, container cargo dwell times at the port of Manila ranged between five and eight days, compared with Indonesia's dwell time of 3.6 days. In January 2019, container cargo dwell times increased to 11 days because of issues pertaining to container clearance, container yard utilization, and truck shortages.

Foreign investments are restricted in most transport segments to a minority share. As highlighted in the FDI restrictions section, the management of public utilities is subject to a 60:40 ownership restriction favoring the Philippine entity. Because most transportation services are interpreted to be public utilities, they cannot be fully owned by a foreign corporation. Moreover, participation of foreign firms in tenders for government transport is restricted because they are only eligible to participate when (a) a treaty or executive agreement allows them, (b) reciprocity rights exist, and (c) goods are not available locally.

Possible Solutions

A solution is to leverage the current administration's "Build, Build, Build" program to attract greater private investment in infrastructure. Given the large infrastructure gaps, there is a need for facilitating and creating more space for private sector participation, which will help reduce inefficiencies. However, as highlighted earlier in the PPP policy section, this solution would require addressing institutional, contractual, and legal issues, such as amending the Build-Operate-Transfer Law to allow joint ventures and to reduce the 50 percent cap on government participation. The Philippines needs better-quality PPP projects, with improved coordination and more strategic deployment of government

support instruments. Therefore, there is a need to revise regulations and institutional arrangements governing PPP project selection, preparation, and government support processes to ensure that projects are well prepared, well structured, and supported in the most efficient and effective manner.

Another solution is to increase competition by allowing greater foreign investment participation in the transport sector. The Public Service Act, which defines public utility more narrowly—limited to the distribution of electricity, transmission of electricity, and water and sewerage pipelines—passed in the House of Representatives in 2017 but has not yet passed in the Senate. This bill would open port operations, road transportation, rail transportation, and many other transport segments for foreign investment. The elimination of restrictions on foreign investment participation would not only allow for additional, much-needed investments in the sector, but also bring new know-how in the management of infrastructure projects.

An additional solution is to improve the regulatory space to facilitate multimodal operations in the archipelago. Route capacity planning and rationalization should also be developed within the Department of Transportation, the Maritime Industry Authority, and the Land Transport Franchising Regulatory Board to ensure greater interconnectivity among different modes of transport and land uses. At the same time, the requirements for the provision of franchises and permits to operate for land, sea, air, and multimodal service providers need to be automated and streamlined, particularly for firms based outside of Manila that need to get permits approved in the capital. There is a need to improve customs, quarantine, and other clearances required by trade-related government agencies to facilitate entry and exit of international cargo through the ports.

Digital Infrastructure

The Philippines' telecommunications sector is marked by high costs, low speeds, and relatively low penetration. Compared to its middle-income peers in the region, the Philippines has some of the highest fixed broadband and mobile broadband prices, at 7.7 percent and 1.9 percent of gross national income per capita, respectively (figure 4.4). High costs affect access by private firms, reflected in only 16 percent of households connected to fixed internet (figure 4.5). Those households with internet access experience low speeds. For example, more than 50 percent of fixed-line connections are accessed through a digital subscriber line, resulting in poor connection speeds. Similarly, the generated 4G speed is slow, with Philippine users experiencing averages speeds of less than 10 megabits per second, which is much slower than the speeds users experience in Malaysia and Vietnam. The boom in data usage has driven sector growth but it also has placed stress on an insufficient and congested telecommunications infrastructure.

This inadequate digital infrastructure is provided by a duopoly. Two conglomerates control most of the digital infrastructure: the Philippine Long Distance Telephone (PLDT) Company and Globe Telecom. PLDT is the largest telecommunications provider in the Philippines, controlling nearly three-quarters of the fiber backbone; Globe Telecom owns 20 percent of the backbone. Together, they control 90 percent of the sub 2.6-megahertz spectrum. The resulting mobile infrastructure consists of more than 16,000 towers compared with the 70,000 towers in Vietnam, which has similar population figures. Tower density (number of people per tower) is estimated at 6,337, significantly above the global average of 2,424.

Policy Constraints

Not only have FDI restrictions insulated Philippine telecommunications from foreign competition— they also have restricted investment in infrastructure. This has contributed to perpetuating market concentration, especially with the sale of San Miguel Corporation (the Philippines' top conglomerate) to Globe Telecom and PLDT after it failed to secure a deal with the Australian Telstra Corporation for a joint investment in a new mobile network.

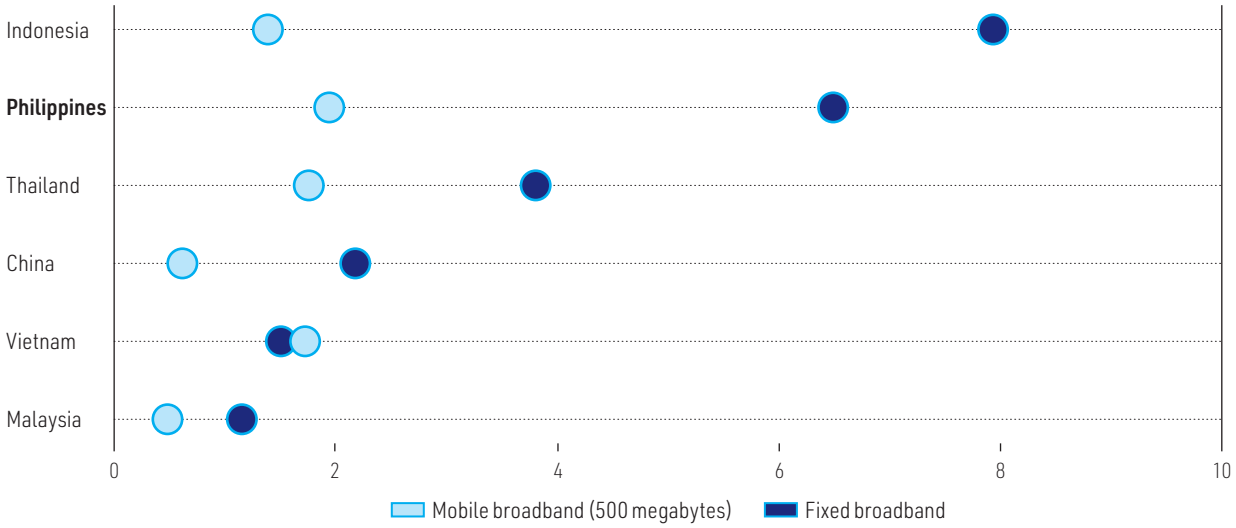
Regulatory challenges continue to protect incumbents. The Philippines does not have the necessary regulations to facilitate competition such as unbundling of the local loop, or spectrum allocation. The lack of an independent regulator further restricts competition.

Current challenges with technology obsolescence are the result of limited resources and the lack of shared infrastructure in the Philippines. Cell towers are owned by and serve only the corresponding telecommunication operator and efforts to introduce a common tower policy have not been successful. Given the high capital cost for building an entire new network, this policy serves as a barrier to new entrants.

Add to these constraints the difficulty in getting permits in the Philippines. There are prohibitive bureaucratic requirements, especially in infrastruc-

FIGURE 4.5 CONNECTING TO THE INTERNET IS EXPENSIVE IN THE PHILIPPINES, RELATIVE TO PEERS, ESPECIALLY FOR BROADBAND...

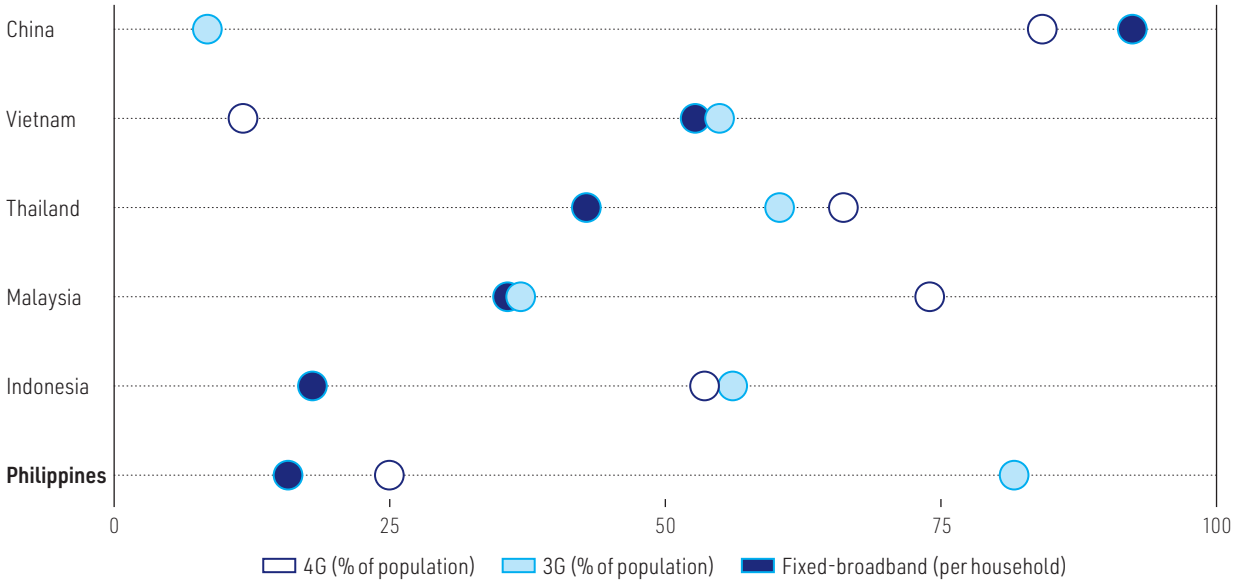
Comparative prices, 2017 (% of GNI per capita)



Source: Data from the International Telecommunication Union.
Note: GNI = gross national income.

