



Rural Bankers Association of the Philippines
61st Annual National Convention and General Membership Meeting
Inclusive Growth: Challenges and Opportunities



By
The Wallace Business Forum

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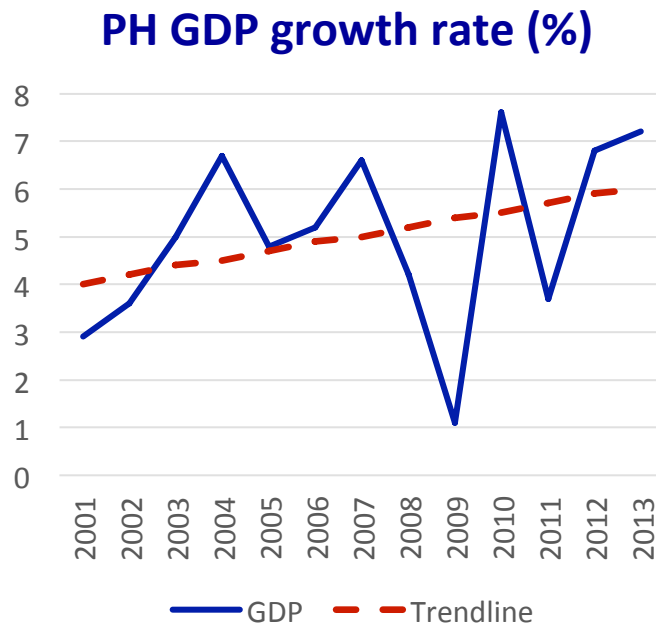
Fostering Inclusive Growth through Good Governance



PH Economy in 2013

Undaunted by natural disasters, **GDP** up 7.2% (GNI: 7.5%), 2nd best in Asia after China for 2nd straight year

GDP growth rate: 2013 vs 2012



Source: PSA

	2013	2012
China	7.7	7.8
Philippines	7.2	6.8
Indonesia	6.0	6.2
Vietnam	5.2	5.2
Malaysia	4.8	5.6
India	4.0	3.8
Singapore	3.5	1.3
Thailand	3.7	6.5
South Korea	3.0	2.0
Taiwan	2.5	1.3



Sound Macroeconomic Figures...

- ✓ Gross International Reserves (GIR) of \$79B, enough to cover 11.3 months of imports
- ✓ Budget deficit at 2% of GDP
- ✓ Inflation rate well within 3-5% target
- ✓ Interest rates at all-time lows
- ✓ Foreign debt: 63% of GDP in '00 → 25% of GDP in '12
- ✓ Gov't foreign + local debt (inc. contingent liabilities): 90% of GDP '00 → 57% today
- ✓ Bank NPL ratio 2-2.3% of loans



TI's Anti-Corruption Rankings (ASEAN-6)

Country	2013 (out of 177)	2012 (out of 177)	2011 (out of 177)	2010 (out of 177)	2009 (out of 177)
Singapore	5 -2	5	5	1	3
Malaysia	53 +3	54	60	56	56
Philippines	94 (53%) (+45 from '09)	105	129	134	139 (78%)
Thailand	102 -18	88	80	78	84
Indonesia	114 -3	118	100	110	111
Vietnam	116 +4	123	112	116	120

Source: Transparency International

Despite the improved rankings, the PH still belongs to the group of the most corrupt economies

PH in 2000:
69/90
(77%)



PH in 2005:
117/159
(74%)

Target: Top 1/3 of total countries surveyed



But:



P-Noy: What went wrong?

Cabinet pressed to explain rise in joblessness



Growth still non-inclusive

SWS says self-rated poverty 56% in 2000 = 42.8M people
52% in 2012 = 52.5M people

Two conflicting sources of unemployment:

SWS
27.5% = 12.1M

2013

Gov't
6.5% = 2.6M
but 18% underemployed
= 7.3M

Jobs are not being created as fast as the growth of the economy

= Unemployment still high despite high GDP growth



What Went Wrong?

