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The Metro Manila Report: National Landscape, Current Challenges and Opportunities for Growth

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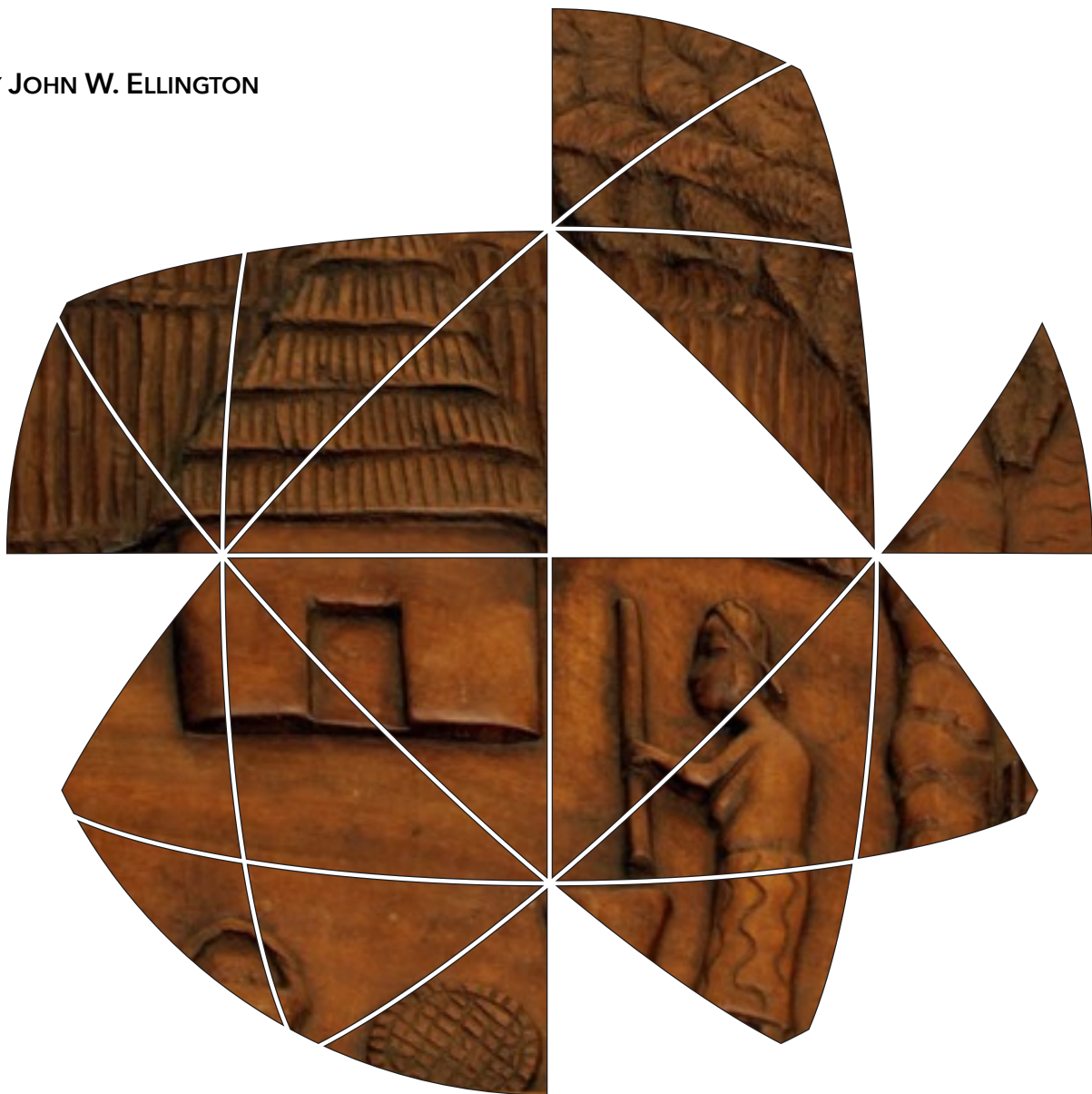
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The Metro Manila Report

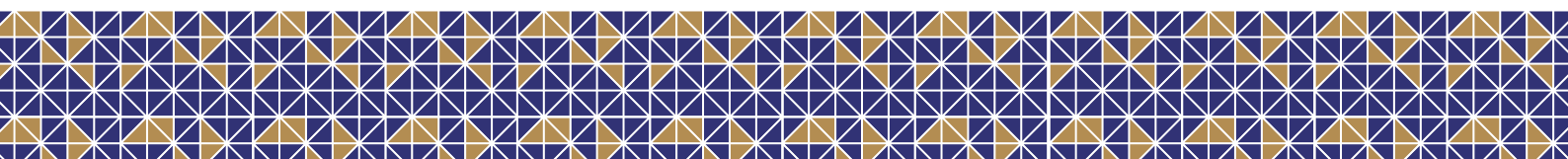
National Landscape, Current Challenges
and Opportunities for Growth

BY JOHN W. ELLINGTON



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country
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labs



About the Institute for Societal Leadership

The Institute for Societal Leadership (ISL) was established by Singapore Management University (SMU) in 2014. ISL aims to tangibly improve the lives of Southeast Asia's citizens by acting as a focal point for cross-sector collaboration between current leaders from government, business, civil society, academia and the media. The Institute also conducts research concerning social issues in Southeast Asia and designs its own suite of leadership training programmes, each of which seeks to foster the development of a new generation of Asian leaders dedicated to serving society.

About the Metro Manila Insights Lab

The ISL research team conducted interviews in Metro Manila between 4-6 March 2015. This report was first published on 25 May 2015.

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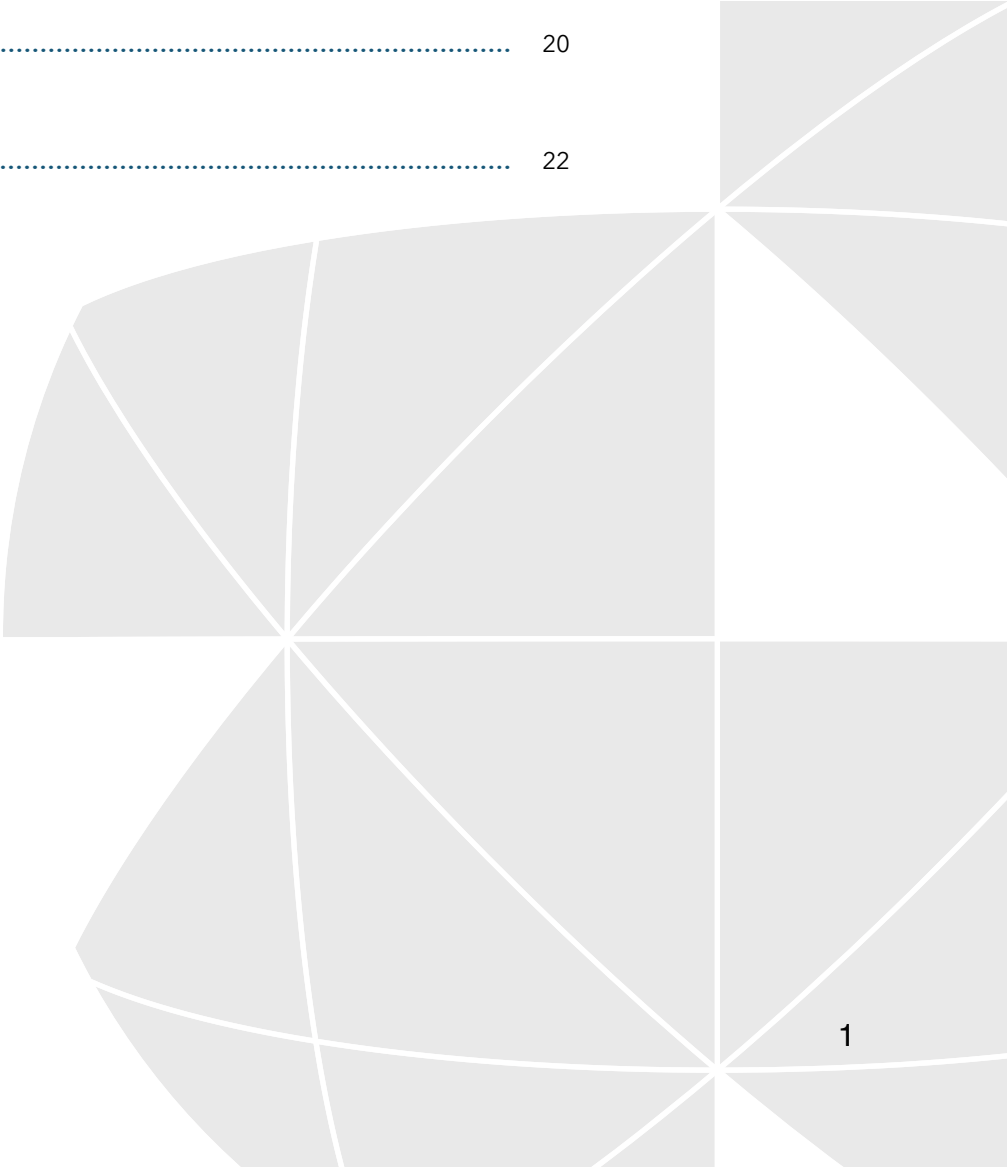
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I. Acronyms

