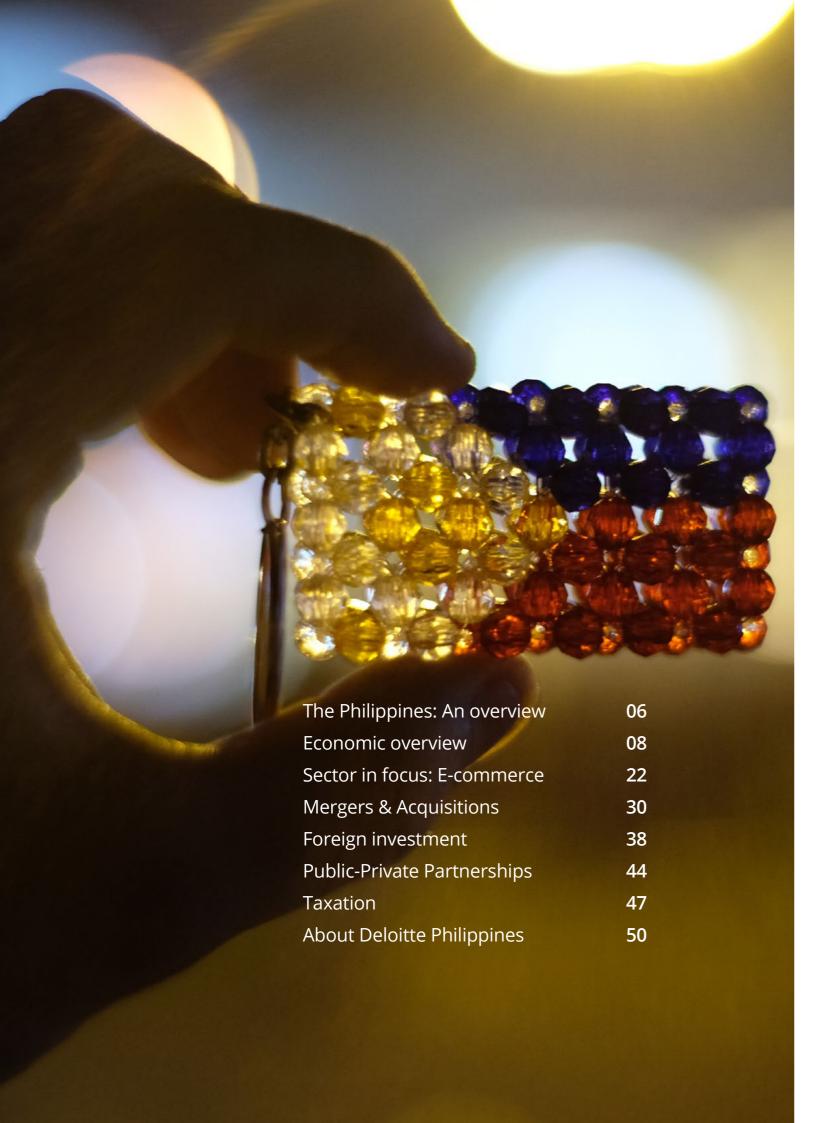
Deloitte.



Doing business in the Philippines

Bucking the global slowdown, building for the future

April 2019



Foreword





Ramon M. Lopez DTI Secretary

I would like to laud the efforts of Navarro Amper & Co.—one of the leading professional services firms in the country and a part of Deloitte's global network—for creating this investment guide to show investors that now is the best time to partner with the Philippines.

The Philippines is on an economic breakout: it is the second fastest growing economy in Southeast Asia, with a GDP growth of 6.2 percent in 2018. The economy is projected to grow by 7 to 8 percent in the medium term. The main drivers for this growth are manufacturing and construction due to the influx of foreign investments in the country, and the government's massive Build, Build, Build infrastructure program.

Our Board of Investments (BOI) has registered record-breaking investment approvals for the past two consecutive years. In fact, the BOI approved Php915 billion worth of investments in 2018, with many of these in Mindanao, CALABARZON, and Central Luzon. These investments are set to bring more decent jobs and employment for Filipinos throughout the country. To ensure that these regions become more accessible, the government is pushing its centerpiece infrastructure program to build more roads, ports, airports, and other structures to better link our country.

The Duterte administration also put forward several legislative reforms including the Ease of Doing Business Law, the Rice Tarrification Law, the revision of the Corporation Code, and the proposed TRABAHO Bill. Likewise, the Department of Trade and Industry (DTI) is lobbying for more reforms to improve the Public Service Act, the Retail Trade Liberalization Act, and the Foreign Investment Negative List.

With the collaboration of the private sector, your government is determined to make the Philippines more competitive and more conducive to business. That's why on behalf of the DTI, I wish to thank Navarro Amper & Co. for helping attract more investments in the country and doing its part in creating inclusive growth and shared prosperity for all our countrymen.

Mabuhay!

RAMON M. LOPEZ Secretary

Eric Landicho Country Managing Partner & CEO

Preface

In recent years, the Philippines has been one of the better performers in the Asian region and, while we experienced a bump in 2018 due to inflation, forecasts remain positive on the back of strong macroeconomic fundamentals. In fact, the Philippines is expected to be the second fastest growing emerging market in the world in the next 10 years.

The country, nonetheless, is not resting on its laurels. The government, in partnership with the private sector, has embarked on a massive infrastructure program that will serve as the backbone of further growth. Legislative efforts to improve the ease of doing business in the country, to further liberalize foreign participation, to rationalize the tax structure, and to improve competition are in place. The Revised Corporation Code of the Philippines, for one, revamped the decades-old Corporation Code, making way for the existence of the one-person corporation, shifting to perpetual corporate term, and removing the subscribed and paid-up capital requirement. This new law has made it relatively simple to set up a legal entity in the Philippines.

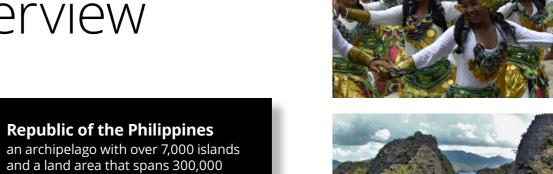
There is also much anticipation surrounding efforts to improve the country's internet and digital infrastructure, with a new telco player coming in to break the current duopoly in the market. This will further boost the incredible growth of the e-commerce sector, which in turn has fueled the expansion of related industries such as mobile payments and logistics.

We expect these welcome developments to make the Philippine M&A environment a more vibrant space, especially in the technology, consumer, financial services, and life sciences sectors.

I am proud to present our Doing Business in the Philippines 2019 edition, where we focus on *why* now is the best time to invest in the Philippines. This is Deloitte Philippines' way of making an impact that matters to our clients, to society, and to our people.



The Philippines: An overview





Philippine Peso (US\$1=Php52.66, 2018 average) Filipino, English, many local dialects/languages Roman Catholic: 80.6% Islam: 5.6%

Evangelicals: 2.7% Iglesia Ni Cristo: 2.4% Others: 8.7%



Population Politics

106.6 million



square kilometers

President:

(June 2016 - June 2022)

Presidential term length: 6 years

(US\$174,760M)

6.2% growth rate



Real GDP per capita (2018)

Php86,334

Inflation rate (2018 average)

5.2%



Labor force

43.5 million

Working age population

66.4 million

Unemployment rate (as of 2018)

5.3%



Bank lending rate (2018 average)

6.1%

Time deposit rate (61-90 days, 2018 average)

3.1%



Major exports (2018)

Semiconductors, electronic data processing, metal components, control instrumentation

Major imports (2018)

Electronic products, mineral fuels, transport equipment, machinery and mechanical appliances



(2018)

Form of government:
Unitary Presidential
Constitutional Republic

Rodrigo Roa Duterte



Real GDP (2018)

Php9.2T







Economic overview

The Philippine economy is still one of the region's faster growth performers, with real Gross Domestic Product (GDP) growing by 6.2 percent in 2018, albeit slower than the 6.7 percent growth in 2017 due to the dampening impact of inflationary pressures on consumer spending. This growth performance translates to a 4.5 percent increase in per capita GDP to Php86,334 (c. US\$1,639).

Aligned with the country's development objectives of driving rapid but inclusive economic growth, accelerating employment on a massive scale, and reducing poverty, the unemployment rate dropped to 5.3 percent in 2018 from the 2017 rate of 5.7 percent. The poverty incidence among Filipinos declined to 21.0 percent in H1 2018 from 27.6 in H1 2015,1 while the Gini coefficient, a statistical measure of income inequality, improved to 40.1 in 2015 from 42.9 in 2006.²

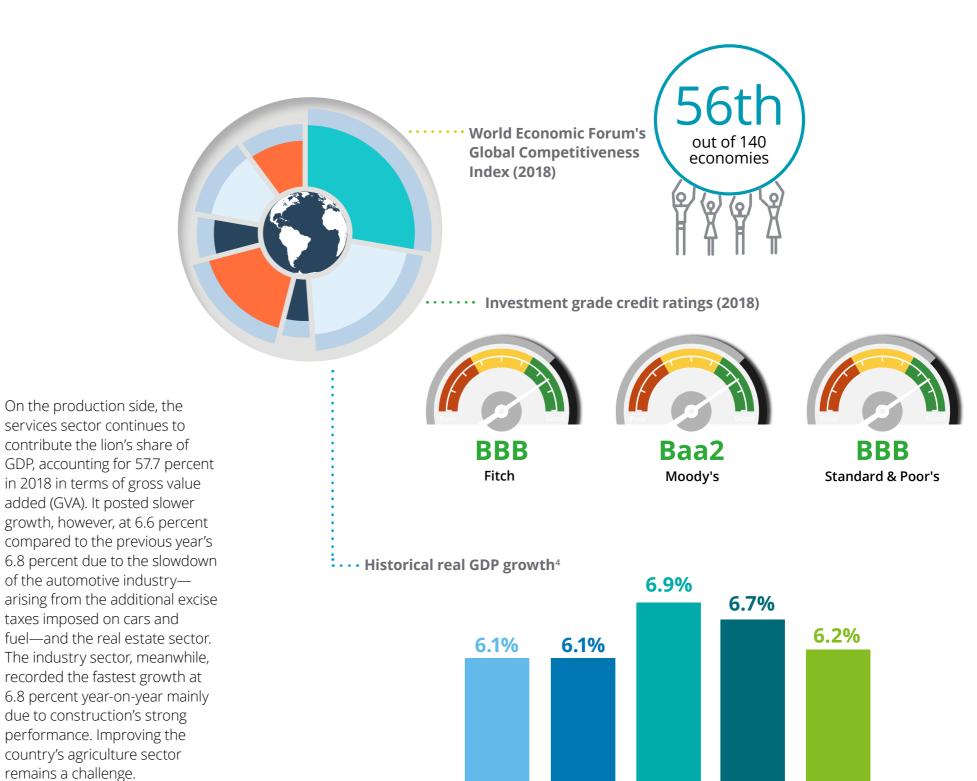
The Philippines is heavily reliant on household consumption. which accounted for 68.5 percent of GDP in 2018. Private consumption's growth slowed to 5.6 percent from the previous year's 5.9 percent, however, due to inflation, which surged to 5.2 percent in 2018 on the

back of higher excise taxes, food supply bottlenecks, global oil price hikes, and a weaker peso. But the Bangko Sentral ng Pilipinas (BSP) expects inflation to rapidly slow to 3.0 percent in 2019 and 2020, well within the 2 to 4 percent target band, as price pressures continue to ease.3

