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A SPECIAL MBC ECONOMIC OUTLOOK REPORT THAT LOOKS INTO WHAT THE PHILIPPINES IS DOING RIGHT, HOW IT CAN SUSTAIN ITS GROWTH MOMENTUM, AND HOW IT CAN ACHIEVE INCLUSIVE GROWTH

Rising to the Challenge of Inclusive Growth

HIGHLIGHTS

- In Q3 2013, the Philippines' domestic economy accelerated by 7%, sustaining the at least 7% growth rate momentum from the previous four quarters, facilitating the country's "stable" outlook upgrades from three international credit rating agencies.

- Crucial reforms were implemented to improve public services and ensure the efficient management of government resources. The country's openness to innovation and its drive for stronger institutions also played instrumental roles in boosting national competitiveness.

- To attain inclusive growth, the Philippines should prioritize the provision of quality education; the acceleration of infrastructure projects; and the provision of strong social safety nets, particularly for disaster-affected areas.

- To achieve its growth targets of 7% to 8% in 2016, as well as increase the amount of foreign direct investments the country receives, special attention must be given to pending pieces of legislation, which includes the Freedom of Information Bill, the rationalization of fiscal incentives bill, the competition policy bill, and the anti-smuggling act. Furthermore, strong consideration of proposals to amend the economic provisions of the Constitution must be done.

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In the third quarter of 2013, the Philippines' domestic economy accelerated by 7%, sustaining the at least 7% growth rate momentum from the previous four quarters, which solidified the country's standing as a rising economic star. With the country's improving economic conditions, the Philippines has been given credit rating upgrades, with Fitch and Standard and Poor's "stable" outlook released in March and May 2013, respectively, followed by Moody's "positive" outlook for the country in October 2013.

In spite of the booming economy and macroeconomic stability, the country continues to struggle in combating poverty and joblessness—two key elements in achieving inclusive growth. Poverty figures from the 2012 Family Income and Expenditure Survey reveal that the percentage of poor Filipinos has remained practically unchanged at 28% in the past decade. With more than a quarter of the population living below poverty line for a prolonged period of time, the need to re-align the country's growth strategy becomes a necessity.

At the same time, in terms of job generation, the latest Labor Force Survey, released in April 2013, reports that about 3 million people are unemployed, while roughly 7 million are underemployed. With 1.15 million entering the workforce every year, this necessitates the creation of almost 15 million jobs from now until the end of the current administration's term in 2016 to fill in the gap.

Exacerbating the development challenge are the series of devastating natural and man-made disasters that occurred this year, particularly the 7.2 magnitude earthquake and super typhoon Yolanda that claimed lives in Central Philippines, the damage brought by typhoon Santi in Central Luzon, as well as the Zamboanga siege.

This Research Report discusses the key drivers of Philippine economic growth and resilience in the past three years and the challenges to be overcome to place the country on an irreversible path of inclusive growth. This Report offers a snapshot analysis on the important reforms and policies that have been instituted so far. Moving forward, this paper also attempts to identify which initiatives should be pursued in order to include the wider segment of the population in the growth that the country is enjoying.

The first part of this Report, "Shapers of Philippine Growth," identifies three factors that played crucial roles in setting the foundations of the country's strong economy: 1) good governance; 2) increased competitiveness through reforms; and 3) macroeconomic stability through smart monetary and fiscal policies.

The second section, "Inclusive Growth: Bridging the Gap between Rich and the Poor," explores three issues which, if properly addressed, should help spread the benefits of growth. These include: 1) better quality and access to education; 2) accelerate the implementation of infrastructure projects to take advantage of multiplier effects to the economy; and 3) strong social safety nets.

Lastly, section three, "Sustaining the Growth Momentum," recommends that special attention be given to the following concerns: 1) policy focus and regulatory reform; 2) investment promotion; 3) embedding a culture of integrity in business and governance.

This research pins down the core factors that would cement and sustain the upward shift in the country's economy, centered on horizontal, rather than sector-specific, interventions. As such, this paper ventures deeper into the central aspects that could propel further economic expansion instead of identifying specific industries in pursuit of sustained and higher growth.

SUCCESS PATH: SHAPERS OF PHILIPPINE GROWTH

1. Good Governance

Upon assumption into office under the banner of "Daang Matuwid" (the Straight Path), President Benigno Aquino III issued two Executive Orders: Executive Order No. 1 sought to create a Truth Commission to investigate allegations of corruption during the previous administration, while Executive Order No. 2 sought to nullify the alleged midnight appointments also done during nearing the end of the previous administration's term. While the first order was stricken down by the Supreme Court, the latter was ruled, in most cases, constitutional and allowed President Aquino to remove officials with questionable appointments.

Crucial reforms were also implemented to improve public services and ensure the efficient management of government resources. One concrete example was in the Department of Public Works and Highways (DPWH) where P16.35 billion was reportedly saved in the last two years by improving procurement procedures and adhering to competitive and transparent bidding. By setting a standard formula for government infrastructure projects, it was reported that DPWH projects have been completed at a reduced cost and ahead of schedule.

These good governance initiatives were recognized globally. The 2013-2014 World Economic Forum (WEF) Global Competitiveness Report notes significant improvements in the following governance indicators: "awarding of public contracts" (up by 28 places); reducing "wastefulness of government spending" (up 23 places); and in "ethics and corruption" and preventing "diversion of public funds" (up 21 notches for both).