AEC	ASEAN Economic Community
AFP	Armed Forces of the Philippines
ARMM	Autonomous Region of Muslim Mindanao
ASEAN	Association of Southeast Asian Nations
ASG	Abu Sayyaf Group
BIFF	Bangsamoro Islamic Freedom Fighters
BPO	Business Process Outsourcing
CCT	Conditional Cash Transfer
CIL	Country Insights Lab
CODE-NGO	Caucus of Development NGO Networks
CPP	Communist Party of the Philippines
EEZ	Exclusive Economic Zone
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GIDA	Geographically Isolated and Disadvantaged Areas
GK	Gawad Kalinga
IMF	International Monetary Fund
INGO	International Non-Governmental Organisation
ISL	Institute for Societal Leadership
JI	Jemaah Islamiyah
MDG	Millennium Development Goal
MILF	Moro Islamic Liberation Front
MNLF	Moro National Liberation Front
NGO	Non-Governmental Organisation
NPA	New People's Army
OFW	Overseas Filipino Worker
PCNC	Philippines Council for NGO Certification

- PDAF** Priority Development Assistance Fund
- PEF** Peace and Equity Foundation
- PHP** Philippine Peso
- PLAN** People's Liberation Army Navy
- PNP** Philippine National Police
- PPP** Public-Private Partnership
- PPPP** Pantawid Pamilyang Pilipina Program
- SE** Social Enterprise
- SIO** Social Impact Organisation
- SMU** Singapore Management University
- TPP** Trans-Pacific Partnership
- UN** United Nations
- UNCLOS** United Nations Convention on the Law of the Sea

II. Acknowledgements

This study could not have been written without the participation, support and insight of a number of people both inside and outside the Philippines. These include the more than thirty individuals interviewed as part of the Metro Manila Insights Lab, as well as those who provided additional support in terms of reviewing and editing subsequent drafts of this document.

Although the Philippines has occupied the World Bank's "lower middle income" tier for some years now, the country still suffers from widespread poverty and lack of opportunities outside extractive industries. This has highlighted the need for new grassroots-driven funding models, including both social enterprise and impact investment. I would like to extend my gratitude to Tony Meloto, founder of Gawad Kalinga, and his assistant, Jerick Limoanco, who graciously invited us to GK's Enchanted Farm complex in Bulacan province to interview the social entrepreneurs working there. I would also like to thank Pinky Poe and Aimee Gloria of GKonomics, who gave us additional insights into the impact investment space in Metro Manila.

The Philippines possesses one of the most developed social sectors in Southeast Asia, and the first challenge encountered during the study was figuring out how to give it proper coverage using ISL's limited time and resources. All my colleagues at ISL have provided substantial support and guidance. In particular, I would like to acknowledge ISL's Executive Director, Martin Tan, who made available his contacts in Manila during our research trip to the capital city. The insights contained herein are the product of several brainstorming sessions held huddled around a whiteboard in our Singapore offices.

III. About the Country Insights Lab Series

The Institute for Societal Leadership conducted a series of eleven *Country Insights Labs (CILs)* in select Southeast Asian cities between June 2014 and June 2015. Each CIL aimed to uncover the critical social and environmental issues facing leaders from business, government and civil society in a given country and frame the underlying causes behind each issue within the country's context. The study identified emerging trends in Southeast Asia and has since directed further research toward interconnected social and environmental issues shared among countries in the region.

Additionally, ISL research staff investigated the day-to-day organisational challenges faced by *social impact organisations (SIOs)* in each Southeast Asian country. We broadly defined an SIO as any organisation with *the capacity to contribute to the betterment of communities*. These included, but were not limited to, philanthropic organisations, corporate foundations, non-governmental organisations (NGOs), activist groups, social enterprises and impact investors. Interviews focussed on challenges associated with funding models, human resources, tax incentives, legal frameworks and government registration processes. In total, research staff interviewed 237 organisations and 293 individuals, including government officials, business leaders, philanthropists, NGO workers, social entrepreneurs, media professionals and academics. The interviews themselves consisted of questions relating to organisational history, operations, strategic outlook, cross-sector collaboration, leadership and country context.¹

The Institute did not intend the CIL series to be exhaustive or to produce statistically significant data. On the contrary, the series was a qualitative study that employed interviews and market insights as a means of understanding an increasingly complex landscape. As one of the world's most diverse regions, Southeast Asia is home to an array of cultures, languages, religions and economic levels of development. At the cornerstone of each country study is a belief that workable solutions and partnerships depend on an awareness of how each country's unique context relates to its social issues.

The ISL research team conducted interviews in Metro Manila between 4-6 March 2015.

¹ For a list of sample questions, see section VI.

The Philippines By Numbers

Surface Area:
300,000 sq km

Population:
96.71 million [2012]

Population Density:
322.4 per sq km

Population of Metro Manila:
11.86 million

Urban Population:
49.3% [2013]

Currency:
Philippines Peso (PHP)

GDP (Nominal):
US\$250.18 billion [2012]

Growth Rate:
6.8% [2012]

GDP Per Capita:
US\$2,587.00 [2012]

Unemployment:
7.0% [2012]

Tourist Arrivals Annually:
4.27 million [2012]

Mobile-Cellular Subscriptions:
106.8 per 100 inhabitants [2012]

Individuals Using Internet:
36.2% [2012]

Life Expectancy at Birth:
Females (72.2 years); Males (65.3 years)

Forested Area:
25.9% [2011]

Source: UN Data (<http://data.un.org>)

IV. The Philippines

A. Historical Background

Although Western colonisers have, to varying degrees, shaped the political structures and economies of nearly all modern Southeast Asian nations, they achieved an unmatched level of cultural and institutional penetration in the Philippines. Far from the Indic influences that inspired Angkor Wat, Borobudur and Bagan, the island group was only marginally sanskritised during the pre-colonial period. With some notable exceptions in the south, Muslim communities were also never able to establish firm roots. Mindanao, Sulu and even southern Luzon were home to maritime sultanates beginning in the late 14th century, but a Spanish victory over the Muslim Rajah of Maynila in 1571 effectively halted widespread adoption of Islam throughout the archipelago. More than three centuries of Spanish rule have left a pro-

found mark on the culture, language and religion of the Filipinos, while the subsequent half-century of American administration has largely defined the structure of their country's political and legal institutions.

