

Comments on the net benefits of Philippine Offshore Gaming Operators (POGO) in the Philippines, in relation to S.R. Nos. 225, 227, and 229 which have sought an inquiry on the issue

Prepared by Connie Bayudan-Dacuycuy and Maria Margarita Debuque Gonzales¹

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We laud the effort to investigate the net benefits from POGO operations in the country. This represents an important issue with real consequences for a large segment of Philippine society. The silver lining often mentioned in relation to the COVID-19 pandemic, anticipated to have deep and lasting impacts, is the opportunity for societies to reset and rebuild, especially in terms of their economic systems. In the Philippine Institute for Development Studies (PIDS), we have written extensively on the need for a rethink of norms and practices in a post-pandemic economy, ideally by moving towards a system that considers all stakeholders (i.e., the rest of society), and not just business owners (Navarro, Debuque-Gonzales, and Francisco, 2021). We therefore see the decision on POGO as an important test case of how policymaking has evolved (or will evolve) and how a more balanced approach may be implemented.

General comment

There is clearly a need to quantify both financial benefits and social costs of POGO more precisely. A quick assessment nevertheless suggests the contribution of the sector to be well below 1 percent of GDP post pandemic, though pre-pandemic contributions may have been much higher. Collating publicly available information, we find reported social costs outnumbering reported economic gains (see attached Appendix). However, expanding/promoting the sector to maximize the benefits from POGO exposes the country to increased risk of abrupt reversals of capital, on top of various social and governance risks. Rather than spur investment in the country, such vulnerabilities introduced by the sector may make the country less attractive to investments that have more desirable features (i.e., more positive spillovers to the economy, particularly in terms of jobs). Various institutional improvements, especially to strengthen law enforcement and online gaming regulation, will be needed to lessen the attendant financial and nonfinancial risks if the country wishes to continue accommodating players in the sector.

Specific Comments

Important issues relating to POGO that need to be addressed²

The Filipinos' aspirations for both economic security and personal safety (*Panatag na Buhay*) are embedded in the *Ambisyon Natin 2040*. It cannot be overemphasized that the rise in criminality compromises both aspirations. It can drive away good businesses that provide better jobs. It sends

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² This section was prepared by Dr. Bayudan-Dacuycuy.

negative signals to potential investors. It can also lead to the people's distrust and lack of confidence in institutions (i.e., weak social capital), leading to outcomes inimical to national interests. For example, evidence indicates that societies with low levels of trust have weak economic performance and are slower to recover from external shocks. Thus, vigilance is needed to ensure that short-run investment goals do not outweigh our aspirations. Thus, it is worthwhile to consider the following issues:

- Does the benefit of POGOs outweigh the resources expended to control POGO-related crimes? Do other investments in the country produce similar incidences of crimes?
- Attracting investments that create domestic linkages and encourage technological diffusion leads to the creation of good jobs. In turn, good jobs will ensure that the workforce is equipped with the skills required for high value-adding jobs.
 - Do POGOs produce backward and forward linkages (i.e., What kind of investments in facilities and in other production stages are created?)?
 - Do POGOs offer technological diffusion that deepens and upgrades the country's production structures?
- There is evidence that the number of Filipino workers in POGO is rising (from 14000 in 2020 to 16700 in 2022, [Number of Filipino workers in POGOs rising, BIR tells Senate – Manila Bulletin](#)). However, beyond the number of jobs created, it is worthwhile to consider the following issues:
 - Decent work: Do POGOs adhere to decent work standards?
 - Do workers have employment relationships with POGO companies? If none, what security entitlements/benefits do these workers have?
 - Do POGOs contribute to the workers' social protection premium?
 - Do POGOs provide decent working conditions to workers?
 - Job quality: What kind of jobs are created by POGOs? What kind of work do Filipino workers perform? How is the work done by Filipino workers different from their foreign counterparts?
- If legitimate POGOs are allowed to operate, there is a need to look into the following:
 - Why and how have illegal companies proliferated? It is critical to uncover why these occurred to eliminate individual rent-seeking behaviors (i.e., policies for better processes and mechanisms, stronger punishments, enhanced alien certification registration/documentation and monitoring).
 - How can the State ensure Filipino POGO workers acquire skills that will enhance their mobility in the labor market (i.e., employability in other sectors)?

