

Can the Philippines Improve its International Competitiveness?*

Focus on industrial relations, trade and production costs, and infrastructure investment

INDUSTRIAL RELATIONS


A major and critical ingredient for the economic success of the North-east Asian and three ASEAN countries is the fact that wages in these countries have been determined largely through the workings of the demand

for and supply of labor services. This ensures a strong linkage between productivity changes and wage adjustments. In these countries, the rise in the real wages over time resulted from the much higher increases in labor demand due to high investment rate and economic growth than from the increases in labor supply. As such, the labor markets provided the appropri-

ate price signals for the efficient allocation of labor resources and investments in human capital formation in the context of the changing world commodity markets and the countries' evolving comparative advantages (World Bank 1993, Chapter 6).

Ponciano S. Intal, Jr.

EDITOR'S NOTES

 *The next millenium is foreseen to give rise to a highly competitive global market where countries are compelled to shape up to survive the trade race. The Philippines, which aspires to achieve the status of a tiger economy at the turn of the century, is faced with the difficult challenge of competing with economies far more economically developed and definitely more advanced in technologies. How can the country face up to the challenge? "Sharpen our competitive edge" is the common stand of government policymakers. If the keyword is "competition," how do we go about sharpening that competitive edge? PIDS President Ponciano S. Intal analyzes and recommends, in the main article for this issue, some logical moves the government can take in three pivotal areas, namely, industrial relations, trade and production, and infrastructure investment. He believes that these moves can catapult the country into the mainstream of global competition.*

In the second article, Dr. Gilberto Llanto, PIDS Fellow, takes up credit finance on the level of microfinancing as an anti-poverty instrument. Dr. Llanto contends that the "war against poverty" can gain more teeth if MFIs, a major source of local financing for the poor, are properly guided to become viable and sustainable institutions. He proposes some policy measures the government may consider to rescue non-viable MFIs from possible collapse. Otherwise, Llanto laments, microfinancing could just turn into a case of the blind leading another blind.

Finally, the DRN greets the PIDS on the occasion of its 20th year anniversary. May it be a year of achievement for the Institute!

Labor productivity vs. wages:
a discordant note?

The Philippine experience differs sharply from those of the other East Asian countries. Specifically, until the late 1980s, there had been a **negative relationship** between changes in real wages and labor productivity in the Philippines. During the 1970s and early 1980s, real wages in the industrial sector fell substantially. At the same time, labor productivity improved. In the late 1980s, meanwhile, real wages increased despite the drop in labor productivity (Table 1). What may account for this negative relationship is the political economy of wage

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*This article will also appear as PIDS Policy Notes No. 97-05.

MFIs: Poor's Access to Credit

The country's Social Reform Agenda believes that microfinance institutions have a large role to play in poverty alleviation. Indeed, some literature on development finance report the unique and significant role played by microfinance institutions in the "war against poverty." By providing the poor access to microfinancial services, *exempli gratia*, microcredit and deposit-taking facilities, microfinance institutions help break a crucial constraint faced by the poor.

hand, the private sector approach is to use microfinance institutions (MFIs) such as credit nongovernmental organizations (NGOs), rural banks, cooperative rural banks and credit unions/credit cooperatives to reach the poor. However, despite the government's credit programs and the private sector's own approach to providing credit, the problem of lack of access to microfinancial services still persists.¹

This article does not comment on the alleged role of microfinancial in-

tutional capacity: they lack a viable and sustainable delivery system. They have a relatively small financial base and face huge investment requirements in staff training and client orientation. All of these militate against any attempt to reach a greater number of the target clientele in an effective and efficient manner. In the very short run, the MFIs may be able to expand their present reach because of donations and other subsidies, but unless they become viable and sustainable, the effort cannot be sustained.

Microfinance Institutions in Poverty Alleviation: A Case of the Blind Leading the Blind?*

Gilberto M. Llanto

Banks rarely lend, if at all, to the poor, mostly because of information problems, high credit risk perception, lack of acceptable collateral and high transaction costs of processing small loans. As in other developing countries, this situation is true for the Philippines. As such, the government responded by creating a number of credit programs intended to provide the poor access to financial services. The National Credit Council reports as many as 111 credit programs, 13 of which target the ultra poor. On the other

stitutions in alleviating poverty. Neither does it discuss the supposed link between poverty alleviation and the provision of access to microfinancial services. Rather, it argues that microfinance institutions must be viable and sustainable institutions to make any difference in the Social Reform Agenda's "war against poverty."²

Limited Capacity to Deliver

Many MFIs involved in poverty alleviation programs have weak insti-

Critical attention should focus on four areas which affect the operation of MFIs, namely:

- outreach,
- viability and sustainability,
- resource mobilization, and
- policy and regulatory framework.

