DEPARTMENT OF FINANCE
REPUBLIC OF THE PHILIPPINES

DOF & GLOBALIZATION

ANNUAL REPORT 1996

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Republic of the Philippines
DEPARTMENT OF FINANCE
Manila

His Excellency
President Fidel V. Ramos
Malacañang, Manila

Dear Mr. President:

It is with distinct honor that I submit to Your Excellency the 1996 Annual Report of the Department of Finance.

We are pleased to highlight in this report the reform measures undertaken by the Department and its attached bureaus and agencies in line with Government's overall economic strategy. We are equally pleased to note herein the accomplishments of the Department resulting from these reform measures, particularly with respect to maintaining a strong fiscal position that enabled us to keep a stable financial environment of low inflation and interest rates amid an increasing real GNP growth.

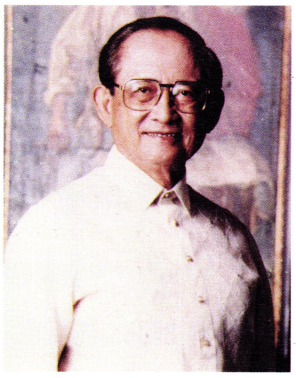
However, none of these would have been possible without the able leadership of Your Excellency. May I thus take this opportunity, on behalf of the DOF officials and employees, to express our sincere appreciation and deep gratitude to Your Excellency for your unwavering support to our fiscal programs and policies.

For 1997, we are committed to build on the gains we achieved in 1996 and the previous years to help in steering the economy to a higher level of growth, and the Filipino people to a new level of progress and development.

Very truly yours,

ROBERTO F. DE OCAMPO
Secretary

Republic of the Philippines
Malacañang , Manila



On its 97th and 98th years, the Department of Finance helped our government achieve a heroic goal: substantial budget surpluses for two consecutive years. I am confident that on its 99th year, the Department will again help us stretch that brilliant record.

In the past, when our government incurred chronic deficits, the public sector was forced to compete for scarce funds with more efficient private users of capital. This drove up interest rates— and, consequently, inflation rates. New investments were discouraged and the entire economy slumped.

Today, much of this has changed. The Philippine economy is robust and dynamic, well-prepared to meet the challenges of globalization. It is poised to seize every opportunity offered by increasing economic integration in the Asia-Pacific and world economy.

And you, my co-workers from the government, especially of the DOF, helped make this possible. The turn-around of the Philippine economy from the consistent laggard in a progressive region to one of the most promising emerging markets and investment destinations in the world is the product of the economic reform package we all stood for and pursued.

Our economic and social reform programs have torn down the walls of protectionism that forced our industries to look inwards rather than participate in the mainstream of global trade. It also removed antiquated policies that fostered cartels and monopolies that discouraged innovation and kept away potential investments. We are now able, under the liberalization and democratization policies of the Ramos Administration, to deliver social benefits to poor Filipinos more adequately.

By maintaining fiscal prudence and assuring monetary stability, we have raised investor confidence in our economy. By broading the privatization program, we have opened new windows for investment and improved on our ability to close the infrastructure gap by encouraging partnerships with the private sector.

In the dramatic turnaround of the Philippine economy, the role played by the Department of Finance as part of our economic management team needs to be highlighted.

The DOF has played a major role not only in policy innovation. It has also been very active in public education— especially in those issues relating to the reform of our revenue system and privatization.

Congratulations to all of you, and carry on with the good work.

Mabuhay ang Department of Finance!

Mabuhay Philippines 2000!

FIDEL V. RAMOS
President
Republic of the Philippines

From a speech delivered by President Fidel V. Ramos during the 99th anniversary of the DOF.

Republic of the Philippines
DEPARTMENT OF FINANCE
Manila

We ended 1996 on a very positive note. The Philippine economy performed remarkably well, with key economic indicators showing that, as the international community has acknowledged, the Philippines has indeed transformed from being the "Sick Man of Asia" to "Asia's New Tiger".

I am pleased to note that the DOF and its attached agencies and bureaus were a significant part of this transformation. In 1996, we were at the forefront of landmark events that proved our re-emergence in the global economic landscape.

It was in 1996 that we attained a consolidated public sector financial surplus, the first time since we began monitoring the sector in 1981. This was achieved as the National Government recorded a budget surplus for the third consecutive year through a prudent fiscal policy.

With the support of Congress, we were able to put in place two of the three major components of the Comprehensive Tax Reform Program. We also succeeded in initiating reforms for our capital market development as we re-emphasized the key role of the private sector in this respect.

It was also in 1996 that we regained access to the Samurai bond market after an absence of about 15 years. We succeeded, too, in issuing 20-year fixed-rate, unguaranteed Philippine bonds which created a new profile and set competitive benchmarks not only for the Philippine private sector but for the entire Asian financial markets as well. Indeed, this is a ringing endorsement of the solid foundations laid by the Ramos Administration for economic growth far beyond 1998.

None of these however, would have happened without the invaluable support and selfless dedication of all the DOF officials and employees. It is thus only fitting that I commend you for everything that you have done for the DOF and the country in 1996 with the fervent hope that you continue your hard work in 1997 and beyond. Our country is counting on public servants like you.

Once again, my warmest Congratulations for a job well done and MABUHAY!

ROBERTO F. DE OCAMPO
Secretary

DOF and Globalization

The year 1996 witnessed a magnificent leap of a growing economy. Breaking away from traditional patterns of forward and backward steps, the Philippine economy jumped past familiar hurdles and attained an impressive 6.8 percent real growth rate. With the previous year's growth level of 5 percent, the Philippines appears to be on its way towards achieving the growth pace of its East Asian neighbors and firmly establishing itself as the newest Asian "tiger" by the year 2000.

The real growth in GNP posted at 6.8 percent is highly commendable in the quality of its components. Careful analysis shows that the growth was spurred by an increase in exports and investments. For 1996, exports of goods and services comprised a huge 41.9 percent of GNP, higher than the 35.0 percent registered in 1995. Total export values reached US$ 43.6 billion, a significant 28.2 percent increase from US$ 34.0 billion in 1995. On the other hand, investments made up 24.1 percent of GNP for the same period in 1996. This reflects the improved perception of the Philippines as an excellent investment destination and not as the pariah it had been in the past.

The country's economic growth likewise hinges on several variables such as the efficient management of inflation and interest rates. In 1996, inflation was maintained at a single-digit level of 8.4 percent, an increase over the past year's rate of 8.2 percent. This was accounted for by the spillover of the rice crisis from the previous year and oil price adjustments made during the year to reflect global prices. However, the critical achievement during the year was the significant cutback in year-end inflation from 11.0 percent in 1995 to only 5.0 percent in 1996. On the other hand, interest rates of 91-day treasury bills, the benchmark of the banking industry, averaged 12.4 percent for the whole year.

Growth in the Philippines occurred in an environment of economic and political stability. The peaceful integration of the Moro National Liberation Front with mainstream politics, the successful hosting of the Asia Pacific Economic Conference in the country, and the strong political will to achieve the vision of Philippines 2000 contributed in showcasing the Philippines as a dynamic player in the global community.

International Achievements

The year 1996 can be remembered as the year when the country was hailed as "Asia's Newest Tiger". While in previous years, manifestations of the country's attractiveness as an investment destination had already generated much interest among investors, this recognition came in more pronouncedly in 1996 from various credit institutions.

In January of this year, the Philippines was assigned an investment-grade rating of BBB by Japan Credit Rating Agency - the country's first after its return to the voluntary capital markets in 1993. The rating agency cited the implementation of market-friendly reforms, sound fiscal and monetary management, and stable political climate as underlying reasons behind the rating, which came up by two notches from the BB that was assigned the country in November 1993.

The following months yielded more favorable developments. In March, the IMF review generated very positive results as the country achieved, and even exceeded, its performance targets. In July, the country was able to make a successful return to the Samurai Bond markets after 15 years of absence. By September, it was able to successfully complete its Brady Bond Exchange.

Drawing from the country's favorable performance in the Samurai and Global Bond markets, the first issuance of Yankee bonds by a public sector entity - the National Power Corporation which carried the guarantee of the National Government - achieved in December 1996 a record pricing

of 1.6% and 1.9% over U.S. Treasury for its 10- and 20-year issues, respectively. This was the lowest pricing ever to be assigned to a National Government-guaranteed public sector bond.

The country's triumphant Samurai Bond issue and Brady Bond Exchange earned for it the award of "International Borrower of the Year" by the prestigious International Finance Review. The Brady Bond Exchange was further cited by Finance Asia as the "Deal Contributing Most to the Development of the Asian Debt Markets". This recognition was conferred due to the creation of a 20-year benchmark for the Philippines and also for Asia, the reduction of the country's debt by US$ 84.0 million, the release of US$183.0 million in low-yielding Treasury bond collateral, and reduction in spreads on other Philippine bonds.

All these developments in 1996 show how the international capital markets have duly recognized the country's improving economic fundamentals. To cap all these is the country's expected exit from the IMF in July 1997. The IMF exit would mean the country's greater control over its own economic destiny and increased confidence on its economic managers. Given the continued implementation of sound economic measures, these developments are expected to translate to an ever increasing access of foreign investment inflows, which will raise output and employment and improve the quality of life of the people.

GLOBALIZATION STRATEGIES

In the race to tap global markets, the Department spearheaded and supported the passage of policy measures to enhance the competitiveness of domestic industries and enhance the capability of government to support a smooth economic transition. These measures include tariff restructuring, shift in import valuation, capital market development and aggressive promotion of the country as an ideal investment site.

Tariff Reform

Based on findings that a highly protective tariff structure hampered the global competitiveness of domestic industries, the government effected a policy shift from protectionism to liberalization.

A tariff reform was initiated from the period 1980 to 1985, narrowing the tariff band from 0 to 100 percent to 10 to 50 percent. Executive Order No. 470 in 1991 further reduced the range from 3 to 30 percent. A Tariff Restructuring Program was undertaken from 1994 to 1996 to check the distortions caused by piecemeal tariff adjustments during the implementation of Executive Order No. 470. First, Executive Order No. 172 was issued on April 1994 adopting a minimum 3 percent tariff rate. Then, successive tariff cuts phased over ten years were implemented on capital equipment and spare parts (Executive Order No. 189), garments, textiles and chemical inputs (Executive Order No. 204), and the rest of products (Executive Order No. 264). Under these Executive Orders, there will be a uniform rate of 5 percent starting January 1, 2005.

The significant development in 1996 was the passage of Republic Act No. 8178 in March, setting tariff rates on sensitive agricultural products. This followed Executive Order No. 288 signed in December 1995, covering non-sensitive agricultural products. Further, in April, tariff cuts on crude petroleum and refined petroleum products were accelerated with the passage of Republic Act No. 8180.

The tariff reduction is expected to reduce production costs to enable domestic industries to be more competitive in the world market. Also, increased competition from imported finished goods and cheaper imported inputs would encourage domestic industries to become more efficient and more competitive. They will need to streamline production processes, shift into more productive lines and plan aggressive marketing strategies. They will be inspired to be more outward looking - to seek and expand in export markets thus increasing the country's foreign exchange earnings.

Shift From HCV to EV

More importantly, the Department relentlessly pursued globalization strategies that yielded manifold gains during the year. The Department, together with the Department of Trade and Industry, spearheaded the transition of the country's import valuation system from home consumption value (HCV) to export value (EV). This shift is part of a broader economic restructuring program to enhance the global competitiveness of domestic industries. It complements the tariff restructuring and the import liberalization program.

Up to June 30, 1996, the Philippines remained the only country that had been using the outmoded HCV scheme. The use of export value will make the country's valuation system more efficient and will put the country at par with the rest of the international community. It will level the playing field by ensuring more equitable tariff protection of domestic industries. It will also lead to lower cost of inputs for domestic industries and enable them to compete more effectively in the export market.

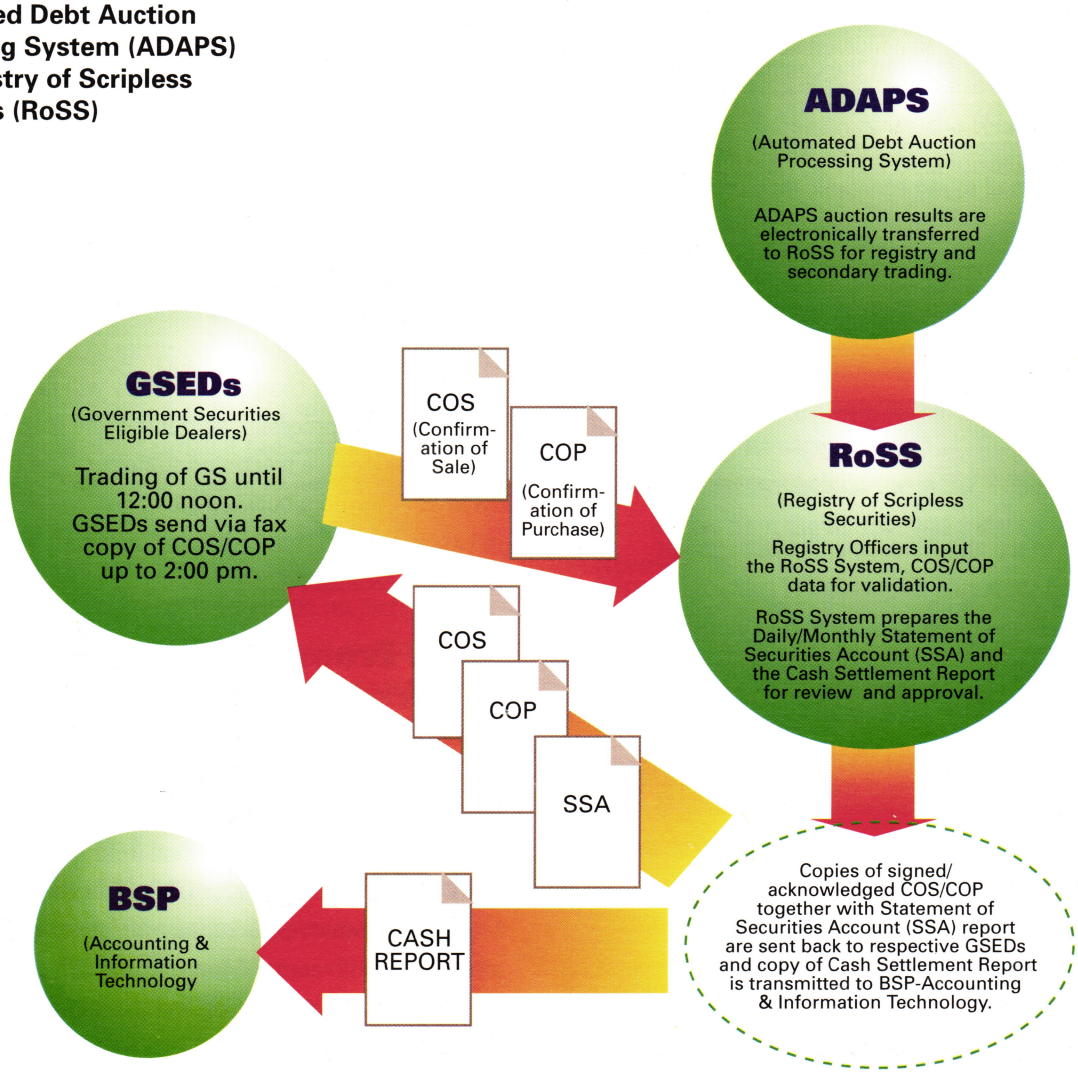
Although the shift resulted in revenue loss for the National Government in the estimated amount of P3.5 billion for 1996, the Department firmly supported this law provided under Republic Act No. 8181 which mandated the shift in the basis of valuation from HCV to EV for the first 5 years and a further shift to Transaction Value by January 1, 2000.