The government's budgeting and expenditure system is also evolving to become more responsive to both the needs and the clamor of the people. The P2.268 trillion budget for 2014 adopts performance-informed budgeting, which indicates, along with the allocation, the outputs and projected results and outcomes that respective government agencies commit to achieve. The Department of Budget and Management adds that, in preparing the 2014 budget, the government expanded public participation through Budget Partnership Agreements between agencies and civil society organizations, and Bottom-Up Budgeting which involves local governments and communities. This represents the continuing shift away from the dominance of patronage politics and clientelistic relationships towards a more responsive and transparent public expenditure management system. The Aquino administration has also consistently enacted the budget in time for the incoming fiscal year.

As a complement to judicious spending, government has been addressing leaks to finances through the Run After the Smugglers program and the Revenue Integrity Protection Service. In this effort, the Bureau of Internal Revenue and Bureau of Customs work closely with other government agencies, such as the Department of Justice, to be able to place guilty parties behind bars.

2. Increased Competitiveness through Reforms

In 2010, the Philippines ranked 85th in the WEF Global Competitiveness Report, lagging behind most of its Southeast Asian neighbors in the competitiveness index. Since then, the Philippines advanced 26 places, now ranking 59th for 2013-2014, propelled by notable improvements in the areas of institutional reforms, capacity for innovation, and financial market development. The continued improvement in the country's competitiveness places the Philippines on track in its goal of reaching the top third of the roster of competitive nations by 2016. The sustained progress in several competitiveness indices also earned the country the distinction of being cited as one of the three competitiveness champions in the Association of Southeast Asian Nations, along with Singapore and Malaysia.

The said report revealed that the country's openness to innovation and its drive for stronger institutions, particularly in pursuing good governance and efficiency in regulations, played instrumental roles in boosting national competitiveness. It must be noted that the WEF considers innovation as a sustainable basis for long term productivity growth and competitiveness. As such, strength in this pillar is a good indication of a solid foundation for growth.

The country also firmly held on to its position as among the top 50 countries in the world in terms of the macroeconomic environment, market size, and business sophistication. A stable macroeconomic environment is necessary for an economy to achieve sustainable growth. In addition to efficient domestic markets, openness to trade with foreign markets contributes positively to growth. Business sophistication through the network of business clusters and the spread of modern processes, on the other hand, promote greater efficiency in the production of products and services.

Likewise, the World Competitiveness Yearbook 2013 of the Institute of Management and Development (IMD) recorded significant improvements in the country's overall competitiveness. Out of 60 countries, the Philippines placed 38th this year, from 43rd last year. The IMD attributes this competitiveness boost from noted improvements in economic performance, government efficiency, and business efficiency.

In terms of easing regulations to reduce the costs and procedures in doing business, the Philippines scored a significant breakthrough as reflected in the World Bank-International Finance Corporation's (WB-IFC) Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises. The country's most recent rise by 25 places to 108th out of 189 economies owes largely to the elimination of a requirement in securing a construction permit, access to credit information, and introduction of electronic filing and payment system for social security contributions.

3. Macroeconomic Stability through Sound Monetary and Fiscal Policies

The Philippines has managed to achieve macroeconomic stability in recent years, largely attributed to the sound fiscal and monetary policies adopted by the national government. The following four indicators of macroeconomic stability give a snapshot of how the Philippines did well in this area.

Table 1: Philippine competitiveness rankings

COMPETITIVENESS INDICATOR	MOST RECENT ANNUAL RANKING	NO. OF ECONOMIES ASSESSED	CHANGE IN RANK FROM THE PREVIOUS YEAR
WEF Global Competitiveness Index	59	148	6
IMD World Competitiveness Scoreboard	38	60	5
WB-IFC Ease of Doing Business	108	189	25

Compiled by MBC Programs Team

Inflation remained subdued at 2.8% in September 2013. This figure, which is less than the 3.1% average in 2012, indicates healthy demand in the domestic market for goods and services. The Bangko Sentral ng Pilipinas (BSP) has received much praise for curbing inflation through its prudent and responsible control over the money supply.

Interest rates, meanwhile, have been declining since 2008. Lower borrowing costs have accelerated investment spending, with the latest GDP data (Q3 2013) showing fixed capital formation increasing by 14.1% from last year's 10.5%. This continued growth in overall investment is significant since capital formation stood still throughout most of the previous decade, averaging zero growth from 2004 to 2009. Another indicator is the ratio of national debt to gross domestic product (debt-to-GDP ratio), which has been declining since 2008. As a consequence of sound fiscal management, the Philippines has achieved investment-grade status for the first time from all three major credit-rating agencies. The investment-grade status implies an increase in investment inflows, as many institutional investors allow the placement of funds in investment-grade countries only. The upgrade also implies lower costs for government debt, thereby freeing more funds for social services, infrastructure, and other long-term investments for economic development.

Lastly, there is the foreign exchange rate, which has remained strong and stable due to increasing remittances from Overseas Filipino Workers and a booming business process outsourcing sector. The BSP has been praised for keeping the exchange rate stable, as too much peso appreciation will hurt exports. Such stability allows importers and exporters to develop long-term growth strategies and reduces the need to manage exchange-rate risk. For national income accounting, currency stability also reduces the threat posed by foreign-denominated debt.