FIGURE 4.6 ...WHICH LEADS TO COMPARABLY LOW ADOPTION RATES

Broadband Penetration, December 2018



Source: Data from Telegeography and GSMA.

ture build-out. Any aspiring entrant must undergo a rigorous process of obtaining permits, especially for the construction of cell towers and related infrastructure. In addition, unclear and lengthy permit procedures that are not standardized across regions slow down investment. Obtaining right of way is also an issue for fiber and tower construction. Furthermore, telecommunications companies need to secure a legislative franchise before they can operate, which means that a bill should be

filed in Congress and passed into law for them to be allowed to operate.

Possible Solutions

A solution is to review spectrum policy and introduce technology neutrality. Carry out reforms in spectrum management to improve spectrum availability. Moreover, promote open and nondiscriminatory access to and pricing of backbone facilities to attract new players in the market.

Another solution is to drive infrastructure sharing by developing and implementing regulations for passive infrastructure sharing with open and nondiscriminatory access to existing and proposed networks (both towers and optical fiber). This solution would allow the private sector, outside of the existing telecommunications operators, to partake in infrastructure sharing by becoming a host provider to multiple operators.

And finally, exclude telecommunications from the "public utilities" definition. The Senate Committee of Public Services is proposing an amendment to the Public Services Act—which governs public services such as water and power utilities, transportation, telecommunications, and mass media—to limit public utilities to the transmission of electricity, distribution of electricity, and water works and sewerage systems. This amendment would allow 100 percent foreign investment in the telecommunications sector.

4.2 Tradeable Sectors

Agriculture

The agricultural sector has been growing below average and declining in economic importance. Between 2010 and 2017, the agricultural sector (agriculture, forestry, and fishing) grew at an average of 1.6 percent, including a decline of 1.2 percent between 2016 and 2017. The share of the agricultural sector to GDP has been characterized by a consistent decline, from 12 percent in 2010 to less than 9 percent in 2017. Based on contribution to agricultural GDP, the top three agricultural commodities are rice (20 percent), fishing (17 percent), and livestock (14 percent) (table 4.3). In terms of growth, the average growth rate of rice between 2010 and 2017 was an annual 3 percent. However, growth has varied significantly, from −4.3 percent in 2014–15 to 9.4 percent in 2016–17. During the same period, the average growth was 2.2 percent for livestock and −1.5 percent for fishing.

TABLE 4.2 PERFORMANCE OF THE AGRICULTURAL SECTOR HAS BEEN LACKING

Commodity	Share in agricultural GDP, 2017 (%)	Share in overall GDP, 2010 (%)	Annual growth, 2010–17 (%)
Agriculture	83.0	7.1	2.3
Rice	20.4	1.7	3.0
Corn	5.8	0.5	3.3
Coconut (including copra)	3.6	0.3	−1.5
Sugarcane	2.5	0.2	9.7
Banana	4.5	0.4	0.1
Mango	1.9	0.2	−1.1
Pineapple	2.3	0.2	3.1
Cassava	1.4	0.1	4.4
Other crops	5.6	0.5	−0.2
Livestock	14.2	1.2	2.2
Poultry	11.8	1.0	3.6
Agricultural activities and services	8.1	0.7	3.5
Fishing	16.5	1.4	−1.5

Source: PSA 2018c.
Note: GDP = gross domestic product.

The top two agricultural exports are fresh bananas and pineapples. The Philippines is among the top five exporters of bananas and pineapples, and hosts multinationals such as Dole and Del Monte. According to Philippines Statistics Authority (PSA) data, in 2017, fresh bananas generated 17 percent of agricultural exports (₱56.8 billion) followed by pineapples with 3 percent (₱10 billion). Since 2014, exports of bananas have grown, on average, at 16 percent per year, with tremendous variations, including −40 percent in 2014–15 and 64 percent in 2016–17. Similarly, pineapple has experienced highly varied growth, on average, at 27 percent per year, with its peak in 2015–16 at 97 percent and a low of −16 percent in 2014–15.

Monopolies operate in the agricultural sector. As previously noted, more than 70 percent of agricultural markets have an average PCM of more than 40 percent. Furthermore, there are 15 markets with only one firm in operation, such as a seaweed farming, growing of papayas, apiary, and growing of cassava.

The agricultural sector is a poor contributor to quality jobs. Although the agricultural sector generates one third of all jobs, it generates only 3 percent of formal jobs. Out of those people having formal jobs, less than 6 percent make middle-class wages (more than ₱17,000).

Policy Constraints

Public investments in agriculture remain inadequate. Despite the increased budget allocation in recent years, public investments in agriculture remain insufficient to address the needs of the sector. These investments include irrigation systems, farm-to-market roads, post-harvest facilities, grain centers, extension services, and public investments in agriculture research and development (R&D).[66] However, the new Agriculture and Fisheries Modernization Plan attempts to make support more efficient and effective according to local needs and climate considerations.

Trade policies in some agricultural crops are distortionary. Despite the increasing pressure to liberalize trade, there is evidence that organized lobby groups have been able to strengthen existing political protection. Trade policy for sugar, rice, and maize have been identified with the most distortions. The recent passage of the Rice Tariffication Act eliminated the monopoly of the National Food Authority in rice importation and its use of quantitative restrictions, which resulted in price uncertainties.

Land ownership is a problematic area for the sector. Foreign ownership restrictions and limits of lease term have decreased the incentives to invest in the sector. Moreover, the slow implementation of the Comprehensive Agrarian Reform Program prevents the sale of mortgaged land in the open market. This in turn, increases the uncertainty over properties, affecting the ability of landowners to access credit. In addition, inefficiencies in land registration and the titling system add to the difficulty of establishing property rights in the sector.[67]

Possible Solutions

A solution is to liberalize rice imports. The Rice Tariffication Bill was enacted into law in February 2019. The law lifts quantitative restrictions that have allowed the government to limit rice imports by permitting the private sector to buy rice from foreign sources with a 40 percent tariff. Although the bill has been signed by the president, implementation of the law will require the issuance of the necessary implementing rules and regulations for agencies such as the Department of Agriculture and the Bureau of Customs.

Securing agricultural property rights through land governance reforms is another solution. In rural areas, the process of administrative and systematic adjudication of property rights in areas of high agricultural potential needs to be accelerated in the short term through a transparent land survey and title issuance. As highlighted in the land market policy section, further reforms in land administration are needed, including[68] (a) strengthening the administrative titling procedures through decentralization of its implementation, (b) consolidating various property titles (such as patents, Collective Certificates of Land Ownership Award, Certificate of Ancestral Domain Titles) into a single certificate of title, and (c) removing the bias against rural titles—at present, it requires 30 years of uncontested possession to obtain a rural title (compared to 10 years for urban land), thereby reducing both rural investment incentives for those who are actually farming the land and the efficiency of the rural credit market.