Capital Market Development

Mindful of the financial needs of a growing economy, the Department and its attached agencies played a pivotal and proactive role in instituting reforms in the capital market not only to encourage investors but also to put the domestic financial market into world-class status.

Among these measures is the deepening of the government securities market. Long-term government securities with maturities ranging from 5 to 10 years were introduced for the first time which are eventually becoming the benchmark for private sector long term borrowings. To smoothen the flow of government securities transactions, the Bureau of the Treasury launched the Registration of Scripless Securities (ROSS) that introduced scripless trading of government securities through electronic trading. The first in Southeast Asia, the electronic auction

Automated Debt Auction Processing System (ADAPS) and Registry of Scripless Securities (RoSS)



system for government securities allows faster and efficient conduct of auctions through electronic keying in of tender bids by accredited government securities dealers in the privacy of their own offices.

Parallel reforms were also instituted in the equities market. With the shift of policy from "merit regulation" to "full disclosure", the Philippine Stock Exchange (PSE) was granted temporary Self-Regulatory Organization (SRO) status which means that the domestic capital market has attained world-class maturity levels comparable to our more advanced Asian neighbors. With the granting of the status, the PSE is now allowed temporarily to have its own regulatory framework and ethical standards to supervise its members while the Securities and Exchange Commission (SEC) will concentrate on its other equally important supervisory functions.

To further strengthen the capital market, the SEC initiated amendments to the Investment Company Act, the Financing Company Act, and the Revised Securities Act. These amendments will involve reforms on the liberalization of the foreign membership in the boards of investment companies and financing companies, removal of double taxation of mutual funds, recognition of self-regulatory organizations, operationalization of the full disclosure policy, and the exercise of due diligence among market intermediaries, among others.

FISCAL MANAGEMENT

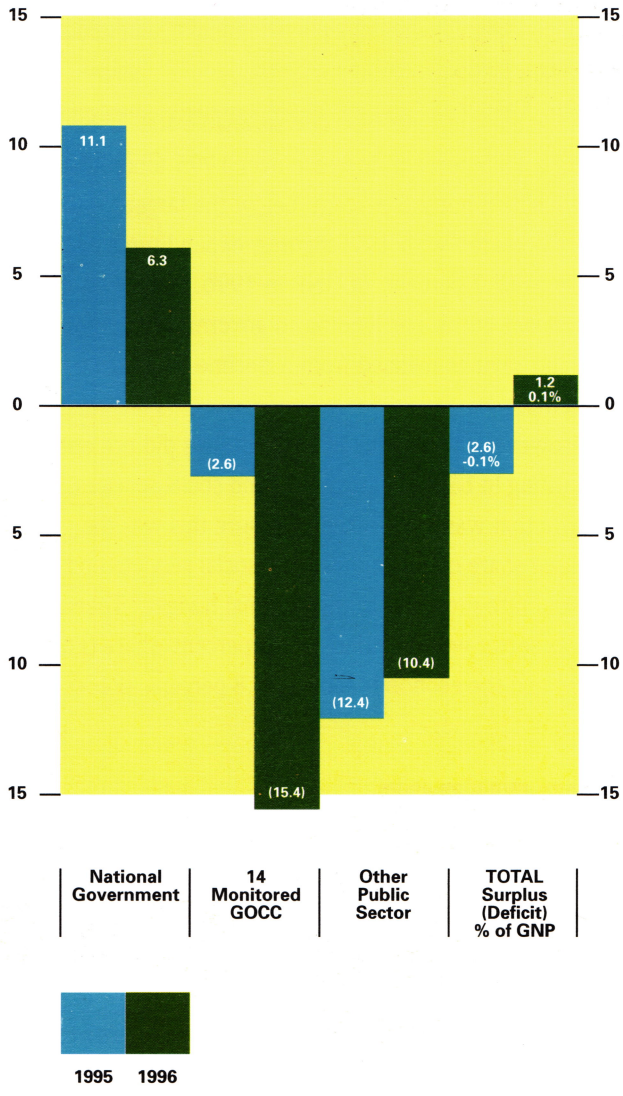
The Department of Finance staunchly assisted in the realization of the economy's growth targets. It strictly adhered to government policies of liberalization, deregulation, and privatization. It exercised exemplary fiscal prudence and attained efficiency in its operations. These efforts finally yielded their just rewards. It was in 1996 when the public sector attained its first surplus since it was monitored. In addition, the National Government achieved a feat as it posted a surplus position for three straight years.

Total government revenues reached P410.5 billion while expenditures totaled P404.2 billion, posting a National Government surplus of P6.3 billion. However, this fell short of programmed target of P17.5 billion. This reduction of the surplus was intentional. Government corporations which earlier planned ambitious capital expenditure targets were unable to implement their projects due to right-of-way and other problems. In view thereof, the National Government took up the expenditure slack.

Government revenues comprised 18.0 percent of GNP in 1996. In 1996, revenue collections posted a 13.6 percent growth over previous year's level. This is attributed to an increase in tax revenues of 18.5 percent, arising from the strong performance of the collecting agencies. The Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) raised 24 percent and 7.2 percent more than 1995 collection, respectively. The Bureau of the Treasury (BTr) posted a hefty 54.7 percent increase in income, with much of the increase attributed

CONSOLIDATED PUBLIC SECTOR FINANCIAL POSITION

IN BILLION PESOS



to the special dividend of P10.0 billion remitted by the Philippine National Oil Company (PNOC) for the Oil Price Stabilization Fund (OPSF). Even more importantly, prudent cash management by the BTr reduced interest payments of the Government by P2.4 billion against the program.

The attained revenue growth is no mean achievement considering the expected decline in tax collection due to the restructuring of oil taxes, the change in the government securities auction system, and the shift to Treasury Bonds. The oil tax restructuring converted the oil levy which is collected at the point of importation to an excise tax which is collected at the refinery gate. The timing difference led to a cash flow loss in revenue collection. Likewise, the government shifted from Treasury Bills to Treasury Notes and implemented the Dutch auction system thus postponing tax collections on interest income by six months. Secondly, the privatization proceeds decreased by 73.7 percent over 1995 due to the postponement of the privatization of the Ortigas property and MERALCO, and the sliding of BCDA proceeds to 1997.

Total expenditures for 1996 reached P404.2 billion, posting a 15.5 percent increase over 1995 total outlays of P350.1 billion but 2.3 percent below the target for the year. Compared with 1995 figures, expenditures declined slightly to 17.7 percent of GNP in 1996. This was due to a significant cut in net lending to government corporations and savings realized from a decline in interest payments.

However, the cutback in expenditures did not entail cost-cutting in basic infrastructure and social services. A measure that was undertaken to ensure this was the increased share of expenditures for social services and infrastructure programs in the national budget. The social services sector was provided a 21.8 percent share (P67.4 billion) and the economic sector, 27.8 percent (P106.8 billion) of the budget.

RESOURCE MOBILIZATION

The Department of Finance, with its attached collection agencies, accounted for 94 percent of total National Government revenues. It also implemented the government's borrowing program, mobilizing P84.4 billion in gross borrowings.

Cash Budget, 1995-1996
In Million Pesos

	1995	1996	
		Program	Actual
REVENUES	361.2	431.3	410.4
Tax Revenues	310.5	370.4	385.9
BIR	210.2	262.8	260.8
BOC	97.6	101.4	104.6
Other Offices	2..7	3.1	20.5
Adjustments*		3.2	
Non-Tax Reveneues	50.7	60.9	24.6
Fees & Charges	11.0	12.7	11.7
Privatization	21.6	21.5	5.7
Others	18.1	26.7	7.2
Expenditures	350.2	413.8	404.2
Surplus	11.1	17.5	6.3

*Adjustments brought about by the passage and implementation of:
RA8184 - Restructuring of taxation system on petroleum products through consolidation of the levy and part of the import duty into specific tax.
RA8180 - Lowering the duty imposed on imported petroleum products.

Tax Revenues

Tax revenues reached P367.9 billion in 1996, 18.5 percent higher than last year's collections. With the increase in tax receipts exceeding the growth in nominal GNP, tax effort continued to rise from 15.9 percent in 1995 to 16.1 percent in 1996.

The Bureau of Internal Revenue (BIR) accounted for over half of total National Government revenues with P260.8 billion in tax collections. The BIR registered a 24 percent increase over last year's collections. The hefty increase was due to the implementation of the expanded value added tax and tax administration improvements.

Another collecting arm, the Bureau of Customs (BOC), contributed P104.6 billion import duty receipts to the national coffers. BOC tariff revenues increased by 7.2 percent compared with 1995 collections. This is a commendable performance considering the shifting of taxes levied on oil from international taxation (oil levy) to domestic taxation (specific taxes), higher share of tax-exempt items in total imports, and lower tariff rates.

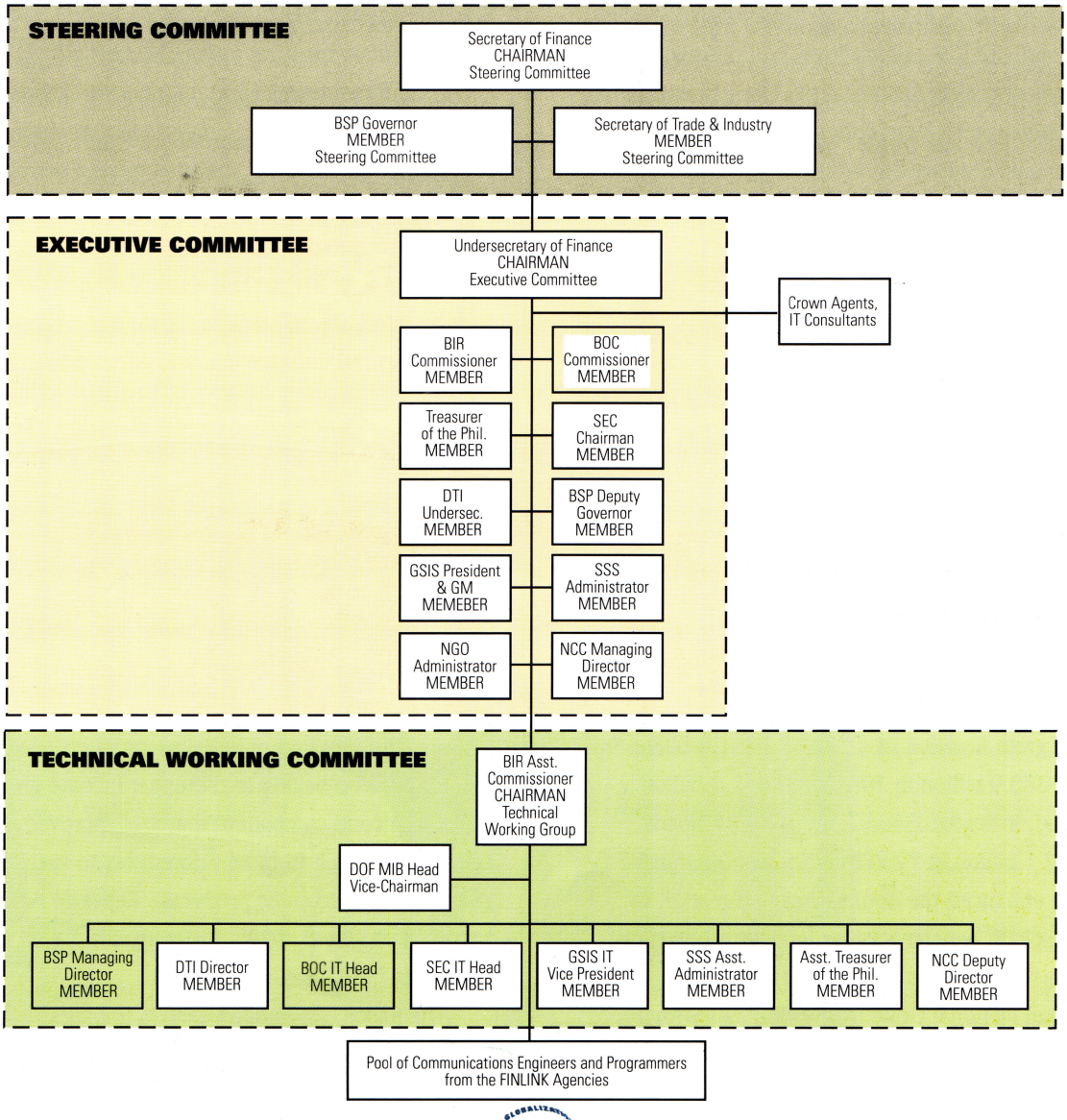
The strong performance of the collection agencies may be partially attributed to improvements in tax administration. In 1996, the Department launched its computerized program called the "FINLINK" or the Financial Link and the RMIS or the Revenue Management Information System. The FINLINK links major agencies such as the Bureau of Internal Revenue, Bangko Sentral ng Pilipinas, Department of Trade and Industry, Social Security System, and Government Insurance Service System to enable them to share a common data base to facilitate collection of taxes and an integrated enforcement of fiscal, monetary, and trade laws. The RMIS links the Department electronically with its major bureaus to facilitate collection and analysis of data on revenues, borrowings, grants, and privatization proceeds.

Non-Tax Revenues

Non-tax revenues amounted to P42.6 billion in 1996, posting a 16.1 percent decline over the previous year's performance. This is accounted for mainly by privatization proceeds which declined by 73.7 percent from P22.8 billion in 1995 to P5.7 billion in 1996.

Income from government investments also decreased by 43.5 percent from P6.6 billion in 1995 to P3.5 billion in 1996 as the Treasury reduced its cash balances to repay debts. This cash management strategy, however, allowed

FINLINK ORGANIZATIONAL CHART



for a reduction in interest costs paid by The National Government compared to the program for the year.

The Bureau of the Treasury collected 54.7 percent more than 1995 income but this was mainly accounted for by a non-recurring special dividend from the PNOC for transfer to the OPSF.

• Borrowings

The Department raised gross borrowings of P84.4 billion, of which P21.9 billion were from foreign sources and P62.5 billion were from domestic sources.

