



DEPARTMENT OF FINANCE



## Pursuing the Reform Agenda

2003 Annual Report



## Mission

Our economy must be one of the most dynamic and active in the world, globally competitive and onward looking. The DOF shall take the lead in providing a solid foundation for the achievement of this objective, by building a strong fiscal position, through the following:

- formulation, institutionalization and administration of sound fiscal policies;
- improvement of tax collection efficiency;
- mobilization of adequate resources on most advantageous terms to meet budgetary requirements;
- sound management of public sector debt;
- and initiation and implementation of structural and policy reforms.

## Vision

- A strong economy with stable prices and strong growth;
- A stable fiscal situation which could adequately finance government projects and budgetary programs;
- A borrowing program that is able to avoid the crowding-out effect on the private sector, and minimizes costs;
- A public sector debt profile with long maturities and an optimum mix of currencies that minimizes the impact of currency movements;
- A strong economic growth with equity and productivity.

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## The Department of Finance

In mammoth organizations - corporations, conglomerates, multi-nationals, governments-the indispensability of a central finance office to manage and mobilize resources is a truism. Without logistics and financial support "when needed, where needed", operations would be paralyzed in no time. That the birth of the Department of Finance predated that of the Philippine Republic is testimony to its importance. Founded on 24 April 1897 by the Philippine Revolutionary Government, the DOF has undergone various structural and functional overhauls, but has nonetheless remained a key department. Today, the critical tasks of revenue generation, resource mobilization and fiscal management rest on the shoulder of the Department of Finance. The government must provide the citizenry with infrastructure, education, health and other basic services; and the DOF must be ready with the funds for them. Likewise, the DOF must steer fiscal programs toward an investment-friendly environment, which is the catalyst for growth.





## LETTER TO THE PRESIDENT

Her Excellency  
GLORIA MACAPAGAL-ARROYO  
President  
Republic of the Philippines  
Malacañang, Manila

Dear Madam President:

We are honored to submit to your excellency the 2003 Annual Report of the Department of Finance.

The Report highlights the achievements of the Department, including the progress of the reforms that we initiated and pursued during the year. These achievements were made possible with the unwavering support from the different bureaus and agencies of the Department.

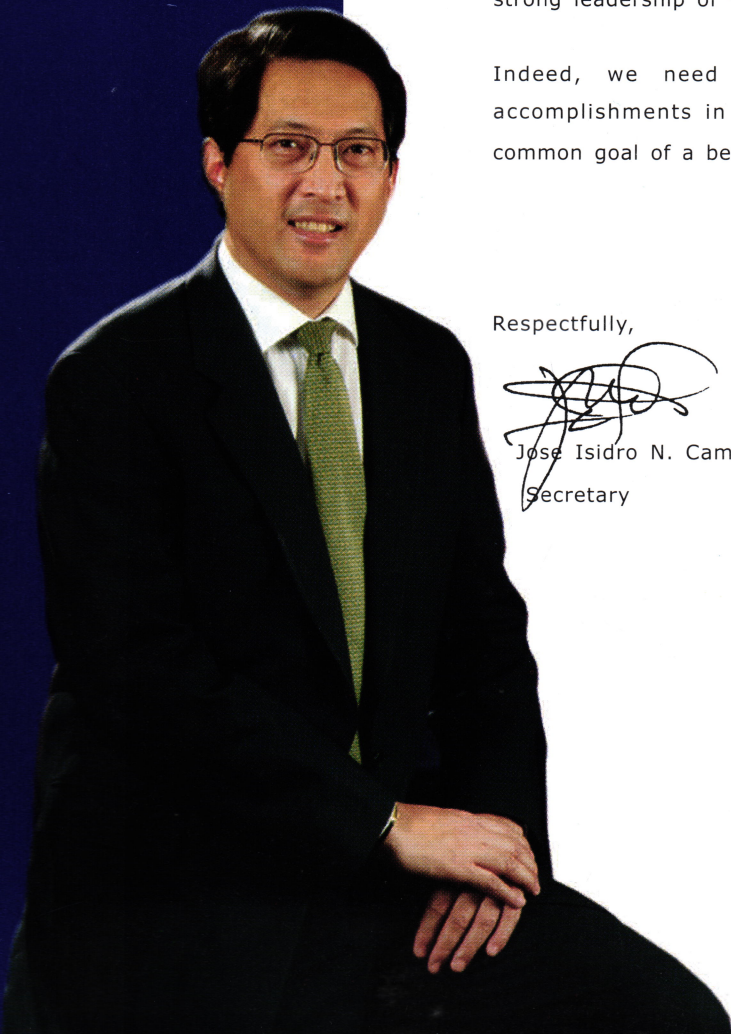
As we take on the remaining agenda for the years ahead, rest assured that the entire DOF family is behind the strong leadership of your Excellency.

Indeed, we need to continue building on our accomplishments in the past in order to realize our common goal of a better life for our citizenry.

Respectfully,

A handwritten signature in black ink, appearing to read "J. Camacho", is written over the typed name.

Jose Isidro N. Camacho  
Secretary





## MESSAGE FROM THE SECRETARY



The fiscal sector was one of the most crucial areas in government which were closely watched in 2003 as the country remained host to a confluence of adverse developments during the year.

In 2003, the country joined the global community in bracing for the uncertainties brought about by a war in Iraq, the cost of containing the deadly SARS virus, and the continuous threat of terrorism particularly in soft target countries in the region.

Despite those adversities, the Philippine economy managed to stay on course, with the country's gross domestic product (GDP) posting a 5.6 percent real GNP growth. Inflation remains tamed at around 3.1 percent, while the 91-day Treasury Bill rate was contained at 6.0 percent during the year.

Our desire for higher and sustainable economic growth and our ability to finance the various programs of the government depend to a great extent on our ability to mobilize our resources to the most efficient way possible. This is why the Department of Finance remains at the forefront in the country's efforts to maintain strong macroeconomic fundamentals.

We have been relentless in our efforts to improve efficiency and effectiveness in the country's revenue system. Reforms are already in place, such as the passage of the bill rationalizing the excise taxation on automobiles, the rationalization of the DST, the imposition of Expanded Value Added Tax (EVAT) to include professionals and the re-imposition of the gross receipts tax on banks.

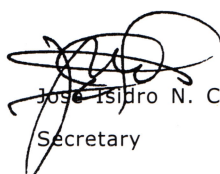
Meanwhile, administrative reforms and good governance are being continuously pursued in our revenue-generating agencies, thus providing a sturdy backbone to the policy structure reforms.

Reforms will continue to be pursued and strengthened. While such reforms are expected to undergo rigors of legislative process, our programs and policies become more enduring since these are founded on legal ground. With these measures, the government benefits from a sustainable inflow of revenues in the long-run.

Working with the country's fiscal sector requires a lot of courage and zeal. Our relatively small revenue base as compared to our substantial requirements for development has been a source of enormous challenges. Indeed, the room for improvement in our fiscal performance remains big.

I remain hopeful that the entire DOF family, including our partners in the different bureaus and agencies of the Department will remain steadfast in performing their duties.

Let me take this opportunity to acknowledge everybody for continuous hard work and dedication in fulfilling our mission based on our mandate.

  
Jose Isidro N. Camacho  
Secretary





## M A N D A T E

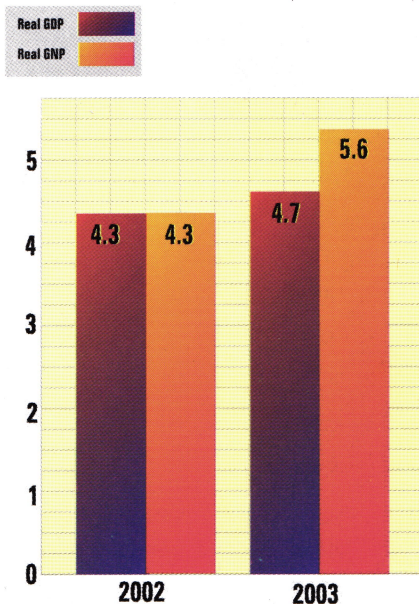
Under Executive Orders 127, 127-A and 292, the Department of Finance is responsible for the following:

- Formulation, institutionalization and administration of fiscal policies in coordination with other concerned subdivisions, agencies and instrumentalities of the government;
- Generation and management of the financial resources of government;
- Supervision of the revenue operations of all local government units;
- Review, approval and management of all public sector debt, domestic or foreign; and
- Rationalization, privatization and public accountability of corporations and assets owned, controlled or acquired by the government.



