ASIA HOUSE BRIEFING, AUGUST 2018

Urban Development in the Philippines

With special focus on Metro Manila and Clark City

With some 14,000 people per square kilometre, Metro Manila is one of the world's most densely populated cities. According to a UN survey, only Dhaka (Bangladesh), Mumbai (India) and Medellin (Colombia) have a greater population density. Moving into Manila city – one of the 16 cities that compromise Metro Manila – the population density increases to a staggering 43,000 per square kilometre. And – as is the case in most developing countries – the pace of urbanization is increasing rapidly.

The Filipino government now seems to be addressing this issue head on. At the beginning of his term, Filipino President Rodrigo Duterte launched the Build, Build, Build program, a comprehensive infrastructure program estimated to reach USD 180 billion. The program covers 75 flagship projects, including six airports, nine railways, three bus rapid transits, 32 roads and bridges, and four seaports.

Furthermore. In April 2018, the ASEAN Smart Cities Network was formed as a collaborative platform where up to three cities per ASEAN country work towards a common goal of smart and sustainable urban development. This initiative was driven by the challenges of rapid urbanization, and its implications on issues like city congestion, water and air quality. In the Philippines, the pilot cities nominated were Manila, Cebu City, and Davao City.

Metro Manila, officially known as the National Capital Region (NCR), will be the focal point for many of these investments. Metro Manila has a population of nearly 13 million people and accounts for more than 36 % of the gross domestic product of the Philippines. Yet urban infrastructure is overburdened and poorly maintained, especially within transportation. A second focal point of the Build, Build, Build program is Clark New City; a greenfield project situated 120 kilometres from Manila. When complete, New Clark City will house 2 million people and be linked to Manila via a rail line and a new airport.

A large share of the investments will be covered through public spending. The government has initiated a number of tax reforms and earmarked 70 % of the increased revenue to infrastructure. In 2018, 5 % of GDP will be allocated to infrastructure projects, up from 2.7 % in 2016. However, foreign investments and expertise are also called for, and therefore the government is looking to reduce corporate tax rate from 30 % to 25 % and allow foreign investors to own a bigger share of domestic companies. The latter will require a change to the Constitution. For a brief introduction to key figures for the Filipino economy, see appendix 1.

This briefing takes a closer look at the urban development in the Philippines, with special focus on Metro Manila and Clark New City. What specific projects being are being launched right now? Who are the main stakeholders? What is the framework for financing? And what are the prospects for Danish companies? The briefing also includes take-aways from interviews with select Danish companies already present in the Philippines.

STAKEHOLDERS

The stakeholders for urban development projects depend on several variables:

- *The location* of the project, which determines the Local Government Unit to be involved.
- *The nature* of the project, which determines implementing agency. Roads, highways and bridges are managed by the Department of Works and Highways (DPWH), energy projects by the Department of Energy, etc.
- *The principal owner/concessionaire* of the project. In some instances, the implementing agency may also be the owner of the project.
- *The source of funding*, i.e. government, private, ODA or FDI.

1. Government Agencies

The National Economic and Development Agency (NEDA) is responsible for the management and administration of the Philippines' economic development planning and prepares both a five-year plan and a 30-year long-term development plan. NEDA is headed by the President and includes several of his cabinet members in addition to the Central Bank governor, the Autonomous Region in Muslim Mindanao, and the Union of Local Authorities of the Philippines.

The key agency within NEDA for delivering Urban Development in the Philippines is the Housing and Urban Development Coordination Council (HUDCC), which is subdivided into several other agencies (see appendix 2). The involvement of the many institutions with overlapping mandates often results in complex and opaque vertical/horizontal division of responsibilities and extensive red-tape.

However, recent reforms have improved the transparency and foreign accessibility of the public procurement process. Now, all public procurement projects can be found online and are also open for international bidding. Danish companies looking for insights into projects being tendered by the Filipino government should register and check the Philgeps website: www.philgeps.gov.ph.

2. Public Private Partnership Center

The PPP Center is the main driver of the PPP Program, and serves as the central coordinating and monitoring agency for all PPP projects in the Philippines. It champions the country's PPP Program by enabling implementing agencies in all aspects of project preparation, managing of the Project Development and Monitoring Facility (PDMF), providing projects advisory and facilitation services, monitoring and empowering agencies through various capacity building activities.

3. Metro Manila Development Authority (MMDA)

The MMDA is responsible for urban development in Metro Manila. The MMDA performs planning, monitoring and coordinative functions, and exercises regulatory and supervisory authority over the delivery of metro-wide services within Metro Manila. The MMDA can be approached by Danish companies together with local partners.

4. Bases Conversion and Development Authority (BCDA)

The BCDA is responsible for transforming former US-military bases and properties into premier centers of economic growth in partnership with the private sector. BCDA is the main driver behind New Clark City-project.

5. The large conglomerates

Large conglomerates play a key role in the development of local utilities, residential and commercial establishments, as well as large infrastructure projects. The conglomerates (e.g. Ayala Corporation`s Liveable Cities Challenge) are perhaps the best entry-point for Danish companies. See appendix 3 for a list of the 10 largest Pilipino conglomerates.