INCLUSIVE GROWTH: BRIDGING THE GAP BETWEEN RICH AND POOR

1. Education: Invest in Human Capital

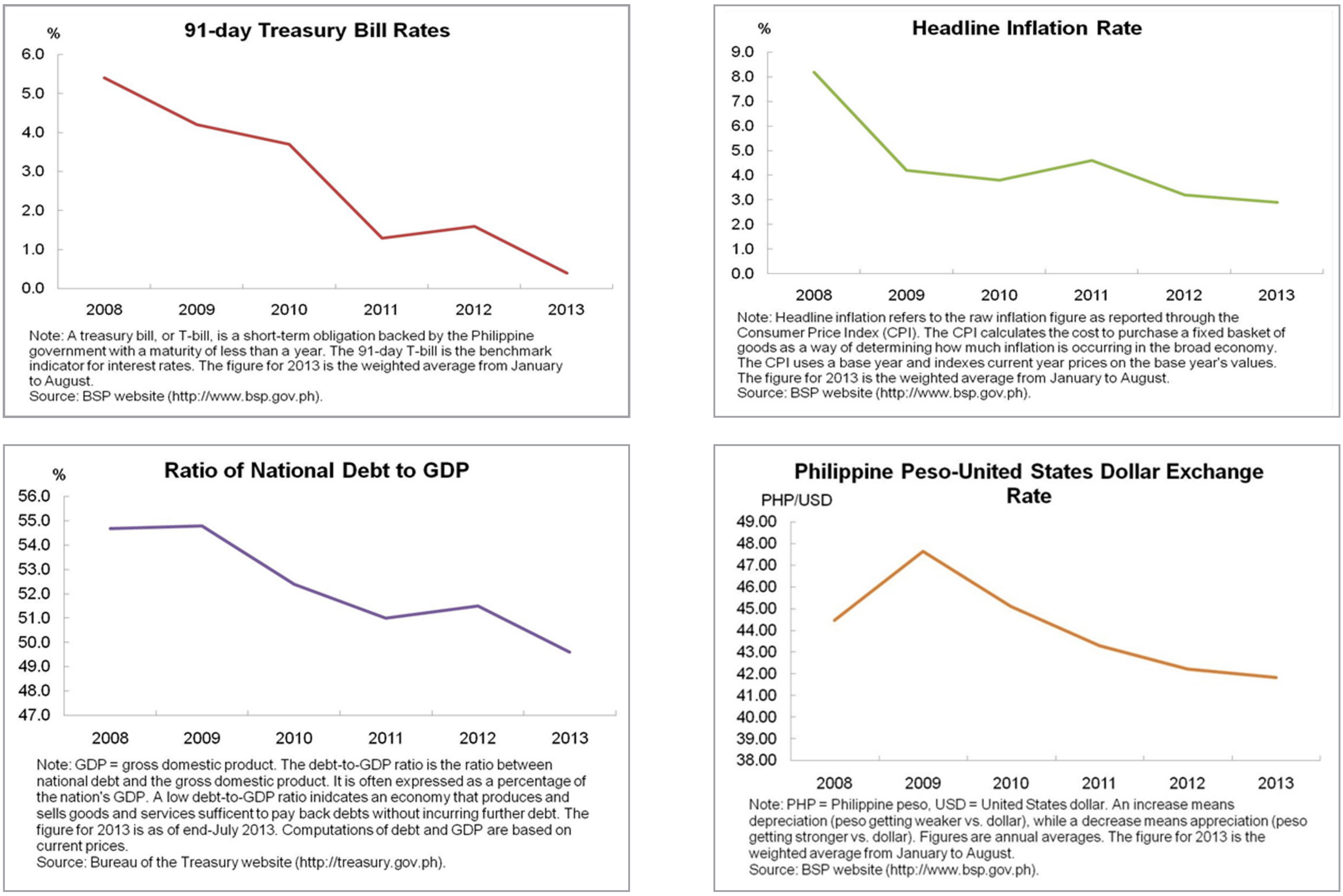
Improving access to quality education is a challenge that the Philippines must swiftly address to promote inclusive growth. In the 2011-2012 school year, net enrolment rates in primary and secondary level education were at 91.2% and 62% respectively, reflecting only a slight improvement from five school years ago when the participation rate in the primary level was at 88.3% and at 59.8% for secondary level. What are most disconcerting are the cohort survival rates and the dropout rates in both levels, with the former decreasing over the years, from 75.2% in 2007 to 73.4% in 2011, and the latter increasing from 5.9% in 2007 to 6.3% in elementary. A similar pattern has also been noted in secondary schooling. These education figures present the glaring problem nagging the country in the past years.

In May 2013, the government enacted the K-12 Basic Education Program into law, which extends basic education years and expands its curriculum in preparation for tertiary education, employment, or entrepreneurship. The successful implementation of the K-12 Program, however, has to be complemented by an increase in the education budget for hiring and training additional teachers and acquiring of assets to eliminate resource backlogs in public schools (see Table 2).

It is important to ensure the successful implementation of the K-12 Program by increasing the budget allocation for education and training. This is aimed at supporting the additional resources required from the extended years of schooling and, more importantly, will eliminate identified resource backlogs in public schools.

In his 2013 State of Nation Address, President Aquino announced the expansion of the Pantawid Pamilyang Pilipino Program, or the conditional cash subsidy program which currently supports 4 million poor households nationwide. For this, the government has recently increased the family qualification to include those with children of up to 18 years old in the hope of encouraging more children to finish high school, enabling them to gain high-paying employment and,

Chart 1: Select Macroeconomic Indicators, 2008-2013



Note: A treasury bill, or T-bill, is a short-term obligation backed by the Philippine government with a maturity of less than a year. The 91-day T-bill is the benchmark indicator for interest rates. The figure for 2013 is the weighted average from January to August.
Source: BSP website (http://www.bsp.gov.ph).