• External Borrowing

In 1996, a vital component of development financing requirements was secured by negotiating 42 loans summing US$2.6 billion. These include US$1.5 billion (Y166 billion) from the Overseas Economic Cooperation Fund (OECF) of Japan, US$530.0 million from Asian Development Bank, and US$528 million from World Bank.

In the area of project financing, the Department: 1) sustained efforts to implement core public investment projects, 2) helped improve the set-up for private sector participation in infrastructure and development, and 3) helped enhance the Build-Operate-and Transfer (BOT) program through the Public Sector Infrastructure initiative.

Domestic Borrowing

On the domestic front, the DOF continued to optimize the use of its cash balances to reduce debt burden, supported the development of the domestic capital market and completed the rehabilitation program for the Philippine National Bank prior to its full privatization. After drawing down its cash balance to minimum levels in 1995, the National Government replenished its cash balance in 1996 to P131.6 billion from P107.9 billion reflecting the higher level of cash operations. It continued to reduce its gross flotation of T-Bills to P361.0 billion in 1996, from P388.0 billion in 1995 and P451.9 billion in 1994. Instead, it floated Fixed Term Treasury Bonds grossing P132.1 billion in 1996 from P52.1 billion in 1995. These moves enhanced the domestic capital market by setting interest rate benchmarks for long-term bonds on which private sector issuers could base their issues.

The overall National Government debt ratios improved significantly. The ratio of NG debt outstanding dropped from 56.9 percent to 48.6 percent. Interest expense as a percent of GNP dropped from 4.5 percent to 3.7 percent. Interest expense as a percent of expenditure likewise fell from 20.8 percent to 18.9 percent.

UPDATE ON THE COMPREHENSIVE TAX REFORM PACKAGE

The Comprehensive Tax Reform Package (CTRP) — a product of two years of intensive study by an inter-agency and inter-sectoral task force spearheaded by the Department of Finance— was partially realized in 1996. Two out of the four major components of the CTRP under House Bill No. 6060 were legislated during the year.

The first component that was passed into law was the restructuring of tax on the downstream oil industry. Republic Act No. 8184, approved on June 7, 1996, is a complementary measure to Republic Act No. 8180 that deregulated the downstream oil industry. The latter law decreased the tariff duty of imported crude oil from 10 percent to 3 percent and imported refined petroleum products from 20 percent to 7 percent. This tariff reduction was translated to an imposition of excise tax on these products in R.A. 8184. The restructuring of the oil tax from an international trade tax to an internal tax, a revenue neutral undertaking, was effected to make the oil industry less prone to price fluctuations in the world market.

The objectives of the oil tax restructuring are: 1) to simplify tax administration while ensuring a more stable source of government revenue; 2) to encourage a more efficient utilization of oil products and a shift in consumption to cleaner fuel; and 3) to lower the tax rates for socially sensitive products such as LPG, diesel, fuel oil and kerosene, and consequently to lower their prices. Higher tax rates are imposed on gasoline products used mostly by consumers who belong to the upper income group.

The second component that was approved by Congress was the shift from ad valorem tax to specific tax on cigarettes and alcoholic products. Republic Act No. 8240, approved on July 2, 1996, levied excise tax on these so-called "sin" products.

The major reason of the shift is to plug the loopholes created by the use of ad valorem taxation on the "sin"

products. The ad valorem tax system proved to be difficult to administer since it required not only the monitoring of volume but all the components of value, i.e. production costs, prices, inputs, discounts, and brand variances.

In addition, the theoretical advantage of ad valorem taxation that tax collection responds automatically to prices also proved to be illusory. The findings of the task force revealed that ad valorem taxation on the said products had become inequitable. It had created a major leakage in the tax system, resulting in revenue losses for the government and an uneven playing field.

Another rationale for the shift is to use the appropriate tax, the excise tax, that functions as a regulatory charge on activities such as gambling or consumption of a commodity such as liquor, tobacco, and motor fuel. In general, excise tax is used for sumptuary purposes. Sumptuary taxation is used to reduce the negative externalities associated with the private consumption of goods.

Consumption of alcohol, cigarettes, and petroleum products exhibits negative externalities. Their consumption increases the likelihood of illness. The costs of health care, reduced labor productivity, and loss of income are imposed on all of society and not solely on the consumers.

The CTRP aims to create a sustainable revenue-raising mechanism that will fund the country's development efforts, and will erase the need to constantly create new tax measures. The whole package is expected to raise around at least P13 billion in incremental revenues on annual basis for the government. Of this, P7.0 billion is estimated to come from the excise tax on "sin" products.

The remaining major components of CTRP, including Reforms on Income Taxation (House Bill No. 6060), Reforms on Tax Incentives (Draft Bill for submission to Congress) and Tax Administration (Draft Bill for submission to Congress), are also being pursued. In addition, the Department is embarking on another package of reforms covering the taxation of financial instruments.

The remaining CTRP components and the financial reform package will hopefully be passed into law by the year 1997 to complete the major tax reforms envisioned by the Department for an efficient, equitable, and progressive taxation of system in the Philippines.

Secretary Roberto de Ocampo with Undersecretary Milwida Guevara and the DOF technical working group of the CTRP after the signing of RA 8240

THE GOVERNMENT CORPORATE SECTOR AND PRIVATIZATION

In 1996, the National Government (NG) successfully pursued various fiscal reforms aimed to enhance financial discipline and better resource management among Government Owned and/or Controlled Corporations (GOCCs). Through sustained efforts of the NG, these reforms strengthened the organizational and financial positions of GOCCs.

In the area of fiscal performance, the financing target of the government corporate sector was formulated in line with the policy to strengthen the fiscal position of the consolidated public sector.

In 1996, the GOCCs adhered closely to the principle of balanced budgeting and performed better than the program. The financing deficit of the 13 major non-financial GOCCs, the 4 Government Financial Institutions (GFIS), and the Social Security Institutions (SSIs) amounted to P0.3 billion or less than 0.1 percent of GNP. While this is a reversal from the surplus of P3.8 billion in 1995, , it was better than the programmed deficit of P13.7 billion.

The lower deficit is accounted for by the following:

1. Savings from capital expenditures of the National Power Corporation (NPC), Metropolitan Waterworks and Sewerage System (MWSS), National Development Company (NDC), and National Food Authority (NFA) due to various operational problems, right-of-way problems and delay in contract effectivity; and

GOVERNMENT CORPORATE SECTOR FISCAL POSITION
(In Billion Pesos)

	1995	1996	
	Actual	Preliminary Actual _1/	Program
GOCCs	(1.3)	(15.4)	(28.0)
GFIs	5.0	6.6	6.1
SSIs	0.01	8.6	8.2
Total	3.8	(0.4)	(13.7)

_1/ YTD November actual performance of the GOCCs plus December estimates. GFIs and SSIs figures are preliminary considering January to September preliminary actual plus last quarter program except for PNB which only includes the first semester actual performance of the bank.

2. Higher receipts from the National Housing Authority's (NHA) unprogrammed sale of the SSS-occupied landsite, and the NFA's higher distribution of imported rice and yellow corn.

The savings and improvements from the non-financial GOCCs were enhanced by the increase in the estimated financial surplus of the SSIs. In 1996, surplus of the SSIs reached P8.5 billion, a hefty increase from the minimal surplus of P0.01 billion in 1995. This is due partly to the increase in membership, upgrading of members' salaries and resumption of SSIs' purchases of Treasury securities. On the other hand, the GFIs attained an increase in its financial surplus performance of P1.5 billion from the 1995 levels due to the increase in the projected proceeds from sale of equity investments of the Development Bank of the Philippines (DBP) and the growth in loan portfolios.

The 13 major non-financial GOCCs turned in an outstanding financial performance, improving on its programmed deficit by more than P10.0 billion. The single most significant reason for the increase in the financing deficit during the year is the P10.0 billion special dividend remitted to the National Government by the Philippine National Oil Company (PNOC). Only to a lesser extent is the deficit attributable to the increase in the current expenditures of GOCCs due to higher cost of sales of some GOCCs, namely: NFA, National Power Corporation (NPC), and Philippine National Oil Corporation (PNOC).

The dependence of the government corporate sector on the National Government for financing its requirements continued to be curbed, while enhancing fiscal transparency and financial accountability. As of November 1996, net transfers to National Government from the GOCC sector reached P14.0 billion. The significantly high proceeds from the GOCCs was a result of increased dividend remittances.

The Department of Finance tightened the review and approval process for National Government guarantees for GOCC loans and performance undertaking for BOT projects. As of November 1996, total loan guarantees extended to GOCCs reached only P11.8 billion compared to a full year 1995 figure of P43.0 billion. Of the said amount, foreign loans accounted for P7.6 billion and domestic loans accounted for the remaining balance. The grant of guarantees was based on the GOCCs' financial

FISCAL POSITION OF 13 MAJOR NON-FINANCIAL GOVERNMENT CORPORATIONS
(In Billion Pesos)

	1995 Actual	1996 Estimated Actual	1996 Target
Total Receipts	89.2	116.0	114.5
Current Expenditures	68.1	97.8	99.3
Capital Expenditures	22.3	33.6	43.2
Internal Cash Generation	21.1	18.2	15.2
Financing Surplus/(Deficit)	(1.3)	(15.4)	(28.0)

performance and the viability of the projects to be financed by the GOCCs' borrowings.

A stringent review of GOCC requests for NG support for net lending and tax subsidy has been strictly practiced. Actual total net lending support as of November 1996 is estimated at P1.3 billion for debt servicing of GOCCs' obligations which are experiencing internal cash generation shortfall. The major recipients were National Electrification Administration (NEA), Philippine National Railways (PNR), Light Rail Transit Authority (LRTA) and Local Water Utilities Administration (LWUA).

In support of the investment program of several GOCCs, more stringent standards were adopted in the grant of subsidies in order to reduce or eventually eliminate them. A total of P5.4 billion tax subsidy for capital imports of GOCCs was endorsed to the Fiscal Incentive Review Board (FIRB) in 1996, the bulk of which was for NFA's tax subsidy payment for rice and corn importations. In addition, P585.6 million income tax subsidy for Home Development Mutual Fund (HDMF) was also favorably endorsed to the FIRB.

Update on the Privatization Program

For the past 10 years, the Philippine privatization program has gained remarkable success in reducing government's role in business, attracting foreign and local investments, broadening ownership base, developing the capital market, increasing efficiency and improving financial performance, creating employment opportunities, reducing budget deficits, and generating revenues for Government priority expenditures.

As of December 31, 1996, the government's privatization program has successfully privatized more than 80 percent of the total original portfolio, generating substantial revenues for Government.

Achievements from 1987 to 1996

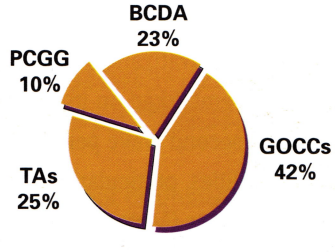
Since the launching of the privatization program in December 1986 through Proclamation No. 50, the government has approved for privatization 132 government-owned and controlled corporations (GOCCs), 419 transferred assets (TAs) entrusted to the Asset Privatization Trust (APT), and several other properties, including those held by the Presidential Commission on Good Government (PCGG) and the Bases Conversion Development Authority (BCDA).

In addition, several vital infrastructure projects, particularly in the power sector, have been undertaken by the private sector through the build-operate-transfer (BOT) schemes. By yearend 1996, the privatization program generated accumulated revenues of P173.7 billion.

The largest privatization transaction so far is the sale of 55 percent of the shares of stocks of the Bases Conversion Development Authority (BCDA) in Fort Bonifacio Develop-

GROSS REVENUES (1987-1996)

	No. of Accounts	Total Proceeds
Government Corporations (GOCCs)	95	P 72.5 billion
Transferred Assets (TAs)	340	44.4
Surrendered Asserts (PCGG)	9	17.6
BCDA Assets	1	39.2
		P173.7 billion



Big Ticket GOCCs Privatized

	Gross Sales (In Billion P)	% Privatized
Petron Corporation	25.0	60
National Steel Corporation	15.1	75
Philippine Airlines	10.7	67
Philippine National Bank	6.5	50.2
Interbank	2.2	100
PHILSECO	2.1	87
Marina Properties	1.8	100
Philippine Plaza	1.5	100

ment Corporation (FBDC) to the highest bidder, Metro Pacific Consortium for P39.2 billion. The second largest transaction is the sale of 60 percent (40 percent block sale and 20 percent IPO) of Petron Corporation made by the Philippine National Oil Company (PNOC) in 1994 for P25.0 billion.

Other notable privatization deals are shown in the table.

Accomplishments in 1996

Privatization proceeds remitted to the National Treasury during the year reached P5.7 billion. A total of P3.6 billion in privatization proceeds was received by GOCCs.

Efforts succeeded in reaching out to small investors. The shares of stock of Filipinas Palm Oil Industries, Inc. were sold to small local investors and those of Daconggon Sugar & Rice Milling Co., Inc. went to a cooperative composed of small farmers.

The program also asserted government's effort to stimulate private sector participation in infrastructure and energy development by approving the joint venture between PNOC Coal Corporation and a local private firm for the development and operation of Lalat coal mine.

Future Directions

The first wave of privatization (privatization of GOCCs and acquired assets) has largely been completed. The remaining big ticket items for privatization include Food Terminal, Inc., PNOC Energy Development Corporation, National Power Corporation (NPC), PASAR and Philphos.

With the first wave of privatization nearing completion, the government has embarked on its second and third wave privatization. The second wave pertains to the privatization of public utilities, particularly in the power sector (NPC) and water sector (Metropolitan Waterworks and Sewerage System); this has actually started through private sector's construction of power plants under BOT schemes. The third wave refers to public-private partnership for social services, especially in the health sector, education sector and pension funds.

An enhanced and comprehensive privatization program has been established as the DOF moves into the second wave of privatization covering in particular the power and water sectors.

In the power sector, NPC has contracted the services of a lead privatization adviser for the restructuring and privatization of the electricity sector and NPC. The objective of the study is to implement durable reforms that would: a) restructure to introduce competition in the generation sector; b) change from government to private ownership; and c) introduce a stable regulatory framework for the electricity sector. Result of the study is expected to come out by February of 1997.

In the case of the water sector, the issuance of Republic Act No. 8041 (June 7, 1995) paved the way for private participation in the provision of water services due to increasing investment requirements in the water sector. In 1996, the privatization of MWSS went onstream with the pre-qualification of four consortiums for the bidding scheduled in early 1997. The privatization of MWSS would take the form of two concessions with the private contractors/concessionaires assuming the responsibility for financing, developing, operating and maintaining the water supply and sewerage systems within their designated area/zone.

Moving the privatization program further into the countryside, is the ongoing effort to lay the necessary ground work for the Water District Privatization. The Department took the lead in initiating the establishment of the credit facility mechanisms for the Urban Sewerage Sanitation and Drainage Project, a component of the Water District Development Project. As head of the Inter-Departmental Steering Committee on Water District Privatization, the Department is presently studying various proposed strategies to facilitate the privatization of the water districts.