For the first two centuries of colonial rule, the Philippines was primarily a way station in imperial Spain's expansive mercantile empire. Each year, the government-operated *Casa de Contratación* in Seville dutifully dispatched a treasure galleon from Acapulco to Manila to buy up Chinese porcelains and silks with a tightly controlled supply of Mexican gold and silver. It was only in the last quarter of the eighteenth century that the imperial government lifted bans on commercial plantations and opened Manila to foreign shipping. The 1800s saw the emergence of a provincial gentry composed of export-oriented planters and entrepreneurs with firm controls

over extractive industries such as tobacco, indigo, hemp and sugar.²

Economic policy during the American administration (1899-1946) cemented the Philippines' role as an exporter of raw materials and gave the established gentry additional opportunities to consolidate economic and political power. By 1902, the U.S. Congress had liquidated plantations run by the Catholic Church and sold lands held by the friars at public auctions. By 1913, it had removed all quota restrictions on Philippine exports to the United States. Trade with the U.S. ballooned from US\$38 million in 1908 to US\$257 million in 1929.³ In spite of intermittent American attempts to limit landholdings and confer land patents on new owners, established elites were the primary buyers of publicly auctioned land and by extension the chief beneficiaries of the 1920s trade boom. As the colonial government also set about inaugurating democratic institutions in its colony, including locally elected municipal and provincial offices, a bicameral legislature modelled after the U.S. Congress and a supreme court, these same families rose to occupy the newly opened political positions. Many of today's political elites, including Benigno Aquino III, Imelda Marcos and Eduardo "Danding" Cojuangco among others, belong to rival political dynasties that can trace their roots back to the American colonial period.

A provincial oligarchy chiefly composed of aristocratic planter families dominated Philippine political life after the colony gained independence in 1946. The Ferdinand Marcos regime (1965-86) altered, but did not dismantle, the oligarchical elite. Although Marcos significantly curbed the power of rural aristocrats, he awarded government contracts to a new set of would-be oligarchs based on their proximity to the Marcos family. In

particular, like Suharto in Indonesia, he co-opted politically isolated Filipino-Chinese financiers, including John Gokongwei, Henry Sy and Lucio Tan. Since the fall of the Marcos regime, former government cronies have competed for power with both resurgent rural aristocratic families as well as populist celebrities such as Joseph Estrada, Manny Pacquiao and Loren Legarda.

The political economy of the Philippines has revolved around rent-seeking and clientelism since the colonial period. Politicians have largely used elected offices to secure for family members and supporters private access to state resources, including low-cost government credit, licenses for state-regulated enterprises and selective enforcement of commercial regulations.⁴ Voters have also expected political victors to dole out direct benefits in the form of cash grants, tax-breaks on commodities, local infrastructure projects or other pork barrel. Political patronage systems can support significant economic and developmental growth when paired with enforced market discipline—as Indonesia, South Korea and Thailand have demonstrated. However, the near constant shifts in power and patronage that accompany each election cycle in the Philippines has largely stymied any attempts to build an industrialised export economy. Between 1986 and 2009, the Philippines economy grew on average only 3.86 percent each year.⁵

With the above in mind, the election of Benigno "NoyNoy" Aquino III in 2010 has brought a newfound optimism to Filipino and foreign investors. In spite of a sluggish start in 2011, the Philippines under Aquino posted 6.8 and 7.2 percent growth in 2012 and 2013 respectively.⁶ Recent gains were the result of several factors, including increased government and private-sector spending

² Josep M. Fradera, "The Historical Origins of the Philippine Economy: A Survey of Recent of Recent Research on the Spanish Colonial Era," *Australian Economic History Review* 44.3 (November 2004), 309.

³ D.R. SarDesai, *Southeast Asia, Fifth Ed.* (Boulder, Colorado: Westview Press, 2003), 164.

⁴ Alfred W. McCoy, *An Anarchy of Families: State and Family in the Philippines* (Madison, Wisconsin: University of Wisconsin Press, 2009), 10.

⁵ "World Development Indicators," *The World Bank*, accessed 10 May 2015, <http://data.worldbank.org/>.

⁶ *Ibid.*

on infrastructure projects, a robust peso via the sale of PHP-denominated bonds, a rise in overseas remittances and a boom in business process outsourcing (BPO) operations.⁷ Aquino's anti-corruption initiatives have also encouraged global investment rating firms, such as Fitch Service Rating, Standard and Poor and Moody's Investors Service, to upgrade the Philippines, indicating that the government and local corporations could potentially attract much needed foreign direct investment (FDI) in the coming years.

While Philippines urban centres, especially Metro Manila and Cebu City, have become lucrative hubs for BPO-related industries, the Aquino administration still faces significant developmental challenges in the countryside. Each post-Marcos administration has made poverty eradication a keystone of its electoral platform, but 19 percent of Filipinos continue to live on less than US\$1.25 per day. An additional 22.7 percent live on less than US\$2 per day.⁸ 32 percent of Filipinos are engaged in agricultural activities, but inadequate rural infrastructure and competition from more developed markets with better economies of scale have trapped small-scale farmers in a cycle of high-interest crop loans and crippling debt.⁹ The Philippines also lags behind in achieving several of its Millennium Development Goals (MDGs). A report published by the Overseas Development Institute in 2010 disclosed that the Philippines had a child mortality rate of 28 per 1,000 live births and that 28 percent of children under five years of age were malnourished and/or underweight.¹⁰

President Aquino has aggressively pursued development issues during his term. He has tabled a Responsible Parenthood and Reproductive Health Act in Congress against threats of excommunica-

tion by the Catholic Church and encouraged an upcoming bevy of progressive legislation pushed by his nephew, Paolo Benigno "Bam" Aquino IV. He has also opened up tenders for Public-Private Partnerships (PPPs) with international and local corporations in order to renovate vital infrastructure projects, including light rail, water supply, sewage systems and agricultural storage facilities.¹¹ That said, a prominent 2013 scandal involving money channelled from the government's Priority Development Assistance Fund (PDAF) to ersatz Non-Governmental Organisations (NGOs) run by congress members, including some members of Aquino's Liberal party, has recently turned middle-class support against development programmes in rural provinces. Aquino will be ineligible to run for a second term in the upcoming 2016 election, and it is still unclear whether his administration can recover the support necessary to push through its development agenda during his remaining years in power.

B. Current Challenges

❖ ***Inadequate infrastructure development and increasing vulnerability to recurrent natural disasters.*** A combination of geography and underdeveloped infrastructure on remote islands has rendered the Philippines one of the most disaster-vulnerable countries in Southeast Asia in recent years. In addition to being situated on the volcano and earthquake-prone "ring of fire," the island group is also exposed to tropical cyclones originating from the equatorial Pacific. Large urban centres are often located directly on the coast, placing millions of inhabitants at risk for storm surges and tsunamis. Typhoons can also dislodge loosely-packed mud from the more than twenty-three active volcanoes in the Philippines, leading to deadly *lahar* flows capable of burying entire

⁷ Renata Cruz De Castro, "The Philippines in 2013: Popular President Confronts Daunting Challenges," *Southeast Asian Affairs* (2014), 247-48.

⁸ "World Development Indicators," *The World Bank*.

⁹ *CIA World Factbook*, accessed 10 May 2015, <https://www.cia.gov/library/publications/the-world-factbook>.

¹⁰ Millennium Development Goals Report Card: Measuring Progress Across Countries (London: Overseas Development Institute Publications, 2010), 38, 83.