Fixed investments, which accounted for 31.0 percent of GDP, registered the highest growth in 2018 at 13.9 percent owing to construction and intellectual property products. This partly reflects the increase in infrastructure-related activities by both the private (including buildoperate-transfer projects) and public sectors over the course of the year. Meanwhile, government expenditure increased by 12.8 percent, representing the highest gain since 2012.

remains a challenge.

The global economy is projected to slow down in 2019, but optimism regarding the Philippines' ability to buck this trend remains high. The country continues to be an attractive investment option amidst an uncertain global environment and other external headwinds due to its strong growth, increased competitiveness, and commitment to inclusive reforms.



2014

2015

2016

2017

Doing business in the Philippines | Economic overview

Forecasts

The Philippine economy is poised to grow at a faster pace in 2019 as inflation cools. The World Bank and the Asian Development Bank expect 2019 real GDP growth of 6.4 percent, while the International Monetary Fund pegs it at 6.5 percent. These rates reflect downgraded growth projections due to the impact of the El Niño phenomenon on the agricultural sector and the BSP's decision to hike policy rates by 175 basis points in 2018 following surging inflation, capacity constraints, and currency pressures. The outlook, however, remains decidedly positive.

This is due to the country's sound macroeconomic fundamentals, vibrant labor market and young population, continued investment in infrastructure, and commitment to investment-friendly legislation, including the liberalization of foreign ownership, tax reforms, and improving ease of doing business.

Long-term projections are similarly bullish. The Organization for Economic Cooperation and Development (OECD) forecasts real GDP to grow by 6.6 percent, on average, between 2019 and 2023. This represents the highest growth among the ASEAN-5 countries, i.e., Indonesia, Malaysia, Thailand, Vietnam, and the Philippines. OECD expects overseas remittances and robust public budgetary spending to primarily buoy the economy.⁵

Oxford Economics, on the other hand, expects the Philippines to be the second fastest growing emerging market, next only to India, between 2019 and 2028 with GDP projected to grow by an annual average of 5.3 percent.⁶



Tailwinds

growth for the year.



consumption that would help accelerate

 The 11th Foreign Investment Negative List (FINL) further liberalizes foreign participation and encourages investment. Refer to pages 40-41 for details of the additional foreign ownership allowance.

- The ambitious infrastructure program of the government has been met with much enthusiasm and is expected to reinforce the foundation of long-term economic development.
- Several **legislative priorities** designed to encourage a more vibrant business environment are being pushed. Refer to pages 12-13 for a discussion on some relevant legislative developments.
- The proposed free trade agreement involving the 10 ASEAN member states plus Australia, China, India, Japan, South Korea, and New Zealand, dubbed as the Regional Comprehensive Economic Partnership (RCEP), which is close to being finalized, is expected to improve the country's export performance and inflow of foreign investments, and to reduce commodity prices in the region.
- The commitment to raise corporate governance standards, which is reflected in the signing of the Revised Code of Corporate Governance, will promote more transparency to protect the financial backbone of the economy.
- The Philippines is becoming a fintech, blockchain, and cryptocurrency hub especially with the grant of accommodating policies to foreign cryptocurrency exchanges operating within the Cagayan Economic Zone Authority (CEZA).

Headwinds

- The **slower global growth**, exacerbated by the US-China trade war and increasingly protectionist stance of trading partners, may dampen exports and widen the current account deficit, although the country's domestic demand-driven economy should limit the impact. The Economist believes that the Philippines will not be among the Asian "winners" in the US-China trade war when the world supply chain shifts due to the "country's weak regulatory and business environment" and its underdeveloped digital ecosystem,⁷ although there have been reports that Chinese manufacturing companies are considering the Philippines in order to avoid US tariffs.8
- While the **TRABAHO Bill** aims to bolster investments in the country by gradually reducing the corporate tax rate, the provisions on the rationalization of key tax incentives has created uncertainty among potential investors. Pledges with the Philippine Economic Zone Authority (PEZA), a beneficiary of current tax incentives, fell 41 percent in 2018.9
- Delays in the infrastructure program arising from lengthy bureaucratic processes, inefficient procurement, right of way issues, and coordination failures, coupled with the legislative bottleneck in passing the 2019 budget, are preventing the government from ushering in a Golden Age of Infrastructure.
- The administration's push for a **federalist form of government** creates worries around the local government's ability to manage fiscal resources and stanch corruption, especially since Congress appears disinclined to pass a bill that limits political dynasties. The transitional costs may also pose short-term risks, while the long-term economic impact is uncertain: international experience of decentralization is mixed.¹⁰

Significant legislative updates

Ease of Doing Business Act

Signed into law in mid-2018, R.A. No. 11032, also known as the Ease of Doing Business and Efficient Government Service Delivery Act of 2018 (EODB), hopes to further address bureaucratic red tape by improving the efficiency and transparency of government procedures at all levels. The law is an amendment of the Anti-Red Tape Act of 2007.

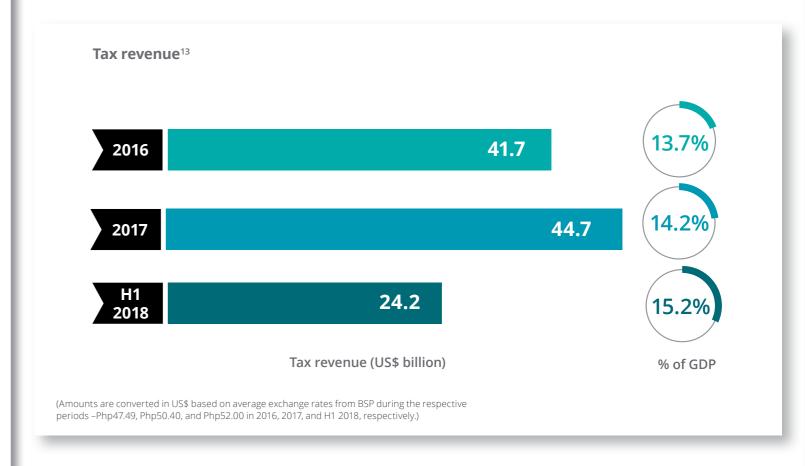
Features (non-exhaustive):11

- Standardization of deadlines for government transactions
- Streamlining of business application procedures by requiring a unified business application form, set up of a "one-stop shop" that puts several offices in one location, and automation of permits and licenses
- Automatic approval of any business application that the agency fails to approve or disapprove within the prescribed processing time
- Zero-contact policy that prevents government officers from interfering with business applications or requests
- Set up of a central business portal to receive and capture application data, and establishment of the Philippine Business Databank as a source of information on all registered businesses in the country

Comprehensive tax reform program

The Tax Reform for Acceleration and Inclusion (TRAIN) Law is the first package of the comprehensive tax reform program (CTRP) currently being implemented. The first tranche of the TRAIN Law, which took effect on 1 January 2018, lowered personal income taxes, simplified transfer taxes, expanded the value-added tax base, and adjusted/introduced different forms of excise taxes. Finance Secretary Carlos Dominguez III is counting on the TRAIN Law to ensure a steady revenue flow for the government's aggressive infrastructure program, while the lower personal income tax is expected to boost consumer spending and spur economic activity.12 There are worries, however, regarding the tax law's contributing impact on price hikes of goods and commodities.

The proposed second package of the CTRP, called by the House of Representatives as the Tax Reform for Attracting Better and High-Quality Opportunities (TRABAHO) Bill, intends to gradually lower the corporate income tax rate and overhaul fiscal incentives. Refer to Page 47 for the other proposed packages of the CTRP.



Revised Corporation Code

The Revised Corporation Code of the Philippines, which amends the country's 38-year-old Corporation Code, aims to create a more business-friendly environment and improve the ease of doing business. The Code is one effort to reverse the Philippines' slide in the World Bank's Doing Business Report – from a rank of 113 in 2018 to 124 in 2019 among 190 economies.¹⁴

Features (non-exhaustive):15

- One-person corporations (lifting of the five-person requirement)
- Removal of the minimum capital requirement
- Perpetual existence of corporations
- Stockholders' and directors' remote participation in meetings and elections

- Electronic filing of reportorial requirements
- Strengthening of corporate governance standards and provision of protection for minority stockholders

Doing business in the Philippines | Economic overview

Corporate Governance

The Philippine Securities and Exchange Commission (SEC) released a new Code of Corporate Governance for Publicly-Listed Companies in late 2016, with the intent of raising the corporate governance standards of Philippine corporations. As a whole, the Code aims to expand the responsibilities and ensure the competence and commitment of the board, strengthen safeguards that protect shareholders, and promote full disclosure and transparency.

The revised Corporation Code will also strengthen and simplify corporate governance standards and provide protection to minority stockholders. Specifically, the code deters corporate abuse and fraud, strengthens the regulatory authority of the SEC, and encourages the inclusion of independent directors in the board.

