

FINANCING TECHNOLOGY ENTREPRENEURS & SMES IN DEVELOPING COUNTRIES: CHALLENGES AND OPPORTUNITIES

PHILIPPINES
Country Study

AN *infoDev* PUBLICATION PREPARED BY

Roberto Zavatta

Economisti Associati SRL in
collaboration with

Zernike Group BV

Meta Group SRL

June 2008

Information for
Development Program


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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	IFI	International Financial Institutions
BOI	Board of Investment	ISP	Internet Service Provider
BPA/P	Business Process Association of the Philippines	IXC	Internet Exchange Carrier
BPO	Business process outsourcing	IT	Information Technology
BSP	Bangko Sentral ng Pilipinas (Philippines' Central Bank)	JBIC	Japan Bank for International Cooperation
CCAP	Call Centers Association of the Philippines	MNC	Multinational Corporation
CGF	Credit Guarantee Fund	NCC	National Computer Center
CICT	Commission on Information and Communications Technology	NPL	Non-Performing Loans
COMDDAP	Computer Manufacturers Distributors and Dealers Association of the Philippines	NTC	National Telecommunications Commission
DOST	Department of Science and Technology	PLDT	Philippines Long Distance Telecom Company
DTI	Department of Trade and Industry	PISO	Philippines Internet Services Organization
EC	European Commission	PEZA	Philippines Economic Zone Authority
ERP	Enterprise Resource Planning	PSIA	Philippines Software Industry Association
EU	European Union	SBC	Small Business Corporation
GOP	Government of the Philippines	SME	Small and Medium Enterprise
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German development cooperation agency)	TOR	Terms of Reference
IC	Integrated Circuit	UNDP	United Nations Development Program
ICT	Information and Communication Technology	UNIDO	United Nations Industrial Development Organization
ICTE	ICT Enabled	USAID	United States Agency for International Development
IFC	International Finance Corporation	VC	Venture Capital
		VoIP	Voice over Internet Protocol

Exchange Rates

US\$ 1 = PHP 55.1399 (average 2005)

EUR 1 = PHP 68.6682 (average 2005)



EXECUTIVE SUMMARY

Over the past few years, the Philippines have increasingly become a regional leader in the ICT/ICTE industry. The establishment of offshore plants and the development of outsourced operations have grown steadily since late 1990s. This has been fueled by a particular affinity with western culture and by favorable structural conditions, such as a cost-efficient workforce and world-class connectivity. Today, most of the large ICT firms have a presence in the Philippines, with activities ranging from hardware manufacturing to back-office services. Along with the operations of foreign players, an endogenous ICT industry has also developed. Primarily oriented toward outsourced services, the Philippines' ICT/ICTE sector includes: (i) contact centers; (ii) software developers; (iii) Internet companies; (iv) animation studios; and (v) a vast universe of back-office services providers. With a turnover of US\$6–7 billion and a total employment of about 210,000, the ICT/ICTE sector is now a major economic reality and a paramount source of employment for young, educated Filipinos. Virtually all sub-sectors of the ICT/ICTE industry have their own business associations, which are active in lobbying the government on regulatory and promotional matters and providing services to members. The advisory role of private sector organizations has often proved crucial to the definition of government policies and the implementation of concrete initiatives and programs.

Overall, the Philippines financial system is quite diversified and relatively liquid. Short and medium to long-term lending is offered by a number of commercial banks, micro-finance institutions and government financial institutions, sometimes with the support of international donors. Equity and quasi-equity capital is mobilized by venture capital (VC) firms, business angels—and also by a recently established public scheme that operates on a matching fund basis. However, the sources of financing accessible for ICT/ICTE SMEs are in

many cases very limited. SME-dedicated schemes are typically sector-generalist, and have *de facto* a marginal impact on the ICT/ICTE industry. At the same time, assistance programs in this field normally focus on matters such as infrastructures, training, and business incubation—and financial support is rarely provided. In summary, evidence from the fieldwork confirmed that ICT/ICTE enterprises in their development or first expansion stages face severe obstacles in obtaining the capital necessary for their investments. This financing gap appears to be particularly stringent for operations whose value ranges between US\$100,000 and 1,000,000.

The main factors that determine the financing gap can be summarized as follows:

- **Financing Policies:** Banks have a distinctly conservative attitude—heavy collateralization is invariably required. Institutional VCs focus on established companies with overseas reach. Most of government and donor programs in support of SME financing focus on sectors other than ICT;
- **Limited Diffusion of Alternatives:** Financing instruments, such as credit guarantees schemes or factoring, are scarcely diffused. Matching funds are only at a beginning stage (and ICT is considered to be marginal);
- **Constraints on the Demand Side:** SMEs are often characterized by informality and lack of transparency on financial issues. Many entrepreneurs are largely unfamiliar with the various financial instruments available, and often have difficulties in setting up a quality business plan and defending it properly. They also display a certain degree of control aversion and risk aversion in their attitude vis-à-vis external financiers;
- **Understanding of ICT:** Business angels have backgrounds in traditional industries. Bankers and business angels are largely unfamiliar with the various ICT/ICTE business models;
- **Business Environment Constraints:** The centralized credit information system is still under construction. Exit routes are undeveloped, in particular for IPOs. The protection of

investors is inadequate. The overall investment climate is periodically affected by concerns over political stability.

In addition to structural interventions that focus on the overall business environment, some possible concrete initiatives to cope with the financing gap faced by technopreneurs can be envisaged. These include: (i) measures aimed at facilitating access to equity and debt financing; and (ii) measures aimed at improving the understanding of ICTs. Access to **equity financing** could be improved with the establishment of an ICT-SME dedicated facility that combines financing and technical assistance, modeled after the experience of other countries with the support of international donors. The scheme could also take the form of a matching fund, with financial contributions from the public sector either at the fund level or at the single investment level. Initiatives can also be envisaged to

strengthen and expand the existing network of business angels. Regarding **bank financing**, credit guarantee schemes could be a useful instrument to mitigate the risk connected with SME lending. A review of operations in countries where credit guarantees traditionally play a significant role could lead to improvements in the operations of the existing scheme. On the **demand side**, ways should be devised to improve the capacity of entrepreneurs to prepare business plans of acceptable quality and to defend them vis-à-vis loan officers. The solution can involve direct assistance through a dedicated scheme or through the existing network of business incubators. Finally, it is important to acknowledge the role played by proper **information** in the investment decisions. Therefore, it would be useful to improve the understanding of ICT/ICTE business models, through actions aimed at bridging this information gap.

I. INTRODUCTION

This report (the “Report”) has been prepared by *Economisti Associati* (the “Consultant”) within the framework of the assignment on “Scaling up Innovation and Entrepreneurship in Developing Countries: The Role of Private Sector Finance” (the “Assignment” or the “Study”). The overall objective of the Assignment is to analyze issues in the financing of small and medium enterprises (SME) in developing and emerging countries, with special reference to small businesses active in the information and communication technology (ICT) sector as well as in ICT-enabled (ICTE) activities.

This Report is part of Phase 2 of the Assignment and reviews recent developments in the ICT/ICTE sector in the Philippines, with special emphasis on current conditions for the financing of ICT/ICTE small enterprises. The Report is based on the results of a field mission in the Philippines (July 16–22, 2006) as well as on the analysis of a variety of secondary sources.

The Report is structured as follows:

- Section II presents a country overview including the ICT/ICTE industry, the relevant policy and institutional framework, and the financial system;
- Section III analyzes the main issues related to the financing of small ICT/ICTE enterprises;
- Section IV offers some conclusions and recommendations.

The Study also includes a series of Annexes, providing additional information and supporting evidence for the elements presented in the main text. In particular:

- Annex A provides additional information on the ICT/ICTE industry;
- Annex B illustrates the institutional setting for the ICT/ICTE sector;
- Annex B reviews the Philippines’ financial system;
- Annex C provides the list of entities and persons met during field work;
- Annex D presents the profiles of some SME financing organizations met during fieldwork;
- Annex E presents the profiles of small ICT/ICTE enterprises interviewed during fieldwork.



II. THE COUNTRY BACKGROUND

II.1 THE ICT/ICTE SECTOR

Overview: In 2005, the *turnover* of the Philippines' ICT sector was estimated at US\$6.0 to 7.0 billion. Fixed and mobile telephony accounted for around 60%, and the call center industry accounted for another 25%. Total *employment* is probably around 210,000 units. With a combined staff of 110,000, call centers are the major employers. Telecom is the second-largest sector, with an estimated 25,000–30,000 staff, while back-office operations and software developers employ respectively 22,500 and 14,000 staff. The *ICT/ICTE industry* comprises around 1,000 enterprises, including: (i) 300 ISPs and value-added providers; (ii) 300 software developers; (iii) 100 call centers; (iv) 70 transcription services providers; (v) 60 Back Office Operation providers; (vi) 40 animation and 3D graphics studios; and (vii) 100 major firms involved in the sale and installation of IT equipment and software. The vast majority of enterprises are small, i.e. with less than 50 employees.

Telecom: Fixed-line telephone has a limited diffusion. At present, the penetration rate is about 4%, with about 3.3 million subscribers. The efforts made by the government to achieve a widespread diffusion of connectivity through the privatization of the sector did not perform as well as expected. Conversely, the diffusion of mobile telephony has risen very rapidly. In late 2005, the mobile subscribers topped 38 million—representing 47% of the population. PLDT, the former public operator, still dominates the telecom sector. However, a few competitors are gaining ground, especially in the mobile sector.

Internet Services: The Philippines' Internet market appears very fragmented. The precise number of operators is not clear, but it is estimated that around

40 ISPs and 200 value-added service providers are active in the sector. Subsidiaries of the four main telecom operators are among the most widespread providers, but there are also a significant number of “independent” ISPs. Rather than straight access, the provision of Internet-based value-added services has become the main source of income for most of the operators. The range of possible value-added services is continuously expanding, including: (i) common premium services, such as access to specific contents, file-sharing, messaging, and web-hosting; and (ii) advanced customized services for corporate clients, such as network support and Intranet services. Since April 2005, Internet operators have been allowed to provide VoIP services without needing a carrier license. Given the fast-growing popularity of VoIP, this represents a unique opportunity for ISPs to expand their activities.

ICT/ICTE Activities: The Philippines are home to a large *hardware* manufacturing and assembling industry, which is controlled by foreign multinationals. These are basically offshore plants that produce equipments and parts for the export market. By contrast, the internal market for hardware (PCs and peripherals) is quite limited, and the penetration rate of PCs is still around 4%. In the *software* segment, off-the-shelf products account for only 15% of total sales, while customized software and IT solutions are increasingly important lines of business. Apart from a few large software houses affiliated with world players, the vast majority of operators are small businesses that often specialize in particular ERP solutions. The development of stand-alone software is typically complemented by other commercial business activities, such as the customization of branded applications and outsourced back-office operations. Over the past few years, the Philippines have become an ideal location for offshore operations for a number of foreign companies—mainly based in the US and Japan. The range of activities outsourced to local companies is extremely wide. It includes: call centers, back-office operations, and outsourced software development. Today, BPO is the most dynamic sector in the Philippines' ICT/ICTE industry. Overall, the consolidated turnover is about US\$2.4 billion. The

workforce employed is estimated at 160,000 units, with the contact centers alone accounting for nearly 70% of the total.

II.2 POLICY AND INSTITUTIONAL FRAMEWORK

Overview: Over the past decade, the public sector has progressively emerged as a key-player in the establishment of a mature ICT industry in the Philippines. In the early phases, the GOP's policies concentrated mainly on liberalization of the telecoms and overall support to national connectivity. Recently, the emergence of a mature and relatively organized private sector has pushed the government's policies toward more ambitious objectives. The institutional setting has changed significantly over time. The early phases were characterized by a substantial fragmentation of initiatives, and the virtual absence of a coordinating structure. The first attempt to set up a unified framework for cooperation between the private and public sectors was represented by the IT & E-Commerce Council (ITECC). In 2004, the GOP established the Commission on Information and Communications Technology (CICT), with the mandate of implementing public policies and coordinating the initiatives of the various government bodies in partnership with the private sector.

Legislative Framework: The liberalization and deregulation of the telecom sector culminated in the issuance of the Telecommunication Policy Act (1995). This represents the cornerstone of the GOP's policy in this area. In the 1990s, two strategic documents were adopted by the GOP: (i) the "National ICT Plan" (1994); and (ii) the "IT Action Agenda for the 21st Century" (IT21, 1997). The latter, in particular, indicated the initial steps necessary to transform the Philippines into a global competitor in the ICT sector. Recently, the GOP has taken measures regarding: (i) the protection of intellectual property and against piracy; and (ii) the regulation of e-commerce.

Support to Private Sector Development: Several government agencies are involved in the provision of support to small businesses active in the ICT/ICTE sector. The nature of these instruments is diverse. It includes: (i) infrastructural support, with the

creation of IT Parks and Buildings; (ii) fiscal and custom advantages, such as tax holidays for start-ups, duty exemptions, and deduction for labor and training expenses; (iii) financial support; and (iv) education and training¹. The most recent initiative taken by the GOP in support of ICT—and in particular of ICTE activities—is the "Cyberservices Corridor"². Launched in July 2006, the plan aims at creating interconnections between the ICTE clusters spread throughout the country, in order to enhance their global competitiveness.

IT Education: In the Philippines, there are 86 universities and colleges providing courses in Information Technology, Computer Science, and related fields. In addition, there are more than 600 IT schools, which together have about 50,000 students per year. Nonetheless, there is a shortage of manpower in the BPO sector, due to the rapid growth registered over the past five years. Regarding basic IT education, the CICT, along with some private partners, is setting up community e-centers throughout the country. The declared target is to provide each of the 1,500 municipalities with an e-center by 2010.

E-Government. Thus far, the only significant initiative taken by the GOP regarding the diffusion of e-government practices is the "Government Information System Plan" (GISP). Launched in 2000, the GISP's objective is the creation of an integrated and consolidated electronic network among the government's agencies.