Need to Expand Outreach

MFI clientele remains small and limited to poor borrowers and savers who predominate the total number, indicating an almost exclusive focus on the poor. This shows the effectiveness of the targeting mechanism used by the MFIs in identifying poor clients.³ However, several factors prevent MFIs, especially credit NGOs, from reaching a greater number of clients.

The principal problem faced by credit NGOs is their lack of legal personality and authority to act as real fi-

*This will also appear as PIDS Policy Notes No. 97-09.

¹This shows that the solution of the poverty problem rests on more fundamental issues than just the provision of microfinancial services alone. See various papers by Arsenio Balisacan, UP School of Economics; and Cristina David and Ponciano Intal, Jr., Philippine Institute for Development Studies. The intention here is to focus on the need for viable and sustainable financial institutions that offer financial products and services to the poor.

²This article draws from Gilberto Llanto, Edgardo Garcia and Ruth Callanta "An Assessment of the Capacity and Financial Performance of Microfinance Institutions: The Philippine Case." A paper submitted to the UNDP-Asia and Pacific Development Centre, Kuala Lumpur, Malaysia, September 30, 1996.

³The other view is that the very nature of MFIs naturally draws this type of clientele—the poor.

nancial intermediaries. This results in a very limited capacity to develop and legally offer innovative financial products and, thus, hinder their growth as viable and sustainable financial institutions. More importantly, the informality of the organization makes any attempt to mobilize deposits, develop various financial products and offer them to the public illegal.

The second problem is the lack of an extensive and viable financial delivery system that has substantial focus on the poor. While the rural banks and credit cooperatives have a nationwide delivery system through their branches and unit entities, only a few are familiar with microfinance technologies and microfinancial markets as profitable opportunities. On the other hand, a small number of credit NGOs are trying to provide that delivery system, but they remain small, institutionally weak institutions.

Another problem area is the training of potential clients. It is common knowledge that a fair degree of client training is necessary for success-

Need to be Viable and Sustainable

To continually provide financial service to the poor, the MFIs themselves must be viable and sustainable. It should not be a case of *the blind leading another blind* wherein the end state will be the collapse of MFIs and microfinance programs. However, a recent study shows that many of the MFIs are far from attaining this goal.

A major factor in determining the viability and sustainability of MFIs is their financial base. MFIs—especially credit NGOs—need to increase their equity, mobilize more deposits and tap the financial markets at reasonable terms. Without a legal personality, however, credit NGOs cannot obviously bring in the necessary resources to turn them into viable and sustainable institutions. The alternative is to depend on grants and subsidies, thereby making them vulnerable to the agenda of grant institutions. Thus, it is common to find relatively small MFIs having several specialized loan windows that cater to the donor's target clientele. Other MFIs also

ment of risks, product packaging and pricing, and management of loan arrears.

Relatedly, there is a need to upgrade and institutionalize performance standards, particularly in loan repayment, evaluation of loan defaults and aging of delinquent accounts, and the installation of appropriate accounting and internal audit systems. In addition, there is a need to improve their capability for governance, leadership and management.

Thus, the key issues in building viable and sustainable MFIs consist of having

- the appropriate legal personality or authority,
- strong equity and financial base, and
- sound internal policies, systems and procedures.

Need to Mobilize Resources

Credit NGOs have attempted to mobilize resources but the informal character of their organization hampers the effort. There is great dependence on grants and subsidies from the government and other donors which, ironically, stunts their growth into viable and sustainable financial intermediaries. On the other hand, the country has yet to witness a vigorous and sustained deposit mobilization effort, especially among rural banks, cooperative rural banks, and credit unions or credit cooperatives.

To stay competitive and viable, the MFIs must raise substantial deposits and develop various instruments and help their clients, especially the small savers, build up their financial base. Thus, they not only have to mobilize traditional deposits but also

"Credit NGOs' great dependence on grants and subsidies from the government and other donors...stunts their growth into viable and sustainable financial intermediaries."

ful microfinance programs. However, this requires a sizable investment cost that MFIs claim they may not be able to provide. The training of clients has some public good characteristics which should draw government and donor assistance. Matching government/donor funds with MFI funds for training may lead to better outreach performance as more clients are trained over time.

need to offer a wider array of financial products to be able to stay in the market.

Another factor is the MFIs' internal financial policies and organizational practices and procedures which need a lot of improvement. Particular areas include financial reporting and monitoring systems, portfolio management, assessment and manage-

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broaden and deepen the financial products and services they offer to meet existing demand at the lower end of the financial market. This means the development of new product lines and services, and the design and implementation of new microfinance technologies and practices which will strengthen their financial base.