Critical hurdles for POGO³

In deciding whether POGO should be accommodated/accepted as forming part of a viable industry that can help the Philippine economy rise from the pandemic slump, particular features of the sector should be examined, and basic/minimal conditions correspondingly set. They include the following:

First, POGO investment may not hold the same benefits one typically associates with more traditional foreign direct investment (FDI), such as in manufacturing, which the current administration hopes to attract. Apart from taxes and other revenues, oft-mentioned FDI benefits include: (i) transfer of technology (and productivity spillovers); (ii) development of human capital; and (iii) development of institutions (e.g., Demir, 2016; Loungani and Razin, 2002). In the absence of these benefits, a strong

³ This section was prepared by Dr. Debuque-Gonzales.

case for alternative gains will have to be put forward to justify the hosting of online gaming activities in the country, especially given the large negative social externalities that need to be addressed.

Second, apart from economic benefits being relatively small,⁴ POGO faces more than the usual business risks, making POGO-related investment inherently unstable, particularly if one views it against reported views and sentiments of the political leadership of the main source/partner country. To ensure that the economy is not disproportionately exposed to financial risk, one would need to establish that the investor and client bases of online gaming are adequately diversified to minimize the negative impact of an abrupt pullout of capital (i.e., a “sudden stop”) if foreign regulatory and political risks materialize.

Third, the fallout from a capital reversal would be more painful as the economy becomes more reliant on the contributions of the sector; this means the crucial decision must be made now, while the stakes are still fairly low. The POGO footprint has already shrunk because of the pandemic, with the number of approved online gaming firms cut by half, from 60 by February 2020 to 34 by October 2022. Further, the Asia/Pacific Group on Money Laundering in a July 2022 report noted that only 26 of the licensed POGO firms are currently operating.

At this stage, where a less costly reset is possible, curtailing POGO operations would have a (relatively) limited effect on the property sector and the financial system, with lower exposure of credit institutions to the online gaming industry (by design, in some cases). Moreover, experienced observers of the Philippine economy and financial markets have argued (e.g., Bernardo, 2022) that softer prices in the property market would even make the country more competitive in attracting other investors, such as BPOs and data centers. Meanwhile, shedding the “reputational risk,” as noted by the country’s finance secretary,⁵ would help in rebuilding the economy from a stronger base, by attracting more desirable and durable forms of investment.⁶

However, if the decision is to allow POGO to continue, or even to allow pockets of POGO activity in the country, then several institutional changes (or improvements) must be made and strictly implemented/executed. Fundamental reforms should be introduced in the following areas:

⁴ According to NEDA estimates, direct contributions of POGO are currently around 0.3 percent of GDP (including retail estate rental housing rental, transportation, insurance coverage, and salaries of employed Filipinos and foreign nationals), from about 0.5 percent in 2019 (0.7% counting multiplier effects), when POGO activity was still strong. BIR collections and PAGCOR fees from POGO are also low, both amounting to just 0.03 percent of GDP (PHP 6.4 billion and PHP 5.7 billion, respectively) in 2019 (see Appendix). The latest reports place BIR collections at PHP 4.4 billion during January-August 2022 (even after a change in tax regime) and PHP 3.9 billion in 2021, from PHP 7.2 billion in 2020. There are around 34 thousand workers employed by licensed POGO firms, according to BIR and DOLE reports, with foreign nationals accounting for around half (See Appendix). Receipts and transfers from online gambling are currently “data gaps” in the country’s balance of payments (BSP/IMF 2018, p.2).

⁵ See Appendix.