There was insufficient attention to job creation, to improving conditions for business to enter and grow:

You make more money in real estate (non-productive) than manufacturing (job-creating)

Focus on CCT > Focus on job-creation

**Too slow getting infrastructure started
(but finally happening)**



The Philippines' Best Features

BEST FEATURES OF PH AS AN INVESTMENT SITE

English language capabilities

Worker educational level

Attitude to foreigners by public

Quality and quantity of middle management and technology people

Comfortable local lifestyle

Labor reliability and loyalty

Availability of requisite skilled/semi-skilled labor

Labor cost

Labor productivity

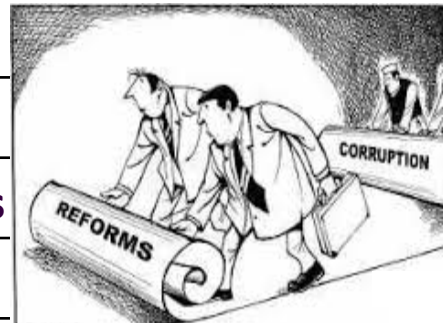
Tax holidays



Worst Features

WORST FEATURES OF PH AS AN INVESTMENT SITE

- 1) Dealing with corruption
- 2) Bureaucratic red tape
- 3) Transport infrastructure
- 4) Stability of policies
- 5) Unfair competition by others paying bribes
- 6) Government attitude
- 7) Political stability
- 8) Economic stability



Well something's being done about it

1. The President has made fighting corruption as no. 1 priority – and is seriously addressing it
2. Bureaucratic processes are being simplified, more to do
3. Key infra projects now being built , but still a concern
4. This is still a problem
5. Still prevalent esp. among LGUs
6. Pro-people but insufficient focus on business
7. Democracy has won, and is entrenched
15. One of the best performers today → 6% to 7% + sustainable; but yet to create enough jobs



Doing Business Ranking (ASEAN)

Country	2014 (185 countries) (Change from '09)	2013 (185 countries)	2012 (183 countries)	2011 (183 countries)	2010 (183 countries)	2009 (183 countries)
Singapore	1 (0)	1	1	1	1	1
Malaysia	6 (+14)	12	14	23	23	20
Thailand	18 (-5)	18	17	16	12	13
Vietnam	99 (-7)	99	99	90	93	92
Philippines	108 (58%) (+32)	138	136	134	144	140 (77%)
Indonesia	120 (+9)	128	130	126	122	129
Cambodia	137 (-2)	133	141	138	145	135

Source: World Bank Group

There has been some improvement, but MUCH remains to be done

Vietnam outranks the PH, but trend favors PH



Doing Business in PH

Adopt global standards & best practices for gov't frontline agencies & streamline business registration

- Reduce # of procedures (15 vs 3 in Singapore)
- Bring down no. of days to start a business (35 vs ½ day in NZ)
- LGU's vary widely – but business considers them generally little improved, and a problem
- PH up to 108th from 138th last year in WB's Doing Business report, good but a long way yet to go



**Fewer days and steps to start a business
= Fewer possibilities to bribe
= Better image for PH as an investment hub**



P-Noy's end game strategy

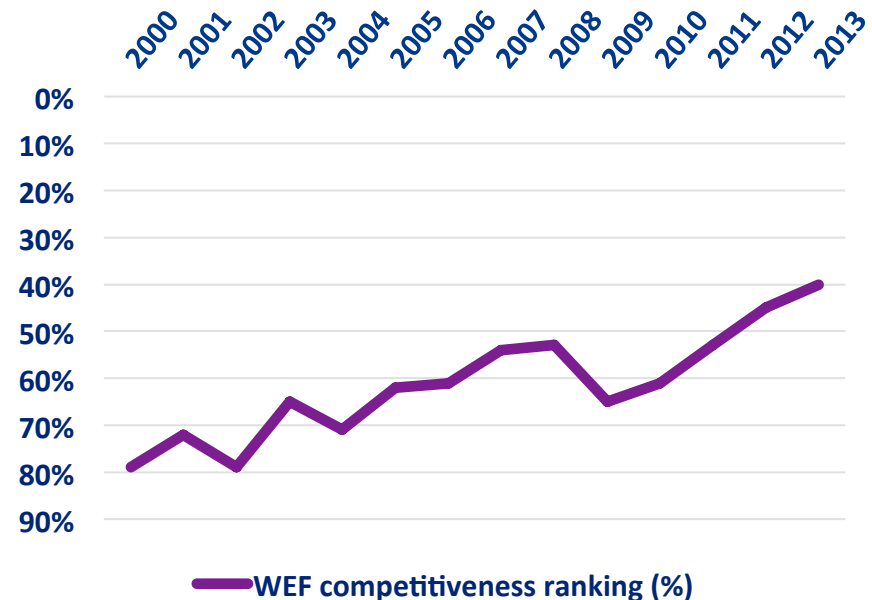
- To reach top 1/3 in world competitiveness ranking by focusing on addressing:

- Corruption
- Infrastructure
- Business procedures
- Gov't finances

He sees it as the solution to attracting FDI instead of charter change

It's not, you need both

WEF competitiveness ranking :
Philippines (percentile rank)



PH 85th out of 139 in 2010

→ 59th out of 148 (top 40%) in '13



P-Noy's end game strategy... 2

- Achieving “inclusive growth” through:
 - Attracting more FDI (but it isn't happening – and won't without more substantive change)
 - Some refocusing on industrialization DTI has done several industry road maps (chemicals, electronics, autoparts, construction materials, etc.) It should focus on only a few – and do them
 - More construction jobs from infra projects
 - Bridging skills gap-eg, TESDA training to enhance BPO & technical skills for manuf'g



P-Noy's end game strategy... 4

- Added boost to come from conditional cash transfers, universal health insurance coverage, subsidies to specially targeted groups (e.g, elderly)
- Substantially achieving PH millennium development goals (It's getting there, but it's well behind in 25% of indicators)

Poverty reduction target of 16.6% by 2015 won't be achieved, still 26.5% in '09 – unless there's dramatic improvement in attracting investments



Achieve Inclusive Growth

Goal	Action Plan
1. Attract more FDIs	Improve governance; streamline business registration; approve pro-business bills; open up key sectors of the economy
2. Refocus on industrialization	Focus on a few industry roadmaps; relax restrictions on foreign ownership of land & developments of natural resources
3. More construction jobs from infra projects	Relax foreign ownership restriction on public utilities to entice more foreign investments into labor-intensive infrastructure projects
4. Bridge skills gap (TESDA training to enhance BPO & technical skills)	Allow foreign capital to bridge funding gap on key infra projects ; gov't will then have more funds to allot to skills development (call center jobs for more BPO firms locating in PH; technical skills for manufacturing companies setting up in the country)
5. CCT, Universal Healthcare & subsidies to targeted groups (elders)	Attract more foreign investors into dev't of vital infra projects so gov't could allot more funds for key health, education & social protection programs and support for pro-MSME initiatives

By amending the economic provisions of the 1987 Constitution



GDP Growth & FDIs Across Asia

Country	GDP Growth Cumulative (1980-2012)	GDP per Capita (\$)		Growth 2012 vs 1980	Total FDI (1980-2012)
		1980	2012		
Singapore	224%	4,913	51,709	953%	\$480.5 billion
Malaysia	197%	1,803	10,432	479%	\$138.8 billion
S o u t h Korea	195%	n/a	22,590	-	\$85.4 billion
Indonesia	182%	536	3,557	564%	\$122.4 billion
Thailand	181%	683	5,480	702%	\$130.4 billion
Vietnam	181%	n/a	1,755	-	\$75.2 billion
Philippines	110%	685	2,587	278%	\$36 billion

Source: World Bank

PH trumped by its neighbors!



Key Sectors As Drivers of Inclusive Growth

- >> Infrastructure / Public Utilities
- >> Information Technology / BPOs
- >> Tourism
- >> Mining
- >> Agribusiness



Quality on Infra: How PH Compares

Particulars	Philippines	Malaysia	Indonesia	Thailand	Singapore	Vietnam
Quality of overall infrastructure	98	25	85	61	5	110
Quality of roads	87	23	84	42	7	102
Quality of railroad infrastructure	89	18	19	72	10	58
Quality of port infrastructure	116	24	70	56	2	98
Quality of air transport infrastructure	113	20	61	34	1	92

Source: The Global Competitiveness Report 2013-2014 World Economic Forum; rankings out of 148 countries

PH is behind its ASEAN neighbors

**Quality infrastructure = a key pre-requisite to attracting more investments
= more jobs (labor-intensive construction projects)**



Better Infrastructure =  Businesses =  Jobs

Good infrastructure improves economic growth prospects by strengthening its trade and investment climate

Safe, reliable, and cost-effective infrastructure has a significant effect on industrial productivity and costs = investment, employment, and export earnings all up

Foreign ownership of public utilities would strengthen the capital base of infrastructure service providers

Bottlenecks in infrastructure have been a major constraint in the ability to compete for export markets and the much needed FDI



PH's "winners"

