Philippines

Compliance Risk Profile

Last Updated: 6/2020

Summary

The Philippines is the 37th largest exporter and the 32nd largest importer in the world[1]. Due to its strategic location near the mainland of Asia it has become an important part of trade in Asia.

The World Economic Forum's Global Competitiveness Report (WEF GC Report)[1] ranks the Philippines 64 out of 141 countries analyzed for overall economic competitiveness. According to the WEF GC Report some of the relative strengths of doing business in the Philippines include the depth and stability of the financial system and the entrepreneurial culture.[1] Some of the more problematic factors for doing business in the Philippines were cost of and time to start a business, terrorism incidences, reliability of police services, burden of government regulation and incidences of corruption.[1] From a compliance risk perspective, the Philippines has made small improvements with governance, cyber security, regulatory quality, anti-money laundering, and the perceptions of the rule of law but still needs to improve in the areas of corruption, trade facilitation, and data privacy.

Multi-national companies operating in Philippines should have strong local internal controls in-place as well as periodic monitoring and independent auditing to ensure compliance with Customs and anti-corruption laws.

General Country Information

The Philippines encompasses about 300,000 sq. km of land (consisting of more than 7,107 islands) and has a total population of approximately 107,000,000[2] with a demographic composition of 28.1% Tagalog, 13.1% Cebuano, 9.0% Ilocano/Ilokano, 7.6% Visayan/Bisaya, 7.5% Hiligaynon, 6% Bikol, 3.4% Waray, 2.5% Chinese Filipino, and 22.8% Others[2]. Most of the population lives in rural areas. The Philippines has four major cities (Quezon City, Manila, Caloocan City, and Davao) with more than a million people, there are 33 highly urbanized cities, and 1,489 municipalities, 18 of which have a population of more than 150,000.[2] The official languages are Filipino and English[2]. The Philippines 2019 nominal GDP was $356.8 Billion USD[2] (2019 GDP per capita $3,104 USD[1]).[2]

Governance and Regulatory

Legislation

The primary statutes regulating corporate governance in the Philippines are the Revised Corporation Code of the Philippines - Republic Act 11232 (the Corporation Code), the Securities Regulation Code, the Foreign Investment Act, as amended by the Liberalized Foreign Investment Act, and the Financing Company Act.[3] The Corporation Code covers both stock and non-stock corporations. The Securities and Exchange Commission of the Philippines (the SEC) is the main body responsible for administration and enforcement of corporate governance standards in the Philippines. To this end the SEC has issued the Code of Governance for Publicly Listed Companies.[3]

Environment

The 2020 World Banks Ease of Doing Business[2] Report (EDB Report) ranks the Philippines overall 95 out of 190 countries analyzed for regulations that are conducive in fostering business activities and those that constrain it.

The World Bank's 2018 Worldwide Governance Indicator (WGI)[4] for Regulatory Quality (RQ), with -2.5 being weak and +2.5 being strong governance performance, gave Philippines a score of 0.05 which resulted in a ranking of 91 out of 209 countries analyzed. This represented an improvement from the 2009 score of -0.11 and a ranking of 104 out of 210 countries that were analyzed. The RQ indicator "*Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development*"[4].

The 2018 WGI Rule of Law (RL) indicator gave Philippines a score of -0.48 which resulted in a ranking of 138 out of 209 countries analyzed. This represented a slight improvement in score from 2009 of -0.57 and an identical ranking of 138 out of 212 countries. The RL indicator "*Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence*"[4].

The 2018 WGI Government Effectiveness (GE) indicator gave Philippines a score of 0.05 which resulted in a ranking of 94 out of 209 countries analyzed. This represents a slight improvement in performance from the 2009 score of -0.03 and a relatively identical ranking of 95 out of 210 countries. The GE indicator "*Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies*"[4].