One corporate governance issue that boards across industries have been grappling with is cybersecurity. This refers to the practice of implementing policies and strategies that defend and protect the integrity and privacy of computers, servers, systems, and data from malicious attacks.

In a recent Deloitte global survey,¹⁶ 67 percent of respondents identified cybersecurity as a major factor to consider in the near future. Meanwhile, 79 percent of

respondents stated that enhancing the quality, availability, and timeliness of risk data was a main priority, while 68 percent cited enhancing risk information systems and technology infrastructure. This affirms the growing threat of online attacks, and highlights the importance of digital risk management in corporate governance.

The Philippines has made significant strides in managing cybersecurity risk, primarily due to the passage of Cybercrime and Data Privacy Laws, as well as the crafting of the National Cybersecurity Plan 2022, which outlines appropriate responses to cyber threats, how to secure data, and how to educate the public about cybersecurity.¹⁷

The World Economic Forum's 2018 Global Competitiveness Report breaks down corporate governance into three aspects:¹⁸

Strength of auditing and reporting standards

43rd

out of 140 economies

Conflict of interest regulation

121st

out of 140 economies

Shareholder governance

106th

out of 140 economies

Women in leadership

Global gender gap index



42nd Health and survival 14th
Economic
participation
and
opportunity

13th
Political
empowerment

1st Educational attainment

World Economic Forum's Global Gender Gap Report (out of 149 economies)¹⁹

The Philippines has long been a leader in the Asian region when it comes to gender parity. In 2018, it was among the 10 best countries to be a woman – the only one from Asia – based on the World Economic Forum's Global Gender Gap Index.

While women are fairly represented in managerial positions (e.g., women occupy 30 percent of the top executive positions in the Philippine Stock Exchange's 200 highest market-capitalized companies, usually as treasurers, corporate secretaries, and finance managers²⁰), there is still room for improvement as female representation at the C-suite level remains limited. According to a Deloitte report,²¹ only 10.4 percent of board seats in the Philippines are held by women.

Five percent of the companies analyzed have women board chairs, and 2.9 percent have women CEOs.

Another Deloitte study²² finds that the presence of women in leadership positions correlates with higher financial performance, better team dynamics, and higher productivity. Gender diversity also leads to improved operational performance, better problem solving, and increased innovation, among others.

Several initiatives exist to strengthen the presence of female leadership in the country. In the SEC's Revised Code of Corporate Governance, the commission recommends establishing a policy on board diversity that covers gender diversity. Furthermore, the Expanded Maternity Leave Bill was signed into law in early 2019,²³ extending the paid maternity leave from 60 days to 105 days, with an option to extend for 30 days without pay. This allows women the opportunity to care for their families without sacrificing their career or present leadership tracks.

In the public sector, although the Philippines has had two female heads of state, women remain underrepresented: only 21.5 percent of elective positions that are currently occupied are held by women. Cabinet posts have also historically been dominated by men. It is an imbalance that needs to be addressed in order to give women equal voice in crafting and deciding on key policies.²⁴

Build, Build, Build

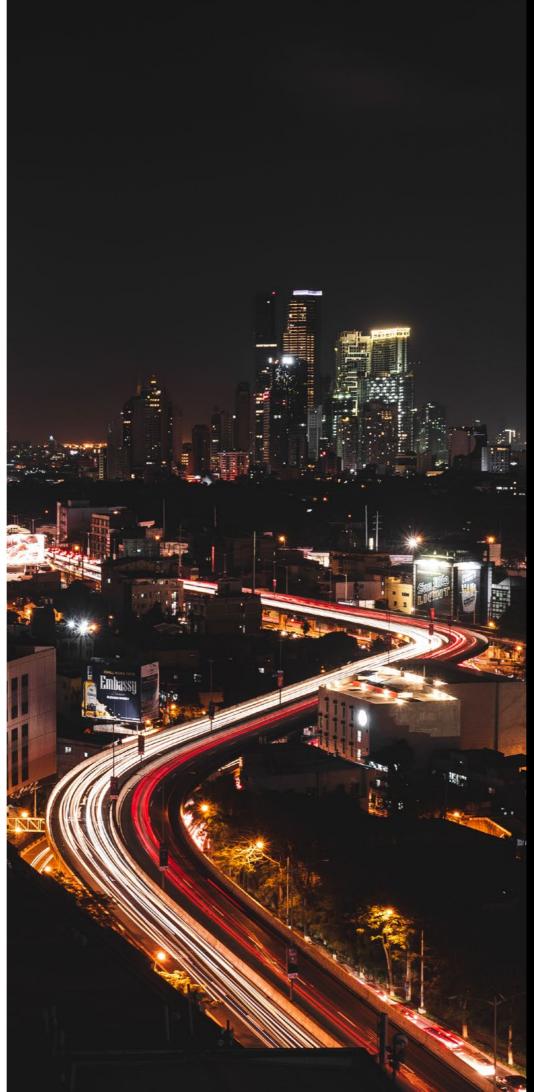
The Philippine government's massive US\$180-billion infrastructure program is expected to alleviate the country's traffic woes, which ratchet up opportunity losses estimated at US\$66.5 million per day by the Japan International Cooperation Agency. It is also set to modernize provincial areas, reduce poverty incidence to 13-15 percent by 2022, and create 1.1 million jobs annually until 2022.

The ambitious program includes the construction of railways, roads and highways, airports, and the country's first ever subway, as well as energy facilities, water resource projects, irrigation systems, and flood control facilities. The plan has drawn near unanimous praise and support with hopes that it will translate to a stronger development backbone, economic opportunities, and overall competitiveness.

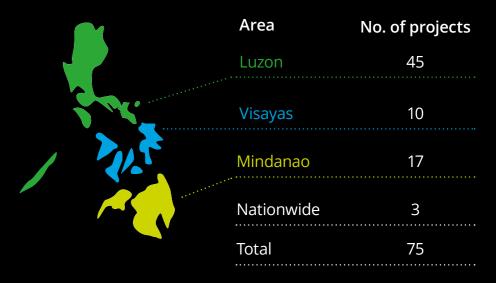
Of the 75 flagship projects, 44 are already in implementation (i.e., budgeting, procurement, design, and construction) as of 30 November 2018. Some of the bigger ticket projects include the US\$6.8-billion Metro Manila Subway (Phase 1), which is set to be completed by 2022, and the Philippine National Railways' 746.2-km railway system, which will run from the north of Manila (Clark and New Clark City) to the south (Laguna and Bicol).

The ongoing expansion of Clark International Airport is expected to decongest the country's main international airport and turn Central Luzon into a major economic hub. For one, it will serve as the gateway to New Clark City, a 9,450-hectare metropolis that is currently under development to be the country's first smart city, a "hub of agro-industrial activities, home to cutting-edge technology and logistics companies, and host to well-equipped backup government centers and worldclass sports facilities."25

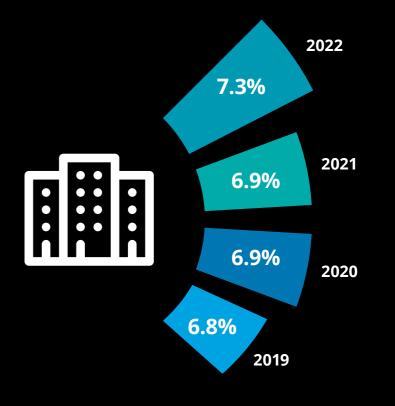
Two of the flagship projects have completed construction, while nine have on-going construction. Thirty-one projects are expected to be completed in 2022 when the term of President Rodrigo Duterte ends.²⁶



Infrastructure flagship projects by area²⁷



Target infrastructure spending, in percent of GDP²⁸



Doing business in the Philippines | Economic overview

New Clark City

The Philippines' first smart city rises outside the capital, giving shape to the future of urbanization today



Perhaps one of the most ambitious infrastructure projects currently in full swing is the Philippines' first smart city – New Clark City in the Clark Special Economic Zone. The green metropolis will feature, among others, mixed-use real estate developments for housing, a business continuity center that would also house national government agencies and a sports complex, and an agro-industrial park that will provide a platform for research and development.

The location for the 9,450-hectare city in Central Luzon, some 100 kilometers north of Metro Manila, was chosen for its disaster-resilient features: Unlike the capital, it does not sit on a fault line; nearby mountain ranges serve as barriers

to typhoons; and the smart city's lowest elevation (58 meters above sea level) and highest elevation (800 masl) make flooding an unlikely problem.

The smart city is set to offer the lowest water and power distribution rates in the country through joint venture agreements with two major consortia. It is targeting a 10 percent renewable energy share after the first year of commercial operation, increasing annually until it achieves its renewable energy target of 35 percent share by 2030.

Construction of Phase 1A of the 200-hectare National Government Administrative Center (NGAC), which is designed to serve as the government's continuity hub and

disaster and risk recovery center, is expected to be completed by November 2019, in time for the country's hosting of the 30th Southeast Asian (SEA) Games.

Other developments in the pipeline for New Clark City are a 288-hectare mixed-use industrial area for BPOs (business processing outsourcing), KPOs (knowledge process outsourcing), light industries, residential, commercial, and educational spaces, and a food processing terminal and international food market that would facilitate the exchange of fresh agricultural produce and processed products within the country and with neighboring countries in Asia.



The comprehensive master plan was developed by the Bases Conversion and Development Authority (BCDA) in partnership with the Japan Overseas Infrastructure Investment Corporation for Transport and Urban Development (JOIN), U.S. engineering design firm AECOM, and Japanese engineering firm NIPPON KOEI.



The National **Multi-Sports Training Park** will include a 20,000-seating capacity Athletics Stadium, a 2,000-seating capacity Aquatics Stadium, and an Athletes Village that will house delegates to the SEA Games.



Singapore's Surbana
Jurong was tapped for
development
management services,
including the design of a
framework that
harmonizes sustainability
and smart city concepts.

According to the BCDA, the scale and planning for New Clark City makes it comparable to other modern cities in Asia, such as Sejong City in South Korea, Zhuzhou in China, and Iskandar in Malaysia.