Need to Supervise and Regulate Credit NGOs

The necessity of putting credit NGOs under a supervisory and regulatory framework cannot be disregarded. Without such a framework, the following problems will persist:

- ❑ absence of performance standards;
- ❑ lack of uniformity and dilution of standards of credit evaluation; and
- ❑ lack of portfolio supervision leading to poor loan recovery and deterioration of its quality.

The lack of prudential regulations over activities such as deposit-taking creates moral hazard and incentive problems. An appropriate supervisory and regulatory framework will complement the building of institutional capacity of MFIs, especially the credit NGOs. This way, there will be strong MFIs which will no longer operate in a policy vacuum.

One way to build the capacity of credit NGOs is to transform them into formal financial institutions. They can be organized into rural banks, credit unions, or finance companies. The im-

portant thing is to vest on them a legal personality or authority which allows them to undertake formal financial intermediation activities and to be subject to an oversight public agency.

The immediate, and sometimes emotional, argument raised against this view is that the transformation of credit NGOs into private banks, for example, will result in a loss of focus and sense of mission for the poor. This ar-

gument does not seem to hold water. One has to understand that the focus, mission or goal of an organization is not necessarily dictated by its organizational structure. On the contrary, it is the people manning the organization and the policies it pursues that provide focus and direction. If the transformation of a credit NGO into a bank distances them from the poor, then, this only reveals the real goals and focus of the people behind the organization.

The alternative to a formal supervisory and regulatory framework is self-regulation by the credit NGOs. The argument asserts that maintaining an informal self-regulatory framework will provide credit NGOs with flexibility and initiative to pursue various financial innovations in order to reach the poor. Furthermore, there will be no danger of losing their focus on the target clientele as a result of the transformation of credit NGOs into formal financial institutions. However, self-regulation can only go so far. If incentives are not appropriate and if there

is room for freeriding, self-regulation cannot be assured. It will not be enforced by some *deus ex machina*.

The transformation into formal financial institutions may not be everybody's cup of tea. It is not for every credit NGO. There will be some which will choose to transform but there will be others which will opt to remain as a development agency and perhaps, organize a bank with a dis-

"One way to build NGOs capacities is to organize them into rural banks, credit unions or finance companies. The important thing is to vest on them a legal personality so they can undertake formal financial intermediation activities..."

tinct charter, character and function. The important outcome of this strategy is the unbundling of development and social preparation, and banking functions which will increase the efficiency of financial markets and will provide the poor greater access to financial services.

Thus, the NGO development agency and the NGO-organized bank or financial institution can exploit their respective comparative advantages. From the public policy perspective, it becomes clearer what activities in the MFIs properly constitute "social development costs" and what should rightly be considered as "cost of providing the financial service," that is, the cost of doing business. The first set of costs may be subsidized or given access to grants in view of the externalities present in social training/preparation of poor clients while the latter should be covered by appropriate pricing of the financial product.

Recommendations


Based on the above arguments, the following are recommended:

- ❑ Transform credit NGOs into full-fledged formal financial institutions such as private banks, finance companies, nonstock savings and loan associations or credit cooperatives;
- ❑ Alternatively, credit NGOs may organize or invest in other formal financial institutions;
- ❑ Build up the equity base of MFIs by infusing more capital from existing owners and new investors;
- ❑ Diversify loans, savings and other financial products/services according to client demand;
- ❑ Maximize deposit mobilization opportunities;
- ❑ Provide for an appropriate supervisory and regulatory

framework for MFIs, especially credit NGOs;

- ❑ Maintain dialogue with the government on the installation of an appropriate supervisory and regulatory framework for MFIs;
- ❑ Promote linkage with private banks interested in providing microfinance services for the poor through MFIs whose institutional capacity must be upgraded;
- ❑ Externalize the training costs of the poor by providing MFIs access to grants and government financial assistance but abiding by the principle of matching grants with MFI funds;
- ❑ Rationalize government credit programs and reallocate existing funds for livelihood projects into training the staff and building the capacity of existing MFIs following the principle of

matching grants with MFI funds;

- ❑ Invest in training rural banks, cooperative rural banks and credit unions or credit cooperatives in microfinance technologies;
- ❑ Invest in the development of new product lines and services, new microfinance technologies, broadening and deepening of microfinancial services, adaptation of the "best practices in micro-finance," and others, with counterpart funding from donors and the government;
- ❑ Promote training in financial operations, resource mobilization, portfolio management, risk assessment and management, product packaging and pricing, management of loan arrears, strategic and business planning, among others;
- ❑ Improve systems and procedures such as automating systems and operating procedures, upgrading and institutionalization of performance standards, setting up internal audit systems, conduct of periodic management audits, installation of updated and standardized accounting and reporting system;
- ❑ Continue among MFIs staff training and development of career paths for capable workers, upgrade pay scales and incentive schemes to retain good personnel; and
- ❑ Professionalize management and staff of MFIs. 



