COMMISSION ON GROWTH AND DEVELOPMENT

WORKING PAPER NO.39

The Political Economy of Reform during the Ramos Administration (1992–98)

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Marie-Christine G. Tang

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About the Series

The Commission on Growth and Development led by Nobel Laureate Mike Spence was established in April 2006 as a response to two insights. First, poverty cannot be reduced in isolation from economic growth—an observation that has been overlooked in the thinking and strategies of many practitioners. Second, there is growing awareness that knowledge about economic growth is much less definitive than commonly thought. Consequently, the Commission's mandate is to "take stock of the state of theoretical and empirical knowledge on economic growth with a view to drawing implications for policy for the current and next generation of policy makers."

To help explore the state of knowledge, the Commission invited leading academics and policy makers from developing and industrialized countries to explore and discuss economic issues it thought relevant for growth and development, including controversial ideas. Thematic papers assessed knowledge and highlighted ongoing debates in areas such as monetary and fiscal policies, climate change, and equity and growth. Additionally, 25 country case studies were commissioned to explore the dynamics of growth and change in the context of specific countries.

Working papers in this series were presented and reviewed at Commission workshops, which were held in 2007–08 in Washington, D.C., New York City, and New Haven, Connecticut. Each paper benefited from comments by workshop participants, including academics, policy makers, development practitioners, representatives of bilateral and multilateral institutions, and Commission members.

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The working paper series was produced under the general guidance of Mike Spence and Danny Leipziger, Chair and Vice Chair of the Commission, and the Commission's Secretariat, which is based in the Poverty Reduction and Economic Management Network of the World Bank. Papers in this series represent the independent view of the authors.

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Abstract

This paper is one of several case studies prepared for the World Bank. The objective of the case studies is to provide the Commission on Growth and Development insights on the policy reform process in developing countries that give rise to economic growth.

In contrast to other countries where economic reforms ushered in a long period of sustained growth, there is no such episode in Philippine economic history. Since the restoration of democracy in 1986, the Philippines under the Ramos administration came closest to breaking out of its "sick man of Asia" image. The confidence generated by the administration among local and international players and analysts resulted from wide-ranging reforms rooted primarily in a sound macroeconomic and investor-friendly regime as well as global competitiveness.

This study is not intended as a scorecard of the Ramos Administration. Rather, it concentrates on three specific sector reforms during the Ramos administration that demonstrate the elements of successful reform processes. These reforms not only helped to free up demands on public finances then—considered, in today's parlance, the "binding constraint" on needed public investment and reduced risk premium to encourage private investments—but over time brought gains, some unforeseen and broader in terms of positive spillover effects on the rest of the economy, and linkage to overall growth today.

Viewed under political economy lenses, the main point weaved from the three stories is the importance of strong political leadership in a country with a historically weak state where special interests hold sway over policy-making processes. Ultimately, it is the president—his person, character, vision for the country, and ability and willingness to spend political capital—who can muster the national consensus, clear roadblocks, and drive the reform agenda forward.

Ongoing challenges in the three reformed sectors today, which some have used as arguments against reform, should rather be seen as part and parcel of the reform process where rules that build on past successes and lessons learnt continually evolve with changing external and internal conditions.

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Background

The Long-Term Growth Context

Charting the Philippine's economic growth record reveals a boom-bust picture with the economy unable to sustain growth of over 5 percent for more than six years (figure 1). The only time that growth stayed above 5 percent for six years was in the late 1970s. Even then, the economic expansion, financed by massive foreign borrowings (from 1975 to 1982, the country's foreign debt stock quintupled from $4.9 billion to $25 billion), paved the way for a deep external payments crisis in the early 1980s. The Marcos dictatorship (1965–86) ended soon after in February 1986.

The first twelve years after the restoration of democracy in the Philippines coincided with even more volatile growth. A brief "boom"—two years of over 5 percent growth—was followed by a "bust," where growth became flat or even negative. While this was a period of significant economic reforms—both the Aquino and Ramos governments espoused liberal economic policy—and capital buildup, it was also a period marked by political difficulties (several coup attempts through 1992); natural disasters (including a major earthquake in 1990 and a devastating volcanic eruption in 1991); and, toward the end, the Asian crisis. A debilitating power shortage moreover contributed to the economy's contraction in 1991.

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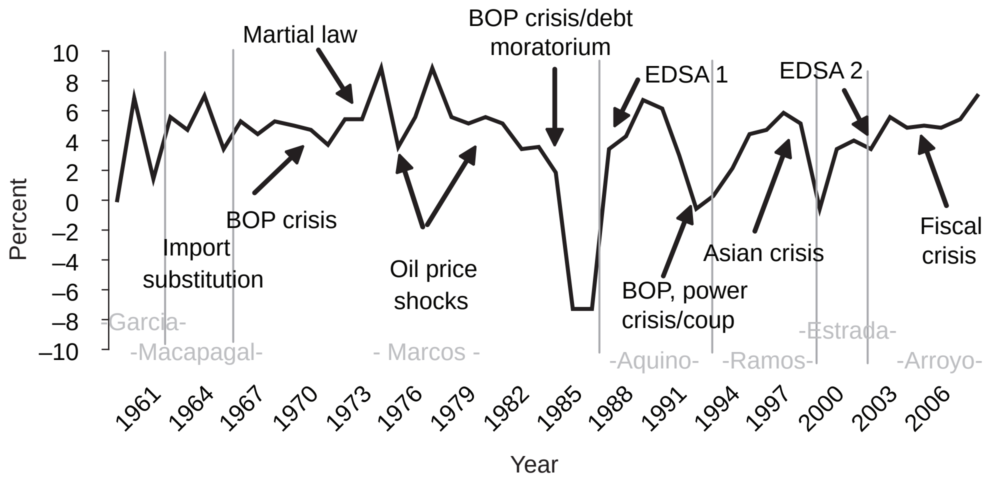
Figure 1: Philippine Historical GDP Performance



Source: http://www.imf.org.

While the growth episodes were brief, the quality of growth, grounded on employment-generating investments in plant and equipment, may be deemed superior to the current remittance cum consumption-driven economic expansion. Investment activity then was based on tremendous amounts of domestic and international goodwill and, especially during the Ramos administration (1992–98), a lot of consumer and investor exuberance and confidence in the Philippines. As reported in one international magazine,[2] "new businesses, once discouraged by the unfair domination of Marcos cronies, are busting onto the scene," and projects in the hundreds of millions that businessmen "could only dream of before" became regular fare. The macroeconomic environment was moreover characterized by stable prices and record tax collection as a percentage of GDP.[3]

Reforms—trade and investments liberalization, tax policy reform, privatization of government assets, restructuring of government enterprises—enabled investments to come in while improving government's financial position. The Philippine government under President Ramos was finally seen as one that could "set its mind to do something and actually do it."[4] Indeed, the reforms brought the economy within sight of newly industrializing economy (NIC) status and by 1997 the Philippines was one step away from an investment-grade rating.[5]

Philippine growth today owes much to the reforms introduced over this 12-year period. Outside of workers' remittances that have allowed the economy to

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[2] Dorinda Elliott, "From the Ashes," *Newsweek*, 25 November 1996.

[3] Although inflow of short-term "hot money" also rose, these were less than what other Asian economies received.

[4] Ibid, quoting an ADB economist.

[5] Standard & Poor's in early 1997 issued a positive outlook report on the Philippine's BB+ credit rating.

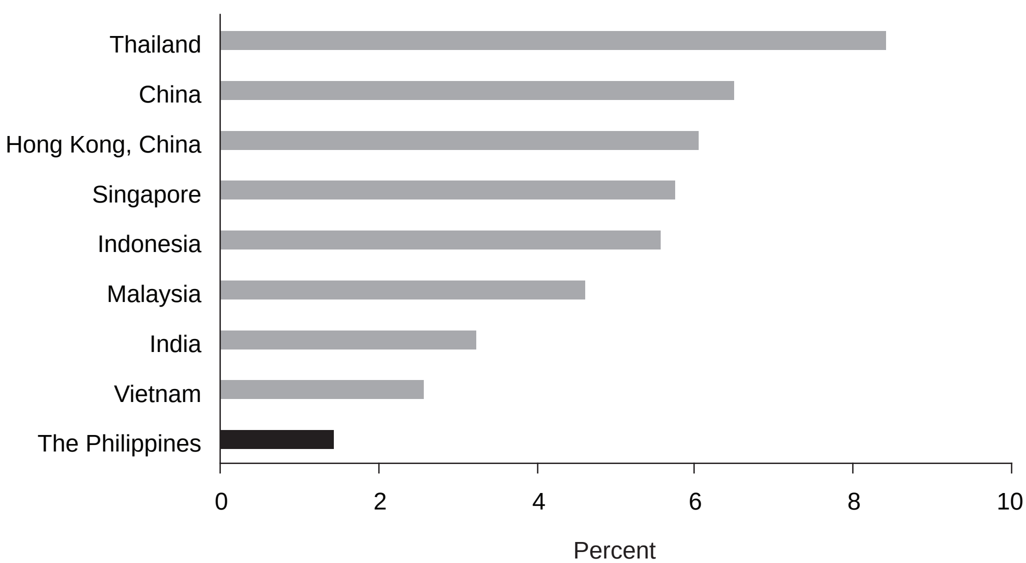
tread a more stable growth path since 2002, some of the economy's most dynamic sectors (for example, electronics exports, telecommunications, business process outsourcing) would not have been possible if not for the reforms during this period. Likewise, in light of the present global rise of oil, food, and other commodity prices, a number of the reforms during the period (for example, removal of oil subsidies, creation of an independent monetary authority, tariff reduction) have directly contributed to current macroeconomic stability.

The Reform Context

When the Ramos administration assumed office in 1992, the Philippines, in analysts' view, remained the sick man of Asia. Per capita income growth continued to lag versus neighboring economies (figure 2). In a region where most other economies were growing robustly, the domestic economy, weighed down by a large public debt inherited from the Marcos regime, coup attempts, and a severe power shortage, had failed to keep up, with output even contracting in 1991. Indeed, a lot of the traditional features of the economy that observers have noted to be more Latin American than Asian persisted.

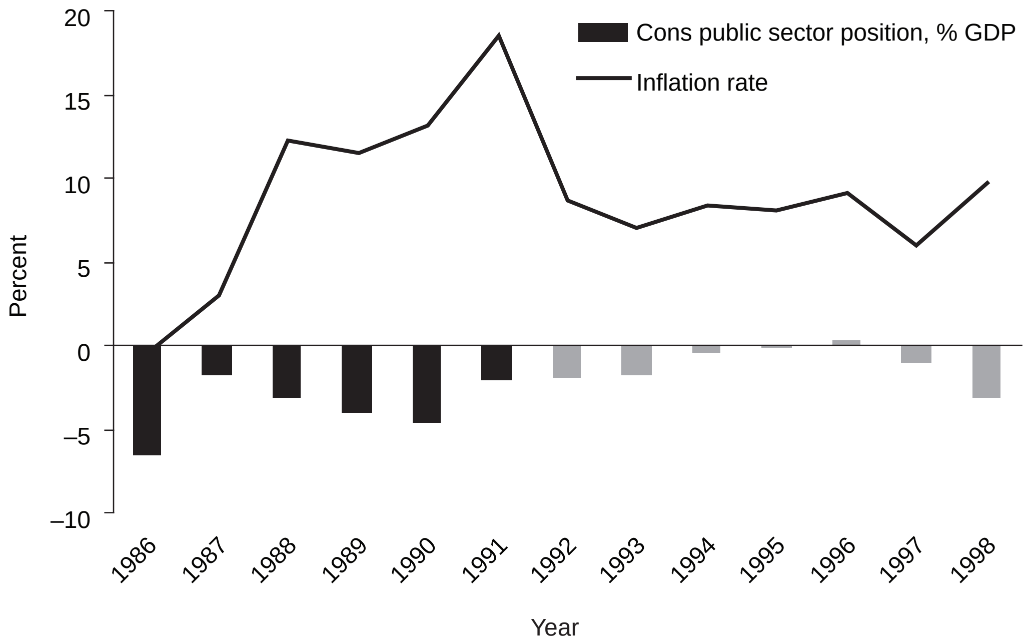
Inflation rates and interest rates were at double-digit levels; public debt stock was high, which resulted in government devoting over a third of its revenues on servicing interest payments; and domestic savings were low (figure 4), in part due to persistent government deficits, such that investment financing relied heavily on foreign capital (figure 5). There were, moreover, extensive end-user subsidies in basic sectors (for example, power, water, fuel, transport) that not only worsened public corporations' bottom lines but also, coupled with an ill-defined regulatory regime, discouraged private investments.

Figure 2: GDP per Capita Growth Rate, US$ Constant, Average 1986–91



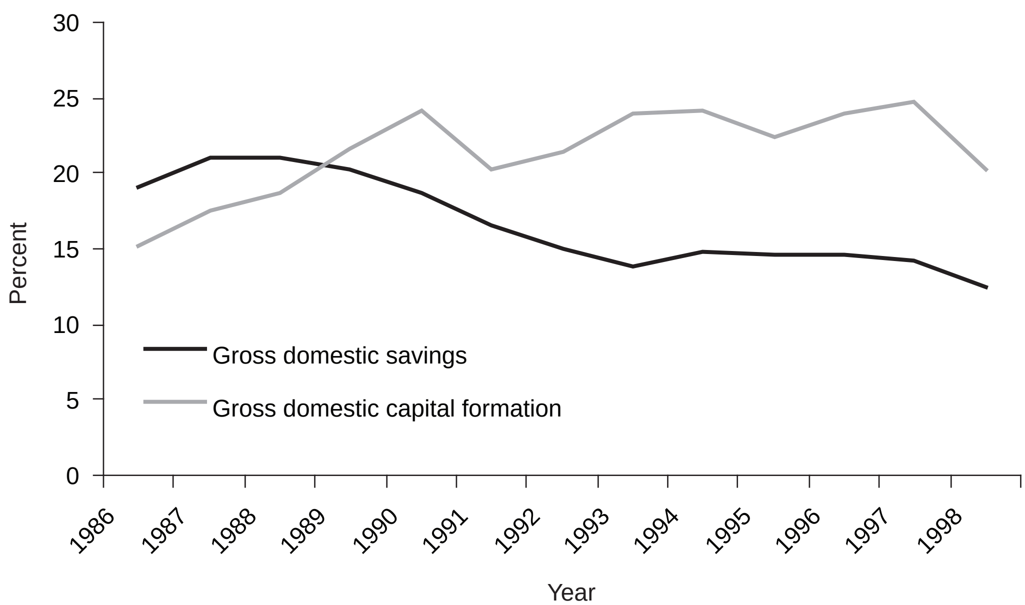
Source: Development Data Group, The World Bank.

Figure 3: Fiscal Position and Inflation Rate



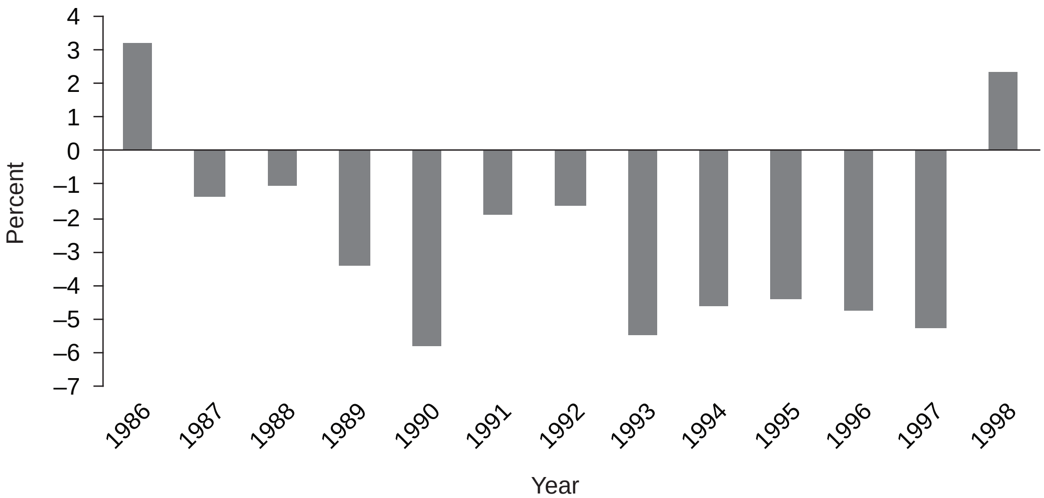
Source: Department of Budget and Management for CPSD; Bangko Sentral ng Pilipinas for inflation.

Figure 4: Savings and Investments, % of GDP



Source: ADB Key Indicators, various years.

Figure 5: Current Account Balance, % of GDP



Source: Bangko Sentral ng Pilipinas (old BOP concept).

Political analysts today regard the Ramos administration as a reformist government. A year before it came to power, the Philippine senate had voted to reject a new treaty that would allow U.S. bases to stay in the country. Expecting dwindling American support following troop withdrawal, President Ramos had "made Filipinos responsible for their own fate,"[6] fostering closer ties with neighboring economies, and exploring other avenues for expanding international trade and investment (including accession to the World Trade Organization in 1995 and acceleration of tariff reduction to a uniform 5 percent rate under the ASEAN Free Trade Agreement).

The administration's vision had been to pursue reforms that would create a level playing field, which was seen as the key for competition to thrive and for the Philippines to be globally competitive and prosperous.[7] President Ramos had a broad reform agenda covering not only economic liberalization measures (for example, continuing trade liberalization, privatization, dismantling monopolies and cartels) but also institutional reforms (tax and customs administration, bureaucracy, judiciary), redistributive reforms (social reform agenda), and

[6] Elliott 1996.

[7] General Almonte traces this vision to way back in 1956 when, as Commanders of army platoons fighting communist insurgents in Southern Luzon, Captain Ramos and Second Lieutenant Almonte began asking why Filipino soldiers were being ordered to kill fellow Filipinos. It was however only much later that they were able to satisfactorily answer this question. Observing the events post-1986, General Almonte noted that unlike other societies that have used their freedoms to build nations, Filipinos, especially their leaders, have failed to use the freedom acquired to transfer power to the people and make the Filipino people wealth creators. As a result, without a level playing field, the tendency is for everybody "from top to bottom" to exercise freedom for themselves, creating an environment where people become poor. From this view of Philippine development emerged President Ramos's vision of establishing a level playing field.

political reform (party system, electoral process).[8] At the end of the day, he had been most successful where the reform effort entailed liberalization and deregulation, that is, getting government out of the way to foster market efficiency. The success record of his programs for institutional reform is less evident, partly because these are by nature more intractable and complex and require sustained action over a long period, perhaps longer than a president's term.

As with many reform-oriented developing countries at the time, the Ramos government's reform agenda had been shaped by the "stabilize, privatize and liberalize"[9] doctrine of the Washington Consensus. Within this framework, the government sought to achieve macroeconomic stability, accelerate trade liberalization, and where and when it could, deregulate and privatize industries (for example, oil, transportation, water), dismantle monopolies (for example, telecommunications), and attract more private investments (for example, through the passage of the BOT (Build-Operate-Transfer) Law providing the framework for private sector participation in infrastructure projects). These reforms were moreover embedded in the Philippine's programs under the International Monetary Fund (IMF) and successive World Bank adjustment loans.