## Macroeconomic Fundamentals

**Output Growth**  
(In Percent)



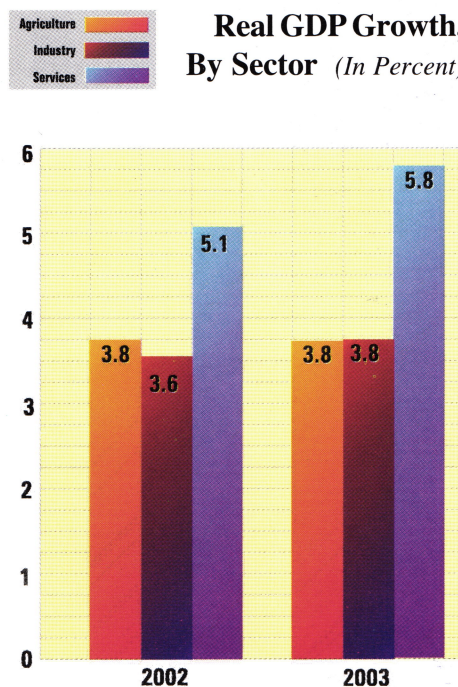
### Economy has steadily expanded

The Philippine economy stayed on course in 2003 despite shocks that included the US-Iraq war, SARS breakout, and the failed mutiny in July. The country's gross domestic product (GDP) rose 4.7 percent during the year, topping the 4.3 percent registered in 2002, and matching the government's low-end forecast. The gross national product (GNP) rose 5.6 percent, better than last year's 4.3 percent and the 5.4 percent high-end forecast. The Philippines' growth performance in 2003 bettered the projections of the multilateral lending institutions and credit rating agencies.

### Growth remained broad-based

Services continued to be the main driver of the economy, posting 5.8 percent growth. Growth in this sector was propelled by the transport and communication sector which expanded by 8.6 percent. Agriculture remained steady, growing at 3.8 percent, the same rate as it did in 2002, on strong forestry output as well as steady growth in major crops like rice, corn, sugar and coconut. Industry accelerated to 3.8 percent from 3.6 percent. Mining and manufacturing provided the biggest boost to industry, improving by 16.8 percent and 4.2 percent, respectively.

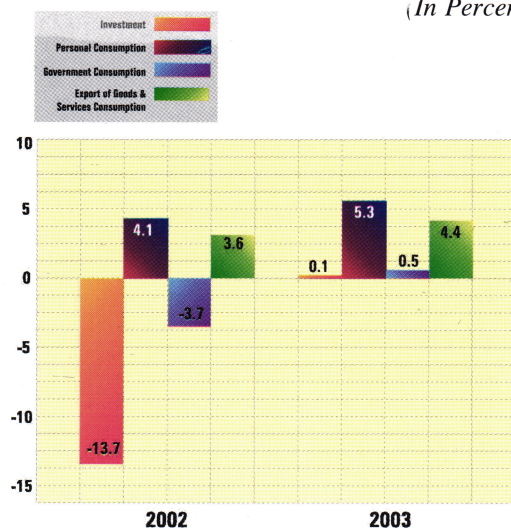
**Real GDP Growth, By Sector** (In Percent)





## GNP Growth By Expenditure Share

(In Percent)

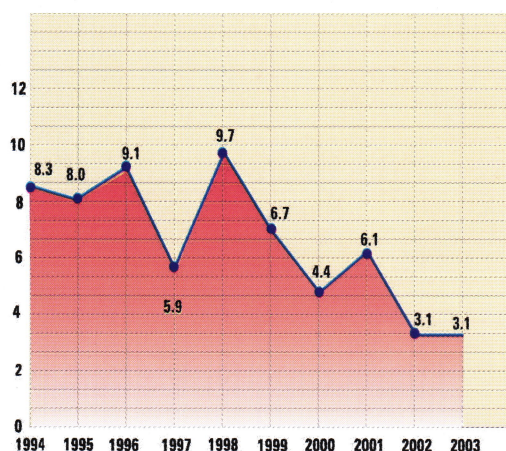


### Private consumption expenditure registered the fastest annual growth rate since 1990

On the demand side, personal consumption expenditure accelerated by 5.3 percent, the fastest annual growth rate since 1990. Demand was further buoyed by the rise in government consumption by 0.5 percent; investments, 0.1 percent; and exports, 4.4 percent.

## Average Inflation Rate

(In Percent)

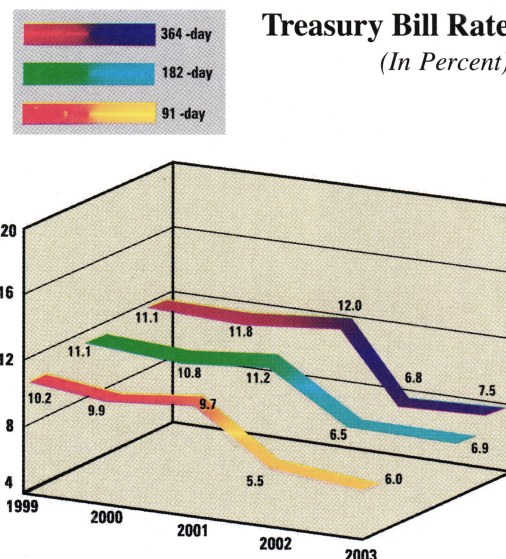


### Inflation remained subdued

In spite of the weakening peso and the price increases in petroleum products, the country's general price level remained stable during the year with inflation averaging 3.1 percent, the same rate registered in 2002 and well within the 5.5 percent target for the year. Stable food prices neutralized the impact of higher petroleum prices and kept price pressures to the minimum.

## Treasury Bill Rate

(In Percent)



### Stable Interest Rates

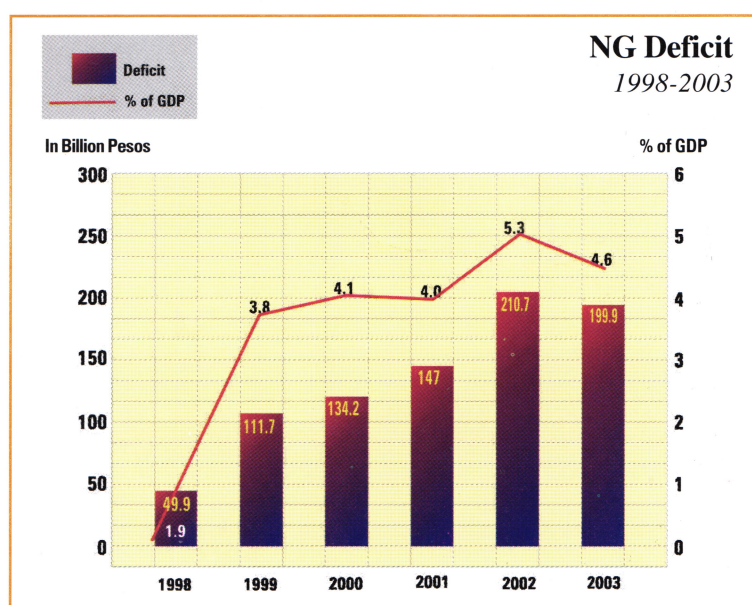
Domestic interest rates remained firm on the downside of the projected 9.0 percent, with the reference 91-day T-Bill rate averaging 6.0 percent during the year. The 182-day and 364-day Treasury bills averaged 6.9 percent and 7.5 percent, respectively. The tame inflation environment, the Bangko Sentral's continued policy to minimize hikes in policy interest rates (despite volatile swings in foreign exchange), and ample liquidity kept interest rates steady.



## The Fiscal Sector

### NG Deficit Below Program Level

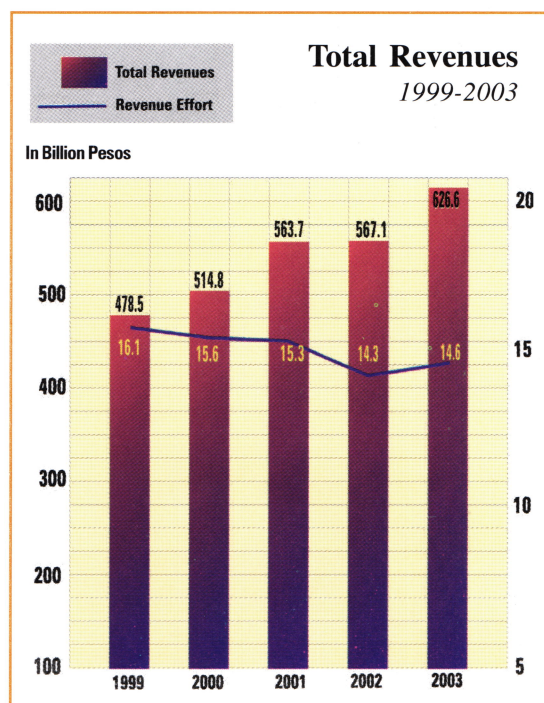
The National Government lowered the ratio of the deficit to GDP from 5.3 percent in 2002 to 4.6 percent in 2003, improving on its target of 4.7 percent. The budget deficit reached P199.9 billion, P2.1 billion lower than the program level of P202 billion, and P10.8 billion lower than the 2002 level of P210.7 billion. Improved revenue performance and prudent spending accounted for the lower deficit. The stronger fiscal position boosted NG's objective to achieve fiscal consolidation in the medium-term.