LANDBANK Annual Report

Government credit programs provide the poor access to financial services to enable them to acquire needed equipments.

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determination and labor relations in the Philippines.

The decline in industrial real wages during the 1970s was a reflection of the inconsistency between the government's labor and industrial policies. Labor policies during the 1970s were characterized by the curtailment of labor rights, following the South Korean example at that time. However, in contrast to the South Korean case wherein the government succeeded in raising the real returns to labor by following a development and industrial strategy that made labor increasingly scarce (and therefore needed to be paid more) through adept economic management and high economic growth, the industrial policy in the Philippines during the 1970s did not substantially increase industrial labor absorption. Given a high growth in the supply of labor, this led to the

decline in the real wage. Moreover, security of employment deteriorated as firms became vulnerable to domestic financial stringency and external economic shocks. The deterioration of the industrial relations environment during the early years of the Aquino government was most likely a delayed reaction to the inappropriate policy regime during the 1970s and early 1980s.

Disincentive to investment

With the increased political power of the labor unions during the Aquino administration, real wages in the formal sector increased during the latter 1980s primarily through minimum wage adjustments. Labor productivity growth, however, was sluggish. As a result, among the ASEAN countries, it was only in the Philippines where real wage cost in efficiency terms increased. Given the country's troubled industrial relations environment and rising real wages in efficiency terms (i.e., rising labor costs), together with political uncertainty and risks on personal security, it is not sur-

prising that the Philippines was bypassed by the Japanese, South Koreans and Taiwanese in their search for investment sites in Southeast Asia during the late 1980s and early 1990s.

Comparing the 1970-1990 level of labor productivity in the Philippines and other selected countries in the Pacific Basin relative to the United States (US), Golub (1995) found that labor productivity in the Philippines, which was about 27 percent of the US in 1970, declined secularly to about 14 percent in 1990. The average *decline* in labor productivity in the 1970-1990 period was 0.5 percent per year. In contrast, real wages rose by an average of 0.2 percent per year in market exchange rate terms and by an average of 2.3 percent per year in purchasing power parity terms. The higher rate of increase of wages and benefits in purchasing power parity terms reflects the impact of the real appreciation of the peso during the period. Due to the growth of compensation in real terms in tandem with the decline in labor productivity, the relative unit cost of Philippine labor rose in 1970 from about one-half that of the US to being higher than the unit labor cost of the US by 1987. In effect, ***Philippine labor, when productivity and exchange rate changes are taken into consideration, has become more expensive than US labor by 1990 compared to its only being half as expensive in 1970.***

While Philippine labor cost rose relative to the US, the US experienced a much higher rise in labor productivity (at 3.0 percent per annum) compared to the rise in its real wages and benefits (at 1.7 percent per annum) during the period. This means that the unit labor cost of the US declined secularly during the 1970-1990 period.

The average growth rates of labor productivity per year of the coun-

Table 1
Indices of Labor Productivity and Real Wages
(1980 = 100)

| | Labor Productivity | | Real Wages | |
|------|--------------------|---------------|--------------|------------------------------|
| | Agriculture | Manufacturing | Farm Workers | Unskilled Laborers Manila |
| 1970 | 97 | 57 | 109 | 214 |
| 1980 | 100 | 100 | 100 | 100 |
| 1990 | 93 | 90 | 143 | 170 |
| 1993 | 88 | 80 | 150 | 174 |

Note: Real wages for farm workers are based on daily wages (in cash and kind) of farm workers without meals in major crops deflated by the CPI for outside of the national capital region.

Source: Khan 1995, pp. 3, 7

tries in Golub's sample during the 1970-1990 period are as follows:

| | | |
|--------------|---|------|
| Japan | — | 5.2% |
| West Germany | — | 2.2% |
| Canada | — | 2.1% |
| Australia | — | 2.6% |
| South Korea | — | 6.5% |
| Mexico | — | 3.2% |
| Malaysia | — | 2.0% |
| Thailand | — | 4.4% |
| India | — | 3.4% |

From these figures, one notes that other countries have higher rates of labor productivity growth than the Philippines. South Korea's sharp rise in labor productivity allowed it to maintain a unit labor cost lower than the US during the period despite the significant increase in real wages in South Korea (at 7.0 percent per annum).