Note: Headline inflation refers to the raw inflation figure as reported through the Consumer Price Index (CPI). The CPI calculates the cost to purchase a fixed basket of goods as a way of determining how much inflation is occurring in the broad economy. The CPI uses a base year and indexes current year prices on the base year's values. The figure for 2013 is the weighted average from January to August.
Source: BSP website (http://www.bsp.gov.ph).

Note: GDP = gross domestic product. The debt-to-GDP ratio is the ratio between national debt and the gross domestic product. It is often expressed as a percentage of the nation's GDP. A low debt-to-GDP ratio inidcates an economy that produces and sells goods and services sufficent to pay back debts without incurring further debt. The figure for 2013 is as of end-July 2013. Computations of debt and GDP are based on current prices.
Source: Bureau of the Treasury website (http://treasury.gov.ph).

Note: PHP = Philippine peso, USD = United States dollar. An increase means depreciation (peso getting weaker vs. dollar), while a decrease means appreciation (peso getting stronger vs. dollar). Figures are annual averages. The figure for 2013 is the weighted average from January to August.
Source: BSP website (http://www.bsp.gov.ph).

thus, contribute to their family's income. This is crucial as, according to a World Bank study, the average income of a high school graduate is 40% higher than a non-finisher. This targeted approach to encourage and support the education of underprivileged kids is critical to pulling families out of poverty. All these efforts should be properly implemented across the country to spur regional development, particularly in the country's least-developed areas where poverty is extreme.

2. Infrastructure: Accelerate Implementation of Plans

Inadequate and substandard infrastructure has been cited as among the leading constraints to faster economic growth and, ultimately, to poverty reduction. The country's poor infrastructure greatly contributes to the high cost of business, which, consequently, affects the country's competitiveness and attractiveness to job-generating investment.

Reflecting these insights, the WEF Global Competitiveness Report continues to rank Philippine infrastructure as among its weakest points. In fact, according to the 2013-2014 Report, inadequate supply of infrastructure is now the most problematic factor to doing business in the Philippines, displacing corruption, which, since 2003, had been consistently ranked as the number one problematic factor to doing business.

Table 2: Backlogs and Additional Resources in Public Schools, 2013-2016

	2013 Target*	2014 Target**	2015-2016 Target**
Classroom	17,939	33,479	40,000-60,000
Teacher	61,510	33,194	Around 70,000
Toilets	90,461	13,586	More than 70,000
Textbooks	31,000,000	42,588,813	n/a
School Seats	907,524	1,596,921	1,832,258

**2013 Targets from Gov.ph / ** 2014-2016 Targets from DepEd*

Vis-a-vis the country's Southeast Asian neighbors, the Philippines ranks 8th out of 10 countries in the infrastructure pillar in the 2013-2014 Report and in the bottom half as well for the pillar's various indicators. In light of the upcoming ASEAN Economic Community in 2015, an aggressive effort to improve the country's transport network and utilities is crucial to take advantage of the potential benefits that a single market can bring.

Moving into the remaining three years of the Aquino administration, the government has chosen to focus on increasing investments in infrastructure, particularly in support of the agriculture and tourism sectors, in its drive for sustainable and inclusive growth.

A 2013 research by Gilberto Llanto, published by the Southeast Asian Center for Graduate Study and Research in Agriculture, concludes that there is a statistically significant and positive relationship between improved agricultural productivity—and, thus, reduced poverty—and rural infrastructure, particularly the presence of good-quality roads and reliable and affordable electricity. Despite data limitations, the results support similar conclusions by researchers in other countries.

In the study, Llanto notes that a paved road network provides the much-needed connectivity requirements of rural areas with urban areas, allowing farmers access to diverse markets for their produce, as well as cheaper sources for farming inputs. With improved access to electricity, meanwhile, the research states that more economic opportunities will be made possible, such as the operation of poultry and livestock farms, refrigeration of produce for consumption or selling, and the establishment of other agriculture-based microenterprises.

As a consequence, the research notes that higher regional GDP growth rates are usually seen in regions with high levels of infrastructure investments, while the converse is true for those whose levels of infrastructure investments remain low.

Tourism's benefits to poverty reduction, meanwhile, are illustrated in the case of the Caraga region. According to the National Statistical Coordination Board, poverty incidence in Caraga fell to 34.1% in the first semester of 2012 from 43.3% in the first semester of 2009. The National Economic Development Authority attributes this to Caraga's rising tourism industry, with the region posting a 21.1% increase in visitors from 2010 to 2011. In the same time period, the National Statistics Office recorded a 3.4% increase in employment in Caraga from 981,000 in April 2010 to 1.01 million in April 2011. Underemployment, likewise, fell from 29% in April 2011 to 23% in April 2012. With an effective tourism marketing campaign being implemented by the Department of Tourism, it may be expected that improving connectivity between and access to the country's tourism zones would be able to replicate Caraga's experience in poverty reduction through increased tourism.

Besides the positive impact for the two aforementioned sectors, the manufacturing industry is also seen to benefit from increased infrastructure investments by reducing transportation and production costs. Furthermore, the country's estimated P2.4 billion daily income loss due to traffic will be significantly cut from an efficient transport network in Metro Manila. At the same time, with an increase in public and private construction activities, additional employment in the construction sector is expected to be generated.

3. Strong Social Protection and Safety Nets

Disaster and Calamity Support

The Philippines is in the path of numerous typhoons and is also home to active fault zones that trigger earthquakes and volcanic eruptions of varying magnitudes. Many areas are also prone to flooding and landslides.