ASEAN integration

The establishment of the Association of Southeast Asian Nations Economic Community (AEC) was a breakthrough for ASEAN integration. The AEC is designed to be a single market and production base where there is free flow of capital and skills, and open access to travel, education, healthcare, and other social services.

A Deloitte study found that ASEAN has immensely helped its member states achieve economic growth and regional stability, with the region posting an annual growth rate of 5.2 percent between 2007 and 2015. Meanwhile, the poverty rate has dropped from 33 percent in 2000 to 15.3 percent in 2015.29 In 2019, the AEC as a whole is expected to remain resilient to external shocks and maintain steady growth, bolstered by growing intraregional trade and foreign direct investment linkages. Forecasted GDP growth for the region is 5.2 percent for 2019.30

The Philippines benefits from the ASEAN integration through a variety of factors, including foreign trade and investments, and heightened tourism. In H1 2018, leading exports to ASEAN were electronic products and other manufactured goods, while top imports were transport equipment, electronic products, and mineral fuels and lubricants.³¹ Meanwhile, ASEAN was the third

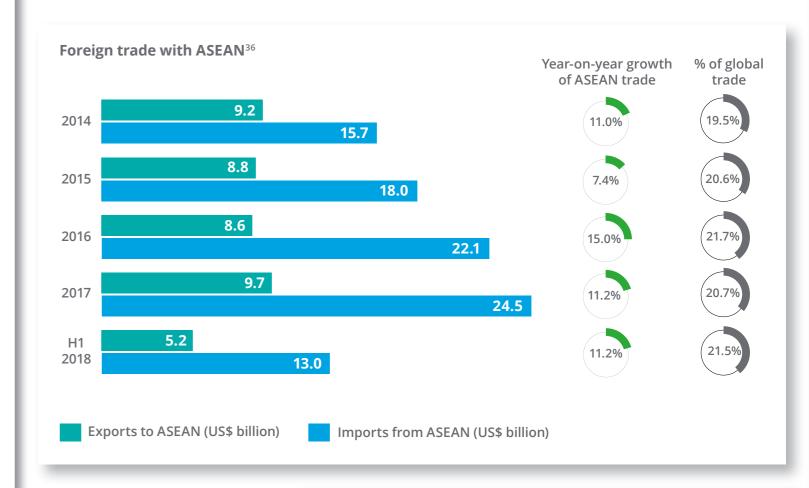
biggest market in terms of visitor arrivals, behind the US and East Asia.

Negotiations on the RCEP are close to being finalized. Studies indicate that upon implementation of the trade agreement, Philippine exports to RCEP members and real household income will rise, while commodity prices will decline. An estimated US\$2.4 billion worth of foreign direct investments (FDI) will also funnel into the Philippine market between 2014 and 2023.³²

With the establishment of the AEC, the ASEAN Banking Integration Framework was also launched to make it easier for member states to provide crossborder banking services, and give certain qualified banks within the region greater market access and operational flexibility while promoting intra-regional trade. The framework uses reciprocal agreements among member states: so far, the Philippines has signed bilateral agreements with Malaysia, Thailand, and Indonesia.33

Another key component of the ASEAN market liberalization is the ASEAN Single Aviation Market (ASAM), which aims to liberalize air service (passenger and cargo), and facilitate trade and investments in the region. This is particularly important at a time when e-commerce is expanding rapidly. ASAM is expected to support 2.5 million jobs across ASEAN by 2030, with Indonesia and the Philippines benefiting the most, given the size of their domestic market.³⁴

These developments are expected to trigger a mass migration of an estimated 90 million people to the region's cities by 2030. To prepare for this influx, the ASEAN Smart Cities Network (ASCN) was launched at the 32nd ASEAN Summit in 2018.³⁵ It will serve as a platform to facilitate cooperation between member states with regard to using technology and digital infrastructure to transform cities into smart cities.



Twenty-six pilot cities have been identified for the network, including three from the Philippines: Manila, Cebu City, and Davao City. As the various member states begin implementing their own city-specific plans for urban development, the ASCN will complement and harmonize these efforts, driving sustainable growth at a regional level.



02

Sector in focus:

E-commerce pushing boundaries of payment and logistics systems

Innovations are disrupting traditional business models at a faster and larger scale than ever before. In the retail sector, perhaps no development has changed the landscape as much as e-commerce. With its promise of around-the-clock availability, speed of access, and international reach, online shopping has given rise to "Everywhere commerce," allowing consumers to shop however, wherever, and whenever they want.³⁸

E-commerce in the Philippines is growing exponentially due to an expanding middle class with stronger purchasing power and a young and tech-savvy population. Revenue in 2018, considering only the sale of physical goods via a digital channel to a private end user in a B2C transaction, amounted to US\$840 million. Between 2019 and 2023, revenue is expected to expand at a compounded annual growth rate (CAGR) of 9.5 percent. 39 Top e-commerce sites in terms of average search interest on Google and the number of downloads on IOS and Google Play include Lazada (which maintains a wide lead over its competitors), Shopee, Zalora, and eBay.40

Retail disruptions such as e-commerce tilt the power balance in favor of consumers, but as businesses adjust to keep up with the new rules of the game, consumer expectations only increase, emphasizing the need for a supply chain that is more efficient, predictable, convenient, and secure. Not surprisingly, these expectations are also transforming the payment and logistics sectors.

Mobile payments

The growing demand for financial technology (fintech) has reshaped the finance industry. In 2018, fintech in the Philippines had a transaction value estimated at US\$5.7 billion and it is expected to grow at an annual rate of 16.4 percent, settling at an estimated value of US\$10.5 billion by 2022.⁴¹

Mobile payment lies at the heart of the country's fintech landscape. A report⁴² indicates that 33 percent of all fintech startups in the Philippines operate under the 'mobile wallet' or 'digital payments' sector. Other dominant sectors in fintech include alternative finance firms such as Acudeen, BanKo, Cropital, First Circle, and Lendr; and blockchain technology and cryptocurrency, which are riding on efforts to turn CEZA into an emerging cryptocurrency hub. Blockchain and cryptocurrency

startups in the country include Citadax, BuyBitcoin.ph, and MergeCommit.

In its goal to make the country's economy cash-lite by promoting online and mobile financial transactions, the BSP launched two automated clearing houses under the National Retail Payment System—i.e., the Philippine Electronic Fund Transfer System and Operations Network (PESONet) and InstaPay—that

allow individuals to perform mobile fund transfers between different banks or other financial institutions.

With the immense growth of e-commerce and the enabling initiatives of the BSP—by 2020, it wants 20 percent of all transactions to be digital⁴³— digital payment businesses are set for a good ride. Here are some of the major players in the sector.



Doing business in the Philippines | Sector in focus: E-commerce

Doing business in the Philippines | Sector in focus: E-commerce



GCash

Launched in 2004 as a regular remittance service, GCash has evolved into a complete online wallet and mobile money service that allows users to buy load, pay bills, and send money, among other features.

- Operator: Globe Fintech Innovations, Inc., also known as Mynt
- Owners: Globe Telecom, Ant Financial (affiliate of the Alibaba Group), Ayala Corporation
- Some brands: GCash
 PowerPay+, GCash Remit
 Service, GCash American
 Express Virtual Card, GCash
 beep Mastercard, GCash-Alipay
 QR (a partnership with Alipay,
 an online payment platform
 also owned by Ant Financial
 and The Island Group),
 GSave (digital savings wallet
 partnership with CIMB Bank
 Philippines, Inc.)



PayMaya

PayMaya is a mobile wallet and payment application that has the distinction of being the first non-financial institution in Southeast Asia to be granted an issuing and acquiring license by Visa. This, along with its partnership with Mastercard, allows users of PayMaya to have their own virtual Visa or Mastercard products.

- Operator: PayMaya Philippines, Inc.
- Owner: Voyager Innovations, the digital innovations company of major telecommunications service provider PLDT Inc., with investments from KKR, Tencent Holdings Ltd., and International Finance Corporation
- Some brands: PayMaya Business, PayMaya Enterprise, Smart Padala



Coins.ph

Established in 2014 by Ron Hose, Coins.ph operates as a mobile wallet, allowing users to pay bills, buy load, and send or receive money. Coins.ph is also the first virtual currency provider in the Philippines to be licensed by the BSP, and possesses a Virtual Currency Exchange license. This allows it to fulfill a unique niche wherein users of Coins.ph can easily convert money into cryptocurrency, including Bitcoin and Ethereum.

Indonesian multi-service platform Go-Jek recently announced that it will be making a substantial investment in Coins.ph. In line with this, the fintech startup will be partnering with Go-Pay, Go-Jek's payment platform and the leading digital payments service provider in Indonesia. The two services will work together to expand access to cashless transactions and banking services.⁴⁴



GrabPay

GrabPay is a mobile wallet payment solution that is used hand in hand with Grab, a major transport-hailing service in Southeast Asia. Launched in the Philippines in 2018, GrabPay can be used for different Grab services, such as ride payment, delivery payment, and peer-to-peer fund transfers. It can also be used to pay bills and purchase from retail stores.

In 2018, Grab acquired competitor Uber's ride-sharing and food delivery operations in Southeast Asia, with Uber receiving a 27.5 percent stake in Grab in return. The deal strengthens GrabPay's position in the market, with 20 percent of Grab riders using GrabPay to pay for the company's services.45 In 2017, Grab also acquired Indonesian e-commerce platform Kudo and payments service PayTren to expand its digital payments services in the region.46



PesoPay

Owned by AsiaPay, one of the largest payment service providers in Asia, PesoPay acts as a payment gateway that allows merchants to receive payments from a variety of payment methods, including credit cards, debit cards, and mobile wallets. Founded in 2006 as AsiaPay Philippines and rebranded as PesoPay in 2008, the payment gateway is one of the oldest players in the industry.⁴⁷

PesoPay offers several services, including PayCash, which allows merchants to sell online and receive cash, and eVoucher, which enables merchants to create, distribute, and track electronic youchers.