¹¹ "After a False Start, Philippine Public-Private Partnership Projects Find Spark," *International Finance Corporation*, 5 January 2012, accessed 10 May 2015, http://www.ifc.org/wps/wcm/connect/region__ext_content/regions/east+asia+and+the+pacific/news/after+a+false+start,+philippine+public-private+partnership+projects+find+spark.

villages. It is estimated that between 2004 and 2008, the Philippines lost 0.5% of its GDP each year as a result of natural disasters.¹²

Increasing atmospheric temperatures worldwide have resulted in the recent appearance of tropical storms of unprecedented ferocity—so-called “super typhoons.” In fact, eight of the ten most destructive typhoons to strike the Philippines have made landfall within the last seven years. In 2009, typhoons Parma (known locally as Pepeng) and Ketsana (Ondoy) devastated Luzon, causing over PHP 38 billion in combined damages.¹³ Typhoon Haiyan (Yolanda), the strongest tropical cyclone to make landfall in recorded history, pummeled the Visayas between 7 and 9 November 2013. In a matter of days, it demolished Tacloban, the capital of Leyte province, and moved on to the islands of Panay, Cebu and Palawan, killing more than 6,000 people and leaving more than three million homeless. It also destroyed farmlands and fishponds totalling a staggering 12 percent of the country’s GDP.¹⁴

Prior to Typhoon Haiyan’s landfall, the international community, including the United Nations, had praised the Philippines government for its commitment to minimising disaster risk. Both the 2009 Climate Change Act and the 2010 Disaster Risk Reduction and Management Act created a number of government bodies responsible for developing comprehensive strategies for managing potential crises precipitated by natural disasters. However, Typhoon Haiyan exposed severe deficiencies in the government’s disaster preparedness measures, with the national government largely failing to coordinate with its local counterparts. According to the new framework,

local governments were responsible for purchasing health and safety equipment, funding emergency services such as firefighters and developing infrastructure such as flood control systems and seawalls. However, provincial and municipal authorities were caught significantly unprepared for the destruction wrought by Haiyan.¹⁵

For Tacloban in particular, a failure to enforce a mandatory evacuation led to the majority of deaths, as residents crowded into low-lying structures made of corrugated steel that were unable to withstand the storm. The island’s already fragile infrastructure was also largely obliterated, complicating the delivery of food, water and medicine after the storm had passed. A more comprehensive and inclusive disaster preparedness scheme with local businesses, local government offices and civil society organisations as active stakeholders can prevent repeats of large-scale destruction.

❖ **Lack of local opportunities for skilled and unskilled labour and increasing vulnerability of some overseas workers to exploitation and trafficking.** No report on the Philippines would be complete without a discussion of overseas Filipino workers (OFWs) and the wider Filipino diaspora. Political persecution and financial insecurity associated with the Marcos regime’s handling of the economy initially led significant numbers of Filipinos to leave the country in the 1970s and 1980s, but the Philippines has maintained a “sustained culture of emigration” even in the post-Marcos era.¹⁶ By 2006, 38.5 million Filipinos, or 43 percent of the population, were dependent on some form of overseas remittances, and as much as 10 percent of the population was working

¹² Patrick Alcantara, “Lessons learned from the Philippine government’s response to Typhoon Haiyan,” *Journal of Business Continuity & Emergency Planning* 7.4 (April 2014), 335.

¹³ Romulo A. Virola, “The Devastation of Ondoy and Pepeng,” *Republic of the Philippines Statistics Authority*, accessed on 10 May 2015, http://www.nscb.gov.ph/headlines/StatsSpeak/2009/110_909_rav_mrsr_typhoons.asp.

¹⁴ Cruz De Castro, 249.

¹⁵ Alcantara, 337–338.

¹⁶ Diane Sabenacio Nititham, “Migration as Cultural Capital: The Ongoing Dependence on Overseas Filipino Workers,” *Malaysian Journal of Economic Studies* 48.2 (2011), 188.

overseas.¹⁷ In 2012, remittances from OFWs amounted to US\$20 billion, or eight percent of GDP.¹⁸

There are several factors behind continued emigration. The Philippine economy's historic reliance on agricultural commodities has provided few employment opportunities outside basic farming jobs. Approximately 10.9 million Filipinos, or 30 percent of the population, are either unemployed or underemployed.¹⁹ For educated middle-class Filipinos in particular, pursuing careers abroad has become a means of exchanging entrenched patronage systems and relatively low-wages for increased autonomy and financial security.²⁰ Since 1975, successive Filipino governments have encouraged emigration as a means of repaying foreign debts owed to the International Monetary Fund (IMF) and World Bank.

Some experts have raised concerns that continued reliance on overseas remittances stymies development of local industries, increases inequality between "haves" and "have-nots" and contributes to cultural and familial erosion.²¹ Human rights groups have also brought attention to the inadequate work conditions faced by many Filipino domestic workers abroad in Singapore, Hong Kong and Arab Gulf states as well as their vulnerability to traffickers. In 2010, Human Rights Watch reported that significant numbers of Filipino maids working in Kuwait were forced to work 18-hour work days, starved and subjected to physical abuse by their employers.²² The 2015 case against Indonesian death-row Mary Jane Veloso for possession of narcotics raised further concerns about the transnational domestic work-

ers' industry. Veloso alleged that she was initially offered a job as a domestic helper in Malaysia, only to be sent to Yogyakarta after her recruiter had given her a bag concealing illegal narcotics.²³

In the long run, sustainable and equitable growth will require the Philippine government to work with local and foreign investors to provide local economic opportunities at home. In the meantime, maintaining OFW safety requires the active participation of government regulators, human rights organisations and overseas businesses. In addition to channeling foreign earnings to public coffers via supplementary taxes on OFWs, the Philippine government has instituted various offices and initiatives to protect overseas workers. There are also numerous NGOs and international organisations actively involved in protecting workers' rights overseas such as the following:

- *Human Rights Watch*
- *Overseas Workers Welfare Association*
- *UN Office of the High Comm. for Human Rights*
- *First Philippine Overseas Workers Foundation*

❖ ***Continuing insurgencies and warlordism in remote districts, plus a fraught peace process for Bangsamoro.*** Multiple ethnic or ideological groups, including Moro separatists, Islamists and Marxists, have waged separate insurgencies across the archipelago, at times with international support from neighbours, Malaysia and China. 68 of the Philippines' 81 provinces experienced at least one insurgent attack in 2013.²⁴ Provinces destabilised by these subnational conflicts are also vulnerable to further violence and political intimidation by warlords and paramilitary groups.

¹⁷ Ibid., 188, 191.

¹⁸ Cruz De Castro, 247.

¹⁹ Nititham, 190.

²⁰ Cirila Limpangog, "Migration as a Strategy for Maintaining a Middle-Class Identity: The Case of Professional Filipino Women in Melbourne," *ASEAS - Austrian Journal of South-East Asian Studies* 6.2 (2013), 313.

²¹ Nititham, 193.

²² *Walls at Every Turn: Abuse of Migrant Domestic Workers through Kuwait's Sponsorship System* (New York: Human Rights Watch, 2010), 83.

²³ Raul Dancel, "Who is the woman behind Filipina Mary Jane Veloso's last-minute reprieve from execution?" *The Straits Times*, 14 May 2015, accessed 14 May 2015, <http://www.straitstimes.com/news/asia/south-east-asia/story/who-the-woman-behind-filipina-mary-jane-velosos-last-minute-reprieve>.

²⁴ *Global Terrorism Index 2014: Measuring and Understanding the Impact of Terrorism* (Sydney: Institute for Economics & Peace, 2014), 27.