The Build-Operate Transfer Scheme

An important aspect of the Philippine privatization program is the Build-Operate-Transfer (BOT) modes of private participation in infrastructure development. The impressive growth of the Philippine economy over the past 6 years has brought about massive demands for infrastructure development. The level of continuing demand in order to sustain initial growth has far exceeded the ability of the government to finance them from budgetary appropriations. On the other hand, government is restrain-

Navotas I Power Station, a BOT project

ing the use of government borrowings for this purpose.

The BOT law has allowed government to partner with the private sector in putting up vital infrastructure in the energy, power, mass transit, and toll road sectors. With this enabling legislation, foreign and local project proponents have exhibited high levels of interest to pursue infrastructure projects under a policy environment that is transparent, focused, and efficient.

Among the many initiatives of the Department of Finance in promoting a wider and more effective participation of the private sector in infrastructure development are the following:

1. Closer coordination of the project evaluation and negotiation process under the Investment Coordinating Committee.

2. Formation of focused groups that have legal, financial, and business expertise tasked with negotiating BOT projects on behalf of the government. The basic mandate of these groups is to get the best deal for government through prudent use of performance undertaking.

3. Promotion of capital market development which is viewed as a vital link in developing resources to support infrastructure development.

4. Active participation in the programs of the APEC Finance Ministers which have adopted as its focus the promotion of financing private infrastructure.

Prudent Management of Government Guarantees

Since government confronted the power crisis in the early 90's with comprehensive guarantees on BOT-financed power projects, the understanding that these contingent liabilities are not without cost has promoted efforts towards their prudent management. It is recognized that the Philippine government is moving towards project financing structures which will minimize government support arrangements in the form of direct and indirect subsidies, guarantees and equity to infrastructure projects.

With the influx of BOT projects, the Department of Finance has developed a policy framework that is based on

the principle of risk-sharing and mitigation, programming of guarantees, and identifying the appropriate price of the performance undertaking of government. Secretary Roberto F. de Ocampo describes this experience succinctly, "we stumbled into this thing while literally groping in the dark."

The Department is rationalizing the guarantee policy of the National Government aimed towards minimizing risk exposure in GOCC loans and projects. It is also unbundling government exposure on BOT projects specially for power-related projects. Government exposure henceforth shall be strictly limited to political risks including expropriation and regulatory risks. The DOF, as head of an inter-agency committee under the umbrella of the Philippine Gas Project Task Force (PGPTF), takes the lead in assessing the fiscal benefits of the Natural Gas Industry vis-a-vis the contingent liability of the fundamental take-or-pay issue.

Specifically, the Department has embarked on pricing guarantees under three basic categories of government performance undertakings:

1. Those covering fundamental or sovereign and political risks,
2. Risks related to foreign exchange convertibility, and
3. Those relating to project-specific risks.

As the Philippines attains international investment grade, the government can afford better risk-sharing structures with project proponents. This would allow the Department to support more projects in more sectors through more efficient management of the performance undertaking of government.

DEBT MANAGEMENT

Debt ratios continued their downward spiral as the Department maintained its rising revenue collection, judicious cash management and growth-oriented debt management.

National Government Debt

As a result of the National Government surplus and effective cash management, the National Government's debt outstanding declined as a percentage of GNP from 56.9 percent in 1995 to 48.6 percent in 1996. The NG's external debt declined from 19.9 percent to 16.0 percent while domestic debt declined from 37.0 percent to 32.6 percent.

The ratio of NG's debt service to GNP fell from 7.0 percent to 5.2 percent despite accelerated principal payments to creditors. Interest payments dropped from 3.7 percent to 3.4 percent of GNP.

The NG turned to domestic loan availments to replenish its cash balances. While its net domestic borrowing amounted to P49.3 billion, these were timed with periods when interest rates were at their lowest. This avoided the crowding out effect on private investors.

The NG's net repayment of its external obligations enabled private sector borrowers to tap external funding sources for their investment undertakings. In 1996, the NG paid back P6.0 billion in external debts.

External Debt

The country's overall outstanding external debt dropped from 49.6 percent of GNP in 1995 to an estimated 46.3 percent in 1996, very close to Thailand's 44.0 percent and Malaysia's 32.5 percent. The country's ratio is better than Indonesia's 58.6 percent.

Debt service likewise declined from 13.8 percent of exports in 1995 to an estimated 10.5 percent in 1996. The country has overtaken Indonesia which has a ratio of 32.2 percent and Thailand which has a ratio of 12.5 percent and is closing in on Malaysia's 6.0 percent.

These developments resulted mainly from past efforts to restructure the country's debt while embarking on a holistic strategy towards export- and investment-led growth. In line with this strategy, the Department pursued the Brady debt exchange and a new Samurai issue after fifteen years of absence in the Japanese bond market with twin-objectives of reducing interest expense and resetting the benchmark for Philippine issues of foreign currency debts.

The outlook of the country as assessed by international credit rating agencies improved from stable to favorable. Fresh from two credit ratings upgrade from Moody's and Standard and Poor's and a favorable initial rating from Duff and Phelps in 1995, the country's credit outlook improved with possible upgrades expected in the future. The favorable credit ratings assigned to the Philippines helped broaden access as well as lower cost of capital for local

borrowers in the international financial markets.

The Brady Exchange Program

In September 1996, the Philippines successfully concluded a Brady Exchange Program, effectively erasing any remaining perception of the Philippines' history as a debt restructuring nation. Investors responded positively to the invitation of the Republic for Brady bondholders to tender the Republic's outstanding US$1.6 billion collateralized US Dollar-denominated Philippine Par Bonds with an average remaining life of 21.2 years, for a minimum of US$200 million uncollateralized 20-year Fixed Rate Bonds at a minimum spread of 225 basis points over the 30-year US Treasury; or a minimum of US$200 million uncollateralized 15-year Floating Rate Bonds at a minimum spread of 175 basis points over the 6-month Libor.

The Exchange has helped the country achieve the following objectives:

1. Eliminate any remaining perception that the Philippines is a rescheduling country;
2. Open up access to 20-year financing, thereby broadening options for Philippine borrowers to raise long-term funds;
3. Create a 20-year benchmark for pricing future Philippine issues;
4. Flatten the yield curve for Philippine dollar-denominated bonds;
5. Reduce the country's debt stock by US$84 million; and
6. Generate present value savings of US$44 million; at no risk and at minimum expense to Government.

During the three-week invitation period, holders of the Republic's collateralized Par Bonds tendered $678 million of these bonds for new, uncollateralized bonds. Of these bids, the government accepted $635 million for exchange into 20-year Fixed Rate Bonds. The government also responded to the clamor from investors who wanted the 20-year bonds but did not have the Par Bonds to exchange, by making available $137 million in bonds to investors in exchange for cash. In sum, the Republic issued a maximum of $690 million in new Fixed Rate Bonds, far in excess of the $200 million minimum amount it had initially set for itself.

What is a Brady?

Brady bonds are special securities issued to help reduce the debt burden of developing countries. By switching commercial bank loans for bonds, a country can avoid the constant rescheduling of its debt due to the longer maturity of bonds. But to entice investors to buy the bonds, the country must keep US Treasury bonds on deposit as collateral. Formally called principal collateralized interest reduction bonds, their more common name comes from Nicholas Brady, the former American treasury secretary who designed the programme in March 1989 for the debt-ridden Latin American countries. In early 1990, Mexico and Costa Rica were the first to take advantage of the structure.

Although Brady bonds are useful to assist a country to reduce its debt-service burden, they can become an expensive form of financing due to the need to hold US Treasury bonds as security. Once the country's economy strengthens and is generating healthy cash flows, it is expedient to exchange the Bradys for non-collateralized bonds.

Investors showed strong preference for the 20-year Fixed Rate Bonds, a statement of confidence in the policies of the Ramos administration for economic growth far beyond 1998. There was no issue of 15-year Floating Rate Bonds as volume tendered fell substantially below the US$200 million minimum issue size. Bidders for the floating rate tranche were therefore requested to switch to the 20-year Fixed Rate tranche.

The issuance of New Global Bonds also compares favorably with a similar 20-year Yankee issued by Mexico only one week earlier. The pricing achieved by the Philippines for its 20-year issue—2.25 percent over the benchmark U.S. Treasuries—contrasted markedly with the terms achieved by Mexico. Mexico, which has the same Ba2/BB credit rating as the Philippines, raised 20-year funds at 4.45 percent over U.S. Treasuries, almost twice the credit spread paid by the Philippines.

The surge in investor confidence generated by the Exchange resulted in substantially narrower secondary market trading spreads on all foreign-currency denomi-

nated Philippine bonds. This promises cheaper funds for Philippine borrowers who wish to access the global capital markets in the future. For example, a $200 million 10-year dollar-denominated Global Bond, if issued today, would cost approximately $9 million lower in absolute terms than if issued prior to the Exchange.

The Philippines issued its debut 3-year Eurobond in 1993. Shortly after the bonds matured in 1996, the country was able to raise 20-year money from institutional investors.

The Philippine Samurai Issue

On July 26, 1996, the Philippines successfully launched its comeback in the Samurai market after a 15-year absence. The dual tranche issue consists of a five and a half year tranche amounting to Y10 billion and a seven-year tranche amounting to Y30 billion. It was rated BB with a positive outlook by Standard and Poor's, and Ba2 by Moody's. Japan Credit Rating Agency gave it an investment grade rating, i.e., eligible for purchase by Japanese institutional investors, helping create very strong demand (oversubscription) for the issue. Coupon rate on the five and a half year issue was set at 4.2% or 124 basis points over the Yen libor rate. The seven year bonds were priced at 5% or 175 basis points above yen Libor.

The last time the Philippines issued Samurai bonds (foreign bonds in the domestic yen capital market) was in 1981. The Philippines paid a coupon of 8.9% for an eight-year issue that time.

In his remarks to investors, Secretary de Ocampo stressed that there are four reasons for this issue, which have little to do with increasing Philippine public external debt:

1. To better manage Philippine external liabilities by retiring more expensive debt with cheaper debt. The Philippines intends to repay a number of old World Bank and ADB loans carrying interest rates of as high as 11.5%, with only 5-7 years remaining maturity.
2. To open the door and set benchmarks for large public and private Philippine companies with capability for issuing and carrying yen-denominated debt.
3. To broaden the base of Japanese investors, to include institutional investors such as insurance companies and pension funds. These complement growing Japanese

Roadshow presentation in Tokyo for the Samurai issue

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inflows in the form of direct foreign and portfolio investments in the stock market. Finally,

4. To take advantage of historically low interest rates in the Samurai Bond Market.

Daiwa and Yamaichi Securities managed the issue and led the underwriting syndicate.

DOF AND INTERNATIONAL COOPERATION

Brunei-Indonesia-Malaysia-Philippines-East Asian Growth Area (BIMP-EAGA)

In recognition of the long and historic cross-border trading and cultural exchanges among the southernmost regions of the Philippines and adjacent areas in Brunei Darussalam, Indonesia, and Malaysia, a formal agreement was reached in March 1994 for the establishment of a BIMP-EAGA sub-regional growth area. This area is presently considered the apex of one of the most significant growth zones in the world.

The task of coordinating BIMP-EAGA activities with respect to capital formation and financial services was given to the Department of Finance due to its pivotal role in charting the country's economic progress. The Department is aware that the objective of this undertaking transcends the need to encourage increased capital flows. Moreover, it addresses the pressing need to distribute the benefits of growth throughout the country to the greatest number of people.

The Department of Finance chairs the BIMP-EAGA Working Group on Capital Formation and Financial Services (BIMP-EAGA CFFS). Members include officials from the Bangko Sentral ng Pilipinas, Mindanao Economic Development Council, Board of Investments, government and private financial institutions, and local chambers of trade and industry. The outreach of the BIMP-EAGA CFFS has grown over time to include local government representation and specialized banks like the Small Business Guarantee and Finance Corporation, the Guarantee Fund for Small and Medium Enterprises, PHILGUARANTEE, and the Al Amanah Islamic Bank. This indicates the remarkable level of interest and enthusiasm the financial sector

Governor Nur Misuari of the Autonomous Region of Muslim Mindanao is welcomed to the DOF by Undersecretary Maria Cecilia G. Soriano and Assistant Secretary Antonio Belicena

exudes in helping craft a better future for Muslim Mindanao and Palawan.

Meetings were held in the growth centers of Davao, Cagayan de Oro, General Santos, Cotabato, Butuan, and Palawan, in line with the strategy of the Working Group to increase the level of awareness and participation of the local banking and finance community in BIMP-EAGA activities. Local meetings include familiarization discussions and dialogues aimed at a more aggressive marketing of facilities, especially those designed to benefit small and medium enterprises and developing linkages. BIMP-EAGA CFFS desks at Land Bank of the Philippines, Development Bank of the Philippines, and Mindanao Development Bank have also been set up to provide fast access to credit and investment information.

The year 1996 witnessed the attendance of about 150 bankers from BIMP in Davao City to attend the third meeting of the BIMP-EAGA CFFS working group. The meeting discussed, among others, the establishment of a BIMP-EAGA Growth Fund, a regional direct investment fund that shall participate in the equity of viable infrastructure and commercial enterprises in the BIMP-EAGA region. While initially government-driven, the fund is expected to mature as a private sector-led fund with an increased awareness of the investment opportunities in BIMP-EAGA. This region is expected to be the next miracle in the forseeable future.

Asia-Pacific Economic Cooperation

The Department Of Finance took part in the Third APEC Finance Ministers (AFMM) held in Kyoto, Japan on March 17,1996. At the meeting, Ministers discussed broad economic challenges including the pursuit of regional growth in the context of macroeconomic and financial stability. They exchanged views on four topics: current macroeconomic issues, financial and capital markets, mobilizing resources for infrastructure development, and the effects of exchange rate movements on trade and investment.

In September 1996, the DOF hosted a meeting with the APEC Finance Ministers Working Group in Manila, followed by another meeting with the Deputies during the 1996 IMF-World Bank Annual Meetings in Washington, D.C. At these Meetings, Asian Development Bank (ADB) representatives presented policy studies and background papers on private financing of infrastructure and capital markets development. These papers served as the basis for discussion of the Meetings. The IMF also oriented the delegates on the Special Data Dissemination Standard. The Deputies agreed on the timetable of meetings leading to the 4th APEC Finance Ministers Meeting to be hosted by DOF in April 1997. They also agreed on the proposed agenda for the AFMM. Future discussions would be geared towards pursuing concrete and practical measures in: a) developing a framework conducive for the private provision of infrastructure, b) accelerating the development of the financial and capital markets, and c) supporting the freer flow of capital.

DYNAMIC SUPPORT TO THE PRIORITY SECTORS

The Revenue Operations Group

The revenue-generating responsibility of the Department of Finance does not only take the form of direct tax levying through the Bureau of Internal Revenue, the Bureau of Customs, and other taxation arms of the government. This is also achieved indirectly through the strengthening of the economic base, thereby harnessing the agro-industrial, business, and technology sectors of the country.