Manufacturing

The manufacturing sector has been growing at double digits during the past two decades. Between 2010 and 2017, manufacturing grew an average of 7.1 percent per year,[69] reaching more than ₱3,076 billion in 2017.[70] On the basis of contribution to manufacturing GDP (table 4.4), the top three industries of the manufacturing sector are food manufactures (34 percent), electronic manufactures

TABLE 4.3 THE MANUFACTURING SECTOR IS DOMINATED BY FOOD MANUFACTURING, CHEMICALS, AND ELECTRONICS

Industry	Share of manufacturing GDP, 2017 (%)	Share in overall GDP, 2017 (%)	Annual growth, 2010–17 (%)
Food manufactures	33.6	7.9	5.3
Beverage industries	3.9	0.9	7.3
Tobacco manufactures	0.2	0.1	−0.6
Textile manufactures	1.3	0.3	−2.2
Wearing apparel	1.5	0.4	3.7
Footwear and leather and leather products	0.4	0.1	6.7
Wood, bamboo, cane, and rattan articles	1.1	0.2	6.7
Paper and paper products	0.8	0.2	5.0
Publishing and printing	0.9	0.2	15.3
Petroleum and other fuel products	2.7	0.6	0.3
Chemical and chemical products	12.8	3.0	21.8
Rubber and plastic products	1.6	0.4	7.2
Nonmetallic mineral products	2.5	0.6	7.1
Basic metal industries	3.0	0.7	15.0
Fabricated metal products	1.6	0.4	15.3
Machinery and equipment except electrical	2.0	0.5	11.2
Office, accounting, and computing machinery	1.7	0.4	12.3
Electrical machinery and apparatus	2.2	0.5	5.8
Electronics	16.9	4.0	5.3
Transport equipment	2.1	0.5	5.6
Furniture and fixtures	5.1	1.2	29.9
Miscellaneous manufactures	2.0	0.5	−0.4

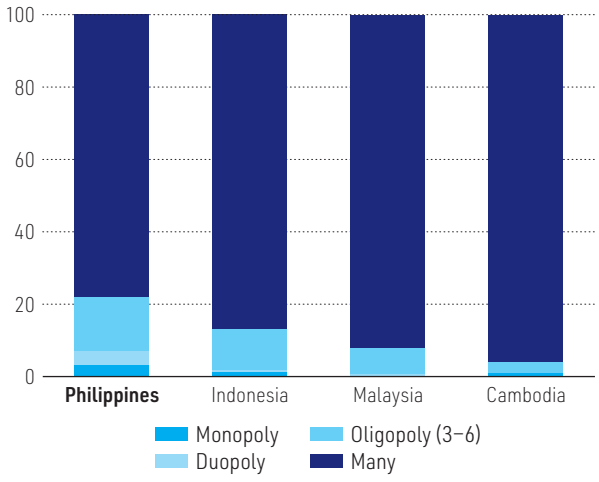
Source: PSA 2019. Using 2000 constant prices.
Note: GDP = gross domestic product.

(radio, television and communication equipment and apparatus) (17 percent), and chemicals (13 percent). In constant prices, the average growth rate between 2010 and 2017 of food manufactures was on average 5.3 percent per year, hitting a peak of 8.4 percent in 2015–16. Electronics also grew at an average of 5.3 percent but experienced greater variation. While the sector shrank in 2011–12 at −1.7 percent, the sector grew at 13 percent during 2016–17. In comparison, the growth of chemicals averaged nearly 22 percent, nearly doubling in 2012–13 (93.5 percent).

Electronics represent more than half of all goods exports. The export of electronic components reached nearly ₱1.2 billion in 2016, equivalent to more than 8 percent of GDP. Between 2010 and 2016, exports of electronic components averaged just 1.8 percent. This data reflects a drastic decline of −20.2 percent between 2010 and 2011 and a 16.3 percent growth in 2014–15, highlighting the cyclical nature of the sector. The production of integrated circuits accounts for more than half of all electronic exports. The Philippines is known globally for its considerable number of semiconductor assembly and test facilities,[71] attracting multinationals such as Intel, Acer, Texas Instruments, and Toshiba. The production of electronic components largely takes place in special economic zones within the NCR, Calabarzon region, northern and central Luzon, and Cebu.

FIGURE 4.7 MANUFACTURING MARKETS ARE MORE CONCENTRATED THAN IN ITS PEERS...

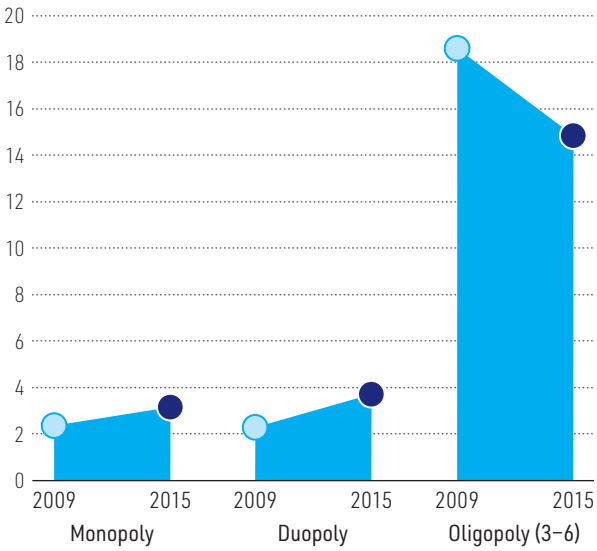
Market concentration in manufacturing, Philippines and regional peers (%)



Source: Adapted from World Bank 2018a.
Note: Regional peers were selected among countries with available information from the World Bank's Enterprise Surveys.

FIGURE 4.8 ...AND THEY HAVE BECOME MORE CONCENTRATED IN RECENT YEARS

Evolution of market concentration in manufacturing (%)



Source: Adapted from World Bank. 2018a.

Productive manufacturing firms face more distortions than less-productive firms.[72] Productive firms face larger idiosyncratic distortions than less-productive firms in manufacturing,[73] which means that productive firms are "taxed" at a higher rate in terms of distortions. As a result, productive manufacturing firms could have expanded their production even more if they had acquired more resources. Examples of distortion include preferential market access and preferential tax incentives to certain firms, which lead productive firms to produce below their optimal levels. However, this also could mean that unproductive firms continue to operate and use resources in the economy, as their output is possibly being subsidized.

Philippine manufacturing markets are more concentrated than those markets of regional peers. As previously mentioned, more than 60 percent of manufacturing markets have an average PCM of more than 40 percent, highlighting the low levels of competition. In the Philippines, there is a higher proportion of monopoly, duopoly, or oligopoly markets, which are typically more prone to collusion and abuse of market power (figure 4.6). Furthermore, there has been a recent increase in the number of monopolies and duopolies in the country's manufacturing industry (figure 4.7).

The manufacture of food products and electronic components generates a third of all manufacturing jobs, but less than 20 percent of workers in manufacturing earn middle-class wages. According to the 2015 Annual Survey of Philippine Business and Industry,[74] food products generated 18 percent of manufacturing jobs, followed by electronic components (13 percent), wearing apparel (9 percent), motor vehicle parts (7 percent), and computers and peripheral equipment and accessories (6 percent). In terms of quality of jobs, about 18 to 20 percent of food and electronic manufacturing jobs generate wages over ₱17,000 per month.

Main Constraints

High transport and energy costs are major impediments. Manufacturing is affected by high logistics costs. Logistics are affected by the costly and uncertain process of importing and transporting goods nationwide, which generates supply chain unreliability that translates into higher inventory and storage costs. In addition, major metals and machineries sectors such as copper, cement, paper, auto and auto parts, chemical, petrochemical, biodiesel, and iron and steel sectors, identified the high cost of power as a major impediment to production.[75]

Delays in processing certifications in the food manufacturing industry are perceived as a major constraint in this subsector. Food manufacturing industries (FMIs) are subject to additional regulations from food safety regulatory agencies, particularly the

Food and Drug Administration. The basic regulatory requirements for players in this subsector include licensing, registration, and labeling. Limitations to the personnel and laboratory certification capacity of these agencies are worsened by a lack of risk management and automation, leading to delays of more than 12 months for certain products. Although the direct costs of these requirements are negligible, FMIs point to these delays in processing the requirements as a binding constraint,[76] particularly for small and medium businesses seeking to penetrate national and international markets.

The outflow of technical talent to other countries and a limited pool of industry-specific talent are also constraints. Firms in the electronics industry argue that the limited scope of activities in the manufacturing sector are the result of low investments in R&D, weak backward links, and a small pool of engineers in the country. The outflow of technical expertise is a concern. The Philippines Overseas Employment Agency estimated that about 15 percent of the 2013 graduating class received job offers in other countries.[77] This outflow is worsened by the lack of industry-specific technicians and engineers; both issues are preventing the sector from tapping into new markets and developing new products.