Contrasting experience

The contrasting experience of the Philippines and South Korea is worth highlighting. South Korea experienced a sharp rise in real wages but was able to maintain its unit labor cost below that of the US because of substantial growth in labor productivity. In contrast, the Philippines experienced a marginal rise in real wages and had a declining labor productivity, thereby leading to the rise in unit labor cost from about one-half that of the US in 1970 to even higher than that of the US by 1990.

Compete as a team

Given the country's relatively more expensive labor vis-à-vis Indonesia, China and Vietnam, and as the Philippine economy increasingly relies on labor-intensive manufactures and tradeable services (e.g., tourism, data inputting services), it becomes necessary to change the discordant relationship between labor productivity

Outstanding Contribution

The Institute has recently been cited for its contribution to agricultural economic research.

On February 28, PIDS received the **1997 Gawi Award** from the Philippine Agricultural Economics and Development Association, Inc. (PAEDA). The award is given to individuals and institutions in recognition for their outstanding contribution in their respective fields of endeavor.

growth and real wage adjustments of the past decade. This calls for better economic management, on the one hand, in order to substantially improve labor productivity and reduce food inflation-induced demands for wage increases, and refinement of the institutional framework of wage determination, on the other.

It is important to underscore that in the new trading and economic environment in the region, the Filipino workers, employers and government are, as a team, in competition with the workers, employers and governments of competitor countries in the region.

This therefore calls for:

□ **ensuring an economic management and policy environment that generates wage employment much more than the growth of the labor force, and**

□ **labor and management taking greater cognizance of the productivity-wage-competitiveness nexus.**

Since the Philippine government is in the process of implementing reforms toward greater economic outwardness, macroeconomic stability and international competitiveness, **minimum wage setting as the means**

to effect broad wage changes thus needs to be deemphasized. As a possible alternative, the government may place greater emphasis on performance-based bonuses or productivity sharing, following the successful experiences of Northeast Asia. Corollary to this is the need to put greater emphasis on collective bargaining negotiations between workers and their respective employers.

Wage increase vs. productivity sharing

The government can encourage the adoption of performance-based bonus or productivity sharing by momentarily freezing the current minimum wages and instituting guidelines or suggestions (through the National Wage and Productivity Council and the Regional Wage and Productivity Boards) for the employers and employees to consider during their collective bargaining negotiations. If the government, however, continue to emphasize minimum wage setting as the country's main mechanism for broad based adjustments (because the institution of performance-based bonus system is politically difficult to do),

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then it is preferable to have labor productivity growth on an industry basis rather than on a regional basis as the major determinant in the process of wage adjustment.

Singapore's wage adjustments use wage bands by industry (groups) that largely tie wage adjustments to productivity improvements. Indonesia uses minimum wage adjustments cautiously in view of the growing investment and export competition from even lower wage countries like Vietnam. Thailand's minimum wage is lower than the prevailing wage and therefore minimum wage adjustment is used primarily as an anti-poverty measure rather than as a means for broad-based wage adjustments.

The comparative findings of the Golub study, showing the sharp rise in the unit labor cost of the Philippines because of declining (or at best sluggish) labor productivity, indicates that the ***government, labor and employers would have to give much more importance to improving productivity*** through such measures as policy reforms, improving infrastructure and institutional support structures, higher investment, organizational restructuring, improving the work place, and increasing investments on worker training and upgrading. To a large extent, ***the work place is better viewed as a partnership among the employers and the workers both for improved international competitiveness of the firms and for improved human capital and material welfare of the workers.***

TRADE AND PRODUCTION COSTS: REDUCING COST OF DOING BUSINESS IN THE PHILIPPINES

Since wage rates in the Philippines are no longer low compared to competitor countries like Indonesia and China, the country will thus have to compensate for this through other means. This may mean reducing the adjunct costs of doing business in the country coupled with a comparatively higher and faster growth of labor productivity. Reducing the adjunct costs of production and trading means lowering the cost of transacting with the government, the cost of transporting goods and services between the production sites, and the domestic and/or foreign markets. As such, there is a need to streamline regulatory procedures and improve infrastructural services. The expected end results are faster start-ups of businesses and faster turnaround time for imports and exports. In addition, the economy will be more integrated internally and with the rest of the world. Finally, streamlining regulatory procedures and improving infrastructural services contribute to improved efficiency of production and increased factor productivity. These will result in lower factor cost in efficiency terms.