The Revenue Operations Group provides considerable incentives to the export industry. In turn, the exporters do not only augment their return on investment but are encouraged to improve product quality to make their final output highly competitive in the international market. An increase in export competitiveness translates to greater market access, resulting in enhanced export earnings for the country.

It is due to the said premise that the Revenue Operations Group exists. It handles the processing, advisory, verifying, clearing and monitoring functions of the Department with respect to applications for tax or duty exemptions. These service-oriented tasks are enforced to safeguard the system against spurious claimants and to hearten those who pay their taxes as mandated by law.

In 1996, the Revenue Operations Group granted a

total of P4.7 billion in tax and duty exemptions. This is 17.5 percent more than last year's total incentives of P4.0 billion. The increase is primarily accounted for by an increase in duty exemptions received by the National Power Corporation amounting to P1.0 billion and new exemptions granted to Clark Development Authority under Customs Administrative Order of June 1994 totaling P1.2 billion. There was a noticeable decline in incentives availed of by telecommunication companies of P1.2 billion. This was due to the numerous rejection of claims made by telecommunication companies arising from their failure to submit the appropriate documents required by the Revenue Operations Group.

The Mabuhay Lane

The Mabuhay Lane is one of the front-line services of the Department of Finance under the Revenue Operations Group. This is a pilot project of the Secretary geared towards a more efficient processing of tax refund to its target sectors. These are: 1) Export-oriented firms, 2) Importers of books, periodicals and other similar items/ articles, 3) Non-stock, non-profit educational institutions, and 4) Returning residents, persons coming to settle permanently, recalled foreign service personnel, and other persons similarly situated, including sale of exempt motor vehicles.

After a year of successful operation, the target sector was expanded to include: 1) Importation under Section 105 (r) of the Tariff and Customs Code, 2) Importation of capital equipment of BOI and Non-BOI firms pursuant to Section 3 of R.A. 7369, 3) Importation of capital equipment of qualified export-oriented firms, pursuant to Section 16(b) of R.A. 7844, 4) All importations made by the Asian Development Bank, and 5) Importation of contractors for the Department of Energy (PNOC; SEMIRARA; DMC, etc.).

Since its inception in May 1994 under Department Order 29-94, the Mabuhay Lane has lived up to the challenges set by its mandate. It has accomplished a 24-hour processing and releasing of applications for tax refund. Secondly, it has lessened bureaucratic red tape by reducing

The Mabuhay Lane: a new physical layout for more transparency and accessibility

the number of reviewing/approving officers to only three: a receiving/releasing officer, an action officer, and a project unit head. Thirdly, it has provided direct delivery services to the Tax Exempt Division, Bureau of Customs with the following cut-off periods:

Approved Applications	Delivery Schedule
Between 8:00 a.m. to 12:00 a.m.	1:00 in the afternoon
Between 12:00 a.m. to 3:00 p.m.	3:00 in the afternoon
Between 3:00 p.m. to 5:00 p.m.	8:30 in the morning of the following day

In 1996, Mabuhay Lane acted on 25,147 importations with a value of $2.8 billion. It granted tax exemptions totalling $768.0 million, consisting of $548.1 million in import duties and $219.9 million in value-added tax. The major exemptions granted were: importations of capital equipment by BOI-registered enterprises under Executive Order No. 226 ($517.3 million) and importations of capital equipment by non-BOI and BOI-registered enterprises under Republic Act No. 7369 ($182.8 million).

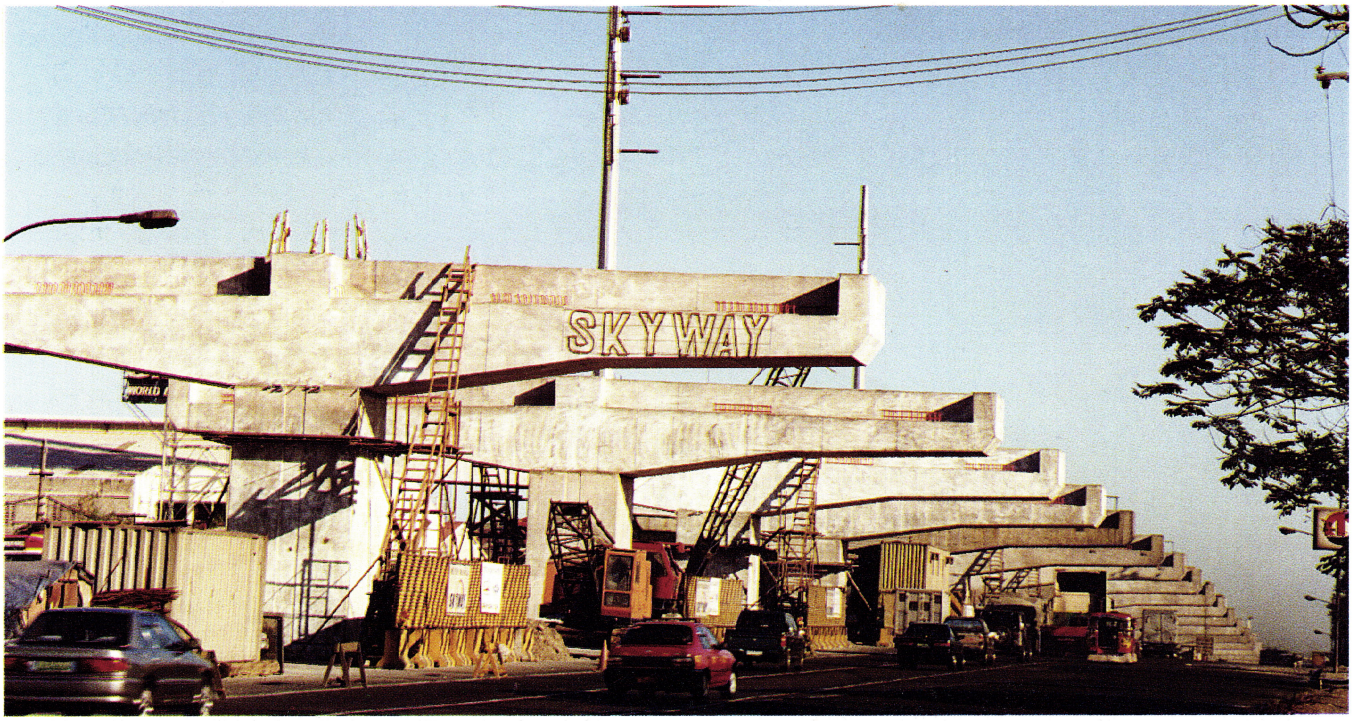
In its three years of operation, the Mabuhay Lane has been continuously commended by its target sectors for serving them with promptness, courtesy, and efficiency.

The One-Stop Shop Action Center

The CENTER is a concrete manifestation of government's objective to promote the export sector. The function of the CENTER to provide export incentives such as tax credits/duty drawbacks is a manifestation of the government's concern to allow exporters better access to inputs at world market prices.

The CENTER rendered a salutary performance in its over-all operations in 1996. It issued tax credit certificates (TCCs) totaling P17.2 billion, reflecting an increase of 36.5 percent over the previous year's P12.6 billion. The biggest recipients were NAPOCOR with P6.5 billion on its imports of crude petroleum for electricity generation, the oil industry with P2.5 billion, wearables with P3.7 billion, chemicals with P1.7 billion, metals and engineering with P0.8 billion, services with P0.5 billion, agro-based with P0.4 billion, forest-based with P0.1 billion, construction with P0.1 billion, and other sectors with P0.8 billion.

Resolute to fulfill its mandate under Administrative Order (A.O.) No. 266 (as amended by A.O. No. 138) for the orderly and expeditious processing of tax credit and duty drawback claims of exporters, the CENTER reported a



The Skyway Project under the BOT Program: building a linkage between North and South Expressways

processing time of an average of 28 days. This is an accomplishment over the 30-day deadline set by its mandate.

The year 1996 will be remembered as a milestone in the export development thrust of the government with the implementation of the Export Development Act (EDA). The CENTER utilized innovative strategies to accommodate an increased number of export industry participants due to the expansion of incentives granted under the Act. Since the CENTER was designated to administer the additional tax credit incentives under the EDA, the CENTER has become instrumental in further boosting the competitiveness of the export sector.

In its commitment to strengthen and improve its operations, the CENTER has embarked on the TCC Demonetization/Revalidation Program as a step to improve the monitoring of the tax credit system and to determine the total amount of outstanding TCCs. Moreover, various activities and projects, including trainings, seminars, sports, and socials have been part of the year's efforts to maintain a well-rounded CENTER staff.

DOF AND PEOPLE EMPOWERMENT

The Social Reform Agenda and The National Credit Council

The Social Reform Agenda (SRA) is one of the major programs of the administration that will effectively induce the flow of economic gains to the marginalized sectors of society.

The Department of Finance is the Flagship Champion on Credit under the SRA. To effectively fulfill its mandate, the Department utilizes the National Credit Council (NCC) as a forum to formulate and generate credit and savings policy to alleviate the economic conditions of the poorest of the poor.

Executive Order No. 250 dated February 6, 1996 transferred the Secretariat of the National Credit Council (NCC) from the Land Bank of the Philippines to the Department of Finance. With said transfer, the Department deepened its involvement in the policy mandate of the NCC.

The NCC was created by Administrative Order No. 86 on 8 October 1993 mainly to rationalize and optimize government credit and guarantee programs. It also aims to institutionalize consultation linkages and policy dialogues to encourage a higher level of private sector participation in credit delivery in the countryside. The Department chairs the NCC, with the Land Bank of the Philippines as co-chair.

Preparatory to the holding of the Anti-Poverty Summit, the Department held a consultative workshop on March 4, 1996 that was participated in by the basic sectors, non-government and people's organizations. The workshop culminated in the finalization of the Enhanced Master Plan of Operations on Credit that was formally during the Summit. This plan outlines the policy thrusts and strategies to be pursued in order to provide the basic sectors the means to improve their capabilities toward self-reliance and economic well-being.

To fulfill the Flagship commitment to launch a "Credit-for-the Poor" program through a strategy of clientele segmentation by economic brackets, the DOF signed a loan agreement amounting to USD 34.7 million (Rural Microenterprise Finance Project) with ADB,IFAD and Land Bank of the Philippines on 8 May 1996. To be administered by the Peoples Credit and Finance Corporation (PCFC), the loan will be relent wholesale to microfinancial institutions that provide direct lending assistance to the poor.

The Department likewise finalized the USAID-funded Credit Policy Improvement Project (CPIP). The program primarily aims to help the NCC, rationalize government-sponsored credit and loan guarantee programs; formulate appropriate savings and credit policies; and encourage the implementation of viable alternatives to directed credit and loan guarantee programs which would not have a hidden fiscal cost for the government,

On November 20, 1996 the NCC conducted a Consultative Forum participated in by various peoples' organizations and the basic sectors to come up with a National Strategy for Microfinance.

National Commission on Savings

The need to mobilize domestic savings has become apparent in the light of the country's goal to be the next Asian "tiger" by the year 2000. The Philippines has to

The National Commission on Savings starts their regional campaign to instill savings and thrift consciousness among schoolchildren

mobilize a steady source of funds to fuel a sustainable economic growth. These funds are required to increase productive capacity, improve the productivity of the country's labor force, and acquire advanced technology to hasten the country's industrialization process.

To address this need, the National Commission on Savings (NCS) was created in August 23, 1996 via Executive Order No. 364. The NCS is chaired by the Secretary of Finance and co-chaired by the Governor of the Bangko Sentral ng Pilipinas and the Secretary of the Department of Education, Culture, and Sports.

The main objective of NCS is to promote a higher level of savings and enhance investments on a nationwide scale and on a sustainable basis. To meet this end, NCS will recommend measures to increase the country's domestic savings rate to reach ASEAN norms. The NCS seeks to reinforce the value of savings and thrift in all sectors of society, inform the public on existing savings instruments, and recommend measures to strengthen the role of financial intermediaries in savings mobilization.

The Department of Finance is spearheading the studies to mobilize domestic savings. These include: 1) the proposal to merge the Social Security System and the Government Service Insurance System into a National Provident Fund, 2) the role of private insurance industry and less formal financial intermediaries such as credit unions and cooperatives in increasing savings, and 3) review of taxes on savings and their possible reduction.

The Department is also presently formulating new tax reform measures that will encourage small savers and amend existing laws that curtail domestic capital formation and growth of mutual funds and the insurance industry. It is also looking at the requisites for developing the bond market, including the possibility of municipal bond flotations and microfinance as a measure to mobilize savings. In addition, the Department has supported legislations to develop the capital market such as the Investment Houses Law, Mutual Fund Act, and Revised Securities Act. These measures are presently being discussed in Congress.

Finally, the Department has contributed to the realization of fiscal stability that is the groundwork of

savings enhancement. The DOF is the prime advocate of prudence in fiscal management and its advocacy has led to fiscal surpluses without sacrificing capital expenditures required by the country's development objectives.

Local Government Finance

The Local Government Code of 1991 mandates the devolution to local government units (LGUs) of many functions previously carried out by National Government agencies. It allows LGUs higher internal revenue allotments (IRA) and a share in the taxes on national wealth. Concomitant with greater autonomy in mobilizing resources, LGUs are also allowed more authority in the allocation of these resources. The challenge is to provide the LGUs with the technical, management, and organizational capability to enable them to maximize this potential for development.

Recent Government initiatives seek to address the following concerns:

- continued involvement of National Government agencies in devolved activities;
- increased financial burden on some LGUs despite increase in IRA;
- increased risks in service and delivery; and
- lack of clear policies, programs, and mechanisms for channelling funds to LGUs beyond the IRA.

Two policy studies were concluded in 1996, with support from the World Bank. These focused on 1) LGU access to the private capital market; and 2) the financing of LGU projects with environmental and social objectives.

The first policy study was done for the Department by a team of economists from the Philippine Institute of Development Studies. The second one was undertaken by a team of professors from the University of the Philippines under the direction of the National Economic and Development Authority (NEDA). The findings of the two studies are mutually supportive.

The first study found that at present the major sources of credit finance for LGUs are government financial institutions (GFIs) for medium- and long-term revenue generating projects. Private banks are not very active in the LGU market, essentially because of concerns about creditworthiness and bankability. The role of the Municipal Development Fund (MDF), which at present is mainly to channel official development assistance to LGUs, must be transformed so that it can be a catalyst for improving LGU access to private credit sources.

As a result of these findings, the Department has developed a new vision and credit policy framework to wean away LGUs from dependence on the National Government. The framework defines the varying roles that GFIs and the MDF must undertake in order to bring LGUs into the mainstream of private capital markets. GFI lending to LGUs must be concentrated on those which, though creditworthy, cannot yet tap private capital. They should initiate co-financing arrangements with commercial banks and shall provide limited technical assistance to enhance LGU creditworthiness, specially in the areas of financial and project management. Meanwhile, steps are being taken to vigorously promote BOT financing as a viable strategy for LGU financing.