Cooperation with Donors: The Filipino donor community has several programs focused on the support of small entrepreneurship and the development of the ICT/ICTE sector. Although these projects have a limited impact on financial assistance, they do provide an important contribution to the improvement of the overall conditions for ICT/ICTE business. A non-exhaustive overview of the existing initiatives is provided below:

- The DTI – Regional Operation Group, is implementing a US\$3.0 million training program for SMEs on e-commerce. The project is co-financed by UNDP and sees the participation of local NGOs. The project aims to involve

¹ More details on the programs and facilities in support of ICT/ICTE SMEs are provided in Annex B.

30,000 enterprises over the next three years;

- The *infoDev* program of the World Bank is supporting the Ayala Technology Business Incubator (TBI). Established in 2001, the TBI is a 520 m² facility that currently hosts eight ICT enterprises, but plans to expand to a capacity of 10,000 m²;
- JICA is currently implementing an “Information Technology Human Resources Development Project” in partnership with the University of the Philippines (UP);
- JBIC, in conjunction with other Japanese commercial banks, has financed with US\$270 million the Development Bank of the Philippines to establish a credit scheme specifically targeted toward the IT industry;
- GTZ is supporting various trans-sector programs to support IT development in the country. GTZ is also currently implementing the “Small and Medium Enterprise Development for Sustainable Employment” program, in partnership with the DTI and the Technical Education and Skills Development Authority (TESDA);
- In July 2005, the IFC launched the “IFC-Asenso” program. IFC-Asenso is a multi-donor initiative designed to provide assistance to SMEs. The resources of IFC-Asenso are US\$5.0 million for the first four-year period. The local counterpart for the program is the DTI.

II.3 THE FINANCIAL SECTOR

The Banking Sector: The banking sector dominates the Philippines’ financial system. As of March 2006, the system includes nearly 900 banks and 200 non-bank financial institutions (NBFIs).³ Banks’ assets together are around US\$80 billion, with an annual growth rate of 8.3%. The largest 40 commercial banks account for nearly 90% of the total assets. Domestic institutions prevail, representing two-thirds of the banking sector. The total value of outstanding loans extended by the sector is estimated at about US\$40 billion. Over the past decade, the policy pursued by the Central Bank was aimed at favoring the consolidation of banking sector and the establishment of strong domestic institutions able to compete globally. Minimum capital requirements have been progressively raised, and several reforms have been introduced to conform banking legislation with international

standards. The Philippines’ legislation requires commercial banks to devote a minimum of 8% of their total lending to SMEs. This has led to the establishment of dedicated SME financing facilities, which are mostly targeted at businesses seeking US\$10,000–100,000. However, the overall impact of such a “quota system” on lending to small business remains limited.

Venture Capital: The emergence of venture capital (VC) firms is a recent phenomenon. Most of the existing schemes were established after the East Asian financial crisis of 1997. Precise figures on the composition of the sector and on deals finalized are not available. However, the study identified a half-dozen private equity firms that seemingly account for the bulk of venture capital activities, especially in the ICT/ICTE sector. These are mainly foreign-invested equity schemes headquartered in the Philippines that operate on a regional or global scale. In some cases, the ties with strategic investors based in the US (typically in Silicon Valley) are particularly strong, and investees are mostly suppliers of US companies. More generally, the potential for a regional or global scale of operations appears to be a prerequisite for securing an investment from most of these VCs. Most VC investments have been made in the manufacturing of hardware components (semiconductors) and assembling. VCs also have funded some relatively large BPOs, such as contact centers and 3D-animation studios—software developers are seldom considered. Overall, the number of deals financed thus far by VCs is appears to be 30–40, of which a minority are domestic enterprises. Typically, amounts invested exceed the US\$1.0 million mark, with only a handful of deals around US\$500,000. As a result, the impact of VC financing on the ICT sector is limited to a few relatively large business. For the bulk of small and medium-sized ‘technopreneurs’, VCs still do not represent a viable financing option.

Business Angels: The Philippines are also home to a number of business angels. Typically, angels operate individually, and little publicity is given to their

² The “corridor” includes a 600 mile wide region that stretches from the northern city of Baguio to Zamboanga, in the south of the country.

³ Banks include universal, commercial, thrift, rural and cooperative banks. Non-bank institutions include investment houses, financing companies, investment companies, securities dealers, lending investors, government NBFIs, venture capital corporations, non-stock savings and loan associations, and credit card companies (pawnshops are excluded).

operations. Research conducted in 2003–4 identified 30 angels, but it is estimated that the total number could be twice as high. Filipino angels are often retired persons who hold a solid entrepreneurial experience—often gained when working abroad. They invest their own capital in early-stage enterprises, with deals commonly ranging from US\$100,000 to 250,000. Recently, some angels have started grouping together, giving birth to the Philippine Venture Capital Investment Group. This is a forum that gathers investors, promoters, and other stakeholders.

Micro-lending and Government Schemes: In the Philippines, the microfinance sector is rapidly

expanding. There are currently around 190 institutions active in this area, most of which are rural and cooperative banks. The overall number of borrowers is about one half million. Other financing schemes for SMEs are made available through various government agencies and programs. Typically, these schemes focus on a particular business sector, or offer specific products, such as discounting of receivables or export credits. The Small Business Corporation is a public financing institution that offers a diversified menu of financial products to SMEs. Those financial products include: micro-lending, early-stage financing, credit guarantees, and a recently-established private equity scheme developed in partnership with a VC.

III. ISSUES IN THE FINANCING OF ICT/ICTE SMALL BUSINESS

III.1 SME FINANCING NEEDS – THE DEMAND SIDE

The Philippines' ICT/ICTE industry is relatively developed and diversified. It includes a variety of players, including: (i) software developers; (ii) animation and 3D graphic designers; (iii) contact centers; (iv) remote testing and engineering firms; (v) e-content providers; (vi) Internet companies; and (vii) a vast array of dealers, installers and IT consultants. The financing needs voiced by the Filipino 'technopreneurs' reflect this variety of business models and the different nature, size, and maturity of operations. The typical amounts sought by ICT/ICTE companies ranges from as little as US\$50,000 to several million dollars. The rationales for these financing needs are extremely varied. They include: (i) meeting initial R&D expenses; (ii) purchasing equipment and licenses; (iii) building up of working capital; (iv) hiring and training of personnel; and (v) marketing and expansion into foreign markets. Table 1 summarizes the salient features of financing needs voiced by ICT/ICTE enterprises in their various stages of development⁴:

III.2 ISSUES IN ACCESSING FINANCING – THE SUPPLY SIDE

Issues in Accessing Bank Financing: Access to bank financing is a major issue for Filipino SMEs. According to the World Bank's "Enterprise

Surveys"⁵, bank loans account for less than 4% of the financing for small businesses (less than 20 employees), and 10% for medium-size enterprises (20 to 100 employees). Commercial banks have a distinctly conservative approach. Typically, SMEs are far from meeting the conditions required to obtain a loan. After the financial crisis of 1997, banks became more cautious in their lending policies. Collateral, typically in the form of mortgage on real estate, is required to secure financing. For ICT/ICTE enterprises, this represents a major obstacle because their capital generally relies on immaterial assets. Other characteristics that negatively affect the accessibility of bank financing for SMEs include:

- The absence of a centralized *credit bureau*: Although the issue has been under discussion for two years, the credit information system is still fragmented among the various bank associations;
- *Alternative forms of credit guarantees* are not very developed. The Small Business Corporation is currently running a credit guarantee scheme, but the volume of operations is quite limited, due to a variety of factors (only a few banks are accredited, the cost of service is prohibitive).

The banks' limited understanding of the economics of ICT also contributes to reducing the chances for 'technopreneurs' to obtain loans. In fact, bankers are generally not prepared to deal with these types of enterprises. Bankers' willingness to lend decreases in front of business models with which they are not familiar.

Issues in Accessing Equity Financing: Although the number of VCs and the capital mobilized have grown steadily over the past six to seven years, in absolute terms the contribution of private equity to the overall corporate financing is still limited. Leaving aside sizeable operations in real estate or distribution sector, it is worth noting that a significant share of venture capital funds include the

⁴ For more details on the enterprises cited in this section, please refer to the company profiles presented in Annex C.

⁵ Source: www.enterprisesurveys.org

TABLE 1. *Summary Presentation of ICT/ICTE Financing Needs*

Timeline	Amount Sought	Rationale	Examples from the Fieldwork
Early-Stage	US\$30,000 to 100,000	This phase goes from the conception of the business idea to commercialization. The financing needs at this stage are very limited for businesses based on immaterial assets, e.g. IT service providers, e-commerce firms, web designers, and most of software developers.	<ul style="list-style-type: none"> ■ Optiserve – software development (UP Ayala TBI incubatee) ■ Symphony Consulting – IC design & embedded systems (UP Ayala TBI incubatee)
Development	US\$100,000 to 500,000	At this stage, the company is properly established and seeks financing to build up an adequate working capital, to hire new personnel, and to expand commercial activities. The resources needed are typically limited for most of BPO and software developers, while comparatively higher amounts are sought by animation industries, complex IT operations, small scale manufacturers and assemblers, etc.	<ul style="list-style-type: none"> ■ Astra – BPO, software dev. (UP Ayala TBI incubatee) ■ MiCOM – IC design & assembly (UP Ayala TBI incubatee)
First Expansion	US\$500,000 to 1.0 million and above	This phase usually involves a diversification in the company's activities or an upgrading of the original products. Rationale for investments at this stage include: (i) expanding the commercial network (including opening new branches); (ii) hiring new personnel; (iii) establishing new divisions; and (iv) purchasing advanced software and hardware.	<ul style="list-style-type: none"> ■ ABSi – BPO, software dev. ■ CPI – software dev., IT consulting ■ Pointwest – BPO, ERP solutions
Second Expansion	More than US\$1.0 million	The second expansion is commonly associated with a major change in the scale of operations. This may well involve expansion abroad, with the establishment of an overseas presence. Companies that have reached this stage include large contact centers, animation studios, and BPOs active in the field of financial services.	<ul style="list-style-type: none"> ■ none

ICT/ICTE industry among the preferred areas of operation. This is true of *IVP*, *Narra VC*, and *WTP*. The fieldwork identified a number of critical factors that cause the mismatch of demand and supply of private equity financing in the ICT/ICTE segment. These factors can be divided into two main groups: (i) endogenous factors—those related to the characteristics and attitudes of investors and promoters; and (ii) exogenous factors—those determined by the overall business environment.

The *endogenous factors* affecting SME's access to equity financing can be summarized as follows:

- **Investment policy:** VCs generally do not consider seed and early-stage financing, due to the long investment horizon typically required. They focus on companies that have already reached a significant scale of operations, with an experienced management that has already tangibly demonstrated its capabilities. Typically, VCs consider an established presence in the

international market (or at least a strong potential to do so) to be a prerequisite for financing, especially when the promoter is a BPO service provider. According to some operators, the main issue is that the Philippines' ICT/ICTE sector has too few attractive projects—the point is not the availability of financial resources, but the scarcity of real scalable projects.

Entrepreneurs confirm the prevalence of this obstacle. However, it is their view that the attitude of VC's is creating a 'lose-lose game', because the reason why most promoters contact VCs is precisely in order to scale-up and internationalize their business. In other words, the entrepreneurs need VC financing in order to reach the stage where VCs are normally interested in investing—therefore, businesses do not reach that stage and there is no one for the VCs to invest in. A different attitude is generally shown by business angels. Typically, angel's financing occurs at the early stage of development, and the average duration of angel deals is higher than VC

deals. Angels are also less concerned about the chances of the investees to go international;

- **Size of operations:** The overall size of the deals normally targeted by institutional VCs is above the US\$1.0 million mark. This represents another major obstacle for many SMEs, especially those active in segments that require limited physical assets, such as software and IT solution developers, and Internet companies. The financing needs of these players are different in scale, and although in a few cases VCs invest as low as US\$0.5 million, the bulk of the demand generated by these enterprises remains untapped. Again business angels follow a different pattern—their investments tend to be in the US\$100,000–250,000 range;
- **Control Aversion:** Evidence from the fieldwork shows that VC’s hands-on attitude is not seen as a major constraint by more developed entrepreneurs. On the contrary, they are well aware of the benefits of a VC’s active role in the governance of a given enterprise. However, a certain degree of ‘control-aversion’ is more diffused among start-ups. At this stage, entrepreneurs tend to be less-experienced, and therefore less pragmatic in their business view.
- **Understanding of ICT:** Typically, VC companies are well equipped to deal with innovative sectors—this is generally not considered to be an obstacle to investment. The major constraint for business angels is a limited understanding of

ICT. VCs are typically retired entrepreneurs, who are rarely familiar with the relevant business models. Therefore, the presence of angels in this field is marginal.

In addition to the issues described above, the overall VC presence and operations are limited by a number of *exogenous factors*. These include: (i) the limited development of the Philippines’ stock exchange, which does not offer much perspective to exiting investments through IPO; (ii) the poor protection of investors. Regarding the latter point, in the World Bank’s “Doing Business” survey, the Philippines ranks 151st out of the 175 economies surveyed⁶.