The New People's Army (NPA) initially split off from the Communist Party of the Philippines (CPP) in 1969 to wage a guerrilla war against the Marcos Regime, but it continues to organise sporadic violent activities throughout the country. In the last three decades, NPA members have staged raids on army garrisons, kidnapped civilians and military personnel and assassinated Filipino and American military officials. Having lost Chinese external support decades ago, the NPA is currently limited to operations near its strongholds in Samar, Mindanao and Northern Luzon. Still, it remains a destabilising force throughout the country and was responsible for 30 percent of terrorism-related deaths nationwide in 2013.²⁵ The Aquino administration has been negotiating for a political settlement with the NPA since 2010.

Ongoing negotiations for a political settlement with Moro Muslim rebels on the southern island of Mindanao and the Sulu Archipelago are also fraught with difficulties. The Moros initially rose up in 1968 after an alleged attempt by the Marcos regime to train Muslim guerrillas to infiltrate Malaysian Sabah, but the conflict also has roots in local land grabs by Christian migrants and the absence of effective representation of Moro interests in Catholic-majority Philippines. The movement itself is splintered between the left-leaning Moro National Liberation Front (MNLF), the religiously conservative Moro Islamic Liberation Front (MILF) and hardline Islamist groups such as the Bangsamoro Islamic Freedom Fighters (BIFF), the Abu Sayyaf Group (ASG) and local cells of Indonesian terrorist group Jemaah Islamiyah (JI). The period between 1973 and 1976 saw the heaviest fighting, but political violence on the island continues to simmer. In total, the conflict has claimed 100,000 to 150,000 lives and displaced more than two million people.²⁶

The creation of an autonomous region for Muslim Moros was first proposed in 1976, but the peace

process still faces significant hurdles due to the fragmented nature of the insurgency and varying level of demands by different insurgent groups. The MNLF signed a peace agreement with the Philippines government to form the Autonomous Region of Muslim Mindanao (ARMM) in 1996. In 2012, the MILF leadership signed the Bangsamoro Framework Agreement, which provides for a new Bangsamoro autonomous region with additional powers to appoint ministers, control local natural resources and administer certain aspects of civil law via a system of Shari'ah courts.²⁷ The Philippines Congress has yet to vote on the accompanying bill, and it is unclear if Aquino can rally enough popular support in time for local elections in Bangsamoro to be held in 2016.

The peace agreement is facing increased criticism from two sides at the time of this writing. The MNLF, which was not consulted during recent negotiations, has declared the framework illegal. In two separate incidents in 2013, MNLF militants infiltrated Malaysian Sabah and Zamboanga City, indicating to the government that they still possess capabilities to destabilise the region and spoil a potential peace agreement. The Armed Forces of the Philippines (AFP) and the Philippines National Police (PNP) also continue to stage operations in MILF territory against Islamist groups, including ASG, BIFF and JI, which provides additional opportunities for a potential breakdown. A botched March 2015 police operation against JI militants in Mamasapano, in which 44 elite PNP commandos were killed by MILF forces, badly damaged the Aquino administration's reputation and renewed calls from hardliners on both sides to throw out the current framework agreement.

After more than four decades of conflict, Mindanao lags far behind other Philippine provinces in development indicators. ARMM contributes less than one percent to national GDP, and over

²⁵ Ibid.

²⁶ "Philippines-Mindanao, 1971 - first combat deaths," *Project Ploughshares*, accessed 10 May 2015, http://ploughshares.ca/pl_armedconflict/philippines-mindanao-1971-first-combat-deaths/.

²⁷ Bryony Lau, "The Southern Philippines in 2013: One Step Forward, One Step Back," *Southeast Asian Affairs* (2014), 261-262. For the draft copy of the Bangsamoro Basic Law, see <http://www.gov.ph/2014/09/10/house-bill-no-4994-bbl/>.

half its residents live below the national poverty line.²⁸ Ordinary Mindanaoans also face daily threats of violence and extortion from local warlords, many of whom hold political office. The 2009 "Maguindanao massacre," in which candidate Andal Ampatuan Jr. ordered the murder of his electoral opponent's family, indicates that lasting peace requires more than truce agreements. Both the Philippines government and former rebel leaders will need to work in tandem with civil society groups and the local populace to ensure that Mindanao builds responsible democratic institutions. Business also has a key role to play in investing in former conflict zones and disincentivising political violence.

❖ **Geopolitical manoeuvring on the South China Sea.** A number of factors, including China's increasing regional dominance and the U.S. "pivot to Asia," have heightened tensions between ASEAN members and People's Republic. The Philippines, Vietnam, Malaysia, Brunei, China and Taiwan have maintained competing claims concerning various island groups in the South China Sea since the close of World War II. Between 2002 and 2009, disputes were mitigated by the ASEAN Declaration on the Conduct of Parties in the South China Sea, which avoided cut-and-dry questions of sovereignty. However, Vietnam and Malaysia submitted formal claims under the United Nations Convention on the Law of the Sea (UNCLOS) in 2009, triggering retaliatory claims by both the Philippines and China.

In particular, both the Chinese and Philippine governments lay claim to members of the Spratly island group as well as Scarborough Shoal. A series of confrontations throughout 2011 culminated in a two-month standoff between Chinese and Philippine naval patrol boats in April and May of 2012. The Philippines has approached the conflict

on chiefly legal grounds. It filed a suit with the Arbitral Tribunal of UNCLOS in January 2013 regarding claims to the Spratly Islands, Scarborough Shoal, Mischief Reef and other land features within its 200-mile Exclusive Economic Zone (EEZ). The Aquino administration has also reached out to longtime allies, including the United States and Japan. It recently held joint naval exercises with Japan in May of 2015 and is currently negotiating a new framework agreement that will ensure continued U.S. maritime presence in the region as a counterweight to Chinese activities. Although wider regional conflict featuring the U.S. and Japan is unlikely, a miscalculation on either side could potentially escalate current tensions.

The ongoing disputes have wider implications for the Philippines economy. More than half of global maritime tonnage passes through the South China Sea, including 41 percent of total intra-ASEAN trade.²⁹ The Philippines is largely dependent on trade with China and its ASEAN partners, and its fragile economy and development agenda cannot afford to lose these vital trade links. China in particular is the Philippines' third largest trading partner, with bilateral trade totalling US\$30 billion in 2007.³⁰ Throughout the 2012 standoff, China made good on its threat to cancel flights to the Philippines and delay Philippine goods at customs, prompting Filipino agricultural lobbies to lodge protests with government hardliners.³¹ The Aquino administration must balance a resurgent nationalist sentiment against its internal economic interests and the profitability of its businesses. A major loss in Chinese trade could endanger its agenda of economic revitalisation, rural development and infrastructure renovation.

In the absence of an agreed upon multilateral framework for managing natural resources, the

²⁸ "Indicators produced and compiled by the NSCB," *Philippines Statistics Authority*, accessed on 10 May 2015, <http://www.nscb.gov.ph/statables/>.

²⁹ David Rosenberg, "Governing the South China Sea: From Freedom of the Seas to Ocean Enclosure Movements," *Harvard Asia Quarterly* 12.3-4 (2010), 7-8.

³⁰ Renato De Castro, "The Philippines Confronts China in the South China Seas: Power Politics vs. Liberalism-Legalism," *Asian Perspective* 39 (2015), 78.

³¹ *Ibid.*, 87.

South China Sea marine environment will be especially vulnerable to overfishing and habitat destruction. The South China Sea and surrounding waters contain more than 30 percent of the world's coral reefs.³² The area is also home to extensive fisheries and natural gas deposits totalling 900 trillion cubic feet.³³ China, Vietnam and the Philippines have each unilaterally commissioned exploration contracts for gas and oil, while their fishing fleets have at times overexploited the region's delicate fisheries. A comprehensive solution to the South China Seas disputes will require not only security agreements between governments, but also an area-wide environmental impact assessment by private companies and environmental organisations.