The MDF will target financing to less creditworthy LGUs and to environmental/social projects. A major focus of MDF financing shall be technical assistance to LGUs to improve borrowing capacity which will allow them to graduate to GFI financing. Lastly, the MDF will promote more direct access by LGUs to ODA sources.

This action program dovetails neatly with the results and recommendations of the second study. Following the study, the Investment Coordination Committee (ICC) issued a policy resolution in May 1996 which "defines appropriate financing policies and assignment of roles in Government to facilitate the transition towards new arrangements by the Local Government Code. The ICC resolution provides for a co-financing scheme under which the National Government would support devolved activities with social and environmental objectives and which one or more of the criteria of equity, externalities, and economies of scale.

The reorientation of policy regarding LGU finance targets the improvement of LGU capacity to be more effective partners in development.

Housing Finance

In order to avert a housing finance crisis, the Department initiated the signing of a Memorandum of Agreement (MOA) on Housing Finance among the key government players in the housing sector as a first step towards achieving a more equitable, rationale and sustainable housing finance program. Embodied under the MOA was

the adoption of a multi-window lending system which opened up other conduits for the housing fund allocations of SSS, GSIS and PAG-IBIG to the Unified Home Lending Program. Previous to the signing of the MOA. NHMFC was the sole conduit for such funds. The MOA also called for NHMFC to stop processing mortgage take-out applications in order to focus on improving the its collection efficiency. In the meantime the PAG-IBIG will take over the mortagage take-out functions of NHMFC to ensure no disruptions in the low cost housing program

The MOA also called for the development of modified UHLP lending guidelines. The proposed changes included the introduction of market-oriented lending rates; the application of transparent and well-targeted subsidies for socialized housing packages; the adoption of risk sharing arrangements with the private sector; and the adoption of standardized loan documentation.

HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT

A renowned HRD practitioner once said, "Today's human resource should be able to respond to changes with speed and sureness but be able to consolidate gains through systems and stability." Indeed, the rapidly expanding and evolving world economic order poses a challenge for us to strengthen our ability to compete in the global marketplace. To keep pace with the current globalization trend, the Department of Finance commits itself to the continuous empowerment of its human resources.

The Department continued to pursue and strengthen the 1995 Human Resource Program - a holistic approach to personnel management encompassing the judicious hiring of personnel, training and development including motivation, utilization and conservation of the Department's human resources, performance evaluation, provision of opportunities for personal development and career mobility.

Training and development is a critical component where both individual and organizational efficiency and effectiveness have been enhanced. In 1996 deserving and promising employees sent to degree courses here and abroad completed degree programs in the fields of Business Administration, Development Economics and Diplomate in International Law. Others are currently pursuing their master's programs in various fields of interest. Employees were also encouraged to attend local and foreign training courses and seminar-workshops of short duration. Local courses ranged from organizational and management development, accounting, auditing and budgeting, medical/dental courses, women's issues and concerns to information technology courses. International short courses included rural and urban planning and development, infrastructure development, taxation, human resources and training methodology courses, computer programming and various administrative and management courses. Employees likewise participated in foreign negotiations and discussions to gain international exposure.

DOF and Women's Issues

The act known as Women in Development and Nation-Building or Republic Act No. 7192 has inspired the Department to pursue Gender and Development (GAD) Mainstreaming programs. Women in the Department comprise 57.6 percent of total staff complement. Ensuring the welfare and continuing development of its women employees guarantees the Department a stronger and more dynamic workforce. Currently under study are the day care center for children of Department employees, physical fitness programs, and provision of provident fund. The DOF also actively participated in the consultation workshop conducted by the National Commission on the Role of Filipino Women (NCRFW) in preparation for the presentation of the Philippine's Fourth Report to the Committee on the Elimination of All Forms of Discrimination Against Women (CEDAW). The Department likewise joined in other gender-related activities conducted by NCRFW and National Council of Women of the Philippines (NCWP).

DOF and Moral Recovery

In pursuit of the Moral Recovery Program, the DOF Integrity Circle was created under D.P.O. No. 97-96 and was tasked to lay down the necessary foundation of the moral recovery crusade for Filipino core value infusion to the organization's culture, systems and processes.

In addition, there was continuous attendance in activities and programs undertaken by the Kabisig Peoples

Movement.

Corollary to this, measures have been instituted to ensure transparency in the Department. These include:

1. The physical layout of offices rendering frontline services have been structured for transparency and accessibility of the transacting public. These offices are Revenue Office, Mabuhay Lane, One Stop Shop Tax Credit and Duty Drawback Center and Central Records Management Division. They are located at the Podium level with provision for a specific lane receiving and releasing of papers and a waiting area for the clients complete with TV set. This minimizes desk-to-desk follow-up;
2. Posting of vacant positions and guidelines of filling-up of positions in the Bulletin Board for information and guidelines of all concerned;
3. Processing of request for tax exemption within 24 hours by the Mabuhay Lane; and
4. Processing of Tax Credit Claim by Exporters within 30 days by One-Stop Shop Tax Credit Inter-agency and Duty Drawback Center.

With top management's strong support in the human resources development, DOF employees are expected to be better equipped with the requisite skills, knowledge and expertise and be imbued with dynamism and commitment for improved organizational productivity.

DOF Transfers to a New Home

The year 1996 marked a milestone in the history of the Department of Finance with the transfer of its operations divisions from the Teodoro Valencia Circle (formerly Agrifina Circle) to the Roxas Boulevard complex. After more than 40 years in the historic, though admittedly antiquated, Agrifina building with its famous classic Corinthian columns, the Department of Finance is now housed together in two (2) adjoining buildings at the Bangko Sentral ng Pilipinas complex.

Office layouts and facilities were planned and executed with an eye for greater employee productivity and customer orientation. The DOF supplemented this with efforts to optimize the use of information technology to reduce processing time and obtain faster access to critical information.

The information technology requirements of the Department was addressed by the acquisition of additional units of microcomputers and printers. The new DOF home was complemented with total refurbishing and purchase of more functional office equipments as well as installation of more telephone lines and audio-visual apparatus.

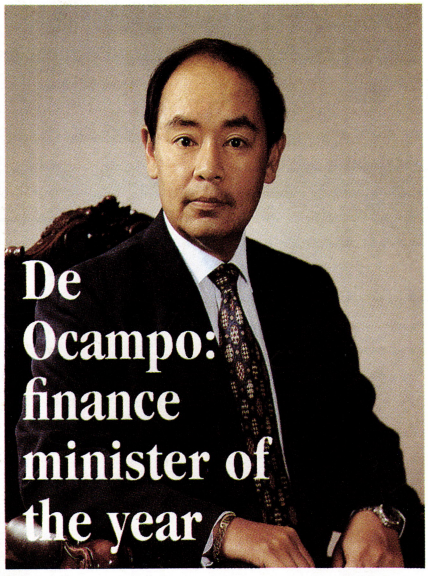
The new home of the DOF at Roxas Boulevard

TWICE THE TRIBUTE

In recognition of the Phlippines' leap over economic hurdles, Euromoney magazine named Secretary Roberto de Ocampo "Best Asian Finance Minister" for 1996. In 1995, the same publication had given him the "Finance Minister of the Year" award.

1995

EUROMONEY



De Ocampo: finance minister of the year

The Philippines

1996

The regional winners

BEST ASIAN FINANCE MINISTER

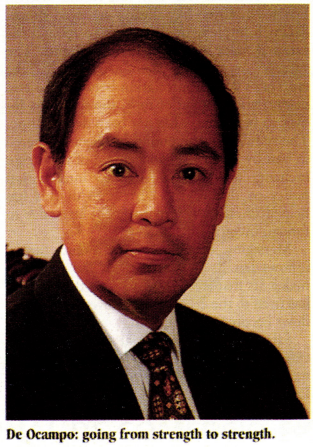
Roberto De Ocampo, Philippines

Over the past year, Roberto De Ocampo has more than vindicated his award of 1995's *Euromoney* Finance Minister of the Year. He goes from strength to strength, as part of a team under President Fidel Ramos that has brought the Philippines from being the sick man of Asia to become one of its star performers.

The 50-year-old De Ocampo has consolidated his position as secretary of finance since he took control in 1994, and has won the respect of the international markets. The economy is growing fast: GDP climbed at an annual rate of 7.1% in the first half of this year, buoyed by exports which grew 20%. In its fifth consecutive year of economic growth, the country is now on course to become the fastest-growing economy in the Asean region. Even so, growth appears to be sustainable and, in contrast to previous boom-and-bust cycles, exports rather than consumption are driving the economy. Inflation is under control, slowing to single digits in August, and the fiscal deficit has been held in check as discretionary spending has been cut.

This has helped put the Philippines in a position to gain investment-grade sovereign credit ratings quite soon – already the country has been upgraded to BB- from BB by Standard & Poor's and to Ba2 from Ba3 by Moody's last year.

De Ocampo had almost nine years' experience working at the World Bank, and six years at the Development Bank of the Philippines, rising to chairman. These posts have given him the ability to handle negotiations with international organizations very deftly. The Philippines' debt service ratios have improved dramatically under De Ocampo's tenure, falling to 118% in 1995 from 195% in 1991. De Ocampo has also taken a leading role in the banking liberalization process over the past two years. Tax reform is also under way, although the latest changes are currently logjammed in congress.



De Ocampo: going from strength to strength.

BEST ASIAN CENTRAL BANKER

Joseph Yam, Hong Kong

Joseph Yam, chief executive of the Hong Kong Monetary Authority (HKMA), the *de facto* central bank, has built up an institution that will not fade away after the colony is handed over to China in 1997. Moreover, he has developed the local capital markets and maintained a stable currency.

What makes Yam so special is that he has achieved all this while preserving the open approval and partnership of the People's Republic of China, a high degree of independence, and the confidence of international and local markets.

Yam was educated as a statistician and economist at the University of Hong Kong, and rapidly worked his way up through the civil service to become deputy secretary for monetary affairs – the first local Chinese in that post, which was traditionally reserved for a Bank of England secondee.

This was only one of a long line of firsts. In 1991 he became the first director of the office of the Exchange Fund, the body set up to manage the government's financial assets. In April 1993 he became the first head of the new central monetary authority, the HKMA.

Yam has expanded the mandate of the HKMA beyond its original aim of maintaining sound monetary policy. He has enhanced

LEAVING WITH HONORS

Finance Undersecretary Romeo L. Bernardo resigned from the Department in June, 1996, after serving for more than 20 years and taking part in the challenges of internal transformation and globalization. Taking note of his achievements were Asiamoney and Global Finance magazines.

Bernardo's legacy

Romeo Bernardo left while the going was good. He was in harge of the Philippine government's nternational finance, privatization and reasury operations or what he calls the beg, sell and borrow business" since 990. It was a bad time then to be in ublic service; the economy was in sham- les and the whole country was reeling rom the blow dealt by a big earthquake. When he resigned from the finance de- artment last June, the country was vell on its way to achieving a steady 6% o 7% annual economic growth rate, vith inflation having tethered to single- ligit levels. "It's the time to be in private usiness. I wouldn't have left if we were n the crisis management mode because hat would have seemed like abandon- ng ship," says Bernardo.

He has stepped out into the world of rivate business with a financial con- ultancy firm he set up with Delfin azaro, former Philippine energy secre- ary. The two of them had worked to- ether on the privatization of oil refiner Petron Corp. Their firm, only several months old, already has two contracts under its belt. It is representing Wall Street investment bank, Morgan Stanley, in its Philippine deals and is is also the adviser to the government on the privatization of fertilizer-maker, Philippine Phosphate and Fertilizer Corp. "Six years is long enough to stay in public service and my savings from working overseas was dwindling so I couldn't afford it anymore."

But it has been a drawn-out goodbye to his former office. He still acts as adviser to Roberto de Ocampo, the finance secretary, while there is no one yet to fill the post. Part of his job as consultant was to oversee the exchange of the country's Brady debt for new bonds, a project that he had set into

Bernardo: "It's the time to be in private business"

Romeo, Romeo

If behind every great finance secretary there's a great undersecretary, then Romeo Bernardo must be a certifiable genius. While Roberto F. de Ocampo has garnered rave reviews for his work as the Philippines' finance secretary, undersecretary Bernardo has quietly gone about his business of helping his boss put the Philippines' financial house in order.

Okay, maybe quietly is the wrong word. In a world of gray suits, dull ties, and tight lips, Romeo Bernardo stands out like a statue of Sally Struthers in downtown Beirut. Sitting in his wood-paneled office in the central bank complex in Manila—replete with 35-inch television and CDs of Simon and Garfunkel—Bernardo fidgets endlessly in his chair. He is wearing a suit that looks as though it came from the James Dean collection. His hair is cut short. He offers a cigar, taking one for himself from a box filled with cheroots and bags of M&Ms. He snips the end of the cigar, lights up, and leans back in his chair. Smoke rises in the air. A half-filled bottle of liqueur sits on the glass table. "Okay," he says energetically, "let's talk sovereign rating." This is not your average undersecretary. This is not your average numbers cruncher. This is the Quentin Tarentino of finance.

And like Tarentino, Bernardo has developed a loyal following. Local analysts say Bernardo, along with de Ocampo, have made considerable progress in righting the economic wrongs spawned by years of fiscal abuse under the Marcos regime. Since 1990, for instance, the consolidated public sector deficit has plummeted from nearly 6% of the country's GNP to practically zero. And the government has dramatically lowered its cost of funds: Last year the interest rate on the benchmark 91-day T-bill was 12%, down from 16.2% two years earlier. What's more, after several disappointing years, GNP growth is now forecast to hit a whopping 7% this year. Notably, much of that increase was fueled by the manufacturing sector, which posted a real-growth gain of 6.9% in 1995.

Of course, numbers like that might have some worried about a boom/bust scenario. Not Bernardo. "The healthy GNP growth shows this is not a consumption-based upswing," he says. "The recovery is soundly based." Inflation does remain troublesome, however. Last year the consumer price index rose 8%, due mostly to a jump in agricultural prices following several natural disasters. Early this year, say officials at the Bangko Sentral ng Pilipinas—the country's central bank—inflation hit double digits. Nevertheless, Bernardo sees light at the end of the inflation tunnel: "We expect to see declining inflation in the second half of the year."

Most observers agree, and several credit the Department of Finance with helping foster the expected turnaround. According to Jim Walker, an analyst at Credit Lyonnais Securities (Asia): "The fiscal position, which was once the primary source of inflation, has improved—and is set to continue doing so as fiscal reforms are implemented." Meanwhile, de Ocampo and Bernardo will have their hands full with one of those fiscal reforms: plugging the holes in the country's tax collection system. Government revenues were significantly less in 1995 than originally forecast. One loophole that needs patching is the gross receipts tax (GRT) for banks, which requires them to pay a 5% tax on short-term loans and 2% on long-term loans. Says Bernardo: "My suspicion is that banks are lending out on a longer-term basis," and hence, paying less taxes. Bernardo's suspicions are not often wrong. Expect the loophole to end. —*J.G.*

ACCOMPLISHMENTS OF DOF ATTACHED AGENCIES

The role of the Department of Finance as the country's economic manager cannot be served fully without the extensive and effective support of attached bureaus, corporations and agencies. A widespread sphere of influence ensures that the Department's policies and priority programs are implemented and directed towards the objective of economic stability and sustainability.