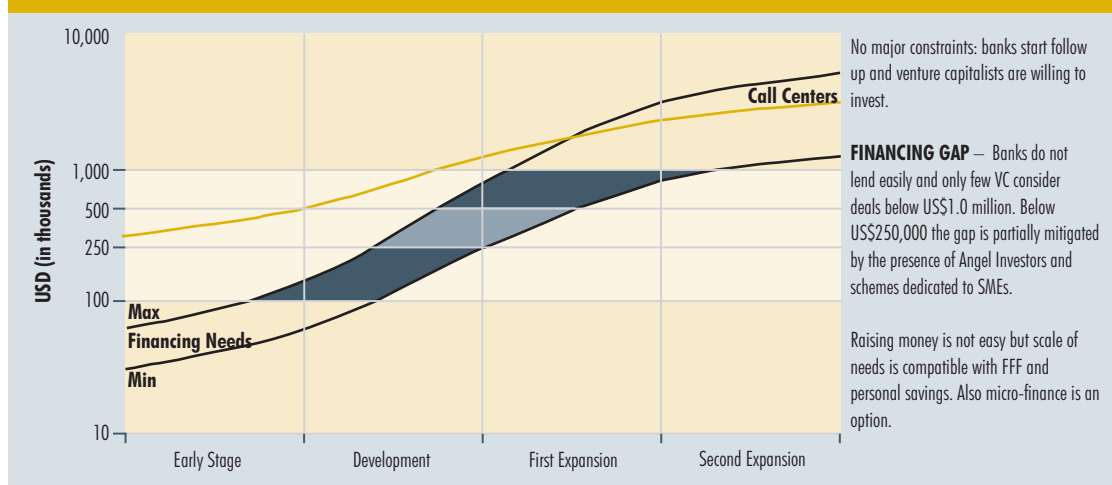
III.3 FINANCING GAP – NATURE AND SEVERITY

A summary presentation of the financing gap faced by ICT/ICTE SMEs in their various stages of development is provided in Figure 1.

Financing constraints faced by ICT/ICTE companies appear comparatively more severe in the

⁶ Source: www.doingbusiness.org. The ‘protection of investors’ is measured taking into account three elements: (i) the transparency of transactions, (ii) the liability for self-dealing; and (iii) shareholders’ ability to sue officers and directors for misconduct.

Figure 1. Nature and Severity of Financing Gap



development and first expansion phases. The situation is more nuanced in other phases. In particular:

- Firms in the *early stage* usually have recourse to the owner's savings and FFF channels as a source of financing. There are reportedly a significant number of business angels that are willing to invest in promising businesses from US\$50,000 upward. Business incubators play an important role in opening windows of opportunity for start-ups. Incubators may support entrepreneurs in identifying the most suitable sources of financing, and in preparing projects. At this stage, microfinance also represents a valid option, along with the dedicated schemes made available by a few large banks (BPI, Landbank, PNB and PDB) and by the Small Business Corporation;
- The financing gap is particularly severe for firms in the *development and first expansion stages*, which generally seek US\$100,000 to 1,000,000. Usually, these are enterprises in a critical stage of growth. They have developed their business on a small but profitable scale, and they need to scale-up in order to fully exploit the possibilities offered by the market. Enterprises at this stage typically do not have an established commercial network or enough experience in dealing with banks and other financial institutions. Therefore, they are largely excluded by the mainstream sources of credit, unless the owners have sufficient collateral to securitize the loan. The amounts sought at this stage of development are typically too small for VCs to consider. Business angels may represent an option for deals up to

US\$250,000. However, as mentioned above, these investors tend to focus on more traditional businesses, and rarely venture into the ICT/ICTE sector. The gap is somewhat mitigated by the presence of some public schemes focusing on SME financing, including those run by the Small Business Corporation. However, the bulk of these schemes target traditional sectors, and their contribution to ICT/ICTE financing appears to be marginal;

- For the few enterprises who have reached the *second expansion stage*, access to financing becomes less problematic. Commercial banks are more willing to lend, although proper collateralization is still necessary. In addition, the costs of other types of financial products, such as credit guarantees or products offered by leasing and factoring companies, become more viable. Moreover, at this stage the enterprises are developed enough to attract the interest of institutional VCs.

The considerations above apply broadly to the ICT/ICTE enterprises, although there are cases in which the financing gap is comparatively less severe. This is particularly true of *call centers* and, to a lesser extent, *other back-office operations*, such as legal and medical transcriptions, and accounting services. These operations are generally established as subsidiaries of telecom operators or as joint ventures with foreign partners, and when a new facility is created, some sizeable contracts are already in place. Under these circumstances, call centers do not face a significant financing gap, either during the inception stage or in subsequent expansion phases.

IV. CONCLUSIONS AND RECOMMENDATIONS

The Philippines have a number of SME-dedicated schemes that provide various types of assistance, including access to financing. Nevertheless, the small ICT/ICTE operators still have serious difficulties in raising capital. The financing gap is particularly acute for enterprises seeking US\$100,000–1.0 million, and the existing donor and government sponsored schemes provide little respite.

This section briefly illustrates some measures that emerged from the field mission, which could prove useful in improving access to financing for ICT/ICTE SMEs.

IV.1 MEASURES AIMED AT FACILITATING ACCESS TO EQUITY FINANCING

Equity financing is widely recognized as a critical factor to develop the domestic ICT/ICTE sector in the Philippines—the various stakeholders encountered during fieldwork made frequent references to the ‘Silicon Valley’ model. Therefore, two crucially important objectives of any initiative aimed at bridging the financing gap in this sector are: (i) increasing the overall amount of private equity capital; and (ii) facilitating a more appropriate match with the demand expressed by small technopreneurs. Two effective types of interventions can be envisaged: (i) the establishment of a facility combining financing and technical assistance, and (ii) the provision of support to business angels’ activities.

Establishment of Facility Combining Financing and Technical Assistance: Donors and governments are increasingly experimenting with SME support

initiatives that combine the provision of equity financing with hands-on technical assistance⁷. Because of its size and diversification, the Filipino ICT/ICTE industry offers a good testing ground for further implementation of these models. Two aspects are worth highlighting: (i) the possibility of combining private and public sources of financing through some matching fund mechanism, and (ii) the need to capitalize on the existing network of support institutions for the ICT/ICTE industry. In particular:

- The Equity Ventures Program (EVP) of the Small Business Corporation has already tested the matching fund concept. The EVP provides public co-financing on a *pari passu* basis. However, it is a generalist fund, and thus far, no deals in ICT/ICTE sector have been reported. In light of the high priority given by the GOP to the development of the ICT/ICTE sector, the establishment of a window specifically dedicated to innovative enterprises can be envisaged;
- The provision of relevant technical assistance could be facilitated through the network of institutions that are already assisting ICT/ICTE small enterprises. These include leading business associations, such as BPA/P, PSIA, and ACPI, and, most importantly, the business incubators currently assisting small innovative firms, such as the *InfoDev*’s supported UP Ayala TBI.

Support to Business Angels: As mentioned above, a group of business angels recently established the *Philippine Venture Capital Investment Group*, an informal grouping putting together investors, promoters, and academics. The initiative has already achieved a certain notoriety—it has hosted forums that were attended by over 100 persons. However, regular activities are still largely dependent upon the goodwill of a limited number of individuals. The provision of assistance to institutionalize this grouping could prove beneficial in various ways. To begin with, the establishment of a formal business

⁷ In particular, reference is made to the new generation of IFC equity financing facilities recently established in countries such as Kenya and Madagascar.

angels club could heighten advocacy activities in favor of legislative reforms to improve investors' protection (in the vein of the "Doing Business" report). A stable grouping would be able to more systematically disseminate information on equity financing opportunities among investors and entrepreneurs. It would be able to concretely facilitate the matching of projects with capital, through the preliminary screening of business ideas and the institutionalization of business angels meetings.

IV.2 MEASURES AIMED AT FACILITATING ACCESS TO BANK FINANCING

In absolute terms, banks are and will remain the most important source of financing to the private sector. Measures must be envisaged to facilitate the relationship between banks and ICT/ICTE firms. These measures fall into two main areas: (i) the strengthening of credit guarantee schemes; and (ii) the provision of assistance to SMEs in their dealings with financial institutions.

Support to Credit Guarantee Schemes: In a number of countries, credit guarantee schemes play a major role in facilitating SMEs' access to finance. They have traditionally been strong in Western Europe, and over the past decade they have become increasingly popular in transitional economies—particularly in the Mediterranean region. While the nature of these schemes varies significantly across countries, the best results are typically achieved by structures created with the active involvement of the business community (mutual guarantee schemes), with financial support from the government. At present, only one credit guarantee scheme is in operation in the Philippines. The facility is run by the Small Business Corporation, and its level of activity is limited. The structural features and operating modalities of this scheme could be usefully revisited in the light of best international practices. The feasibility of establishing a window

specifically dedicated to the provision of guarantees to small businesses in the ICT/ICTE sector could be envisaged.

Provision of Direct Assistance to Promoters;

Evidence from the fieldwork shows that banks are not entirely to blame for the difficulties of ICT/ICTE SMEs in accessing loans. Informal practices and unreliable financial statements are widespread problems among Filipino SMEs. Small operators active in the ICT/ICTE industry are not much better than the average. Business plans are often inadequate. For the enterprises undergoing incubation programs, these problems are partially mitigated by the support that the incubator provides in the form of training or technical assistance. Possible initiatives in this area include: (i) programs that enhance the role and capacity of incubators in improving the entrepreneurs' ability to present their business ideas and meet the quality standards required; (ii) direct provision of technical assistance to ICT/ICTE SMEs through dedicated schemes.

IV.3 IMPROVING THE UNDERSTANDING OF THE ICT SECTOR

In many cases, the understanding of the fundamentals of ICT/ICTE represents a major issue affecting investment decisions. In order to assess the scalability or the solvency of an enterprise, a basic knowledge of its business model is necessary. In the Philippines, the problem is somewhat magnified by the wide and diversified composition of the ICT/ICTE sector, which includes firms that perform highly specialized and complex operations. The limited familiarity with ICT is more accentuated among bankers and business angels. Support in this area could take the form of exchange and dissemination initiatives, training-modules, and other similar instruments. Again, such initiatives should ideally involve the intermediary organization of both entrepreneurs and financing institutions, including angels' forums.



ANNEXES



ANNEX A – THE ICT/ICTE SECTOR⁸

A.1 TELECOMS

The liberalization process in the Filipino telecom market began in 1987, after almost 70 years of *Philippines Long Distance Telephone Company* (PLDT)'s monopoly. The government further pursued the deregulation of the sector through the Telecommunication Policy Act (1995). At the same time, the government stimulated the expansion of the national backbone through dedicated programs, such as the *Service Areas Scheme* (SAS). Under this program, some private companies were licensed to operate public networks, subject to the commitment to build up connectivity in remote areas. Despite the SAS and subsequent similar efforts, the penetration rate of **fixed-line telephony** has remained quite low at 4%⁹, with a total number of subscribers around 3.3 million. In fact, the private operators have been only partially compliant with the obligations of the SAS, and the government remains the main provider of rural connectivity, through the dedicated *Telecommunication Office* (Telof). **Mobile telephony** has followed a radically different pattern. Since the early stages, the diffusion of cell phones recorded outstanding growth rates. Pre-paid services and text messaging (SMS) are widely recognized as the key-drivers of the diffusion of mobile communication. It is estimated that in the Philippines more than half a billion SMSs are sent every day. Today, nearly half of

Filipinos own a cell phones, which amounts to almost 40 million subscribers.

The former monopolist PLDT is still the leading telecom business. In the fixed-line segment, it is by far the largest operator, with 2.15 million subscribers and 64% of shares. In the mobile segment, PLDT is also dominant, holding 55% of the market through its subsidiary *Smart*. Furthermore, PLDT is operating the largest domestic fiber optic network and microwave long-distance network. *Globe Telecom* is the main competitor in the mobile segment. Its clientele includes about 12.4 million subscribers, which is about 32% of the market. Since 2003, *Globe* has been operating a subsidiary, *Innove*, that specializes in broadband services. *Innove's* base includes 330,000 subscribers in the fixed-line segment. *Digital Telecommunication Philippines* (Digitel) is the third largest mobile telephony provider (branded *Sun Cellular*), and the second-largest fixed-line operator. With an aggressive marketing strategy, *Sun Cellular* has reached the five million subscribers mark in only three years of activity, representing 13% of the total market. The *Digitel's* fixed-line division offers local as well as international voice and data services, and has about 400,000 subscribers. Another player that specializes in cutting-edge data and communication services is *Bayan Telecommunications* (Bayantel). It operates a fixed-line network with 230,000 customers, covering a territory representing one-third of the

⁸ Figures are drawn from a variety of direct and secondary sources, including the Dept. of Trade and Industry; the National Computer Commission; the Business Process Association of the Philippines; the Philippines Software Industry Association; Peter Antonio Banzon, *Country report on ICT standards: Philippines, 2006*; Ken Zita, *Philippines Telecom Brief*, Network Dynamic Associates, 2005; the companies' website and various article appeared in the press.

⁹ The figure refers to the fixed-line subscribers per 100 inhabitants. The rate of installed lines is somewhat higher, around 10%.

