

Abbreviations and Acronyms

ADB	Asian Development Bank
AmCham	American Chamber of Commerce
ATO	Air Transportation Office
BIR	Bureau of Internal Revenue
BOT	build-operate-transfer
BSP	Bangko Sentral ng Pilipinas
CAB	Civil Aeronautics Board
CAP	college assurance plan
CARP	comprehensive agrarian reform program
CHED	Commission on Higher Education
DOH	Department of Health
DOTC	Department of Transportation and Communication
DPWH	Department of Public Works and Housing
EPIRA	electric power industry reform act
ERC	Energy Regulatory Commission
FDI	foreign direct investment
GASTPE	Government's Assistance to Students and Teachers in Private Education
GDP	gross domestic product
GOCC	government-owned and government-controlled corporation
IC	Insurance Commission
ICT	information and communication technology
IPP	independent power producer
LGU	local government unit
MSMEs	Micro, small and medium-sized enterprises
NAIA	Ninoy Aquino International Airport
NBFIs	nonbank financial institutions
NFA	National Food Authority
NBFG II	Nonbank Financial Sector Governance Program II
NHMFC	National Housing Mortgage Finance Corporation
NPAs	nonperforming assets
NPC	National Power Corporation
NPL	nonperforming loan
PhilHealth	National Health Insurance Corporation
PLDT	Philippine Long Distance Telephone Company
PNCC	Philippine National Construction Corporation
PNR	Philippine National Railways
PPA	Philippine Ports Authority
PPI	private participation in infrastructure
PSE	Philippine Stock Exchange
PSD	private sector development
ROPOA	real and other properties owned or acquired
SEC	Securities and Exchange Commission
SME	small and medium-sized enterprises
SPV	special purpose vehicle
SUCs	state universities and colleges
USAID	United States Agency for International Development
WDs	water districts

Foreword

The Philippines' entrepreneurial culture, skilled workforce, and pro-business economic policies have led to consistently high levels of private sector involvement in the economy. Private firms generate 95% of gross domestic product (GDP) and employ 92% of the workforce. The rapid expansion of new call centers and other outsourcing operations reflects the real competitive strengths of Philippine businesses. This private sector assessment notes many indications of such dynamism.

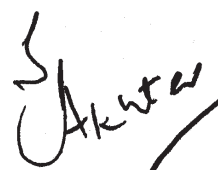
Economic liberalization in the 1980s and 1990s resulted in large inflows of private investment including foreign participation in previously closed sectors such as retail trade, telecommunications, banking, and infrastructure helping fuel an average real GDP growth rate of 2.5% from 1980 to 1997. Foreign investors became significant players in such industries as banking, life insurance, and manufacturing.

In recent years, private investment has slowed raising concerns that the private sector's ability to drive sustained high rates of growth is weakening. This report highlights governance issues that are weakening the business environment including the lack of rule-based regulations and the treatment of private firms. Infrastructure weaknesses that add to the cost of doing business, undermine competitiveness, and deter private investment are also assessed. The lack of a vibrant financial sector with financially sound banks and an active capital market is noted as a third core constraint in private sector development (PSD).

A focused effort to overcome these problems can aid significantly in shifting the Philippines to a more rapid and sustainable growth path and can generate income and employment that will reduce poverty. For the Asian Development Bank (ADB) to make a significant contribution to that effort, this assessment proposes a PSD strategy based on the analysis in its opening sections. The proposed PSD strategy is intended to provide broad direction and emphasis to ADB's PSD interventions in the Philippines. It focuses on strengthening the enabling environment for business through legal, regulatory, and governance reforms as these are the most serious impediments to sustained private sector growth.

This report was based on extensive interviews and workshops with private sector representatives throughout 2003. It also draws on the January 2004 investment climate survey conducted by ADB and the World Bank in which the principal business constraints of many private enterprises were assessed. The views of the private sector are therefore largely reflected in the analysis.

The work was funded by ADB and prepared by a team of consultants including Laure Darcy, Mario B. Lamberte, Florian A. Albuero, and Epictetus E. Patalinghug under the guidance of F. Cleo Kawawaki, Senior Private Sector Development Specialist and Thomas Crouch, Country Director, Philippines Country Office, with close consultation with the Philippines Country Team and other ADB staff.



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