The thinking was that early victories with these so-called "low-lying fruits" would win credibility for the president's reform program and catalyze responses of a broader nature (primarily by promoting investor interest and expanding the economic growth frontier) and, with success, generate support for further reforms. While in hindsight, many today would argue that the government went too far, especially in the area of financial liberalization that increased the economy's vulnerability to the Asian crisis,[10] the markets at the time were warming up to the Philippines with the government's every reform measure. By the mid-1990s, the international community had been alerted to the emergence of "the next Asian tiger."[11]

The Washington Consensus

Fiscal discipline	Trade liberalization
Reorientation of public expenditures	Openness to direct foreign investments
Tax reform	Privatization
Financial liberalization	Deregulation
Unified and competitive exchange rates	Secure property rights

Source: Rodrik 2006, p. 978.

[8] Categorization of reforms based on de Dios and Hutchcroft 2003.
[9] Rodrik 2006.
[10] Like many of its peers in the region.
[11] Elliott 1996.

The Political Economy Context

In contrast to the period immediately following the People Power Revolution when Filipinos geared up for wide-scale political, economic, and social reforms, the political economy in 1992 was far less conducive for reform. It was easy at the time, especially in light of authoritarian rule in more successful neighboring economies, to lay the Philippine's failure to keep up on the doorstep of democracy.[12] Indeed, not only was there a lengthier process of consensus building for reforms, but the system of checks and balances patterned after the U.S. political setup was superimposed by a system where politicians aspire for office in order to protect particular interests. Hence, the situation was inhospitable to reform, particularly reforms for leveling the playing field and cultivating competitiveness.

As may be seen in the first general election after the restoration of democracy, elections in the country are fiercely fought. There were seven aspirants to the presidency, differentiated more by personal qualities rather than any party ideology or platform, a feature of Philippine electoral contests. Fidel Ramos had won but only with the backing of then President Corazon Aquino and only by a small margin—24 percent of the votes cast versus 20 percent of the next ranked. The narrow victory made it important for the president to form alliances and partnerships in order to build constituencies for his reform agenda.

At the beginning of his term, it appeared that the country's elites—rich and powerful groups with deeply entrenched interests in major sectors of the economy—distrusted President Ramos, seeing perhaps that he was not cast in the mold of the traditional politician.[13] A West Point graduate and career military officer who held MBA and civil engineering degrees, he had won fame through his role in the popular uprising that toppled Marcos's over 20-year authoritarian rule (he was then the Vice Chief of Staff of the Armed Forces of the Philippines) and had garnered President Aquino's support by thwarting some seven coup attempts against her while serving first as the Armed Forces Chief of Staff then her Defense Secretary. On the other hand, given the elites' either direct representation in Congress or rent-seeking abilities, they were in a position to obstruct his reform agenda. Indeed, when President Ramos assumed office, only two of the 24 senators (one of them his sister) and 38 of the 205 congressmen belonged to his party.[14]

[12] In a speech in Manila in 1992, Singapore's Senior Minister Lee Kuan Yew blamed the "undisciplined and disorderly conditions" brought by democracy's "exuberance" for the Philippine's backwardness.

[13] Tiglao (1993d) narrated that when President Ramos started pushing for reforms in the telecommunications sector, the patriarch of a prominent family digressed from a prepared speech and stated that "There is a determined effort, on the part of some officials in sensitive places, to look upon business, particularly large and established ones, as detrimental to the national interest."

[14] Interview with President Ramos, 14 February 2007, Ramos Peace & Development Foundation, Inc., Export Industry Bank Building, Gil Puyat Avenue, Makati City.

In this regard, President Ramos's tenure in the Aquino cabinet had served him well. The experience gave him an insider view of the different personalities inside and outside the bureaucracy and insights on how to work within the system. This was manifested for example in the way the president got things accomplished in the bureaucracy (requiring "complete staff work" from various departments on each issue and personally following up the work by due dates) as well as his dealings with Congress, where discretionary funds of legislators (for example, Countrywide Development Fund) were generously doled out. By this means, the president, together with a close ally, the Speaker of the House, was able to obtain the lower house's backing for many of his administration's proposals.

One of the first legislative priorities was the establishment of the Legislative-Executive Advisory Council (LEDAC).[15] The LEDAC, a coordination and cooperation body among the executive and the two houses of Congress, was the president's strategy to ensure policy consistency between the two branches of government. Over the course of his term, 40 members of the LEDAC met every week whenever Congress was in session—an estimated 30 meetings a year.[16] Thus, the congressional agenda during the Ramos administration was more aligned with the executive's—almost 60 percent of the laws passed during the time were administration-certified (versus 40 percent under the Aquino administration).[17]

Even with the LEDAC in place however, the president still had to contend with less than full cooperation from Congress, especially from the upper house, and especially where proposed reforms would hurt protected interest groups.[18] As well, losing parties' increasing reliance on the court system to settle disputes, even of the economic policy kind, would become a recurring problem for his government (see the oil deregulation case study[19]).

President Ramos also sought to pacify other, more militant, elements of society that had proved disruptive to political stability during the Aquino administration. Very early in his term, he forged peace pacts with three radical groups—rebel soldiers, communist insurgents, and Muslim separatists—that have in the past posed threats of varying gravity to government authority. To the

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[15] Created under RA 7640, the LEDAC was composed of 20 members with the president as chairman and the following as members: the vice president, the President of the Senate, the Speaker of the House of Representatives, seven members of the cabinet (depending on sector being tackled), three members each of the Senate and the House of Representatives (minority leaders, others depending on sector), and one representative each from the local government units, the youth, and the private sector (may be drawn from business, cooperatives, agriculture, and labor).

[16] Interview with President Ramos, 14 February 2007.

[17] Lumauig 1998.

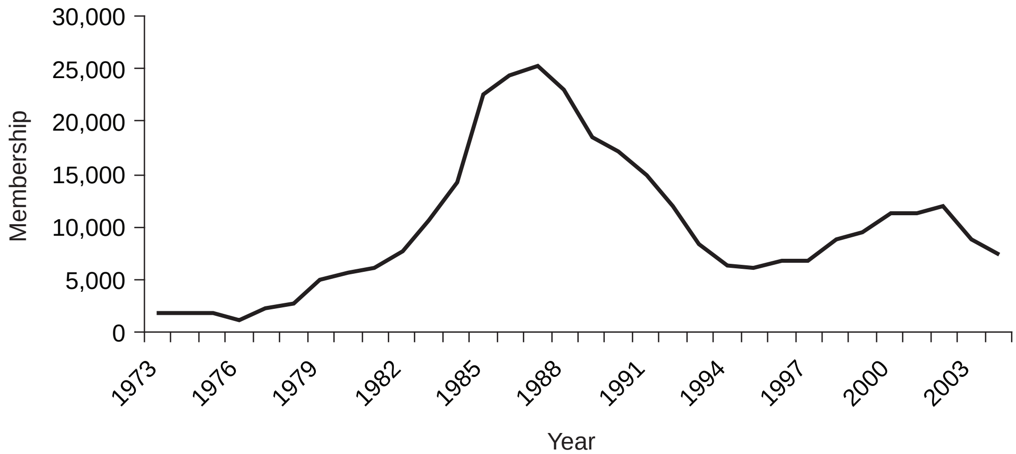
[18] Based on the authors' interviews, this became especially apparent during deliberations on the 1997 tax reform program when the Department of Finance found itself "negotiating" with specific sectors whose representatives were brought along by legislators to discussions on the proposed measure.

[19] Department of Energy 2005.

first group, he granted amnesty. To the second, he assured "political space" by repealing the law outlawing the Communist Party.[20] With the third, he resumed peace talks that led to the 1996 peace agreement and the end of more than two decades of conflict between the Philippine government and the Moro National Liberation Front (MNLF).[21] As a result, during his presidency, the strength of Muslim separatist groups and the New People's Army waned.

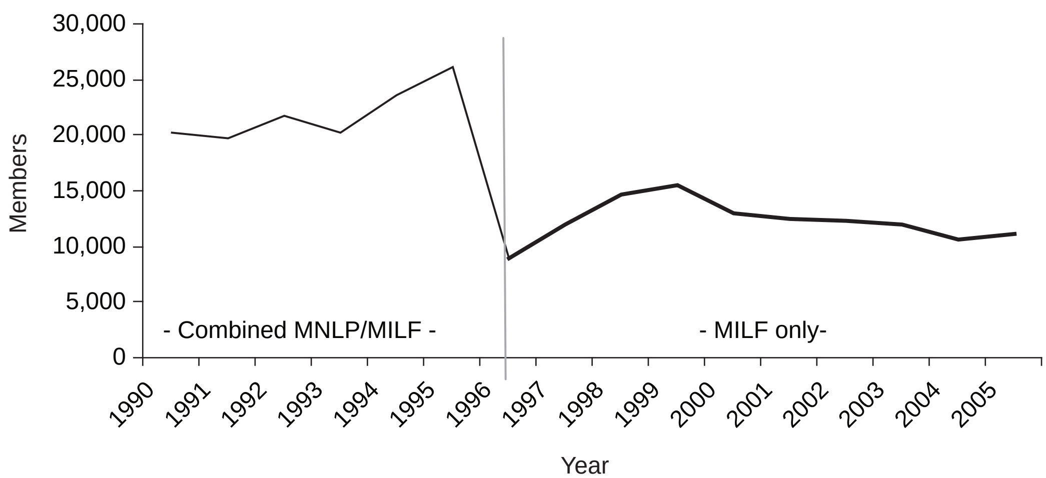
Finally, deserving mention is the president's participatory leadership style, with a noted "penchant for summitry." These summits, where stakeholders gathered to discuss issues on specific topics, may not have always produced much substance-wise but created a lot of goodwill and gave people a sense of ownership and an opportunity to buy into the reform.

Figure 6: Trends in New People's Army Strength



Source: Independent Insights, Inc.

Figure 7: Aggregate Strength of Muslim Separatist Groups



Source: Independent Insights, Inc.

[20] Fidel Ramos, "A Peace with Honor," 2 September 1992.

[21] See Iribani 2003.

Case Studies of Three Reform Experiences

De-monopolization of Telecommunications

Attributed to Singapore Senior Minister Lee Kuan Yew, the line "the Philippines is a country where 98 percent of the residents are waiting for a telephone and the other 2 percent are waiting for a dial tone" best describes the situation of the domestic telecommunications industry in 1992. An estimated 800,000 applicants, 75 percent in the country's capital, Metro Manila, were queuing for a telephone line.

At the time, the Philippine Long Distance Telephone Company (PLDT), which owned the only nationwide transmission backbone, was a virtual monopoly, controlling over 90 percent of the country's telephone lines. Its controlling shareholder, the Cojuangco family, was politically well-connected, its influence extending across the three branches of government as well as the media.[22] In 1986, government sequestered PLDT shares from Marcos cronies but over the next six years, "the influence of the Cojuangco family in the legislature and the bureaucracy and its control of a major newspaper turned government policies more favorable toward PLDT and ensured that the Presidential Commission on Good Government representatives on the boards of PTIC[23] and PLDT remain inactive."[24]

According to reports, none of the telephone companies operating at the time were in a position to challenge PLDT's leadership. Following news accounts, PLDT, instead of expanding its network to meet service demand, "spent heavily for the protection of its market share."[25] For instance, when the previous government decided to open up the sector to competition, reports indicate that PLDT was able to secure as needed favorable legal rulings to block prospective entrants.[26] It had apparently been a risky venture for the president to go after PLDT. "If he loses in this duel with the Cojuangco clan … the president's credibility as a strong leader will be severely dented," observed one report at the time.[27]

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[22] Through the family-owned *Manila Chronicle*, one of the biggest newspapers at the time.

[23] Philippine Telecommunications Investment Corp., the largest shareholder in PLDT at the time. (Tiglao, 1993d)

[24] Esfahani, 1994. It is not altogether clear what the role of President Aquino, herself a Cojuangco, was in the case. Rigoberto Tiglao ("On the Hook," FEER, March 1993c) reported that then Chairman of the Presidential Commission on Good Government (PCGG), Jovito Salonga, distanced himself from the case after a conversation with President Aquino, Antonio's aunt. Aquino said that "the Antonio Cojuangco family is not that bad, and is different from Danding's," her cousin whose shares in San Miguel Corp. had been sequestered. President Aquino confirmed the statement but denied that she had meant to discourage PCGG from pursuing the case.

[25] Rigoberto Tiglao, quoting the World Bank ("Into a Corner," FEER, February 1993a).

[26] PLDT secured (i) a Supreme Court decision in 1992 reversing its initial ruling allowing Eastern Telecoms to operate an international telephone gateway, and (ii) a Department of Justice opinion blocking another competitor, Digital Telecommunications, from operating a telephone network in Luzon that it had won in a privatization bid (Esfahani 1994).

[27] Tiglao 1993d.

Nevertheless, the Ramos administration proceeded to pry the sector open with various tactics. These ranged from encouraging the formation of consumer groups that took to the streets and clamored for change, to boardroom battles where the president replaced the government's representatives and succeeded in putting six new representatives on PLDT's 11-man board.[28] As well, there were some behind-the-scenes maneuvers to increase the concerned parties' receptiveness to reform. One case reportedly led to the resignation of a Supreme Court justice whose decision favoring PLDT was alleged to have been written by a PLDT lawyer.[29]

As a result, the twin executive orders (EO) [30] that the president issued within six months of each other in 1993 opened the floodgates to investments in the sector. By the time Congress passed legislation largely echoing provisions of the two executive orders, the country's teledensity had doubled and PLDT had already embarked on a zero backlog program.

Fifteen years on, the benefits of the reform may be seen in (i) increased access to telecommunication services, with teledensity in the cellular mobile telephone service (CMTS) segment of the market reaching 50 per 100 population in 2007; (ii) increased market competition with the entry of more players representing domestic and foreign interests; (iii) the rise of new growth industries such as business process outsourcing; and (iv) a whole new range of business solutions using cellular mobile telephone technology that caters to the retail client, such as money transfers for overseas workers. An interesting, perhaps ironic turn of events is that PLDT, which had strongly resisted the reform, managed to shape up and emerged a big winner of the reform, albeit now under a new controlling shareholder.

Oil Deregulation

The deregulation of the downstream oil industry involved the highly politicized issue of liberalizing oil pricing. Three important considerations were (i) a long history, dating back to the 1970s, of civil disturbance related to oil price adjustments; (ii) the cost was going to be spread out across a wider segment of the population, including well organized, low-income groups such as transport groups that in the past partly paralyzed Metro Manila through transport strikes; and (iii) legislation was required to enact liberalization. Thus, from the start, the

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[28] In 1993 government ownership included (i) 10.6 percent of PLDT through the Social Security System, and (ii) 46.1 percent of Philippine Telecommunications Investment Company (PTIC), which owned 24.2 percent of PLDT (Tiglao 1993c).

[29] Thompson and Macaranas (2006, p. 147) reported how following press reports of the opinion of Dr. David M. Yerkes, an expert on the authorship of English-language texts, that the ruling was penned by a PLDT lawyer, Supreme Court Justice Hugo Gutierrez tendered his resignation.

[30] One order, EO 59, mandated interconnection among telecoms network; the other, EO 109, required cellular operators and international carriers to install a minimum number of lines in specific service areas assigned to each.

Ramos government focused on managing potentially broad opposition to the reform.

Efforts to deregulate the industry started as early as 1993. The Ramos administration launched a nationwide public information campaign to educate people about the workings of the oil market and allay fears of spiraling prices after deregulation. Public acceptance of (or at least reduced resistance to) the proposal was deemed important to get the congressional nod for proposed legislation to deregulate the industry. The Ramos government also committed the reform measure under the country's program with the IMF to help set a timeframe for passing legislation.

Although government officials related that they encountered very little resistance during the nationwide roadshow, what is interesting about this reform experience were the actions of the veto players—the legislature and the judiciary.

As the initial spadework on the proposed bill led up to the May 1995 congressional and local elections, work had to be put on hold as the likelihood of getting congressional approval became slim. While certain "nationalist" members of the legislature continued to strongly oppose the proposal when Congress resumed in July 1995, the LEDAC mechanism proved invaluable in speeding up congressional approval of the bill. An oil deregulation law was enacted and was in force for roughly 18 months starting in April 1996. During that period, a fully deregulated regime, with the oil companies free to adjust oil prices, had been gradually phased in. In November 1997, in response to a petition by a group of congressmen who had voted against the bill, the Supreme Court declared the law unconstitutional.[31]

At the time, the Philippines was already four months into the Asian crisis. With the peso having lost a quarter of its value, which pushed up domestic oil prices, the Ramos administration was under renewed pressure to reregulate the industry. Nevertheless, the president persisted in pursuing the reform both by trying to get the Supreme Court to reverse its ruling and by asking Congress to pass a new law without the constitutional infirmity cited by the court. President Ramos succeeded in the latter, signing into law the Downstream Oil Industry Deregulation Law in February 1998.

The benefits of oil deregulation became evident during the most recent run-up in world oil prices. The full pass-through of world oil price increases to

[31] This ruling was based on three provisions of the law: (a) the 4 percent tariff differential between crude and finished oil products; (b) the 40-day inventory requirement; and (c) the prohibition against predatory pricing. Crafters of the provisions argued that (a) pre-deregulation, there was already a tariff differential between crude and finished products and a larger one at that (10 percent) and the differential was needed to keep refineries in, (b) the inventory requirement was a policy decision favoring supply stability over any negative impact on competition, and (c) the prohibition against predatory pricing was to prevent the existing big players from charging prices below cost to discourage new entrants. In any case, supporters of oil deregulation contended that the Supreme Court overreacted by striking down the entire law rather than just the offending provisions.

domestic oil prices helped to shield the fiscal sector from the burden of providing oil subsidies at a time when government finances were most fragile. Other benefits have included (i) increased competition in the industry with the entry of new players; (ii) less politicization of oil pricing; (iii) proper market response to high oil prices, including conservation and the search for substitutes like biofuels; and (iv) clean and good restrooms at service stations all over the country as a byproduct of introducing competition in the industry, helping support tourism.

Water Privatization

In the public's eye, the Metropolitan Waterworks and Sewerage System (MWSS) was to the water sector what PLDT was to the telecommunications sector. Before privatization, service delivery was extremely poor, with only two thirds of Metro Manila's residents connected to MWSS's pipes. These customers were, moreover, often asked to conserve water (or were subjected to water rationing) because of shortages, with 24-hour supply available only in certain parts of the city. Worse, water contamination resulting in occasional outbreaks of cholera cases had become a growing concern.