TABLE 2. *Main Telecom Operators*

Operator	Line of Business (subscribers)	Comments
Philippine Long Distance Telephone Company	<ul style="list-style-type: none"> ■ Fixed telephony (2.11 million) ■ Mobile telephony (21 million) 	Established in 1928, Philippine Long Distance Telephone Company (PLDT) is the leading telecom operator. PLDT operates through various subsidiaries in three main segments: fixed line, wireless, and ICT. In the mobile sector it operates under two brands, i.e. <i>Smart</i> and <i>Pitit</i> . PLDT shareholders include foreign investors such as First Pacific (Hong Kong) who holds 24%, Japanese NTT Com and NTT DoCoMo (15%), and Fidelity Investment, a US mutual fund, who recently acquired some 5.13% PLDT employs around 19,000 staff and generates a yearly turnover of US\$2.2 billion.
Digital Telecommunication Philippines	<ul style="list-style-type: none"> ■ Fixed telephony (0.4 million) ■ Mobile telephony (5 million - in 2006) 	Established in 1987, Digital Telecommunications Philippines (Digitel) is active in the fixed-line segment, and in the mobile segment (Digitel Mobile Philippines branded <i>Sun Cellular</i>). Digitel is controlled by the large Philippines' conglomerate JG Summit Holdings Inc. (47.4%). Telia AB owns another 9.4%, while 14.3% are public stocks. In 2005, Digitel posted a turnover of US\$190 million.
Bayan Telecommunications	<ul style="list-style-type: none"> ■ Fixed telephony (0.23 million) ■ Mobile telephony (not active) 	Bayan Telecommunications (BayanTel) is the operating arm of Bayan Telecommunications Holdings Corporation (BTHC), a holding created in 1993, and controlled by the Lopez Group (85.4%). Bayantel offers traditional fixed-line telephony as well as modern data and voice applications. Bayantel holds 83% stake in the National Digital Transmission Network (NDTN), a joint project to set up an alternative telecom backbone in the country opposed to the PLDT's. Until 1999, Bayantel controlled Extelcom, a pioneer company in the analogue cellular business, now merged with Globe. In 2004, Bayantel's revenues have been around US\$73 million.
Globe Telecom/Innove	<ul style="list-style-type: none"> ■ Fixed telephony (0.33 million) ■ Mobile telephony (12.4 million) 	Globe Telecom is a network holding company established in 1993, with the major participation of Ayala Corporation (today 35%) and Singapore Telecommunications (today 44%). In 1994, Globe launched its first GSM service. In 2001, it acquired Isla Communications, a mobile and fixed-line carrier, and entered the fixed-line market creating a wholly owned subsidiary, i.e. Innove Communication, who started operation in 2003 and immediately affirmed in the emerging broadband business. In 2005, Globe's turnover amounted to US\$1.067 billion.

total population of the Philippines. *Bayantel* also holds a license for mobile telephony, but a first attempt to commercialize the service, under the name of *Express Telecom*, failed in 1999. The salient features of the main telecom operators are provided in Table 2:

A.2 INTERNET SERVICES

The first Philippines' connection to the Internet was established in 1994 by the *Philippine Network Foundation* (PHNET), a consortium of private enterprises and government agencies. In the same year, the first commercial ISP, *Mosaic Communications*, started operations. At present, despite a consolidation process started in 2001, the Internet market still appears to be very fragmented. According to the *National Telecommunication Commission*, there are about 300 enterprises

registered as Internet-based value-added providers, but only a minority actually provide Internet access¹⁰. An estimate based on official statistics¹¹ speaks of 43 active ISPs as of 2004. Among the major players are the following subsidiaries of the main telecom operators: *ePLDT*, *DigitelOne*, *Innove*, *BayanTel*. Other "independent" ISPs include: *Mozcom Communications*, *Easy Call Philippines*, *Pacific Internet*, *Philippines Online*, *PhNet* and *I-Manila/Tridel*. The revenues from sales of Internet access are typically very thin, and ISPs who exclusively rely on this source of income are normally struggling to break even. Therefore, most of the operators have progressively diversified their activities to include a vast range of additional value-

¹⁰ In the Philippines, the provision of internet access is assimilated to internet-based value-added services, as regulated by Act no 7925. Moreover, the procedure to register is simple and the costs are very limited (US\$120 per year), and therefore there are many enterprises that register long before starting operations.

¹¹ *Philippines Statistical Yearbook 2005*. For more information see www.pinoytechblog.com

added services for both individual and corporate customers. Many firms have found it more convenient to focus on these types of services, while at the same time discontinuing or reducing their involvement in the access provision. With the inclusion of VoIP under the Internet value-added services, as ruled by NTC (April 2005), a vast and profitable new market has recently emerged for these operators to tap.

The commercial diffusion of the Internet is a recent phenomenon. In 2000, there were around 400,000 subscribers, which was 0.5% of population. Over the past five years, this figure nearly tripled, topping 1.5 million in 2005 (1.8%). The number of Internet users increased rapidly between 2000 and 2005, going from 2 million to nearly 8 million (9.3% of the population). For many surfers, access to the Internet is provided by the countless cybercafés. Although precise figures are not available, it is reasonable to estimate their number at between 2,000 and 3,000, with Manila and Cebu accounting together for 50%.

Regarding infrastructure, the Philippines has a well-developed international connection that includes several regional and Pacific submarine cables as well as satellite connectivity. International bandwidth is provided by six main operators, and domestic traffic is routed through three IXPs: the *Philippines Internet Exchange*, the *Common Routing Exchange*, and the *Manila Internet Exchange*. However, access to the Internet is widespread only in the major urban areas of the country. In rural and low-income areas, the situation is still far from ideal. Despite several government initiatives, more than 83% of the 42,000 “barangays” (rural districts) are still not connected. This can be partly attributed to the success of mobile telephony, which has possibly displaced the development of a widespread landline network. Broadband diffusion is another issue: at the end of 2004, only 76,000 DSL lines were active.

A.3 ICT/ICTE ACTIVITIES¹²

The Philippines’ ICT manufacturing industry is relatively developed and diversified. The sector boomed in the late 1990s, when around 50 ICs manufacturers, PC assemblers, and other components and peripherals makers, progressively invested in the

country. The largest investor has been *Intel*, which set up two US\$3 billion plants in the late 1990s. *Philips Semiconductors Philippines* was established in 1999, with an investment estimated at around US\$300 million. Other major players that set up facilities in those years included *Acer*, *Toshiba*, *Hitachi*, *Fujitsu*, *Cypress Semiconductor*, and *Amkor Technology*. The bulk of the production of these MNCs is destined to foreign markets¹³. The domestic market for hardware and software is not very developed. The PC penetration rate, for example, amounts to a mere 4%. Overall, there is an estimated hundred main resellers of PC and peripherals, half of which also offer maintenance and repair services.

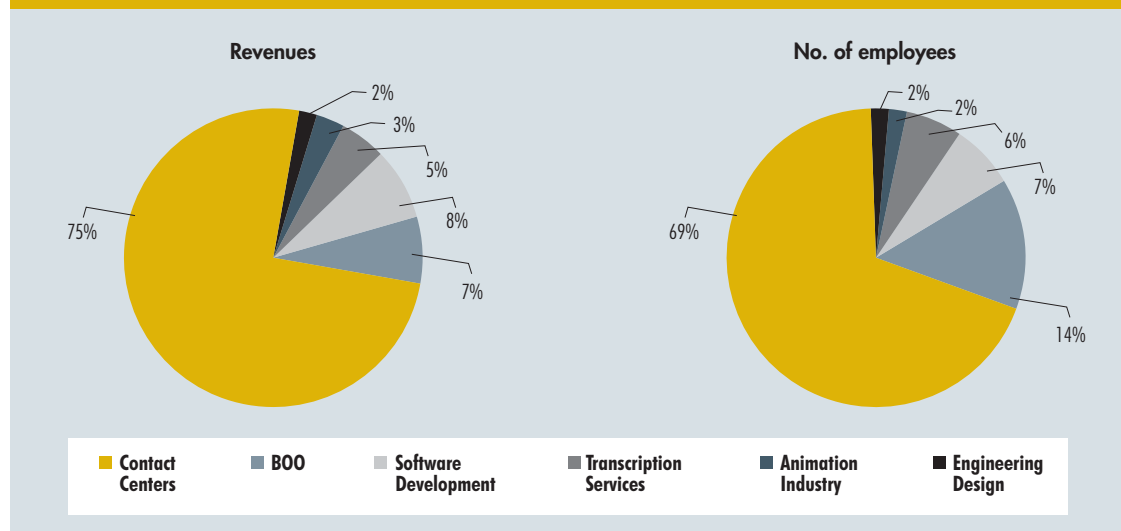
Regarding the sale of software, off-the-shelf packages represent only 15% of the total market, while the lion’s share is represented by customized solutions. The limited diffusion of branded software is also due to widespread piracy. The estimated rate of pirated software installed is around 71%. That is well above the world’s average (35%), and the average for Asia & the Pacific (53%). In this respect, the situation is very slowly improving—1% over 2003. According to the Business Software Alliance (BSA), the losses imputable to software piracy amounted to US\$69 million in 2004. Conversely, software development is a key sector in the Philippines’ ICT/ICTE industry. In 2005, more than 300 registered companies generated a turnover well in excess of US\$200 million, employing around 14,000 staff. According to the industry association PSIA, in 2005 this industry had grown by roughly 50% over 2004 in terms of number of employees. In 2006, the expected growth rate is 30–35%. Again, the vast majority of operations are performed either by local subsidiaries of large MNCs, such as *Accenture*, *TrendMicro*, *Safeway*, *NEC*, *Fujitsu*, *Lexmark* and *Canon*, or by independent companies under outsourcing agreements.

The most developed segment of the Philippines’ ICT/ICTE industry by far is BPO operations. A number of factors contributed to make the Philippines a well-reputed location for offshore operations. The most cited among these factors are:

¹² Information and figures in this section are mainly drawn from direct interview with BPA/P’s CEO Mr. Mitch L. Locsin, and representatives of PSIA, and from the website of BPA/P, PSIA, COMDDAP and DTI. Figures related to year 2005 are estimates.

¹³ In 2005 the aggregated export of IC and EDP equipment amounted to around US\$23 billion (source: the World Trade Organization, www.wto.org)

Figure 2. Composition of BPO industry (2005)



(i) a particular affinity to western culture; (ii) a highly literate and English-proficient workforce; (iii) a world-class international connectivity; (iv) a low cost of labor (60% to 80% lower than in OECD countries); and (v) strong government support. There are more than 600 companies involved in the provision of BPO services in the Philippines. The industry employs together about 160,000 people, and generates a turnover of US\$2.420 billion (2005)¹⁴, with an average annual growth rate of 64% (2005). US-based companies are the most important clients and account for 95% of the industry's exports. The universe of BPO operations can be subdivided into six main sub-groups: (i) Contact Centers; (ii) Back-Office Operations; (iii) Animation; (iv) Medical & Legal Transcription; (v) Engineering Design; and (vi) Outsourced Software Design. To a large extent this is only an operational distinction, because in many cases companies are active in two or more sub-sectors. Bearing this in mind, the relative importance of each of these subgroups can be summarized as in figure 2 above.

The Contact Centers are among the fastest growing industries. The overall number of seats rose from 1,500 in 2000, to 70,000 in 2005, and the revenues increased from US\$24 million to US\$1.700 billion. There are 105 active call centers in the Philippines,

which together employ around 112,000 staff. Half of the existing call centers have less than 300 seats—there are about 20 medium-sized (300 to 800 seats) and 30 large operators (more than 800 seats). Among the largest players are: (i) domestic firms such as *Ambergris*, *Sykes*, *PeopleSupport*, *Teletech*, *Convergys*; and (ii) subsidiaries of foreign MNC, such as *Dell*, *Siemens*, *AOL*, *HSBC*, and *JPMorgan*. The captives companies represent 80% of the total. The contact center is probably the most expensive BPO business, in terms of investment. The estimated cost per seat varies from US\$4,000 to 6,000. However, the revenues are also among the highest, with an estimated US\$8,000 to 10,000 per seat/year. The sector has recently witnessed some important buy-outs. Three leading contact centers have been in fact acquired by Indians and Australian firms.

Back Office Operations (BOO) is the second largest sub-sector in terms of people employed. In 2005, the total workforce was about 22,500. Overall, there are about 60 players active in this business, generating an estimated turnover of US\$180 million. The bulk of BOO refers to accounting and administrative services, but the range of possible services is wide. The box below reproduces a tentative tax-

¹⁴ The figures include also software developers specializing on BPO solutions.

onomy of the type of BOO operations existing in the Philippines¹⁵.

BOO operators can be subdivided into two main groups: i) MNC's subsidiaries locally performing shared services, such as *AIG Business Processing Service*, *Caltex Shared Service Center (CSSC)*, *Maersk Administrative Center*, and *Procter & Gamble Asia Pte.*; and ii) stand-alone BOO providers, such as *Business Process Outsourcing International*, and *SPI Transact*.

Overall, there are less than 100 data transcription firms in the Philippines. Medical transcription accounts for the most, with around 57 active players. Together, this industry employs about 9,000 people, and generates a revenue of US\$100 million. The transcription business model is considered to be the least expensive in terms of investment needed. The average cost to set up a seat is around US\$2,000. The revenues generated are also among the lowest—about US\$3,000 to 5,000 per seat/year.

The Philippines have a 20-year-old tradition in the animation industry. Activities in this sector include 2D and 3D animation, interactive gaming and medical animation. There are 40 animation studios in the country, four of which are large (about 200 seats)—the rest have 20 to 40 seats. In 2005, the animation industry generated a revenue of US\$40 million, and employed around 4,500 staff.

Finally, the BPO industry also includes 14 companies active in the provision of engineering design and related services. Usually, these are processes outsourced by international big players such as *Bechtel*, *Fluor Daniel*, and *JGC*. The total number of engineers employed in this sector is around 2,800. In 2005, the estimated revenue generated was around US\$48 million.

¹⁵ Source: the Business Process Association of the Philippines.

BOX 1. BOO Operations in the Philippines. Services Currently Provided

Accounting and bookkeeping	Customer management	Contract Summarization
Account maintenance	Credit card Administration	Publishing
Accounts receivable collection	Factoring and stock brokering	Travel service back office
Accounts payable administration	Revenue management	Loan processing
Payroll processing	Transaction processing	Health insurance
Asset management	Business Data processing	General Insurance
Financial analysis and auditing	Database management	Sales and marketing
Inventory control and purchasing	Supply chain management	Tax reporting
Expense and revenue reporting	Legal transcription	Financial leasing
Financial reporting	Litigation support	Transaction management
Human Resources administration	Content development	Sourcing and procurement
Logistics	Disaster recovery	Business intelligence
Network management	Warehouse and inventory management	



ANNEX B – THE INSTITUTIONAL SETTING

B.1 PUBLIC ENTITIES

Commission on Information and Communication Technologies (CICT) – The *Commission on Information and Communication Technologies* was established in 2004, taking over from the experience of the *Information Technology and Electronic Commerce Council* (ITECC). CICT is the primary ICT agency of the GOP, and its mandate includes a wide range of tasks. These include:

- Ensuring the adequate development of ICT infrastructure and systems;
- Enabling a policy and legal environment favoring partnerships between the public and the private sectors in ICT development;
- Promoting universal access and high-speed connectivity at fair and reasonable costs;
- Granting fair competition in the sector and adequate consumers' protection;
- Supporting ICT education;
- Ensuring e-security and individual privacy in telecommunications;
- Supporting the growth of private entrepreneurship in ICT/ICTE.

