

White Paper

Money-laundering and corruption risk in the Philippines



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With growing international interest in Asia, Acuris Risk Intelligence has also grown its Asian team. With more research capability and a stronger local presence, we are now looking at the business climate in the region's countries, aiming to provide insight into local risks, the characteristics of compliance systems and the factors that affect them. This helps us focus our work and identify risk with a country-specific approach, and helps our customers to structure their business policies.

THE PHILIPPINES – THE FASTEST GROWING ASEAN 5 COUNTRY

In this paper we focus on the Philippines, one of the fastest-growing economies in the region and the fastest-growing ASEAN 5 country according to the OECD and the World Bank¹.

Table 1. Real GDP Growth in Southeast Asia, China and India

	Annual percentage change				
	2017	2018	2019	2019-23 (average)	2012-16 (average)
ASEAN-5 countries					
Indonesia	5.1	5.2	5.2	5.3	5.3
Malaysia	5.9	4.9	4.8	4.6	5.1
Philippines	6.7	6.4	6.5	6.6	6.6
Thailand	3.9	4.5	4.1	3.7	3.4
Viet Nam	6.8	6.9	6.7	6.5	5.9
Brunei Darussalam and Singapore					
Brunei Darussalam	1.3	2.0	2.3	2.0	-1.3
Singapore	3.6	3.5	2.9	2.7	3.5
CLM countries					
Cambodia	7.0	7.0	6.9	6.9	7.1
Lao PDR	6.9	6.6	6.8	7.0	7.6
Myanmar	6.8	6.6	6.9	7.0	7.3
China and India					
China	6.9	6.6	6.3	5.9	7.3
India	6.7	7.5	7.3	7.3	6.9
Average of ASEAN-10	5.3	5.3	5.2	5.2	5.1
Average of Emerging Asia	6.5	6.6	6.3	6.1	6.8

Note: The cut-off date for data used is 21 November 2018. ASEAN and Emerging Asia growth rates are the weighted averages of the individual economies in these groupings. Data for India and Myanmar relate to fiscal years. Myanmar's 2018 data refers to the interim 6-month period, from April 2018 to September 2018 while the 2019 data refers to the period from October 2018 to September 2019. The 2018 and 2019 projections for China, India and Indonesia are based on the OECD Economic Outlook 104 database.

Source: OECD, *Economic Outlook for Southeast Asia, China and India 2019*

As its economy has grown, the financial sector in the Philippines has remained stable and resilient and is expected to stay that way.² However, an analysis by the Philippine Institute for Development Studies³ notes that financial services has seen no significant transformation and the country has lagged behind other comparable ASEAN member states. The study urges reform to widen the reach of financial services, catch up with the economy's rapid growth and to address deficiencies.

This paper focuses on some of these deficiencies, in particular money-laundering, where the country has been identified by the US Department of State as a Jurisdiction of Primary Money Laundering and Financial Crime Concern.⁴ There is a complex set of factors that affect the conditions for money-laundering in a country. There are clues that point to potential money-laundering risk: for example,

¹ 04 April 2019, The World Bank, *The World Bank in the Philippines*, <https://www.worldbank.org/en/country/philippines/overview>

² Second Semester 2018, Supervisory Policy and Research Department, *The Philippine Banking Sector Outlook Survey*, http://www.bsp.gov.ph/downloads/Publications/2018/PBSOS_2s2018.pdf

³ May 2019, Philippine Institute for Development Studies, *Financial Sector Development: A Review*, <https://www.pids.gov.ph/publications/6836>

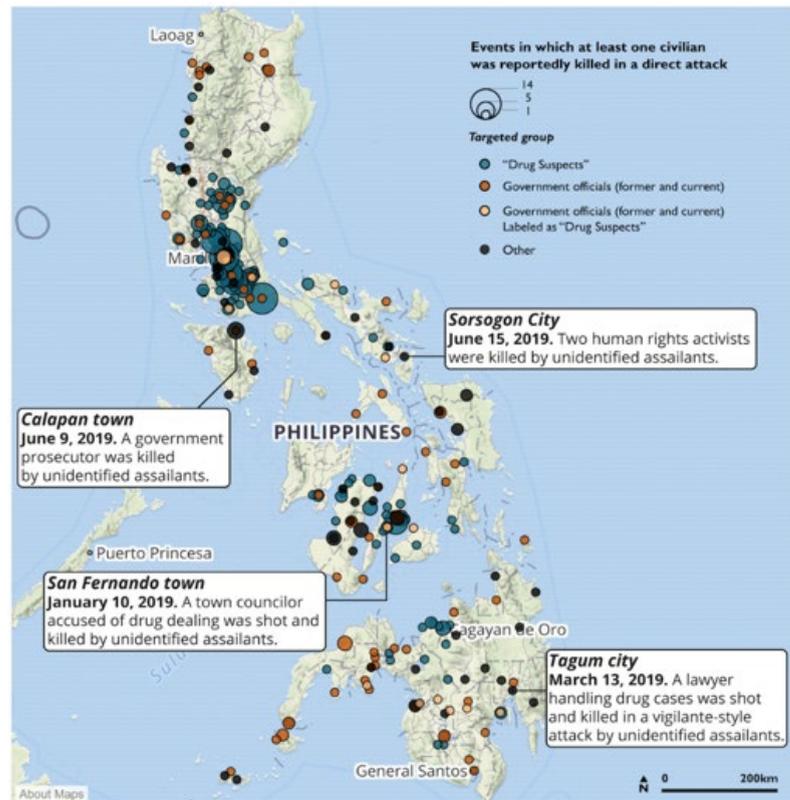
⁴ Financial Action Task Force (FATF), *Mutual Evaluation of Philippines 2009 (report published on the APG website)*, <http://www.apgml.org/includes/handlers/get-document.ashx?d=56b4e138-13f5-471e-b33a-e64188a3309e>