Possible Solutions

Modernize the paper-based Bureau of Customs and other trade-related government agencies to facilitate

TABLE 4.4 THE SERVICES SECTOR IS DOMINATED BY RETAIL TRADE AND TOURISM RELATED ACTIVITIES

Industry	Share of services GDP, 2017 (%)	Share of overall GDP, 2017 (%)	Annual growth, 2010–17 (%)
Transport			
Land	2.8	1.6	6.4
Water	0.4	0.2	6.6
Air	0.7	0.4	9.1
Storage and incidental services	1.5	0.9	11.7
Communication	7.5	4.3	4.5
Maintenance and repair of vehicles and goods	1.0	0.6	8.2
Wholesale trade	5.3	3.0	6.4
Retail trade	23.2	13.3	6.4
Banking institutions	5.9	3.4	7.7
Nonbank financial intermediation	4.0	2.3	7.8
Insurance	2.2	1.2	8.9
Activities auxiliary to financial intermediation	0.7	0.4	7.2
Real estate	4.9	2.8	12.6
Renting and other business activities	9.2	5.3	10.6
Ownership of dwellings	6.0	3.5	2.2
Public administration	6.9	4.0	4.4
Education	7.5	4.3	5.1
Health and social work	2.8	1.6	9.1
Hotels and restaurants	3.2	1.8	7.0
Sewage and sanitation	0.1	0.0	4.9
Recreational, cultural, and sporting activities	3.6	2.1	6.8
Other service activities	0.9	0.5	6.1

Source: PSA 2018b.
Note: GDP = gross domestic product.

access to imported materials and foreign markets. The bulk of import and export permit processing across the Philippines is conducted by agencies using paper-based systems that require multiple procedures, documents from other government agencies, and person-to-person interactions, which leads to long processing delays, particularly for firms located far from the capital. The implementation of an automated, risk-based, interconnected processing system for all trade-related agencies could streamline the procedural requirements for trade in goods and allow better integration of Philippine firms in global value chains.

Support a resurgence in manufacturing with a strong services-development component, because the Fourth Industrial Revolution blurs the distinction between goods and services. The strong services-exports sector should be further enhanced to enable manufacturing firms to compete in new industries. For example, as computers become more sophisticated, software, maintenance, marketing, and other customer services provide a larger share of value addition relative to hardware manufacturing. The challenge for the Philippines will be to create links between sectors in which the country performs well, such as information technology and business process outsourcing (IT-BPO) services, with manufactures where resurgence and innovation are needed.[78]

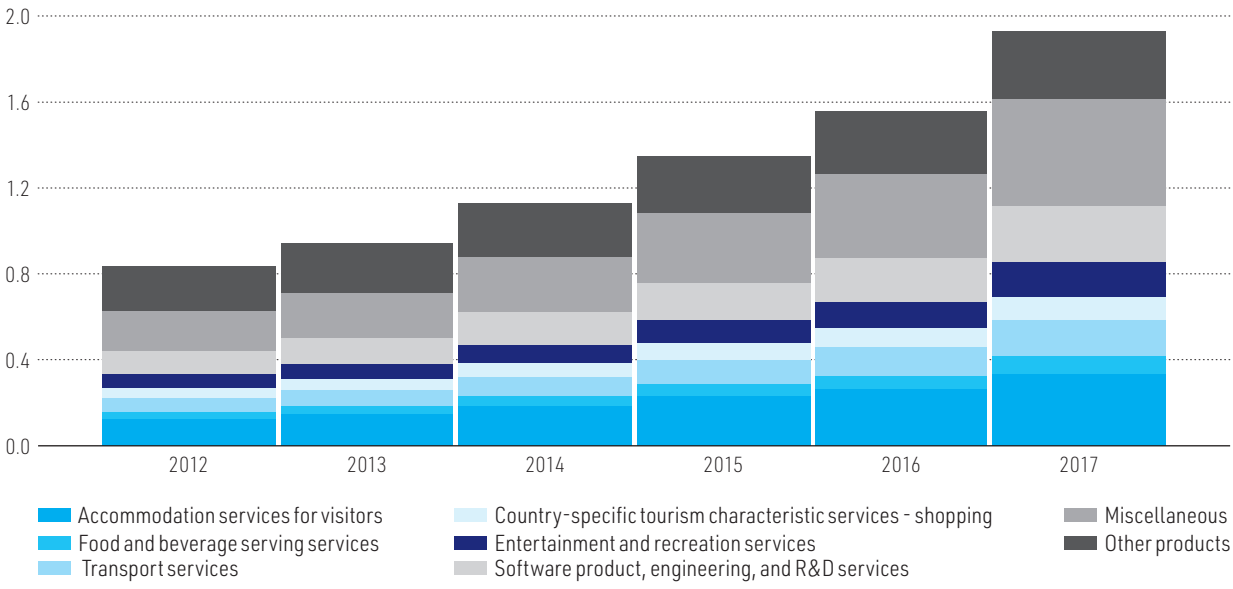
Services

Services dominate the economy, with retail and tourism being the most important sectors. The services sector has generated nearly 60 percent of GDP during the past decade, growing at an average 6.6 percent per year, reaching ₱9,466 billion in 2017. The top two largest contributors (table 4.5) to services GDP are retail trade (23 percent) and tourism (20 percent, based on tourism satellite account grouping). This decade, retail trade has grown on average at 6.4 percent per year, reaching nearly ₱2.3 billion in 2017. More than 50 percent of retail sales are from nonspecialized stores, followed by specialized stores that sell other household equipment with 18 percent.

The Philippines trails on e-commerce. Although Filipinos spend more than nine hours on the internet every day (one of top two worldwide for total hours spent), sales from e-commerce transactions represent only 0.13 percent of total sales. In 2017, Filipinos spent on average $38 on digital purchases, compared with $74 spent on purchases in Malaysia, $199 spent on purchases in Thailand, and $634 spent on purchases in China.[79] Furthermore, Philippine businesses trail in using the internet, ranking 51st (out of 139 countries) on internet use for business-to-consumer transactions, according to WEF's 2016 Global Information Technology report. In

FIGURE 4.9 THE PHILIPPINE TOURISM SECTOR HAS BEEN GROWING RAPIDLY...

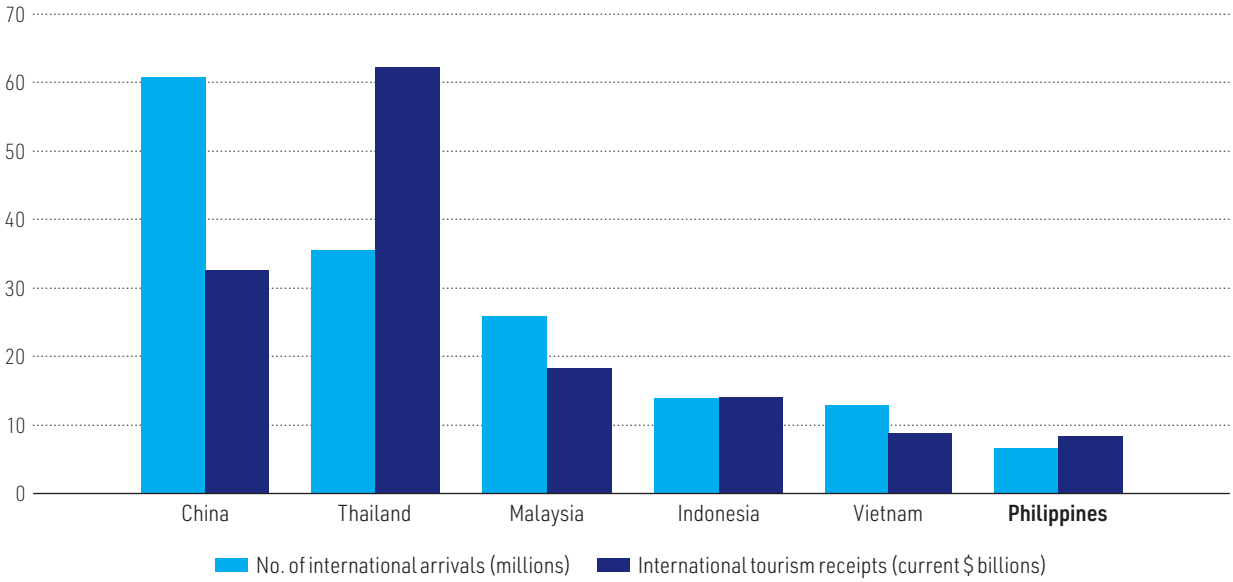
Gross value added (₱ trillions)



Source: PSA 2018a.

FIGURE 4.10 ... BUT THE SECTOR UNDERPERFORMS IN TERMS OF INTERNATIONAL ARRIVALS

International arrivals and receipts, Philippines and regional peers, 2017



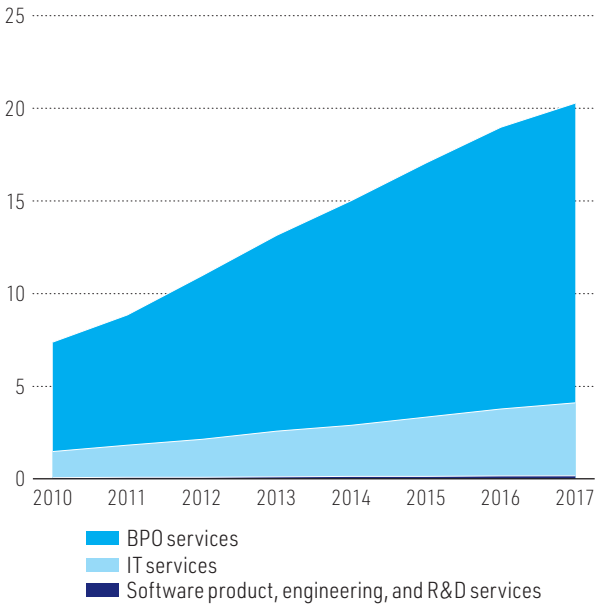
Source: Data from the World Development Indicators database .

comparison, Thailand ranks 39th, China 32nd, Indonesia 28th, and Malaysia 26th.