Operatively, the CICT is active in designing and implementing a series of measures in support of three different ICT sub-sectors. Regarding software developers, CICT cooperates with the industry association PSIA in the implementation of the “Fly-High 2010” project, whose main objectives include the protection of intellectual property and the overall increase of GOP’s expenditure in ICT. Regarding the cyber-services (e.g. BPO), CICT provides financial support to SMEs through equity financing (for start-ups) or contract financing (for expansion stage). CICT also invests in school and

training centers in order to multiply the available workforce to fulfill this industry’s needs. Finally, for some strategic businesses whose performances could be enhanced with the adoption of ICT (e.g. education, health system, tourism, transports, finance), the CICT has set up a project denominated “ICT-blueprint”. The project is articulated in three steps: i) analysis of the specific business models, identification of the most cost-effective solution, and definition of an e-strategy; ii) financing the development of customized IT solutions; iii) practical implementation of the solution adopted. Today, CICT is a temporary body, but very likely, it will soon be transformed into a permanent agency denominated “Department of ICT”.

National Telecommunications Commission (NTC) – The *National Telecommunications Commission* (NTC) is a government regulatory agency with jurisdiction over the telecommunications services. NTC was established in 1979, taking over from the *Board of Communications* and the *Telecommunications Control Bureau*. Its mandate includes the adoption of guidelines, rules and regulations, as well as the adjudication of licenses and the overall supervision of telecom operators. NTC also provides technical advisory assistance to various government agencies and other entities on all matters related to telecommunications. All ISPs and value-added providers are requested to register at the NTC.

National Computer Center (NCC) – Established in 1971, the *National Computer Center* is a body attached to the *Department of Science and Technology* (DOST). Its mandate can be summarized as follows: (i) to plan computer education and training, and the development of the national information system; (ii) to provide policy advisory support on computer technology and information systems; and (iii) to coordinate programs for the diffusion of ICT and PC alphabetization in the country. In 1999, the NCC was charged with the responsibility of facilitating the development and implementation of the Government Information Systems Plan (GISP). The GISP’s main aim was to improve and expand e-government practices. NCC is presently involved in the imple-

mentation of the NITP2000 plan, which is a program aimed at improving the Filipinos' empowerment and global competitiveness through IT.

Department of Trade and Industry (DTI) – The *Department of Trade and Industry* (DTI) was established in 1987, taking over from the *Department of Commerce and Industry*. The DTI is particularly involved in promoting and supporting the development of SMEs. The DTI's services include:

- Trade promotion, through the *Bureau of Export Trade Promotion* (BETP), the *Bureau of Domestic Trade* (BDT), and the national and regional trade fairs;
- SME development, through the *Bureau of SME Development*, the *Small Business Corporation*, and the *National Development Company*;
- Investment facilitation, through the *Board of Investments* (BOI), and the *Philippine Economic Zone Authority* (PEZA);
- Export policy development and advocacy, through the *Export Development Council*.

The DTI is also involved in several donor-funded training programs for entrepreneurship, and in various consumer protection projects. In 2004, the DTI (SMED Council) issued the SME Development Plan 2004–2010, a strategic paper endorsed by the President of the Philippines. It is based on three axes: (i) the provision of direct support to SMEs in various fields; (ii) the assistance to some priority industries, including ICT/ICTE; and (iii) the adoption of measures to improve the overall business environment for SMEs.

Department of Science and Technology (DOST) – The *Department of Science and Technology* (DOST) was created in 1987. It is responsible *inter alia* for: (i) the adoption of a comprehensive “National Science and Technology Plan”; (ii) the promotion of a genuine domestic technology sector; (iii) the development and maintenance of the information system and databank on science and technology; and (iv) the implementation of researches, technology assessments, and feasibility and technical studies.

Among the programs implemented by the DOST it is worth mentioning:

- The “Comprehensive Program to Enhance Technology Enterprises” (COMPETE)—aimed

at establishing “Virtual Centers for Technology Innovation” (VCTI) in the fields of IT and microelectronics. COMPETE is currently supporting SMEs' R&D activities, and favoring public-private partnerships in this sector;

- The “Technology Transfer and Commercialization” program—aimed at supporting the development of technology business incubators (TBIs) and S&T parks. The overall objective is to facilitate the commercialization of new technologies and to create a conducive environment for the cooperation between industry and academic institutions in the field of innovation.

Philippine Economic Zone Authority (PEZA) – Established in 1995 with the “Special Economic Zone Act”, the Philippine Economic Zone Authority (PEZA) is an investment promotion agency attached to the *Department of Trade & Industry*. PEZA is particularly involved in the promotion of the ICT/ICTE industry in the Philippines. It offers ready-to-occupy premises to foreign investors or IT service exporters within the Economic Zones and the IT Parks and Buildings. PEZA also provides incentives of various natures to IT products and services exporters. As of June 2006, there are reportedly 161 enterprises located in PEZA's IT Parks and Buildings.

B.2 PRIVATE ENTITIES

Business Processing Association of the Philippines – The *Business Processing Association of the Philippines* (BPA/P) was created in 2004 from the merge of the *Contact Federation Philippines* and the *Outsource Philippines*. BPA/P is the leading ICTE industry organization in the country. It is comprised of 140 corporate members and four major sector association, covering a wide range of activities, i.e. Contact Centers, Back-Office Operations, Medical and Legal Transcription, Animation, Engineering Services, and Software Developers. BPA/P's activities are currently focused on three main issues: (i) policy and regulation in the field of data security to improve the overall framework for e-commerce; (ii) marketing and promotion overseas of BPO industry; and (iii) human resources development. BPA/P also publishes a monthly magazine—“Contact”—featuring articles for and about the BPO and contact center community.

Contact Center Association of the Philippines (CCAP) – Established in 2001, the *Contact Center Association of the Philippines* (CCAP) is the official organization of Philippines’ contact center service providers. CCAP’s membership is open to all Philippines’ contact centers with more than 50 seats of capacity. Presently, it features some 30 members. CCAP is mainly involved in promoting abroad the domestic contact center industry.

Philippines Software Industry Association (PSIA) – The *Philippines Software Industry Association* (PSIA) was established in 1988, with the purpose of representing the umbrella organization for the software industry players. At present, PSIA has 86 corporate members, most of which are small ICT companies with 20 employees on average, but also few large players are involved. Its activities ranges from the promotion of a Philippines’ software industry “brand”, to the commitment in the field of education and training of IT-workforce. PSIA is also lobbying the government for measures in support of software industry’s competitiveness, in particular as regards the diffusion of international quality certification and to increase the government’s expenditure in software products and services. PSIA is officially recognized by the GOP. In partnership with CICT, PSIA has recently launched the “Fly-High 2010” Program that is a sort of strategic roadmap for the sector’s growth over the next five-year period.

Computer Manufacturers Distributors and Dealers Association of the Philippines (COMDDAP) – The original core of COMDDAP was formed by some leading manufacturers and dealers of PC and peripherals located in the Philippines. In 1997, the association opened its doors also other type of manufacturers. Today, COMDDAP has 30 primary members and 13 associate members. COMDDAP works to increase the penetration rate of PC in the country, and to this end it cooperates with the GOP, the private sector and other international entities on various promotional projects.

Philippines Internet Services Organization (PISO) – The *Philippines Internet Service Organization* was established in 1996 by a group of ISPs. Later on, the association evolved to include also internet –based operations such as: web design, domain registration, hosting services, and software application development. At present, PISO has around 20 corporate members. PISO is mainly involved in advocacy initiatives in support of the Internet services industry and to promote entrepreneurship, fair competition and cooperation in this sector. It is worth to mention the recent engagement of PISO in favor of the liberalization of VoIP services.



ANNEX C – THE FINANCIAL SECTOR

C.1 BANKING AND RELATED ACTIVITIES

Overview: In 1993, the New Central Bank Act established the *Bangko Sentral ng Pilipinas* (BSP) as the new Philippines' central monetary authority, taking over from the *Central Bank of Philippines*, which existed since 1949. Between 1994 and 1995, the banking industry witnessed a rapid liberalization process. Foreign investment in the banking sector was favored through subsequent regulatory acts that removed any cap to the participation of foreign institutions to domestic banks' capital, and facilitated the establishment in the country of foreign bank's affiliates. Along with the entrance of foreign players, the mid-1990s was also characterized by a progressive consolidation in the sector. This was one of the main objectives of BSP's policy aimed at strengthening the capacity and the competitiveness of Philippines's banks on the global markets. To this ends BSP progressively raised the minimum capital requirement and pursued an overall reform of the banking sector that was completed after the financial crisis of 1997. In 2000, the scope of BSP's activity was further expanded by the General Banking Law that attributed to the Monetary Board of the BSP the function of regulator and supervisor over the financial intermediaries sector. In line with the "Magna Carta" for SME Development enacted by the government in 1991 and further amended in 1997, the BSP also took significant initiatives in the field of SME financing, ruling that all financial institutions should have at least 6% of small enterprises and 2% of medium-sized enterprises in their portfolio.

Commercial Banks: Philippine's banking industry includes 42 universal and commercial banks, 83

thrift banks, 712 rural banks and 44 cooperative banks (2005). The universal and commercial bank sub-sector comprises of 21 private domestic banks, 14 branches of foreign bank, four subsidiaries of foreign bank, and three government-owned banks. The system is complemented by 12 non-banking institutions with quasi-banking functions, e.g. Investment Houses and Financing Companies. Universal and commercial banks represent by far the majority of the industry in terms of assets with some US\$69 billion (Sept. 2005). Private domestic banks account for some 71%, while foreign banks account for 15% and government-owned for 14%. As regards performances, in 2005 Philippines' main banks registered an average increase in the profits of 28%. In absolute terms the highest profits has been posted by the *Bank of Philippines Islands* (US\$153 million) followed by *Metrobank* (US\$78 million), *Banco de Oro* (US\$46 million), and *Equitable PCI Bank* (US\$43 million).

As of March 2006, the overall amount of outstanding loans was US\$40 billion, the 87% of which extended by universal and commercial banks. Non-performing loans rate is estimated at 8.2%. A summary presentation of some of the main banks is provided in Table 3.

C.2 VENTURE CAPITAL

Overview: The first presence of Venture Capital firms (VC) in the Philippines, dates back to the early 1990s. The operations of pioneer VC were however very limited, due to a weak institutional framework and a general adverse business environment for private equity investments. The bulk of VCs were established in the Philippines immediately after the East Asian financial crisis of 1997. Taking into account only the schemes focusing to a certain extent in the ICT/ICTE sector, the number of institutional VCs active today in the country can be estimated at half a dozen. One of the main players in the field of technology is *ICCP Venture Partners*, who launched the first of three rounds of equity investments in 1998. Other players followed soon,

TABLE 3. *Salient Features of Selected Banks*¹⁶

Bank	Total Assets (US\$ billion)	Comments
Metrobank	10.2	Metrobank (Metropolitan Bank and Trust Company) was founded in 1962 by a group of Filipino businessmen led by George S.K. Ty. The majority share is still held by the founder (18.26%). Other shareholders include: Philippine Depository and Trust Corporation, Federal Homes, and the Philippine Securities Corporation. Public stocks amount to 37.57%. Today, Metrobank is the largest universal bank of the Philippines by assets value. It operates 583 offices nationwide employing more than 8,000 staff.
Bank of the Philippines Islands (BPI)	9.4	The BPI has a long history, and its origins dates back to 19 th century. BPI's majority of share was acquired in 1969 by the Ayala Corporation. The bank then became the financial key-referent for the various companies of the Ayala Group. In 1982, BPI was transformed in a universal bank and initiated a period of acquisitions and strategic alliances that led BPI to its current paramount position in the Philippines' banking industry. Today, the Ayala Group's share (Ayala Corp. + Ayala DBS) amounts to 35.9%, while another 36.75% is held by the PCD Nominee Corp ¹⁷ . BPI's network includes over 700 branches nationwide.
Equitable PCI Bank	5.9	Equitable PCI Bank (EPCI) was founded in 1950. In terms of assets, EPCI is the third-largest banks in the Philippines. It offers a wide range of services including: savings, insurances, and credit cards (through the Equitable CardNetwork). The majority of shares are controlled by the PCD Nominee Corp. (57.16%). Other shareholders include the SM Investments Corp. (21.01%).
Land Bank of the Philippines	5.4	Landbank was established in 1963 to mainly serve the purposes of the land reform. Today, it is registered as a "specialized government bank", but practically it provides the services of a common universal bank. Landbank is 100% government owned.
Banco de Oro	3.9	Banco de Oro is a universal bank, which provides a wide range of corporate, commercial, retail, and investment banking services. Banco de Oro began as a thrift bank in 1968 (Acme Savings Bank). In September 1996, BDO became a universal bank. BDO is controlled by the SM Group, a large Philippines' conglomerates who owns a chain of malls. Other shareholders include Primebridge Holdings and Shoemart.
Planters Development Bank	0.66	Plantersbank is the largest private development bank of the Philippines. Plantersbank specializes in services for the SMEs. Some 85% of its current portfolio is made by small business especially located in provincial areas. Plantersbank is 40% jointly owned by IFC, the Netherlands Development Finance Company (FMO) and Asian Development Bank (ADB). Other investors include: the Korean Development Finance Corp, the Kookmin Bank (Korea), the Development Bank of the Philippines and the Landbank.

namely *Narra Venture Capital* and *WTP Capital*. The most recently established private equity fund is *Aureos South East Asia Fund*, which started operation in 2005. A summary description of some selected VCs operating in the ICT/ICTE sector is provided in Table 4.