Dragonpay

Founded in 2010 by Robertson Chiang, Dragonpay can operate as a mobile wallet through the use of prepaid Dragonpay Credits. However, its main service is acting as a digital platform that allows merchants to accept payments from customers without using traditional channels, such as credit cards. Dragonpay is a Platinum PayPal Partner, and has Japan's biggest online payment gateway, GMO Payment Gateway, as its investor through the Global Payment Gateway Fund managed by GMO Venture Partners, Inc.

Dragonpay has emerged as a major player in the market, in large part due to its partnership with several government offices, including the National Bureau of Investigation, the Philippine Overseas Employment Administration, and the Intellectual Property Office.

Doing business in the Philippines | Sector in focus: E-commerce

Logistics

The Philippines jumped 11 notches in the World Bank Logistics Performance Index to land at 60th place out of 160 countries in 2018, from 71 in 2016. The biennial report ranks countries based on six key logistics performance dimensions including efficiency of the clearance process, quality of trade and transport related infrastructure, ease of arranging competitively priced shipments, competence and quality of logistics services, ability to track and trace consignments, and timeliness of shipments.

A study⁴⁸ expects the Philippine logistics and warehousing market to grow by a CAGR of 8.8 percent from 2018 to 2023 driven by expanding industrial activities, growing e-commerce sector, upcoming infrastructure projects including those specific to the development of the country's logistics framework, and consistent economic growth.

Of late, several conglomerates have been aggressively acquiring logistics companies in order to take advantage of the opportunities in the sector.

SM Investments Corporation

(SMIC), the owner of the country's largest chain of shopping malls and the only Philippine company on Deloitte's list of 50 fastest growing retailers in the world,49 acquired a stake in Negros Navigation Company in 2017 for US\$125 million to give it access to the latter's 2GO Group, Inc., which provides shipping and logistics services in the Philippines and abroad. This transaction gives SMIC another growth platform for its retail business, while cementing a partnership with Udenna Corporation, another major stockholder of Negros Navigation Company that has recently been in an acquisition spree to diversify its business. Just recently, 2GO Group, Inc. invested in Mober Technology PTE, a startup that offers an online platform for booking delivery vans in the Philippines.



Udenna Corporation is now a major player in the logistics space with its major acquisition in 2016 of Chelsea Logistics Holdings Corporation, a shipping company engaged in the conveyance/ carriage of petroleum products and other liquid cargo. Chelsea Logistics Holdings Corporation, in turn, made several acquisitions in 2017 including Trans-Asia Shipping Lines, Inc. (passengers and cargo within territorial waters and/or in the high seas); Starlite Ferries, Inc. (ferry operations); and Worklink Services, Inc. (courier, forwarding, trucking, and logistics services).

Metro Pacific Investments Corporation (MPIC) has also been among the active buyers of logistics companies. It invested in Ace Logistics Inc., Basic Logistics Corporation, A1Move Logistics, Inc., Philflash Logistics, Inc., and BasicLog Trading and Marketing Enterprises. These acquisitions will create synergy and expand MPIC's diversified business portfolio in view of strong demand in the logistics sector. To further its goal of becoming a leading player in the space, MPIC's wholly-owned logistics arm Metropac Movers acquired a 12 percent stake in Air21 in August 2018, with the option to raise the ownership to as high as 100 percent.

The Ayala Group, meanwhile, entered the e-commerce business in 2017 by acquiring Zalora Philippines, one of the channels under online fashion retailer Global Fashion Group, which, in turn, is a brainchild of Rocket Internet. Aside from its warehouse and delivery hubs, Zalora Philippines has its own delivery system called Zalora Express, operated via its logistics platform Entrego, which handles about 75 percent of the company's deliveries and serves 90 cities across the country. 50

Doing business in the Philippines | Sector in focus: E-commerce



Delivery services

On-demand delivery service is expanding in the Philippines as a number of start-up tech companies enter the market, such as Transportify, Lalamove, Mober, GoMoto, Xend Mobile, and Grab's GrabExpress.

With food being the major retail good in the Philippines, food-focused delivery applications are also on the rise. Players include Grab's GrabFood, Honestbee, Foodpanda, LalaFood Philippines, Zomato (through acquiring Quick Delivery, a Philippine-based pioneer in food delivery and takeout services), Mangan.ph, Delivery Guy, and MetroMart (partners with big supermarkets and convenience stores, such as Robinsons, S&R, and FamilyMart).



Ride hailing

The Philippine ride hailing segment has been virtually monopolized by Grab after it acquired Uber's Southeast Asian operation, a deal that raised red flags and later prompted competition watchdogs in the region to impose fines on these companies. While the Land Transportation Franchising and Regulatory Board accredited six start-up ride-hailing companies—MiCab, Hirna, Hype, Owto, GoLag, and ePickMeUp—wresting market share away from the giant is proving to be challenging.

Indonesia's Go-Jek has the potential to make a dent on Grab's monopoly, especially if reports⁵¹ of an Ayala Corporation investment materialize. The ride-hailing service is currently in talks with relevant Philippine authorities.

The estimated gross revenue of Philippine ride-hailing businesses was close to US\$500 million in 2018. Long-term forecasts are similarly optimistic with projected revenue growing by a CAGR of 25 percent from 2019 to 2023.⁵²

On 4 February 2019, the House of Representatives approved on final reading a bill that allows motorcycle taxis to operate as a commuter vehicle, taking an initial step to amend the Land Transportation and Traffic Code, which limits public utility vehicles to four-wheeled vehicles. When passed into law, the amendment would allow the likes of Angkas, a motorcycle ride-hailing and logistics app that began operating in the country in 2017, to legally ply Philippine roads and serve commuters. Considering the long legislative process, the Department of Transportation (DOTr), in the meantime, allowed a six-month pilot operation of motorcycle taxis beginning May 2019 as part of the DOTr technical working group's study on the legalization of the service.



Warehousing or distribution centers

Newly listed real estate company
DoubleDragon Properties, Inc. is
capitalizing on the industrial warehouse
space leasing sector with its CentralHub
brand, which has a pilot development in
Tarlac and succeeding sites planned in
lloilo and Cebu in Central Visayas. The
company plans to develop a total of eight
sites by 2020 with at least 100,000 square
meters of leasable warehouse space.⁵³

Meanwhile, the country's biggest e-commerce business, Alibaba's Lazada, is planning to build a bigger facility in Clark, Pampanga and four more warehouses in different regions in the country in the next three to five years, with smarter algorithm for process optimization to support its immense growth.

With the occupancy rate of operating warehousing districts in Metro Manila at an average of 98 percent, a study⁵⁴ believes that further growth in the sector will be driven in Northern and Central Luzon over the medium term, especially with the ongoing expansion of the Clark International Airport and the construction of the Subic-Clark cargo railway.

Deloitte⁵⁵ believes that the warehousing, or more aptly called "distribution centers" since they are no longer treated as cost centers but rather as strategic facilities that provide competitive advantage, can also leverage on Industry 4.0 or, simply put, the marriage of digital and physical systems, to adapt to changing global demands. Notable Industry 4.0 technologies that may soon make distribution centers "smart" include:

- Vision picking as an extension of voice picking via augmented reality
- Adaptive robots and connected automated guided vehicles
- Semiautonomous, flexible machines for value-added services
- Fully automated picking and quality assurance to adjust to rapid changes in demand
- Next-generation distribution operation systems
- Smart, automated facility management for greater efficiency
- Safety enhancements and modularity

Mergers & Acquisitions*

Increased cross-border deal-making activities (i.e., inbound and outbound deals) on the back of a vibrant economy have kept the Philippine M&A space active in 2018 with 87 announced deals, slightly higher than the 85 deals recorded in 2017. Disclosed deal values, however, plunged in 2018 as megadeals slid. Globally, private companies have been gaining attention for their value, prompting big corporate buyers to focus on small takeovers.⁵⁶

Inbound

Inbound deals grew year-on-year by 55.6 percent in 2018, in terms of deal volume, after a lackluster growth in 2017. Five of the 28 inbound transactions involve private equity buyers and venture capitalists, which are expected to be highly active across Asia given the strong consumer spending in the region matched by their high level of unallocated capital or dry powder.⁵⁷ Globally, corporates also reported increased cash reserves and intentions to use the cash in M&A deals.58

Top deals based on disclosed deal value

2018

Announcement date 26 September

AA Thermal, Inc. (49% **Target company**

stake)

Bidder company Aboitiz Power Corporation

US\$579.2 million **Deal value**

Announcement date 23 March

Target company Rustan Supercenters, Inc.

Robinsons Retail Holdings, **Bidder company**

Deal value US\$344.4 million

2017

Announcement date 18 December

Masinloc Power Partners **Target company**

Co. Ltd.

SMC Global Power Holdings Bidder company

Corp.

Deal value US\$2,400 million

Announcement date 3 November

San Miguel Food and **Target company** Beverage, Inc. (71.8% stake)

Bidder company San Miguel Corporation

Deal value US\$6.478 million

2016

Announcement date 4 November

GNPower Mariveles Coal

Plant Ltd. Co. (66.1% stake); **Target company**

GNPower Dinginin Ltd Co.

(40% stake)

Bidder company Aboitiz Power Corporation

Deal value US\$1,200 million

Announcement date 30 May

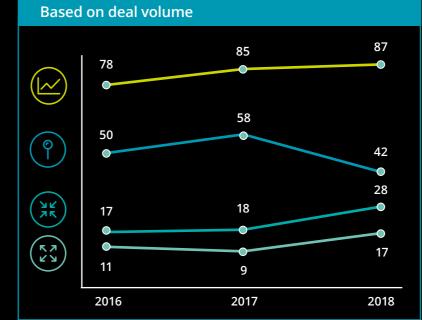
Vega Telecom, Inc. **Target company**

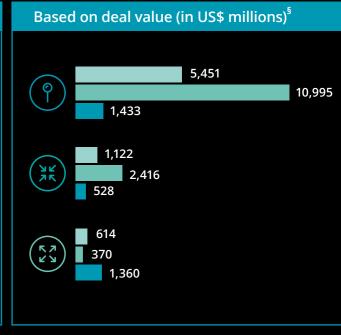
Globe Telecom, Inc.; PLDT, **Bidder company**

Inc.