Tourism is a fast-growing industry, largely driven by domestic travel. In nominal terms, tourism has

FIGURE 4.11 REVENUES GENERATED BY THE IT-BPO INDUSTRY TRIPLED FROM 2010 TO 2017...

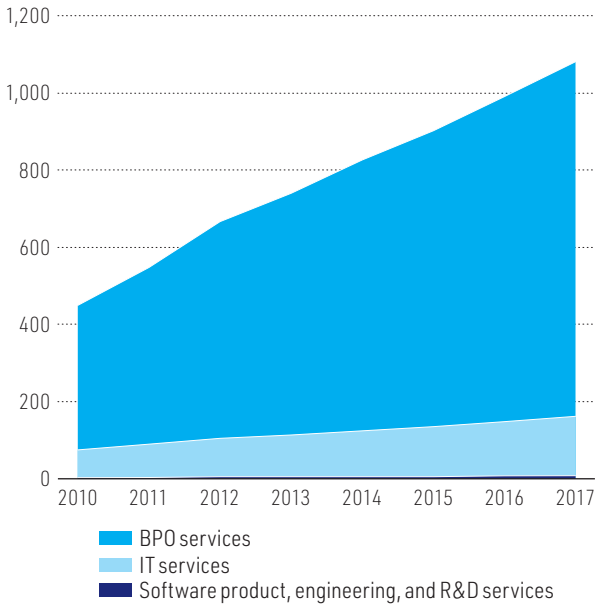
Total revenue ($ billions)



Source: Adapted from IBPAP and Frost & Sullivan. 2016.
Note: BPO = business process outsourcing; IT = information technology; R&D = research and development.

FIGURE 4.12 ... AND GENERATED OVER 1 MILLION JOBS IN 2017

No. of jobs, millions



Source: Adapted from IBPAP and Frost & Sullivan. 2016.
Note: BPO = business process outsourcing; IT = information technology; R&D = research and development.

been growing at more than 18 percent per year since 2012, with 2016–17 experiencing a 24.2 percent growth. Based on gross value added, accommodations are 17 percent of the tourism industry, and have grown at nearly 22 percent since 2012 (figure 4.8). Inbound tourism expenditure grew by 44 percent in 2017, amounting to ₱447 billion. Domestic tourism expenditure grew by 26 percent and reached ₱2,645 billion, representing 23 percent of total household consumption.

The Philippines' international arrivals, receipts, and investment figures are lackluster compared with its neighboring peers. According to World Development Indicators figures, in 2017, the Philippines registered 6.6 million international tourism arrivals and $8.3 billion in receipts. In both areas, the Philippines is being significantly outperformed by its neighboring peers (figure 4.10). Similarly, the Philippines' tourism sector is attracting far less investments than are its regional competitors. In 2017, it was estimated that $1.9 billion was invested into the Philippine tourism sector, ranking the Philippines 54th (out of 185 economies) and placing it far behind neighboring Indonesia ($12 billion), Thailand ($7.7 billion), Malaysia ($5.3 billion), and Vietnam ($5.1 billion).[80]

Exports of services accounted for more than 40 percent of total exports in 2017, with tourism and IT-BPO large contributors. Exports of services have been growing at an average of 10 percent per year. Based on PSA groupings, the top contributors to service exports are miscellaneous services (77 percent) and travel (17 percent). The IT-BPO sector is a large contributor to service exports, generating revenues of more than $25 billion in 2017 and creating more than 1 million jobs (figures 4.11 and 4.12). Most revenue and corresponding jobs are generated by call centers, with greater value activities playing a much smaller role, especially software development, engineering, and R&D services, which in 2017 generated just $160 million in revenue and fewer than 8,000 jobs.

Compared with agriculture and manufacturing, the services sector has a larger share of workers earning middle-class wages. On average, the proportion of employed individuals with an average monthly income of ₱17,000 and above is about 32 percent, and about half of those individuals are employed in information and communication, financial and insurance, real estate, and professional services. In comparison, fewer than 20 percent of workers in wholesale and retail trade; arts, entertainment, and recreation; human health; and repair of computers earn middle-class wages.

Main Constraints

The Philippines imposes several barriers to trade in services.[81] The Philippines is the most restrictive country among its peers on the basis of the Organisation for Economic Co-operation and Development's Services Trade Restrictiveness Index. Key service inputs for manufacturing and agriculture are tightly restricted, including telecommunications, transport, and retail. Consequently, the paradox of the Philippines is that the country is primarily driven by services, but poorly endowed with services that are necessary inputs in other sectors' value chains.

FDI restrictions affect the ability to attract foreign capital and to increase competition and know-how. The ability of the tourism sector to attract developers is limited because foreign individuals cannot own land, and corporations are limited to 40 percent foreign ownership. Similarly, there is also a 40 percent cap on education institutions (other than those established by religious groups and mission boards). There are other sectors where no foreign ownership is allowed, such as in retail trade enterprises with paid-up capital of less than $2.5 million. Lastly, professional services are almost completely closed to foreigners, and pricing guidelines exist for lawyers, engineers, and architects. Even in areas that are technically open to foreign competition, such as construction, the bureaucratic requirements for accreditation mean that in practice, no foreign construction companies have been granted accreditation to operate locally, except for special foreign-funded government projects.

High energy and ICT costs hinder the competitiveness of the tourism and IT-BPO sectors, especially outside of the main urban hubs. As previously mentioned, Philippine firms face some of the highest electricity and internet prices. In terms of power, in addition to high prices, most tourism destinations (for example, El Nido) experience erratic and unreliable access with frequent outages, forcing businesses to procure individual and costly solutions, which are reflected in room accommodation rates. In the IT-BPO sector, aside from high prices, the availability of high-speed connectivity is restricted outside the Manila and Cebu metropolitan areas.

The tourism sector faces sustainability concerns such as environmental degradation, which led to the closure of Boracay island in 2018. In WEF's 2017 Travel and Tourism Competitiveness Index (TTCI), the Philippines places 118th (out of 136

countries) on the environmental sustainability pillar, with troubling rankings for "threatened species" (134th), "wastewater treatment" (91st), and "baseline water stress" (84th). There is limited "stringency of environmental regulations" (83rd) with an even greater problem on the "enforcement of environmental regulations" (92nd). Environmental degradation was the main reason for the six-month ban on tourism in Boracay. Similar problems affect many of the country's top tourism destinations. For example, because of the lack of wastewater treatment plans, Palawan faces environmental issues, including significant pollution of water and soil, as well as environmental degradation of beaches attributable to the illegal discharge of untreated waters, especially in El Nido.

Tourism infrastructure shortfalls can largely be attributed to a lack of government capacity in terms of financing, planning, and implementation. At the national level, there is insufficient coordination across the many agencies that have a role in tourism infrastructure development. Nonetheless, aside from national roads and airports, most infrastructure provision (such as water and sanitation) is the responsibility of LGUs, many of which suffer from a lack of financial resources and limited technical capacity, and are not held accountable for their performance.

Limited access to health services in tourism destinations is also an issue. Several tourism destinations do not have hospitals in their proximity. This issue is reflected in the country's TTCI low ranking on hospital beds (109th). Fast-growing destinations like El Nido and Siargao do not have public hospitals to cover either the domestic population or tourists.

Shortage in labor supply of specific skills may limit the growth of the IT-BPO sector in the long run. Minimum requirements for potential workers in the IT-BPO sector include fluency in the English language, computer literacy, and good customer relations. Despite the number of college-graduate applicants in the IT-BPO sector, only 3 percent meet the minimum skills requirement.[82] This skills gap has intensified in recent years as the IT-BPO sector expanded and the demand for labor increased. The skills gap is more prominent for positions that require technical skills such as software development, reflected in the limited growth of the high-value-added industry segments (such as software development, engineering, and R&D). Technological changes are generating an increasing demand for high-skill jobs to leverage the use of big data and artificial intelligence. However, these technological changes will also facilitate the automation of low-value-added jobs.

Possible Solutions

To begin, expand the function of the Tourism Infrastructure and Enterprise Zone Authority (TIEZA) to become the national platform for scaling up tourism infrastructure coordination and financing. Given its mandate, TIEZA could play a greater role in coordinating and financing the provincial investments in tourism infrastructure. TIEZA could finance these investments from its own sources, in partnership with LGUs, or through external financing. However, this would require upgrading the capacity of TIEZA to deal with comprehensive tourism development, site development, and infrastructure investment, as well as its capacity to attract and mobilize foreign investors.