The collecting arms of the Department are the Bureau of Internal Revenue and Bureau of Customs. The Bureau of the Treasury is in charge of cash management of National Government.

The other arms of DOF reach out to the grassroots level through the Bureau of Local Government Finance which promotes capability-building for local government officials and institutions. This task is intended to improve their governance skills so that local governments can take advantage of the broadened opportunities provided to them under the Local Government Code. The Central Board of Assessment Appeals hears and decides appeals on all real property tax assessment cases, all protests on realty tax payments, and all claims for real property tax refunds.

The Department supports the capital market through the Insurance Commission and Securities Exchange Commission. Its critical functions include the development of the export sector through the Philippine Export and Foreign Loan Guarantee Corporation and instilling stability in the banking sector through the Philippine Deposit Insurance Corporation.

The task of safeguarding the economic resources is made through the Economic Intelligence and Investigation Bureau which gathers and analyzes illegal activities and investigates them. The National Tax Research Center studies tax policies and related issues to gauge their effectiveness. Finally, to prevent revenue erosion, the Fiscal Incentives and Review Board reviews and approves requests for subsidy from various government entities.

The achievements of the DOF attached agencies for the year 1996 are as follows:

Bureau of Internal Revenue

The total collections of BIR in 1996 amounted to P260.8 billion, which is 24.1 percent or P50.7 billion higher than the previous year's collection of P210.2 billion. Said total collections is slightly lower than the total collection goal of P262.75 billion for the year.

To enhance its legal enforcement of internal revenue tax laws, the BIR decided and approved 120 contested tax cases; filed 120 civil cases with pertinent courts for the collection of tax; filed 790 criminal complaints with the Prosecutor's Office or the Department of Justice for penal violations of the Tax Code; prepared and decided 37 administrative cases against revenue personnel. Corollary to enforcement, it strengthened its tax fraud investigation and prosecution with the referral of 253 tax fraud cases for criminal prosecution or civil action; closure of 68 business establishments for violation of VAT and excise tax code provisions and, apprehensions of 3,304 violators for non-issuance of invoices/unauthorized use of cash register machines.

Likewise, the BIR conducted the Selective Audit Program to improve its quality of audits. This resulted to the termination and approval of 48,039 cases of dockets assigned for investigation; collection of P637.6 million deficiency taxes; issuance of deficiency assessments amounting to P3.7 billion, and processing of 2,417 claims for tax credit/refund.

The BIR also implemented the Third Party Information Program which resulted in the identification of 1,083 potential sources and verification of some 64 third party information as of September, 1996. There was also a marked increase in the number of registered taxpayers through the implementation of the Non-Filer Detection Program to 68,401 as of June, 1996.

On the implementation of the Tax Computerization Project, the BIR performed systems and regression testing on : registration system; returns processing system; collection and bank reconciliation system; audit system; tax payer

accounting system; returns compliance system; accounts receivable system; tax refund system; case monitoring system; integration system and, excise tax reconciliation system.

Bureau of Customs

The Bureau of Customs (BOC) collected P104.6 billion in 1996. The amount is P3.2 billion or 3.2 percent higher than the collection target of P101.35. It is close to P7.0 billion or 7.1 percent higher than the P97.60 billion actual collection in 1995.

The Bureau's increased collection is attributable to many factors such as the improvement of the economy as evidenced by the 22.7 percent increase in the volume of imports from $26.4 billion in 1995 to $32.4 billion in 1996 and, the very slight depreciation of the peso against the US dollar.

The negative factors such as the reduction of tariff rate by 19.6 percent from 12.6 percent in 1995 to 10.6 percent in 1996, and the reduction in number of Customs personnel by 181 failed to bring down the Bureau's collection. Thus, despite the reduction of personnel on account of the Attrition Law, and the deployment of more personnel in Special Economic Zones, collection per personnel increased by P1.8 million or 10.6 percent, from P17.0 million to 18.8 million in 1996.

The BOC also achieved milestones in the improvement and simplification of systems and procedures. A "Computerized Selectivity System" was launched at the Port of Manila to further speed up the customs clearance process and significantly improve the delivery of its services to importers. The system enables the Bureau to measure the "risk" of all shipments and to provide quick release procedures for low risk imports. For these shipments, customs intervention will be minimal. Eventually, the selectivity system will be in place in all ports of entry in the Philippines.

A cashless transaction system was also inaugurated at the BOC through electronic linkage of the Manila International Container Port with the Land Bank of the Philppines. Importers are now able to pay through the Land Bank instead of through the cashiers at BOC.

The Port of Manila has gone live with the Automated System for Customs Data (ASYCUDA) which means that the following processes are now computerized: lodgement and registration, assessment of duties and taxes, and the use of a three-lane system in the clearance of goods. Goods which are not subject to any checks pass through the Green Lane and goods which need examination pass through the Red Lane. The Yellow Lane is used for some goods where some checks of documents are needed. A dramatic overhaul of processes within the Bureau has been accomplished which has transformed BOC into a dynamic modern concern.

The complete change in the physical environment of the BOC is a valid proof of the transformation of the BOC. The Port of Manila has been renovated and equipped with computers and modern system furniture. Training centers using state of the art classrooms and facilities have been set up which are now fully operational. Joint ventures with the private sector have resulted into major projects including a "Community Trading Center" which provide the general public with services such as telephone secretarial services and the entry encoding center. The latter is staffed entirely by personnel paid by the Philippine Chamber of Commerce and using their own equipment. The Center carries out encoding of all entries for the Port of Manila and frees the Bureau from the function of data encoding.

In 1996, the Bureau paid host to several visiting foreign delegations who wanted to learn from the Philippine experience in modernizing its customs operations for possible application in their own countries. These included Papua New Guinea Prime Minister Julius Chan and his cabinet . There were also visitors from Australia, Lebanon, Hongkong, Sri Lanka, Nepal, Taiwan, and Vietnam. The reforms undertaken by the Bureau is enabling it to fast align itself to existing international standards.

Bureau of the Treasury

In 1996, the total cash balance in the custody of the Bureau of the Treasury (BTr) amounted to P131.6 billion of which 94 percent or P123.98 billion was earmarked for specific purposes while the remaining 6 percent or P7.5 billion constituted general cash.

To perform its cash management functions, the Bureau coordinated with various national collecting officers and local treasurers to effect the prompt deposit of revenue collections with accredited government depository banks. The total revenue collections deposited in 1996 amounted to P69.7 billion. Interest income from National Govern-

ment deposits with depository banks totaled P1.4 billion for the same period. Of the total interest income, P0.8 billion was generated from deposits with BSP while P.6 billion came mainly from earnings on deposits with various banks. It also collected during the period guarantee fees and foreign exchange risk cover fees amounting to P1.6 billion while dividends received amounted to P2.4 billion. Furthermore, collection from interest advances to government corporations amounted to P0.5 billion.

On its debt management function, the Bureau serviced foreign and domestic principal and interest obligations of the National Government in the amount of P119.2 billion, of which foreign obligations accounted for P45.4 billion while P73.8 billion was for domestic obligations.

As part of its accounting and monitoring function, it accounted for all transactions of the National Government (NG). Its prompt, accurate reporting of the NG fiscal position enabled fiscal authorities to attain the budgetary surplus of P6.3 billion after the accumulated revenues of the National Government amounting to P410.4 billion exceeded its expenditures of P404.2 billion.

The Bureau collected bond premium amounting to P114.9 million from accountable government officials. This was 123 per cent higher compared to the 1995 collection of P51.50 million. This was due to the increase in the premium collected from 1/2 of one per cent to 1 per cent of the amount of the bond.

To effectively carry out its mandate as fiscal agent for the National Government, the Bureau inaugurated the Registry of Scripless Securities (RoSS) on November 4, 1996. The RoSS is an electronic system to officially register the ownership of scripless or uncertified securities from the time of origination through redemption. The system ensures transparency in the government securities market and will help sustain investors' confidence in the integrity and efficiency of the market.

Bureau of Local Government Finance

The strong performance of BLGF in the areas of local resource management, collection enforcement and credit utilization schemes was evident in the increased collection of the real property tax by local government units by 17 percent in 1996.

As the administrator of the Municipal Development Fund, the Bureau collected close to P1.1 billion, establishing in the process a 93.4 percent collection rate. A total of 54 new project centers were established under the foreign-assisted Real Property Tax Administration (RPTA) projects. This increased project coverage from 862 to 921 cities and municipalities. To exercise its administrative and technical supervision over local treasury and assessment offices, the Bureau conducted revenue audit for 6 provinces, 3 cities and 34 municipalities and assessment audit for 8 provinces, 4 cities and 25 municipalities.

Economic Intelligence & Investigation Bureau

The EIIB continued to assist in revenue generation and protection of environment. The EIIB intensified its apprehension and seizure activities resulting in an aggregate total of P9.0 million additional revenues for government.

During the year, the EIIB gathered and evaluated 2,935 reports. Out of these reports, 1,391 resulted in operations and investigations. The number of cases prosecuted and investigated totaled 593. Of these cases, 115 are still pending with various courts.

The Bureau started the construction of the EIIB Central and NCR building. It is expected to be completed in the middle of 1997.

Insurance Commission

In 1996, the IC issued a total of 26,718 licenses and certificates of authority and registration to insurance companies and its intermediaries, mutual benefit associations, and trusts for charitable uses. It also approved 450 requests for investments of insurance funds amounting to P7.7 billion and US$ 27 million. In addition, the IC conducted examinations on the activities, financial conditions, and methods of doing business of 77 insurance companies and 6 mutual benefit associations.

To implement the liberalization of the insurance industry, the Commission authorized 4 foreign insurance companies to conduct business in the country. Liberalized rules on banking also allowed universal banks to invest

more actively in insurance companies by raising the present 35 percent equity level to 51 percent. In this regard, CIGNA Life Insurance of USA was granted permission to form a joint venture life insurance company with a local commercial bank. The insurance industry is expecting the entry of another 10 foreign companies which expressed interest to enter the domestic market.

Philippine Deposit Insurance Corporation

The Corporation collected P957.4 billion in assessment premium for the first semester of 1996, 27.7 percent higher than the first semester 1995 collection of P749.8 million. This was primarily due to the increase in domestic deposit liabilities of banks. The number of contributing banks increased to 910 from 899. The total deposits of the banking system, which grew by 29.5 percent, reached P1,105 billion. About 23.5 percent of these deposits are insured.

As of November 1996, the Corporation has an outstanding financial assistance amounting to P1.8 billion to four banks, two of which are still undergoing rehabilitation. A commercial bank, which acquired a closed bank in 1992, has fully paid its P9.5 million outstanding loan in September.

A new system was introduced where examination of deposits for insurance purposes is undertaken simultaneously with the takeover of a closed bank's assets, liabilities and records. This system enables PDIC to promptly determine its liability to the individual insured depositors and thus start the settlement of these depositors' claims for the payment of their deposit accounts earlier.

During the year, PDIC implemented the closure of five rural banks placed under receivership by the Monetary Board and took over two rural banks under liquidation from the BSP. These brought the total number of banks under PDIC receivership and liquidation to 277 as of November 1996 from 270 as of last year.

Central Board of Assessment Appeals

In 1996, CBAA received and acted on 577 tax declarations. The assessed value of properties covered by these tax declarations amounted to P5.4 billion, and total market value was close to P8 billion. The number of tax declarations received was higher than the 500 programmed for the year. This is attributable to the massive information campaign launched by the CBAA to increase the awareness of taxpayers.

One of the highlights of CBAA's accomplishments is the conduct of capability-building seminars for members of local boards, assessors and treasurers. In 1996, about 700 local officials around the country attended the seminars. These seminars concretize strategies aimed at enhancing the tax administration system in the country by creating synergy between government agents and the taxpayers. Through these seminars, the agency is able to reach the majority of taxpayers in every region. Through information dissemination, taxpayers become conscious of the provisions on real property taxation.

Philippine Coordinating Committee on the Asian Development Bank

As a coordinating and liaison office, much of the work of PCC-ADB is administrative in nature, ranging from the renewal of certificates and permits to monitoring the observance of the privileges and immunities of the Bank and its officials under the terms of the RP-ADB Headquarters Agreement, and resolving conflicts that may arise therefrom.

Another important function of the PCC-ADB is to assist the Bank in the organization of annual meetings of the ADB Board of Governors, as it did when the Board held its 29th Annual Meeting on April 30, 1996 in Manila. The meeting was attended by some 2,000 participants coming from the 56 member countries of the Bank. The delegations are headed by a governor who is normally the minister of finance. In the case of the Philippine delegation, the governor was Finance Secretary Roberto F. De Ocampo. Like the 26th Annual Meeting held in Manila on May 4, 1993, President Fidel V. Ramos was invited by ADB President Mitsuo Sato to keynote the 29th Opening Session at the Philippine International Convention Center.

Philippine Export and Foreign Loan Guarantee Corporation

The financing support of the Corporation yielded additional exports amounting to US$ 157.1 million. This boosted the foreign exchange earnings of the country, generated more employment opportunities, and improved the competitiveness of small and medium enterprises.

Securities and Exchange Commission

The Commission realigned some of its functions, particularly those involved in securities registration, supervision and regulation of the securities industry. The realignment resulted in the integration of similar work through the concept of a one-stop-shop to facilitate the processing of documents from the transacting public.

To make business/company registration less burdensome to the registrant public, SEC revised its express lane forms from 14 to just 3 pages.

Relative to its computerization program, the agency developed and operationalized new systems such as a) Name Verification and Reservation System, b) Records Management System, c) Company Information System, d) Name Relations System, e) Compliance Monitoring System and, f) Work Assignment System. It also developed a computerized network within the agency and an electronic bridge between SEC and the Self-Regulatory Organizations like the Philippine Stock Exchange, Philippine Central Depository Inc., and Philippine Clearing System.

To continue developing the capital market infrastructure, SEC provided the regulatory focus for the Philippine Central Depository Inc., and the Philippine Clearing System to care of the clearing and settlement of transactions at the PSE. To inform the public on the capital market, PSE worked with major banks and installed more viewing terminals in bank branches in the provinces to form a satellite trading network that could make the stock market easily accessible even from remote areas.

Likewise, SEC is pushing for the passage in Congress of major bills that pertain to investments. In various stages of the legislative mill are the Revised Securities Act; Investment Company Act; Investment Houses Law, and the Financing Company Act.

National Tax Research Center and Fiscal Incentives Review Board

The NTRC continued to conduct research in taxation as basis for policy formulation consistent with the development plans of the government. It took into consideration the macroeconomic goals of the Ramos administration as envisioned in the Medium-Term Philippine Development Plan (MTPDP).