Enforcement

In February 2020, the Corporate Governance and Finance Department referred some online lending operators for action related to providing loans without the proper registration, and the Securities and Exchange Commission (SEC) subsequently issued a cease and desist order.[6] In February 2020, the SEC filed a cease and desist order against Lion City Finance Group for engaging in a sale of securities without a proper registration statement.[6] In December 2019 the SEC issued a cease and desist order against Togachat for selling securities without proper registration.[6] Recent cease and desist orders were issued in April 2020 by the SEC against CashAB Lending Co., Mimosa Credit Ltd. and Zamoya Credit Ltd., which operated online and mobile lending operations without incorporating or obtaining the requisite License to Operate from the SEC.[6]

GCSG's Compliance Risk Index (CRI) analyzed eight independent factors to score the **governance and regulatory area compliance risk**[5] level for the Philippines as **High**.

Bribery and Corruption

Legislation

The Philippine 1987 Constitution Article XI Section 1, the Anti-Graft and Corrupt Practices Act (Republic Act No. 3019), and the Revised Penal Code are the primary sources of law regulating corruption in the Philippines.[7] Additional legislation and rules regarding corruption include the Republic Act No. 1379, 6713, 9485, Presidential Decree No. 46, the Anti-Money Laundering Act, the Government Procurement Reform Act, and the Rules for Implementing the Code of Conduct and Ethical Standards for Public Officials and Employees. Facilitation payments are not allowed. Private bribery and corruption of foreign officials are not currently prohibited. Bribery is prohibited as it relates to the giving or receiving of bribes to public officials. Penalties for bribery can include prison and/or fines. The Philippine National Police, the National Bureau of Investigation, the Office of the Ombudsman[7], and the Philippine Department of Justice and its prosecutors[7] have the authority to investigate and prosecute corruption. The Sandiganbayan is a special court having jurisdiction over civil and criminal cases involving corrupt practices committed by public officers.

Environment

Transparency International's 2019 Corruption Perceptions Index[8], with zero being the most corrupt and 100 being the least corrupt, gave Philippines a score of 34 which resulted in a ranking of 113 out of 180 countries surveyed. This represents a similar score but a worse ranking to that found in the 2014 CPI with a score of 38 and ranking of 85 out of 174 countries surveyed.

Trace International's 2019 Bribery Risk Matrix[8], with 100 being the most corrupt and zero being the least corrupt, gave Philippines a score of 54 which resulted in a ranking of 103 out of 200 countries surveyed. This represents an improvement over the 2014 score of 70 and ranking of 152 out of 197 countries surveyed.

The 2018 WGI Control of Corruption indicator[4], with -2.5 being weak and +2.5 being strong governance performance, gave Philippines a score of -0.54 which resulted in a ranking of 138 out of 209 countries. This represented an improvement from the 2009 score of -0.77 and a ranking of 159 out of 210 countries. The WGI Control of Corruption indicator "*Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests*"[4].

The 2016 WEF Enabling Trade Report[10] (WEF Trade Report) listed corruption at the border as the third most problematic factor for importing into the Philippines. The Philippines has signed the United Nations Convention against Corruption[8] but is not a member of the OECD Anti-Bribery Convention.[8]

Enforcement

In 2018, the World Bank debarred Innogy Solutions Inc. and its President Lloly Yana de Jesus for 5 years for collusive practices.[8] In 2017 a retired US Naval Attache to the Philippines was sentenced to prison for corrupt practices related to vessel clearance.[8] In January 2020, a Department of Education official was sentenced to prison for malversation of funds intended for teachers' salaries. In February 2020, the former General Manager of the Metro Rail Transit was convicted for Government Procurement Reform Act violations for entering into irregular maintenance contracts while in office.

GCSG's Compliance Risk Index (CRI) analyzed four independent factors to score the **bribery and corruption area compliance risk**[5] level for the Philippines as **High**.