Ways to reduce transactions costs

Transactions costs can be reduced by:

- ❑ redefining the approach to regulation (i.e., regulatory reform),
- ❑ streamlining regulatory systems and procedures, and
- ❑ upgrading technological support to regulatory procedures.

Regulatory reform is fundamental in reducing transactions costs. Inefficiency is endemic where bureaucratic interventions are pervasive in an

economy. It is increasingly acknowledged, for example, that the industrial protection regime in the South Asian countries like Bangladesh during the 1960s and 1970s, which was meant to encourage the domestic manufacturing sector through extensive investment and trade controls, was not helpful to the sector. In the end, the protection became mainly a means of enlarging and supporting the bureaucracy.

The Philippines has been vigorously pursuing a process of trade liberalization, deregulation and privatization to substantially reduce bureaucratic control over the affairs of business and markets.

At present, it is in streamlining regulatory systems and procedures, together with technology upgrade, where the benefits to the producers and the consumers would be significant. This involves reducing the number of papers to fill up and permits to obtain, the establishment of one-stop shops for all the permits, the establishment of express lanes, and more extensive use of computers toward an electronic data interchange that will enable electronic transactions among the private sector and the concerned agencies.

An example of streamlining regulatory systems and technology upgrade is the GTEBNet Project of the Garments and Textile Export Board (GTEB). The GTEBNet project vision includes the simplification of GTEB procedures, enhancement of the GTEB computer systems, and compliance with the US customs service requirement on the implementation of an Electronic Visa Information system for US imports of garments. The GTEBNet project enables exporters to

- ❑ electronically transact with GTEB using computers in their own premises,

- have access to the GTEB database on quota balances, directory of exporters and subcontractors, and GTEB statistics,

- transact electronic payment of GTEB assessment fees, and

- conduct electronic transmission of GTEB-approved TEC/IA to the Bureau of Customs.

This will effectively reduce processing time from hours to minutes (EDINet Infosheet, EDC 1995).

A similar project on automation is the EXPORTNet, the automation program of the Export Development Council. It involves the use of elec-

tronic data interchange for speedy export clearance, export declaration, cargo reservation, and payments/funds transfer. This electronic data interchange will eliminate delays and errors associated with paper documents. Important to the automation project is the computerization of concerned agencies—not only of the GTEB and other government clearance agencies—but also of the Bureau of Customs.

procedures in exporting and importing. The Bureau has instituted a “green lane” system of clearing shipment for low risk shipments. It is in the process of computerization toward an electronic data interchange. It has implemented the Automated Manifest Clearance System towards strengthening clearance process of manifests. It has also been simplifying forms and codings through Customs Memorandum Order 39-93. A Modified Manual Clearance Procedures was implemented to accelerate the processing of import entries and further simplify clearance procedures.

The Bureau of Customs has also been trying to implement many of the recommendations embodied in the eleven-point reform program prepared by the Fiscal Affairs Department of the International Monetary Fund. Phase One of the automated system for customs data (ASYCUDA) is now being implemented at the

Port of Manila. It is planned to be implemented at the Ninoy Aquino International Airport and the Manila International Container Port. The first phase of the ASYCUDA involves the computerized assessment of taxes and customs duties. Together with the first phase of ASYCUDA is the establishment of the Community Training Center of the Philippine Chamber of Commerce and Industry (PCCI) and the Bureau of Customs where importers and exporters can submit their paper import entry declarations for digitized encoding, customs query, and up-to-

date tracking of papers without the need to personally go to the arrastre operator’s office at the Bureau of Customs. The ASYCUDA will be used in the future in customs declarations, manifests, accounting, warehousing and trading facilities. It will eventually be part of an electronic data interchange system as elaborated in the EXPORTNet.

The Subcommittee on Tax Administration of the Presidential Task Force on Tax and Tariff Reform has an additional set of recommendations which the Bureau of Customs can implement to further improve customs administration.

Among the recommendations that can be implemented by the Bureau itself are the following:

- establish formal risk assessment procedures during entry processing where high risk shipments are subject to full examination while low risk shipments/vessels are only randomly chosen;

- renegotiation with the Societe Generale de Surveillance (SGS) to allow the imposition of stiff penalties for SGS delays in processing and increase in penalties for improper valuation;

- delegation of decisionmaking on routine matters from the Office of the Commissioner to the District Collectors.

Recommendations

The overall objective of the streamlining of regulatory procedures is to move toward time-based processing. It is recommended that the government focus its efforts at streamlining regulatory procedures whereby



When productivity and exchange rate changes are considered, Philippine labor in 1970 has become more expensive than U.S. labor.

tronic data interchange for speedy export clearance, export declaration, cargo reservation, and payments/funds transfer. This electronic data interchange will eliminate delays and errors associated with paper documents. Important to the automation project is the computerization of concerned agencies—not only of the GTEB and other government clearance agencies—but also of the Bureau of Customs.