⁶ The Philippines was placed on the “grey list” (comprising “Jurisdictions under Increased Monitoring”) of the Financial Action Task Force (FATF), which monitors controls on anti-money laundering/countering the financing of terrorism (AML/CFT), last June 2021. This could “adversely affect cross-border financial flows” (IMF 2021, p. 10). Recommendations of the FATF notably included further measures to mitigate risks associated with casinos. Meanwhile, a study by the Anti-Money Laundering Council (2020) on the internet-based casino sector concluded the following: (i) low level of AML/CFL awareness and regulation, (ii) low level of beneficial ownership identification, (iii) increasing level of threat as regards money laundering and other fraudulent activities, (iv) high number of unregulated or unsupervised service providers; *but* (iv) low level of threat in relation to terrorism financing. The AMLC was created in the early 2000s to ensure that the Philippines “shall not be used as a money laundering site for the proceeds of any unlawful activity.”

- **Strengthening law enforcement and immigration control.** This will address the biggest perceived negative social impact of POGO, which is rising criminality.
- **Reconciling POGO with foreign policy.** This will lessen the inherent uncertainty of such types of investment inflows.
- **Clarifying the role of the regulator.** The conflicting roles of the Philippine Amusement and Gaming Corporation (PAGCOR) as market regulator, market participant, and revenue/fee collector, has been widely noted (e.g., Camba 2020) but remains unaddressed. It is important to do so, as the current setup creates regulatory loopholes that may be exploited. While the governance gap is not limited to the case of POGO, it has been raised as a particular concern in the context of the online gambling industry, given the high level of anonymity, both in (beneficial) ownership and clientele.
- **Building capacity to regulate the (online) industry.** A large amount of investment in technology will be needed to arm the assigned regulator of POGO, given the (sophisticated) nature of the online gaming business.⁷ This would involve a similar type of capacity development needed by the AMLC in monitoring money laundering risks in capital flows. For both cases, a comprehensive study of—and intensive training on—how to regulate such internet-based entities will be needed.

⁷ A study by the BSP for the IMF (2018) notes that POGO are not accessible in the Philippines and not open to Filipino players, regardless of location. Only those with foreign international protocol (IP) addresses are allowed to participate in internet casinos, with primary proof-of-entry as the only other requirement for registration. Transactions are typically carried out through e-wallets, which may be funded in numerous ways (in some cases, even using crypto currencies).

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- Navarro, Adorra, Margarita Debuque-Gonzales, and Kris Francisco. 2021. "Reset and rebuild for a better Philippines in the post-pandemic world." *PIDS Discussion Paper Series No. 2021-22*, October.