### Revenues: Ahead of Target

NG total revenues increased 10.5 percent to reach P626.6 billion in 2003, well ahead of the program by 7.3 percent and the P567.1 billion collection in 2002. The robust revenue collection was fuelled by the strong revenue performance of BIR and BOC arising from the implementation of reforms in tax administration as well as the sustained growth of the economy. Because of this positive development, the tax effort stayed constant at 12.5 percent, the same ratio it was at in 2002. This halted the decline in tax effort that started in 1998.

Non-tax revenues boosted revenues, rising significantly by 26.1 percent to P89.3 billion from P70.8 billion in 2002. The Bureau of the Treasury's income rose 20.1 percent to P56.7 billion from P47.2 billion in 2002. Privatization yielded P567 million in revenues, slightly lower than last year's receipt of P591 million, while grants increased slightly to P1.2 billion as against P1.1 billion in 2002.





### Enhanced Tax Revenues through Computerization and Systems Improvements

The BIR exhibited a turnaround in its revenue performance, surpassing its target by P1.3 billion. Total BIR collection reached P425.4 billion, an increase of 7.8 percent over the previous year's level of P394.5 billion. On the other hand, the BOC collection accelerated by 10.3 percent to P106.1 billion, well ahead of its target by P6.0 billion and 2002 collection by P9.8 billion. Aggregate collections by other tax collecting offices grew by 6.2 percent to P5.9 billion from P5.6 billion in 2002.

The computerization program and continuous systems improvement at the BIR and BOC raised tax and duty collections.

### NG Revenue Collections

2002-2003  
(In Billion Pesos)

	2002	2003 Program	2003 Actual
<b>Revenues</b>	<b>567.1</b>	<b>584.1</b>	<b>626.6</b>
Tax Revenues	496.4	530.8	537.4
BIR	394.5	424.0	425.4
BOC	96.2	100.1	106.1
Other Offices	5.6	6.7	5.9
Non-Tax Revenues	70.8	53.3	89.3
BTr Income	47.2	30.9	56.7
Fees & Charges	21.9	21.0	30.8
Privatization	0.6	1.0	0.6
Grants	1.1	0.4	1.2

### BIR Measures

1. Implementation of More Effective Taxpayer Compliance and Control Systems
2. Effective Detection and Elimination of Revenue Leakages Through Timely Issuance of Revenue Regulations and Computer Linkages and Data Matching with Third Party Information Sources.
3. Intensified Enforcement of Audit and Assessment Findings
4. Adoption of Good and Honest Governance Program with the Private Sector
5. Implementation of Technology-based Projects to Upgrade and Enhance Services to Taxpayers

(Details in ANNEX)

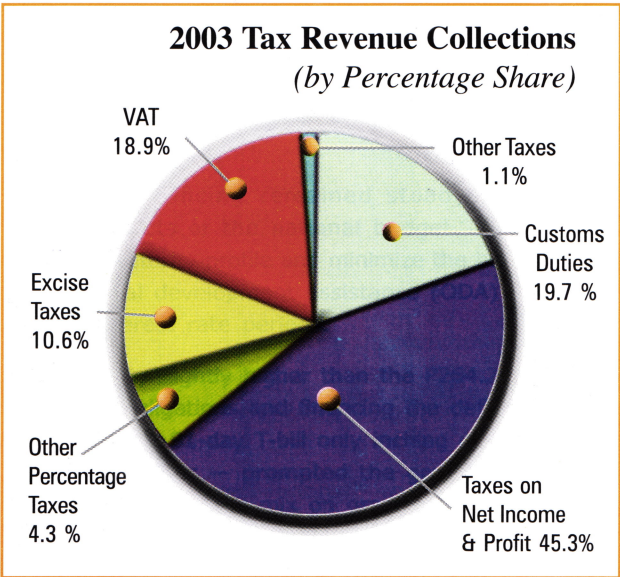
### BOC Measures

1. Collections from Forfeitable Bonds
2. Additional Billings Arising from Warehousing Audit and from Liquidation of Entries
3. Proceeds from Auction Sales
4. Proceeds from Settlement and Redemption of Seized Cargoes
5. Collection from Transferees of Fraudulently Secured TCCs

(Details in ANNEX)



By type of tax, taxes on net income and profits accounted for P243.7 billion or 45.3 percent of the tax revenues, followed by customs duties with P106.1 billion or 19.7 percent, value added taxes (VAT) with P101.3 billion or 18.9 percent. Excise taxes contributed P57.0 billion or 10.6 percent while other taxes collected by BIR (e.g. travel tax, documentary stamp tax) had a share of P23.3 billion or 4.3 percent. Other taxes (e.g. forest charges, immigration tax) collected by other revenue generating agencies accounted for P 5.9 billion or 1.1 percent



### Secured the Passage of Key Legislative Measures

In 2003, the DOF worked for the passage of key legislative measures that would address loopholes in the existing tax structure as well as boost revenue collection. Among the measures that have been passed or in advanced stage of legislation are:

- 1. Restructuring of the Excise Tax on Automobiles** – This measure was enacted into law via Republic Act No. 9224 on August 29, 2003. It replaces the basis of taxation using engine displacement, type of fuel and seating capacity criteria with a value-based tax structure. This measure is expected to enhance revenues by about P1.4 billion annually.

### Key Features of the Excise Tax on Automobile

- Automobile is any four or more wheeled motor vehicle regardless of seating capacity.
- In addition to passenger cars, excise tax will be imposed on automobiles with 10 or more seating capacity including the driver (e.g.AUVs, SUVs, 4x2s,4x4s and passenger vans) as well as pick-ups.
- Special purpose vehicles such as ambulance and firetruck, truck, jeep, jeepney and its substitutes and single cab chassis are tax exempt.

- The new tax structure will be based on value, as follows:

Net manufacturer's price	Tax rate
P0 - P600 thousand	2 %
Over P600 thousand - P1.1 million	P12 thousand + 20% of value in excess of P600 thousand
Over P1.1 million - P2.1 million	P112 thousand + 40% of value in excess of P1.1 million
Over P2.1 million	P512 thousand + 60% of value in excess of P2.1 million



- 2. Rationalization of the Documentary Stamp Tax** – This bill has been ratified by both Houses of Congress and is scheduled for submission to the President for signing (signed as Republic Act No. 9243 on February 17, 2004). It imposes a uniform rate of 0.50 percent (one-half of one percent) of the face value of all debt instruments. It seeks to promote the development of the capital market by removing the DST on secondary trading on debt instruments as well as derivative instruments. This proposal will boost revenues by about P5.0 billion annually in additional revenues.

### Salient Features of the Documentary Stamp Tax (DST) Reform Bill

- *Imposes the same DST rate on primary issues of shares of stock and debt instruments (P1.00/P200).*
- *Removes DST on secondary trading of debt instruments.*
- *Removes DST on secondary trading of equities traded through an exchange subject to sunset provision of 5 years.*
- *Imposes DST on equities traded outside the Exchange (P0.75/P200).*
- *Removes DST on secondary trading of equities but subject to 5 year sunset provision.*
- *Imposes proportional tax rate for short term instruments.*
- *Imposes DST on all evidences of time deposit.*
- *Exempts the following: derivative instruments; repurchase and reverse repurchase agreements; borrowing and lending transactions executed under the stock exchange; inter-branch or inter-departmental advances within the same legal entity; exchange of properties for stock; all forbearances arising from sales or service contracts; bank deposits accounts without a fixed term or maturity; and contracts, deeds, documents, and transactions of the BSP.*
- *Realigns the DST rates on annuities with that of life insurance policies (P0.50 for every P200 of premium).*
- *Adopts a uniform base for life insurance, annuity and pre-need plans (i.e., amount of premium or contract price in case of one time payment).*

- 3. VAT Exemption of Certain Services and the Re-imposition of Gross Receipts Tax (GRT) on Financial Services** - This measure intends to do away with the imposition of VAT on banks which is administratively difficult to implement and re-imposes GRT based on a new schedule. The imposition of a GRT does not adversely affect key sectors of the economy unlike a VAT on loan transactions which hit final consumers and farmers twice (i.e., first, the VAT on interest loans and second, the VAT on purchases of house, cars, farm inputs, etc.) This bill has been slated for signing into law by the President (lapsed into law on February 5, 2004 in accordance with Article 6 of the Constitution).