President Ramos had talked about a water crisis in 1993 and ordered the convening of a Water Summit in late 1994. Inspired by initial successes of similar efforts in other countries at the time and several proposals from foreign and domestic investors wanting to participate in the local water sector, the president had also directed officials to look into privatizing MWSS. This was seen as the most logical way out for the financially weak MWSS, which was caught in a chicken-and-egg situation. On the one hand, given the highly politicized rate-setting process, it could not raise tariffs enough to undertake investments critical to maintaining and expanding its network. On the other hand, without investments in improved service delivery, MWSS could not justify raising water rates. In the meantime, significant leakages from old pipes and water pilferages not only increased the firm's losses (nonrevenue water was over 60 percent) but also aggravated the water shortage.

To make reform possible, the president sought legislators' approval of a Water Crisis Act that would give him emergency powers to solve the "water crisis." This was passed in June 1995, after which the Ramos administration sought to reduce potential opposition to the reform in two ways. First, government implemented a program to compensate the expected losers of the reform through a liberal early retirement package, of which about a third of MWSS employees voluntarily accepted. The shedding of excess labor also enhanced the concession's attractiveness to potential bidders. Second, government sent leaders of labor unions on study tours of countries that had undertaken water privatization. Upon their return, they were given a free hand to draft the labor provisions of the concession agreement.

At the same time, to ensure transparency and fair competition, government brought in the International Finance Corporation (IFC) as an adviser to design of the privatization program. IFC was also used as the "clearing house" for accessing grant financing from bilateral donors (specifically, the United Kingdom and France) with potential conflicts of commercial interest. Moreover, to enhance potentially favorable privatization outcomes, President Ramos raised water rates some months before privatization. The latter helped clinch the success of the reform because the bids received were at steep discounts (as much as 74 percent) to prevailing water rates.[32]

The privatization of MWSS has led to: (a) expanded service delivery in terms of population coverage and water availability; (b) increased operational efficiencies, most notably in the east zone where non-revenue water has dropped dramatically; (c) less politicized rate setting; and (d) reduced reliance on government to fund MWSS budget shortfalls and needed capital expenditures.

Perspectives on the Three Reform Experiences

In the Philippines, a crisis situation is often needed for reform to happen. The three sectoral reforms chosen provide counter examples of how a leader can influence the timing of reform. The case studies also present glimpses of what reform in a democracy entails.

It is important to bear in mind that these reforms were linked to broader agendas of the Ramos Administration—the dismantling of monopolies in the case of telecommunications, the Energy Action Plan (drew up in response to the power crisis) in the case of oil deregulation, the administration's privatization program in the case of water, reducing macroeconomic/fiscal instability in the latter two cases—that ultimately sought to attract private investments and bring about faster growth. The cases demonstrate how elements of political will, vision, communication, constituency building and astute timing to take advantage of opportunities can bring about change in a relatively compressed time period and potentially set the basis for long-term sustained growth.

Role of Leadership and Political Will

It has been argued that for reform to happen, there must be "broad-based popular sentiment that 'things have to change' and a leadership that is able to translate this broad dissatisfaction into a concrete program that crystallizes the issues and points to their solution."[33] President Ramos was in this sense the right man at the right time with his "no nonsense leadership," "energizing" the reform

[32] Compared with the existing rate of ₱8.78/m^3, the winning bids were ₱2.32/m^3 in the east zone and ₱4.97/m^3 in the west zone (Dumol 2000).
[33] Koromzay 2004.

process.[34] Ingredients of his success formula included a well-articulated vision for the country and the conviction to do what is needed to attain this vision. The latter involved pinning down the country's problems, calling attention to them, offering ways out, and, most importantly, taking all necessary steps to solve the problems in the face of anticipated and unanticipated obstacles.

Indeed, in all the cases studied, seeing the work through required a lot of political will on the part of the president himself. This meant championing the specific reforms to garner political support, being accountable for unpopular decisions, and doing everything necessary to remove obstacles blocking reform efforts. This demonstration of political will was evident in all the cases—from sacrificing of personal friendships in taking on the Cojuangco clan in PLDT,[35] to making the politically difficult decisions of raising water rates and reducing MWSS workforce pre-privatization, to staying on the oil deregulation course despite the Supreme Court's nullification of the first oil deregulation law. In the latter case, the president pushed Congress to quickly pass a revised law at a time when the impact of the Asian crisis on the exchange rate had led to increasing domestic oil prices, which in turn had sparked public outcries.

Indeed, in light of the relative weakness of Philippine institutions—where the system of checks and balances put in place to stem abuses is often exploited by those opposing reform to block or at least delay reform—it would have been very difficult, if not impossible, to carry out the reforms, without the president's vision and the strength of his conviction.

Moreover, unlike successor presidents, there was greater continuity in leadership and policies at the departmental level under the Ramos administration. For instance, Roberto de Ocampo served as Finance Secretary for almost five years of President Ramos' six-year term.[36] This is true also in Economic Planning (one secretary), Trade and Industry (two secretaries), Energy (two secretaries), and Public Works (two secretaries). At the same time, President Ramos, himself a career officer, understood the value to government's effectiveness of nurturing the pool of civil service personnel who rose from the ranks, and thus, unlike his successors, minimized replacing career officials with outsiders.

Another aspect of leadership is effective communication and constituency building. As noted above, the president put great store in a participatory process, going the distance to involve stakeholders in the reform process. Public consultations, information campaigns, multisectoral working groups, "summits," and similar activities were important not just to start the reform process but to ensure reform continuity and support in the face of opposition from those with

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[34] Spaeth 1995.

[35] Tiglao (1993d) observed that "more than anything Ramos has done in his first year in office, it is his attack against the Antonio Cojuangco family's control over PLDT that seems to reveal best the direction of his presidency."

[36] In contrast, seven secretaries of finance served from 1997 to 2007.

narrow interests. Hence, not only were these activities started early in the reform process (to explain rationale, manage expectations, and allay fears of the unknown), they continued to be undertaken during (for example, to explain birth pains if any) and after the reforms had been completed (for example, to report on reform outcomes).

Indeed, one of the most important benefits of the deregulation of the oil industry is greater public awareness about the workings of the oil market and government's limited capacity to influence prices set by global demand and supply conditions. This has helped desensitize the public to periodic oil price adjustments and confine calls for reregulation to militant sectors. Credit here may be given to the nationwide roadshows that government conducted at the time. Communication was likewise important in water privatization (especially when government decided to raise water rates pre-privatization when service delivery remained poor) and telecommunications (especially since PLDT shares were listed in the Philippine Stock Exchange and government had to be sensitive to market reactions to any news that may be perceived as negative, such as government takeover of a private company).

Also deserving mention are the president's personal qualities and relationship with members of his Cabinet. In the authors' interviews of former government officials who have worked closely with President Ramos, a common refrain is how his qualities as a leader to articulate a clear and coherent vision, lead by example, and guide and inspire helped them to focus on their jobs. Also, that in doing their jobs, they were secure in the knowledge that if the situation warranted, the President will be there to back them up. This sense of having his personal support appeared to have been an important element in bringing out the best in his men, which would help explain their ability to deliver results. (Roberto de Ocampo, voted Finance Minister of the Year in 1995 by *Euromoney* magazine, quipped that the finance minister has many key decisions to make—the most important one being which president to serve.)

The Reform Process—Opportunistic Timing, Pragmatism, Judicious Haste, Persistence

Compared with the resolution of the power crisis that has become a hallmark of the Ramos administration's effectiveness, the three reforms discussed in this paper may be considered elective surgery (noncrisis situations). Therefore, they demonstrate better the reform process in a democratic setting where the leader himself has to generate the impetus for reform through his vision and persuasion and to craft approaches that are politically feasible. The case studies show that the Ramos administration had to address the problems in each area in ways that were possible given the timing, the window of opportunity, conditions prevailing, and other prospects available.

In telecommunications for example, the administration was able to open up the sector by executive action alone[37]—after it creatively weakened entrenched interests opposing reform through the use of various tools at its disposal. Thus, whereas the previous administration, despite having sequestered a significant portion of PLDT's shares linked to deposed President Marcos, failed to exert pressure on the powerful controlling shareholder to desist from anticompetitive behavior, the Ramos administration succeeded in activating the government's board representation. This enabled it to pose a credible takeover challenge of the company's board if PLDT continued to block government efforts to open up the sector. Similarly, it undertook a flanking action on the judiciary.

The fact that it was not necessary for the executive to secure legislation to open up the sector made it possible to complete the reform within a short timeframe. The sector's dynamism brought positive results very quickly for everyone to see, thus winning legislators to the reformers' side. The law itself was needed not to introduce reform but to protect the reform from reversal by succeeding administrations.

In water, the administration opted to pursue "the world's largest water privatization," following a great deal of investor interest from both foreign and local groups in the water sector in general and the MWSS in particular. It was able to do this in light of existing international water privatization models (particularly Buenos Aires and Paris) from which the Philippines could learn. These experiences helped government anticipate and manage potential areas of conflict (for example, with labor) and key issues (for example, the need to have lower water rates post-privatization).

The water privatization experience also produced one important finding in support of the theory of second-best solutions or "the perfect is the enemy of the good." Had the Ramos administration followed the first-best approach of first putting in place a strong, independent regulatory body to keep watch post-privatization, it would in all likelihood never have accomplished the MWSS privatization. The creation of such a body would have had to go through the legislative mill, which would have involved a long process, as the oil deregulation case showed, and with no guarantees of passage. Instead, government set up a Regulatory Office within the MWSS itself to oversee contract implementation post-privatization. It then strengthened the "regulation by contract" regime by providing for an international arbitration mechanism for dispute settlement in the contract. Although issues related to regulatory capture (in a succeeding administration) have been raised when one of the concessionaires failed, the regulatory regime has held up well to date considering the many challenges post-privatization.[38]

[37] Legislation followed two years later to strengthen the legal basis and reduce risk of judicial challenge and reversal.

[38] For instance, the government has successfully completed a rate rebasing exercise and auctioned off the shareholdings of the majority owner in the failed concession.

In oil, managing public opinion was a basic consideration. Thus, government had to pursue deregulation in phases and time full deregulation to coincide with benign oil and foreign exchange market conditions. Together with an intensive public information campaign, these were intended to reduce the risk of public protests that could jeopardize the reform effort.

Other Design Considerations

Another important point emerging from the Ramos administration's experience with these reforms is the importance of crafting rules that would ensure fair play once the reforms are implemented. This meant putting systems in place that enabled government to address any market failures and strike a balance between the market's profit maximization objective and consumer welfare. Largely, these rules were intended to deter market abuse rather than keep government in control.

In the oil sector for instance, where the issue of alleged cartelization by the "Big 3" oil companies had always loomed large, government, in deciding to privatize Petron Corporation, one of the "Big 3" oil companies, has opted to retain a significant minority share (40 percent)[39] so that it can continue to monitor industry developments from within. Moreover, the oil deregulation law mandates the Department of Energy to monitor oil prices and oil companies' compliance with various laws, as well as prescribe minimum inventories of petroleum stock. While government, in times of national emergency, may impose fuel rationing or take over operations of oil companies, this has not happened since deregulation.

Similarly in the water sector, a semi-autonomous Regulatory Office within the MWSS was set up to review and recommend approval of the two concessionaires' periodic applications for price adjustments as well as conduct regular rate rebasing exercises and oversee a system of penalties and rewards to create incentives for good performance. As noted above however, one does not need to strive for perfection in designing the regulatory regime. While the Regulatory Office is not wholly independent and nor is it able to maintain a pool of high-quality regulatory experts, the setup has built-in flexibility (for example, hiring external consultants and having a contractually enforceable third party international arbitration process) that allows it to overcome these shortcomings, ensuring that the system functions well.

In telecommunications, government's regulatory role was initially geared towards preventing PLDT from using its monopoly position to weaken competitors, for example by delaying interconnection. The focus of government's regulatory function has since evolved given the sector's rapid growth and dynamism.

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[39]The Ramos Administration sold 60 percent of Petron Corp. in 1994 (40 percent held by Saudi Aramco and 20 percent by the public).

Reform Outcomes

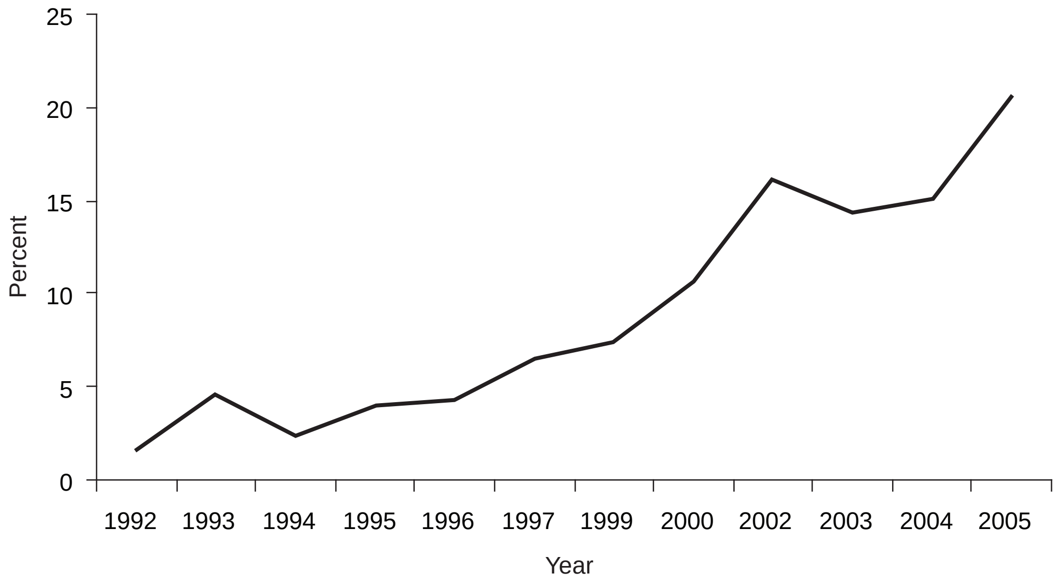
In looking at reform outcomes to demonstrate the quality of the economic policies and equity impact, the case studies took a micro/sectoral (rather than macroeconomic) approach, zooming in on the specific impact of the reforms on particular sectoral parameters that one can assume as having a positive impact on overall growth performance. This approach avoids the difficulties of isolating the aggregate growth effects of the particular reforms, which is especially problematic in an overdetermined system like in the Philippines. In this case there are a multiplicity of binding constraints dragging down economic performance. In addition, intervening factors, such as political instability in later administrations and external factors like the Asian crisis, tend to mute the longer-term effects of the reforms.

Improved Service Delivery

Telecommunications. Since the reform, the sector's direct contribution to economic growth has been on the uptrend (figure 8). The sector's transformation has been most dramatic, especially in the wireless segment, with mobile phones having taken over the traditional role of fixed lines. While the installed fixed-line teledensity increased significantly given companies' rollout targets, subscribed teledensity is only about half of installed lines (figure 9). In contrast, the cellular mobile telephone subscriber base has increased by a compounded annual growth rate of 40 percent over 2000–05, resulting in a high 41 percent teledensity (figure 10). Thus, despite the "catching up" that the Philippines had to do during the 1990s in terms of effective teledensity,[40] 2003 data show that the Philippines is ahead of China, Indonesia, Vietnam, and India, although it lags Malaysia and Thailand (figure 11). Philippine telephone call rates have likewise been competitive versus other Asian countries (table 1). This has had the additional benefit of encouraging wider Internet use (figure 12).

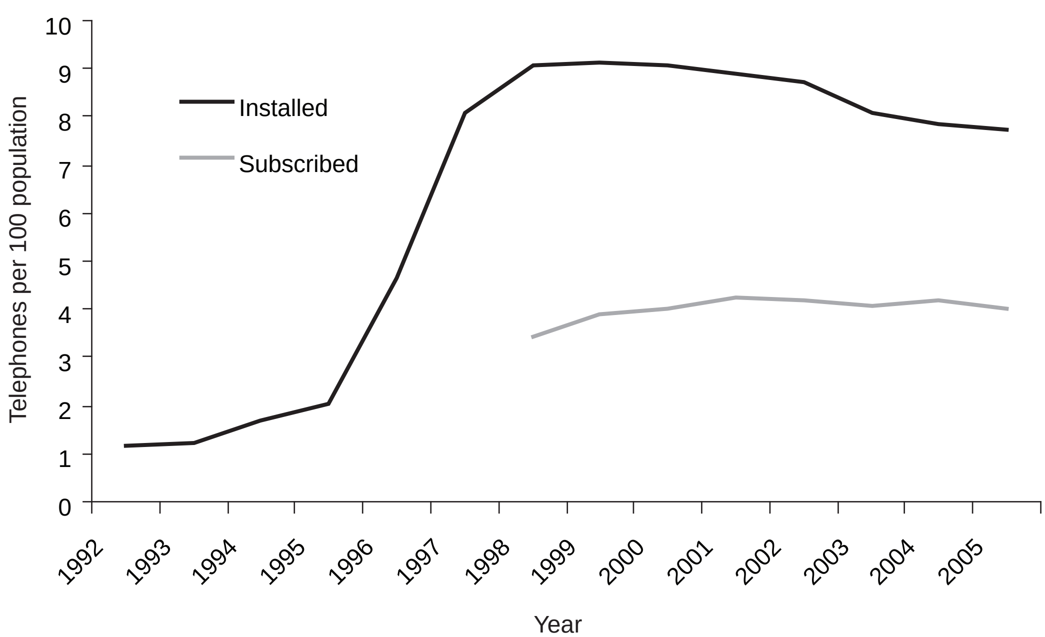
[40] *Philippines: Meeting Infrastructure Challenges* (World Bank 2005) defines effective teledensity as the higher of either telephone mainlines per 100 population or cellular subscribers per 100 population.

Figure 8: Contribution of Communications Sector to GDP Growth



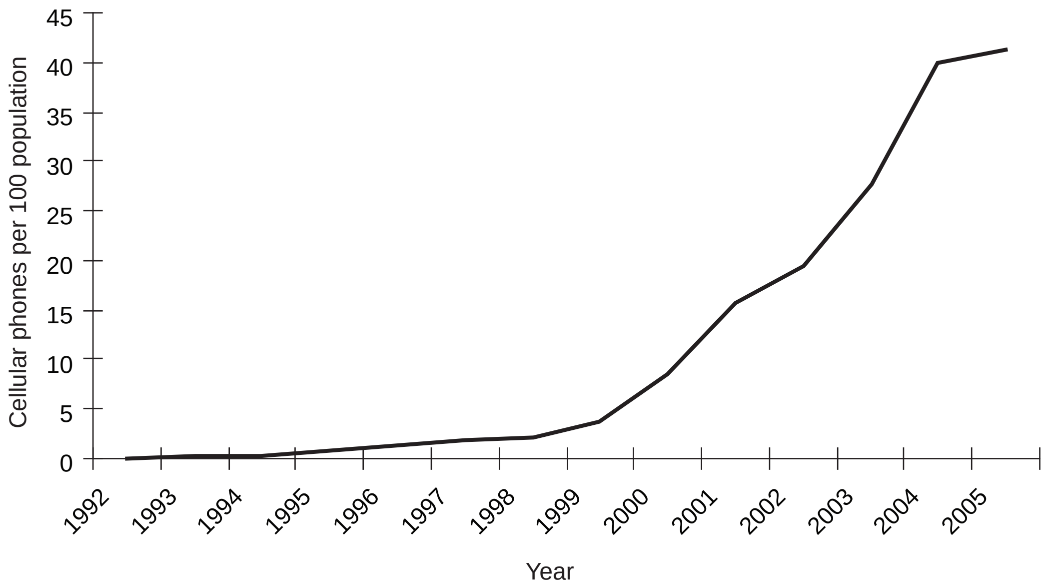
Source: National Statistical Coordination Board *Statistical Yearbook*. Data for 1998 (negative change in GDP) and 2001 (statistical glitch) are not shown.