Salient Features: On the basis of the information available through direct and secondary sources regarding the operation of VCs in the ICT/ICTE sector, the salient features of the Philippines' private equity industry can be summarized as follows:

- **Origin of Funds:** The Philippines' private equity industry is largely dependent upon funds provided by international investors, especially based in the US (e.g. in the Silicon Valley) or in

the south-east Asian region. IFIs and bilateral development finance institutions play a significant role in facilities such as the recently-established *Aureos South East Asia Fund* (ASEAF). To a lesser degree some equity funds are co-sponsored by domestic banks and financial institutions, e.g. *Philippines National Bank*, *ICCP Investment Bank*, and *Plantersbank*;

- **Investment Policy:** The typical size of the deals financed under schemes such as *IVP*, *Aureos* and *Narra VC* appears out of the reach of SMEs, i.e. usually ranging from US\$1.0–2.0 million. Conversely, schemes like *Iron Capital* and the

¹⁶ Information are drawn from BusinessWorld Online's reports and from banks' official websites.

¹⁷ PCD Nominee Corporation is the registered owner of shares held by participants in the depository company: *Philippine Depository & Trust Corp.*

TABLE 4. *Salient Features of Selected Equity Financing Operators*

Fund	Funding (US\$ mn)	Deals	Comments
ICCP Venture Partners	n.a.	-17	Operational since 1998, IVP is a member of the ICCP group. Major investors include: ICCP investment bank, Ionics Circuits Inc, Concepcion Industries group, Panay Electric Co., and Fremont Investors Inc. (Bechtel Group). IVP invests in a broad range of industries, with the exclusion of property or real estate. A second round of investments was launched in 2000 and a third in 2004.
Aureos South East Asia Fund	91	3	Operational since 2005. ASEAF is a generalist fund with preferences for: ICT/ICTE Services (such as BPO); Fast Moving Consumer Goods and Retail; and Export Enterprises. Funding is provided by CDC, Norfund, FMO, Plantersbank, and GSB Thailand.
WTP Capital	n.a.	-8	Established in 2001, WTP Capital is a US-based private equity firm who specializes in ICT/ICTE companies, mainly active in BPO sectors. WTP has recently opened a presence in the Philippines.
Narra Venture Capital	n.a.	-8	Operational since 2002, Narra Venture Capital is a VC firm mainly active in semiconductors, communication systems, computing platforms, software and related services. It operates in the Silicon Valley and in several Asian countries. Funding is mainly provided by Tallwood VC and Ayala Corp. In the Philippines, Narra VC operates through its affiliate, BGN Venture.
Philippines Discovery Investment Company Ltd.	43	n.a.	The Philippines Discovery Investment Company Ltd. (PDICL) was a large scheme managed by Next Century Partners (NCP) and specifically dedicated to the Philippines. It was funded by a pool of corporate investors from US, Japan, Singapore and Hong Kong, as well as by domestic financial institutions, i.e. the Philippines National Bank and the Security Bank. PDICL invested in large deals, e.g. Smart—the largest mobile network in the country. Most of the investment has been successfully exited between 1999 and 2001.

SBC's "Equity Venture Program" are reportedly keener on smaller deals. *IVP* have occasionally invested in half-million dollars deals. Regarding exit strategies, Philippines' VCs typically pursue IPO on regional or global stock markets, while the Philippines Stock Exchange is generally considered as too small to represent a viable option. More frequently, divestments are performed through equity sales and MBO.

- **Operating Modalities:** The VCs usually adopt investment models combining common shareholdings with quasi-equity instruments, such as preferred shares and convertible bonds. Straight debt instruments are seldom applied. In some cases the investees are also charged with a management fee of 1% to 2% of the amount financed, which covers transaction costs and monitoring expenses. The duration of investments is variable, usually ranging from three to seven years;
- **Performance:** Given the recent establishment of most of the VCs, it appears too early to assess the performances of these schemes. Although precise

data are not available, the estimated number of deals financed by the existing VCs unlikely exceeds some 30 to 40 units, of which about one-fourth appear to be Philippines-based operations.

Business Angels: In the Philippines, there exists a quite developed network of business angels. Typically, angels are former entrepreneurs, aged 45 to 65, who hold a strong experience as investors as well. A study conducted between 2003 and 2004 by E.S. Isidro and W. Scheela on 29 Filipino angels, provided an overview of their role and operations in early stage financing of local SMEs¹⁸. The bulk of angels' investments are in sectors where they hold a previous entrepreneurial experience. Usually, angels take an active role in the management of the invested enterprises. They are usually involved in the following tasks: (i) provision of expertise;

¹⁸ The information presented in this section are mainly drawn from William SCHEELA and Edmundo S. ISIDRO, *Business Angel Investing in the Philippines: an Institutional View*, and from direct interview with Edmundo S. Isidro, chairman of the Philippine Venture Capital Investment Group.

(ii) financial control; (iii) strategic planning; and the (iv) recruitment of key-personnel. Angel's deals range typically from US\$100,000 to 250,000, but could also amount to as little as US\$50,000. Each angel usually invests in more than one enterprise at the time (five to six on average), while each enterprise is usually invested in by more than one angel (three on average). Commonly, the duration of angels' investments is higher than VC's, with an average tenure of five to eight years. The vast majority of the invested companies are start-ups or at early stage of development. Regarding the sectors in which angels operate, ICT represents only a marginal share in angel's portfolio, due to a scarce understanding of the technical aspects of these business models. In fact, angels are often retired businessmen having little familiarity with the latest technologies. ICT-enabled businesses are fairly more understandable and therefore receive more attention. Filipino angels are generally focused on the domestic market; however a minority of them invest also in larger scale businesses with operations overseas. In terms of profitability, the operations financed so far by registered a positive balance. Two-thirds of the angels included in the 2004 survey, claimed to have achieved a substantial return on their investments (typically 25% per year).

C.3 OTHER FINANCING INSTITUTIONS AND SCHEMES

Small Business Corporation. Established in 1991, the Small Business Corporation (SBC) is a government's financial institution attached to the DTI, who provides credit and guarantees to SME. SBC manages a wide range of financing schemes, providing from as little as US\$4,000 up to US\$180,000. On average, the typical size of loan extended by SBC is about US\$20,000. The terms of repayment vary from one year, for short-term lending, up to 5 years for medium-term. SBC also operate a 'first demand' credit guarantees scheme. In absolute terms, the loans eligible for guarantees range from US\$2,000 to 360,000, while the maximum coverage is 70% or 80% depending on the securities provided. Furthermore, SBC—in partnership with the VC firm *Enviro Ventures Inc.*—has recently launched the "Equity Ventures Program" (EVP) that provides financing in the form

of preferred shares, common shares and convertible debt instruments to SMEs active in various sectors. The investments made under EVP should not exceed US\$360,000 or 40% of enterprise's authorized capital.

Other Financing Schemes for SME. The *Bureau of Small and Medium Enterprises Development* (BSMED) has recently published a guidebook compounding the various financing program and schemes available for SMEs. Below is a non-exhaustive list of the programs managed by some of the main institutions:

- *Asiatruster Development Bank* provides loans and receivable discounting to SMEs both on short term basis (1 year) and long term (up to 5 years);
- *The Department of Science and Technology (DOST)* manages the small enterprise technology upgrading program (SET-UP) that provides financing for projects aimed at facilitating technology adoption and improving productivity and competitiveness in key-sectors. Credit terms are up to 3 years;
- *The Development Bank of the Philippines* provides a wide range of financing scheme for MSMEs, some of which co-funded by the KfW. Credit terms vary from short up to 15 years;
- *The Government Service Insurance System* has a special financing program dedicated to start-ups and small businesses, especially oriented to export. The maximum size of deals is US\$1.0 million. Terms up to 7 years;
- *The Land Bank of the Philippines* manages various programs for small and medium exporters, whose size varies from US\$10,000 to 100,000. It also operates an equity investment line with financing from US\$20,000 to 360,000;
- *The Philippines Export-Import Credit Agency* provides direct lending for export-oriented operations. Instruments include: pre and post-shipment financing, short and long term loans for at most US\$700,000, and a risk guarantee scheme;
- *The Philippine National Bank's* lending scheme for SMEs provides from US\$10,000 to 100,000, with terms ranging from 1 to 5 years. Real-estate collateral is required;
- *The Planters Development Bank's* revolving credit line provides US\$90,000 to 600,000 on short term basis (1 year renewable), or long term (up to 10 years);

- In the framework of the “SME Unified Lending Opportunities for National Growth” program (Sulong), *The Social Security System* provides loans, export credits, and receivables discounting up to US\$90,000, on variable terms. It also manages some special financing programs, with amounts up to US\$900,000 at a 7 to 11% interest rates.

Microfinance. The legal and regulatory environment for the development of micro-finance significantly improved with the issuance of the General Banking Law (2000) that charged BSP with the task of creating an adequate framework for the inclusion of micro-finance among the banking activities. At present there exists 6 banks active in this sector (i.e. with more than 50% of their activities focusing on

micro-lending), and some 180 rural and cooperative banks involved to some extent in micro-finance.

As of 2004, the overall number of micro-borrowers was above 500,000 and the total outstanding loans around US\$60 million. Among the various institutions and schemes it is worth to mention:

- Opportunity Microfinance Bank* who provides loans from US\$1,000 to 90,000 to individuals and SMEs;
- Foundation for a Sustainable Society*, whose loans vary from US\$10,000 to 200,000 on a 3 to 5 year term;
- People’s Credit and Finance Corporation* who provides capital for micro-lending to intermediary organizations (MFIs, NGOs, Cooperatives, and Rural Banks);
- GSIS Family Bank*;
- Landbank*; and
- the *Microenterprise Development Foundation*.



ANNEX D – LIST OF ENTITIES INTERVIEWED

D.1 BUSINESS INCUBATORS

UP Ayala Technopark

- Ms Mercedes M. Barcelon – Director
- Mr. Dennis Ramon B. Posadas – Consultant

D.2 FINANCIAL INSTITUTIONS

ICCP Venture Partners

- Mr. William M. Valtos, Jr. – Senior Managing Director
- Mr. Edwin J. Lau – Managing Director
- Mr. Daniel C. Pagulayan – Executive Director

Aureos Capital

- Mr. Samuel O. Occena, Jr. – Country Manager

WTP Capital

- Ms Arie Bernardo Bulahan – Principal

Philippine Venture Capital Investment Group

- Mr. Edmundo S. Isidro – Chairman

BDO Private Bank

- Mr. Juan Sabino P. Lizares – Senior Assistant Vice President

Bank of Philippines Islands

- Mr. Josias de la Cruz – Vice President for Microfinance

Planters Development Bank

- Ms Ana Rose T. Kwan – Senior Vice President

- Mr. Herminio M. Famatigan, Jr – Executive Vice President

Small Business Guarantee and Finance Corporation

- Ms Luna C. David – Head of Financing Delivery Sector
- Mr. Charles Belgica – Special Projects Office

D.3 ICT / ICTE ENTERPRISES AND BUSINESS ASSOCIATIONS

Business Processing Association, Philippines

- Mr. Mitch L. Locsin – Executive Director

Philippine Software Industry Association

- Mr. Mon Villar – Executive Director

Astra Inc.

- Mr. Edwin Allan Mogul – Director

Optiserve Technologies

- Ms Cheryl Marie U. Natividad – CEO

Micom Technologies Corporation

- Mr. Francis L. Atendido – President

Symphony Consulting

- Mr. Victor Gruet – Director

Asian Business Solution

- Ms Carmencita L. Aragon – President

Computer Professionals Incorporated

- Ms Rosario M. Gruet – Vice President

SEER Technologies

- Mr. Joseph Benjamin R. Ilagan – CEO

Pointwest Technologies

- Ms Cristina G. Coronel Beng – President

Navigator Systems

- Ms Bettina Quimson – President

Blastasia Inc.

- Mr. Arup Maity – President & CEO

D.4 PUBLIC INSTITUTIONS

Commission on Information and Communications Technology

- Mr. Damian Domingo O. Mapa – Commissioner

Department of Trade and Industry

- Ms Rhodora M. Leano – Bureau of SME Development, Director
- Mr. Monchito Ibrahim – ICT Consultant

D.5 IFI AND DEVELOPMENT ORGANIZATIONS

Asian Development Bank

- Mr. Daan Boom – Principal Knowledge Management Specialist

Delegation of the European Union to the Philippines

- Mr. Frank Hess – First Secretary, Head of Operations

ANNEX E – PROFILES OF SME FINANCING ORGANIZATIONS

PROFILE # 1. PHILIPPINES – ICCP Ventures Partners, Inc

Salient Features

<i>Denomination</i>	ICCP Ventures Partners, Inc. (IVP)
<i>Nature</i>	IVP is private direct investment management firm. IVP is a member of the ICCP Group that is an aggregation of companies whose activities also includes: investment banking, industrial estate development, township development, and exposition facility complex management.
<i>Location</i>	IVP is based in Manila, the Philippines, and has an office in the Silicon Valley, USA.
<i>Geographical Coverage</i>	IVP operates globally, with a special focus on East Asia and USA.
<i>Establishment</i>	IVP's first fund was launched in 1998. Subsequent rounds of financing occurred in 2000 and 2004.
<i>Funding</i>	IVP's major investors are: i) the Investment & Capital Corporation of the Philippines (ICCP), ii) Ionics Circuits Inc, iii) Concepcion Industries group, iv) Panay Electric Co., and v) Fremont Investors Inc. (Bechtel Group). The IVP managed funds are three. The first one, created in 1998, is currently in the process of harvesting; the second one (2000) is now fully invested; while the most recent one (2004) is currently making its initial investments.
<i>Investment Policy</i>	IVP's deals are in a broad range of industries, with the exclusion of property or real estate. IVP typically seeks for partners with high potential of growth (15-25% pa) and with at least three years of profitability in the previous years' record. But it may also consider investing in promising start-up companies. Its share of investment in the ICT/ICTE industry amounts to about 60%. The amount of money invested by IVP in a single deal is typically comprised between US\$ 1.0 and 3.0 million, but they have also a couple of deal US\$ 0.5 million worth.
<i>Operations</i>	IVP's portfolio includes 17 companies worldwide, four of which based in the Philippines. Investees' activities mainly refer to the various ICT/ICTE and HI-Tech sectors, e.g.: ICs design and development, GPS solutions, Call centers, Software, on-line gaming platforms etc.