## Major Features of the VAT Exemption Bill

- *Exempts the services of banks and non-bank financial intermediaries from VAT and re-imposes GRT based on a new schedule.*
- *Exempts the services of lawyers and doctors of medicine*
- *GRT New Schedule:*
  - *On interest, commissions and discounts from lending activities, income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:*

<i>Maturity period is 5 years or less</i>	<i>5%</i>
<i>Maturity period is more than 5 years</i>	<i>1%</i>
<i>Dividends and equity shares in net income on subsidiaries</i>	<i>5%</i>
<i>Royalties, rentals of property, profits from exchange and all other items treated as gross income under Section 32 of the NIRC</i>	<i>5%</i>
<i>Net trading gains on FX currency, debt securities, derivatives and other similar financial instruments</i>	<i>5%</i>

Other critical reform measures being pushed for enactment by Congress are the indexation of the excise tax on cigarettes and alcohol products and the creation of the National Revenue Authority Bill. The former seeks to restore the real value of the taxes applied to sin products to their January 1, 1997 levels, which has been eroded by inflation while the latter will address the perennial problems of the BIR in tax administration such as graft and corruption and weak systems and procedures.

### Contained the Consolidated Public Sector Deficit

The Consolidated Public Sector Financial Position (CPSFP) registered a deficit of P244.6 billion for 2003. This is lower than the P284.8 billion deficit programmed for the period, though higher than the P218.7 billion registered in 2002. The CPSFP represents 5.6 percent of GDP, much lower than the 2003 program of 6.6 percent.

While the National Government deficit improved from P210.7 billion in 2002 to P199.9 billion in 2003, this was, however, offset by a higher deficit by monitored GOCCs. Monitored GOCCs posted a total deficit of P65.3 billion in 2003 from P46.4 billion in 2002 but still lower by P31.7 billion than the 2003 target of P97.0 billion.

Other Public Sector entities reflected a drop in surplus from P49.6 billion in 2002 to P30.4 billion in 2003 mainly because of:

- lower combined surplus of the SSS and the GSIS of 7.8 billion from 25.6 billion in 2002; and
- lower net income of government financial institutions.

This is partially offset by higher than programmed net income of the Bangko Sentral ng Pilipinas of P6.9 billion compared with the P1.2 billion it earned in 2002.

The decline in the surplus of the SSS and the GSIS resulted from :

- SSS reflecting on its 4<sup>th</sup> quarter books losses from divesting its shares in Equitable-PCI Bank;
- GSIS' interruption of lending activities in the 2<sup>nd</sup> quarter of 2003; and
- GSIS' capital investment in its computerization program.



## Consolidated Public Sector Financial Position

(In Billion Pesos)

	2002 (Actual)	2003 (Actual)
<b>TOTAL SURPLUS +/-DEFICIT-</b>	<b>(218.7)</b>	<b>(244.6)</b>
Percent of GDP	-5.4%	-5.6%
<b>TOTAL PSBR</b>	<b>(268.3)</b>	<b>(275.0)</b>
Percent of GDP	-6.7%	-6.3%
National Government	(210.7)	(199.9)
CB Restructuring	(15.1)	(15.7)
Monitoring GOCCs	(46.4)	(65.3)
Adjustment for net lending and equity to GOCCs	3.9	5.8
Other adjustments	0.0	0.0
<b>OTHER PUBLIC SECTOR</b>	<b>49.6</b>	<b>30.4</b>
Percent of GDP	1.2%	0.7%
SSS/GSIS	25.6	7.8
BSP	1.2	6.9
GFIIs	5.4	4.9
LGUs	18.9	7.9
Timing adjustment of interest payments to BSP	(1.6)	0.6
Other adjustments	0.0	2.2

### Implemented prudent spending program

Government expenditures reached P826.5 billion in 2003, exceeding the 2002 level of P777.9 billion by P48.6 billion or 6.2 percent. This figure is likewise 5.1 percent higher than the programmed level of P786.1 billion. The higher spending can be attributed mainly to the following: (a) increase in interest payments which went up 21.8 percent to P226.4 billion from P185.9 billion in 2002, (b) the more than doubling of subsidy from P5.6 billion in 2002 to P12.2 billion in 2003, (c) increase in allotment to LGUs by P5.9 billion, and (d) higher personnel spending which rose 3.8 percent.

Spending would have gone higher if not for the following factors: (a) lower than programmed interest payments for debt which resulted in NG savings of P4.3 billion, (b) strict monitoring of constructive cash availments, (c) prudent spending on maintenance and other operating expenditures – P78.5 billion in 2003 as against P83.4 billion in 2002, (d) sharp cuts in capital outlays from P122.6 billion in 2002 to P109.2 billion in 2003, and (e) calibrated payments of accounts payable.

### NG Expenditures

2002-2003

(In Billion Pesos)

	2002	2003
Interest Payments	185.9	226.4
Net Lending	2.6	5.6
Equity	1.5	2.6
Subsidy	5.6	12.2
Allotment to LGUs	109.8	115.7
Tax Expenditures	0.0	0.0
Others	472.5	464.0



## Debt Management

### Adopted prudent financing strategies

The DOF continued to ensure that the flow of financing remained steady without financing costs undermining the developmental aspects of the national budget. The DOF relied on longer-term bond flotations to lengthen the maturity profile and minimize the bunching of maturities, reduced financing costs through official development assistance (ODA) which offers concessional rates, and capitalized on low interest rate periods.

For 2003, the net financing amounted to P286.8 billion, slightly higher than the P264.2 billion registered in 2002 as a result of servicing maturing obligations and financing the deficit. The prevailing low domestic interest rate – with the average 91-day T-bill only inching up slightly to 6.0 percent compared to 5.5 percent the previous year — prompted the government to rely more heavily on domestic borrowings. The actual borrowing mix on gross basis stood at 55-45 in favor of domestic financing.

The net domestic borrowings for 2003 amounted to P143.0 billion, mainly sourced from the issuance of Retail Treasury Bonds or RTBs (P105.4 billion) and Treasury Bills (net, P94.7 billion).

Net external borrowing was recorded at P143.9 billion, the bulk of which came from issuance of P182.0 billion in bonds. Project loan availments (P38.0 billion) continued to be higher than program loans (P20.2 billion).

Commercial borrowings for the year were used mainly to augment budgetary requirements and to service maturing obligations.

To lower financing costs, the government optimized the availment of funding from Official Development Assistance (ODA). Disbursement rate of ODA loans accelerated to 89.2 percent in 2003 from 78.9 percent in 2002. There was substantial improvement in disbursements from Asian Development Bank's (ADB) program loan (from 76.9 percent in 2002 to 100 percent in 2003) and project loans from World Bank (from 65.3 percent in 2002 to 74.2 percent in 2003). The significant increase was attributed to better project preparation and improved procurement procedures, among others.

### NG Financing 2002-2003 (In Billion Pesos)

	2002 Actual	2003 Actual
<b>FINANCING</b>	<b>264.2</b>	<b>286.8</b>
Domestic Borrowing (Net)	155.0	143.0
O.W. T-Bills (Net)	22.7	94.7
External Borrowing (Net)	109.1	143.9
O.W. Project Loan	35.2	38.0
Program Loan	18.0	20.2
Bonds	147.1	182.0





### Commercial Borrowings For the Year 2003

	Amount	Coupon
US SEC Registered Global Bonds Re-opening of the ROP's 9.00% 2013 (Credit Suisse, JP Morgan, Morgan Stanley)	US\$500 M	9.000%
Zero Coupon Treasury Bills (HongKong Shanghai Banking Corporation)	US\$200 M	YTM=3.096%
Euro Denominated Bonds (Deutsche Bank, JP Morgan, Credit Suisse)	Euro 300 M	9.125%
US SEC Registered Global Bonds (Citigroup, Deutsche Bank and JP Morgan)	US\$175 M	8.250%
US\$175 Million (Citigroup, Deutsche Bank and JP Morgan)	US\$175 M	YTM=3.25%
ROP Global Bonds due 2014 (with HSBC, Morgan Stanley and UBS Warburg)	US\$750 M	8.250%
ROP Global Bonds due 2025	US\$300 M	10.625%