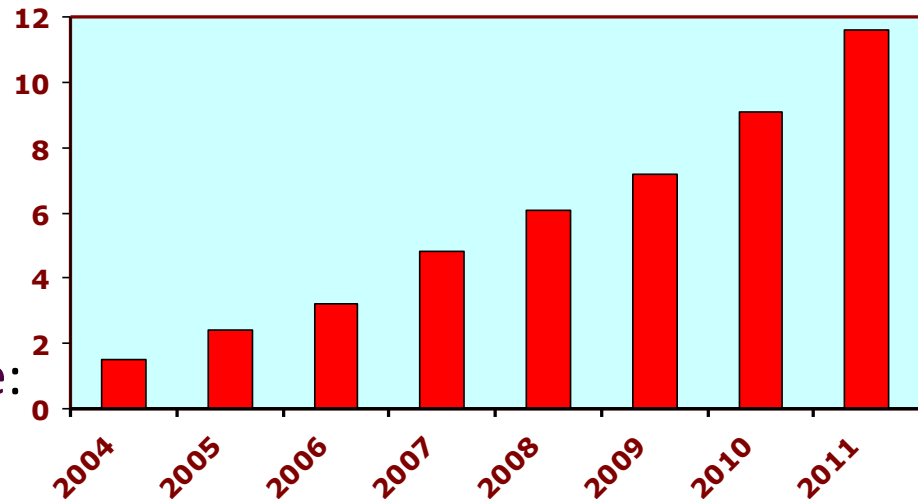
☐ IT-services/BPO

The most dynamic sector in the previous decade up ~100% P.A. 2000-2005; 25-30% P.A. 2005-2010 PH is now the world's #1 in call centers

With added boost from creative industries (on-line games, animation, etc.), phenomenal growth in last 5 years

Sustaining dynamism will require:

- Improvement in quality of education
- Higher acceptance rate from 8% presently (call centers)
- Shift towards non-voice services
- A Department of ICT



PH's "winners"

Target to capture 10% of the global IT-S/BPO market by 2016, or \$25B (from \$11-12B presently) appears doable

- Within call centers, non-English customer support services (e.g., Spanish, German, French) will be tapped
- Increasing shift towards BPO and higher-value services like KPO (financial analysis; data processing, web content)
- Sustained growth in creative industries
- Cloud computing

BPOs can locate anywhere – if the supports are there



PH's "winners"

BPO Sector: Jobs & Revenues		
Year	Employment	Revenues (\$Bn)
2008	372,000	6
2009	423,000	7.2
2010	525,000	10.1
2011	638,000	11
2012	772,000	13

Source: DOLE, BOI, PEZA



Tourism

4.7M foreign tourists in PH in '13 up 10% (vs 26M in Malaysia, 27M Thailand, 16M Singapore, 8M Vietnam)

Tourism receipts up to \$4B in '13

Beautiful beaches, diving, eco-tourism sites-but how to get there? Great potential for sports/recreational, wellness/medical, retirement tourism – but systems and facilities need to be in place

PH only ahead of Cambodia



It's more fun in the
Philippines



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PH's "winners"

And NAIA 1 the world's worst airport; NAIA 3 with limited int'l flights

10M tourists targeted by 2016

(We say 8M at best)

Supported by construction of 60 hotels next 2 years; gov't priority to airport projects; air agreements + open skies + budget airlines



There is a need to open public utilities to foreigners to improve tourism infra; ease land ownership restriction to entice more foreigners to build and operate tourism facilities

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Travel & Tourism Competitiveness Rankings (2013)

Country	REGULATORY FRAMEWORK				BUSINESS ENVIRONMENT AND INFRASTRUCTURE				
	Prevalence of Foreign Ownership	Property Rights	Time Required to Start a Business	Cost to Start a Business	Quality of Air Transport Infra	Number of Operating Airlines	International Air Transport Network	Quality of Roads	Quality of Ground Transport Network
Cambodia	92	93	134	131	75	84	86	66	98
Indonesia	73	80	126	102	89	36	71	89	105
Malaysia	52	28	16	90	24	26	23	27	34
Philippines	65	72	117	94	110	39	88	86	115
Singapore	3	3	5	8	1	24	1	3	3
Thailand	64	100	105	59	33	13	31	39	53
Vietnam	110	110	113	67	94	39	111	118	120

Source: WEF



PH's "winners"

❑ Mining

Despite numerous challenges, up ~11% P.A. in 2000-2010, among the fastest-growing sectors in that decade:

- New mining projects (TVI, RAPU-RAPU, Filminera, etc.)
- Reopening of a few large mines
- Oil & gas development
- Boom in world metal, mineral and fuel prices

**\$ 14.6 B in exports from 2000 to 2010;
A mere 3.3% of GDP**



The constraints:

- **Security concerns (e.g. attacks at Taganito, etc.)**
- **Open-pit ban (\$6B Tampakan project threatened)**
- **Moratorium on mining activities in some provinces (e.g., Samar, Romblon, Mindoro, Negros, etc.)**
- **Environmental abuse of small-scale miners**
- **False propaganda of new anti-mining groups and the church**
- **Failure to enact new law on mining taxes**

Mining has vast potential to be a key revenue and job-generating sector



But it's dead under Aquino:

EO 79 was issued to clear up the situation

Instead, it created a wall of confusion:

- What taxes to pay?
- What term limit will mining firms have?
- What chance of being granted an ECC can companies expect?
- How and when will a firm's right to open-pit mining as defined by national law be allowed?



Agriculture/Agri-business

- Processed food, commercial crops (tropical fruits) & marine products among fastest-growing exports despite world economic slowdown
- Boosted by liberalized trade with ASEAN, China & other Asian countries
- BIO-fuels also a major growth source

But productivity needs to improve; plantations are needed and more land area opened for commercial cultivation

If so agri-business could be up 5-6% P.A. over M-T

Easing restriction on land ownership is crucial

Agri workers = more than 1/3 of total employed; sector covers nearly 20% of GDP

Competitiveness of the sector must be improved



Rural sector is major contributor to non-inclusivity of growth

- Poverty is a rural phenomenon:

42% rural poverty incidence, 19.7% urban poverty as of latest data (2008)

19.8M poor in the rural areas, 8.6M in urban areas

Worst of it rural poverty is up from 18.9M in 2000

Urban poverty was also up in nos. from 7.4M in 2000

- Stagnant agricultural productivity has kept poverty high in the rural areas
- Growth since 2000 averaged 4.7% p.a. vs population growth of 1.8%

Percentages look better, but poverty is people, not percentages.



Agriculture Constrained by

- Lack of access to formal credit of small farmers – can rural banks help?
- Low level of mechanization of farms
- Inadequate irrigation facilities
- Inadequate farm-to-market roads
- Lack of post-harvest facilities
- Agrarian reform program – let it go now!
 - ◆ Created a new class of people: the “landed poor”: poverty incidence in CARP areas 54%, among non-CARP farmers a lower 35%



Agriculture Constrained by... 2

- ◆ Small farm areas = income not enough to get farmers out of poverty. Average only 1.2 Has actual landholding per beneficiary, not the 5 (or 7) allowed
- ◆ Non-tradability of CARP farms destroyed formal land market, prevented best use of farms, affected dev't of formal credit
- Limited private investment in agriculture
- Security issues in certain areas ideal for high value crops
- Weather disturbances



What it would take to make growth inclusive in rural areas

- No more CARP extension – focus instead on providing support to agrarian reform communities in terms of post-harvest facilities, infrastructure, marketing, etc.
- Allow tradability of land/land use to enable its highest and best use for agriculture
- Encourage private investment in agriculture by not imposing ceilings on the area of land for cultivation
- Focus on high value crops, such as tropical fruits, vegetables, coffee/cacao and other exportables
- Do the sensible – allow plantations



Fundamental Reforms

- A Reproductive Health law = less people and a church with less power
- The removal of pork = fairer elections, less dynasties, more well-intentioned politicians (the pols will look for sneakier ways)
- The Internet = a public more involved and willing to speak out
- Some high-level people indicted (e.g. president, chief justice, ombudsman, possibly 3 or more senators) = impunity is lessened
- A rational Sin Tax law = more prudent Taipans and additional funds for health services; eventual discouraging of a harmful product
- Basic Education cycle expanded to 12 years = a more skilled, work-ready population = more job-generating investments



Check Truncation

Truncation will be introduced over the next year.
It can be done in-house, but that's expensive.

Outsourcing benefits:

- Avoidance of capital cost, the outsourcer supplies it all
- An outsourcer spreads the cost over several banks
- Ability to re-align Bank resources to focus on core bank activities
- Long-term reduction in costs associated with cheque processing
- Utilize significant expertise to undertake the implementation of a complex project

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