Narrative Description

- The ICCP Group is headed by the Investment & Capital Corporation of the Philippines, a domestic leading investment bank, who's active as well in projects development. ICCP's shareholders includes foreign and domestic institutions, namely: i) Development Bank of Singapore, ii) Bank of the Philippine Islands, and iii) Philippine American Life and General Insurance Company (a subsidiary of American Insurance Group). Others member of the ICCP group are the Science Park of the Philippines, the Pueblo de Oro Development Corp, and The World Trade Center Metro-Manila.
- IVP targets two type of companies: i) Asian-based business and ii) non-Asian business with significant Asian applications. In the first case IVP usually acts as the sole VC investors (or the leading one), and the typical business focused are in the field of BPO, Contact centers and IT in general. As regards non-Asian companies, IVP usually acts as a co-investor along with US partners, in companies interested in establishing deals with the Philippines for outsourcing purposes.

Sources

- www.iccpventurepartners.com

PROFILE #2. Aureos South East Asia Fund

Salient Features

<i>Denomination</i>	Aureos South East Asia Fund (ASEAF)
<i>Nature</i>	ASEAF is a private equity fund.
<i>Location</i>	ASEAF has offices in four countries in the region: Jakarta (Indonesia), Manila (Philippines), Bangkok (Thailand) and Ho Chi Minh City (Vietnam).
<i>Geographical Coverage</i>	ASEAF is active throughout the South-Asian region.
<i>Establishment</i>	ASEAF was established in 2005
<i>Funding</i>	The fund raised by ASEAF for the first closing amounts to US\$91 million, out of the targeted US\$100 million. The main investors are CDC Capital Partners, the Norwegian Investment Fund for Developing Countries (Norfund), and the Netherlands Development Finance Company (FMO), the Government Savings Bank of Thailand and Planters Bank of the Philippines.
<i>Investment Policy</i>	<p>ASEAF is not specifically focusing a specific industry but its preferences are directed to the following sector: ICT/ ICTE Services (such as BPO); Fast Moving Consumer Goods and Retail; and Export Enterprises.</p> <p>The fund seeks to invest in established companies with a proven track record and significant growth prospects. Start-up companies are generally excluded from financing.</p>
<i>Operations</i>	<p>ASEAF investments value to date is US\$2.0 million each, on average. Typically, the financing combines equity and quasi-equity instruments. The duration of deals may range from 3 to 5 years.</p> <p>A management fee of 1% of the amount invested is applied.</p> <p>The ASEAF started operation very recently and, so far has invested only in 3 companies, one of which is in the ICT sector.</p>

Narrative Description

- ASEAF is one of the 24 funds managed by Aureos Capital Limited (ACL) worldwide. Established in 2001, ACL is a private equity firm focused exclusively on emerging countries and who specializes in providing expansion and buyout capital for small and medium-sized enterprises. The aggregate value of ACL's managed fund amounts to US\$555 million, with other US\$500 million investment in the pipeline for the next two years. ACL operates 21 offices worldwide.
- Aureos' typical operations includes: management buy-outs and buy-ins (MBOs/MBIs), mergers and acquisitions (M&A), expansions, and consolidations.

Sources

- www.aureos.com

PROFILE #3. *Narra Venture Capital*

Salient Features

<i>Denomination</i>	Narra Venture Capital (NarraVC)
<i>Nature</i>	Narra VC is a venture capital firm who specializes in ICT/ICTE and Hi-tech products and services.
<i>Location</i>	Narra VC is based in Manila, the Philippines
<i>Geographical Coverage</i>	Narra VC operates in South Asia and in the USA.
<i>Establishment</i>	Narra VC was established in 2002
<i>Funding</i>	Narra VC has an established group of founding partners led by TallwoodVC—a US-based VC focusing IC and IC-related products, and Ayala Corporation—one of the largest Filipino business conglomerates. The funds are managed by a the Narra's affiliate BGN Ventures, Inc.
<i>Investment Policy</i>	<p>Narra VC focuses on Hi-tech and ICT sectors. Typically, Narra VC's deals are in the following fields: semiconductor and related product, computing platforms, software, electronic manufacturing and design services. Narra VC's investments in the Silicon Valley are usually carried out in partnership with Tallwood VC and other co-investor, while in the Philippines and neighboring countries it also incubates its own project.</p> <p>The average size of Narra VC's investment is US\$1.0 million, both through equity and quasi-equity instruments.</p> <p>Narra VC usually invests over a 4 to 7 year period. Typical exit strategy sought is through IPO or M&A.</p>
<i>Operations</i>	Narra VC's portfolio includes 8 companies most of which located in the US but with significant strategic relation with South-East Asian partners.

Narrative Description

- Narra VC's main funder and co-investor—Tallwood VC—is a venture capital firm based in Palo Alto. Tallwood VC focuses on semiconductor and related products industry. It manages two funds amounting altogether to US\$430 million. So far Tallwood VC has invested in some 20 deals.
- The main Filipino company in Narra VC's portfolio is Stratpoint Technologies. This is a lead IT consulting and software design & development company. Stratpoint Technologies provides its services and products to MN and large corporations in various sectors, including: telecom, banking, pharmaceuticals, transportation, logistics, manufacturing, broadcast media, energy, retail and distribution.
- Narra VC, along with BGN Ventures, supports the Philippines' "Brain Gain Network", that is a network of Filipino technopreneurs, which aims to increase the level of high value-added technology business in the country.

Sources

- www.narravc.com

PROFILE #4. *Small Business Corporation*

Salient Features

<i>Denomination</i>	Small Business Corporation (SBC)
<i>Nature</i>	SBC is a government financial institution providing credit financing and guarantees to Philippines' SME. SBC is a body attached to the Department of Trade and Industry.
<i>Location</i>	SBC's headquarter is in Manila. Regional offices are in Luzon, Visayas and Mindanao.
<i>Geographical Coverage</i>	SBC is a national scheme operating countrywide
<i>Establishment</i>	SBC was established in 1991 as "Small Business Guarantee and Finance Corporation (SBGFC)". In 2001 it was merged with the "Government Fund for Small and Medium Enterprises (GFSME)", thus creating the SBC as it is today.
<i>Funding</i>	<p>SBC's fund base is close to US\$100 million that would be likely doubled over the next few years.</p> <p>SBC is funded by the Government and by some international organization, i.e. IFAD (US\$50 million for micro-finance activities), ADB (US\$20million for wholesale lending and US\$5 million for direct lending), KfW (EUR 11,7 for wholesale lending).</p> <p>The equity investments made under the "Equity Ventures Program (EVP)" sees the one-to-one co-financing of a private sector partner, i.e. Enviro Ventures Inc.</p>
<i>Investment Policy</i>	<p>The SBC's loans are usually comprised in the range of US\$4,000 (excluding micro-finance schemes) to 180,000. On average, the typical size of loan accorded to SMEs is around US\$20,000. Terms of repayment vary from one year for short-term lending, up to 5 years for medium-term.</p> <p>The SME-FIT is a specific financing line for IT build-up. Small IT providers may borrow up to US\$90,000, while for medium-sized firms the threshold is elevated to US\$180,000. The repayment terms should not exceed 18 month, and the interest rate applied for a fully secured loan is 9,8%. As regards securities, a hard collateral of 50% of the loan value is required for loans above US\$18,000.</p> <p>SBC may also provide "first demand" credit guarantees. Loans eligible for guarantees range from US\$2,000 to 360,000, and the maximum amount covered is between 70% and 80% depending on securities provided. Duration of guarantees is at most five years. The management fee applied range from 1.5 to 3.5%.</p> <p>The EVP provides financing in the form of preferred shares, common shares and convertible debt instruments to SME active in various sectors. The investment should not exceed US\$360,000 (approx.) or 40% of enterprise's authorized capital.</p>
<i>Operations</i>	<p>The largest share in SBC's portfolio is represented by wholesale lending (some US\$22 million), followed by direct lending (some US\$9 million). Credit guarantees account for some US\$4.5 million. The smallest among SBC's program is the Equity Venture Program, whose capital provision amount to less than US\$1.0 million, to-date.</p> <p>The ICT dedicated scheme (SME-FIT) was launched in the 2nd quarter of 2006, and so far only two enterprises have been financed (an internet operator and a customized software provider).</p> <p>So far, two companies have been financed through EVP, with the co-financing of Enviro Ventures.</p>

Narrative Description

- SBC lending schemes are designed to cover the financing needs of enterprises at a different stage of maturity. In summary:
 - i. Pre-enterprise micro businesses (from seed to "graduation") – Wholesale Micro-Finance
 - ii. Pre-bankable (but viable) MSME – Direct lending for MSME
 - iii. Near Bankable SME – Credit Guarantees for SME
 - iv. Bankable SME – Wholesale lending for SME
- There are three programs for wholesale lending: SME-FAST (short-term), SME-FIRM (medium-term), and SME-FEEL (micro-finance for livelihood activities). The direct lending is articulated in five schemes: SME-FIT (for IT build-up), SME-(E)FIRST (financing of SME's receivables and purchasing orders), SME-FRIEND (for exporters), SME-FORCE (for franchisee-firms), SME-GUIDE (extended to DTI-endorsed SMEs). The type of credit guarantees issued by SBC are four, namely: SME-GEMS (manufacturing, services and trade), SME-GLAD (anchor industries), SME-GRAINS (agribusiness), SME-GUILD (for livelihood development programs).
- Enterprise eligible to borrow under the various SBC schemes are MSMEs with total assets below US\$1.8 millions (approx.) with at least 60% of capital or stocks detained by Filipino citizens. Branches, subsidiaries or divisions of large enterprises are excluded.
- With the exception of direct lending schemes, the financing are channeled through a network of accredited financial institution including 40 MFIs and 50 banks (only half actually active). The bulk of the banks involved are thrift banks, while commercial banks represent the 20%. Big players are not involved.

Sources

- www.sbgfc.org.ph

ANNEX F – PROFILES OF ICT/ICTE SME

PROFILE # 1. *Asian Business Solution*

Salient Features

<i>Denomination</i>	Asian Business Solution inc. (ABSi)
<i>Location</i>	ABSi is based in Manila (Makati City).
<i>Establishment</i>	ABSi was established in 1996 as a joint stock company.
<i>Areas of activity</i>	ABSi is a software development company with particular expertise in: i) insurance brokerage system, and ii) workflow and document management solutions.
<i>No. of Employees</i>	ABSi currently employs 36 staff.
<i>Operations</i>	<p>ABSi provides a wide array of IT services, e.g. system development, website development, internet and intranet solutions, ERP and security systems. The software product offered includes various business management solutions, insurance brokerage systems, education systems, and applications for medical institutions. ABSi offers as well system and technical support program.</p> <p>Among ABSi's clients figure some of the largest Philippines insurance brokerage companies, banks and financing institutions</p>
<i>Financing Issues</i>	<p>The company was established with financing from the owner (20%) and the business partners (80%). ABSi finance its operations through the cash flow. Another source of working capital is represented by the stockholders' loans. The rate applied is in fact significantly lower than banks'. The VC financing option is not considered because the conditions applied do not fit with company's needs.</p> <p>In 2005, ABSi generated a turnover of US\$0.5 million.</p>

Other

- At the initial stages ABSi was mainly involved in the sale and support services in the field of insurance brokerage. In 2001 a second major line of activity has been launched, i.e. the document imaging systems. Today, the company is organized in separate business units namely: Insurance Systems Group; Enterprise Document Management Solutions Group and Special Project Group. Plans for the future include a further diversification in the offer of IT solution.
- The major concerns for ABSi's management regard the difficulty in finding adequately educated workforce. Another issue is the general macroeconomic stability of the country that could negatively affect the business. Access and cost of financing are as well perceived as moderate obstacles for the growth of the business.
- ABSi is member of the Philippines Software Industry Association (PSIA)

Sources

- www.absionline.com

PROFILE # 2. *BlastAsia Inc.*

Salient Features

<i>Denomination</i>	BlastAsia Inc
<i>Location</i>	BlastAsia's headquarter is in Manila (Pasig City). It also has a presence in USA (San Diego).
<i>Establishment</i>	BlastAsia was established in 2000 as a limited liability company, and started operations in 2001.
<i>Areas of activity</i>	BlastAsia, Inc is an IT service provider, active in the development and customization of business management and ERP solutions, and offering various BPO services.
<i>No. of Employees</i>	BlastAsia employs 45 staff.
<i>Operations</i>	<p>BlastAsia is mainly providing IT Services of three natures:</p> <ul style="list-style-type: none">■ Custom Software Development■ Remote Staff Augmentation (BPO of R&D, maintenance etc)■ Customized solution (basic packages like HR, Payroll, Finance, Portals, etc.) <p>The portfolio of clients include public and private entities both domestic and foreign-based, e.g. Gulf Oil, Generali group, New York Life insurance, National Economic and Development Authority, Department of Labour and Employment, Asian Institute of Management, Computer Associates, etc.</p> <p>50% of BlastAsia's revenues are generated from contracts with the US. Another important market for outsourcing services Japan. In this field BlastAsia is currently providing R&D and remote testing services.</p>
<i>Financing Issues</i>	<p>The enterprise was established with founder's own resources (70%) with support from family & friends (30%). In order to finance the growth of operations the company has recently applied for a bank loan, but the collateral provided was not sufficient to secure the loan. Then a contact with a VC has been established, however the amount sought by the company is too little for VC's standards and it is not sure whether the VC will eventually decide to finance.</p> <p>BlastAsia is currently generating an yearly turnover of US\$ 0.5 million.</p>

Other

- BlastAsia was founded by in 2000 by Mr. Arup Maity. In 5 years the company has passed from a web based solution provider to local Philippines companies to a diversified IT company with clients and partners in USA, UK, Canada and Japan.
- The current major obstacles to growth faced by BlastAsia regard the access and cost of financing. The fast growth recorded by the company over the past 5 year requires some investment to consolidate and further expand on foreign markets. Other constraints are represented by the taxation system and the overall macroeconomic instability of the country.
- BlastAsia is member of the Philippines Software Industry Association (PSIA)