political exposure, corruption, complicated corporate structures, hidden ownership, and specific economic issues. The act of money laundering is not a standalone crime, as it arises from other predicate offences.

Therefore there are many factors that need to be taken into account when determining the money-laundering risk associated with a certain country. In the case of the Philippines, the risk of money laundering comes from a growing gaming business, high levels of drug trafficking and a complex political and social background.

DRUGS AND THE POLITICAL SITUATION

Illegal drugs have been strongly embedded in certain areas of the Philippines for many years. The problem has been ignored for a long time by both local and international media despite red flags, including US State Department warnings. Its profile has risen in recent years, especially with the “war on drugs” led by president Rodrigo Duterte. His campaign against drug crime has faced strong international criticism and been labelled a “human rights crisis”⁵ by the Human Rights Watch World Report 2019. Actions taken as part of this campaign have led to a dramatic rise in violence against civilians, leading to a death toll of nearly 490 since the start of 2019. According to an analysis by the Armed Conflict Location & Event Data Project (ACLED)⁶, this makes the Philippines the fourth most dangerous country in the world. According to the ACLED research, state forces were responsible for nearly 60% of all civilian deaths this year, with drug suspects, including current and former government officials, accounting for almost 75% of all reported deaths.



Targeted Killings in the Philippines, 1 January – 29 June 2019, Armed Conflict Location & Event Data Project, 03 July 2019

And while the drug problem in the country needs to be addressed, president Duterte’s actions are damaging both the country’s reputation and the population’s trust in the democratic system. The President has no strong opposition: his actions are reducing crime, but at a great cost. Meanwhile, important institutions such as the national police, courts, media and legislature, are weakening.

CORRUPTION

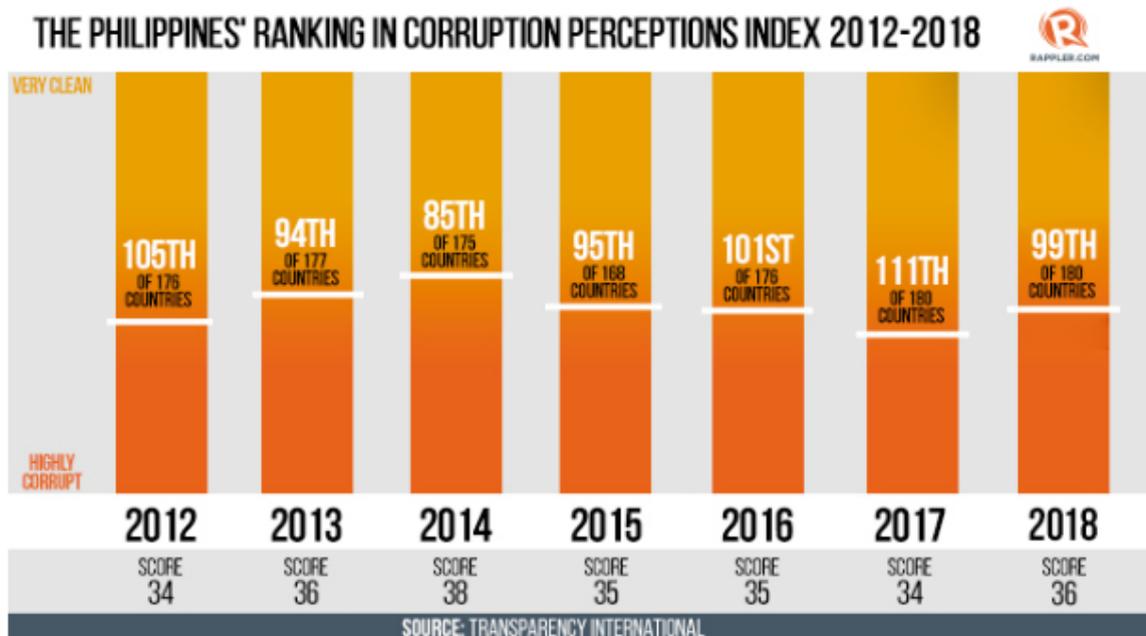
This political dynamic brings a focus on levels of corruption in the Philippines, both because of the nature of crime and the way the country is governed. The Philippines carry a high corruption risk according to Transparency International’s Corruption Perception Index, which assigns the country a score of 36 out of a 100, where 0 is highly corrupt and 100, very clean.⁷ Statistics do not show