C. Insights from the Metro Manila Lab

❖ *NGOs and traditional development initiatives have become collateral victims of recent middle-class backlash against political patronage and pork barrel.*

Benigno Aquino III rode to nationwide victory largely on an anti-corruption platform endorsed by middle-class voters occupying the professional and bureaucratic sectors of Metro Manila, Cebu City, Davao and other major urban centres. These same voters demanded the dismantling of the culture of provincial patronage, clientelism and handouts practised between rural politicians and their electorates. In past elections, politicians have promised rice subsidies, tax breaks and cash grants to poor rural Filipinos in return for votes. Recent corruption scandals involving government development funds have severely compromised public perceptions of NGOs and their ability to solve development issues. In response, the resurgent middle class has included publicly-funded or administered social programmes in its assault against what it perceives as corruption and government waste.

The Public Development Assistance Fund (PDAF) scandal dealt an enormous blow to public perception of civil society in the Philippines. The PDAF was a discretionary fund originally intended to support small-scale or community infrastructure projects. In July 2013, businesswoman Janet Lim-Napoles and several members of Congress, including members of Aquino's Liberal party, were accused of funnelling over 10 million PHP in discretionary PDAF funds into NGOs under their control for ersatz development initiatives. The resulting backlash from middle-class demonstrators spurred the government to freeze the PDAF funds and institute a formal system of certification under an independent body—the Philippines Council for NGO Certification (PCNC).

The PDAF scandal has had significant repercussions for the Philippine social sector and its future approach to development issues. After the scandal broke, the government chose to shelve its planned 250 million PHP "empowerment fund," which would have provided human capacity development and skills training for NGO personnel. More generally, the PDAF scandal has stigmatised the thousands of legitimate NGOs in the country.

Philippine civil society organisations and NGOs attracted worldwide attention in 1986 when they brought the decades-old Marcos Regime to its knees. However, Filipino civil society is currently struggling under the newly-imposed certification procedures. Of the 250,000 registered civil society organisations in the Philippines, only 350 to 400 are currently PCNC certified.³⁴ Without certification, NGOs must pay up to a 42 percent levy on charitable donations. NGOs without certification invite further stigma and struggle to find donors to fund programmes and organisational costs, including the certification process itself.

Government-administered social programmes have also suffered from the PDAF scandal fallout.

³² Rosenberg, 5.

³³ Beina Xu, "South China Seas Tensions," *Council on Foreign Relations*, 14 May 2014, <http://www.cfr.org/china/south-china-sea-tensions/p29790>.

³⁴ Interview with Luis Morales, Executive Director of the Philippines Council for NGO Certification, conducted on 5 March 2015 in Makati.

Middle-class critics had expressed concern in the past concerning these programmes, but have since intensified their calls to cut government efforts aimed at the bottom of the pyramid. For instance, the Arroyo administration launched the Pantawid Pamilyang Pilipino Program (PPPP) in 2008 to provide supplemental income in the form of conditional cash transfers (CCTs) to poor Filipinos living in Geographically Isolated and Disadvantaged Areas (GIDA). Beneficiaries only received funds if they sent their children to school and attended monthly family development sessions. By 2013, the Aquino government had expanded PPPP to benefit 3.93 million households.³⁵ In spite of statements from the Asian Development Bank and the World Bank defending the programme, critics have increasingly maintained that CCTs perpetuate a culture of dependency and “hand out” mentality. In its place, they have proposed that the government invest in livelihood training programmes and social enterprise.³⁶

❖ *Sentiments from middle-class Filipinos have encouraged the Philippine government and the social sector to favour market-based approaches to development issues.*

Since the Marcos years, the Philippine government has experimented with market-based approaches to development issues as a counterbalance to criticisms that publicly-funded programmes foster dependency and a culture of handouts. In 2001, it opened a proffer for government-backed “Poverty Eradication and Alleviation Certificates,” or PEACe bonds. Proceeds from sales of the bonds exceeded 1.4 billion PHP, 84 percent of which formed the endowment of the newly-created Peace and Equity Foundation

(PEF).³⁷ PEF has in turn used its endowment to provide loans, equity agreements and accelerator programmes for Philippine social enterprises.

More recently, President Aquino’s nephew, Senator Paolo Benigno “Bam” Aquino IV, filed seven bills that “aim to empower the poor through jobs, livelihood, and access to market and opportunities.”³⁸ Among them are provisions supporting SMEs, microcredit institutions and social enterprises. The Social Enterprise bill in particular sets a concrete legal definition for social businesses and provides tax exemptions, access to non-collateralised loans and government-backed incubation to social entrepreneurs. Investors in social enterprises will also benefit from tax exemptions on investments and dividends. In a statement on his website, Senator Aquino clearly stated that:

For me, inclusive growth needs to go through business. There is no way that we can achieve inclusive growth without engaging our countrymen in jobs or in enterprise building.³⁹

Perhaps the most prominent proponent of market-based development is social organisation Gawad Kalinga (GK). Its founder, Tony Meloto, established GK in 1994 to build “a nation made up of caring and sharing communities dedicated to eradicating poverty and restoring human dignity.”⁴⁰ In spite of employing some leftwing anti-imperialist critiques, GK espouses largely middle-class values and attempts to impart such values to beneficiaries. Its primary activity, like Habitat for Humanity, is constructing housing for poor communities. It solicits donations of building materials, but it also recruits young professionals and Filipino-Americans to volunteer in the building process. These primarily middle-class volunteers teach “values formation” classes for the housing recipients and encourage them to become gain-

³⁵ Jane Parry, “Philippines: cash transfers succeeding where other programmes have failed,” *The Guardian*, 30 October 2013, accessed 10 May 2015, <http://www.theguardian.com/global-development-professionals-network/2013/oct/30/philippines-cash-transfers-development-impact>.

³⁶ Ibid.

³⁷ Interview with Sixto Donato C. Macasaet, Executive Director of CODE-NGO, conducted on 6 March 2015 in Quezon City.

³⁸ “First 100 Days: Sen. Bam Champions Inclusive Growth, Reforms,” *Office of Senator Bam Aquino*, 10 October 2013, <http://www.bamaquino.com/first-100-days-sen-bam-champions-inclusive-growth-reforms/>.

³⁹ Ibid.

⁴⁰ *Gawad Kalinga Website*, accessed 14 May 2015, <http://www.gk1world.com/NewOurVision>.

fully employed and contribute to the Philippine economy.

According to the GK ethos, poverty occurs not because of structural issues (i.e. lack of skilled employment opportunities, failed land reform, inadequate infrastructure), but because the poor lack skills, self-confidence and values.⁴¹ This message is particularly appealing to a middle class weary of reading about corrupt and inefficient government subsidy programmes in the newspaper. However, it is unclear whether life skills and values trainings are an appropriate one-stop solution to the Philippines' massive infrastructure and poverty challenges.

❖ *Social businesses in the Philippines are overwhelmingly centred around agricultural processes, but well placed innovation can diversify the sector.*

The Philippines is beset with social and environmental challenges that require innovative solutions that disrupt cycles of poverty and generate systemic change, but most Filipino social businesses are selling the same products as commercial businesses, albeit at reduced returns. Of the five social enterprises interviewed for this study, four operated processing sites for products derived from agricultural commodities. The Philippines most widely praised social enterprise, beauty company Human Nature, also manufactures products from ingredients grown at local farms. Large commercial producers of coconuts, cacao, sugar and lemongrass ship out raw goods for processing to other countries in order to reduce costs, but these social businesses have kept their processing facilities local, employing workers from poor rural districts or disenfranchised groups such as ex-criminals or the physically disabled.