Figure 9: Fixed-Line Telephone Density (per 100 population)



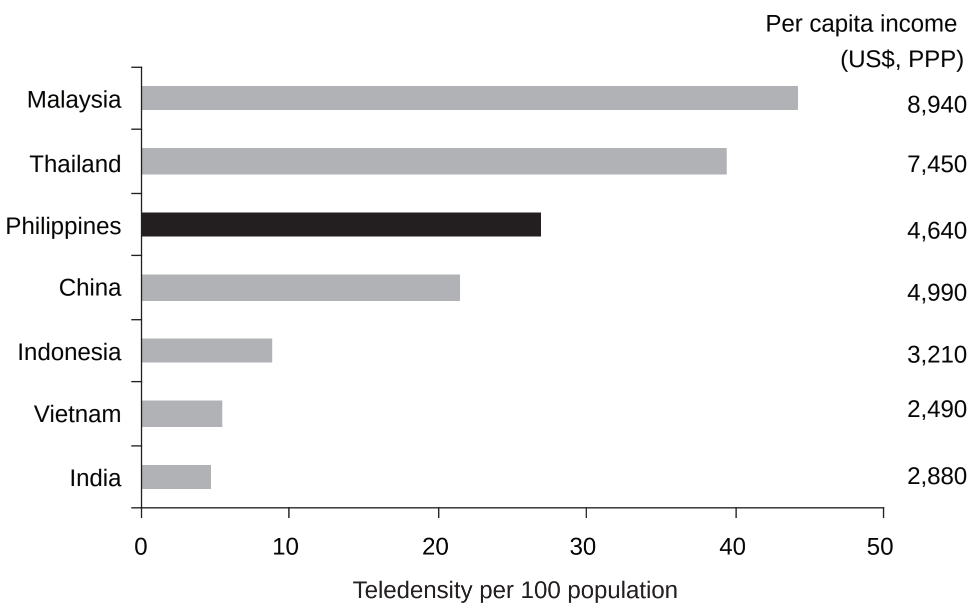
Source: National Telecommunications Commission.

Figure 10: Cellular Mobile Telephone Subscriber Density



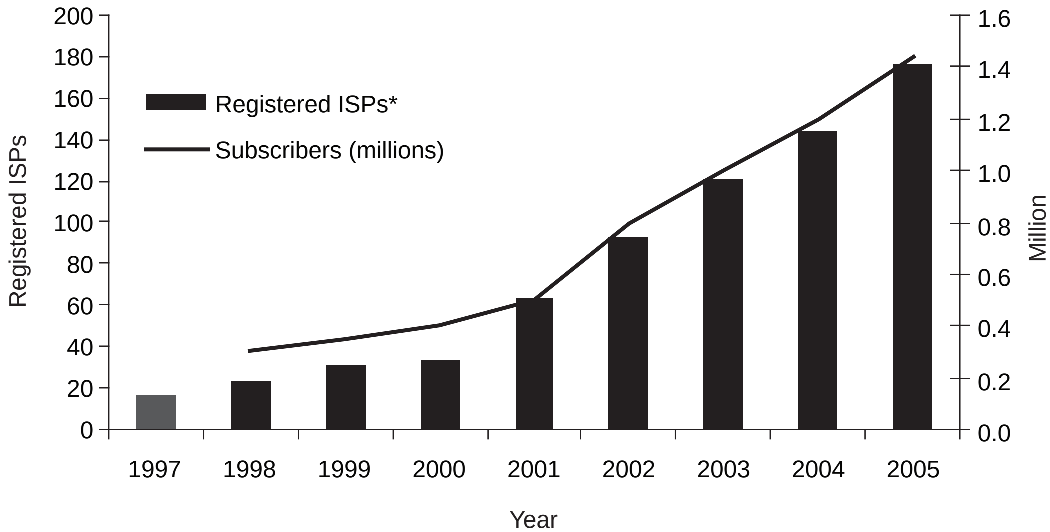
Source: National Telecommunications Commission.

Figure 11: Effective Teledensity, 2003



Source: World Bank (2005a, p. 175); World Bank World Development Report 2005 for per capita income.

Figure 12: Internet Service



Source: National Telecommunications Commission.

*Internet service providers.

Table 1: Voice Call (US$/min), Postpaid

Country	Local	IDD
Philippines	0.07–0.16	0.30–0.40
Australia	0.15–0.93	0.46–2.37
Malaysia	0.11–0.35	0.44–1.15
Indonesia	0.06	0.22
India	0.01–0.06	0.15–1.18
Taiwan, China	0.03–0.54	0.06
Hong Kong, China	0.06–0.13	0.02–7.80
Singapore	0.06–0.12	0.52–1.25
China	0.05	1.04

Source: Data consolidated by Globe International Services from individual company websites as of April 23, 2007.

Note: Ranges cover prices of different providers in each country.

Water. The two concessionaires have succeeded in servicing a larger proportion of Metro Manila's population, at the same time making more water available (figure 13) over a longer period of time (table 2). Given the financial difficulties of the west zone operator,[41] performance criteria were evidently better in the east zone. Operational efficiencies in the east zone have improved considerably as seen in the steep decline in nonrevenue water versus the pre-privatization record of MWSS. Operating expenditures are similarly noticeably lower in the east compared with the west zone where performance under the previous concessionaire has been poor. On the other hand, water rates have increased significantly from original bid rates in both concessions (figure 14). The increases largely reflect a combination of the outcome of the first rate rebasing exercise, significant exchange rate adjustments following the Asian crisis, general price inflation, and greater expenditures in sewage disposal (a public good) post privatization.

Table 2: Selected Water Sector Indicators

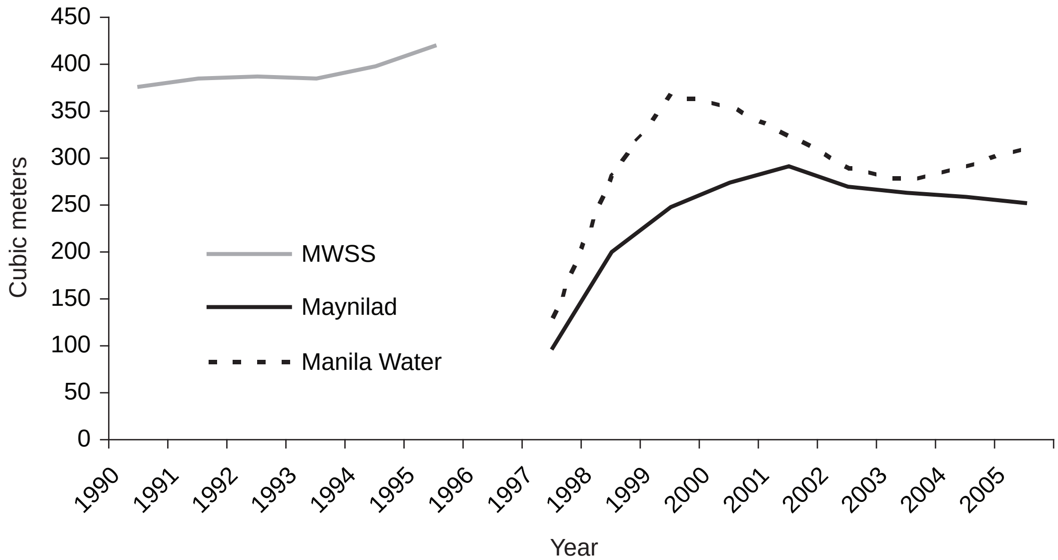
	Before (1996)	After (2005)*
Water coverage (% of population)	67%	
MWCI		94%
MWSI		85%
Water availability (hours per day)	17	
MWCI		21
MWSI		21
(HHs with 24-hour water)	(25%)	(98%)
Nonrevenue water	61%	
MWCI		35%
MWSI		68%
Staff per 1000 connection	9.8	
MWCI		2.6
MWSI		3.5
Operating expenditures (₱/m^3 produced)		
MWCI		4.3
MWSI		6.5

Source: MWSS Regulatory Office for 2005 data; Fabella (2006) for 1996 data.

*Except water coverage which is data as of September 2006.

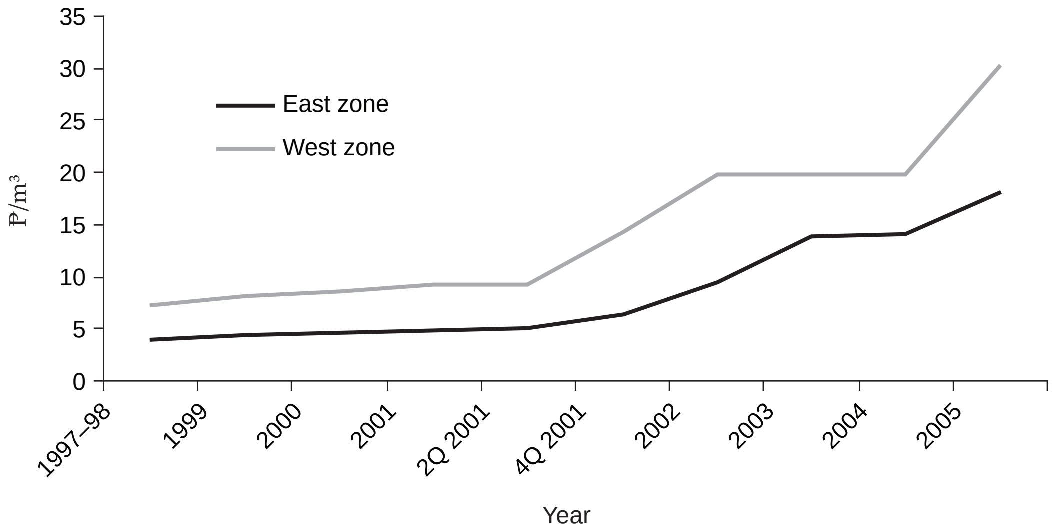
[41] The Asian Development Bank nevertheless noted that the failure of the original west zone proponent has produced valuable lessons that foster private sector development, as evidenced by the successful rebidding process that led to the award of the west zone to a new concessionaire by 2007 (Chiplunkar et al. 2007).

Figure 13: Billed Water Volumes (BWV) in m³



Source: MWSS Regulatory Office.

Figure 14: Evolution of Water Tariff Post-Privatization (₱/m³)

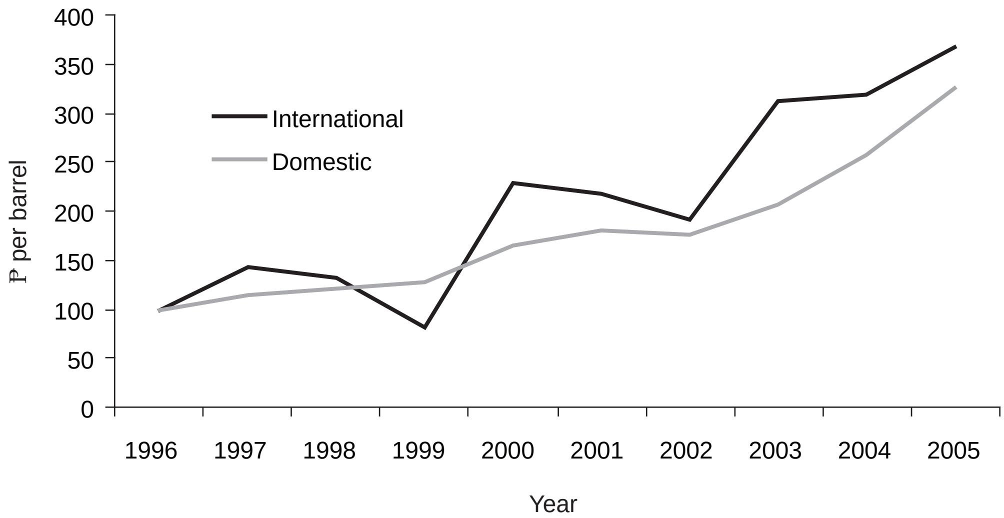


Source: MWSS Regulatory Office.

Oil. Improvement in service delivery is most evident in the improved quality of services at refilling stations (for example, convenience stores, cleaner washrooms). With the entry of the new players, service stations have increased in number from 3,000 in 1996 to almost 4,000 stations, approximately 20 percent of which is owned by the new players.[42] Price changes have meanwhile moved in line with international crude prices and exchange rate changes (figure 15), with price levels within the range of prices prevailing in other Asian countries (see table 4).

[42] Department of Energy 2005.

Figure 15: Oil prices: International vs. Domestic (1996=100)



Source: http://www.eia.doe.gov for international prices (Arabian Light), Department of Energy for domestic prices (unleaded gasoline, weighted average based on market shares of players).

Table 3: Major Foreign Players by Sector Post-Reform

Telecommunications	Oil [a]	Water
First Pacific Group, Indonesia (PLDT)	Saudi Aramco	United Utilities, UK (East zone)
NTT Communications (PLDT)	Shell	Mitsubishi, Japan (East zone)
NTT DoCoMo (PLDT)	Chevron Corporation	Bechtel (East zone)
Singapore Telecom (Globe)	PTT (Thailand)	Ondeo Services, France (West zone)
TeliasoneraAB, Sweden (Digitel)	Petronas (Malaysia)	
Deutsche Telecom	Liquigaz (Netherlands)	
	Total (France)	

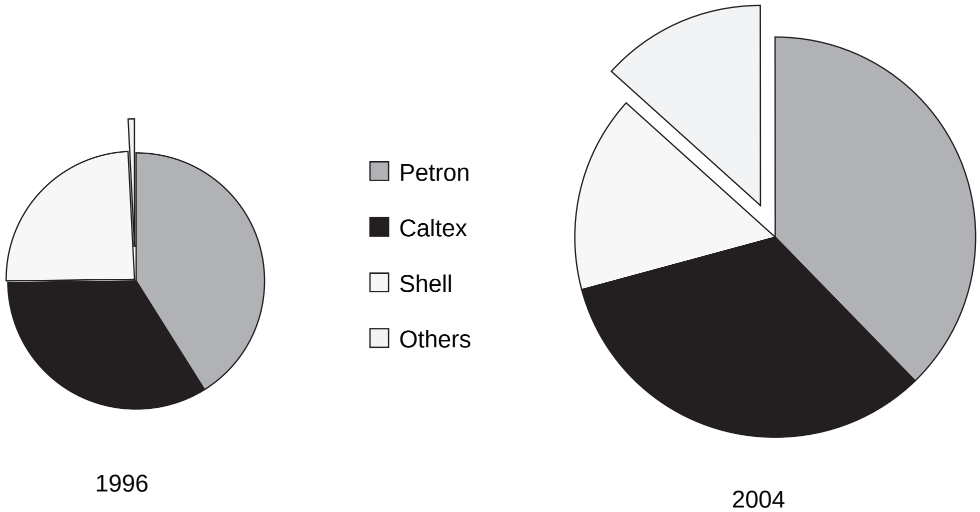
a. Source for new players: Department of Energy 2005.

Attracting New Players and Increasing Competition

Telecommunications. The entry of foreign players post reform, in partnership with domestic firms, has heightened competition in telecommunications, where technology is a key growth driver. Competition is particularly fierce in the wireless segment of the market, where the industry initially saw an increase in the number of players (from only two in 1992 to five by 1994 and further to seven in 2001),[43] some of which later merged (Globe and Islacom, PLDT and Smart).

[43] The two operators in 1992 were Pilipino Telephone Corporation and Express Telecommunications Co. The three new players in 1994 were GMCR, Inc. (Globe), Isla Communications Company, Inc., and Smart Communications Corp. Digitel and Bayantel were authorized in 2001, Digitel became operational only in 2003, and Bayantel was not yet operational at end-2005.

Figure 16: Oil Industry Market Shares



Source: Department of Energy 2005.

Two operators (Smart and Globe) dominate the present market with a combined 80 percent share of the subscriber base. This nonetheless has fallen from a high 87 percent share in 2002 before the entry of Digitel.

Oil. A Department of Energy committee[44] reviewed the deregulated oil industry in 2005 and noted the following: (i) there were 35 new players in the industry importing finished products, in addition to numerous other entities engaged in other downstream activities, such as retail trade; (ii) overall, the new players were able to increase their combined share of the market from less than 3 percent in 1997 to 15 percent in 2005[45] (figure 16); (iii) in the LPG segment of the market, the new players gained a market share of more than 40 percent; and (iv) reported return on equity for two of the biggest players, Petron and Shell, averaged 3.7 percent and 3 percent respectively under the deregulated regime, lower than the average Philippine Treasury bill rate during the period.

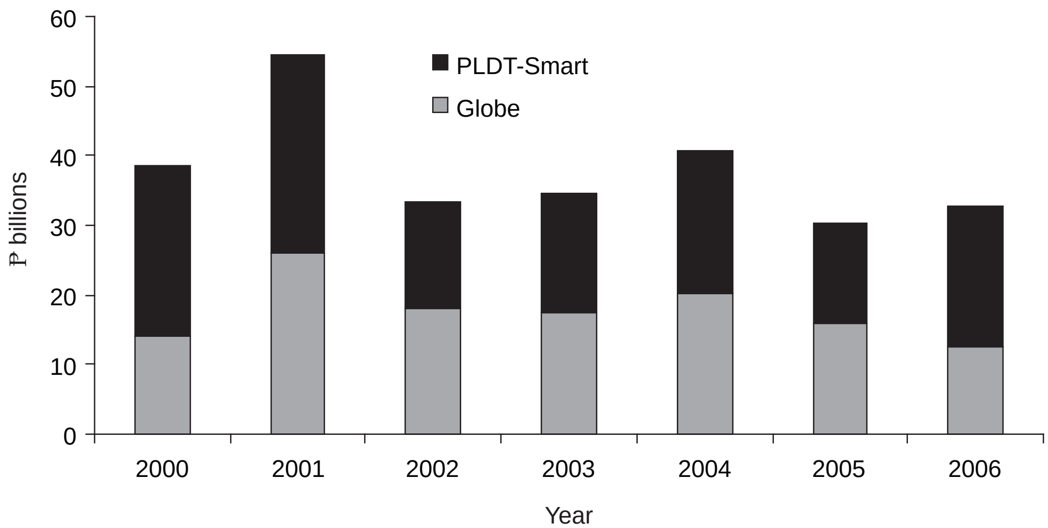
Impact on Investments

The improvement in service delivery in all three sectors reflects the significant amount of investments that the private sector expended in their respective areas. For the telecommunications sector for instance, the two leading cellular mobile service providers spent a total of US$5 billion from 2000 to 2006, or the equivalent on average of almost 1 percent of GDP annually on capital expenditures (figure 17). These have enabled the firms to provide nationwide access to wireless services. In oil, the Department of Energy reported that from 1996 to 2004, new players invested over ₱23 billion.[46] In water, from 1997 to 2005,

[44] Department of Energy 2005.
[45] The 2005 figure is from http://www.doe.gov.ph.
[46] Department of Energy 2005.