## Philippine 2003 Sovereign Issues Receive International Recognition

*In 2003, the Philippine government received international awards from international financial magazines for its sovereign and local bond issuances. The awards recognized the government's ability to develop cost-efficient, innovative, sizeable and well-structured deals amid challenging economic conditions in 2003. The awards include:*

-  *Most Impressive Asian Borrower Award from Euroweek*
-  *US \$750 Million Global Bond April 2003 (Citigroup, Deutsche Bank, and JP Morgan as joint bookrunner) cited as:*
  - Best Sovereign Bond from Asia Money Magazine*
  - Best Asian Sovereign Bond from Asset Magazine*
  - Best Asian Sovereign from Euroweek*
  - Best Sovereign Bond from Euromoney*
-  *Php 74.3 Billion 30-Year Retail Treasury Bonds (structured and underwritten by HSBC) cited as:*
  - Domestic Bond Deal of the Year and Philippine Capital Markets Transaction of the Year Award from the International Finance Review Magazine's IFR Asia Awards*
  - Best Deal for the Philippines Award from Finance Asia Magazine*
-  *Php 67.12 Billion Dual Tranche (HSBC as bookrunner) cited as:*
  - Best Philippine Peso Bond Award from Euroweek*

The biggest project loan obtained by the government in 2003 was co-financed by the ADB and Japan Bank for International Cooperation (JBIC) for the Electricity Market and Transmission amounting to US\$80 million. JBIC likewise financed two more projects for Mindanao, namely: Autonomous Region for Muslim Mindanao (ARMM) Social Fund for Peace and Development Project and Central Mindanao Road Project) in the amount of US\$38.0 million and US\$34.9 million, respectively. The single program loan concluded in 2003 came from ADB in the amount of US\$150 million for the 2<sup>nd</sup> Non-Bank Financial Program.



## Strengthened the Government Corporate Sector

### Prudent Management of Contingent Liabilities

The DOF implemented a continuous review of the contingent liabilities of GOCCs and GFIs to ensure that there will be no guarantee call that will impact on the budget. In 2003, the DOF adopted the following measures:

- Review of charter provisions of GOCCs and GFIs pertaining to NG guarantees, which focused on the financial viability and financial strength.
- Review of contractual obligations under IPP contracts and 11 of the 24 non-power Build-Operate-Transfer (BOT) contracts. The review intends to estimate monetary obligations, consider possible unbundling of risks, specify early warning systems for defaults, allow for possible renegotiation of contracts, and improve the legal and regulatory framework affecting BOT/Private Sector Participation (PSP) Projects. In 2003, the DOF reviewed 12 BOT/PSP projects in the power, transportation, water, and information technology sectors, taking into account their financial viability and strength.

### Improved Consolidated Fiscal Position of Monitored Non-Financial GOCCs

The 14 monitored non-financial government corporations (MNFGCs) posted a deficit of P65.3 billion in 2003, P31.7 billion lower than the programmed target of P97.0 billion. This was due to the improved fiscal operations of GOCCs. The 2003 deficit is, however, higher compared to the 2002 actual deficit of P46.4 billion mainly due to National Power Corporation's (NPC) higher fuel and purchase power cost and payment of separation pay to NPC employees to implement Republic Act No. 9136 or the Electric Power Industry Reform Act of 2002 (EPIRA).

#### Statement of Financial Operations of the MNFGCs

2002-2003

(In Billion Pesos)

	2002	2003
Total Receipts	174.6	183.1
Current Expenses	189.9	233.0
Capital Expenses	31.1	25.7
Financing Deficits/Surplus	(46.4)	(65.3)



### **Review of Renegotiated NPC-IPP Contracts**

The Inter-Agency Committee (IAC) created under the Electric Power Industry Reform Act (EPIRA) to review NPC-Independent Power Producer (IPP) Contracts, is chaired by the DOF, with NEDA and DOJ as members. The IAC renegotiated eight(8) IPP contracts to reduce electricity rates and stranded contract costs, two issues which are among the President's priority agenda in the power sector. The review process, approved by the NEDA Board in June 2003, considered the financial, legal, and policy implications of the outcome of the renegotiations and the assurance that the review would not result in an increase in government undertakings or guarantees.

The following IPP contracts were renegotiated in 2003:

1. 1000 MW Sual Coal-Fired Thermal Power Plant
2. 700 MW Pagbilao Coal-Fired Thermal Power Station
3. 100 MW Navotas Gas Turbine Power Station Unit 4
4. 108 MW Subic Bunker Fired Diesel power Plant
5. Caliraya-Botocan-Kalayaan (CBK) Project
6. Bakun Hydro-Electric Power Plant
7. Binga Hydro-Electric Power Plant
8. 140 MW Casecnan Multipurpose Project and Manablon Powerhouse

### **Enforcement of Dividend and Guarantee Fee Collections from GOCCs**

For 2003, total dividend remittance from GOCCs reached P5.1 billion, lower than the P7.5 billion posted in 2002. The DOF likewise coordinated with and assisted the BTr in the collection of Guarantee Fees due from GOCCs. The DOF collected a total of P7.2 billion in fees in 2003, slightly lower than the P8.3 billion registered in 2002 on account of less issuance of guarantee.

### **Prudent Endorsement of GOCC Borrowings and Extension of Guarantees and Performance Undertakings**

*The DOF continued to pursue prudent endorsement of GOCC borrowings as well as extensions of guarantees and performance undertakings. The DOF's endorsement of GOCC borrowings was limited only to undertakings that are consistent with the NG's priority agenda and which are financially viable.*

*The criteria for the provision of guarantees likewise followed that of providing endorsements of GOCC borrowings. It instituted the strict process of NG's willingness to guarantee which is a requirement for seeking approval in principle by the Monetary Board of extending guarantees to GOCC borrowings. This has resulted in a more rational extension of NG guarantee.*



### *Promoted Microfinance through Policy Reforms*

*As chair of the National Credit Council (NCC), the DOF continues its pursuit of a market-oriented, private-led, sustainable, and viable credit and microfinance delivery system by expanding the policy reforms established in the past and by developing functional tools for effective credit and microfinance regulation.*

#### **DA-DOF-DBM Joint Circular on the Mechanism for the Transfer of Funds under EO 138 and AFMA**

On March 11, 2003, the Secretaries of Finance, Agriculture, and Budget and Management signed Joint Circular No. 1 entitled "Rules and Regulations for the Transfer of Funds under Executive Order (EO) 138 and Agriculture and Fisheries Modernization Act (AFMA)". This Circular contains the guidelines to be followed by government non-financial agencies (GNFAs) and GOCCs in terminating and/or transferring the funds of directed credit programs (DCPs) to GFIs.

The Circular complements the provisions of EO 138 and its Operating Guidelines and the AFMA, two major reforms rationalizing government's credit policy and encouraging a private sector-led and market-oriented delivery of credit services. With the Circular in place, it will facilitate the phase-out of DCPs as well as the transfer of DCP balances to GFIs.

#### **Policy and Operational Framework for Microfinance in Agrarian Reform Areas**

Upon request of the Department of Agrarian Reform-Bureau of Agrarian Reform Beneficiaries Development (DAR-BARBD), the DOF-NCC provided technical assistance in formulating a Policy and Operational Framework in developing and designing microfinance assistance to agrarian reform areas. The framework was based on existing microfinance policies and credit policy reforms of the NCC. The framework became the basis of DAR Memorandum Circular No.17 (s2003) espousing the adoption of market-based interest rates and the use of GFIs to implement microfinance projects in agrarian reform areas.



### **Framework for the Regulation and Supervision of Credit and Other Types of Cooperatives with Credit Services**

The DOF-NCC collaborated with the Cooperative Development Authority (CDA) and the Bangko Sentral ng Pilipinas (BSP) in drafting a Framework for the Regulation and Supervision of Credit and Other Types of Cooperatives with Credit Services.

The Framework has the following salient features:

1. Identifies mechanisms and specifies the roles of the CDA, its regional offices and cooperative unions/federations for effectively regulating supervising credit cooperatives. Regulation and supervision are necessary to ensure that cooperatives perform according to standards and maintain viable and sustainable operations; and
2. Addresses the structural weaknesses and resource inadequacies of the CDA so that it can efficiently perform regulatory functions

By the end of 2003, the framework has been subjected to three (3) regional consultation workshops where comments were received from primary cooperatives and federations. The framework is targeted for finalization by the first quarter of 2004.