The Bureau of Customs is a critical agency with respect to regulatory

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each concerned agency sets definable targets to reduce processing time.

The government needs to pursue further computerization of procedures similar to the programs of the GTEB and the Bureau of Customs. The concerned agencies may need to explore lease arrangements with computer service suppliers for technological upgrade of the facilities for faster processing of papers. It is further recommended that government agencies look into the possibility of instituting higher processing fees in exchange for faster and more transparent processing of papers. The proceeds from the processing fees can be used to pay for the lease or purchase of the computer facilities.

INFRASTRUCTURAL INVESTMENT

Infrastructure remains a major bottleneck in the country's drive for international competitiveness. *The 1995 World Competitiveness Survey indicates that the Philippines ranks close to the tail end of the list of countries in terms of quality of infrastructure; it ranks lower than the other competitor countries in the region.* Despite the substantial improvements in the past two years as best exemplified by the end of the power blackouts, the targeted acceleration of economic growth raises the demand for improved infrastructural services.

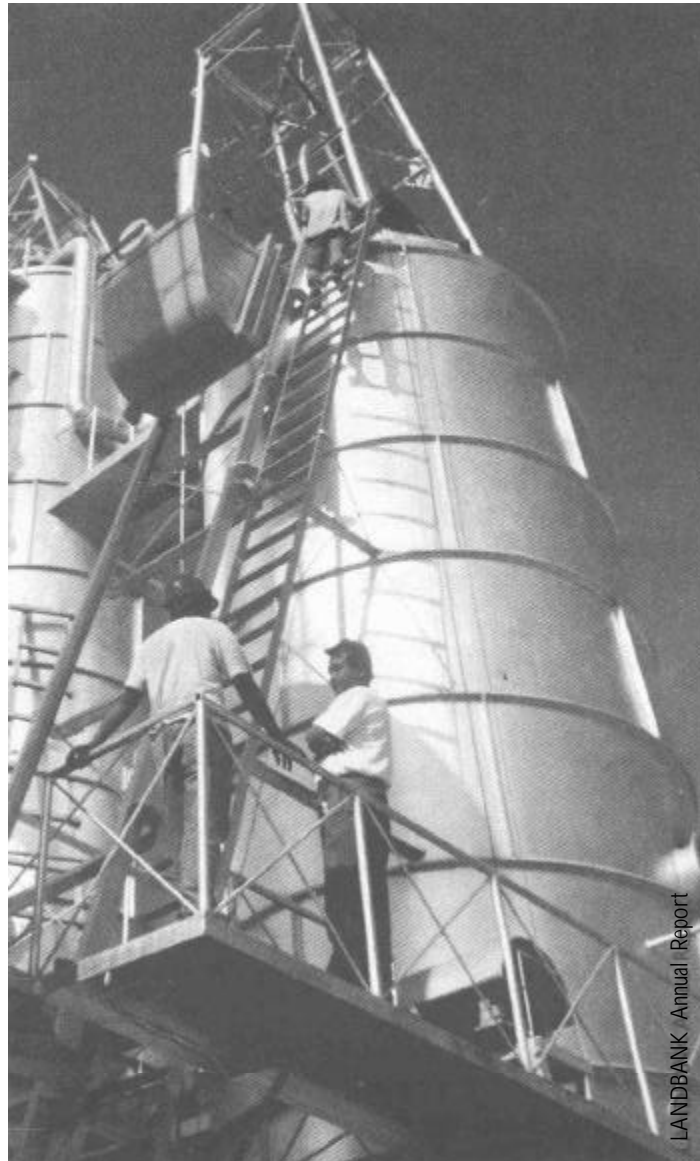
The World Bank estimates that the Philippines would need about US\$48 billion in infrastructural investments for the period 1995-2004, representing about 6.8 percent of the gross domestic product (GDP) (The World

Bank 1995, p.25). Clearly, this is much more than what the government can finance. Hence, the need for strengthening the partnership between the government and the private sector on infrastructural investments. The government has successfully tapped the build-operate-transfer (BOT) scheme in addressing the power problem in the country. Deregulation in the tele-

communications industry has also generated substantial foreign and domestic private investments in the sector. There are also BOT proposals in light rail transportation and toll roads.

Areas for improvement

Nevertheless, *there remain areas for further improvement in the provision of infrastructural investments.*



"Within the new trading and economic environment, the Filipino workers, employers and government are a team in competition with their counterparts from competitor countries in the region."