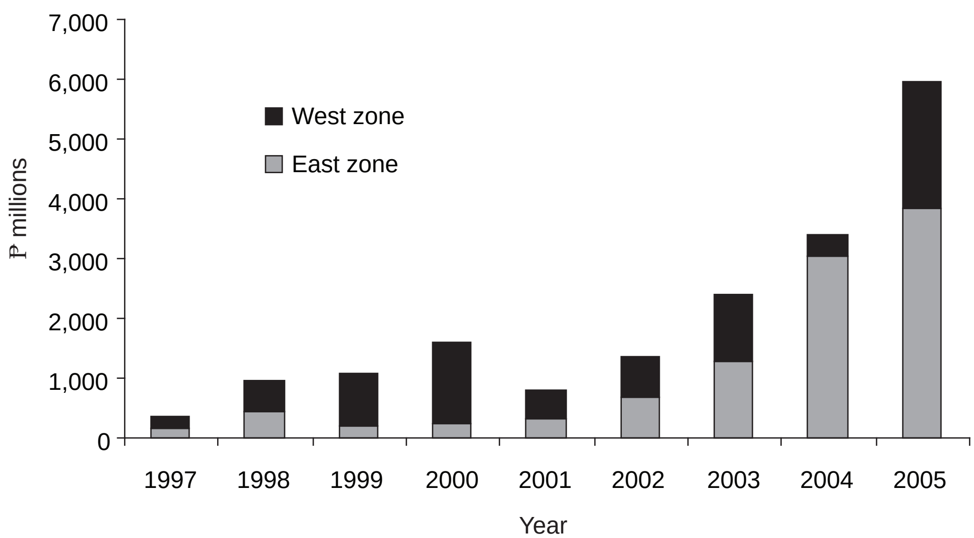
capital expenditures of the two concessionaires totaled ₱18 billion (or US$355 million), excluding concession fee projects. Capital expenditures increased dramatically after the rate rebasing exercise in 2002, particularly in the east zone (figure 18). The financial statements of the east zone concessionaire, Manila Water, show capital spending reaching ₱12.3 billion (or US$229 million) from 2003 to 2006, excluding concession fees paid.

Figure 17: Capital Expenditures in Telecommunications (₱ billions)



Source: Globe and PLDT Annual Reports.

Figure 18: Capital Expenditures in Water (₱ millions)

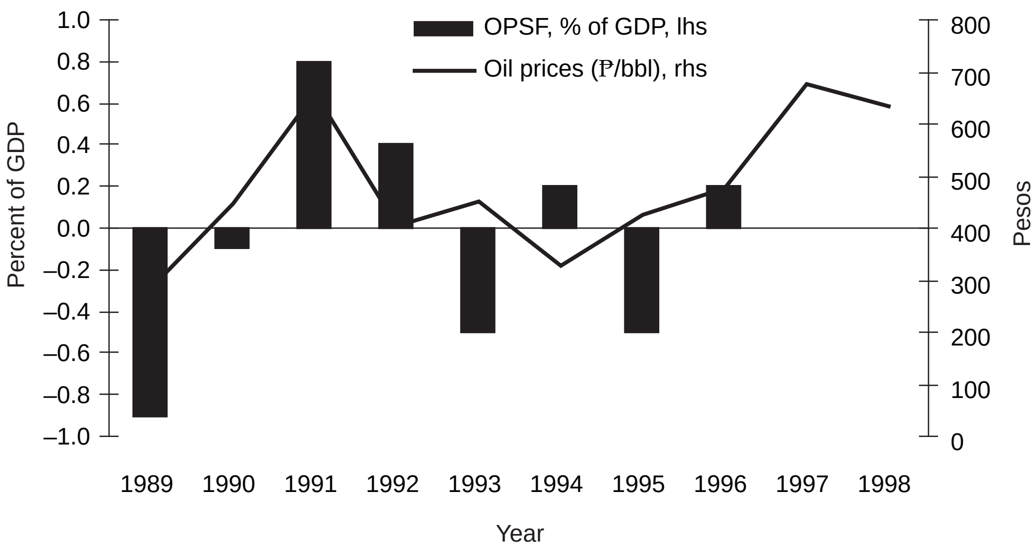


Source: MWSS Regulatory Office.

Contribution to Fiscal Stability

Oil. The abolition of the Oil Price Stabilization Fund (OPSF) following deregulation freed government of the burden of grappling with recurring deficits in the OPSF[47] (figure 19). For instance, as a result of a huge deficit in the OPSF in 1989 that reached almost 1 percent of GDP, government had to put in a reported ₱5.3 billion[48] the following year (equivalent to 0.5 percent of 1990 GDP) to reduce the deficit. This reform is perhaps best appreciated in the light of the recent run-up in world oil prices. A World Bank study showed that, compared with neighboring economies like China, India, Indonesia, and Malaysia, which had been financing fuel subsidies from the budget, the Philippines allowed higher pass-through of increases in crude oil price to domestic prices[49] (table 4). This has helped shield the fiscal sector from the burden of providing oil subsidies at a time when government finances were most fragile.

Figure 19: OPSF versus Oil Prices



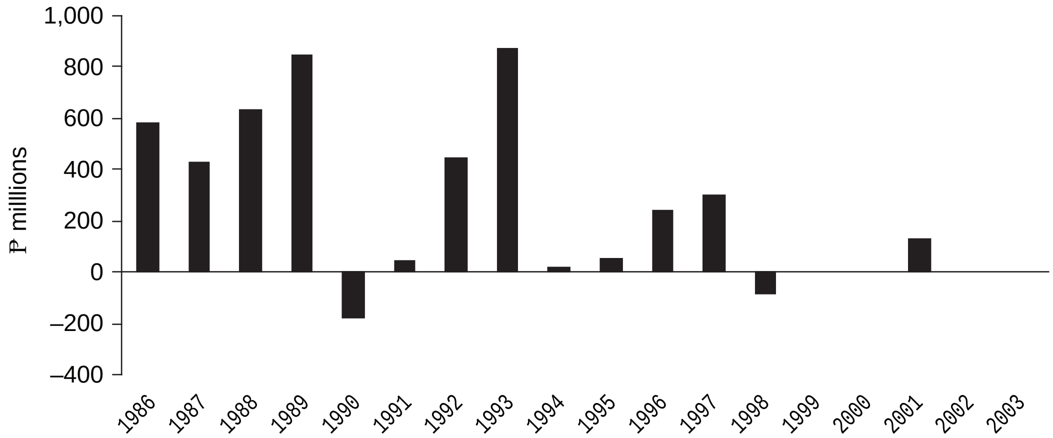
Source: For OPSF, Department of Budget and Management, "Fiscal Statistics Handbook" for 1984–2003; for oil prices, http://www.eia.doe.gov; for exchange rate, Bangko Sentral ng Pilipinas.

[47] The OPSF was intended to keep domestic oil prices stable. Funds were drawn down when world oil prices were high and replenished when world oil prices were low. Whenever deficits started to build up, government had to either infuse fresh capital or raise petroleum prices, which was often met with strikes and protests. On the other hand, when in surplus, the OPSF could be used for other ends, such as general budget financing.

[48] The national government contributed ₱5 billion to the OPSF with PAGCOR contributing another ₱300 million (PIDS 1995).

[49] Bacon and Masami 2006.

Figure 20: National Government Budgetary Support to MWSS (₱ million)



Source: Department of Budget and Management, "Fiscal Statistics Handbook" for 1984–2003.

Table 4: Pass-Through Coefficients in Local Currency (January 2004–April 2006)

	Gasoline	Diesel
China	0.71	0.53
India	1.25	0.66
Indonesia	1.20	1.02
Malaysia	0.75	0.84
Philippines	1.29	1.30
Thailand	1.37	1.15
Vietnam	1.03	0.70
Mean of case studies (31 countries)	1.03	0.88
Mean of net oil importers (25 countries)	1.19	1.01
Mean of net oil exporters (6 countries)	0.35	0.32
Industrial countries		
Germany	1.20	0.98
Japan	0.85	0.65
United Kingdom	1.25	1.08
United States	1.02	1.05

Source: Bacon and Masami (2006, pp. 4 and 60).

Note: Coefficients were computed by dividing fuel price increases in local currencies by price increases on the international market converted to local currencies.

Water. Prior to privatization, the national government had to allot funds annually from the general budget—in the form of equity contributions, advances for loan payments, or outright subsidies—to fund MWSS losses (figure 20). Under the privatized setup, the concessionaires took over operations and servicing of MWSS debt (through the payment of concession fees), freeing government of the burden of supporting MWSS.[50] Moreover, going forward, government no longer had to worry about financing the huge amount of investment (US$7 billion, over 5 percent of 2006 GDP over the 25-year concession period[51]) needed to upgrade systems and expand services in Metro Manila.

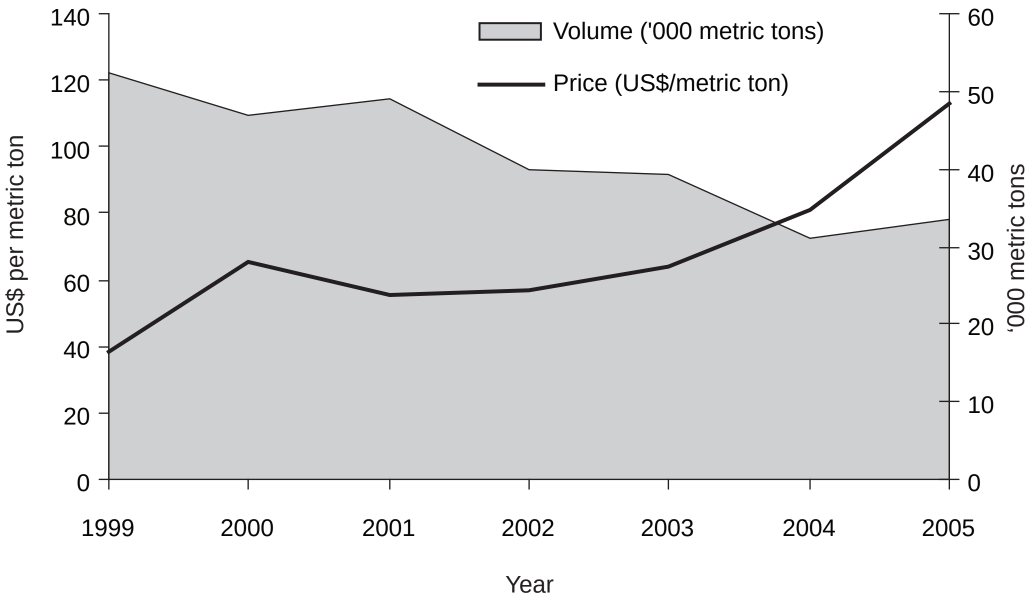
Government's Role and Politicization of Pricing

The reforms have helped to redefine government's role and the public's expectations of it. Because of the reforms, government has decidedly moved away from the role of a provider to that of an enabler/regulator. As noted above though, to make some of the reforms possible, government has had to accept less-than-perfect, second-best solutions to the regulatory setup. Thus, there is much room for strengthening government's regulatory function to ensure its continued responsiveness to changing market needs (especially in highly dynamic areas such as telecommunications) and to avoid opportunities for regulatory capture that can undermine the success of the reform effort. In this regard, there has been a lot of learning—about utility operations, market dynamics, and public response, among others—over the past 10 to 15 years. This follows many challenges to existing rules, especially in the water and telecommunications sectors, to aid regulators going forward.

The rate-setting process has likewise become much less politicized today, with the public mostly desensitized to the regular price adjustments in the oil and water sectors. Although there are still occasional demands from "nationalists" for government to "control" or subsidize prices, especially in the oil sector, these demands largely have been ignored, and domestic prices have been allowed to move in step with international crude prices. The private players themselves, in both the oil and water sectors, appear to be sensitive to the political acceptability of rate adjustments, preferring to increase prices in increments over a period of time rather than implementing a single, large increase. Charging market prices has not only boosted investor confidence and encouraged more investments, but also it has elicited proper consumer responses to high prices, such as conservation (figure 21) and substitution (that is, biofuels, which also are more environmentally-friendly).

[50] At least until 2001 when the west zone concessionaire ran into financial difficulties and was not able to pay its concession fees. Government advanced funds for this and ensuing events led to exit of the west zone's majority shareholder and the auction of its shares to another private group.
[51] World Bank (2005a, p. 114).

Figure 21: Petroleum Crude Import Volumes and Prices

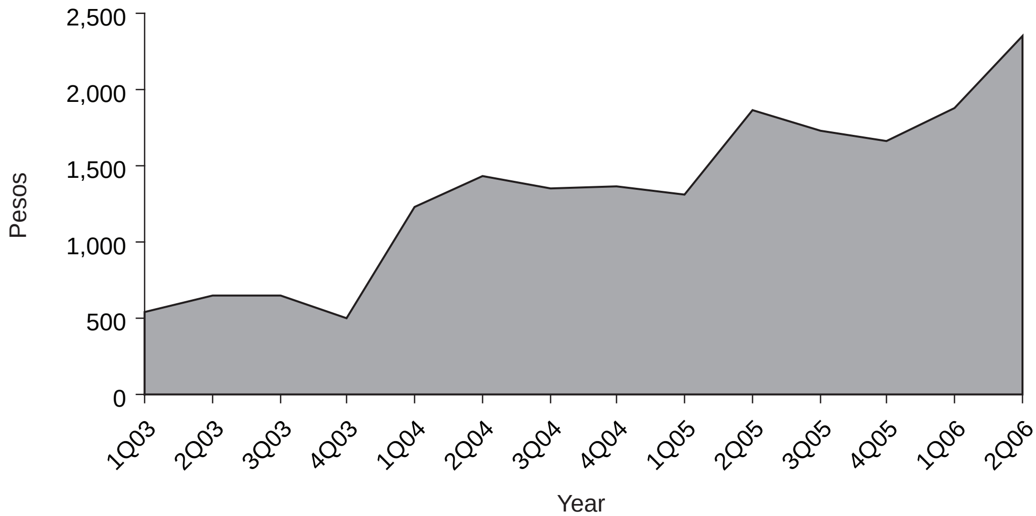


Source: Bangko Sentral ng Pilipinas, selected economic indicators.

New Growth Drivers

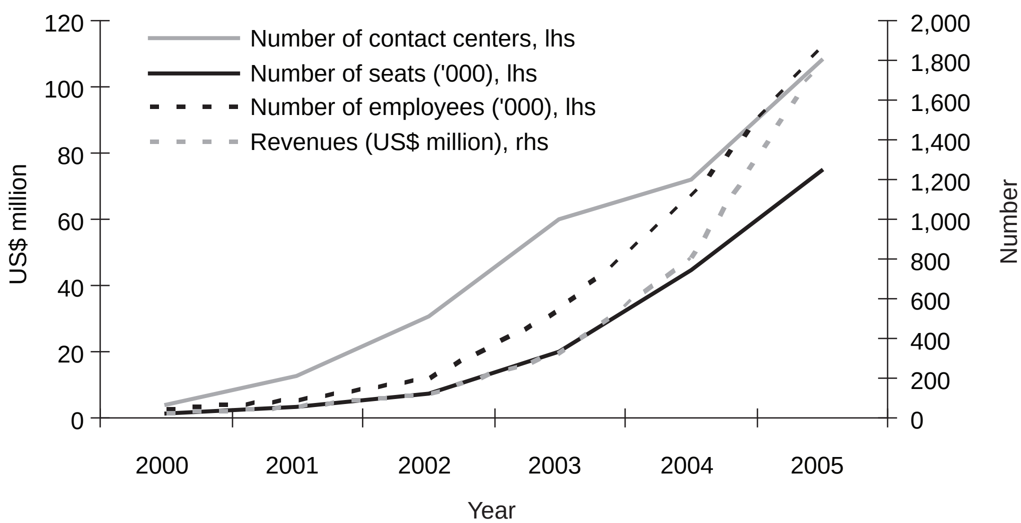
One of the most significant developments following the opening up of the telecommunications sector is its spread to other areas, such as computer-based services. This in turn has spawned a new growth industry of business process outsourcing (BPO) services such as call centers, software development, data transcription, and backroom operations. Available data from the national income accounts, capturing only third-party BPO, show the sector's value-added rising very rapidly in recent years (figure 22). This is likely to be an underestimate however since many corporations such as banks maintain in-house call centers, which have greatly increased in number, revenues, and employees since 2000 (figure 23). Moreover, government forecasts show that the BPO industry is expected to continue growing in the coming years, raising dollar revenues by an annual average of 35 percent and creating an average of over 200,000 new jobs per year from 2007 to 2010 (figures 24 and 25).

Figure 22: Third-Party Business Process Outsourcing, Gross Value Added (1985=100)



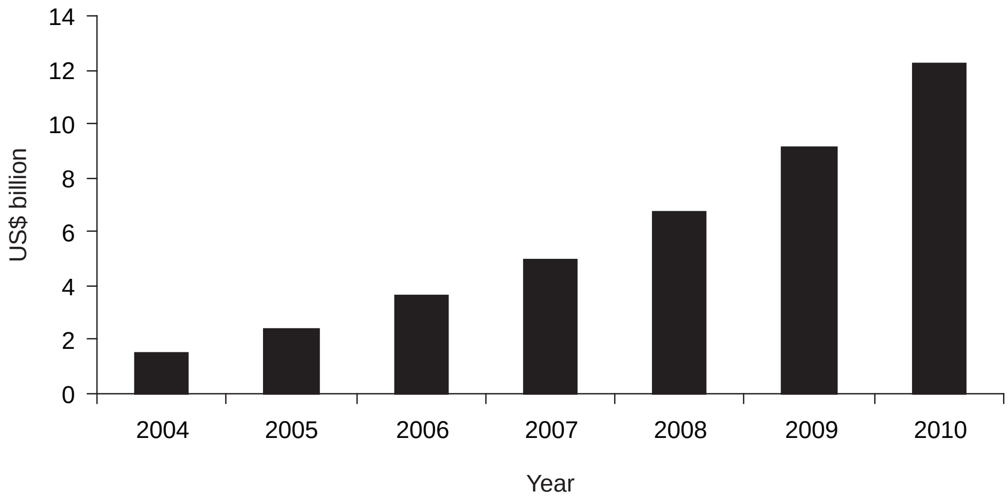
Source: National Income Accounts.