### **Performance Standards for Microfinance Institutions**

Since the government identified microfinance as a primary tool in alleviating poverty, the DOF-NCC spearheaded a multi-sectoral working group to develop uniform performance standards (PS), to be applied across all microfinance institutions (MFIs), to ensure that institutions providing retail microfinance services to the poor are reliable and stable.

The PS is also envisioned to facilitate the evaluation and assessment of the operations of MFIs and to compare their financial performance. The Performance Standards developed for MFIs include indicators on portfolio quality, efficiency, sustainability, outreach and savings.

The draft PS was subjected to a series of regional consultations in 2003. It will be finalized by early 2004 after which it shall be endorsed by the NCC to regulators like the BSP, CDA and the Microfinance Council of the Philippines, and to wholesalers like the Landbank of the Philippines (LBP), Development Bank of the Philippines (DBP) and the People's Credit and Finance Corporation (PCFC).

### **Design of an Effective Credit Bureau**

The design of an effective credit bureau is one of the tasks to be undertaken under the Regulatory Framework for Microfinance formulated in 2002. The DOF-NCC and the BSP have collaborated on this, and as of yearend 2003, a business model for the effective functioning of credit bureaus with the objective of minimizing loan delinquency and "credit pollution" in the country has been formulated. Policy review and drafting of special legislation to mandate credit information sharing are some of the components of the draft design, which is targeted to be in place by the second quarter of 2004.



## *Enhanced Ties with Regional Peers and the Donor Community*

### **7<sup>th</sup> ASEAN Finance Ministers Meeting**

August 3-7, 2003

Hosted by the Department of Finance, the 7<sup>th</sup> ASEAN Finance Ministers Meeting (AFMM) held on August 3-4, 2003 at The Manila Peninsula, Makati City highlighted the progress made in various finance cooperation activities since the AFMM in Yangon, Myanmar in October 2002.

Among the notable initiatives undertaken are the following:

1. The ASEAN Harmonized Tariff Nomenclature (AHTN)

The Finance Ministers signed the Protocol to implement the ASEAN Harmonized Tariff Nomenclature (AHTN). This Protocol puts into practice the uniform classification of traded goods that will facilitate regional trade and investment by simplifying and streamlining customs processes.



*Secretary Camacho presides over the 7th ASEAN Finance Ministers' Meeting.*

2. Roadmap for Integration in ASEAN

The Ministers endorsed the Roadmap for Monetary and Financial Integration of ASEAN that was prepared by the ASEAN Finance Deputy Ministers (AFDM) in Manila and further agreed to submit the Roadmap to the ASEAN Summit for adoption in October 2003 in Bali, Indonesia. The roadmap consists of steps, timelines, and indicators of activities in Capital Market Development, Liberalization of Financial Services, Capital Account Liberalization, and ASEAN Currency Cooperation, with the ultimate goal of greater economic integration in ASEAN by 2020.



### 3. ASEAN +3 Finance Cooperation Fund

The ASEAN + 3 Finance Ministers (China, Japan and Korea) signed the agreement establishing the ASEAN+3 Finance Cooperation Fund to support the ASEAN + 3 policy dialogue mechanism. This proposal was in response to the recommendation of the ASEAN + 3 Study Group to Examine Ways of Enhancing the Effectiveness of Economic Reviews and Policy Dialogues in Kuala Lumpur on 22 November 2001 and in Yangon on 4 April 2002.

### 4. Chiang Mai Initiative (CMI)

The Chiang Mai Initiative was initiated in Chiang Mai, Thailand during the ASEAN +3 Finance Ministers Meeting in May 2000 when the ASEAN +3 met to discuss a regional support mechanism that can promote further regional financing arrangement which was then called the Chiang Mai Initiative. The last ASEAN +3 Finance Ministers Meeting noted the significant progress made in expanding the number of the Bilateral SWAP Arrangements (BSAs) and the size of the network to US\$31.5 billion. The Meeting further noted the negotiation of four BSAs between China-Philippines, China-Indonesia, Korea-Indonesia and Japan-Singapore.

## Consultative Group

The Consultative Group (CG) Meeting is a yearly assembly of officials of the Philippine Government and the donor community of bilateral and multilateral financing institutions. The CG Meeting is the culmination of the programming of development assistance for the Philippines.

The 25<sup>th</sup> Meeting of the Consultative Group for the Philippines was held on November 7-8, 2003 in Mactan, Cebu. It was the third consecutive time since 2000 that the Philippines hosted the CG Meeting. The year's theme "**Securing Peace and Development**" highlighted the Government's thrust of attaining peace and order while bringing development to areas most affected by conflict and extreme poverty.

During the 25th Meeting, the development partners committed US\$2.0 billion of ODA funds that can be made available in 2004. The utilization of existing ODA funds rose from 10 percent in 2001 to 15.0 percent in 2003. The support indicated was sufficient to meet the Government's ODA requirements in 2004 and reflected the Government's selectivity and quality of ODA portfolio.

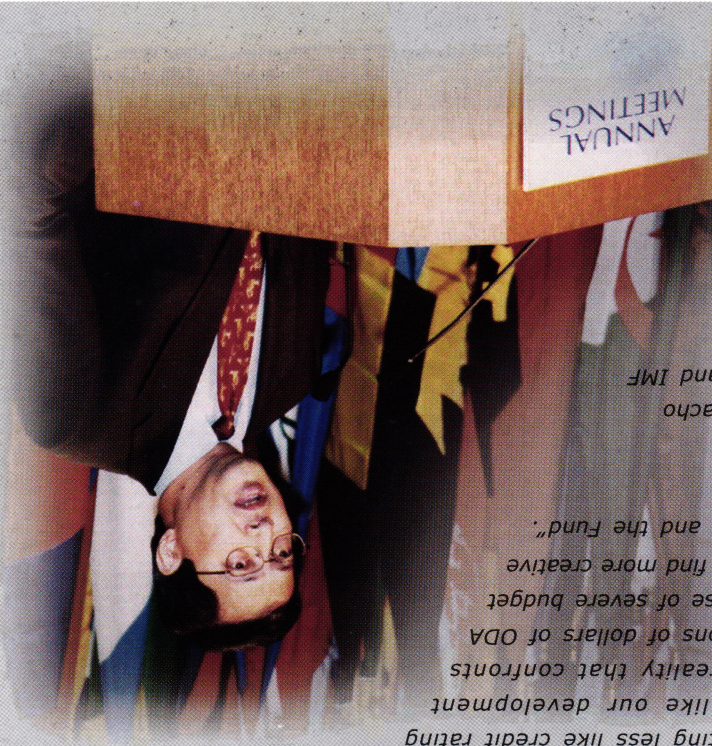


**Secretary Camacho Delivers a Strong Message During the Joint Annual Meetings of the World Bank and the International Monetary Fund**

Secretary Camacho, during the Joint Annual Meetings of the World Bank and the International Monetary Fund held on September 23-24, 2003, delivered a strong message on behalf of the middle income countries regarding important development issues that confront these countries in the world economy today. First is the issue of voice in the multilateral finance institution where developing countries and transition economies should be given voting strength in accord with their real share in the world economy. Second is to go full steam with the creation of "an open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial system". The issue of subsidies and quantitative restrictions (QRS) should be resolved once and for all. Third is the need for continued improvement in official development assistance (ODA) volumes and modalities at the same time that recipient countries continue to adopt policy reforms and emergency assistance in post-conflict situations.

"How can the Bank (WB) and the Fund (IMF) be more relevant today? Let them be less the preachers and more the doers. For the most part, we, the authorities, understand our countries' own myriad problems. We are there on the ground where each day we have to grapple with limited resources to find solutions amid grim political realities. To us, fiscal consolidation is not just a diagnosis it is an urgent agenda. We want to see the Bank and the Fund acting less like credit rating agencies, and more like our development partners. The harsh reality that confronts authorities is that millions of dollars of ODA remain unutilized because of severe budget constraints. We need to find more creative solutions from the Bank and the Fund".

Secretary Jose Isidro N. Camacho  
Joint Annual Meetings of WB and IMF  
September 23-24, 2003  
Dubai, United Arab Emirates





## Empowering LGUs through Better Access to Financing

In order to enhance the fiscal autonomy of Local Government Units (LGUs), the DOF through its Municipal Development Fund Office (MDFO) aims to wean LGUs from a heavy dependence on the national budget. Hence, it has continued to undertake programs to improve access of LGUs to other sources of financing. These include:

### NG-LGU Cost Sharing

The NG-LGU cost sharing scheme requires that LGU subprojects should be funded through a combination of loans and grants from the National Government and equity contributions from the LGU. The financing mix varies depending on the type of LGU (i.e., provinces, municipalities, cities), LGU income class and nature of the subproject.