First, the current practice of BOT projects in power generation for the state owned NAPOCOR forces the government to assume directly or indirectly many of the commercial risks through the guarantee mechanism. **Second**, the setting of appropriate user charges for BOT projects like toll roads and the light rail transit would likely be difficult unless there is a clear-cut government policy (and public acceptance of the policy) on user charges of infrastructural facilities. And **third**, the transactions cost of negotiations on the BOT projects have been substantial.

How can the government further facilitate private investment in infrastructural facilities without excessive government subsidies through fiscal incentives and guarantees? The World Bank (1995) presents a framework for facilitating private investments in infrastructure. The framework highlights the following:

- the establishment of a conducive policy, legal and regulatory framework;
- transparent and competitive mechanisms for approving private projects, speedy government decision making, adequate sector planning and project facilitation assistance;
- unbundling, sharing and management of risks wherein the party best able to manage a risk at least cost should mitigate the risk. The current practice of the government assuming contingent liabilities (obligations under guarantees against both commercial and sovereign risks) is unsustainable; and
- development of domestic capital markets and of mechanisms to facilitate provision of long-term debt.

The unbundling and more equitable sharing and management of risks would require that the private sector (i.e., sponsors, financiers, insurance

companies) would have to shoulder commercial and managerial risks while the government would bear the sovereign or country and policy risks like currency transfer and policy performance (The World Bank 1995, p.14). For the private sector to bear the commercial and managerial risks, there may be need for more market-oriented user charges and possibly even increased competition and/or privatization in the provision of infrastructural services (e.g., power generation, transmission and distribution). Thus, improving the policy and regulatory framework of infrastructural services provision would encourage the unbundling and more equitable sharing of the risks of infrastructural investments.

Improving the policy environment for infrastructural development in the Philippines involves the **adoption of more realistic, depoliticized and market-oriented user charges that would encourage the private provision of infrastructural facilities**. The nature and extent of government subsidies in conjunction with the private investment on infrastructural facilities would have to be clearly spelled out. It is apparent from the above policy posture that there would be a **redirection of government infrastructural investments** such that a greater percentage of the infrastructural investments in growth areas where the private sector is interested in and willing to undertake can or should be shouldered largely by the private sector. The government, meanwhile, could give special focus on the infrastructural needs of areas where the private sector is not keen on investing like in poor regions and sanitation projects.

The private sector has responded favorably to the deregulation and liberalization measures of the government in infrastructural services provi-

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sion, leading to an upsurge in private investments in telecommunications, interisland shipping and interprovincial bus transport. The effect has been a marked improvement in efficiency. This is perhaps best exemplified by the telecommunications sector. Marked improvements in efficiency also occurred in interisland shipping. For example, the introduction of faster superferries has improved interisland passenger travel. Similarly, roll-on and roll-off services in Mindoro and cargo and passenger services in the Cebu-Dumaguete-Dapitan route have improved with increased private competition arising from rate and route liberalization (Nathan Associates 1994, Executive Summary).

Need for government intervention

Nevertheless, there remains the need for proactive government intervention that would reduce the cost of transport service operations and therefore the cost of transport. For example, the government would need to improve the port of Cebu since it is already inadequate for the current traffic levels. The same is true for the port of Iloilo. More roll-on, roll-off berths would have to be provided in several Visayan ports. Moreover, port security in the port of Cebu is wanting, such that shippers have had to send guards


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with their cargo sometimes (Nathan Associates 1994, Executive Summary). One of the concerns of exporters is also the highjacking and pilferage of goods (Export Development Council, 23 November 1995).

Given the limited funds for infrastructural investments and the need for efficient infrastructural facili-

ties and services to improve the country's international competitiveness, it is apparent that the country needs to have spatial prioritization in the provision of infrastructural facilities and services. ***The country would have to select a few locations to focus on its provision of efficient infrastructural facilities for production and international trading (i.e., develop a few priority investment sites such as Subic, Calabarzon, Metro Manila, Cebu, Clark and environs, Davao).*** It is better to have a few "success stories" that would draw attention to the Philippines as a production and investment site. In the priority investment areas, the government may encourage private investment in infrastructure provision based on appropriate user charges. Meanwhile, the government should focus on significantly reducing "red tape" and streamlining regulatory procedures (i.e., "hassle-free" transactions).

The rest of the government expenditures for infrastructure can be spent in improving the interlinkages and direct access of major island groups (e.g., Mindanao) to the world market and the rest of the country with selected major export bases through the establishment of efficient international airport and port facilities and international telecommunications link-ups. 

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