As of November this year, the country has had 25 tropical cyclones, two of which, tropical storm Maring and super typhoon Yolanda, have brought immense loss in various areas of Luzon, CAR, and Central Visayas. A 7.2-magnitude earthquake also ravaged the Visayas with devastating outcomes reported in Cebu and Bohol. The National Disaster Risk Reduction and Management Council (NDRRMC) reported that about 348,507 persons were displaced from the recent earthquake, while 50,271 persons were displaced from the onslaught of Maring. As of December 3, the NDRRMC reported that about 4 million persons were displaced by typhoon Yolanda, considered as the strongest storm recorded in modern history.

Rebuilding affected areas and extending assistance to the victims should be a priority in the government's short- and long-term agenda. Local governments can support this by devoting a significant portion of its city budget to the rehabilitation and reconstruction of critical infrastructure such as roads, bridges, and public schools and health centers. Facilitating the speedy delivery of basic needs such as clean water, food, power and communication to the evacuation areas is also critical. In addition, social programs that extend livelihood, education, and health services to the affected families should be put in place and efficiently implemented. The need for mass housing may also arise following the total loss of properties from thousands of displaced families.

It is important to note that disasters can strike anytime and anywhere. Thus, preparation is the first line of defense in reducing and/or avoiding deaths, injuries, and destruction of properties. Investing in quality infrastructure that adopts international safety codes and enforcing proper zoning are vital steps in building stronger and more resilient communities.

Healthcare Reforms

In December 2012, President Aquino signed RA 10351, which restructures excise taxes on alcohol and tobacco products, and RA 10354, which provides for a national policy on responsible parenthood and reproductive health. Both measures were in the priority list of the Legislative-Executive Development Advisory Council and were certified urgent by the President.

The reforms in the excise taxes on alcohol and tobacco products are projected to bring in P33.96 billion—P23.43B from tobacco and P10.53B from alcohol—in additional revenues during its initial year of implementation, which will be used to fund the government's universal healthcare program. According to the Department of Finance, tax collections from alcohol and cigarette products from January to September this year reached P63.6 billion—a 63.9% increase from last year's collection. The nine-month collection already accounts for 73% of the P85.86 billion projected take from alcohol and cigarette products for 2013.

To sustain revenues for the government, as well as discourage consumption, especially by the poor, the bill provides for a 4% annual increase in the tax rates. The law discourages tobacco and alcohol consumption but, at the same time, channels the incremental revenue to fund the government's healthcare program.

In the 2014 national budget, the Department of Health got the biggest budgetary increase and is now the fifth among the agencies with the highest allocation with P87.1 billion. To ensure access to universal healthcare, the government is allocating the following amounts these specific programs:

- National Health Insurance Program - P35.3 billion to provide 14.7 million poor and near-poor households with health insurance premium subsidies
- Health Facilities Enhancement Program – P13.3 billion for the construction and rehabilitation of 2,871 health facilities- barangay health stations and rural health units
- Doctors and Healthcare Workers to the Barrios – P3 billion for the hiring and deployment of 131 rural health physicians, 22,500 nurses, 3,000 midwives, among others

A more controversial measure, the Reproductive Health Law seeks to integrate responsible parenthood and family planning into the anti-poverty and human development programs of the government.

The law was originally filed in 1988 and was continuously introduced in the succeeding Congresses due to lack of support. However, in 12 December 2012, the House of Representatives approved the measure on second reading in a marathon session via a vote of 113 in favor, 104 against, and 3 abstentions. It was eventually approved on final reading with 133 ayes, 79 nays, and 7 abstentions. Meanwhile, the Senate approved the bill with 13 affirmative votes and 8 negative votes.

The law provides for age- and development-appropriate health education and access to medically safe, legal, affordable, effective, and good quality reproductive health care services, methods, devices, supplies, and other relevant information to be made available to the public. The program aims to:

a) help couples and parents achieve their desired family size
b) improve the reproductive health of individuals by addressing reproductive health problems
c) contribute to decreased maternal and infant mortality rates and early child mortality
d) reduce the incidence of teenage pregnancy
e) recognize the linkage between population and sustainable human development

At present, the law has been prevented by the Supreme Court from taking into effect until it has fully resolved the petitions for and against its implementation.

SUSTAINING THE MOMENTUM

1. Policy Focus and Regulatory Reform

Entering the last three years of the administration, MBC recommends the passage of key priority legislation that are

Table 3: WEF's Findings on Philippine Infrastructure Competitiveness

	2011-2012	2012-2013	2013-2014	2013-2014 RANK IN ASEAN 10
2ND PILLAR: INFRASTRUCTURE	**105**	**98**	**96**	**8**
A. Transport Infrastructure				
Quality of overall infrastructure	113	98	98	8
Quality of roads	100	87	87	8
Quality of railroad infrastructure	101	94	89	6
Quality of port infrastructure	123	120	116	8
Quality of air transport infrastructure	115	112	113	9
Available seat kilometres/week, millions	28	26	26	5
B. Electricity and telephony infrastructure				
Quality of electricity supply	104	98	93	7
Mobile telephone subscriptions per 100 population	103	95	81	8
Fixed telephone lines per 100 population	92	103	109	7

Source: World Economic Forum

crucial in attaining and sustaining the goal of employment generation, inclusive growth, and global competitiveness. Among these are the following:

a.) Anti-trust/Competition Policy

The Philippines lacks a single comprehensive legislation that embodies competition policy. According to the Department of Justice-Office for Competition (DOJ-OFC), there are over 30 laws dealing with monopolies, combinations in restraint of trade, restrictive business practices, price control measures, and consumer protection. There are also over 60 sector regulators. With this gap, the World Economic Forum has ranked the effectiveness of Philippine anti-monopoly second from last in Southeast Asia. (See Table 4) As such, it is MBC's position to have a competition policy enacted at the soonest time.