Deal value US\$1,484 million

Philippine deal trends (2016-2018)*







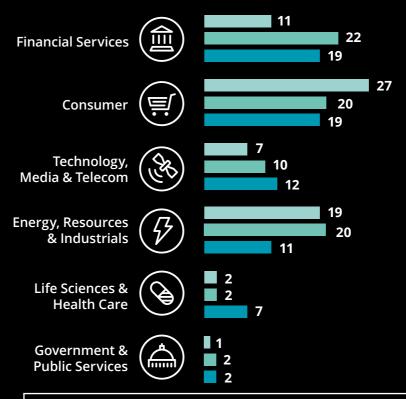




2016 2017

2018

Investments in the Philippines based on deal volume (inbound and domestic)

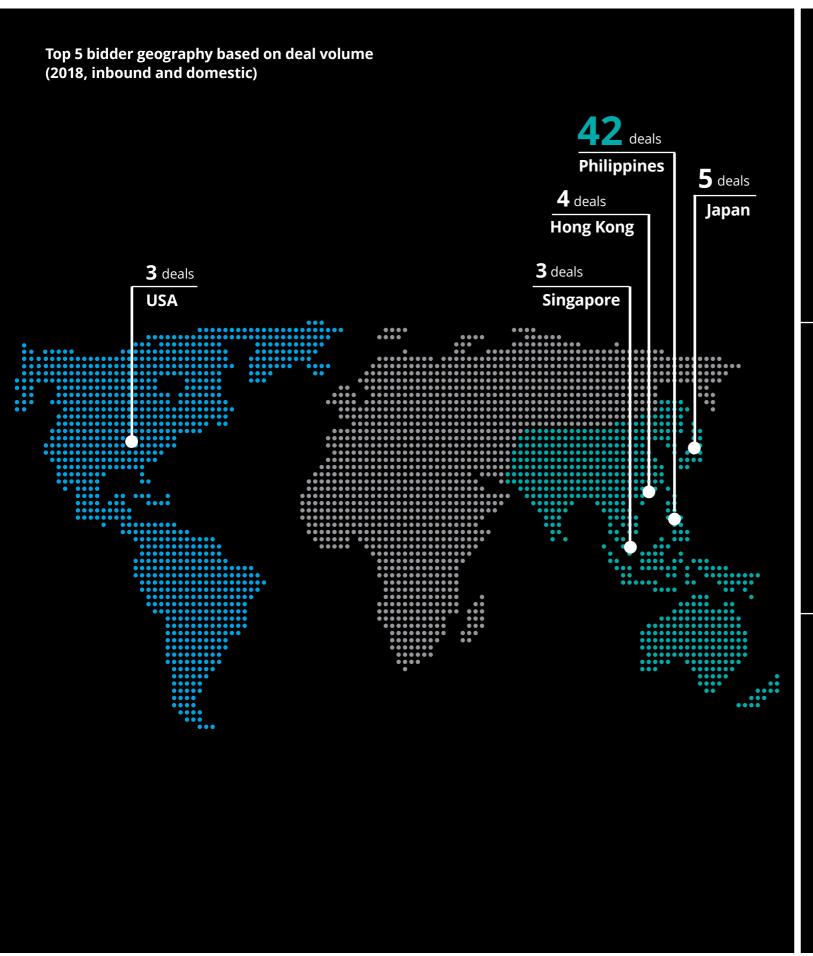




^{*}Based on announced deals in Mergermarket excluding lapsed bids, and including minority stake deals and deals below US\$5 million, as of 15 February 2019

Based on disclosed deal values in Mergermarket; 46% of the total number of deals in 2018 have undisclosed deal value, 41% in 2017 and 37% in 2016

Doing business in the Philippines | Mergers & Acquisitions





It is not surprising that the

Technology, Media and

Telecommunications sector
is one of the most active
for inbound investments as
e-commerce gains traction in the
country. Related deals include
the minority stake acquisition of
digital payments, digital finance
and marketing technologies
developer Voyager Innovations
Inc. by Kohlberg Kravis Roberts

& Co. L.P., and Tencent Holdings Ltd. for US\$175 million; the acquisition of consumer financial website C88 Financial Technologies Pte Ltd., which also owns eCompareMo.com, by a group of private equity and strategic investors; and the acquisition of web and app-based restaurant and travel discovery Looloo by London-listed BigDish Plc.



There is also increased investment in the **Consumer** space with the acquisitions of two automotive companies - Mitsubishi Motors Philippines Corporation (49 percent stake) and Toyota Autoparts Philippines Inc. (27 percent stake) by listed Japan-based Mitsubishi Motors Corporation and Aisin Seiki Co., Ltd., respectively. Japan led

the list of the most number of acquisitions in the Philippines in 2018. Deals in the sector also include the acquisition of an undisclosed stake in Monde Nissin Corporation by financial investors CVC Capital Partners Limited and GIC Private Limited, and the acquisition of Puregold Price Club, Inc.'s 70 percent stake in PG Lawson Inc. by Lawson, Inc.



In the Life Sciences and Health Care space, four completed deals – compared to almost zero since 2016 – signal a growing interest among foreign investors. Singapore-based Fullerton Healthcare Corporation Limited and Hong Kong-based Diamond Leaf Investment Limited have acquired the remaining stake in

Intellicare Group and Ondarea, Inc., respectively. Germany-based Optoflux GmbH, meanwhile, acquired high-precision plastic optical lenses manufacturer HPOI Corporation, while Singapore's Clearbridge Health Limited acquired a 65 percent stake in Marzan Health Care, Inc.

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Outbound

Transactions originating from the Philippines to the rest of the world also increased to 17 deals from nine in 2017, valued at US\$1.4 billion in 2018, with the following significant deals:

- US\$411 million went to New Zealand with the acquisition of listed poultry producer Tegel Foods Ltd by Bounty Fresh Food Inc.
- The Ayala group completed a strong year investing in real estate, and energy and resources sectors abroad with several deals in Southeast Asia and the United States, including MCT Bhd, Eastern Water Resources Development and Management Public Company Limited, The Blue Circle Pte. Ltd., PT. Sarana Tirta Ungaran, Renewable Energy Test Center, LLC and Merlin Solar Technologies, Inc.
- In keeping with its North American expansion plans, Jollibee Foods Corporation acquired stakes in SJBF LLC (owner and operator of franchise restaurant Smashburger) and Frontera Foods, Inc. (operator of Mexican restaurants) in 2018.

Domestic

The Philippine M&A space continues to be dominated by domestic investors although domestic deals are at their lowest in a three-year period, closing at 42 deals. As in 2017, the Financial Services sector, which includes real estate, remains the most attractive industry in 2018 in terms of deal volume, taking 14 of the 42 domestic deals.

In terms of disclosed deal value, the Energy sector registered the highest contribution at US\$630 million, led by the US\$579-million mega deal between Aboitiz Power Corporation (buyer) and AC Energy, Inc. (seller) for the 49 percent stake in AA Thermal, owner and operator of several coal plants. This deal, which allows both the buyer and the seller to balance their portfolio and energy source mix, is also the biggest Philippine transaction for the year.

Philippine competition environment

Poverty reduction in the Philippines crawled to an average of 0.9 percentage points annually from 2006 to 2015 despite rapid economic growth. The World Bank links this dismal performance to the nexus of limited competition in the product market, which in turn leads to weak competition in labor markets and lethargic wage growth.

In recent years, the government has taken steps to facilitate inclusive growth, including passing the Philippine Competition Act (PCA) in 2015, a bill that languished in Congress for 24 years.

The law established the Philippines Competition Commission (PCC) as a quasijudicial body authorized to review and prohibit mergers and acquisitions that could substantially prevent, restrict, or lessen competition in the relevant market. In particular, PCC subjects parties involved in transactions that meet the following threshold to compulsory notification:59

• Size of Person Test. The aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity (UPE) of at least one of the acquiring or acquired entities, including that of all entities that the UPE controls, directly or indirectly, exceeds Php5.6 billion.

• Size of Transaction Test.
The value of the transaction
(aggregate value of assets in the
Philippines being acquired or of
the acquiring entity and revenue
generated in the Philippines by
the acquired assets) exceeds
Php2.2 billion.

PCC revisits this threshold every year to accommodate inflation and economic growth.

To efficiently execute its function of competition enforcement, PCC identified priority sectors for competition analysis including manufacturing, rice, pharmaceuticals, air and land transport, logistics, e-commerce, retail or supermarkets, telecommunications, agricultural credit, poultry and livestock, baked products, milk products, and fertilizers. In 2019, logistics supply chain, corn milling and trading, refined petroleum manufacturing and trading, sugar, and pesticides sectors were included.

PCC is rolling out three programs⁶⁰ to reinforce its efforts against cartels and anticompetitive practices:

- A kind of whistleblower program called the Leniency Program, which incentivizes cooperation from cartel participants who possess information necessary for detection and investigation of existing cartels
- Rules on Forbearance that will allow PCC to carry out its mandate more efficiently by allowing an entity or group of entities to be exempted from certain provisions of the PCA under very specific circumstances and stringent conditions
- Rules on Inspection Orders that will govern PCC's conduct of "dawn raids" as additional arsenal of investigative tools

PCC is also planning to create a joint task force with other agencies to investigate recent news of bid rigging in the government's Build, Build, Build program to ensure fair participation among investors.