Sources

- www.blastasia.net

PROFILE # 3. SEER Technologies

Salient Features

<i>Denomination</i>	SEER Technologies Inc. (SEER)
<i>Location</i>	SEER is based in Manila (Makati City).
<i>Establishment</i>	SEER was established as a joint stock company in 2003 and started operation in the same year.
<i>Areas of activity</i>	Seer Technologies is one of the most respected Oracle technology service providers in the Philippines, with its expertise in leveraging commodity hardware with both open-source and commercial software to produce valuable enterprise solutions such as scalable database grids, database migration services and highly available application servers, training and software development.
<i>No. of Employees</i>	SEER presently employs 22 staff.
<i>Operations</i>	<p>As an Oracle Certified Partner and a member of the Oracle Partner Network, SEER is involved in the provision of Oracle-based services including software architecture development, testing, deployment and maintenance.</p> <p>SEER also creates its own software products addressing niche requirements in the telecommunications, financial services, and transportation industries. Products include prepaid stored value platforms, CRM solutions, portfolio management systems for financial institutions, etc.</p> <p>Among SEER's clients figure PLDT, Aboitiz Transport, BPI, Aurora Wireless, Broadband Philippines, Sunlife, Philippine Airlines, Smart Communication etc.</p>
<i>Financing Issues</i>	<p>SEER is a bootstrapping enterprise. Its establishment was largely funded with owner's personal savings (90%) and with little contribution from family & friends (10%). The management is unwilling to incur debt so they never apply for a bank loan, or contact private equity firm to seek for financing.</p> <p>In 2005, SEER posted a turnover of US\$600,000.</p>

Other

- Reportedly, the single major obstacle for SEER's development is represented by the issue of license and operating permits. But also difficulties in access to financing and heavy taxation are viewed as impeding factors. Other constraints regard the systemic level: macro-economic instabilities, inadequate regulatory policies, legal enforcement, and corruption.
- SEER is a member of the Philippines Software Industry Association (PSIA).

Sources

- www.seertechnologies.com

PROFILE # 4. *Computer Professionals Incorporated*

Salient Features

<i>Denomination</i>	Computer Professional Incorporated (CPI)
<i>Location</i>	CPI is based in Manila.
<i>Establishment</i>	CPI was established in 1987 and started operations in 1994.
<i>Areas of activity</i>	CPI is a provider of software products and services, and IT consulting and training.
<i>No. of Employees</i>	CPI presently employs 160 staff.
<i>Operations</i>	<p>The CPI's operations could be subdivided in three main field:</p> <ul style="list-style-type: none">■ Integrated insurance brokerage system. CPI's product, GenlISys, is the leading insurance software package in the Philippines, having been successfully implemented by 12 insurance companies for the past 10 years.■ RD and support of customer (DB maintenance and optimization, system development, web-enabled solutions, IT consultancy)■ Education services (IT training course on various subjects) <p>CPI is also an Oracle certified partner and reseller of Oracle licenses.</p> <p>CPI's clientele include insurance companies, banks and financial institutions, health care institutions, manufacturing firms and government agencies.</p>
<i>Financing Issues</i>	<p>CPI is a bootstrapping enterprise. The company has been founded with 100% owner's resources. Additional resources were raised through the sale of stocks. The management never applied for a bank loan or for a VC financing not to incur debt.</p> <p>The CPI's annual turnover is of US\$ 1.2 million (2005)</p>

Other

- The growth of CPI is not significantly tackled by obstacles of financing nature or related to the overall business environment. The only factor reportedly viewed as a (minor) constraint is the tax rate.
- CPI is a member of the Philippines Software Industry Association (PSIA).

Sources

- www.cpi.com.ph

PROFILE # 5. *Pointwest Technologies Corp.*

Salient Features

<i>Denomination</i>	Pointwest Technologies Corp. (PTC)
<i>Location</i>	PTC's headquarter is in Manila (Makati City). PTC has also two offices in the US (Oregon and Minnesota).
<i>Establishment</i>	PTC was established as a joint stock company in 2003 and started operation the same year.
<i>Areas of activity</i>	PTC is a software developer and IT services firm. The company is active in BPO services provision, web-based application development, remote testing, and implementation of CRM and ERP solutions.
<i>No. of Employees</i>	PTC presently employs 231 staff.
<i>Operations</i>	<p>The wide array of solutions provided by PTC includes the development, integration and testing of application, infrastructure support services and three kinds of application conversion: language conversion, database conversion, application re-platforming.</p> <p>A significant share of PTC's revenues is generated by outsourcing contract with the US. More recently, PTC has expanded to Australia and New Zealand.</p>
<i>Financing Issues</i>	<p>PTC has been established with the support of three investors: Allix Corporation (40%)—a firm specialized on outsourcing headed by the present President of PTC, Ms Cristina G. Coronel; F&J Prince (30%); and Project Quest Corporation (30%). The company has also obtained a credit from a commercial bank.</p> <p>PTC is registered at the Board of Investment as a Pioneer IT services firm thus benefiting of a 6 year tax holiday.</p> <p>In 2005, PTC generated an annual turnover of US\$4.5 million.</p>

Other

- The principal PTC co-investors' profiles are as follows: i) F&J Prince is a holding company formerly active in mining and oil exploration. F&J Prince controls the Magellan Capital Holdings Corp. that is a corporation engaged in infrastructure and industrial projects; ii) Project Quest Corporation is a venture capital company managed by Pacific Northstar Inc. It focuses on investment at the mezzanine level.
- PTC is actively promoting its services overseas, through its offices in the USA and participating to road shows, expos, and ICT fora on e-services (e.g. in UK, Netherlands, Japan, US etc.).
- PTC has been recently included by the European Chamber of Commerce of the Philippines (ECCP) in the list of the selected potential providers of BPO services for the European market.
- PTC is a member of the Philippines Software Industry Association (PSIA).

Sources

- www.pointwest.com.ph

PROFILE # 6. *Astra Philippines Inc.*

Salient Features

<i>Denomination</i>	Astra Philippines Inc. (Astra)
<i>Location</i>	Astra's headquarter is in Manila.
<i>Establishment</i>	Astra was established in 2002
<i>Areas of activity</i>	Astra is a software development company specialized on outsourced services for the Japanese market.
<i>No. of Employees</i>	Astra presently employs 22 staff.
<i>Operations</i>	<p>The company's activities include a wide range of outsourcing services including customized software solutions, the development of contents for the web, and the creation and testing of software products. Among the various applications developed by Astra it is worth to mention: i) the Java Astra Management System (JAMS)—that is a web based project management application aimed at facilitating management of project development costs, optimization of resources and progress monitoring; ii) 3D imaging tools and devices; iii) e-learning management systems; and the DICOM medical image management system, that is a user-friendly web application that can manage Hospital registration processes, organize patient record archives, etc.</p> <p>The exported services represents more than 70% of the Astra's business, most of which are directed to the mother company while a small but increasing percentage is sold directly to customers.</p>
<i>Financing Issues</i>	<p>Astra was established with a capital of US\$90,000 provided by the mother-company Astra Group. Initially the company benefited from a tax holiday granted by the Board of Investment (BOI) to those enterprises whose activities on the domestic market are below the 30% threshold. Now they are planning to shift under the rule of the Philippines Economic Zone Authority (PEZA) who offers similar tax-exemption incentives. So far the financing needs both for operating costs and for investments has been covered with the cash-flow and with some direct lending from the mother company. For this reason Astra never really suffered from lack of financing and it doesn't represent a major constraint for its growth. However, for the near future Astra is seeking for an investment of US\$80,000–180,000 mainly to be employed in the acquisition of technical certifications (US\$50,000–80,000). The preferred source of financing for that investment would be through commercial banks; in fact Astra's management is not willing to deal with VCs because of their hand-on-operations attitude.</p> <p>Astra generates an annual turnover of some US\$2.0 million.</p>

Other

- Astra is tenant within the UP Ayala Technology Business Incubator.

Sources

- www.astra.ph

PROFILE # 7. *Optiserve Technologies Inc.*

Salient Features

<i>Denomination</i>	Optiserve Technologies Inc. (Optiserve)
<i>Location</i>	Optiserve is located in Manila.
<i>Establishment</i>	Optiserve was incorporated in 2000
<i>Areas of activity</i>	OptiServe is involved in the design, development and integration of custom-built applications software for education, local government units and business.
<i>No. of Employees</i>	Optiserve presently employs 15 staff.
<i>Operations</i>	To date the companies has implemented three main projects: i) a business process automation project for electricity distribution utilities operating in rural areas nearby Manila; ii) a software application for the school aimed at helping school managers and administrators; iii) an information system for the farmers of Pangasinan linking producers, markets, financing institutions and LGUs. The latter was finalized in 2005 and it is centered around the creation of a centralized information systems linking farmers with buyers, suppliers, financial institutions and LGUS. The use of such ICT enabled systems would improve the capacity of making sound business decisions and in particular would allow the farmers to enhance their earnings, by means of a more efficient logistics and an improved distribution system. The project sees the involvement of farmers' associations, government agencies, LGUS and Academies.
<i>Financing Issues</i>	Optiserve is a bootstrapping company. As a software developer Optiserve doesn't have sizeable needs in term of financing. However, the implementation of the Farmers of Pangasinan's project requires an investment in ICT devices that are necessary to link the various stakeholders to the centralized database. The proper realization of this project would then require an investment in the order of US\$25,000 to achieve a full-fledge information system. At the initial stages, the management approached a rural bank to apply for a loan, but eventually they drop it and obtained a credit from the Technology Application and Promotion Institute (TAPI) of the Department of Science and Technology (DOST). The project also raised the interest of a venture capitalist but so far the deal has not been finalized.

Other

- Optiserve is tenant within the UP Ayala Technology Business Incubator.

Sources

n.a.

PROFILE # 8. *Symphony Consulting*

Salient Features

<i>Denomination</i>	Symphony Consulting (SC)
<i>Location</i>	SC is located in Manila.
<i>Establishment</i>	SC was established in 2002
<i>Areas of activity</i>	SC is an IC design house and embedded system company.
<i>No. of Employees</i>	Five persons are currently employed by SC.
<i>Operations</i>	SC offers its services to large IC houses particularly in the fields of back-end design and verification, and programming for embedded system. It is also active in doing tests and verification of cores and in providing technical support in various fields. Some of the products developed by SC includes: i) upload applications for I-Pod devices; ii) camera positioning system for security systems; and iii) the design of ICs for bio-medical instruments. SC is member of the Electronic Industries Association of the Philippines (EIAPI) who represents the interests of the small players in this sector, and of the Philippines section of the Institute of Electrical and Electronics Engineers (IEEE).
<i>Financing Issues</i>	<p>SC was founded through owner's savings and family & friends' resources. Although the company's value is represented by intellectual capital rather than physical assets, some investment would be needed in order to provide the company with some necessary firmware crucial for its development. The firmware in question is quite expensive (prices are around US\$100,000) and SC is trying to devise ways to purchase it in partnership with other SMEs in order to share the costs.</p> <p>An estimate of the financing needed by SC is of US\$50,000, that the company is seeking through banks or MNC with whom to establish business partnership.</p> <p>SC annual turnover was around US\$50,000 in 2005.</p>

Other

- SC is tenant within the UP Ayala Technology Business Incubator.

Sources

n.a.

PROFILE # 9. *MiCOM Technologies Corp.*

Salient Features

<i>Denomination</i>	MiCOM Technologies Corp. (MiCOM)
<i>Location</i>	MiCOM is headquartered in Manila.
<i>Establishment</i>	MiCOM was established in 1999.
<i>Areas of activity</i>	MiCOM is engaged in the development and assembly of I.C.-based components for a wide range of applications.
<i>No. of Employees</i>	MiCOM currently employs 22 staff.
<i>Operations</i>	MiCOM is strictly connected with a Japanese strategic partner, and its activities are mainly carried out on the Japanese market. MiCOM is involved in the development of projects adopting Japanese cutting-edge technologies in the field electronics, digital audio and video, mechatronics, wired and wireless communication and software applications. MiCOM's activities include testing, prototyping, designing and manufacturing. In the field of software development, MiCOM's been involved in the implementation of the following products: (i) a non-invasive hemoglobin counting machines; (ii) remote mole diggers; (iii) automated flight ships; and (iv) automated surveillance and recognition systems.
<i>Financing Issues</i>	MiCOM's start-up has been supported by the strategic Japanese partner company. Since its establishment MiCOM used to raise the necessary operating capital through the outsourced activities performed for its partner. At present, there is a clear need to diversify and to open to new markets. This would entail some additional investment but precise terms are not defined yet.

Other

- MiCOM technology had recently established (2006) an allied company MiCOM Digital, that is engaged in the IC components design and assembly sectors as well. The main projects that MiCOM Digital is carrying out are as follows: (i) Camera Monitor Simulation, and (ii) an image-collecting mole for underground explorations fit to work in particularly dark areas.
- MiCOM is tenant within the UP Ayala Technology Business Incubator

Sources

- www.micomtek.com

About *infoDev*

infoDev is a partnership of international development agencies, coordinated and served by an expert Secretariat housed at the World Bank, one of its key donors and founders. It acts as a neutral convener of dialogue, and as a coordinator of joint action among bilateral and multilateral donors—supporting global sharing of information on ICT for development (ICT4D), and helping to reduce duplication of efforts and investments. *infoDev* also forms partnerships with public and private-sector organizations who are innovators in the field of ICT4D.

infoDev's mandate is to help maximize the impact of ICTs in global efforts to achieve the internationally-supported Millennium Development Goals. These include improving education and health services, making public institutions more efficient and transparent, supporting rural livelihoods, and contributing to economic growth by supporting small and medium-sized enterprises that use ICT for their business.

For more information visit www.infoDev.org or send an email to infoDev@worldbank.org