The scheme expanded the activities that may be co-shared by the NG and LGUs, and provided a maximum grant of 50 percent of the total sub-project cost for lower income class LGUs. This policy, effective on January 1, 2003, has helped LGUs to graduate from NG dole-outs and to eventually transform them into self-reliant government units.

### Program Lending

Over the years, a substantial amount of reflows has been accumulated into a fund known as the Second Generation Fund representing collections of loan by LGUs from NG facilities administered by the Municipal Development Fund Office (MDFO).

The MDFO Policy Governing Board (PGB) composed of DOF, DBM, DILG, DPWH and NEDA with MDFO acting as ex-officio member approved the utilization of the Second Generation Fund. This Fund finances Policy Based Loans for provinces to attain policy or reform objectives in fiscal administration, revenue collection and resource generation, budgetary planning, expenditure management and overall governance. The pilot project is Negros Occidental's Electronic Procurement System, costing P120 million.



#### Iriga City, Camarines Sur

Iriga City's subproject—the Construction of Iriga City Central Terminal—intends to provide beneficiaries with off-street parking and terminal space that will address traffic and pedestrian congestion. The subproject will also provide sanitation facilities and improve roads, among others.

The subproject is expected to be self-liquidating, and shall generate for the City government additional revenues. For the community, it shall also spur economic development, as it opens up opportunities for private investment.

#### Boac, Marinduque

The subproject aims to construct a two storey Municipal Health Center to replace the rural health unit-I and procure and operate diagnostic facilities such as an x-ray machine and an ultrasound apparatus.





### MDFO Corporatization

Executive Order (EO) No. 252 dated December 1, 2003 approved the corporatization of the MDFO, a milestone achievement for LGU finance. The EO mandates the creation of an institution that would cater to the financing needs of the least creditworthy LGUs and encourage private sector participation in LGU financing. While still in an early stage of implementation, the EO is intended to relieve the NG from the burden of providing budgetary support for devolved activities.



*One of the Agroforestry sites in Buenavista, Bohol. Agroforestry anchors on Soil and Water Conservation principles.*



*One of the Tree Plantation sites in Buenavista, Bohol.*

### CBRMP and LOGOFIND

The MDFO extends direct support to the LGUs through two critical programs, the Community-Based Resource Management Project (CBRMP) and the Local Government Finance Development Project (LOGOFIND).

The CBRMP, a World Bank assisted project, helps low income LGUs in implementing natural resource management projects. It provides financial assistance to partner line agencies like the DILG and DENR in delivering technical assistance to low income LGUs. The CBRMP is currently assisting 90 resource management projects in 19 provinces spread over four regions (Regions 5,7,8, and 13). As of end 2003, the overall physical progress of the CBRMP improved to 72.5 percent from 56 percent in 2002 while disbursement rate is at 53 percent, a significant improvement over the 27 percent posted in 2002.

The LOGOFIND, also a World Bank assisted project, provides long-term financing and technical support to low income LGUs in terms of capacity-building and resource mobilization. For 2003, a total of 26 projects was approved as a result of streamlined application process and increased manpower.

Training and capacity-building during the year include modules on environmental management planning, financial management, procurement, participatory monitoring, evaluation and reporting, construction supervision, implementation, completion report and sustainability. The project trained a total of 58 LGUs in at least one or a combination of the modules.

To assist LGUs in resource mobilization, the LOGOFIND provides three programs. These are the Real Property Tax Administration (RPTA), Business Tax Enhancement Program (BTEP), and Capability Building focused on developing LGU capabilities to update their own local revenue codes and to enhance local resource mobilization. Some four hundred seventy (470) LGUs availed of the Capability Building Programs as of 2003.



## *Adopted a Strict Review of Applications for Tax Exemptions*

### Revenue Office

For 2003, the Revenue Office granted tax and duty exemptions estimated at P4.7 billion, P1.3 billion higher than the P3.4 billion level in 2002. This can be attributed largely to higher tax exemptions extended to Philippine Veterans Development Industries Corporation (PHIVIDEC) and NPC which amounted to P1.0 billion and P540 million, respectively. A total of 6,605 requests were filed for tax exemptions, of which 73 applications were denied.

### Mabuhay Lane

The amount of taxes and duties waived on importations by the Mabuhay Lane fell to about P1.7 billion in 2003 from P2.0 billion in 2002 due to a strict review of applications for exemptions.

#### The Mabuhay Lane

*The Mabuhay Lane is one of the DOF's frontline offices which caters to the importations made by the following sectors:*

- *BOI-registered enterprises (capital equipment)*
- *Non-stock, non profit educational institutions*
- *Importers of books, magazines and similar items*
- *Importers qualified under Section 105 (r) of the Tariff and Customs Code of the Philippines*
- *Asian Development Bank*
- *Importers of personal effects and household goods*
- *Contractors for the Department of Energy*

### Mabuhay Lane Estimated Duties and Taxes Waived (By Group) 2002-2003 (in Million Pesos)

General Description	Value of Importation		Duties Waived		Value Added Tax Waived		Total	
	2002	2003	2002	2003	2002	2003	2002	2003
1. Importation of Capital Equipment of BOI Registered Companies	4,291	3,686	300	258	459	394	759	652
2. Importation by Non-Stock, Non-Profit Educational Institutions	848	612	59	43	91	65	150	108
3. Importation of Books and other pursuant to UNESCO agreement	2,432	3,072	170	215	260	329	431	544
4. Importation Under Section 105 of the Tariff and Customs Code of the Philippines (TCCP)	264	226	19	16	28	24	47	40
5. Importation of ADB	593	502	42	35	64	54	105	89
6. Importation of Energy Sector	2,956	1,616	207	113	316	173	523	286
<b>Total</b>	<b>11,384</b>	<b>9,714</b>	<b>797</b>	<b>680</b>	<b>1,218</b>	<b>1,039</b>	<b>2,015</b>	<b>1,719</b>



### **One Stop Shop Inter-Agency Tax Credit and Duty Drawback Center (CENTER)**

The CENTER continues to process tax credit and duty drawback claims of exporters pursuant to Administrative Order No. 266.

For CY 2003, the CENTER's operations — composed of the Investment Incentives Group, Duty Drawback Group, and Tax and Revenue Group — issued a total of P2.6 billion in tax credit claims (TCC) to 2,078 companies, a drop of 24 percent compared to the TCC issuances of P3.5 Billion for 2002.

Furthermore, from an average annual TCC issuance of P11.9 Billion in 1995 to June 1998, which was the period of the tax credit scam, the average annual TCC issuance has significantly dropped by as much as 76 percent or P2.8 Billion per year from July 1998 to December 2003. These developments are due largely to the implementation of organizational and procedural reforms to enhance and safeguard the integrity of the tax credit system of the country.

The CENTER was also instrumental in aborting several attempts to sell fake tax credit certificates. The timely discovery of the fake TCCs led to the apprehension of five (5) individuals involved in the modus operandi involving two employees, one from BIR and the other from BOC. All parties involved were charged with administrative and criminal cases while investigation is still being conducted to identify other participants both in and out of government.

The CENTER, recognizing the need to further strengthen its operations, immediately launched the following projects namely; *Special Revalidation of Tax Certificates, Mandatory Issuance of Tax Debit Memo and Electronic Verification, and Special Operations Audit of the System of TCC Preparation and Issuance.*

### **Zero Backlog of Credit Claims Launched**

*The Tax & Revenue Group (BIR Window) of the CENTER launched in September 2003 the Zero Backlog of VAT credit claims of the Semi-Conductors and Electronics Industries of the Philippines Inc. (SEIPI) and the Japanese Chamber of Commerce and Industries of the Philippines, Inc. (JCCIFI).*

*At the close of CY 2003, a total of 118 claims or 58 percent of the 205 JCCIFI VAT credit claims filed in the CENTER was completed. The 87 claims which are under process are likewise expected to be finished by middle of 2004.*

*Responding to the clamor for the immediate resolution of various policy and legal issues, the BIR in coordination with the CENTER issued RMC 42-2003 which clarify certain issues raised in relation to the processing of VAT credit claims.*

*The issuance of said revenue regulation paved the way for a speedier disposition of tax credit claims and assured the deterrence of abuses by examiners/evaluators who previously enjoyed wide latitude of discretion in the treatment of claims.*



## *Conduct of Lifestyle Checks*

Potential collections from taxes are not fully realized because of the lingering problem of graft and corruption. In 2003, the DOF instituted governance reform measures to address this problem. One such measure is the strong and consistent enforcement of anti-graft laws through the Revenue Integrity Protection Service. By the end of 2003 the DOF, implementing a program of evidence gathering and case build-up, had filed complaints with the Office of the Ombudsman against a number of officials of the Bureau of Internal Revenue and the Bureau of Customs for various violations of administrative and penal laws.