FINANCING

This section provides a general overview of the financing framework in the Philippines: Government funding, ODA and private investments. The government is the primary source of financing for the Local Government Units (LGU) – 20 % of the Internal Revenue Allotment is earmarked development projects at LGU/municipality.

However, the government has limited fiscal capacity to meet the urban development needs, and therefore improving the domestic investment climate to encourage the domestic banking sector and the private sector to invest in infrastructure is crucial to attaining long-term development goals. Yet, private financial institutions are hesitant to lend to LGUs because of their poor creditworthiness.

1. Government Financing

The two main Government Financing Institutions (GFIs) – and the main source of medium-term loans for LGUs – are The Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP). GFIs have maintained a competitive advantage over the private sector in lending rates mainly because of their access to concessional official development assistance funds.

New financing possibilities for feasibility studies and the improved lending mechanisms of the Government banking institutions has increased the municipality spending, especially in the transport and logistic, power generation, water supply sectors.

2. Official Development Assistance (ODA)

Official Development Assistance (ODA) is the second biggest source for infrastructure financing in the Philippines. 28 of the 40 flagship projects that have been passed since 2016 will be financed with ODA. The government recently increased the share of foreign borrowings of the total financing program from 20 % to 25 %. Total ODA in 2017 amounted to USD 14.34 billion, of which USD 11.91 billion came as loans and USD 2.43 billion as grants.

In 2017, Japan was the largest donor (USD 5.33 billion), followed by the World Bank (USD 3.07 billion), the Asian Development Bank (USD 2.67 billion), USA (USD 730.5 million), and Australia (USD 648.7 million). However, ODA from China is on the rise, especially in connection with the One Belt One Road initiative, where China has allocated USD 4 billion of ODA for infrastructure projects in the Philippines.

3. Private Sector Participation

A third source for financing infrastructure is the private sector, particularly under the Government's Public Private Partnership Program (PPP). The current administration seems to prefer ODA over PPP; only two of the 75 flagship infrastructure projects are financed and implemented through PPP. Nevertheless, the government has introduced the concept of "hybrid financed PPPs", where the cost for the construction is carried by ODA, but operations and maintenance is managed by the private sector. Despite the increased reliance on ODA on listed projects, the government now invites private sector participation through unsolicited proposals, which led to an increase of submissions in 2017.

CASE CITIES

Unlike some countries that have government initiatives or frameworks for smart cities on the national level, the Philippines have pockets of projects around the country for smart cities. These are mostly led by the local government units that have entered into agreements with investors to develop parts of their city as a smart city, for example the Manila Pearl Project. The New Clark City Project is being led by the Bases Conversion Development Authority. Due to the interesting projects within Manila and Clark and the opportunities available for Danish companies, this report will focus on these cities.

CASE CITY: METRO MANILA

Metro Manila is the main recipient of infrastructure projects in the Philippines. The biggest urban development projects are the USD 7.1 billion Metro Manila Subway Project-Phase 1, the USD 5.6 billion Philippine National Railways South Commuter and South Long-Haul Project, and the USD 3.95 billion Malolos-Clark Railway Project. However, these projects are already under ODA loans from Japan and China, leaving little room for Danish companies. Instead this briefing will focus on four other projects that carry a higher potential for Danish companies.

1. New Manila International Airport

The Ninoy Aquino International Airport (NAIA) ranked among the world's worst airports between 2011 and 2013, according to travel website "The Guide to Sleeping in Airports." The government has sought proposals to either develop the existing airport or to build new airports in strategic locations to ease the congestion.

The "NAIA Consortium" made up to the country`s top conglomerates (Aboitiz InfraCapital, AC Infrastructure Holdings Corporation, Alliance Global Group, Asia's Emerging Dragon Corporation, Filinvest Development Corporation, JG Summit Holdings and Metro Pacific Investments Corporation) is looking to upgrade the country's main international airport at an estimated cost of USD 6.7 billion.

The NAIA Consortium plans to expand NAIA's capacity from 31 million annual visitors today to 47 million by 2020, and 65 million by 2022. The local "super-consortium" has tapped Changi Airport to provide technical support in the areas of master-planning, operations optimization and commercial development at NAIA.

In the initial phase of the consortium's plan, NAIA Terminals 1,2,3 and 4 will be expanded and modernized. The second phase would develop a reclaimed area in Manila Bay to accommodate a third runway – long deemed vital to NAIA – and another terminal. The reclaimed portion and new terminal will be connected to the existing NAIA complex by a train like the existing Light Rail Transit (LRT). This unsolicited proposal was approved by the National Economic Development Authority (NEDA) and will now be subjected to a Swiss challenge.

The Department of Transportation has also given the green light to the Province of Cavite who proposed a USD 9.3-billion airport project in Sangley Point that would position the site of a former United States naval base into a near-future alternative air hub to the cramped Ninoy Aquino International Airport (Naia) in Manila.

The province, as lead proponent, is using a unique and potentially strategic government-to-government approach that also aims to address environmental issues in the waters off its coastal towns. The Sangley Point International Airport project, which will involve the reclamation of about 1,500 hectares of land, will have its first runway opened by 2022, assuming it starts next year.