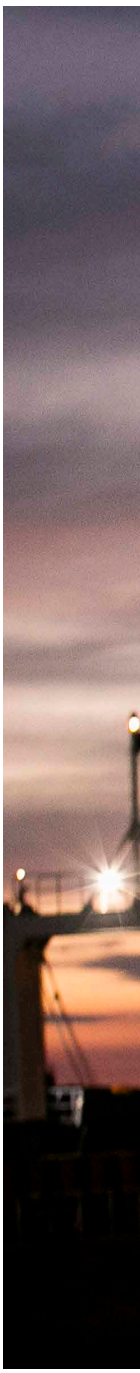
Another solution is to improve the availability of e-payments. The provision of digital payments can reduce the reliance on cash-on-delivery, as this type of payment constitutes 80 percent of e-commerce payments in the Philippines, compared with 50 percent of e-commerce payments in Thailand and Malaysia.

Provide health services to serve both tourists and the domestic population of tourism destinations. Destinations can create more space for the private sector to deliver solutions that will serve both markets. Private sector providers could offer quality and affordable services to the local inhabitants, benchmarked against PhilHealth's case rates or even lower, and provide market price services for tourists.

And lastly, increase the availability of high-skilled persons to serve the high-value-added IT-BPO segments. There is a need to improve the skills demanded by high-value-added functions, which generate better paying jobs. ■

> **"Given its mandate, the TIEZA could play a greater role in coordinating and financing the provincial investments in tourism infrastructure."**

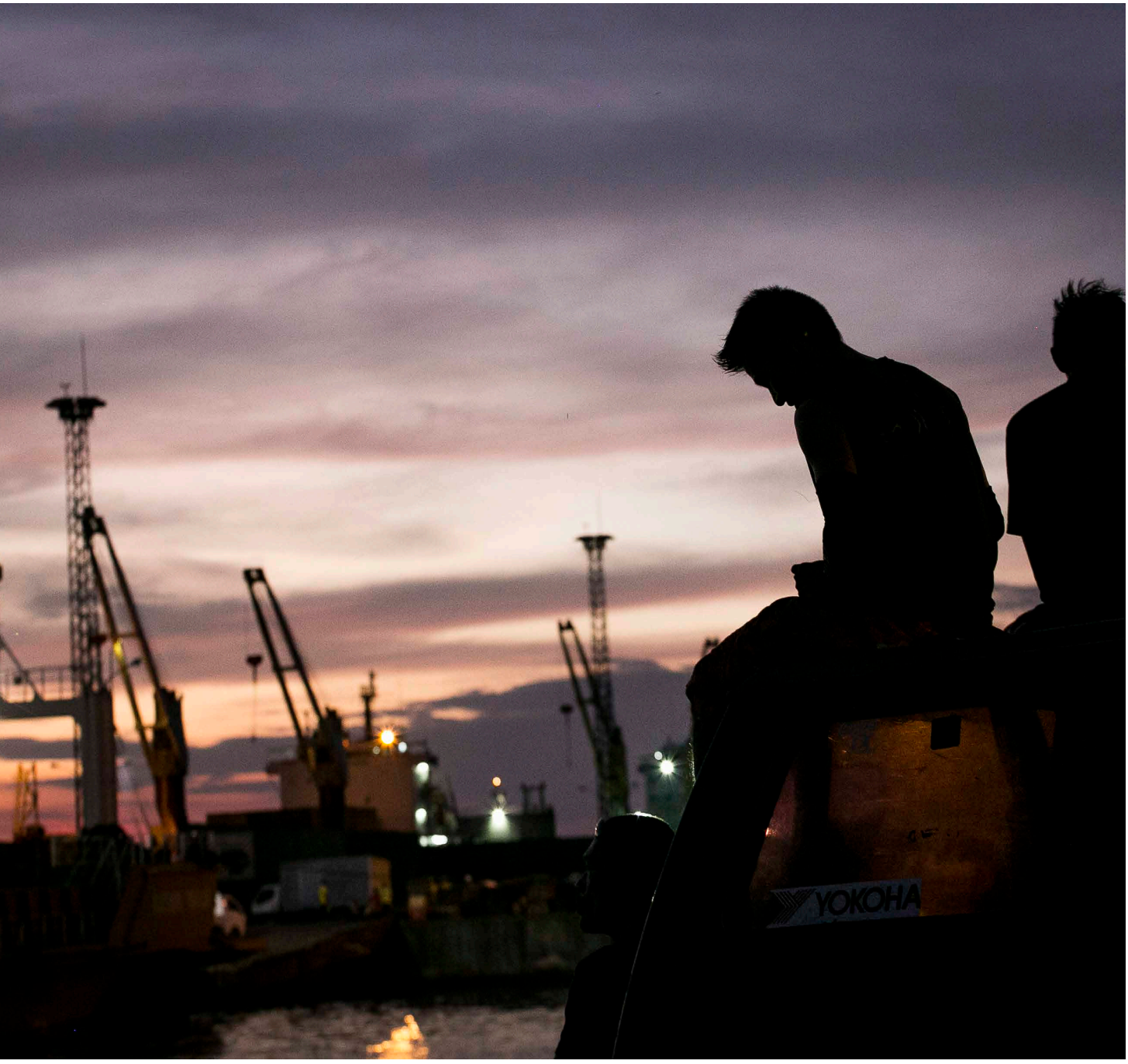
05
CONCLUSIONS



During much of this decade, the Philippines has experienced strong economic growth but with limited creation of quality jobs. The typical structural transformation story of emerging economies in East Asia, in which increases in agricultural productivity facilitate the transition into more productive jobs, has not occurred in the Philippines to the extent required to significantly reduce poverty. Only about 20 percent of jobs are generated by registered businesses. Moreover, very few sectors generate "middle-class" jobs, those paying more than ₱17,000 per month; only 6 percent of formal jobs in agriculture, 12 percent in construction, 15 percent in health, and 25 percent in logistics meet this criterion. For comparison, more than 50 percent of formal jobs in call centers generate middle-class jobs.

The ability of the economy to generate good-quality jobs is hindered by lack of competition in key economic sectors. Philippine markets face numerous anticompetitive restrictions in terms of regulatory protection of incumbents, public ownership of firms in competitive sectors, and the administrative burdens on start-ups. The resulting economic landscape is largely dominated by national conglomerates, especially in nontradable sectors such as retail, banking, telecommunications, infrastructure, utilities, real estate, and transport. This dominance of large, long-established conglomerates reduces the scope for new entries, which undermines competition in the job market. The resulting dynamics generate less-than-optimal churning levels, which restrict the self-cleaning business cycle in which productive firms enter the market and less-productive firms exit (creative destruction).

Improving competition to allow new businesses to enter the market is key to generating good-quality jobs. New businesses are instrumental in creating new jobs because most net job creation comes from new firms. However, firm birth rates are low in the Philippines because entrepreneurs are discouraged by complex regulations, including those that protect incumbents. In this context, the implementation of the recently enacted Ease of Doing Business Act could improve competition by streamlining and automating all government permit processes and extending their validity beyond one year. This would reduce the cost of doing business, such as nontariff measures, which will make it cheaper to trade. Increasing competition will also require the


YOKOHA

Philippine Competition Commission to complete enforcement rulings on companies engaged in anti-competitive behavior.

Although reducing bureaucratic complexities will make it easier for firms to formalize and enter markets, the viability of businesses is undermined by limited competition in the provision of infrastructure and by high utility costs. Poor infrastructure is a result of the underinvestment in infrastructure over the past three decades and a limited legal scope for competition. The Constitution stipulates that "public utilities" cannot be fully owned by a foreign corporation. This stipulation has been a key obstacle to competition in sectors such as transportation, interpreted for a long time as a public utility. In electricity, vertical integration of generation, transmission, and distribution enables the few operators in the market to leverage their power on generation to increase their power over the distribution and supply market segments. As a result, in 2016, Philippine firms faced one of the highest electricity costs in the region at more than $0.14 per kilowatt hour. Similarly, the digital infrastructure is dominated by two companies, with consumers facing some of the highest fixed broadband and mobile broadband prices in the region at 7.1 percent and 2.1 percent of gross national income per capita, respectively.

The government's "Build, Build, Build" program and the recently proposed Public Service Act could help in reducing infrastructure gaps. The government's fiscal expansionary "Build, Build, Build" program will put a greater amount of public funds into infrastructure (6.9 percent of GDP by 2020, from 5.4 percent in 2017). Given the size of the infrastructure gap, there is a need to make infrastructure expenditures more efficient and effective. Opening infrastructure markets to foreign investment will bring not only greater capital, but also greater know-how in the design and management of infrastructure markets. Foreign investment in utilities can be unlocked by a narrower definition of public utilities, as seen in the proposed Public Service Act.