Doing business in the Philippines | Mergers & Acquisitions

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Common M&A considerations



Quality and availability of information



Related party transactions



Foreign ownership restrictions



Tax compliance



Tender offer rule



Compulsory notification

- For small- and mid-size local private companies, there are usually no refined management reporting and control procedures in place.
- Local private companies' budget and business plans are usually not available for review, or are often aggressive and/or do not provide essential details.
- Risks associated with related party transactions in the Philippines include difficulties in identifying related party relationships and transactions, terms that are not at arm's length, corporate guarantees given to related parties, transactions completed for the benefit of the group rather than standalone commercial reasons, profits/losses manipulated to minimize taxes on a group basis, and related transactions not supported by reasonable transfer pricing methodologies.
- In general, foreigners can invest up to 100 percent equity in corporations, partnerships, and other entities in the Philippines, except in areas included in the Foreign Investment Negative List (pp. 40-41).
- Land ownership is reserved for persons or entities considered Philippine nationals. For this purpose, a corporation that is 60 percent owned by Filipino citizens is treated as a Philippine national.
- The buyer should be familiar with the country's tax filing requirements, applicable tax rate, and relevant information on the different direct and indirect taxes.
- The buyer should comply with the country's tender offer rule if the target is a public company, such as one listed on the Philippine Stock Exchange (PSE), and the buyer acquires at least 35 percent of such company's outstanding voting shares in one or more transactions within 12 months.
- In December 2018, the PSE announced that it is looking into the possibility of tightening rules on fairness evaluation to minimize doubt among the investing public when it comes to the fairness of tender offer prices by selecting which independent fairness opinion evaluator can provide price valuation in a tender offer.⁶¹

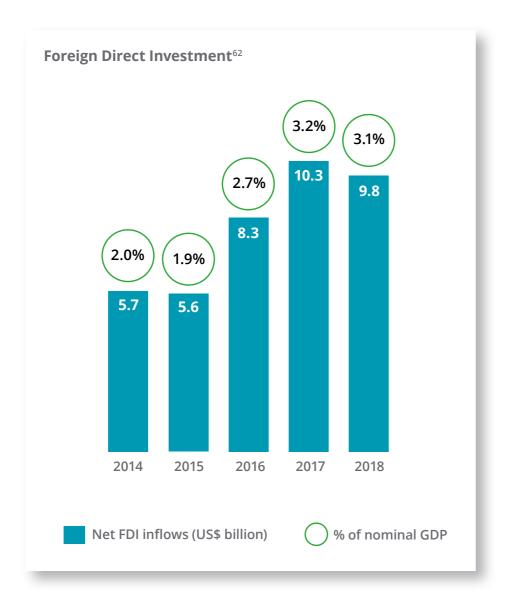
- Parties to M&A deals that are within the PCC's threshold should provide due notification, as discussed in page 35.
- Should it be consummated in violation of the notification requirements, the transaction will be considered void and parties of the agreement shall pay an administrative fine equivalent to 1-5 percent of the transaction value.

04

Foreign investment

Investor confidence in the Philippines remains strong on the back of strong macroeconomic fundamentals and policy buffers, as well as low level of public debt and high level of foreign reserves. This confidence has translated into increased net FDI inflows year-on-year.

Various initiatives, including continuous foreign ownership liberalization with the changes in the 11th FINL, the Revised Corporation Code, and the EODB Act, are expected to further bolster foreign investment in the country.



Investing in the Philippines

Attracting foreign investments has been a government policy since the 1980s, and the Philippine Congress has passed several laws to attract foreign capital. Republic Act (R.A.) No. 7042, otherwise known as the *Foreign Investments Act of 1991* (FIA), as amended by R.A. 8179, is the law that governs foreign investments in the Philippines, except in banking and other financial institutions, which are governed and regulated by the BSP.

The FIA declares that it is the policy of the State to attract, promote, and welcome productive investments from foreign individuals, partnerships, corporations, and governments in activities that significantly contribute to national industrialization and socioeconomic development to the extent that foreign investment is allowed by the Constitution and the relevant laws.

The FIA liberalized the entry of foreign investments into the country. In general, foreigners can invest up to 100 percent equity in corporations, partnerships, and other entities in the Philippines, except in areas included in the FINL.



Doing business in the Philippines | Foreign investment

11th Foreign Investment Negative List

List A: Foreign ownership is limited by mandate of the Constitution and specific laws

no foreign equity



Mass media, except recording and internet businesses



Professions (see link on p.41), although foreigners may teach non-professional subjects at higher education



Retail trade enterprises with paid-up capital below



Cooperatives

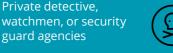
guard agencies

Small-scale mining

Utilization of marine



Ownership, operation, and management of cockpits



Manufacture, repair, stockpiling, and/or distribution of nuclear, biological, chemical and radiological weapons, and anti-personnel mines



Manufacture of firecrackers and other pyrotechnic devices

up to 25% foreign equity



Contracts for the construction of defenserelated structures



Private recruitment

resources

Advertising

up to 30% foreign equity

up to 40% foreign equity



Educational institutions, excluding those established by religious groups and mission boards, or for foreign temporary residents. or for short-term highlevel skills development



Rice and corn and the byproducts thereof, except retailing



Contracts for the supply of goods to government-owned or controlled corporations



Operations of deep sea commercial fishing vessels



Ownership of condominium



Formerly 20% Private radio communications network



Operation of public utilities



Formerly 25%

Contracts for the construction and repair of locally-funded public works, with certain exceptions (see link on p.41)



Exploration, development, and utilization of natural resources



Ownership of private lands

Insurance adjustment companies and facility operators of an infrastructure or a development facility requiring a public utility franchise are removed from the negative list and therefore open to 100 percent foreign equity (both formerly limited to 40 percent). List B: Foreign ownership is limited for reasons of security, defense, risk to health and morals, and protection of small- and medium-scale enterprises

up to 40% foreign equity



Manufacture, repair, storage, and/or distribution of products and/or ingredients requiring Philippine National Police (PNP) or Department of National Defense (DND) clearance



Manufacture and distribution of dangerous drugs



Sauna and steam bathhouses, massage clinics, and other like activities regulated by law



All forms of gambling, except those covered by investment agreements with PAGCOR



Domestic market enterprises with paid-in equity capital of less than the equivalent of US\$200,000; and those that involve advanced technology or employ at least 50 direct employees with paid-in equity capital of less than the equivalent of US\$100,000

This represents a partial list of the 11th regular foreign investment negative list. For the complete list, please refer to Executive Order No. 65.

The 11th FINL, signed in late 2018, further liberalized foreign participation and opened more sectors of foreign investment. Specifically, 100 percent foreign ownership is now allowed for the following enterprises:63

- internet businesses
- teaching at higher education levels (provided the subject being taught is not a professional subject)
- training centers that are engaged in short-term highlevel skills development that do not form part of the formal education system
- adjustment companies, lending companies, financing companies, investment houses
- wellness centers

The government believes that the new FINL will allow the country to benefit from foreign investors' advanced technology and innovation.

Doing business in the Philippines | Foreign investment

Investor incentives

To encourage investments in preferred sectors of the economy, the Philippines offers various incentives to qualified enterprises, including income tax holidays, tax and duty-free importation of raw materials and equipment, and simplification of customs procedures, among others.

The Board of Investments (BOI), an agency attached to the Department of Trade and Industry, is the lead government agency responsible for the promotion of investments in the Philippines. An investor may register with the BOI to enjoy fiscal and non-fiscal incentives, provided that the investment is in an area specified in the Investment Priorities Plan (IPP). The extent of entitlement to incentives is based on the project's net value-added, job generation, multiplier effect, and measured capacity.

The IPP seeks to modernize the country's economy, generate more jobs, and help solve societal issues on employment, housing,

and transportation. In particular, the IPP for 2017 to 2019, with the theme "Scaling Up and Dispersing Opportunities", aims to expand investment opportunities in the countryside to create employment opportunities outside of congested city centers.

Other significant incentive programs are those provided to enterprises registered with economic and freeport zone authorities, including the PEZA, the Subic Bay Metropolitan Authority, and the Clark Development Corporation.

2017–2019 IPP preferred list of activities



Infrastructure and logistics

- Establishment and operation of vital physical infrastructure to include airports; seaports, air, land and water transport; LNG storage and regasification facilities; pipeline projects for oil and gas; bulk water treatment and supply; training facilities; testing laboratories; and domestic industrial zones
- Public-private partnership projects including those initiated and/or implemented by local government units



Innovation drivers

- Research and development (R&D) activities, conduct of clinical trials, and establishment of centers of excellence, innovation centers, business incubation hubs and fabrication laboratories/coworking spaces
- Commercialization of new and emerging technologies and products of the Department of Science and Technology or government-funded R&D



Healthcare services including drug rehabilitation centers

 Establishment and operation of general and specialty hospitals, and other medical/ healthcare facilities including drug rehabilitation centers



All qualified manufacturing activities including agro-processing agro-processi

- Manufacture of industrial goods
- Processing of agricultural and fishery products
- Manufacture of modular housing components, and machinery and equipment



Strategic services[¤]

- Integrated circuits design
- Creative industries/knowledgebased services
- Maintenance, repair and overhaul of aircraft
- Charging/refueling stations for alternative energy vehicles
- Industrial waste treatment
- Telecommunications
- State-of-the-art engineering, procurement, and construction



Environment or climate change-related projects

- Manufacture/assembly of goods and establishment of energy efficiency-related facilities
- Green ship recycling
- Establishment of privatelyowned materials recovery facility



Agriculture, fishery, and forestry

- Commercial production of agricultural, fishery and forestry products
- Production of seeds ad seedlings
- Establishment of nurseries and hatcheries, and support services and infrastructure



Mass housing

 Development of mass housing units and in-city low-cost housing projects for lease



Inclusive business models

 Business activities of medium and larger enterprises in the agribusiness and tourism sectors that provide business opportunities to micro and small enterprises as part of their value chains



Energy

- Power generation projects utilizing conventional fuels, waste heat and other wastes
- Establishment of battery energy storage systems

¬ Subject to the criteria on the qualification for registration of projects to be defined and clarified by the BOI in the implementing guidelines

05

Public-Private Partnerships

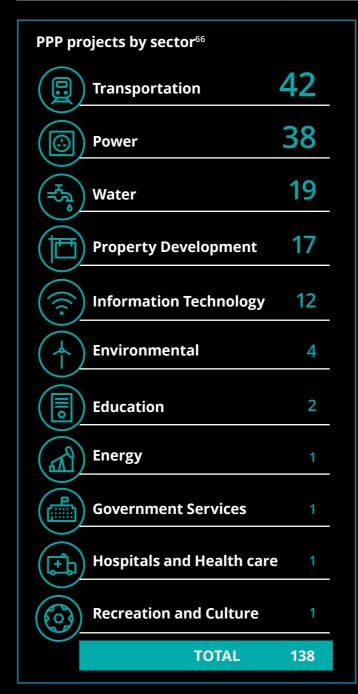
Recognizing the important role of the private sector in driving national development, the government is encouraging investors to be partners in bridging the public infrastructure gap through public-private partnerships (PPP). Besides being a source of financing for flagship infrastructure projects, the private sector also brings to the table innovation and expertise that the government can no doubt benefit from.