Figure 23: Contact Center Performance



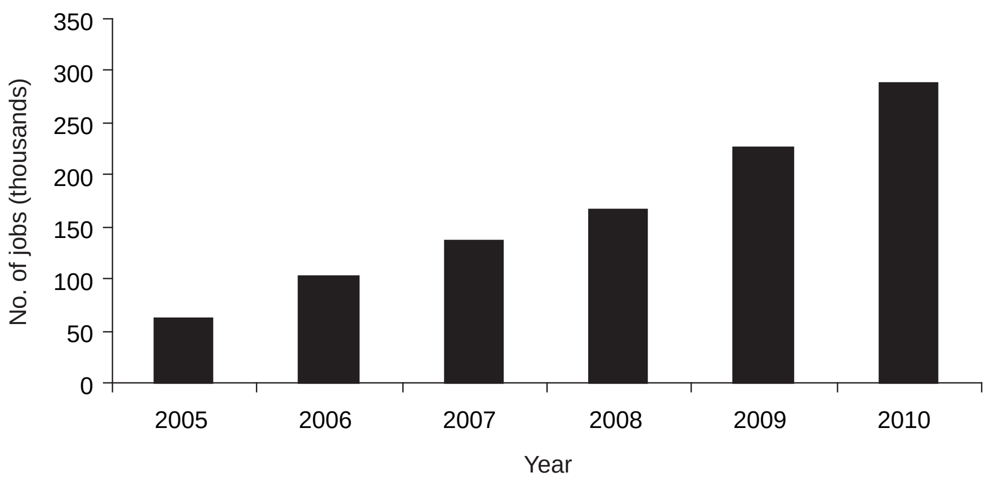
Source: Magtibay-Ramos et al. 2007.

Figure 24: BPO Forecast Revenues (US$ billion)



Source: Magtibay-Ramos et al. 2007.

Figure 25: Forecast of New Jobs in BPO (thousands)



Source: Magtibay-Ramos et al. 2007.

Less evident but significant nonetheless is the expanding network of microenterprises (for example, sari-sari stores) operating reload facilities (that is, wholesaling and retailing mobile telephone credits) for the telecommunication companies.[52] Globe, one of the leading wireless service providers, reports a network of 400,000[53] reload and call card retail facilities nationwide. Smart, which has a bigger market share, is likely to have even more distributors.

Additionally, the popularity of mobile cellular phones has allowed businesses to pursue new and cheaper ways of doing things. Examples include technological innovations in consumer banking and financial services such as money transfers that allow the growing pool of overseas Filipino workers to send cash remittances to relatives in the Philippines via short messaging service (SMS). Mobile phone technology is also being used for government services, including by the Bureau of Internal Revenue to monitor firms' tax compliance.

Equity Considerations

Through the reforms, the Ramos administration was able to provide greater access, including to low-income groups, to potable water and communication services, for example. This has enabled a broad segment of society to share in the benefits of these reforms. Manila Water, the concessionaire for the east zone, reported for instance that since 1998, it has been able to extend water services to 190,000 households in slum communities.[54] This is consistent with the Ramos administration's goal of creating a level playing field that would "empower" individual Filipinos and give them the opportunity to participate in economic development.

Less evident are the benefits to the poor of improved public finances brought about by the reforms, largely because from the end of the Ramos administration until recently, government finances had continually deteriorated. Thus, government had not been able to meaningfully expand social services (figure 26). On the other hand, one of the oft-cited reasons for the deterioration in the public sector's finances is tariff reduction due to trade liberalization that the Ramos administration brought to full fruition with a uniform 5 percent tariff rate. This reduction has contributed to the slide in inflation over the years, which studies show benefits the poor directly.

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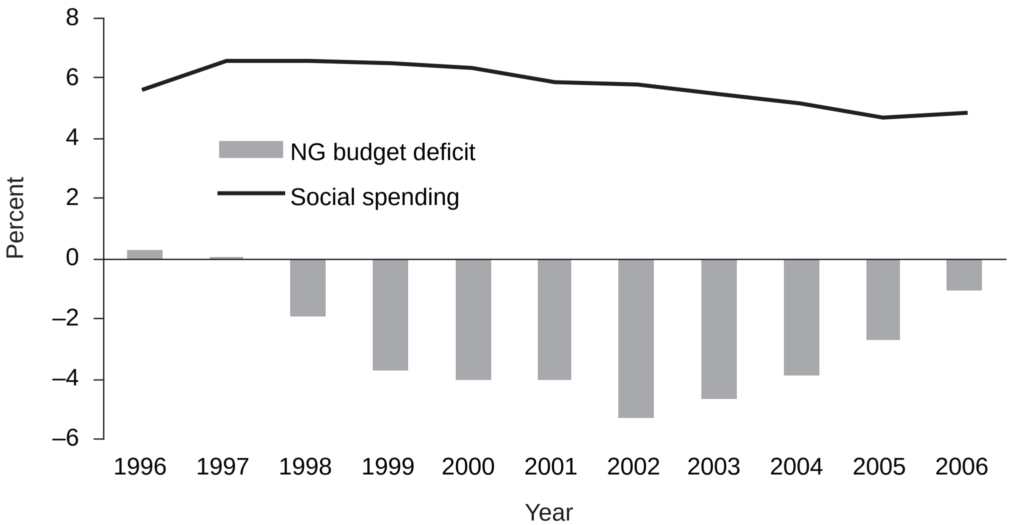
52 This network may operate as follows: for every ₱100 worth of credits, the telecommunications company sells the credit for ₱82 to a wholesaler, who then passes it on to the retailer for ₱86, who in turn resells to the end-user for ₱100.

53 *Source*: Globe Telecom.

54 *Source*: Company Roadshow Presentation for 1Q2007, at http://www.manilawater.com.ph. This is three times the reported connected households in 2002 of 63,910 for the east zone. West-zone water connections to the poor numbered 63,370 in 2002 (2002 figures from Fabella 2006). There were no such connections prior to privatization.

Figure 26: Selected Fiscal Indicators (% of GDP)



Source: Department of Budget and Management, "Fiscal Statistics Handbook" for 1996–2003; National Statistical Coordination Board *Statistical Yearbook* for 2004–06; National Statistical Coordination Board for GDP.

Reform as a Continuing Process

Reforms that have stood the test of time tend to be difficult to reverse. This appears to be true at least in the three specific sector reforms discussed in this paper, where government has over the years has resisted calls for oil reregulation and nationalization or for taking over one of the water concessions that failed. Nonetheless, as has been observed, to achieve the desired impact on investments and growth, reform has to be a continuing process in which new reform efforts build upon completed ones until the country is able to achieve enough credibility in its reform program to inspire investor confidence. However, the Philippine president's six-year term (with no opportunity for reelection) may be too short, especially in the context of an underdeveloped political party system, to see through many institutional-type reforms that take a long time to design, garner support for, and implement. Thus, one achievement commonly credited to President Aquino but not to President Ramos is succession planning—that is, being able to lead the electorate to her chosen successor-candidate whom she trusted to continue with the reform program.

It was not for lack of vision or even trying though.

At the time, recognizing the country's personality-based politics and weak party system, and realizing the tremendous popularity of his vice president, movie actor turned politician Joseph Estrada, President Ramos tried to push for constitutional change that would shift the form of government from a presidential to a parliamentary system (modeled after Malaysia's UMNO), together with reforms to develop political parties. While his view of President

Estrada may seem prescient in hindsight,[55] the public at the time, with memories of authoritarian rule still fresh in its mind, distrusted any move to tamper with the post-Marcos "freedom" constitution. The plan was defeated by a broad coalition led by former President Aquino and Vice President Estrada, and included civil society, the church, and business constituencies.

Since then, political turbulence has made it difficult for succeeding governments to meaningfully advance the reform frontier. Making matters worse is the increasing practice by successor administrations of replacing officials in government departments up to the fourth level (that is, secretary, undersecretary, assistant secretary, director), which has eroded institutional memory in the public sector and continuity in policy making. This has likely negatively affected the learning process in public institutions from past reform experiences.

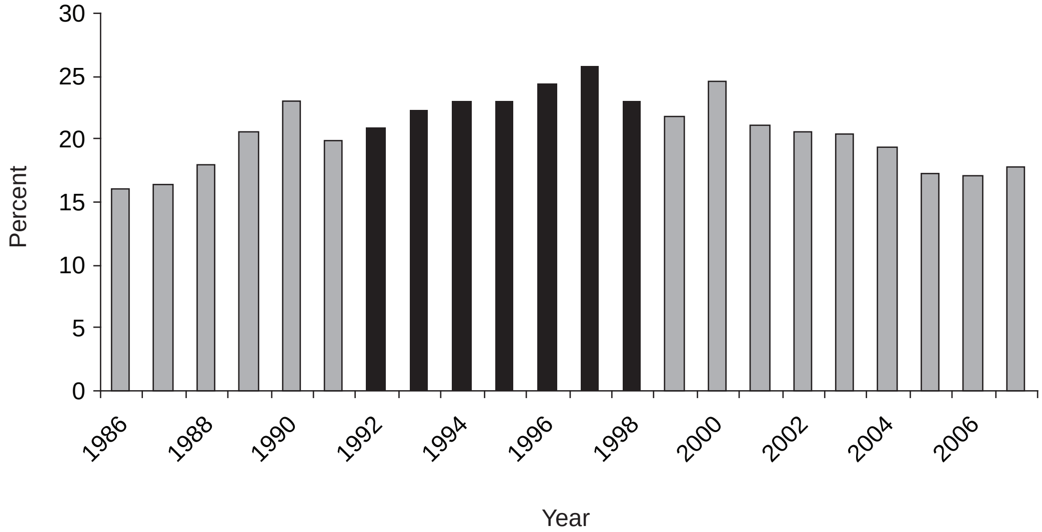
Unfortunately, over the past 10 years, reforms have not been extended to other sectors such as rural water, air transport, the cement industry, agricultural commodities, and ports and shipping,[56] or deepened through second-stage reform efforts such as institutional strengthening. Nevertheless, despite minimal follow through, the economy continues to grow today (see figure 1) albeit the quality of growth has been poor. Post Ramos administration, employment-generating investments in the local economy have not been a growth driver;[57] fixed capital formation was less than 17 percent of GDP in 2007, down from almost 26 percent in 1997 (figure 27). Rather, what has been driving growth of over 4 percent since 2002 is the continuous inflow of income remittances from Filipino overseas workers (figure 28), which has been increasing over the years as more and more of the country's skilled workers, discouraged by lack of employment opportunities and poor long-term prospects of the economy and the country (figure 29), have opted to migrate.

[55] Joseph Estrada became president of the Philippines in June 1998 and was deposed in a people power movement two and a half years later.

[56] See World Bank (2007) for a fuller discussion of the issues.

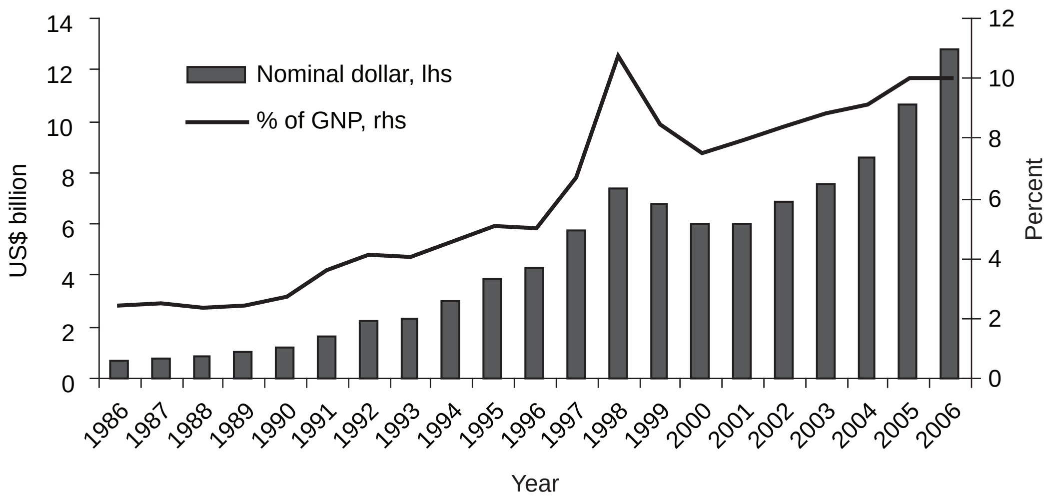
[57] It has been noted that Philippine growth numbers are not comparable over time with an apparent structural break in 2001 (Medalla, 2006). The government statistical agency itself cautions against the linking of annually updated GDP estimates with the pre-2000 National Income Accounts series. The International Monetary Fund has also identified weaknesses related to (i) inadequate capture of deaths and births of establishments in an economy that is undergoing rapid structural change; (ii) use of an outdated benchmark year and fixed input-output ratios to extrapolate estimates; and (iii) inadequate statistical techniques for translating nominal value added estimates into constant price estimates.

Figure 27: Fixed Capital Formation (% of GDP)



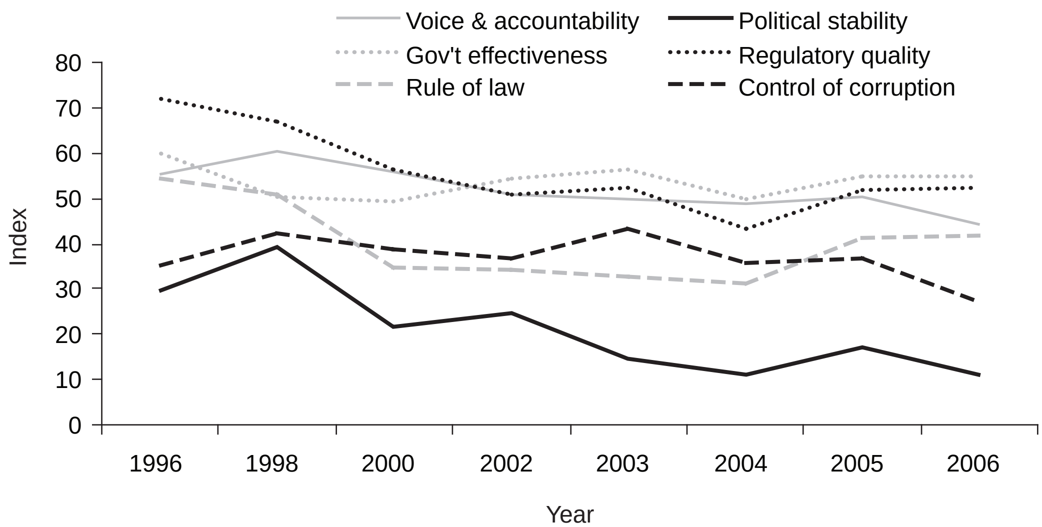
Source: National Statistical Coordination Board.

Figure 28: Overseas Filipino Worker Remittances (US$ billion)



Source: Bangko Sentral ng Pilipinas.

Figure 29: Dimensions of Governance



Source: World Bank.

Conclusion

What lessons can one draw from the Philippine's reform experiences during the Ramos administration and the outcomes 10 years after? Notwithstanding criticisms against the Philippine's rambunctious democracy, the case studies demonstrate that reform under such a setting is possible, "once you get the right democrat."[58]

Clearly, leadership matters—to set the vision, to rally the people, to bring results in ways that are possible to accomplish at the time given openings available. Through the reforms he shepherded, President Ramos was able to achieve real gains that the economy continues to benefit from today. This was despite his weak starting position, having to contend with strong vested interests, and having to work through weak institutions. Importantly, he "enlightened many of his countrymen to the idea that they could join the ranks of their prosperous Asian neighbors.[59]"

This conclusion is worrisome though for future reform efforts if one takes the view that good leaders are in a sense accidents of history—an individual in the right place at the right time. In a way, this view is borne out by the Philippine's stalled reform program and the fact that since President Ramos, the electoral process has yet to produce a leader with comparable skills and qualities. Hence, increasing attention has been given to reform of the electoral system—strengthening electoral authorities, developing political parties, reforming campaign financing, increasing civil society involvement, voter education, and so forth. Although the debate appears to have focused on changing the form of

[58] Spaeth 1995.
[59] Strasser 1998.

government, the more fundamental issue is one of strengthening electoral rules in ways that allows the fielding of qualified candidates and creates incentives for winning candidates to think long term rather than just focus on short-term, narrow objectives. There is likewise an important role for civil society, including academic and business organizations, to engage more fully in pushing long-term reform in the face of electoral contests that yield short-term goals and perspectives.

Principal Players

The principal players in President Ramos' reform efforts are identified below. Many people were involved in the effort, and the authors apologies for not presenting an exhaustive list.

1. Oil Deregulation

Prime mover was Department of Energy Secretary (1994 to 1998) Francisco L. Viray, succeeding DOE Secretary Delfin L. Lazaro (1992 to 1994) who was his superior when Dr. Viray was National Power Corporation (NPC) President (May 1993 to 1994). Together they restored the lights AND investors' and peoples' confidence 15 months after the Ramos administration took office. Secretary Viray completed his PhD in Engineering at West Virginia University in 1982 and was dean of the University of the Philippines College of Engineering before he was drafted into NPC.

Mr. Lazaro was (and is) a highly respected corporate executive (including Chairman of Benguet) with degrees in Metallurgical Engineering from the University of the Philippines (UP) and an MBA (with distinction) from Harvard University. This reform was supported strongly by Finance Secretary Roberto F. De Ocampo (1992 to 1998) and Planning Secretary Cielito Habito (1992 to 1998). Mr. De Ocampo, who would receive the Finance Minister of the Year award in 1996 from *Euromoney* magazine, previously served in government corporations (CEO of the Development Bank of the Philippines, and Administrator of the National Electrification Authority) and also worked for a decade at the World Bank. Dr. Habito taught and practiced agriculture economics studies at UP Los Baños and obtained his PhD in Economics at Harvard.

2. MWSS Privatization

Prime movers were Department of Public Works and Highways Secretary Gregorio R. Vigilar, also Chairman of Metropolitan Waterworks and Sewerage System (1993 to 1995), together with MWSS Administrator Angel L. Lazaro III (1995 to 1997). Secretary Vigilar, like President Ramos, was a West Point graduate and a civil engineer, with an MBA and a distinguished career in government before being asked to serve in the cabinet. Dr. Lazaro, coincidentally the elder brother of Delfin Lazaro, has a PhD in Civil Engineering from Princeton University and was a successful head of an engineering company and a professor/dean when he was drafted. Mr. Mark Dumol was Secretary Vigilar's chief of staff and point person. He wrote a book on the privatization experience for the World Bank (2000), which we gratefully acknowledge as a reference.

The IFC, represented by Mr. Scott Macleod, provided technical assistance both directly and by being a clearinghouse for other support. Additionally, the privatization was supported by the Department of Finance, which assigned the

Undersecretary for International Finance, Privatization and Treasury Operations (one of the authors) as a director at the MWSS Board to facilitate coordination.