Appendix

Benefits			Costs																																																		
<p><u>Revenues</u></p> <p>BIR collections from POGOs, 2018 to 2022 (January-August)</p> <table border="1"> <thead> <tr> <th>Year</th> <th>POGO collections (billion PHP)</th> <th>Share in BIR collections (percent)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>2.38</td> <td>0.12</td> </tr> <tr> <td>2019</td> <td>6.42</td> <td>0.30</td> </tr> <tr> <td>2020</td> <td>7.18</td> <td>0.37</td> </tr> <tr> <td>2021</td> <td>3.91</td> <td>0.19</td> </tr> <tr> <td>2022 (Jan-Aug)</td> <td>4.438</td> <td>0.28</td> </tr> </tbody> </table> <p>Sources: 2018-2019: Businessworld [1]; 2020: Inquirer [2]; 2021-2022: GMA [3]</p> <p>[1] <i>POGO tax collections in 2019 rise nearly 170% to P6.42B</i> (January 26, 2020) https://www.bworldonline.com/editors-picks/2020/01/26/275326/pogo-tax-collections-in-2019-rise-nearly-170-to-p6-42b/</p> <p>[2] <i>DOF: Tax take from Pogos down in 2021</i> (October 12, 2021) https://business.inquirer.net/332339/dof-tax-take-from-pogos-down-in-2021</p> <p>[3] <i>BIR year-to-date collections from POGOs hit P4.4B as of August 2022</i> (October 3, 2022) https://www.gmanetwork.com/news/money/economy/846799/bir-year-to-date-collections-from-pogos-hit-p4-4b-as-of-august-2022/story/</p>			Year	POGO collections (billion PHP)	Share in BIR collections (percent)	2018	2.38	0.12	2019	6.42	0.30	2020	7.18	0.37	2021	3.91	0.19	2022 (Jan-Aug)	4.438	0.28	<p><u>Approved and cancelled POGO</u></p> <p>34 Currently Approved POGO (as of October 2022) 40 Cancelled POGOs (from 2016 to October 2022)</p> <p>[1] <i>List of Approved Philippine Offshore Gaming Operators (POGO)</i> https://www.pagcor.ph/regulatory/pdf/offshore/List-of-Approved-Philippine-Offshore-Gaming-Operators.pdf</p> <p>[2] <i>List of Cancelled POGOs and Service Providers</i> https://www.pagcor.ph/regulatory/pdf/offshore/list-of-cancelled-pogos-and-service-providers.pdf</p> <p><u>Crimes (Kidnapping)</u></p> <p>Kidnapping Cases by Type</p> <table border="1"> <thead> <tr> <th></th> <th>2021</th> <th>2022 (as of September)</th> </tr> </thead> <tbody> <tr> <td>POGO-related</td> <td>12 (33.3%)</td> <td>17 (54.8%)</td> </tr> <tr> <td>Casino-related</td> <td>0 (0.0%)</td> <td>1 (3.2%)</td> </tr> <tr> <td>Traditional</td> <td>24 (66.6%)</td> <td>13 (41.9%)</td> </tr> <tr> <td>Total</td> <td>36</td> <td>31</td> </tr> </tbody> </table> <p>Kidnapping Cases by Status</p> <table border="1"> <thead> <tr> <th></th> <th>2021</th> <th>2022 (as of September)</th> </tr> </thead> <tbody> <tr> <td>Solved</td> <td>23</td> <td>14</td> </tr> <tr> <td>Cleared</td> <td>7</td> <td>5</td> </tr> <tr> <td>Under investigation</td> <td>6</td> <td>12</td> </tr> <tr> <td>Total</td> <td>36</td> <td>31</td> </tr> </tbody> </table> <p>Kidnapping Cases by Nationality of Victims</p>				2021	2022 (as of September)	POGO-related	12 (33.3%)	17 (54.8%)	Casino-related	0 (0.0%)	1 (3.2%)	Traditional	24 (66.6%)	13 (41.9%)	Total	36	31		2021	2022 (as of September)	Solved	23	14	Cleared	7	5	Under investigation	6	12	Total	36	31
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PAGCOR revenues from POGOs

Year	POGO revenue (billion PHP)	Total PAGCOR revenue (billion PHP)	POGO share in PAGCOR revenues (percent)
2016	0.07372	59.85	0.12
2017	3.1	60.5	5.12
2018	6.1	104.65	5.83
2019	5.73	81.97	6.99
2020Q1	1.8 (regulatory fees)	36 (full year)	

Source: PAGCOR [1]

[1] *The truth about POGO: a primer*, <https://www.pagcor.ph/regulatory/offshore-gaming.php>

Employment

Workers employed in licensed POGOs according to BIR and DOLE

Year	Filipino	Foreign	Total	% Filipino
2019	20,956	123,649	144,605	14.49
2020	13,991	28,394	42,385	33.01
2021	15,745	14,838	30,583	51.48
2022	16,736	17,509	34,245	48.87

Since 2017, PNP has rescued 4,453 mostly Chinese victims of human trafficking in 1,312 operations that resulted in the arrest of 1,330 suspected traffickers.

Nationality of victims	January 2021 to September 2022
Chinese nationals	60
Chinese-Filipino	18
Other nationalities	5
Total	83

- Most cases were reported in the cities of Pasay, Makati, and Paranaque.