In his first State of the Nation Address in July 2010, the President called on Congress to pass an anti-trust measure that would promote a level playing field and attract investments. Through Executive Order No. 45, the DOJ was specifically tasked to, among others, investigate and prosecute all violations of competition laws and enforce competition policies and laws to protect consumers. Unfortunately, the 15th Congress adjourned last 6 June 2013, leaving competition bills in the House and Senate pending on second reading.

In the 16th Congress, a total of 12 bills (six in each chamber of Congress) on competition policy are already pending in the trade and economic affairs committees of the House and the Senate. Half of these bills call for the creation of an independent five-person Fair Competition Commission and the prohibition of anti-competitive agreements, abuse of dominant position and anti-competitive mergers. It is important to note that the provisions of these proposed laws have to be consistent with the recommended ASEAN guidelines on competition policy legislation, which should be in place when the ASEAN Economic Community is launched by end-2015.

Meanwhile, a government and private sector technical working group spearheaded by the DOJ-OFC and the Export Development Council's Networking Committee on Legislative Advocacy and Monitoring has been conducting consultations since May in crafting a separate anti-trust/competition policy bill for Congress' consideration. The working draft calls for the preservation of the Office for Competition and the creation of an independent appellate five-person Competition Commission. The proposal, likewise, prohibits anti-competitive agreements, abuse of dominant position, and anti-competitive agreements.

b.) Rationalization of Fiscal Incentives

In order to increase the country's attractiveness to foreign direct investments and raise additional revenues for the government, MBC recommends that legislators address the need to rationalize our current incentives-giving structure. The objective would be to harmonize and simplify the grant of incentives to promote investments in the Philippines and to end the indiscriminate dispensation of fiscal perks that causes redundancy which, in turn, translates to foregone revenues for the government.

In the series of studies conducted by the World Bank for the Philippine government, the income tax holiday (ITH), the centerpiece of the country's investment system, was identified as one of the sources for redundant incentives. It has been observed that majority of the enterprises granted with ITH are domestic market- and resource-seeking firms that are insensitive to incentives and will enter the market, survive, and prosper even without ITH.

In his version of the fiscal incentives rationalization bill filed in the 16th Congress, Senator Ralph Recto compared the reported foregone revenues in 2005, costing P282.76 billion in the form of ITH and VAT exemptions, to the equivalent value of constructing 10,000 public school buildings, paving 14,700 kilometers of national roads, hiring 61,510 new teachers and 3,500 non-teaching personnel, and wiping out tuberculosis. Looking at the opportunity losses arising from redundant incentives, eradicating such laws which cause redundancy clearly deserve priority status.

In addition, the system of promoting investments and administering incentives needs to be revisited. A myriad of authorities granting incentives was the result of creating 180 independent laws that give out tax perks. At present, the absence of a check-and-balance, reporting, data management, and monitoring system makes it difficult to verify if the expected benefits do occur and to what extent the spillovers impact the economy and society.

Both chambers of the 16th Congress have expressed their commitment to enact a new law that harmonizes and rationalizes the country's fiscal and non-fiscal incentives regime. There are four versions of this bill filed in the House of Representatives and two versions in the Senate, each containing a varying mix of proposed tax perks and performance-based incentives to qualified investments. Some bills propose to limit the granting of incentives only to exporters and big investments located in least-developed areas, while others propose to retain the Investment Promotions Plan (IPP) listing as basis for granting incentives. Furthermore, discussions surround the type of benefits to extend. One bill proposes to remove ITH and instead offer preferential tax rates, accelerated depreciation, extended net operating loss carryover, and incentives on importing capital equipment and raw materials.

MBC shared its views on this issue at the October 2013 hearing of the Senate Committee on Ways and Means, highlighting that exporting businesses and investments that pour in large amounts of capital and generate at least 200 direct jobs should enjoy incentives. Furthermore, should the govern-

Table 4: Effectiveness of Anti-Monopoly Policy

ASEAN Economies	2013-2014 Ranking out of 148 economies	2015-2016 Target**
Singapore	4	1
Malaysia	23	3
Lao PDR	34	n.a.
Brunei Darussalam	36	17
Indonesia	43	(2)
Cambodia	53	(2)
Thailand	69	11
Vietnam	82	0
Philippines	88	(4)
Myanmar	124	n.a.

Source: World Economic Forum / n.a. - Not Available

ment seek to extend subsidies to support specific industries, using IPP as a basis and considering the recently released industry roadmaps prepared by industry associations and the Department of Trade and Industry, it should carefully limit the list of enterprises qualified for incentives to selected priority sectors. These sectors should also meet the criteria of massive job generation, huge capital infusion, and application of better technology. MBC also expressed its support to the proposal of the Department of Finance to incorporate and report the value of tax incentives to the General Appropriates Act for disclosure purposes.

c.) Anti-smuggling/Customs modernization

Despite efforts to curb smuggling through confiscation of goods, filing of cases against suspected violators, and implementation of policy reforms, estimated revenue losses due to smuggling is at P100 billion annually. In pursuit of this goal to eliminate smuggling, the government requires strong cooperation and coordination between certain executive departments (particularly between the Bureaus of Customs and Internal Revenue and the Department of Justice), the judiciary, and the business sector.