This will support capacity for 25 million passengers a year at an estimated investment of USD 3.8 billion. A second runway will be finished by 2025 under its phase 2 to serve capacity estimated at around 75 million passengers a year. The second phase will cost another USD 5.5 billion. Provisions for two more runways will bring the airport's total capacity to 130 million passengers annually by 2035 and beyond. Crucial connectivity, such as new roads and a mass transit link, are also considered in the proposal.

Sangley was earlier determined to be the best site for a new international gateway, based on a 2014 study by the Japan International Cooperation Agency. The study parameters called for an airport about 30 minutes away from Metro Manila.

With no objection from the department, the next step is for the provincial government to secure endorsement of the Philippine Reclamation Authority for the planned reclamation work and secure final approval of the National Economic and Development Authority (NEDA) Board that is led by President Rodrigo R. Duterte.

San Miguel Corporation's proposed USD 15 billion new international "aerotropolis" will involve an airport covering 1,168 hectares and a city complex to be built at a 2,500-hectare area along Manila Bay in Bulacan, Bulacan. San Miguel Corporation (SMC) president Ramon Ang revealed that the proposed airport is set to become one of the biggest airports not only in Asia but in the world.

The 50-year airport project will entail building 6 parallel runways and an initial annual capacity of 100 million passengers – over triple the Ninoy Aquino International Airport (NAIA). This unsolicited proposal has been approved by the National Economic Development Authority (NEDA) and will now be subjected to a Swiss challenge.

2. Manila Flood Management

World Bank-funded Metro Manila Flood Management Project seeks to improve flood management in selected areas of Metro Manila. The project comprises of four components:

- Modernizing drainage areas will construct an estimated 20 new pumping stations and modernize an estimated 36 existing stations and appurtenant infrastructure, improve the associated waterways and drainage channels, including secondary and tertiary ones as needed, and develop new drains when required.
- Minimizing solid waste in waterways will carry out neighborhood-level activities near the pumping stations and waterways and drainage channels targeted under component 1 of the project.
- Participatory housing and resettlement will support three groups of projects affected people.
- Project management and coordination will provide support for the operation of the project management offices in department of public works and highways (DPWH) and metropolitan manila development authority (MMDA) with respect to the management and coordination of their respective parts of the project.

3. City of Pearl

Hong Kong-based architectural firm HPA unveiled a major reclamation and development project for Manila, called The City of Pearl, which will be the first Asian smart city to be in development stages that will capture the essence of the Belt and Road initiative by further advancing business and economic development between China, Hong Kong and Southeast Asia.

The City of Pearl will be a 407-hectare city and new integrated central business district, connected by a loop road network, with an advanced driverless railway system running throughout. The inner ring would feature an extensive central park and golf course, while the outer ring will provide views of Manila Bay. 10-20 % of the development will be allotted for open space areas.

This project requires a range of technologies and expertise relevant for Danish providers. However, as the project is funded by China, Danish companies should offer their products and services to Chinese consultants and contractors.

4. Manila Bay Sustainable Development Master Plan

The Netherlands and the Philippines have signed a Memorandum of Understanding for corporation on the Manila Bay Sustainable Development Master Plan (MBSDMP), that aims to provide a comprehensive framework for the sustainable development and management of the entire harbor. The Netherlands will extend financial and technical assistance in drafting the plan for the entire 190-kilometer stretch of Manila Bay and has allotted approximately USD 1.4 million as a grant while the Philippines counterpart fund USD 4.7 million.

Preliminary activities for the master planning exercise began in 2015 when the Filipino government requested The Netherlands to dispatch a group of Dutch Disaster Risk Reduction experts to Manila to conduct a scoping mission aimed at identifying and assessing the current situation in the Manila Bay area and recommend measures for its sustainable development.

There may be potential opportunities for Danish companies after the completion of this masterplan in 2½ years.

CASE CITY: NEW CLARK CITY

New Clark City (aka. Clark Green City) is a planned community under development located in Capas and Tarlac 120 kilometres northwest of Metro Manila. It covers an area of approximately 9,450 hectares and is managed by the Bases Conversion and Development Authority (BCDA).

The BCDA plans to rely on integrated smart solutions to improve the quality of living in the new city: Smart traffic monitoring, parking monitoring, pollutions monitoring, energy management and video surveillance are among the planned smart solutions for New Clark City.

The New Clark City will be made possible through the cooperation of BCDA, Surbana Jurong and Japan Overseas Infrastructure Investment Corporation for Transport and Urban Development (JOIN). Engineering and urban development firms AECOM, Nippon Koei and Philkoei International will also join the project as partners.

As part of the collaboration, Surbana Jurong will assist BCDA in creating the overall sustainable management framework for the city, which will feature a fully integrated infrastructure and utilities for power, water, sewerage, information and communication technology (ICT), security, and traffic management while ensuring environmental protection.

The Singaporean urban developer will also help secure investors for the city’s development through Public-Private Partnerships (PPPs) and will advise the pioneering developers on how to implement the plan. Pioneer developers include Filinvest Land, Inc., and Malaysia’s MTD Capital Berhad.

Feasibility studies have been carried out, and the first phase of development of New Clark City is expected to be complete by 2022, including new educational institutions, the Philippine Sports City, and new government buildings. BCDA is partnering with Home Development Mutual Fund (HDMF) for financing of the 2,472 affordable mixed income housing units in a mixed-use community development for the first movers in the new city. Part of the goal is to develop a community preserving the natural habitat and keeping proposed structures and key features of the project entwined with nature.