Globalisation has stymied the development of Philippine export agriculture for the time being, but it has also contributed to recent gains where the country has comparative advantages, such as services and BPO. A recent Credit Suisse report placed only two agricultural products (crude coconut oil and bananas) on a list of top 20 Philippine exports.⁴² On the other hand, few-to-no Philippine social businesses have developed innovative solutions that couple their country's comparative advantages in the electronics or mining industries with equitable growth and social change.

The upcoming Social Enterprise Bill stipulates the creation of a National Center for Social Enterprise Development (NCSED) that will "develop and enhance a research and development system which shall equip every SE with innovative and sustainable approaches that ensures improvement in the access to basic social services by the poor pursuant."⁴³ In addition to providing capability training and business development assistance, the centre will be in an ideal position to develop countrywide strategies that take advantage of the Philippines native strengths. Run correctly, the NCSED can become a centre for replicable innovation leading to widespread and systemic solutions for social and environmental ills.

❖ *Metro Manila has an increasingly socially and environmentally-conscious consumer base willing to pay a premium for local products sold by social businesses.*

The Manila public is well versed in the the social and environmental challenges facing their country, and social enterprises are able to exploit these sentiments to sustain sales in spite of increased costs carried by consumers. Social enterprises interviewed during the Metro Manila CIL reported that the social enterprise label increased

⁴¹ Faith R. Kares, "Practicing Enlightened Capitalism: Fil-Am Heroes NGO Activism, and the Reconstitution of Class Difference in the Philippines," *Philippine Studies: Historical and Ethnographic Viewpoints* 62.2 (2014), 195-196.

⁴² Santitarn Sathirathai, "Philippines: What are the next big things for export?" *Credit Suisse*, 1 October 2012, <https://plus.credit-suisse.com/u/cDUjsi>.

⁴³ Republic of the Philippines, Cong. House of Representatives, 16th Congress, 1st Session, S 1331, *An Act Ordaining the Promotion of Social Enterprises to Alleviate Poverty, Establishing for the Purpose the Poverty Reduction Through Social Entrepreneurship (Present) Program and Providing Incentives and Benefits Therefore* [received by the Philippines House of Representatives 10 July 2013], http://www.congress.gov.ph/download/basic_16/HB01331.pdf.

sales among Manila's savvy middle class. Markets selling local eco-conscious produce and showrooms displaying socially-conscious handicrafts are becoming increasingly commonplace in the capital. Because social enterprise products are manufactured locally, they also play to current nationalist sentiments among the middle class.

Recent survey results published by market research firm Nielsen reported that 63 percent of Asian consumers - more than on any other continent - were willing to pay extra for products or services from countries with positive social or environmental impact.⁴⁴ For middle income countries such as the Philippines, middle and upper-class segments of society are becoming financially secure enough to pay these premiums. One social enterprise and eco-tour operator interviewed in Manila, for instance, reported that more than 50 percent of its customers were local Filipinos. This stands in stark opposition to Southeast Asian countries with low development indicators, such as Cambodia and Myanmar, where social enterprise sales are primarily generated by foreign tourists or expatriates.

❖ *Filipino social entrepreneurs, especially those without business experience, lack access to effective mentorship.*

Several social entrepreneurs interviewed described the difficulties they experienced while starting their businesses and the absence of any mentors to turn to during the process. Of the social entrepreneurs interviewed in Metro Manila, all were young graduates with limited business experience. According to these entrepreneurs, developing a business concept was relatively simple. However, when they attempted to launch their

businesses, they immediately ran into unanticipated roadblocks such as bureaucratic red tape and supply chain logistics.

Once firmly established, social entrepreneurs also face difficult questions on how to scale their businesses. More specifically, many are unschooled in modern management practices and reported that they did not know how to "let go" or delegate responsibilities. All the social entrepreneurs interviewed stressed their need to train middle managers to take care of day-to-day business.

Metro Manila is currently home to business schools such as Ideospace, which has increasingly catered to social entrepreneurs, but there are few resources tailored specifically to their needs. Gawad Kalinga recently launched a social enterprise incubator, the Enchanted Forest, but its agriculture focus and limited size leaves significant room for other training organisations to enter Metro Manila's budding social business space. In spite of the current popularity of social enterprise in the Philippines, there are few mentorship resources for aspiring social entrepreneurs.

⁴⁴ *Doing Well By Doing Good: Increasingly, consumers care about corporate social responsibility, but does concern convert to consumption?* (New York: Nielsen, 2014), 6.

V. List of Organisations Interviewed

Affordable Private Education Centers. Manila, 5 March 2015.

Agricool. Manila, 4 March 2015.

Ashoka Philippines. Manila, 6 March 2015.

Ateneo School of Government (Programme in Social Entrepreneurship). Manila, 5 March 2015.

Bambikes Revolution Cycles. Manila, 4 March 2015.

Bayani Brew. Angat, Bulacan province, 4 March 2015.

Caucus of Development NGO Networks (CODE-NGO). Manila, 6 March 2015.

Foundation for a Sustainable Society. Manila, 4 March 2015.

Gawad Kalinga. Angat, Bulacan province, 4 March 2015.

GK Enchanted Farm. Angat, Bulacan province, 4 March 2015.

GKonomics. Manila, 5 March 2015.

Golden Duck Group. Angat, Bulacan province, 4 March 2015.

Invisible Sisters. Manila, 5 March 2015.

Manila Water Company Inc. Manila, 4 March 2015.

Peace and Equity Foundation. Manila, 6 March 2015.

Peace and Equity Holdings. Manila, 6 March 2015.

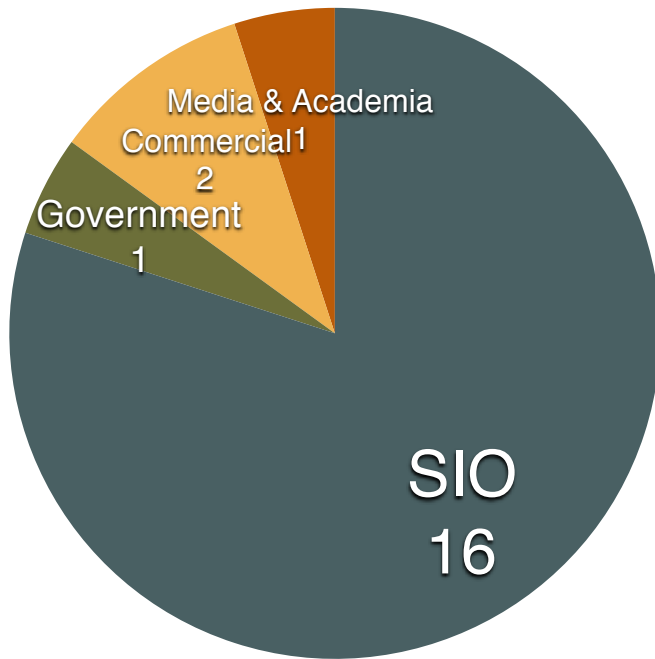
Philippines Bases Conversion and Development Authority. Manila, 5 March 2015.

Philippines Council for NGO Certification. Manila, 5 March 2015.

Rare Philippines. Manila, 5 March 2015.

VSO Bahaginan. Manila, 5 March 2015.