⁵ Human Rights Watch, World Report 2019, *Philippines Events of 2018*, <https://www.hrw.org/world-report/2019/country-chapters/philippines>

⁶ 03 July 2019, Armed Conflict Location & Event Data Project, *Press Release: Data Confirm Wave of Targeted Attacks in the Philippines*, <https://www.acleddata.com/2019/07/03/press-release-data-confirm-wave-of-targeted-attacks-in-the-philippines/>

⁷ 2018, Transparency International, *Perception of Corruption in Philippines (2018)*, <https://www.transparency.org/country/PHL>

significant change in corruption levels over the last six years, as figures from Transparency International show:



HISTORICAL RANKING. Here's how the Philippines has ranked in the Corruption Perceptions Index since 2012. Each bar is normalized, taking into account the different number of countries in the CPI per year.

Country	Corruption Rank 2010	Corruption Rank 2015	Corruption Rank 2016	Corruption Rank 2017	Corruption Rank 2018
India	87	76	79	81	78
Philippines	134/168	95/168	101/168	111/180	99/175
Pakistan	143	117	116	117	117

Source: Transparency International

The change in ranking should, however, be examined carefully. The current score, although up on recent years, is, in fact, lower than 2014. The reasons behind this rise are important. The index is likely to have improved as a result of the strong stance that the president has taken against crime, including corruption. However, the lack of a strong political opposition, as well as the murders of government officials, raise concerns as to whether recent improvements are genuine. Determination and punishment alone are not enough to fight corruption, especially when in the background, institutions are growing weaker. Despite its fast-growing economy, the Philippines cannot overlook the issue of corruption. The way politicians choose to handle it will impact levels of investment and the pace of economic growth. To attract investors and improve the quality of services and the life of its people, the country has to guarantee a certain level of security and development.

REGULATORY FRAMEWORK

The country has a good regulatory base. Its laws on combatting terrorist financing and money laundering are RA No 9160 (known as the AMLA, or the Anti-Money Laundering Act of 2001) and its 2016 Revised Implementing Rules and Regulations; and RA No 10168 (known as the Terrorism Financing Prevention and Suppression Act of 2012) and its Implementing Rules and Regulations. These laws, like those in other countries, criminalise money laundering and terrorist financing and impose preventive measures to be taken by institutions within their reach. These measures include

proper customer identification, due diligence, record keeping and suspicious transaction reporting.⁸ We have also seen recent improvement to the framework. Registration and regulation guidelines in the country were tightened in 2018 as part of the government's anti-money laundering and counter-terrorist financing initiatives. The president also approved the National Anti-Money Laundering and Counter-Financing of Terrorism Strategy (NACS). However, the government's efforts follow a huge scandal in which USD 81 million was stolen from the Bangladesh central bank through a Philippine bank and casinos, and at a time when the Philippines is undergoing its third round of mutual evaluation from the Asia Pacific Group on Money Laundering. So the government was expected to take action, as it did when the president amended the AMLA in 2017⁹. This move brought casinos, real estate developers, money transfer firms, junket operators, and dealers of high-value items under the scrutiny of the country's Anti Money-Laundering Council, marking a huge step in regulating the gaming business. However, business would feel more secure if the country were to become more proactive in handling risk – addressing international concerns and 'red flags' around drug trafficking and human rights abuse – since these are currently the key issues around tackling corruption and money laundering risk.

MONEY-LAUNDERING RISK OR NOTHING TO SEE HERE?

With the risk ratings the Philippines has earned, most institutions consider the country high risk, especially in relation to money-laundering and corruption. However, based on what we have seen to date, we expect to see more regulation and stricter regimes from the Philippine government, especially in light of regional trends. China, Hong Kong and Singapore have already demonstrated decisive anti-corruption campaigns, gaming is becoming more regulated on an international level, and the reach of AML legislation is increasing every year. Considerable effort in strengthening institutions and processes is to be expected in the Philippines. Companies doing business there would do well to remain vigilant and go the extra mile to make sure they are compliant on an international level and doing business with the right people. It is early to say whether the country will continue on its current trajectory toward stronger regulation, but we hope to see exactly that.



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⁸ 28 March, 2019, Securities and Exchange Commission Philippines, *Economic Research and Training Department Notice on Updated Anti-Money Laundering (AML) Module for the SEC Certification Examination*, http://www.sec.gov.ph/wp-content/uploads/2019/03/2019Notice_UpdatedAnti-MoneyLaunderingModulefortheSECCertificationExamination.pdf

⁹ Anti-Money Laundering Council, President Duterte Approves National AML CTF Strategy <http://www.amlc.gov.ph/16-news-and-announcements/158-president-duterte-approves-national-aml-cft-strategy>