[1] *JV Ejercito backs summary deportation of illegal, overstaying POGO workers* <https://mb.com.ph/2022/09/27/jv-ejercito-backs-summary-deportation-of-illegal-overstaying-pogo-workers/>

[2] *More Pogo workers rescued* <https://newsinfo.inquirer.net/1673486/more-pogo-workers-rescued>

Crimes (Immigration)

-2,000 illegal and overstaying workers

- 48,782 – estimated number of foreign employees expected to face visa cancellation and deportation, based on number of POGO licenses revoked by PAGCOR(as stated in Senate hearing on October 3)

[1] *BI, PNP told: Track down POGO workers for deportation* <https://newsinfo.inquirer.net/1675206/bi-pnp-told-track-down-pogo-workers-for-deportation#ixzz7hHa1JT8C>

[2] *JV Ejercito backs summary deportation of illegal, overstaying POGO workers* <https://mb.com.ph/2022/09/27/jv-ejercito-backs-summary-deportation-of-illegal-overstaying-pogo-workers/>

Source: Manila Bulletin [1], Inquirer [2]

[1] *Number of Filipino workers in POGOs rising, BIR tells Senate* (October 6, 2022) <https://mb.com.ph/2022/10/06/number-of-filipino-workers-in-pogos-rising-bir-tells-senate/>

[2] *'Burning the house to kill the rat?': Lawmakers weigh Pogo pros, cons* (October 5, 2022) <https://newsinfo.inquirer.net/1675622/burning-the-house-to-kill-the-rat-lawmakers-weigh-pogo-pros-cons>

Senate Majority Leader Joel Villanueva said of 34 POGOs issued licenses to operate and 130 service providers, only 14 have Filipino employees. (*Diokno says POGO revenues 'not worth the trouble'*, Philippine News Agency, October 3, 2022, <https://www.pna.gov.ph/articles/1185216>)

Impact on local economy

Estimated annual losses if remaining POGOs were shut down, according to David Leechiu, CEO of Leechiu Property Consultants

Income or revenue source	Amount (billion PHP)
Income tax from foreign FTEs (full-time equivalent)	54.3-57.1
Fit-out cost or the cost of providing furniture, fixtures and technology	52.5
Housing rent	28.6
Office rent	18.9
Commissary meals	11.4

Crimes (Labor)

"After Chinese workers have migrated, gambling firms exploit them by reducing their payments, increasing their work-related responsibilities, and using violence to discipline them. Due to the Chinese government's strict policies against online gambling and the Duterte government's pact with online gambling firms, workers lack legal remediation to improve their working conditions. Firms exploit the indifference that the Chinese and Filipino workers have toward each other, using the context-specific skills of Filipino workers to facilitate the exploitation of Chinese workers."

[1] Chinese Workers and Their "Linguistic Labour": Philippine Online Gambling and Zambian Onsite Casinos <https://web-p-ebsohost-com.dlsu.idm.oclc.org/ehost/pdfviewer/pdfviewer?vid=0&sid=e7d5edf0-ecd3-4a1a-a489-3926747664f3%40redis>

Crimes (Money laundering)

Findings of Anti-Money Laundering Council on POGOs (February 2020)

- Low level of anti-money laundering/counter-terrorism financing awareness and regulation
- An increasing level of threat to money laundering and other fraudulent activities
- A high number of unregulated or unsupervised service providers (SPs)
- Low level of beneficial ownership identification

[1] *Statement on Philippine Offshore Gaming Operators* <http://www.amlc.gov.ph/16-news-and-announcements/202-statement-on-philippine-offshore-gaming-operators-pogos>

Electricity	9.5
Taxes	5.8
PAGCOR revenue	5.25
Daily spending	0.952

Source: Philippine Star [1], GMA [2]

[1] 'POGO ban to trigger real estate crisis' (September 26, 2022). <https://www.philstar.com/business/2022/09/26/2212187/pogo-ban-trigger-real-estate-crisis>