Nine projects under the Build, Build, Build program are PPPs and have already been awarded to private sector partners. Some of these, such as the Mactan-Cebu International Airport Passenger Terminal Building (95 percent complete), Taguig Integrated Terminal Exchange, and the NLEX-SLEX Connector Road Project are expected to decongest traffic, improve passenger convenience, and generate more jobs during construction.⁶⁴



PPP projects by status⁶⁵

Status	National government projects	Local government projects	Total
Under development ^o	8	2	10
Under negotiation	1	4	5
For approval of relevant government bodies [‡]	13	1	14
Under procurement [△]	2	3	5
Awarded (under pre-construction/construction)	15	6	21
Awarded (operational/completed)	61	22	83
Total	100	38	138



PPP projects by area⁶⁷



°Completed or undergoing studies (pre-feasibility and feasibility)

[†]Currently undergoing evaluation by the appropriate government body/ies

[△]Prospective bidders conduct due diligence in preparing their
prequalification or bidding documents; government's evaluation of bids
submitted by the qualified bidder(s).

Eligible projects for PPP arrangement

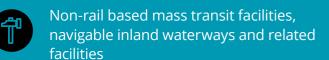
The Build-Operate-Transfer Law authorizes the private sector to finance, construct, operate, and maintain infrastructure projects, and provides the legal and regulatory framework for the PPP program.

Any individual, partnership, corporation or firm, whether local or foreign, including consortia of local and foreign firms, may participate in the prequalification and bidding for PPP projects.⁶⁸



Highways, including expressway, roads, bridges, interchanges, tunnels, and related facilities





development opportunities





Power generation, transmission, sub-transmission, distribution, and related facilities

Telecommunications, backbone network, terrestrial and satellite facilities and related service facilities

IT and database infrastructure, including modernization of IT, geospatial resource mapping and cadastral survey for resource accounting and planning

Irrigation and related facilities

Water supply, sewerage, drainage, and related facilities



Education and health infrastructure



Industrial and tourism estates or townships, including ecotourism projects such as terrestrial and coastal/marine nature parks, among others, and related infrastructure facilities and utilities





Markets, slaughterhouses, and related facilities

Warehouses and post-harvest facilities

Public fish ports and fishponds, including storage and processing facilities

Environmental and solid waste management related facilities such as, but not limited to, collection equipment, composting plants, landfill and tidal barriers, among others

Climate change mitigation and adaptation infrastructure projects and related facilities

Other infrastructure and development projects as may be authorized by the appropriate agencies

06

Taxation

As the duly recognized lifeblood of the nation, taxes are needed to run the government. And with the current administration's vision of having a more interconnected country through the Build, Build, Build program to ensure the continued growth and development of the Philippine economy, Congress passed the TRAIN Law.

On 14 February 2019, the President also signed into law the Tax Amnesty Act, which grants tax amnesty on delinquencies for taxable year 2017 and prior years, and on estate taxes that have remain unpaid or have accrued as of 31 December 2017.

Here are the other packages of the CTRP in the pipeline, as proposed by the Department of Finance:

Comprehesive Tax Reform Program ⁶⁹	Features
Package 2 Corporate income tax and incentives reform	Lower corporate income tax; simpler tax rules; fair and accountable tax incentives system; and provision of incentives to attract industries consistent with development priorities
Package 2+ Excise tax reform	Impose a uniform fiscal regime on mining contractors; and increase excise tax and indexation rates on alcohol and tobacco products
Package 3 Property valuation reform	Establish single valuation base for taxation and comprehensive database to support valuation function; promote development of a just, equitable, and efficient real property valuation system
Package 4 Capital income and financial taxes reforms	Review taxes imposed on financial intermediaries and their products – i.e., savings and investments, and debt and equity instruments – to simplify taxation of the capital income and financial services sector

Doing business in the Philippines | Taxation

The basic source of Philippine tax law is the National Internal Revenue Code (NIRC) of 1997, as amended. Laws relating to tax incentives are generally contained in the Omnibus Investment Code (OIC) or in the statute governing the relevant investment incentives. Cities, municipalities, and barangays where the company is located also have the authority to impose certain taxes pursuant to the Local Government Code of 1991.

Indirect taxes

- Value added tax (VAT) VAT is levied on the supply of goods and the provision of services, and on importation. The VAT rate is 12 percent while a number of transactions are exempt. A zero percent VAT rate generally applies to the export of goods and services related to processing, manufacturing, or repackaging goods for export. Taxpayers engaged in zerorated transactions are entitled to refunds or tax credits for VAT paid (input tax) on their purchases of goods, properties and services. VAT-exempt status is also granted to certain transactions and entities.
- Stamp duty A documentary stamp tax is imposed on instruments such as bonds and certificates of indebtedness, share certificates, sales agreements, bank drafts, bills of exchange, letters of credit, insurance policies, bills of lading, lease agreements, mortgages

and warehouse receipts. The rate of the stamp tax is either fixed or based on the value of the document.

- Real estate tax A property tax is levied on real property at a rate that depends on the location of the property. The tax should not exceed 3 percent of the assessed value per the tax declaration.
- Transfer tax A local transfer tax on real property is levied at a rate of 50 percent of 1 percent of the gross sales price or fair market value of the property, whichever is higher, on the transfer or sale of real property.

Corporate tax

A corporation is a resident if it is incorporated in the Philippines or, in the case of a foreign corporation, if it is issued a license to operate a branch, representative office, regional or area headquarters, or regional operating headquarters in the Philippines.

The corporate tax rate is 30 percent. A Philippine (domestic) corporation is taxed on its net income (gross income less allowable deductions) from all sources. A resident foreign corporation is taxed on its net income derived from sources within the Philippines; a non-resident foreign corporation is subject to final withholding tax on its gross income derived from sources within the Philippines.

For domestic and resident foreign corporations, a minimum corporate income tax (MCIT) of 2 percent of gross income is imposed beginning on the fourth taxable year following the year of commencement of operations. The MCIT will be due when it is greater than the tax computed using the regular rate. Any excess of MCIT over the normal income tax may be carried forward and credited against the normal income tax for the following three taxable years.

Certain types of income are subject to special tax rates. These include interest, royalties, dividends, branch profit remittances, sale of land (capital assets), and net capital gains from sale of shares of stocks not traded in the stock exchange. In addition, certain types of industries are also subject to different rates. These include proprietary educational institutions and hospitals, international carriers doing business in the Philippines, non-resident owners of vessels for lease or charter, non-resident lessors of aircraft, machinery and other equipment, and offshore banking units (OBUs) on income derived from foreign currency transactions.

The Philippines has a broad tax treaty network, the aim of which is to eliminate double taxation and provide for reduced rates of withholding tax on dividends, interest, and royalties, among others.

Withholding tax

The following payments, among others, are subject to withholding tax:

- Dividends Dividends paid by a domestic corporation to its foreign parent are generally taxed at 30 percent. However, if the home country of the recipient allows an additional credit of 15 percent as tax deemed paid in the Philippines, the tax is reduced to 15 percent. The 30 percent rate may also be reduced under a tax treaty.
- Interest Interest paid to nonresident corporations is subject to a withholding tax of 20 percent on interest for foreign loans unless the rate is reduced under a tax treaty.
- Royalties Royalties paid to non-resident corporations are subject to a withholding tax of 30 percent unless the rate is reduced under a tax treaty.
- Branch remittance tax A
 branch profit remittance tax
 at the rate of 15 percent is
 imposed on profits remitted
 by a Philippine branch of a
 foreign corporation to its head
 office abroad, subject to certain
 exceptions.

Tax treaties

The Philippines has a broad tax treaty network, the aim of which is to eliminate double taxation and provide for reduced rates of withholding tax on dividends, interest, and royalties.

Philippine tax treaty network

Australia Austria Bahrain Bangladesh Belgium Brazil Canada People's Republic of China Czech Republic Denmark Finland France Germany Hungary India Indonesia Israel

Italy

Japan

Korea

Kuwait

Pakistan
Poland
Qatar
Romania
Russia
Singapore
Spain
Sweden
Switzerland
Thailand
Turkey

Malaysia

Nigeria

Norway

Netherlands

New Zealand

United Arab Emirates
United Kingdom
United States
Vietnam

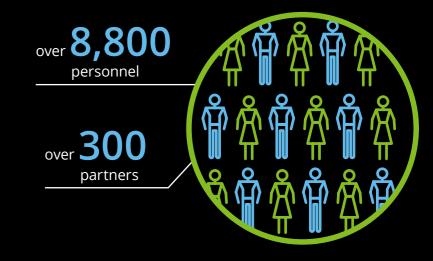
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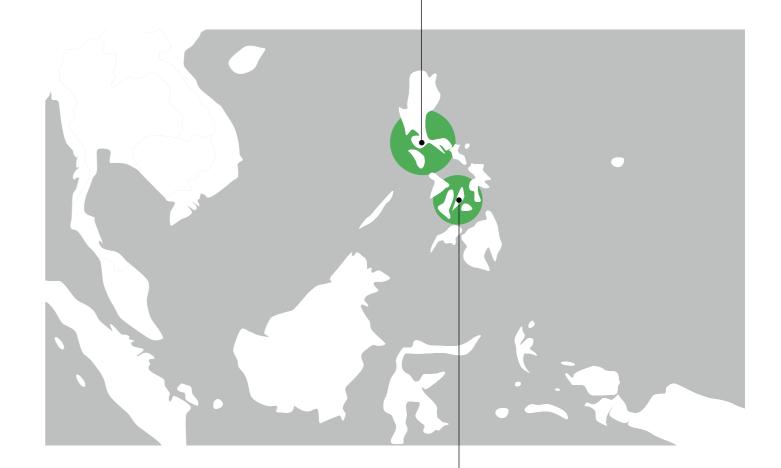
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