Meanwhile, the Philippines acceded to the International Convention on the Simplification and Harmonization of Customs Procedures or the Revised Kyoto Convention (RKC) on 25 June 2010. Out of the 179 members of the World Customs Organization, there are 85 contracting parties to date, which includes the Philippines, Vietnam and Malaysia—the only ASEAN member states signatories to the RKC. With the ASEAN Economic Community forthcoming, along with the different regional integration agreements, it is imperative for the country to adhere to its commitment to implement the provisions of the RKC, which will lead to greater trade competitiveness.

Possible reform measures to enact include the Customs Modernization and Tariff Act and the Anti-smuggling Act. There is also a need to streamline and computerize procedures to minimize discretionary human interventions. Also important is for the government to secure a conviction and put offenders behind bars, particularly those involved in high profile cases.

Several measures have been filed separately on anti-smuggling and on customs modernization, the latter being approved by the House of Representatives during the 15th Congress. At present, the measures are pending in the committees of both chambers, where they have yet to schedule hearings.

d.) PPP for Infrastructure Development

Increased investments in infrastructure are also seen as means to sustain the Philippines' economic momentum. The government, for its part, has prioritized the sector, gradually increasing infrastructure spending from 2.5% of GDP in 2013 to the benchmark level of 5% by 2016. Addressing the infrastructure gap will increase productivity, reduce business costs, facilitate tourism, and promote the further development of key industries such as agriculture and manufacturing.

The set of projects included in the public-private partnership (PPP) program present an opportunity to deliver high-impact infrastructure at the soonest possible time. Warmly received during its launch in 2010, the program, however, encountered delays in the awarding of its projects in the succeeding years, with certain projects having their bid submission deadlines moved three to four times. Most of the PPP projects that have encountered difficulties in implementation are in transportation infrastructure.

As of early December, four PPP projects have been awarded, while at least five are in the advanced stages of implementation. Barring any further delays, the projects may be awarded and may begin construction by mid-2014. It must be noted, however, that in a capital markets forum, PPP Center executive director Cosette Canilao mentioned that at least five PPP projects will be completed before the President steps down from office: the Daang Hari-SLEX Link, the two phases of the PPP for School Infrastructure Project, the NAIA Expressway, and the modernization of the Philippine Orthopedic Center.

Other transportation infrastructure projects, as well as logistics support infrastructure for agriculture and the development of new water resources, are also in the PPP pipeline and are undergoing either conceptualization or feasibility studies.

e.) Freedom of Information

While the good governance drive of the Administration is continuously gaining traction, it is crucial for policy reforms and practices to be institutionalized beyond the term of President Aquino.

Thus, the passage of the Freedom of Information (FOI) Bill is necessary to institutionalize the constitutional guarantee on every citizen's right to information as well as the state policy towards full disclosure of all government transactions involving public interest. This legislation however, is not just a matter for the public sector. Transparency in government is a key element of competitiveness. While there have been improvements, in the 2013-2014 WEF Global Competitiveness Report, out of 148 countries, the Philippines' rank of 87 in "ethics and corruption" and 92 in "transparency of government policy making" may still be further improved. Also worth noting is that corruption ranks as the 2nd most problematic factor to doing business in the country. The passage of the FOI Bill will indeed help in addressing concerns regarding these areas by encouraging greater transparency in governance, as well as promote a level playing field for enterprises.

Several sectors and even legislators themselves have raised apprehensions regarding the possible abuse of the right to information. However, such concerns do not override the fundamental principle that all information on matters of public concern should be made available to the people, subject to clearly defined exceptions. Such concerns can be addressed by providing specific guidelines on accessing information, denial of requests for information, and mechanisms for appeal.

The FOI Bill almost passed third reading during the 14th Congress. However, the House failed to ratify the measure on its last session day due to a lack of quorum. The Senate, on the other hand, has consistently passed their version of the bill. In the 16th Congress, after two public hearings, the Senate version of the measure is already on the floor for second reading.

Besides ensuring that the Aquino administration's platform of the straight path will have a lasting impact, enacting this piece of legislation is a key element of the President's Good Governance and Anti-Corruption Plan for 2011-2016, as well as of commitments to the Open Government Partnership Initiative of which the Philippines sits as a steering committee member.

2. Promoting Investments & Competition: Amending the Economic Provisions in the Philippines Constitution

In 2012, the Philippines breached the $2 billion mark in foreign direct investments inflow, which was last seen before the global financial crisis hit in 2008. This positive development is encouraging, but relative to its ASEAN neighbors the Philippines continues to fail in attracting substantial amount of hard capital into the country. The trend of FDI flowing into Asia has dramatically increased, evidenced by the growth of foreign investment received by our neighbours since 2008. Malaysia's FDI inflow jumped 600-fold in the past three years, while Indonesia's FDI growth rate posted a little over 300%. Singapore and Thailand also posted respectable FDI growth rates in the past three years with 132% and 77%, respectively. On the other hand, the Philippines struggled with declining growth rates every year, but managed to rally in 2012 which significantly boosted its three-year FDI growth to 44%.