[2] Economy to hurt from exit of POGOs, says property firm exec (October 3, 2022). <https://www.gmanetwork.com/news/money/companies/846828/economy-to-hurt-from-exit-of-pogos-says-property-firm-exec/story/>

[2] *Understanding the Internet-Based Casino Sector in the Philippines: A Risk Assessment* <http://www.amlc.gov.ph/images/PDFs/AMLC%20RISK%20ASSESSMENT%20ON%20INTERNET-BASED%20CASINO%20SECTOR%20IN%20THE%20PHILIPPINES.doc.pdf>

USD470 million – amount brought in by 47 individuals, mostly Chinese nationals, from September 2019 to February 2020 (Gordon in privilege speech, March 2020)

[3] *Philippines: Shut down POGOs to solve money-laundering issues: solon* <https://www.proquest.com/docview/2370558632>

Economic issues (Unpaid dues)

PAGCOR yet to collect P2.3B in revenues from POGOs —COA (June 2022)

	Amount due (in PhP)
Under protest	815,902,000
Overdue from more than one year to five years	1,512,000,000
Total	2,300,000,000

[1] PAGCOR yet to collect P2.3B in revenues from POGOs – COA <https://www.gmanetwork.com/news/money/economy/835846/pagcor-yet-to-collect-p2-3b-in-revenues-from-pogos-coa/story/>

Economic issues (Real estate prices)

Pogo and real estate prices (2018, February 2019)

“Strong demand from gaming workers, mostly foreign nationals from China, pushes up property rates.

“Case in point is Bay City, where most Pogo offices are located and many of their Chinese employees reside.

“Prices are at around P300,000 per square meter, and that’s comparable to Makati and Bonifacio Global City,” JLL Philippines Research and Consulting Head Janlo de los Reyes said during the recently concluded Lamudi press briefing.”

[1] *Rethink Pogo investments, real-estate firms advised*
<https://businessmirror.com.ph/2019/02/04/rethink-pogo-investments-real-estate-firms-advised/>

“In the last three months of 2017, prices of houses along Manila Bay increased by 27 percent, while condominium unit sales are at an all-time high, with 52,600 units sold in 2017. The increase in housing prices makes living costs for the average family more expensive and may offer them no choice but to move farther away from the areas they prefer to live in.”

[2] *Is the Philippines’ Pro-China Policy Working?* <https://www-proquest-com.dlsu.idm.oclc.org/docview/2134075689/fulltext/8B24FAF3277C422EPQ/1?accountid=190474>

Reputational risks

“If you ask my personal opinion on this, let’s discontinue with the POGOs because of the social cost of the POGO,’ Diokno said in a hearing when Senator Imee Marcos asked the economic team what it plans to recommend regarding the expansion or continuation of POGOs in the country.

“In fact, China has discontinued [POGOs], even Cambodia. It is also a reputational risk because people will ask why are they going to the Philippines? Maybe because we are loose or we are not strict on our rules. So meron tayong [we have a] reputational risk,’ he explained.”

[1] *Diokno: Keeping POGO's gives PHL 'reputational risks'*
<https://businessmirror.com.ph/2022/09/16/diokno-keeping-pogos-gives-phl-reputational-risks/>

“When COVID-19 hit, many of these operations, particularly in Cambodia, pivoted to online scam operations that have been associated with human trafficking on an industrial scale. These operations have lured hundreds – possible thousands – of people from across Asia with offers of good-paying work, only to enclose them in fortified compounds and force them, on pain of beatings and other forms of torture, to conduct phone and text message scams in their own languages.

“There is good reason to suspect that the Philippines-based gambling industry has similar associations. A report by Filipino lawmakers published in January found a ‘clear link’ between online gambling operations businesses and a host of nefarious activities including human trafficking.”

[2] Philippines Readies Crackdown on Chinese Online Gambling Operations <https://thediplomat.com/2022/09/philippines-readies-crackdown-on-chinese-online-gambling-operations/>