Trade

Legislation

The Department of Trade and Industry, and the Bureau of Customs (BOC)[9] are responsible for facilitating trade in the Philippines. The primary statutes regulating trade in the Philippines include the Customs Brokers Act, Customs Modernization and Tariff Act, Export Development Act, the Tariff and Customs Code and the Strategic Trade Management Act.[9] The Philippines is a member of the WTO (1995) and ASEAN.[9]

To import into the Philippines an importer needs to first secure accreditation from the Bureau of Internal Revenue (BIR) and obtain an import clearance certificate which will form part of the requirements for BOC registration. Importers are required to register with the Client Profile Registration System (CPRS). Exporters are also required to register with the CPRS through the Philippine Exporters Confederation. Import tariffs can vary between 0 to 65% and the Philippines applies a value added tax (VAT) of 12% on imported goods based on the total value used by the BOC in determining tariffs and duties. Only logs are taxed upon export (20%).

Environment

Facilitation. The WEF Trade Report[10] gave Philippines an overall score of 4.10, with 6.0 being the best and 2.9 being the worst scoring country in the index. This ranks the Philippines 82nd out of 136 countries that were evaluated for trade facilitation performance. The top three most problematic factors for importing, noted in the WEF Trade Report, included burdensome import procedures, high cost or delays caused by domestic transportation, and corruption at the border. High cost or delays caused by domestic transportation, high cost or delays caused by international transportation, and difficulties in meeting quality/quantity requirements of buyers were the top three most problematic factors for exporting from Philippines. The EDB Report[2] ranks Philippines 113 out of 190 countries for "trading across borders" which includes evaluating the time and cost to export and import.

In 2017, the Philippines exported $99B and imported $105B.[1] Its top export destinations were China, Hong Kong, the United States, Japan, and Germany and it's top exports were integrated circuits, office machine parts, computers, semiconductor devices, and insulated wire.[1] It's top import origins were China, Japan, South Korea, the United States, and Thailand and its top imports were integrated circuits, refined petroleum, cars, crude petroleum, and industrial printers.[1] The Philippines's six (6) major maritime Federal ports are Batangas, Cebu, Davao, Iloilo, Subic Bay, and Manila.[11] In addition there are 20 smaller ports.[11]

Compliance. While the United States and European Union have sanctions in place against individual persons and organizations throughout the world, neither has comprehensive country-level economic sanctions programs in place against the Philippines.[12] However, a U.S. GAO report[13] indicated the Philippines to be a country to watch as a transshipment hub[14] with a potential for higher risk of illicit transshipment. The Philippines is a party to the NPT, Biological Weapons Convention (BWC) and Chemical Weapons Convention (CWC) but is not a member of the multi-lateral export control regimes Nuclear Suppliers Group (NSG), Wassenaar Arrangement, Australia Group, or Missile Technology Control Regime (MTCR).[15]

Enforcement

The BOC, in March 2020, seized P400,000 in cash from a Filipina airline passenger attempting to bring out the cash without written authorization.[16] In May 2020 the BOC seized around P40MM worth of Chinese medicines that were being marketed as cures for the coronavirus. In June 2020, a shipment of imported cigarettes worth P6MM mis-declared as paper board was intercepted by the BOC, while at the Port of Manila, P17.38MM worth of fake cigarettes were seized by BOC authorities.[16]

GCSG's Compliance Risk Index (CRI) analyzed five independent factors to score the **trade compliance area risk**[5] level for the Philippines as **Moderate**.

Financial

Legislation

The major legislation regulating money-laundering in the Philippines is the "Anti-Money Laundering Act 2001" (the "AMLA").[17] The AMLA establishes reporting requirements, investigation authority through the Anti-Money Laundering Council, and a forfeiture regime. The 2017 amendment to the AMLA included the gaming industry as a covered sector. The Philippines is a founding member of the Asia/Pacific Group on Money Laundering (the "APG").[17]

Environment

Access to Finance. The WEF Trade Report[10] gave the Philippines a score of 4.4 (1-7 best) and a ranking of 41 out of 136 economies for access to finance.

Financial Secrecy and Money-Laundering. The latest Financial Secrecy Index (FSI)[18] gave the Philippines an overall score of 201.18, with 1,575 being the most secret and 12 being the least secret country in the index. This FSI score indicates a low concern for financial secrecy. The 2019 International Narcotics Control Strategy Report[19] (NCSR Report) lists the Philippines as a country of concern for money laundering activities. The NCSR Report says "the Philippines' growing economy and geographic location within key trafficking routes place it at elevated risk of money laundering and terrorism financing. Corruption and human trafficking constitute some of the principal sources of criminal proceeds…Despite the challenges, the Philippine government is improving its AML posture."