With the Philippines' rich natural and human resources, the country has the capability to support the growth of businesses, which includes the entry of foreign companies seeking to expand in the Philippines. However, the country's restrictive foreign ownership rules prove to be a hindrance to the rapid inflow of FDI. The constitutionally-enshrined limitations put a 40% foreign ownership cap for most investments, while zero-foreign equity is imposed to some sectors, including mass media, education, and public utilities. These restrictions and caps on equity, which are the tightest among ASEAN countries, resulted in the undercapitalization of the country's public utilities. This led to the high cost of public utility services and, coupled with dismal quality of service, translates into high production costs to businesses.

The International Monetary Fund and the World Bank, in separate statements made earlier this year, recommend relaxing foreign ownership limits to help address the country's weak investment climate. The entry of more players would encourage competition through cost- and production-efficiency. Foreign players also have the capacity to transfer technology and knowledge to locals to improve productivity levels.

With regard to a possible amendment of the Constitution, MBC is supporting House Speaker Feliciano Belmonte Jr.'s proposal of inserting a surgical amendment to the Charter. He proposes the inclusion of the phrase, "unless otherwise provided by law," to the economic provisions, but with clear safeguards against indiscriminate owning of land for speculation.

3. Embedding Culture of Integrity in Business and Governance

The government has put in place mechanisms to increase citizen participation in good governance programs. Since 2012, the preparation of budgets of some national government agencies and government-owned and controlled corporations (GOCCs) has involved the participation of LGUs in the poorest municipalities and cities and with consultation with stakeholders and civil society organizations in a process called bottom-up budgeting.

As an example, CSOs help the Department of Social Welfare and Development in implementing government projects and in "instituting transparency and accountability mechanisms to fight corruption." On the other hand, citizens help the Department of Finance in its fight against tax evaders, smugglers, and erring employees of the Bureau of Internal Revenue and Bureau of Customs through online reporting to the Pera ng Bayan website.

The country's substantial progress in good governance is reflected in Transparency International's annual ranking based on the Corruption Perceptions Index (CPI) score. In 2013, the Philippines ranked 94th out of 177 countries according to the CPI. This performance is relatively better than in 2011, when the country placed 129th out of 183, and in

Table 5: Public-Private Partnership Projects (as of 12 Dec 2013)

Project	Cost	Implementing Agency	Status
Daang Hari-SLEX Link	2.01B	DPWH	Contract awarded 32.011% complete according to PPP Center Target completion: 2014
PPP for School Infrastructure Project Phase I	16.28B	DepEd	Contract awarded As of 22 November 2013 Completed: 1,640 classrooms In construction: 3,577classrooms Notices to Proceed: 5,961 classrooms
NAIA Expressway Phase II	15.52B	DPWH	Contract awarded Target construction period: Jan 2014 to Sept 2015
PPP for School Infrastructure Project Phase II	8.8 B	DepEd	Contract for 4,380 out of 10,679 classrooms awarded The remaining will be bid out via regular government procurement processes
Modernization of Philippine Orthopedic Center	5.7 B	DOH	For Awarding of Contract
LRT-1 Extension and Operation and Maintenance	63.85 B	DOTC	Deadline for bids on 28 April 2014
Mactan-Cebu International Airport Expansion	17 B	DOTC	Bids opened on 12 December 2013. Awarding in January 2014
Automatic Fare Collection System	1.72 B	DOTC	Bids submitted on 9 December 2013
Cavite-Laguna Expressway	35.42B	DPWH	Deadline of bids on 20 January 2013 Target completion: 2018
Rehabilitation and Operation and Maintenance of Angat Hydroelectric Power Plant Turbines 4 and 5	1.16 B	MWSS	May be dropped from PPP pipeline, pending end of talks with winning bidder of O&M contract
NLEX-SLEX Connector (MPIC proposal)	21.2 B	DPWH	Joint venture to be formed between Manila North Tollways Corp. and Philippine National Construction Corp.
Skyway Stage 3 (SMC-Citra proposal)	26.5 B	DOTC	Project approved by President Aquino

Source: PPP Center; DOTC and DPWH slides from the 2013 Mid-Year Economic Briefing

2012, where the country was 105th out of 176. Looking back to 2010, the Philippines was even among the 45 most corrupt nations out of 178 countries.

Meanwhile, on the part of the private sector, since 2011, the Makati Business Club and the European Chamber of Commerce of the Philippines have been encouraging small and big businesses, as well as organizations throughout the country to participate in the Integrity Initiative by signing an Integrity Pledge and abiding to a Unified Code of Conduct for Business. These two instruments represent their moral commitment to ethical business practices, including compliance with tax, labor, and environmental laws and regulations. Signatories are likewise invited to undertake an integrity self-assessment tool to measure the progress of their integrity practices with respect to other companies and after validation, to address areas for improvement.

At present, there are 1,800 signatories to the Pledge. Through the Department of Finance, the government is likewise determined to engage with businesses who have signed the Integrity Pledge. Meanwhile, the Department of Public Works and Highways have required the signing of the Integrity Pledge to all its bidders in its infrastructure projects. Moving forward, it is hoped that through the creation of a

level playing field for business, a greater amount of investments will be attracted, not to mention the bigger goal of institutionalizing a culture of integrity in the country.

CONCLUSION

With the Philippines' improving economic performance, the challenge now is to sustain the momentum and ensure that such growth is inclusive. The Makati Business Club believes that the abovementioned are priority areas that would lead towards this goal. Thus, immediate action from the government, in coordination with the private sector, is required. With three years remaining in the Aquino administration's term, there is a golden opportunity to further cement the gains that have been achieved so far. A focused drive to institutionalize the necessary systems and reforms will indeed ensure that a truly progressive Philippines will come to light in the near future.■

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