For foreign companies, Mr. Marion Mamauag, Business Development officer, BCDA recommends partnering up with some of their Joint Venture partners in New Clark City for real estate or industrial development. Major developments will again be carried out by the big infrastructure conglomerates/developers in the Philippines and, therefore Danish companies should seek partnership with these companies. However, regarding utilities, BCDA will take the lead in selecting suppliers and bid notices will be posted in their website.

BCDA is emphasizing its openness towards unsolicited proposals when it comes to technologies and innovations targeted at smart city development. All international investors and companies are welcome to introduce their smart solutions to the BCDA.

BCDA has entered into a joint venture agreement with construction firm Alloy MTD for the development of the National Government Administrative Center (NGAC) at the New Clark City. The 40-hectare Phase 1A of the project involves the development of disaster-resilient back-up offices of various government agencies, world-class Sports Stadium with 20,000 seating capacity, Aquatic Center, village for athletes competing in the 2019 Southeast Asian Games, government housing, and support service facilities.

Upon satisfactory completion of the project's Phase 1A, work for the project's Phase 1B will commence for the construction of more government offices and residential units on a 20-hectare land. MTD is targeting to complete Phase 1A by Oct. 15, 2019.

According to AlloyMTD Philippines President Patrick Nicholas P. David, they are currently looking for suppliers for lighting and sound solutions for the Sports Stadium. Also, eco-friendly solutions for their future buildings are sought after. AlloyMTD does not post opportunities on their website, but Mr. David encourages Danish suppliers to present themselves and take direct contact, possibly through the Danish Trade Council in Manila.

Filinvest Development Corp secured a provisional license from the Philippine Amusement and Gaming Corp to build a USD 200 million integrated resort Clark. Filinvest said its subsidiary, Mimosa Cityscapes, planned to build a casino, mall, five-star hotel, events venue, villas and 2 championship golf courses within the 201-hectare Filinvest Mimosa Plus Leisure City at the Clark Special Economic Zone.

If interested in the various projects under the New Clark City, Danish companies may approach and offer their products and services to Alloy MTD, Filinvest, AECOM, Subana Jurong, BCDA and to the developers that will take part in the New Clark city projects. The best way for them would be to request for a meeting where they will also be informed of current requirements, and where Danish companies can present their capabilities directly.

TIPS & TRICKS FROM DANISH COMPANIES

In connection with this briefing, The Danish Embassy in Manila has interviewed a number Danish companies that have managed to gain a foothold in the Philippines. Listed below are their main points of advice:

- Approach the client directly and introduce new innovative technologies to C-level members of the company. Personnel from the operational level will often be reluctant to introduce new technologies, as the long-term benefits – from their point of view – do not necessarily outweigh the trouble of introducing these new technologies.

- Several Danish companies recommended approaching the big business conglomerates, as they more often appreciate innovations and follow a long-term strategy. This is especially relevant for companies with high quality, new innovative technologies.
- It is not advisable to give exclusive rights to a single distributor in the Philippines. Some distributors only work locally on some of the islands, or with a subsection of clients.
- Though new products and technology may garner much interest and enthusiasm, this does not always translate into actual contracts. Patience and persistence is necessary. Make frequent visits to the country and meet with potential key clients several times.
- Key to success in the Philippines is finding and making close connections with the actual decision makers. Seek to nurture personal relations and friendship with decision makers. Quite often it is not the best deal that closes the deal, but the best connection.
- Local presence is an advantage as they reflect long-term a commitment.
- A strong Danish/Nordic value proposition is quality, not just in relation to the product, but also in relation to services, reliability etc.
- Clients often require proof of quality of the product, company background, financial capabilities, manpower (for bigger job sites), inventory and/or import time lines before signing of contracts.
- Signed contracts are often subject to change. Be flexible but avoid credit to any client and operate on a 50 % advance payment base.
- Some companies emphasise robust internal technical qualifications as well as third party certifications (i.e. ISO/SGS).
- Finally, seek advice from the Danish Trade Council as well as the existing Nordic/Danish business community in the Philippines. Long established businesses can exchange their experiences and, thus, help newcomers to avoid mistakes.

CONCLUSION

Like most developing countries, the Philippines can be a challenging market for foreign companies, especially when dealing with infrastructure projects, which involve government regulations, funding and interfaces with numerous agencies and departments. The Philippines ranks especially low in relation to obtaining construction permits, securing credit and enforcing contracts.

Identifying local partners is also a complex task. Many Filipino businesses are owned and managed by influential families with close ties to the government. The intertwining of business and politics in the Philippines is especially common in lucrative industries such as infrastructure, trade, and natural resources. Local enterprises may also conceal and misrepresent information to secure overseas funding and investments. Hence, it is crucial for investors to have local insights on their local business partners' backgrounds and interests as these could determine the success and failure of their investments in the country.

However, beyond these challenges lies a vast and lucrative market, accessible to companies armed with patience and a long-term strategy. Find a local partner, use the Danish network in the Philippines and read appendix 4 in this briefing on "Doing business in the Philippines". Accessing an emerging market is not just challenging but can also be very rewarding.