ORGANISATIONS BY SECTOR



Total Organisations Interviewed: 20

SIO: 16

Nonprofits: 5

Social Enterprises: 5

Impact Investors: 1

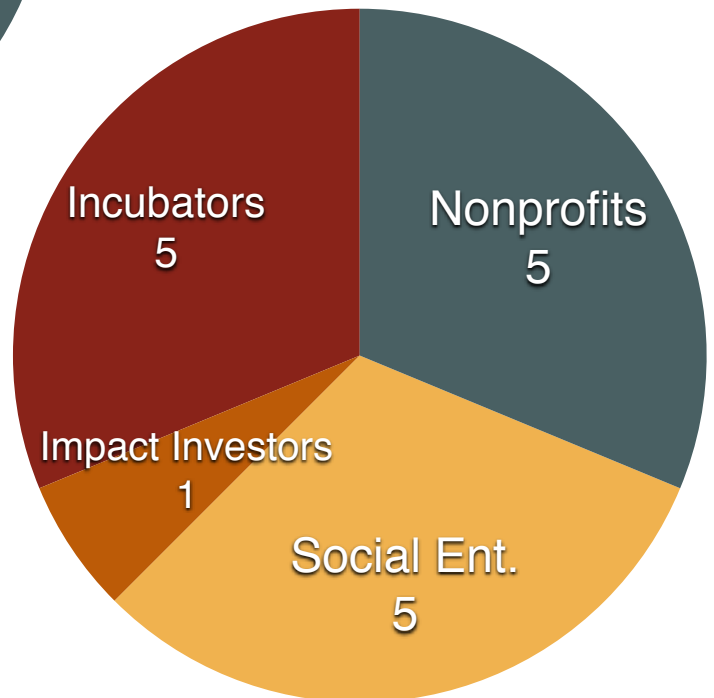
Incubators: 5

Government: 1

Commercial: 2

Media & Academia: 1

SIO SUB-SECTORS



VI. Questions for Interviewees

Organisational History

- 1) How and why was your organisation established? Is there a founding story?
- 2) For international organisations - Why did your organisation decide to enter the Philippines?

Operations

- 3) On what projects are you currently working? What would success look like one year from now? Five years from now?
- 4) How successful were your past programmes? What is your organisation doing differently from when it first began operations in the Philippines?
- 5) Do you foresee any upcoming difficulties?
- 6) What does your organisation need to make your programmes more effective?

Strategies

- 7) What are your organisation's goals for the next 3-5 years? How do you plan to meet those goals?
- 8) What factors might jeopardise the success of your overall strategy?

Collaboration

- 9) Were there any difficulties or pitfalls in past collaborations? Have any difficulties surfaced in your current collaborations?
- 10) Have you collaborated with organisations outside your sector? How could such relationships be improved or facilitated?
- 11) Is there any individual or organisation with whom you would like to collaborate but have been unable to do so?

Human Resources

- 12) Do you generally source staff locally or from overseas? Have you had any difficulties finding skilled local staff?
- 13) Which professional skills, if any, do local staff currently lack? What do local staff need to succeed in today's workplace?
- 14) How would you evaluate local educational institutions in preparing future employees? Are there private or foreign institutions attempting to fill any gaps?

Leadership

- 15) What does effective leadership—in business, government or civil society—look like to you?
- 16) What skills and resources do Filipino leaders need to better serve their society?

- 17) The Institute broadly defines *societal leadership* as “the practice of creating sustainable value and impact for the betterment of society within one’s sphere of influence.” Are there any remarkable individuals in the Philippines whom you would consider a *societal leader*?

Sustainability & CSR

- 18) Does your organisation have any sustainability guidelines? How did you determine your current guidelines?
- 19) Does your organisation engage in any Corporate Social Responsibility (CSR) initiatives? Have you been able to measure the impact of your organisation’s CSR programmes?

Funding (for civic-sector organisations)

- 20) Roughly speaking, how is your organisation currently funded?
- 21) How financially self-sustaining is your organisation at the moment? Do you have any plans to lower dependence on outside funding in the future?

Context

- 22) How does working in the Philippines differ from working in other Southeast Asian countries? What do the Philippines have in common with the rest of the region?
- 23) How do minorities (ethnic, religious, or otherwise) fit into the landscape? Do minorities actively collaborate with the status quo?
- 24) Outside of your own organisation’s scope, what are the key problem areas facing the Philippines?
- 25) How are the Philippines different from five years ago? How do you imagine it will change in the next five years?

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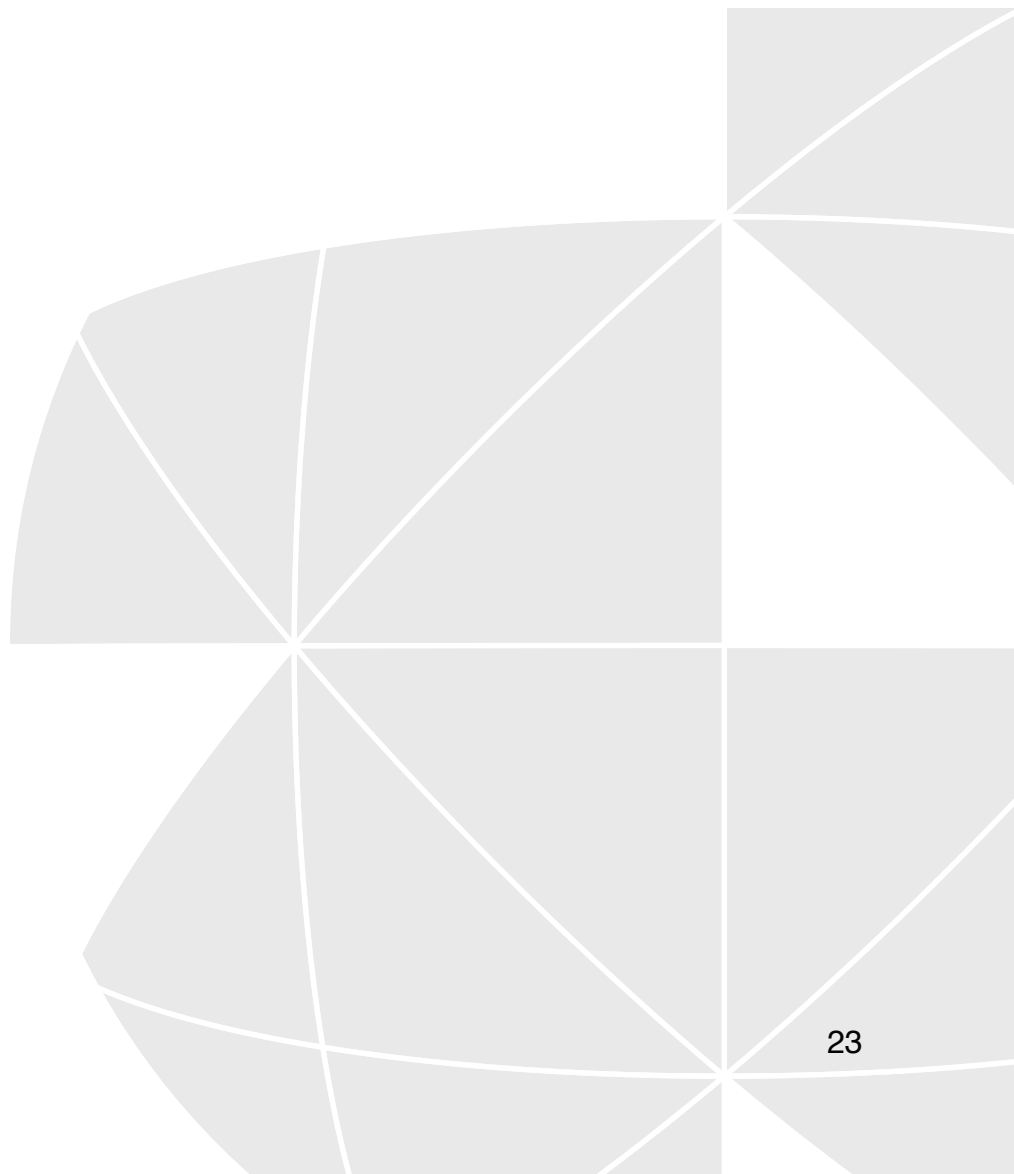
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