Notwithstanding past challenges, the government could systematically leverage private sector financing where feasible and maximize finance for development. Currently, the government uses little private sector engagement; also, the implementation of the few PPP schemes is complex. In addition to amending the PPP law, there is scope for the government to apply a clear decision-making framework to prioritize private financing and leverage public resources. The government could adopt a rule whereby direct state financing is only considered if a project is not able to mobilize private capital or if a user pay model does not meet stringent viability stress testing. Furthermore, there is a need to introduce new capital market solutions and products coupled with enabling regulatory reforms (such as allowing more PPP fixed-income trading) to maximize the mobilization of capital from both domestic and foreign investors, especially in the delivery of climate smart solutions.

Additional complementary reforms will be needed to ensure greater competition and better service provision. The introduction of a common tower policy in the telecommunications sector can make the sector more competitive and open to more providers. Sectors such as water and sanitation can also benefit by establishing appropriate tariff policies that incentivize the provision of better services. Lastly, the provision of infrastructure at the local level will be beneficial by resolving institutional fragmentation and improving the effectiveness of LGUs. The resulting infrastructure market could lower private sector costs, increasing the commercial viability of business ventures in sectors such as tourism and IT-BPO, which can create good-quality jobs beyond the urban centers. Appendix B lists the prioritized reforms needed to improve the competitiveness of private sector markets in the Philippines. ■

"Opening infrastructure markets to foreign investment will not only bring greater capital, but also greater know-how in the design and management of infrastructure markets."

APPENDIXES

APPENDIX A
ELEVENTH FOREIGN INVESTMENT NEGATIVE LIST OF THE PHILIPPINES

TABLE A.1 FOREIGN OWNERSHIP IS LIMITED BY MANDATE OF THE CONSTITUTION AND SPECIFIC LAWS

Foreign equity cap	Sector/activity
No foreign equity	1. Mass media except recording and internet business; 2. Practice of professions including (a) Radiologic and x-ray technology, (b) Criminology, (c) Law, and (d) Marine deck officers and marine engine officers. 3. Retail trade enterprises with paid-up capital of less than $2,500,000; 4. Cooperative; 5. Organization and operation of private detective, watchmen, or security guards agencies; 6. Small-scale mining; 7. Utilization of marine resources in archipelagic waters, territorial sea, and exclusive economic zone as well as small scale utilization of natural resources in rivers, lakes, bays, and lagoons; 8. Ownership, operation, and management of cockpits; 9. Manufacture, repair, stockpiling, and/or distribution of nuclear weapons; 10. Manufacture, repair, stockpiling, and/or distribution of biological, chemical, and radiological weapons and antipersonnel mines; 11. Manufacture of firecrackers and other pyrotechnic devices.
Up to 25%	12. Private recruitment, whether for local or overseas employment; 13. Contracts for the construction of defense-related structures.
Up to 30%	14. Advertising.
Up to 40%	15. Contracts for the construction and repair of locally funded public works except: (a) Infrastructure/development projects covered in RA No. 7718 and (b) Projects which are foreign-funded or assisted and required to undergo international competitive bidding; 16. Exploration, development, and utilization of natural resources; 17. Ownership of private lands; 18. Operation of public utilities, except power generation, and the supply of electricity to the contestable markets; 19. Educational institutions other than those established by religious groups and mission boards; 20. Culture, production, milling, processing, trading, except retailing, of rice and corn and acquiring by barter, purchase or otherwise, rice and corn, and the byproducts thereof; 21. Contracts for the supply of materials, goods, and commodities to government owned or controlled corporation, company, agency, or municipal corporation; 22. Operation of deep-sea commercial fishing vessels; 23. Ownership of condominium units; 24. Private radio communications network.

Source: Adapted from Executive Order No. 65, Promulgating the Eleventh Foreign Investment Negative List, https://www.sec.gov.ph/wp-content/uploads/2015/08/EONo.-184-The-Tenth-Regular-Foreign-Investment-Negative-List.pdf.

TABLE A.2 FOREIGN OWNERSHIP IS LIMITED FOR REASONS OF SECURITY, DEFENSE, RISK TO HEALTH AND MORALS AND PROTECTION OF SMALL- AND MEDIUM-SCALE ENTERPRISES

Foreign equity cap	Sector/activity
Up to 40%	1. Manufacture, repair, storage, and/or distribution of products and/or ingredients requiring Philippine National Police clearance: a. Firearms (handguns to shotguns), parts of firearms, and ammunition therefore, instruments or implements used or intended to be used in the manufacture of firearms, b. Gunpowder, c. Dynamite, d. Blasting supplies, e. Ingredients used in making explosives: i. Chlorates of potassium and sodium, ii. Nitrates of ammonium, potassium, sodium, barium, copper (11), lead (11), calcium, and cuprite, iii. Nitric acid, iv. Nitrocellulose, v. Perchlorates of ammonium, potassium, and sodium, vi. Dinitrocellulose, vii. Glycerol, viii. Amorphous phosphorus, ix. Hydrogen peroxide, x. Strontium nitrate powder, xi. Toluene, and f. Telescopic sights, sniper scope, and other similar devices. 2. Manufacture, repair, storage, and/or distribution of products requiring Department of National Defense (DND) clearance: a. Guns and ammunition for warfare, b. Military ordnance and parts thereof, c. Gunnery, bombing and fire control systems and components, d. Guided missiles/missile systems and components, e. Tactical aircraft (fixed and rotary-winged), parts and components thereof, f. Space vehicles and component systems, g. Combat vessels (air, land, and naval) and auxiliaries, h. Weapons repair and maintenance equipment, i. Military communications equipment, j. Night vision equipment, k. Stimulated coherent radiation devices, components, and accessories, l. Armament training devices, and m. Other as may be determined by the Secretary of the DND. 3. Manufacture and distribution of dangerous drugs; 4. Sauna and steam bathhouses, massage clinics and other like activities regulated by law because of risks posed to public health and morals, except wellness centers; 5. All forms of gambling except those covered by investment agreements with the Philippine Amusement and Gaming Corporation; 6. Domestic market enterprises with paid-in equity capital of less than the equivalent of $200,000; and 7. Domestic market enterprises which involve advanced technology or employ at least fifty direct employees with paid-in equity capital of less than the equivalent of $100,000.

Source: Adapted from Executive Order No. 65, Promulgating the Eleventh Foreign Investment Negative List, https://www.sec.gov.ph/wp-content/uploads/2015/08/EONo.-184-The-Tenth-Regular-Foreign-Investment-Negative-List.pdf.

APPENDIX B
PRIORITIZED LIST OF REFORMS NEEDED TO IMPROVE THE COMPETITIVENESS OF PRIVATE SECTOR MARKETS IN THE PHILIPPINES

TABLE B.1 COMPETITION AND EASE OF DOING BUSINESS

Reform	Expected development impact	Probability to be implemented in the next 5 years
Implementation of the Ease of Doing Business Act and the Efficient Government Service Delivery Act to reduce doing-business cost and promote job creation.	High	Medium
Implementation of the Philippine Competition Act and capacity building of the Philippine Competition Commission to enable fair competition.	High	Medium
Amendment of the Public Utility Act and the Foreign Investment Negative List to allow foreign majority ownership across sectors.	High	Low
Implementation of the Customs Modernization and Tariff Act to reduce trade costs.	High	Medium
Implementation of the Secured Transaction Bill to expand access to finance to more micro, small, and medium enterprises and rolling-out of the National Digital Identification System.	High	Medium
Amendment of regulations and tax policies to deepen local capital markets and expand access to risk capital and long-term financing.	Medium	Low

Source: Adapted from IFC Philippines Strategy FY20–24.

TABLE B.2 INFRASTRUCTURE

Reform	Expected development impact	Probability to be implemented in the next 5 years
Energy		
Policy reform to advance "open access" implementation and retail competition.	Medium	Low
Transport		
Streamline the PPP administration process and amend relevant section of the Build-Operate-Transfer Law to attract more private sector investment through PPPs.	Medium	Medium
Land policy reform to enable smooth legal acquisition of "right of way."	High	Low
Water and sanitation		
Formation of a department-level apex body to lead the nation-wide water resources policy, resource regulation, and implementation.	High	Medium
An equitable tariff policy.	Medium	Low
Amendment of the Clean Air Act to allow waste-to-energy projects.	High	Low
Digital infrastructure		
Amendment of existing regulations to facilitate competition, that is, unbundling of the local loop or spectrum allocation.	High	Low
Policy reform to promote shared infrastructure, that is common tower policy.	High	Medium
Streamline permitting regulation.	Medium	Medium

Source: Adapted from IFC Philippines Strategy FY20–24.