Appendix 1: Key figures for The Philippines

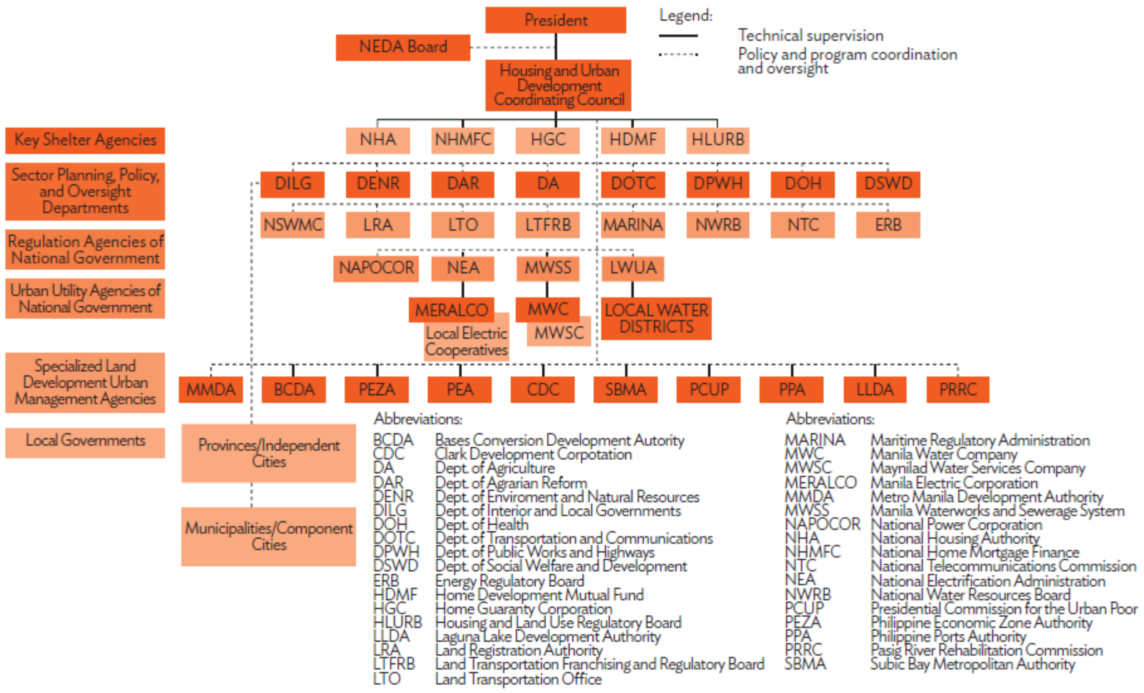
Population (2016)	103.3 million
GDP:	304.9 billion US$
GDP growth rate (2017):	6.7 %
Average GDP growth rate (2013-2017):	6.58 %
Average inflation (2013-17):	2.22 %
Danish goods exports to Philippines (2016):	927.2 million DKK
Increase in Danish goods exports to Philippines (2013-2017):	82%
EKF rating:	3/7

The Filipino economy is showing growth at a rate of 6–7% per annum with a predicted growth rate of 6.9% in 2018. The high growth rates, low inflation, healthy current account surplus, more-than-adequate international reserves, and a sustainable fiscal position makes the Filipino economy robust. In May 2014, the international rating agency, Standard & Poor`s (S&P), raised the Filipino credit rating to BBB, comparable to Italy, and better than Russia, Brazil and Hungary.

The service sector and remittances from overseas workers constitute the foundation for the strong economy, but an increased government spending in infrastructure under President Duterte’s Build, Build, Build-program is expected to significantly contribute to high growth rates.

Appendix 2: Public structures and stakeholders for urban development

Chart 1. Institutional Structure for Delivering Urban Development



Source: ADB. 2009b. *Philippines Basic Urban Services Sector Project*. Final Report. Manila.

List of relevant government departments

Department of Agrarian Reform	http://dar.gov.ph/
Department of Agriculture	http://www.da.gov.ph/
Department of Budget and Management	http://www.dbm.gov.ph/
Department of Education	http://www.deped.gov.ph/
Department of Energy	https://www.doe.gov.ph/
Department of Environment and Natural Resources	http://denr.gov.ph/
Department of Finance	http://www.dof.gov.ph/
Department of Foreign Affairs	http://www.dfa.gov.ph/
Department of Health	http://www.doh.gov.ph/
Department of the Interior and Local Government	http://www.dilg.gov.ph/
Department of National Defence	http://www.dnd.gov.ph/
Department of Public Works and Highways	http://www.dpwh.gov.ph/

Department of Science and Technology	http://www.dost.gov.ph/
Department of Tourism	http://www.tourism.gov.ph/pages/default.aspx
Department of Trade and Industry	http://www.dti.gov.ph/dti/index.php
Department of Transportation and Communications	http://www.dotc.gov.ph/
Metropolitan Manila Development Authority	http://www.mmda.gov.ph/
National Economic and Development Authority	http://www.neda.gov.ph/
Housing and Urban Development Coordinating Council	http://www.hudcc.gov.ph/default.aspx

Appendix 3: The 10 largest conglomerates

1. Ayala Corporation

Ayala Corp. is a holding company, which is engaged in providing real estate, telecommunications, utilities, logistics, financial and insurance services. It operates its business through following business segments: Real Estate and Hotels, Financial Services and Insurance, Telecommunications, Water Utilities, Electronics, Information Technology and Business Process segment, Automotive, Infrastructure and power, etc.