Enforcement

The main enforcement body that conducts investigations for AML offences is the Anti-Money Laundering Council (AMLC). The AMLC is the Financial Intelligence Unit (FIU) tasked with implementing the AMLA.[19] The Philippine National Police and the National Bureau of Investigation have general investigation powers, but they are not designated to investigate money laundering.[19]

The AMLC has filed civil and criminal cases in court over the most recent years, but "successful convictions remain low relative to the risk profile in the Philippines."[19] In response to this, the AMLC has called for amendments to the AMLA to include tax-related crimes, the inclusion of real estate agents and transactions as part of the transactions covered by the AMLA.[19]

GCSG's Compliance Risk Index (CRI) analyzed two independent factors to score the **financial area compliance risk**[5] level for the Philippines as **Moderate**.

Data Privacy

Legislation

Matters relating to personal data protection and cybersecurity in the Philippines are primarily governed under the Data Privacy Act of 2012 and the CyberCrime Prevention Act of 2012.[20] The National Privacy Commission (NPC) is an independent body tasked with administering and implementing the Data Privacy Act of 2012 as well as monitoring and ensuring compliance of the country with international standards for data protection.[20] The Department of Information and Communications Technology (DICT) is tasked with ensuring individuals data privacy and confidentiality and with securing critical information and communications technology infrastructures.[20] Recently the DICT launched a National Cybersecurity Plan 2022 (NCSP).[20]

Environment

The DLA Piper data protection laws comparison world graphic lists the Philippines as "Limited" (the lowest rating) for data protection laws and enforcement.[21] Comparitech's assessment of privacy protection and the state of surveillance ranked the Philippines 36th out of 47 countries included in the assessment with a score of 2.8 and a rating of "Some Safeguards/Weakened Protection."[21]

The Global Cybersecurity Index (GCI) 2018 lists Philippines in Table 2 which indicates a medium level of commitment to the five cybersecurity pillars rated in the index with a score of 0.643 and global rank of 58 out of 175 countries analyzed.[21]

This represents a drop in performance from the GCI 2017 with a score of 0.594 and ranking of 37 out of 165 countries.[21] The National Cyber Security Index (NCSI) gives Philippines a score of 32.47 and a global rank of 86 out of 152 countries. NCSI is "*a global index, which measures the preparedness of countries to prevent cyber threats and manage cyber incidents*."[21]

Enforcement

In April 2015, the U.S. Federal Communications Commission (FCC) announced what was at the time its largest ever data security settlement with AT&T. The $25MM settlement was to resolve data security breaches at its call centers in the Philippines, Mexico, and Colombia.[22] In 2019 more than 900,000 clients of Philippine-based pawnshop Cebuana Lhuillier were affected by a data breach and in 2018 a significant breach occurred with Wendy's Philippines.[22] In 2018 the National Privacy Commission of Philippines (NPC) gave Jollibee Foods Corporation 10 days to come up with a plan to rehabilitate the vulnerabilities on its website.[22] In June 2020, the NPC reminded San Beda University of its obligation to report possible personal data breaches following the defacing of the university's student portal. [22]

GCSG's Compliance Risk Index (CRI) does not score **the data privacy area compliance risk**[5] level.

Country Risk Rating

GCSG's Compliance Risk Index (CRI) analyzed 19 independent factors to score the **overall compliance risk**[5] for the Philippines at **6.79** (1-10 Highest). This score assigns an overall **Moderate** compliance risk level for multi-national businesses operating within and/or conducting cross-border trade with entities operating within the Philippines.

Note: GCSG's third-party risk ranking tool, which assesses risk at the entity level, and due diligence reports also incorporate GCSG's country Compliance Risk Index (CRI) scoring and can be used to further drill down on potential risks posed by your supply channel and sales channel third parties. Click **here** to learn more.

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