TABLE B.3 CLIMATE CHANGE AND DISASTER RESILIENCE

Reform	Expected development impact	Probability to be implemented in the next 5 years
Climate change		
A national energy mix policy to ensure long-term equitable energy mix and adoption of more renewable and cleaner energy sources.	High	Low
Disaster resilience		
Implementation of the Philippines' Disaster Risk Finance and Insurance strategy including catastrophe bond and insurance schemes.	High	Medium
New construction code aligned with best practice in resilience.	High	Medium

Source: Adapted from IFC Philippines Strategy FY20–24.

Notes

1. See http://www.worldbank.org/en/topic/competitiveness/overview.

2. See World Bank (2017a).

3. See GFDRR (2012).

4. Department of Science and Technology and Philippine Institute of Volcanology and Seismology presentation on Risk Assessment Program 2013.

5. Natural hazards include earthquakes, volcanic activity, landslides, flashfloods, typhoon, tornados, drought, lightning, cave-in, storm surge, and soil erosion.

6. Welcome remarks by Secretary Ernesto Pernia during the launch of the Philippine Socioeconomic Resilience Assessment Methodology, March 7, 2017, Pasig, Philippines.

7. IMF (2018).

8. Observatory of Economic Complexity.

9. Ibid.

10. See World Bank (2017b).

11. The World Bank Enterprise Surveys data for the Philippines can be accessed at https://www.enterprisesurveys.org/en/data/exploreeconomies/2015/philippines.

12. This section largely draws from World Bank (2018b).

13. Debt instruments include the borrowing and lending of funds—such as loans, debt securities, financial leases, and suppliers' credits (trade credit and advances)—between direct investors and subsidiaries, branches, and associates.

14. This section largely draws from World Bank (2018b).

15. The Cornell University, INSEAD, and the World Intellectual Property Organization Global Innovation Index can be accessed at https://www.globalinnovationindex.org/Home.

16. This section largely draws from World Bank (2018a).

17. World Bank (2018a).

18. Relevant markets have been defined at (a) product level using the five-digit Philippine Standard Industry Classification code (aggregated in cases in which there is a high degree of substitutability between markets) and (b) geographic level (national for manufacturing and agriculture; at the municipal level for transport/storage; and at the barangay level for wholesale/retail markets). It should be noted however, that where geographic markets are defined at a subnational level there may be cross-substitution across Barangays or municipalities. Typically, more weight is given to market concentration measures in inferring levels of competition when market shares have been stable over time. High concentration with significant changes in market shares over time could be considered less problematic because this implies that markets are relatively contestable.

19. The U.S. Department of Justice and Fair Trade Commission generally consider markets in which the Herfindahl-Hirschman Index—a quantitative measure of an industry's market concentration—ranges between 1,500 and 2,500 points to be moderately concentrated, and those in which the degree is in excess of 2,500 points to be highly concentrated. These include more than 40 percent of markets in manufacturing, close to 50 percent in wholesale and retail, more than 70 percent in agriculture, and more than 95 percent in transport and storage. Although high concentration levels tend to be common in transport and storage markets given their market characteristics (and these markets are often subject to regulation), concentration levels in the Philippines appear to be relatively high even where competition should be viable, such as local bus, cargo handling, and freight forwarding services.

20. World Bank 2016a.

21. Price cost margins calculated taking into account direct costs of sales and labor costs.

22. Unbundling of the local loop is not required in the Philippines (Mirandilla-Santos 2016).

23. The number of franchises allowed by the government is limited due to road capacity.

24. Port operation is under the authority of the Philippine Ports Authority, as established in Presidential Decree No. 505 of year 1994 (amended by Presidential Decree No. 857, year 1975) (see http://www.lawphil.net/statutes/presdecs/pd1974/pd_505_1974.html).

25. As an example, the Manila International Airport Authority oversees the operation of air transport and infrastructure of the Manila International Airport as established by Executive Order No. 778 (year 1982).

26. In the railways market, ownership and operation is restricted to the government due to Section 1 of Republic Act No. 4156 (1964) and recently extended by 50 years by Republic Act No. 10638 (2014) (see http://www.gov.ph/1964/06/20/republic-act-no-4156/ and http://www.gov.ph/2014/06/16/republic-act-no-10638/).

27. World Bank (2017c).

28. The index measures the timeliness of deliveries, the quality of infrastructure assets, logistics quality and competence, and the ability to track and trace shipments.

29. World Bank (2018c).

30. This section draws from World Bank (2016b).

31. See https://www.land-links.org/country-profile/philippines/#1529422651542-69a0b167-d04d.

32. The World Bank Enterprise Surveys data for the Philippines can be accessed at https://www.enterprisesurveys.org/en/data/exploreeconomies/2015/philippines.

33. Aldaba (2011).

34. As mentioned by BSP Deputy Director Raymond Estioko during the Innovation Summit in Cebu City on June 20, 2018 (see https://www.philstar.com/the-freeman/cebu-business/2018/06/22/1826854/bsp-e-payment-system-remains-challenge-philippines).

35. Jain and others (2017).

36. ADB (2017).

37. Philippine Public-Private Partnership Center (2017).

38. Milken Institute (2017).

39. This section largely draws from World Bank (2018b).

40. World Bank (2013); Betcherman (2014).

41. Acosta and others (2017).

42. Ibid.

43. See https://seanet2.wordpress.com/2016/12/17/manufacturing-and-electricity-costs-in-asia/. Thailand and Indonesia's energy prices are subsidized. However, even at market prices, Philippine rates are more expensive.

44. IFC (2009).

45. Concession granted by Republic Act No. 9511 (December 2008) (see http://www.lawphil.net/statutes/repacts/ra2008/ra_9511_2008.html and https://www.ngcp.ph/corporate-profile.asp).

46. Oplas (2017).

47. DOE (2017).

48. For example, the subsidiaries and affiliates of the conglomerate company First Philippine Holdings Corporation includes the power generation company, First Gen Corporation and power distribution companies Panay Electric Company, Inc., and Manila Electric Company (see http://www.pse.com.ph/stockMarket/companyInfo.html?id=197&security=197&tab=0). Another example is the holding company Aboitiz Power with subsidiaries in the power generation company AP Renewable, Inc., Therma Marine, Inc., SN Aboitiz Power Benguet, Inc., SM Aboitiz Power Magat, Inc., and power distribution companies Cebu Power, Visayas Electric Company, Davao Light, Cotabato Light, among others.

49. Based on World Health Organization–United Nations Children's Fund Joint Monitoring Programme, a drinking water service is considered: safely managed if improved water source is located on premises, available when needed, and free from fecal and priority chemical contamination; basic if the improved water source does not take more than 30 minutes for a round trip to collect, including queuing; limited if improved source exceeds 30 minutes for a round trip to collect, including queuing; unimproved if source is from an unprotected dug well of unprotected spring; and surface water if sourced directly from a river, dam, lake, pond, stream, canal, or irrigation canal.

50. Based on World Health Organization–United Nations Children's Fund Joint Monitoring Programme, sanitation services are considered: safely managed if improved facility is not shared with other households and where excreta are safely disposed of in situ or transported and treated offsite; basic if improved facility is not shared with other households; limited if improved facility is shared between two or more households; unimproved if a pit latrine without a slab or platform, a hanging latrine, or a bucket latrine is used; and open defecation if human feces is disposed of in fields, forests, bushes, open bodies of water, beaches, or other open spaces, or with solid waste.

51. SEPO (2017).

52. Ibid.

53. Jambeck and others (2015).

54. Ndaw (2016).

55. A "Swiss challenge" is a form of public procurement that requires a public authority, which is usually a government agency, to publish the received unsolicited bid for a public project or services to be provided to the government and invite third parties to match or exceed it. Some Swiss challenges also allow the entity that submitted the unsolicited bid to match or exceed the best bid.

56. Ndaw (2016).

57. ADB (2013).

58. Ibid.

59. Based on Executive Order No. 65, Promulgating the Eleventh Foreign Investment Negative List.

60. ADB (2013).

61. NEDA (2018).

62. ADB (2008).

63. World Bank (2018a).

64. Limkin (2015).

65. IFC (2016).

66. Habito and Briones (2005); World Bank (2005).

67. Ibid.

68. World Bank (2016c).

69. In constant prices.

70. In current prices.

71. Frederick and Gereffi (2016).

72. World Bank (2018b).

73. There is a statistically significant positive relationship between firm productivity and firm distortion. Restuccia and Rogerson (2008) argue that productivity losses due to misallocation would be even more significant if distortions are correlated positively with firm productivity.

74. Includes registered firms with over 20 employees.

75. Aldaba (2014).

76. Llanto and Manalili (2018).

77. Frederick and Gereffi (2016).

78. World Bank (2017b).

79. See https://www.accenture.com/in-en/insight-digital-commerce-apac-perspective.

80. WTTC (2018).

81. World Bank (2017b).

82. Errighi, Khatiwada, and Bodwell (2016).

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