One of the companies under Ayala Corporation is Manila Water, which provides water treatment, water distribution, sewerage and sanitation services to more than 6 million people in the eastern side of Metro Manila, comprising a broad range of residential, commercial and industrial customers. The Manila Concession encompasses 23 cities and municipalities. The Energy and Infrastructure Group (EIG) of Ayala Corporation is the conglomerate's platform for investments in energy and transportation infrastructure. EIG is comprised of AC Energy, Inc. (AC Energy) and AC Infrastructure Holdings Corp. (AC Infra). As such, Ayala actively invests in both greenfield and brownfield projects, and is an active participant in the government's Public Private Partnership (PPP) initiative.

2. Metro Pacific Investments Corporation

Metro Pacific Investments Corporation, an investment holding company, develops infrastructure assets through its investments in water, toll roads, power generation and distribution, healthcare services, and light rail and logistics in the Philippines. The company’s Water segment provides water and sewerage services through a network of pipelines, pumping stations, and mini-boosters in the West Service Area of Metro Manila. The company’s Power Distribution segment constructs, operates, and maintains the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal.

3. Alliance Global Group, Inc.

Alliance Global Group, Inc. is one of the Philippines' largest conglomerates, with interests in the food and beverage industry, real estate development and quick service restaurants. AGI is a holding company for a group of companies controlled by the Tan Family. Through its subsidiaries, associates and other investments, the Company operates a diversified range of businesses in the Philippines that focus on developing products and services that cater to the growing Filipino middle class.

4. SM Investments Corp.

SM Investments Corporation, together with its subsidiaries, engages in the property, retail, and financial services and other businesses in the Philippines.

The company’s Property segment is involved in the mall, residential, and commercial development, as well as the operation of hotels and convention centres. It develops, conducts, operates, and maintains commercial shopping centres, as well as conducts, operates, and maintains shopping centre spaces, amusement centres, or cinema theatres within the shopping centres. This segment also engages in the development and transformation of residential, commercial, entertainment, and tourism districts.

As of December 31, 2016, it operated 67 malls in the Philippines with a total gross floor area of 8 million square meters; and 7 malls in China with a total gross floor area of 1.3 million square meters. Its retail segment is involved in the retail/wholesale trading of merchandise, such as dry goods, wearing apparels, food, and other merchandise. As of December 31, 2017, this segment operated 2,032 stores, including 59 SM stores, 52 SM supermarkets, 181 SaveMore stores, 47 SM hypermarkets, 46 WalterMart stores, and 348 Alfamart stores, as well as 1,299 specialty stores.

5. Aboitiz Equity Ventures, Inc.

Aboitiz Equity Ventures, Inc. is a holding and management company. The Company and its subsidiaries are engaged in various business activities in the Philippines, including power generation and distribution, food manufacturing, banking and financial services, real estate development and infrastructure. The Company also has portfolio investments in other companies.

The Company's segments are power, which is engaged in power generation and sale of electricity; food manufacturing, which is engaged in the production of flour and feeds and swine breeding; financial services, for banking and money remittance operations; real estate, for real property development for sale and lease; infrastructure, which is engaged in the production of cement and other building materials and in the supply of treated bulk water, and the parent company and others, which include the operations of the Company and the service provider subsidiaries that cater mainly to the Group.

6. DMCI Holdings, Inc.

DMCI Holdings, Inc. (DMC) is a holding company to consolidate all construction business, construction component companies, and related interests of the Consunji family. DMC also has subsidiaries or affiliates that are engaged in the businesses of construction, real estate, coal and nickel mining, power generation, and water distribution. The Company's subsidiaries are D.M. Consunji, Inc.; DMCI Project Developers, Inc.; Semirara Mining and Power Corporation; DMCI Power Corporation; and DMCI Mining Corporation. The Company has a 25% interest in Maynilad Water Services, Inc. through Maynilad Water Holding Company, Inc., a consortium with Metro Pacific Investments Corporation and Marubeni Philippines Corp.

7. San Miguel Corporation

San Miguel Corporation is a diversified conglomerate. The Company's segments are beverage, food, packaging, energy, fuel and oil, and infrastructure. The energy segment is conducted through SMC Global Power Holdings Corp. (SMC Global Power), which is engaged in the Filipino power generation industry. The fuel and oil segment operate its fuel and oil business through Petron Corporation (Petron). The infrastructure segment is conducted through San Miguel Holdings Corp. (SMHC), which consists of investments in companies that hold long-term concessions in the infrastructure sector in the Philippines.

8. JG Summit Holdings, Inc.

JG Summit Holdings, Inc. (JGS), which is controlled by the Gokongwei family, was incorporated in November 1990 as the holding company for a group of companies with substantial business interests in foods; agro-industrial and commodities; real estate and hotel; air transportation; banking; and petrochemicals. The Company also has core investments in telecommunications and power generation and distribution.

The Company conducts its businesses throughout the Philippines, but primarily in and around Metro Manila and in the regions of Luzon, Visayas and Mindanao. JGS, through its subsidiaries, also has branded foods businesses in the People's Republic of China, ASEAN, New Zealand and Australia, and a core investment in a property development company in Singapore.