3. Telecom De-Monopolization

The Prime Mover was General Jose Almonte, National Security Adviser of President Ramos. He played a key role in the People Power Revolution of 1986, and had been a close associate of President Ramos while serving in the military. He had previously served in government as head of the Economic Intelligence Bureau of the Department of Finance (1986 to 1992) and head of a think tank—the Philippine Center for Advanced Studies (1974 to 1979) within the UP system. He has authored a number of books on the subject of political and economic reform. He was supported in this effort, especially in the critical early stages, by the then Presidential Chief Legal Counsel (now Supreme Court Justice) Antonio Carpio (1992 to 1997), who was in turn supported by Attorney Antonio A. Abad. The Department of Transportation and Communications Secretary then was Jesus Garcia and his deputy who carried the reform of the sector forward was Undersecretary, subsequently Secretary Josefina T. Lichauco, also a lawyer with a Master of Law degree from Yale.

Interviewees

President Fidel V. Ramos
General Jose T. Almonte, former Presidential Security Adviser
Francisco Viray, former Energy Secretary (oil)
Delfin Lazaro, former Energy Secretary (power)
Angel Lazaro, former MWSS administrator
Cielito Habito, former Planning Secretary
Roberto de Ocampo, former Finance Secretary
Anthony Abad, former consultant, National Security Council (telecoms)
Milwida Gueverra, former Finance Undersecretary

Annex 1: Oil Deregulation

"If there is proof of political will on the part of the Ramos presidency or of any other Philippine presidency, let this new oil deregulation law be the proof of that…."
Statement of Fidel V. Ramos
Enactment into law of R.A. 8479, 10 February 1998

As surveys of investment climate reveal, macroeconomic stability is one of the most important criteria that investors look for in a developing country like the Philippines. By deregulating the downstream oil industry, the Ramos administration removed a source of fiscal risk that in the past had required government, time and again, to provide new monies to support oil subsidies. Equally important on the political front, it helped reduce social tensions that invariably erupted whenever government announced oil price increases.

Reform Context

As a result of the power crisis, energy was an area that the Ramos Administration had focused on from the start. Oil deregulation was one of the recommendations in the Energy Action Plan[60] and together with solving the power crisis and privatizing Petron Corporation,[61] was part of the mandate of the newly created Department of Energy (DoE).

At that time, government was subsidizing domestic oil prices. An Oil Price Stabilization Fund (OPSF), created in 1984, served as a buffer fund to absorb shocks in world oil prices and exchange rate swings. Thus, funds were drawn down when world oil prices were high and replenished when world oil prices were low. While stabilizing domestic oil prices, the OPSF created problems elsewhere. When deficits started to build up, government had to either infuse fresh capital (from the budget or revenue-generating public corporations)[62] or adjust petroleum prices upwards, which was often met with strikes and protests. On the other hand, when in surplus, the OPSF would in turn be used for other ends,[63] defeating its very purpose.

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[60] Interview with Delfin Lazaro.

[61] By 1994, 60 percent of the company was in private hands (40 percent held by Saudi Aramco and 20 percent by the public).

[62] For example, in 1990 the national government contributed ₱5 billion to the OPSF with PAGCOR contributing another ₱300 million (PIDS 1995).

[63] In one incident in 1994, government imposed an oil levy—charged to the OPSF—to support the budget. By the end of the year, the OPSF was already in deficit. Given the importance of the oil levy in meeting fiscal targets, which in turn signaled government's commitment to macroeconomic stability, the President decided to raise oil prices instead. This set off an uproar from a broad section of society—the church, business sector, labor groups, left-leaning organizations, and so forth. Calling itself "Kilusang Rollback," the unlikely coalition threatened to stage nationwide protests unless oil prices were rolled back. President Ramos ended up ordering a price rollback.

Thus, under this setup, government continually had to grapple with recurring deficits in the OPSF in an environment where the process of increasing oil prices was highly politicized (see footnote 63). Moreover, the OPSF, while viable in a situation where oil prices moved up and down, would not be so if oil prices persistently trended up over long periods of time (or if the peso, over long periods, continually depreciated against the dollar), thus exposing government to a source of potentially harmful fiscal risk.

Initiating Reform

The deregulation of the oil industry required legislation (i) allowing automatic and full passthrough of international crude oil prices to domestic end-user prices and (ii) freeing oil importation to create competition in the local market.[64] In turn, convincing Congress to pass the law required the following:

- Public education. The Ramos administration realized early on that the biggest challenge was to reduce public resistance to the proposed oil deregulation. It thus launched an all-out public information campaign that included not only information dissemination materials (for example, primers in English and the different local dialects) but also required DoE officials to go on a nationwide roadshow to explain why the oil subsidies would have to be removed and what the public should expect from oil deregulation. Softening public resistance to the reform was very important for getting congressional support and, thus, approval of the bill.
- Getting the LEDAC to agree to work quickly on an oil deregulation bill that could be sent to Congress for approval. President Ramos created a task force[65] under the LEDAC for this purpose and within two months, had certified as urgent an oil deregulation to Congress.
- Committing to the IMF the deregulation of oil pricing and importation under the 1994 extended arrangment. This helped to create a climate of change as the compliance with the conditionality was necessary to secure the IMF "seal of good housekeeping" needed to gain investors' confidence.

President Ramos succeeded fairly quickly in this regard. He signed RA 8180 or the "Deregulation of the Downstream Oil Industry Act" into law towards the end of March 1996, which became effective on 16 April 1996. Implementation went fairly well until the Asian crisis when the peso depreciated steeply, raising oil prices. This set off renewed political tensions with a group of opposition

[64] Former Secretary Delfin Lazaro noted that effective competition required that new players will also need to have oil depots. In this regard, the exit of the U.S. bases allowed the Subic Poro Point to be used as terminal for the new players.

[65] Memorandum Order 315, issued 13 October 1995.

congressmen filing a petition with the Supreme Court for the nullification of three specific provisions of the law.[66] Instead of just the three provisions, the Supreme Court vetoed the entire law on November 5, 1997, declaring it unconstitutional.

By then however, the cost of turning back to a regulated regime had become evidently high. The industry had already been fully deregulated for over seven months. During that period, oil companies had been in charge of pricing and until the Asian crisis hit, oil prices had been relatively stable. Industry players had by then also made plans based on the new rules. The DoE reported that 17 of the 30 new entrants who had expressed interest to invest in the downstream oil industry had already started operations, while nine others were expected to begin within the year.[67] Moreover, government, wanting a graceful exit from the IMF program, ended up having to extend the program to March 1998.

Thus, Congress passed a new law, RA 8479 or the Downstream Oil Industry Deregulation Act, signed on February 10, 1998. The new law simply corrected the provisions that the Supreme Court found unconstitutional in the old law. By mid-March 1998, by virtue of E.O. 471, the industry was fully deregulated.[68]

Implementing and Sustaining Reform

Failsafe devices built into the two oil deregulation laws included a transition period to keep domestic oil price volatility at a minimum and condition the public to regular price adjustments.[69] Prices during the transition period were adjusted every month using an automatic pricing mechanism based on the widely published Singapore Posted prices. Under the first law, government also infused ₱1 billion into the OPSF to absorb oil price increases in excess of 50 centavos. In both cases, full deregulation was timed to take advantage of favorable international oil market conditions and stable exchange rate movements.

Nevertheless, challenges to the oil deregulation law have continued over the years under successive administrations in the form of proposals for re-regulation

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[66] That is, (i) the 4 percent tariff differential between crude and finished oil products; (ii) the 40-day inventory requirement; and (iii) the prohibition against predatory pricing. Crafters of the provisions had been arguing that (i) pre-deregulation, there was already a tariff differential between crude and finished products and a larger one at that (10 percent) and the differential was needed to keep refineries in, (ii) the inventory requirement was a policy decision favoring supply stability over any negative impact on competition, and (iii) the prohibition against predatory pricing was to prevent the existing big players from charging prices below cost to discourage new entrants.

[67] Department of Energy, Presentation on the Implementation of Downstream Oil Industry Deregulation, mimeo.

[68] However, given provisions in the new law safeguarding socially sensitive oil products against an accelerated implementation of full deregulation, complete deregulation was attained only in July 1998.

[69] This period lasted for almost 10 months under the first law and was cut down to one month under the second law.

and nationalization. While these extreme proposals have been ignored, government has remained sensitive to public outcries and has resorted to other indirect means of influencing domestic oil prices to keep public opinion at bay. These policy handles have included adjusting the duty on oil imports when regional crude prices hit certain trigger amounts, offering time-bound fuel discounts for public utility vehicles through Petron, and using moral suasion to persuade oil companies to adjust prices in small increments.

On the administration side, President Ramos also issued Executive Order 377 on October 31, 1996 that provided the institutional framework for the administration of the deregulated industry. The E.O. spelled out the functions and responsibilities of the different government agencies.[70] Functions of the DoE, the lead agency in charge, included monitoring oil prices, ensuring oil companies' compliance with various laws, and prescribing minimum inventories of petroleum stock.

Moreover, government's remaining 40 percent stake in Petron Corporation, one of the Big 3 oil companies, has also kept it informed of industry-wide developments and allowed it to monitor first-hand domestic price movements.

Reform Outcomes

The benefit of oil deregulation became evident during the most recent run-up in world oil prices. In contrast to countries like Indonesia, Malaysia, Thailand, and India, which reportedly spent billions of dollars subsidizing domestic oil prices,[71] the Philippines allowed full pass-through of world oil price increases. This has helped shield the fiscal sector from the burden of providing oil subsidies at a time when government finances were most fragile. Moreover, increased industry competition may be seen in the increased market share of new players (from less than 3 percent in 1997 to 15 percent in 2005)[72] and improved services at refilling stations (such as convenience stores and cleaner washrooms).

The biggest benefit though may be the reform measure's contribution to increased public awareness of how markets work. Today, the public by and large has become desensitized to price adjustments and the full pass-through of increases in world oil prices to domestic pump prices, rather than provoking street protests, have more and more come to be accepted as market realities, eliciting responses in line with textbook consumer behavior—that is, conservation and substitution. This is most likely the reason why the reform has survived to date. Over the 2000–05 period, the country's oil imports declined by 28 percent on a cumulative basis. The recent enactment of the Biofuels Act,

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[70] In addition to the DoE, functions of the following departments were defined by the E.O.: Trade and Industry, Science and Technology, Environment and Natural Resources, Health, Labor and Employment, Transportation and Communication, Interior and Local Government, Public Works and Highways, Finance, Justice, and National Defense, as well as the NEDA, ERB, PEZA/SBMA.

[71] *Asia Pulse News* 2005.

[72] http://www.doe.gov.ph. The number of new players reached 367 in 2005, many of which are in the LPG business.

requiring liquid fuels to be blended with certain percentages of locally produced biofuels, is also a direct response to continuing high oil prices.

Conclusion

Overall, the reform process took roughly four years counting from the IMF program to full deregulation in July 1998 (inclusive of a one-year lull in the run-up to the 1995 elections). As difficult and lengthy as the reform process may have been, the evidence eight years on has been very positive. Lessons from the reform experience include the following:

- The importance of political will and the leader's commitment to its vision in overcoming obstacles put up by the many veto players in a democratic setting
- The importance of carefully managing the process of reform, including effective communication and education as well as phasing in of changes, to secure public acceptance and thus, congressional support of reforms. This is especially important for politically sensitive reforms that affect a broad segment of society.
- The need to maintain regulatory presence post reform to win public confidence and forestall charges of predatory behavior (such as cartelization) by dominant players in the industry, which can put the sustainability of reform at risk. In this case, government's ability to indirectly influence retail prices post-deregulation gave it some semblance of control, especially in times of volatile world oil markets when public hostility over successive price increases can run high
- Multilateral agencies such as the IMF and the World Bank may have some role in lending credibility to a government's reform effort. However, when it comes to sensitive reforms, agencies need to be conscious of the fine line between lending support and appearing to be dictating domestic policy directions, which can prove counterproductive.

Annex 2: De-monopolizing Telecommunications

"The Philippines is a country where 98 percent of the residents are waiting for a telephone and the other 2 percent are waiting for a dial tone."
Attributed to Lee Kuan Yew, Senior Minister, Singapore[73]

Many would consider the de-monopolization of the telecommunications industry one of the best legacies of the Ramos administration. President Ramos's early success here probably helped put the Philippines back on investors' radar screen and won him a reputation as a credible reformer that would prove important in succeeding reforms. For several years after it was opened up to competition, the sector was one of the most dynamic segments of the economy, benefiting from the pent-up demand and transfer of technology from foreign investors. Through the years, the benefits have flowed to the information technology sectors with the growth of internet use and business process outsourcing services. The popularity of mobile cellular phones has likewise put the Philippines at the forefront of technological innovations in retail financial services, particularly those catering to the country's growing overseas workforce.

Reform Context

When President Ramos assumed the presidency and sounded the battle cry against monopolies and cartels, there was no question that the Philippine Long Distance Telephone Company (PLDT), specifically the Cojuangco family who controlled the company, was among the Goliaths.

Heretofore, policy statements of the previous administration to put in place a competitive telecommunications sector went nowhere.[74] Efforts of the National Telecommunications Commission (NTC), the government regulator, to introduce competition did not go unchallenged. On at least two important occasions, PLDT succeeded in getting favorable legal rulings blocking would-be competitors from entering some of the most lucrative segments of the market.[75] Even with control over a significant portion of PLDT's shares sequestered from Marcos cronies in 1986, government had not been able to exert pressure on PLDT at the board level. An earlier attempt by then newly formed Presidential Commission on Good Government (PCGG) to investigate the company's connections to deposed President Marcos was set aside[76] and the PCGG nominees had since been on

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[73] Based on interview with President Ramos, February 14, 2007.

[74] DOTC Department Circular 87-188, May 1987.

[75] PLDT secured (i) a Supreme Court decision in 1992 reversing its initial ruling allowing Eastern Telecoms to operate an international telephone gateway, and (ii) a Department of Justice opinion blocking another competitor, Digital Telecommunications, from operating a telephone network in Luzon that it had won in a privatization bid (Esfahani 1994).

[76] Tiglao (1993) reported that then PCGG Chairman Jovito Salonga took a hands-off policy after a conversation with President Aquino, who said that "the Antonio Cojuangco family is not that bad,

inactive duty. Indeed, the Cojuangco family's influence, which extended across the three branches of government as well as the media,[77] helped to preserve PLDT's monopoly position.

Thus, when President Ramos came in, the Philippine telecommunications sector was in very poor shape. Anyone wanting a telephone had to queue behind hundreds of thousands of other applicants for a line from the only provider in town—PLDT.[78] PLDT, which owned the only nationwide backbone transmission network, controlled over 90 percent of the country's telephone lines at the time. It had a backlog of 800,000 unserved telephone applications, 600,000 of which were in Metro Manila alone. However, rather than expanding its network, it "spent heavily for the protection of its market share … moneys that might otherwise have been used to fulfill its responsibility as a protected monopoly—to meet demand."[79] In any case, it could not raise capital to expand its network as investors were worried about the company's ability to maintain its monopoly position beyond the Aquino administration.[80]

It is revealing of President Ramos's leadership qualities that he would target PLDT first considering that he owed his position in part to President Aquino's endorsement of his candidacy. In the end, his success here helped to demonstrate his effectiveness as a leader and brought credibility to his reform program. This in turn helped to lock in investors' attention in the Philippines.

Initiating Reform

Given PLDT's political clout, President Ramos, together with Presidential Security Adviser Jose Almonte, very visibly championed the reform. The strategy largely involved isolating PLDT, in particular the Cojuangco clan, and weakening its resistance to reform. Tactics included the following:

- In early 1993, President Ramos replaced the government's representatives on the boards of both PLDT and PLDT's majority shareholder Philippine Telecommunications Investment Company (PTIC).[81] During the company's stockholders' meeting that year, he succeeded in putting six of his representatives on PLDT's 11-member board.[82] With effective control of the board, he could thus credibly

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and is different from Danding's," her other cousin who's shares in San Miguel Corp. had been sequestered. President Aquino confirmed the statement but denied that she had meant to discourage PCGG from pursuing the case.

[77] Through the family-owned *Manila Chronicle*, one of the biggest newspapers at the time.

[78] None of the 45 existing telephone companies were in a position to challenge its leadership.

[79] Tiglao (1993a), quoting the World Bank.

[80] Esfahani 1994.

[81] At the time, government ownership stake included (i) 10.6 percent of PLDT through the Social Security System; and (ii) 46.1 percent of PTIC, which in turn owned 24.2 percent of PLDT (Tiglao 1993c).

[82] Tiglao 1993d.

threaten a take over of PLDT management if the latter persisted in pursuing anticompetitive behavior.[83] This helped reduce resistance from PLDT to government's reform initiatives.

- Encouraging the organization of the Movement for Reliable and Efficient Phone Service (MORE PHONES) to demonstrate the strong clamor from society for better telephone services. This was intended to put political groups backing PLDT management on the defensive, again weakening the opposition.
- Government also succeeded in securing reversals of the earlier legal rulings that favored PLDT (see footnote 75), including the Supreme Court decision. The latter followed the opinion of an expert on the authorship of English-language texts, reported in the press, that the ruling was penned by a PLDT lawyer. This led to the resignation of Supreme Court Justice Hugo Gutierrez.[84]
- At the same time, President Ramos extended moral support to would-be competitors, including presiding over the signing ceremony in Singapore of a joint venture project between Globe Telecom and Singapore Telecom International.[85]
- The following executive directives were issued, opening the floodgates to investments:
    - DOTC CIRCULAR 92-269, issued in November 1992 opened up the cellular mobile telephone service (CMTS) segment of the market.
    - Executive Order 59, issued in February 1993, mandated interconnection among telecoms networks. PLDT, which had been resisting this move, was forced to open up its network to competitors.
    - Executive Order 109, issued in July 1993, introduced the service area scheme (SAS) under which the country was divided into 11 franchise areas that were assigned to individual carriers. The E.O. required international gateway operators to install 300,000 lines and cellular phone companies to set up 400,000 landlines within five years.

Together with some behind-the-scenes maneuvers by the National Security Council, these were enough to signal government's seriousness in de-

[83] Thompson and Macaranas (2006, p. 148) narrates how in the board battle, Speaker Jose de Venecia convinced PLDT's President Antonio "Tony Boy" Cojuangco either to agree to interconnection or be forced out.
[84] Thompson and Macaranas (2006, p. 147), referring to a study by Dr. David M. Yerkes. The report caused the resignation.
[85] Tiglao 1993b.

monopolizing the sector, attracting significant investor (local and foreign) interest.[86]

Implementing and Sustaining Reform

The supply response was immediate. Following the SAS under EO 109, nine carriers with either an international gateway or a cellular mobile service license or both committed to install some four million telephone lines within the specified timeframe. PLDT, confronted for the first time with competition, embarked on a zero-backlog program and promised to install over one million lines.[87] In line with these commitments, over 660,000 lines were installed between 1993 and 1995,[88] almost doubling the country's teledensity.

The positive impact, evident very soon after the sector was opened up, led Congress to pass RA 7925 or the Public Telecommunications Policy Act in March 1995. RA 7925 "secured the reforms from future changes in stewardship of the Executive Office."[89] Over the next two years, the country's mainline capacity doubled and redoubled such that by the end of 1997, capacity had reached over six million telephone main lines, up from only 1.4 million in 1995.