Among its major accomplishments include the completion of research studies aimed at improving the tax policy, structure and revenue collection; rationalizing the fiscal incentives system; simplifying tax administration; improving tax compliance; and enhancing the revenue-raising powers of local government units.

Acting as technical secretariat of the Subcommittee on Excise Taxes and Other Structural Reforms of the Presidential Tax Force, NTRC organized and administered two subcommittee meetings and consultative workshop concerning the excise taxation and registration fee on motor vehicles.

Technical assistance was likewise extended to the Task Force on Oil Industry Deregulation, Task Force on Developing a Hongkong Strategy for Subic, Rationalization of Duty-Free Stores Operation and Fiscal Matters of the Local Government Code.

NTRC published the Guide to Individual Income Tax, Selected Economic Indicators, Tax Statistics Bulletin, NTRC and FIRB brochures as well as a primer on the expanded value-added tax.

As the Secretariat of the Fiscal Incentives Review Board (FIRB), it processed and evaluated 48 applications for subsidy availments requested by government-owned and controlled corporations for consideration of the FIRB Technical Committee and the FIRB Board Proper. It also administered 13 meetings during the period. ■

The Secretary of Finance

Roberto F. de Ocampo

The Undersecretaries

Ma. Cecilia G. Soriano

Juanita D. Amatong

Milwida M. Guevara

The Assistant Secretaries

Gil S. Beltran

Ma. Eleanor F. dela Cruz

Antonio P. Belicena

The Directors

Lourdes Z. Santiago
Central Administration Office

Ma. Lourdes V. Dedal
Central Financial Management Office

Ma. Teresa S. Habitan
Fiscal Policy and Planning Office

Soledad Emilia J. Cruz
Corporate Operations Office

Crisanta S.Legaspi
Privatization Office

The Directors

Jeremias N. Paul, Jr.
International Finance
Policy Office

Porfirio B. Villena, Jr.
Office of the Undersecretary
PDMSG

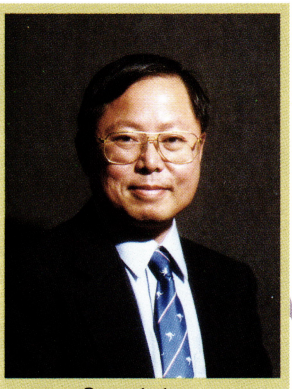
Concepcion S. Kimpo
Revenue Office

Rosalia C. de Leon
International Finance
Operations Office

Thelma A. Mariano
Legal Affairs Office

The Bureau Heads

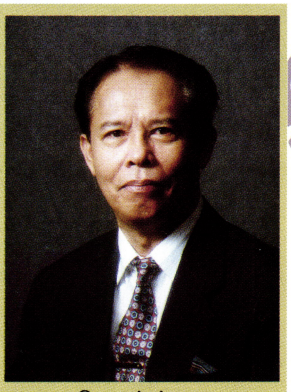
Commissioner
Liwayway V. Chato
Bureau of Internal Revenue



Commissioner
Guillermo L. Parayno
Bureau of Customs

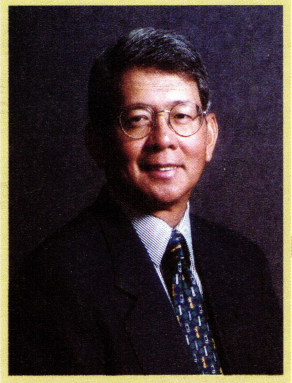
Treasurer
Caridad Valdehuesa
Bureau of the Treasury

Executive Director
Lorinda M. Carlos
Bureau of Local Government Finance

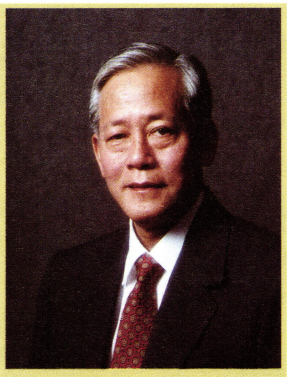


Commissioner
Servando V. Lara
Economic Intelligence and investigation Bureau

The Heads of Attached Agencies

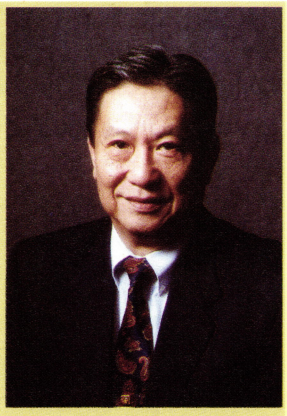


Chairman
Perfecto R. Yasay
Securities and Exchange Commission



Commissioner
Eduardo T. Malinis
Insurance Commission

Chairman
Margarita G. Magistrado
Central Board of Assessment Appeals



Executive Director
Vicente G. Quintos
National Tax Research Center

The Heads of Attached Corporations

President
Ernest C. Leung
Philippine Deposit Insurance Corporation

President
Victor C. Macalincag
Pilippine Export and Foreign Guarantee Corporation

Department of Finance Directory

Position	Name	Address	Tel. Nos.
Secretary	Roberto F. de Ocampo	6/F DOF Building Roxas Blvd. corner Vito Cruz Manila 1004	Fax: 521-2948 523-4355, 523-6051, 524-7011 loc. 2211/3009
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	Juanita D. Amatong	On Leave	
Assistant Secretaries	Antonio P. Belicena Revenue Operations Group	3/F DOF Building Roxas Blvd. corner Vito Cruz Manila 1004	526-1515
	Ma. Eleanor F. dela Cruz Policy Development and Management Services Group	8/F EDPC Bldg. Roxas Blvd. corner Vito Cruz Manila 1004	526-8459
	Gil S. Beltran Domestic Finance Group	4/F DOF Building Roxas Blvd. corner Vito Cruz. Manila 1004	Fax: 524-4287 525-3305, 523-3825, 524-7011 loc. 2459
Director IV	Lourdes Z. Santiago Central Administration Office	8/F EDPC Bldg. Roxas Blvd. corner Vito Cruz Manila 1004	Fax: 526-7604 526-1265
	Ma. Lourdes V. Dedal Central Financial Management Office	8/F EDPC Bldg. Roxas Blvd. corner Vito Cruz Manila 1004	526-0493
	Soledad Emilia J. Cruz Corporate Operations Office	5/F DOF Building Roxas Blvd. corner Vito Cruz Manila 1004	525-7427 524-7011 loc. loc. 3158

Department of Finance Directory

Position	Name	Address	Tel. Nos.
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	Jeremias N. Paul, Jr. International Finance Policy Office	5/F DOF Building. Roxas Blvd. corner Vito Cruz Manila 1004	521-8584 524-7011 loc. 2875
	Rosalia C. de Leon International Finance Operations Office	5/F DOF Building Roxas Blvd. corner Vito Cruz Manila 1004	524-7011 loc. 2875
	Porfirio B. Villena, Jr. Office of the Undersecretary PDMSG	8/F EDPC BLdg. Roxas Blvd. corner Vito Cruz Manila 1004	526-6924
	Concepcion S. Kimpo Revenue Office	Podium, DOF Building Roxas Blvd. corner Vito Cruz Manila 1004	526-8458
	Thelma A. Mariano Legal Affairs Office	4/F DOF Building Roxas Blvd. corner Vito Cruz Manila 1004	526-8468
Director III	Helena B. Habulan Corporate Operations Office	5/F DOF Building Roxas Blvd. corner Vito Cruz Manila 1004	524-7011 loc. 2213
Acting Director III	Fidel G. Condrada Legal Affairs Office	5/F DOF Building Roxas Blvd. corner Vito Cruz Manila 1004	526-0519
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	Joselito Almario Fiscal Policy and Planning Office	4/F DOF Building Roxas Blvd. corner Vito Cruz Manila 1004	525-3305 524-7051 loc. 2459

Department of Finance Directory

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Commissioner	Liwayway Vinzons-Chato	National Internal Revenue Bldg. Diliman, Quezon City	922-4894 (DL) 929-7602 / 04 926-5771
Deputy Commissioner	Beethoven L. Rualo	National Internal Revenue Bldg. Diliman, Quezon City	926-5771 921-4324
	Estelita C. Aguirre	National Internal Revenue Building Diliman, Quezon City	922-1926 926-5697
	Carol Carreon	National Internal Revenue Building Diliman, Quezon City	928-5833 928-3733
Bureau of Customs			
Commisioner	Guillermo L. Parayno, Jr.	Bureau of Customs Bldg. Port Area , South Harbor Manila	527-4511 527-4517
Deputy Commissioner	Titus Villanueva	Bureau of Customs Bldg. Port Area , South Harbor Manila	527-9473
	Licerio C. Evangelista	Bureau of Customs Bldg. Port Area , South Harbor Manila	527-4507 527-1960
	Luciano N. Millan, Jr.	Bureau of Customs Bldg. Port Area , South Harbor Manila	527-4537
	Rey Allas	Bureau of Customs Bldg. Port Area , South Harbor Manila	527-1933

Department of Finance Directory

Position	Name	Address	Tel. Nos.
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Deputy Treasurer of the Philippines	Alberto D. Buyawe	Palacio del Gobernador Building Intramuros, Manila	527-3083
	Eduardo S. Mendiola	Palacio del Gobernador Building Intramuros, Manila	527-3152
Bureau of Local Government Finance			
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Deputy Director	Angelina M. Magsino	7/F Palacio del Gobernador Building Intramuros, Manila	527-7641 / 48 loc. 205
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Deputy Commissioner	Federico A. Macabasco	Camp Aguinaldo EDSA, Quezon City	Fax: 911-7847 911-7833 / 41 (DL)
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	Edijer Martinez	SEC Bldg., EDSA Greenhills Mandaluyong City	786-857 772-158

Department of Finance Directory

Position	Name	Address	Tel. Nos.
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	Rosalinda Casiguran	SEC Bldg., EDSA Greenhills Mandaluyong City	796-158
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Deputy Director	Lina D. Isorena	Harbor II Center Bldg. 23 rd Street, Port Area Manila	527-2050
	Dante V. Sy	Harbor II Center Bldg. 23 rd Stree, Port Area Manila	527-2071
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Member	Eleanor A. Santos	8/F EDPC Bldg. BSP Complex Roxas Blvd., Manila 1004	526-8469
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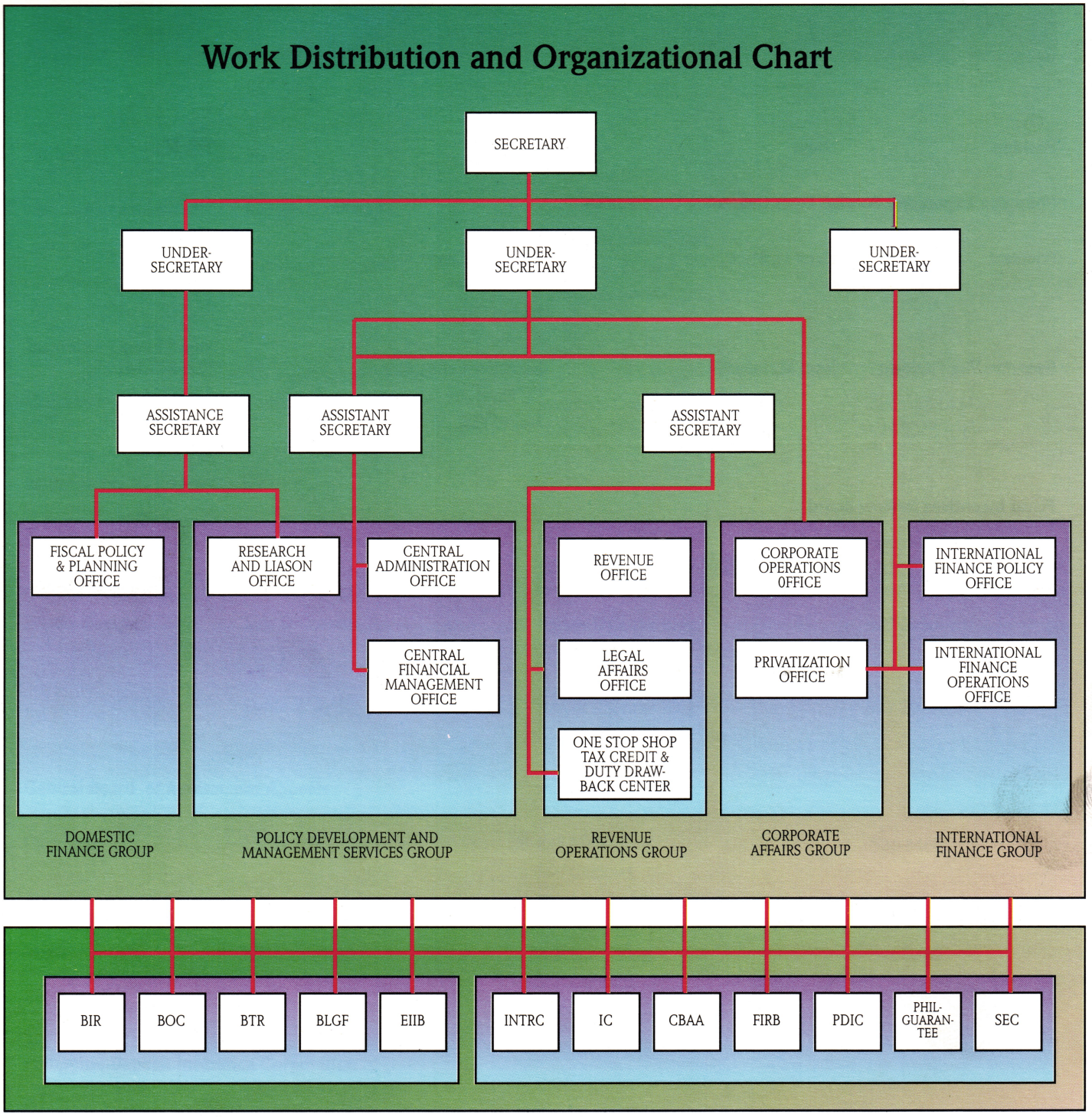
Sr. Vice-President	Caesar Octavius V. Parlade	2223 Pasong Tamo Makati City	813-3699 (DL)
	Nievelena V. Rosete	2223 Pasong Tamo Makati City	818-0404 loc. 700

Position	Name	Address	Tel. Nos.
Philppine Export and Foreign Loan Guarantee Corporation			
President	Victor C. Macalincag	Executive Center Bldg. Gil Puyat Ave. Makati City	Fax: 895-1416 895-1506 / 07
Executive Vice-President	Jesus M. Tañedo	Executive Center Bldg. Gil Puyat Ave. Makati City	Fax: 895-1416 895-1705 (DL) 896-4515 loc. 163 /164
Fiscal Incentives Review Board			
Chairman	Hon. Roberto F. de Ocampo		

Work Distribution and Organizational Chart



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