Among JGS' subsidiaries are JG Summit Petrochemical Corp.; CP Air Holdings Inc.; Universal Robina Corporation; Robinsons Land Corporation; and Robinsons Bank Corporation. The Company also holds 8.0% interest in PLDT Inc., 27.1% interest in Manila Electric Company, and 30.0% interest in Global Business Power Corporation.

9. GT Capital Holdings, Inc.

GT Capital is a listed major Filipino conglomerate with interests in market-leading businesses across banking, property development, infrastructure and utilities, automotive assembly, importation, wholesaling, dealership, and financing, and life and non-life insurance. GT Capital is the primary vehicle for the holding and management of the diversified business interests of the Ty family in the Philippines.

10. LT Group, Inc.

LT Group, Inc. is a Philippines-based company that purchases, exchanges, assigns and holds investments and properties. The Company's segments include Banking, Distilled Spirits, Beverage, Tobacco, Property Development and Others. The Banking segment provides a range of banking and other financial services to corporate, middle-market and retail customers and various government agencies. The Distilled Spirits segment is involved in manufacturing, compounding, bottling, importing, buying and selling rum, spirit beverages and liquor products. The Beverage segment is engaged in brewing, and soft drinks and bottled water manufacturing. The Tobacco segment manufactures and supplies cigarettes, casings, tobacco, packaging, labels and filters. The Property Development segment owns, develops, leases and manages residential properties. The Others segment consists of holding companies that provide financing for working capital and capital expenditure requirements of its operating businesses.

Appendix 4: Doing business in the Philippines

1. Regulatory Framework

The Filipino government provides generous support incentives to attract more investments. BOI incentives include an income tax holiday for a period of six years for pioneer enterprises and four years for non-pioneer enterprises; the employment of foreign nationals in a supervisory, technical or advisory position for a period of five years; a deduction from taxable income of 50% of labour expenses; and unrestricted use of consigned equipment.

Aside from the BOI, the Philippine Economic Zone Authority (PEZA) also provides an incentives package include the option to pay a special 5 % tax on gross income earned in lieu of all national and local taxes; exemption from payment of import duties and taxes on imported machinery, equipment and raw materials; a deduction equivalent to 50 % of training expenses; permanent resident status for foreign investors with initial investment of USD 150 000 or more.

Together with strategies being implemented by the Department of Education of the Philippines to improve education and training and produce more graduates for the labour market, these aggressive government incentives are strengthening the Philippines' already healthy position as a value destination for investors.

In connection with the Government's present review of corporate tax and incentives, a streamlining of incentives is being expected at the end of 2018.

2. Foreign Equity Restrictions

Republic Act No. 7042 or The Foreign Investments Act of 1991 (FIA) regulates the Participation of foreign entities in economic and commercial activities in the Philippines. The FIA also requires the publication of the Foreign Investment Negative List (Negative List) – which outlines economic activities where foreign equity and participation are either prohibited or limited to a specific percentage.

The Negative List has two component lists: List A and List B. List A contains areas of investment where foreign ownership is limited by mandate of the Philippine Constitution or by specific laws. List B contains areas of investment where foreign ownership is limited for reasons of security, defence, risk to health and morals, and protection of local small-and-medium enterprises (SMEs). Except for activities where restrictions on foreign equity are imposed under the Philippine Constitution or statutes, the President of the Philippines may amend the Negative List and such amendments should not be made more than once every two (2) years.

The regular Negative List is updated and issued every two years and the current list being implemented is the tenth version signed into law by Former President Benigno S. Aquino III under Executive Order No. 184 in May 2015. The eleventh version has been drafted and submitted to the Office of the President last October 2017 and is pending for approval from President Rodrigo Duterte. It is expected that further liberalization will be part of the new list to be published in the first half of 2018.

The 10th version retained the list of activities and sectors restricted to foreign equity and participation previously provided in the 9th regular Negative List and earlier versions. Under the impending 11th version, however, the Duterte administration is keen on reducing restrictions in almost every area of investment in the Philippines (except land ownership) to boost the entry of foreign direct investments into the country.

In cases other than above, the rules for foreign equity capital are as follows:

- For domestic market enterprises (which are defined as companies deriving at least 40 % of their revenue from sources within the Philippines), Foreign equity is limited to 40 %. It also means that a Foreigner cannot be company President. However, if your domestic market business has a minimum paid in capital of USD 200,000 or more, the equity cap can be lifted and foreigners can fully own their businesses. Moreover, if your business will employ 50 people or more, or operate with advanced technology, the cap-related capital can be reduced to just USD 100,000.
- For export-oriented enterprises (which are defined as companies deriving at least 60 % of their revenue from sources outside the Philippines), they can do away with the capitalization requirement and go beyond the 40 % cap on equity owned by foreigners.
- The Philippines also has an Anti-Dummy Law, formally known as the Commonwealth Act No. 108, which penalizes individuals who violate the restrictions on foreign equity and those who evade laws on nationalization. The Anti-Dummy Law also forbids the so-called "dummy arrangement" wherein foreign investors arrange for locals to buy a land in the Philippines and register the property under the local's name. Both locals and foreign nationals caught violating this law could be put to jail for five to 15 years or asked to pay a large fine.