Nevertheless, RA 7925 created some problems as well. The law required interconnection arrangements between carriers to be commercially negotiated on a bilateral basis only (instead of NTC setting the ground rules and parameters for negotiations). This gave PLDT, which already had a large network in place, superior bargaining power during negotiations and an opportunity to delay interconnection, which it exploited.[90] As a result, interconnection rows have often erupted over the years. This problem is only being addressed today with the NTC preparing a set of interconnection rules, specifying various terms for interconnection.

Other challenges to sustaining the benefits of the reform have likewise cropped up over the years, mainly dealing with the regulatory regime. Studies have pointed to the need for government policy to keep evolving to ensure fair play not only among existing players but also would-be entrants, given

[86] These included the Ayalas (through Globe Telecom, with Singapore Telecom), the Lopezes (through Benpres, with Australian Telstra International), John Gokongwei (through Digital Telecommunications, with Cable & Wireless of Britain), the Delgado family (through Isla Telecommunications, with Thailand's Shinawatra International), and a group of Filipino executives (through Smart Information Technologies, with Indonesia's First Pacific Group). Source: Tiglao 1993b.

[87] Abrenica 1998, p. 6.

[88] Philippine National Infrastructure Forum 1997.

[89] Abrenica 1998.

[90] For example, in 1995, NTC had to step in to settle an interconnection dispute between BayanTel and PLDT, the former alleging that PLDT was intentionally slowing down interconnection and the latter defending its position on the ground that interconnection has created a huge burden in light of PLDT's own expansion programs (Philippine National Infrastructure Forum 1997).

especially rapid technological changes that require telecommunication companies to constantly expend large amounts of capital to upgrade systems.[91]

Reform Outcomes

Fifteen years on, the benefits of deregulation may be seen in significant improvements in telecommunications services, especially in the cellular mobile phone segment of the market. Fixed line teledensity[92] has improved significantly from pre-deregulation days albeit it is the cellular mobile telephone sub-segment that has experienced dramatic growth (CMTS teledensity reached 41 per 100 population in 2005). With their increased popularity, mobile phones have increasingly taken over the traditional role of fixed lines in gauging a population's access to telephone services. From only two in 1992, the number of authorized cellular mobile telephone operators increased to five by 1994 and further to seven in 2001.[93] Two operators (Globe, Islacom) merged in 2003 while one (Bayantel) is not yet operational as of 2005. Two operators (Smart and Globe) continue to dominate the five-player market with a combined 80 percent share of the subscriber base, albeit this is lower than their 87 percent share in 2002 before Digitel came in. The cellular mobile telephone subscriber base has increased by a compounded annual growth rate of 40 percent between 2000 and 2005. Thus, in terms of effective teledensity,[94] 2003 data show that the Philippines is ahead of China, Indonesia, Vietnam and India, although it lags Malaysia and Thailand.

The sector's growth and spread to other areas, such as computer-based services, has spawned a new growth industry—business process outsourcing—that is a key driver to current and expected future growth and employment. Moreover, the Philippines has been at the forefront of technological innovations in consumer banking and such financial services as money transfers that allow overseas Filipino workers to send cash remittances to relatives in the Philippines via short messaging service (SMS). Mobile phone technology is also being used for government services, including by the Bureau of Internal Revenue to monitor firms' tax compliance.

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[91] See, for example, World Bank 2005a for a fuller discussion of the reform areas.

[92] Installed teledensity has increased from only 1.2 per 100 population before deregulation to four per 100 population as of 2005 (2006 Philippine Statistical Yearbook, NSCB). Comparative teledensity figures of neighboring economies in 2003 are 21 per 100 population in China, 18 in Malaysia, 10 in Thailand, and 5 in Vietnam. (World Bank 2005a).

[93] The two operators in 1992 were Pilipino Telephone Corporation and Express Telecommunications Co. The three new players in 1994 were GMCR, Inc. (Globe), Isla Communications Company, Inc., and Smart Communications Corp. Digitel and Bayantel were authorized in 2001 (Digitel become operational only in 2003 while Bayantel was not yet operational at end-2005).

[94] The World Bank (2005a) defines effective teledensity as the higher of either telephone mainlines per 100 population or cellular subscribers per 100 population.

Conclusions

Compared with oil deregulation, de-monopolizing the telecommunications sector was achieved very quickly. The reforms elicited the much hoped-for supply response and the benefits have endured to date and continue to drive growth. Lessons from this reform experience include:

- The importance of political will in driving reforms, especially in areas where entrenched interests have blocked reform efforts
- In an area where the external environment is continually in flux, reform should be seen as a continuing process of keeping the rules of the game in tune with the times with the end in view of keeping competition in the sector alive.

Annex 3: Water Privatization

"The world's largest water privatization"
International Finance Corporation, 1997

It is difficult to imagine any other administration since President Ramos pulling off the privatization of the Metropolitan Waterworks and Sewerage System (MWSS). The task did not simply involve another asset sale but was an elaborate exercise in designing a long-term public-private partnership in a sector with a long history of politicization in tariff setting. The results speak for the reform's success—a larger share of the population is enjoying access to potable water, private management has improved the distribution utility's operational efficiency, investments needed to expand water services are being undertaken, and the rate setting process has become less politicized.

Reform Context

The decision to privatize the MWSS may be traced to several developments at the time:

- The water sector was deemed in crisis. In Metro Manila, only around two-thirds of the residents were connected to MWSS pipes.[95] Lacking financial capability as a result of politicization of water rates and high nonrevenue water, MWSS could not undertake the necessary capital expenditures to expand water services. In fact, given its losses, it had increasingly become a burden on the national government.[96] There was moreover, the issue of inadequacy of existing raw water sources to cover the population's long-term water needs.
- The Ramos administration had began restructuring the water sector in 1993 and looking into privatizing water districts. It had secured a technical assistance from the World Bank to develop privatization implementation plans for water districts, targeting the smaller water districts outside Metro Manila as pilot projects. These did not take off.
- Many private investor groups (both local and foreign) started expressing interest to participate in the water sector, either as proponents of build-operate-transfer projects to develop raw water sources or rehabilitate distribution facilities, or as equity investors in MWSS.[97] These expressions of interest in turn encouraged government to find the most suitable models of privatizing water districts.

[95] Of those served, only half enjoyed 24-hour water availability. Moreover, there were reports of cholera outbreaks from contaminated water.
[96] Data from the Department of Budget and Management show that national government budgetary support to MWSS from 1992 to 1997 amounted to almost ₱2 billion.
[97] In June 1994, a Malaysian group expressed interest to acquire MWSS (Dumol 2000)

- Several countries at the time (including Argentina, France, and the United Kingdom) had successfully completed the privatization of their distribution utilities, offering a wealth of information about alternative models of privatization.
- In Metro Manila, there was little stiff opposition to proposals to privatize MWSS considering the agency's poor service delivery. The only major group that could have potentially derailed government's privatization plan was MWSS's labor union. Nevertheless, in time, they too were enlisted to help out in the privatization process.

Initiating Reform

President Ramos set the MWSS privatization in motion with three legal documents.

- Certified by the President, Republic Act 8041 or the National Water Crisis Act, signed in June 1995, granted the President emergency powers to address the crisis (similar to what he had to solve the power crisis). Section 7 of the Act also gave the President six months to reorganize the MWSS, including cutting the agency's workforce, and pursue "privatization of any or all of its segments."
- Executive Order 286, issued in December 1995, set out the framework for reorganizing the MWSS.
- Executive Order 311, issued in March 1996, spelled out the various ways by which the private sector could participate in MWSS facilities and operations.

In the ensuing months, government pursued three strategic moves, two of which required strong political will on the part of the President, which helped to boost confidence in government's commitment to the effort and diffuse potential opposition:

- In line with the reorganization plan under E.O. 286, an early retirement program offering benefits twice that of the standard government retirement package was offered to over 7,000 MWSS employees in August 1996. The program reduced the utility's personnel by 30 percent and made it more attractive for privatization.
- In August 1996, MWSS raised water tariff by 38 percent to ₱8.78/m^3. The increase, which had long been resisted, was a significant move, showing potential investors that government could muster the political will to implement price adjustments when needed. It likewise increased the chances of lower tariffs post-privatization.
- Also in 1996, MWSS union leaders were invited to join a World Bank–sponsored trip to Argentina to see first hand the generally positive

impact of privatization on the labor sector. Upon their return, they were given a free hand (and provided legal services) in drafting the labor provisions of the concession agreement, which protected employee rights well after the private sector's takeover of the concessions.[98]

In addition, government tapped the services of the International Finance Corporation (IFC) to work out the privatization design and strategy (via concession, MWSS divided into two zones), prepare the bid documents, and oversee the privatization process (from prequalification of bidders to award of contract).[99] The bid attracted four competing groups,[100] whose bid tariffs were substantially below the existing water rate. The deep discounts of the winning bids—Ayala/United Utilities winning the east zone with a bid of 74 percent discount to the prevailing water rate and Benpres/Lyonnaise winning the west zone with a 43 percent discount—created a constituency for privatization and drowned out any remaining opposition to the MWSS privatization.

The results of the bid also made it easier for government to fend off challenges to the privatization, which started in early January 1997 with the issuance of the first of two court orders. However, the temporary restraining orders[101] proved minor irritants compared with the labor strike that broke out as the transaction neared its closing date. The strike,[102] which at one point involved

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[98] Under the concession agreement, the private concessionaires were required to absorb remaining MWSS employees (others were retained to handle residual functions of MWSS), who were each hired for a six-month probationary period. Anyone fired during the probationary period and anytime within one year thereafter would be entitled to the benefits offered under government's early retirement program the year before. At the end of the probationary period, almost 4,000 employees were retained by the concessionaires (approximately 80 percent of workers initially absorbed). (Source: Corral 2003.)

[99] The privatization study was financed in part by a grant from the French government.

[100] the following consortia were prequalified to participate in the bid scheduled for January 6, 1997: International Water (U.K.'s United Utilities and U.S.'s Bechtel Corporation) and Ayala Corp.; France's Lyonnaise des Eaux and Benpres Holdings; France's Compagnie Generale des Eaux and Aboitiz Equity Ventures; and U.K.'s Anglian Water and Metro Pacific Corp. Given the 40 percent constitutional limit on foreign participation in utilities and the concessions' large investment requirements, the local partners consisted of some of the biggest conglomerates in the country which have significant interests in other areas of the economy, including in property (Ayala, Metro Pacific), telecommunications (Ayala, Benpres), power (Benpres, Aboitiz), banking (Ayala, Benpres, Aboitiz), and media (Benpres). Some speculate that these other interests may have influenced the pattern of bidding, helping to explain in particular Ayala's very low bid.

[101] The first temporary restraining order (TRO), issued on January 4, 1997, was in response to a petition by the proponent of a BOT water supply project. The TRO was lifted by the bid date, January 6. The second TRO, issued the following month based on a petition from the same group, questioned the legality of the privatization considering the six-month timeframe provided in RA 8041. This was lifted on February 16. (Source: Dumol 2000.)

[102] Dumol (2000) reported that the strike was triggered by Congress's passage of increased salaries for government workers under the Salary Standardization Law. MWSS employees, learning that other government agencies had implemented the salary increases earlier in the year, wanted a retroactive application of the increases for themselves. While the bulk of the employees

an employee walkout, lasted for weeks with the case reaching the Supreme Court (which dismissed it). The labor protest in the end failed because by the time it was staged, people already knew that water prices were going to drop once the private sector took over.

Implementing and Sustaining Reform

The rules of the game post-privatization are spelled out in the concession agreement signed by government and the two private concessionaires. Since the private sector took over the concessions on August 1, 1997, major challenges to the concession agreement have included these two:

- The steep exchange rate depreciation following the Asian crisis with the peso losing over a third of its value over a one-year period. This raised the cost of the concession fees, denominated in dollars, materially and led to Amendment No. 1 of the concession agreement. Amendment No. 1 (i) allowed a faster recovery of foreign exchange losses (rather than over the life of the concession), and (ii) bound the MWSS to conduct a rate rebasing exercise on the fifth year (rather than the tenth year).
- Exit of Benpres from Maynilad, whose shares were reacquired by government following an extended dispute over the results of the first rebasing exercise in 2002.[103] Perhaps more than the Asian crisis, which may be argued was an event of force majeure, the Maynilad case truly tested the concession agreement. The problem stemmed from internal weaknesses of Maynilad, particularly (i) the poor financial condition of the Benpres group at the time (for example, it had not been paying its concession fees to the government) that has been partly caused by the drying up of capital and currency/maturity mismatches laid bare by the Asian crisis, and (ii) constraints in management, including poor working relationship between the two major shareholders.[104] The latter became

participated in the general strike, the hard-core strikers numbered a few hundred. The former group quickly returned to work after management threatened them with suspension. MWSS then petitioned the Supreme Court to order the remaining strikers to go back to work based on the Civil Service Code prohibiting government employees from holding a strike. In the end, according to then MWSS Administrator Angel Lazaro, only very few (estimated 10–20) refused to return to work.

[103] The Regulatory Office of the MWSS disallowed many of the expenditures incurred by Maynilad during its five years in operation, which were excessive relative to (i) what the company had been able to achieve and (ii) Manila Water’s costs. It approved a water tariff for the west zone that was below what Maynilad requested, prompting the latter to file a notice of termination. The case reached international arbitration over which party was at fault (Maynilad citing low tariffs among its arguments, government citing Maynilad’s nonpayment of concession fees). The case moved into rehabilitation where another change in contract, Amendment No. 2, was introduced and finally ended with government agreeing to convert its concession fee receivables into equity and the Benpres group giving up its interest in Maynilad.

[104] Interviews of Angel Lazaro III and Felipe Medalla.

evident when the two concessionaires' performance were benchmarked against each other during the rate rebasing exercise and Maynilad's operating costs and disallowed expenditures were significantly higher than Manila Water after adjusting for billed water volumes.

These challenges have revealed that the most important elements of the concession agreement that have contributed to sustaining the reform include the following:

- The mechanism for rate review every five years that allowed a reassessment of conditions that may warrant real adjustments[105] in water rates.
- The international arbitration mechanism for dispute settlement that has increased the credibility of the regulatory system.
- The ability of the Regulatory Office to tap external consultants as advisers, which has helped enhance its capability and effectiveness, as seen in the last rebasing exercise. At that time, the regulator had also introduced a performance contracting mechanism (with a system of rewards and penalties), which should encourage concessionaires to focus on meeting service targets and enhance the gains from privatization.
- The splitting of the MWSS franchise into two zones, allowing benchmarking of performances of the two concessionaires, which in turn enabled the regulator to attribute performance to macro, industry-wide, or company-specific factors.

On the other hand, several sector experts, maintaining a position that parties should abide by signed agreements, have criticized government for the two amendments to the concession agreement. More particularly, government's response to the Maynilad problem, which was to take residual risk in Maynilad via conversion of its debt into equity (Amendment No. 2), has been viewed as a bailout of the Benpres group. This has raised issues of moral hazard (increased risk-taking on the part of concessionaires on the expectation that they will not have to bear the full cost of risks) and regulatory capture (regulatory decisions dominated by interests of those regulated as against the public interest), casting a cloud over the regulatory regime.

Reform Outcomes

Judging by various performance indicators (see table A3.1), the MWSS privatization has, on the whole, been successful, as shown by improved service coverage and operational efficiencies, increased water availability, and growing billed water volumes (BWV). On the other hand, the results revealed that the concessionaires had been overly optimistic in their original bids leading to

[105] Nominal rate adjustments are handled by an automatic rate adjustment formula that captures changes in the general price level and the exchange rate.

missed service targets—for example, nonrevenue water (NRW)—and faster-than-anticipated increases in water tariffs. Moreover, given Maynilad's problems, the operating results of the two concessionaires were also very different. Manila Water was able to reduce NRW while Maynilad's NRW actually increased between 1997 and 2002. Manila Water was able to cut its ratio of operating expenditures to BWV to half that of Maynilad while Maynilad's ratio was, again, rising.

Nevertheless, comparative water service indicators in other major cities in the region reveal that there is still a lot of room for even Manila Water to improve water coverage and non-revenue water.

In turn, improved customer service and expanded service coverage to previously unserved areas, including in very poor communities, have helped reduce consumer resistance to rate adjustments and contributed to depoliticization of price setting. Indeed, the environment for implementing rate adjustments has improved under the privatized setting. In turn, the ability to adjust rates in line with the provisions of the concession agreement has been crucial to enabling the concessionaires to achieve their rates of return.

Finally, since Maynilad's exit, government has been able to auction off Benpres's shares and awarded them to the group of DM Consunji Holdings, Inc. (DMCI) and Metro Pacific Investments Corp. (MPIC). The success of the re-bid basically validated the soundness of the concession agreement (including the two concession benchmarking model) and has put to rest earlier fears that the exit of Benpres would lead to government taking over anew the utility's operations. The re-bid in fact demonstrated the government's continued commitment to a privatized setup.

Table A3.1: Selected Performance Indicators

Indicator	Population served (millions)	Water coverage (% pop)	Water availability (hours/day)	Non-revenue water (%)	Staff/ 1,000 connection
Metro Manila					
Pre-privatization	7.3	67	17	61	9.8
Post privatization*					
Manila Water	4.3	84	21	35	2.6
Maynilad Water	6.0	85	21	68	3.5
Singapore		100	24	7	2.0
Hong Kong, China		100	24	36	2.8
Seoul		100	24	35	2.3
Kuala Lumpur		100	24	36	1.4
Bangkok		82	24	38	4.6

Source: Fabella (2006).

*As of 2005, except water availability, which is as of 2004.

Conclusion

From start (passage of Water Crisis Act) to finish (turnover of concession to the private sector), the MWSS privatization took roughly two years, although the bid process itself took only 12 months (from the time of registration of interested parties in March 1996 to the time of award in February 1997). Lessons from the reform included the following:

- The importance of leadership. President Ramos played a key role in creating awareness of the issues, setting the agenda for reform, and championing privatization as a solution to the problem. He did what was necessary to push the reform forward (by seeking emergency powers), making the difficult decision of raising water tariffs and trimming the MWSS bureaucracy to ensure the reform's success.
- If resources permit, compensating losers of reform—in this case through a generous early retirement package for MWSS employees—is useful for moderating opposition.
- The importance of international experiences in identifying suitable models and pinpointing the critical and potentially contentious issues (such as labor). Multilateral agencies such as the IFC and the World Bank can help in this regard, providing reformists with information and enabling them to find ways of managing potential problems.
- The importance of putting in place a functional regulatory framework, preferably with performance-based targets, for reforms involving public-private partnerships. On the other hand, it is not necessary to strive for perfection in designing the rules. In this case, what may have been a second-best solution (that is, a regulatory office within the MWSS rather than an independent regulatory agency created by law) was made to work through the use of external consultants to upgrade skills. As Fabella (2006) noted of the regulatory regime, "had perfection been a criterion for going ahead, the whole exercise would never have been done."

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This paper concentrates on three specific sector reforms during the Ramos administration. These reforms not only helped to free up demands on public finances but also over time brought gains, some unforeseen and broader in terms of positive spillover effects on the rest of the economy, and linkage to overall growth today.

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