A senate bill has been filed to discard investment restrictions in a 78-year-old law that prevents foreign contractors from bidding on locally funded government public works projects. Under the existing law, only firms with 75 percent Filipino ownership or more can bid on locally funded public works.

In filing Senate Bill (SB) 1907, the lawmaker said he seeks to "provide a more level playing field and extend equal opportunities to eligible and qualified domestic and foreign bidders to participate in the bidding by the government for public works projects."

"This bill should be considered in the context of positioning the Philippines more competitively and attracting new investments in the construction industry, to enable the government to deliver the much-needed infrastructure that would support the country's initiatives in providing a business climate conducive to investments in the country,".

SB 1907 amends Commonwealth Act 541 (CA 541), or "An Act to Regulate the Awarding of Contracts for Construction or Repair of Public Works," to extend equal opportunities in awarding or negotiating contracts to eligible and qualified domestic and foreign contractors.

3. Taxation

The Philippine tax regulations include national government and local government taxes. The Philippines has a tax treaty with Denmark for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income that was signed in Copenhagen in 1995.

The Tax Reform for Acceleration and Inclusion (TRAIN) is the first package of the comprehensive tax reform program (CTRP) envisioned by President Duterte's administration, which seeks to correct several deficiencies in the tax system to make it simpler, fairer, and more efficient.

TRAIN lowers personal income tax (PIT) for all taxpayers except the richest. Under TRAIN, those with annual taxable income below P250,000 are exempt from paying PIT, while the rest of taxpayers, except the richest, will see lower tax rates ranging from 15% to 30% by 2023. To maintain progressivity, the top individual taxpayers whose annual taxable income exceeds P8 million, face a higher tax rate from the current 32% to 35%.

TRAIN aims to clean up the VAT system to make it fairer and simpler and lower the cost of compliance for both the taxpayers and tax administrators. This is achieved by limiting VAT exemptions to necessities such as raw agriculture food, education, and health.

As of now, a domestic corporation is taxed on in its net income from all sources at the rate of 30 %. A resident foreign corporation, such as a branch, is equally to the domestic corporation taxed on its net income from Filipino sources. A non-resident foreign corporation is taxed 30 % of its gross income from Filipino sources. A foreign corporation is considered a resident when it is licensed by the Securities and Exchange Commission (SEC).

The five basic proposals under Package 2 of the tax reform program are:

- Lowering the Corporate Income Tax (CIT) rate while reorienting the fiscal incentives regime to attract the "industries of tomorrow;"
- Amending the tax code to improve tax compliance, harmonize the governance of incentives through the Fiscal Incentives Review Board (FIRB), and repeal some exemptions. The DOF is also proposing improvements in the Tax Incentives Management and Transparency Act (TIMTA). to ensure transparency and accountability of incentives;
- Repealing 123 special laws on investment incentives and consolidating them in one omnibus incentive law;
- Keeping the income tax holiday and other income-based incentives, while replacing the 5 percent Gross Income Earned (GIE) tax in lieu of all taxes with a 15 percent tax on net taxable income to narrow the gap between those under the standard rate and incentives recipients; and
- Rethinking the current practice of the 5 percent GIE "in lieu of local taxes", which is unfair to local government unite (LGUs).

The TRAIN 2 Package is still currently under discussion but the targeted approval date is the end of 2018.

4. Starting a business in the Philippines

- The step-by-step Guide for registering a business in the Philippines by Foreign Investors has been provided by the Philippine Board of Investments and is in ANNEX B.
- Danish companies looking to sell products in the Philippines, under most circumstances, should have a good local agent or distributor that is well-connected and well-versed with the specific industry. This would greatly improve the opportunity for market success for the Danish company. However, it is advisable that in-depth background checks should be conducted to ensure the credibility of these potential local partners.
- Corporate agents/distributors should register with the Philippine Securities and Exchange Commission (SEC). Sole proprietorship agents should be registered with the Department of Trade and Industry (DTI).
- In the Philippines, there are two types of importers: stocking distributors and indenters.
- Stocking distributors are bound by a contract to buy and sell a prescribed number of items as stated in their agreement with the foreign supplier.

- Indenters act as brokers between foreign suppliers and the end user, thus saving on capital outlays for expensive equipment and avoiding the need to stock high-priced products. Usually, a buyer who orders from an indenter already has the financing for the goods.
- Customers will often open a letter of credit (L/C) for direct purchase from a foreign exporter. Under these arrangements, the local representative or agent gets a commission for the sale, known as an indent sale. Indenters also handle after-sales service support.
- Danish companies may also offer their products and services directly to local clients such as the large conglomerates and developers, subject to local laws and taxes. Several large Filipino corporations have a "vendor accreditation process". Only accredited suppliers are informed of upcoming procurement projects.
- For Government projects, Danish companies should be knowledgeable on relevant laws in the Philippines, specifically, Republic Act (RA) No. 9184 or the Government Procurement Reform Act (GPRA).
- The Ease of Doing Business and Efficient Government Service Delivery Act was signed by the Filipino President in May 2018. The new law, an amendment of the Anti-Red Tape Act of 2007, seeks to make the process of putting up and running a business in the Philippines easier and more efficient.