### **Revenue Integrity Protection Service**

On 17 December 2003 President Gloria Macapagal Arroyo signed Executive Order No. 259, creating within the Department of Finance the Revenue Integrity Protection Service (RIPS). As the DOF's anti-corruption arm, RIPS investigates allegations of corruption in the DOF and its attached agencies and, if circumstances so warrant, file the necessary charges erring personnel with the Office of the Ombudsman. The DOF has taken an active role in enforcing anti-graft and corruption laws and is at the forefront of governance reform efforts that are designed to ensure the integrity of officials and employees within the revenue raising agencies of government.

RIPS encourages active citizens' participation. It receives reports of anomalies in the revenue agencies of government through its hotline 404-1775 or through its website [www.rips.gov.ph](http://www.rips.gov.ph).



## Human Resource Development

The Department of Finance continues to enhance the potential of its workforce to the fullest by providing them training opportunities in various areas of study. This in line with the government's continuing thrust of greater productivity in the bureaucracy.

In 2003, DOF personnel availed themselves of 454 local and foreign scholarships and training programs in economics, finance, taxation, privatization, budgeting, fiscal management, capital markets development, information technology, and corporate governance. Twelve (12) employees were added to the roster of DOF personnel with masteral degrees. Ten (10) graduated from the off-campus program offered by the DOF, the third batch of graduates under such program, while two (2) completed their graduate programs in Japan under the Joint Japan-World Bank Graduate Scholarship Program and the Japan-IMF Scholarship Program for Asia.

In 2003, the Civil Service Commission conducted an orientation for senior DOF officials on the adoption of the new DOF Performance Management System (PMS). This is in preparation for the eventual implementation of the new PMS. The new PMS, which was pilot-tested as early as 2001 in two offices, namely, the Central Administration Office and the Central Financial Management Office, shall serve as the new basis for rating the overall performance of an employee. A critical, salient feature of the new PMS is the institution of cross rating system where, aside from being rated by the supervisor, an employee can self-rate himself and be rated by his peer.

At the OSS-CENTER, an Organizational Development Audit of the CENTER was performed through the auspices of the Civil Service Commission (CSC). The audit is intended to develop organizational models with staffing patterns and approaches to organizational change for the CENTER to adopt.

### Community Participation

The DOF is more than a government line agency engaged in fiscal policymaking. Through the years, it has been deeply involved in socio-civic and humanitarian activities in partnership with local officials and private organizations. This include an outreach program for streetchildren of the Our Lady of Assumption Parish in Malate, Manila; and a blood donation drive in partnership with the Philippine Children's Medical Center (PCMC). In recognition of the DOF's active blood donation drive, the PCMC gave the DOF the "Gawad Mapag-unlak Award".



Ms. Rosario Fuerte, Chief of Personnel Services Division, receives the "Gawad Mapag-unlak Award" for the DOF.

DOF employees donate blood for the Philippine Children's Medical Center.



## *Fiscal Consolidation*

The NG aims for fiscal consolidation by 2009. For 2004 and beyond, efforts shall be geared towards improving revenue effort and maintaining prudent expenditure. Crucial to achieving improved revenues is the need to improve tax effort. Thus, the DOF shall pursue the following:

1. Full support to structural reforms that would strengthen the tax system and include the passage of the following reform proposals:
  - Indexation of specific tax on sin products to mitigate declines in real terms as inflation erodes nominal values of tax rates;
  - Creation of the National Revenue Authority that will improve tax governance and curb graft and corruption in the BIR;
  - Fiscal Responsibility Act which will ensure that all future legislation creating additional expenditures or tax incentives are accompanied by revenue measures for fiscal neutrality;
2. Comprehensive review of the tax structure to ensure its equity, productivity, simplicity and adequacy.
3. Enhanced debt management by identifying options for debt reduction schemes.
4. Pursue relentless drive against graft and corruption in the DOF.
5. Review of contingent liabilities by identifying all sources of existing and potential contingent liabilities of NG and pursuing reforms to minimize government guarantees risks;
6. Enhance the monitoring of the financial operations of GOCCs, improve accountability and transparency and minimize their dependence on NG subsidies, capital infusions and advances.
7. Mobilize local governments to raise revenues.



The BIR implemented the following programs in 2003:

## **1. Implementation of More Effective Taxpayer Compliance and Control Systems**

### **Expansion of Reconciliation of Listings for Enforcement (RELIEF) System**

The RELIEF System, which involves the computerized matching of Summary List of Sales and Purchases submitted by taxpayers with actual declarations of corresponding buyers and suppliers, was rolled out to all forty-two (42) computerized district offices, Large Taxpayers Service (LTS), and LT District Offices.

### **Expansion of Voluntary Assessment and Abatement Program (VAAP)**

The VAAP, which started in September 2002, was expanded to other industries/transactions as an offshoot of the RELIEF Program. The VAAP covers the following: i) Independent Power Producers (IPPs); ii) Mortgage Foreclosure Sale of Banks; and iii) Insurance Companies. The VAAP generated a total of P 7.0 billion from 5,919 taxpayers in 2003 compared to P 4.7 billion in 2002.

### **Implementation of the Tax Compliance Verification Drive**

The BIR conducted the Tax Compliance Verification Drive (TCVD) in order to expand the tax base, enhance tax compliance, and implement Revenue Memorandum Orders (RMOs) related to the TCVD.

### **Computer Linkages with Excise Taxpayers: Automated Excise Data Management**

The Automated Excise Data Management System is a web-based automation system used in the management and monitoring of Excise Taxpayers' Removal Declaration (ETRD). A Memorandum of Agreement (MOA) was signed between the Bureau and the United Nations Conference on Trade and Development (UNCTAD), which covers Phase I - On line Approval and Generation of ETRD with staggered expansion to targeted one hundred twenty-seven (127) excise taxpayers.

### **Strict Monitoring of Local Government Units and National Government Agencies**

The BIR created two (2) Audit Teams to conduct field audit, verification, and investigation of National Government Agencies (NGAs) within Metro Manila, which include the Department of Education, Culture, and Sport (DECS) and the Department of Public Works and Highways (DPWH). As a result, the BIR assessed about P 754.7 million in additional taxes from these agencies. Likewise, Local Government Units (LGUs) were assessed P 1.8 billion.

### **Revalidation of Tax Credit Certificates (TCCs)**

Revenue Memorandum Order No. 23-2003 (Guidelines on the Revalidation and Conveyance of TCCs) was issued to prevent the use of fake, used, and cancelled TCCs and to protect the public from criminal elements operating to defraud buyers of TCCs and the government. All transferred TCCs will be revalidated with an Authorization Database before any Tax Debit Memo (TDM) is issued for application. The processing of any TDM application against a TCC not in the database will be held in abeyance until completion of investigation by the TCC Revalidation Committee.

### **Imposition of Advance Payment of Value Added Tax (VAT) on Sale of Refined Sugar**

BIR issued Revenue Regulations (RR) No. 29-2002 imposing the advance payment of VAT on sale of refined sugar from sugar traders, resulting in additional VAT collection of P890.5 million.



### **Documentary Stamp-Electronic Imprinting Machine**

The Documentary Stamp - Electronic Imprinting Machines (DS-EIM) are capable of imprinting the value of the documentary stamp tax and other data on the taxable document. This system has generated DST collection amounting to P5.4 billion. Collection from this source has been strengthened by the installation of additional three thousand seven hundred seventeen (3,717) DS-EIM machines in the following major industries: banks, insurance companies, investment houses, shipping, airline companies, and educational institutions.

## **2. Effective Detection and Elimination of Revenue Leakages through Timely Issuance of Revenue Regulations and Computer Linkages and Data Matching with Third Party Information Sources**

### **Formulation/Implementation of Revenue Regulations**

Revenue Regulation Nos. 1-2003, 3-2003, and 11-2003(VAT on Professionals). These govern the imposition of value-added tax on sale of services by persons engaged in the practice of profession or calling and professional services rendered by general professional partnerships; services rendered by actors, actresses, talents, singers and emcees; radio and television broadcasters and choreographers; musical, radio, movie, television and stage directors; and professional athletes, as well as services rendered by customs, real estate, stock, immigration and commercial brokers.

Revenue Regulation Nos. 16-2003 and 24-2003 (Privilege Stores). These prescribe the imposition of advance payment of value-added tax or percentage tax and income tax on privilege-store operators. These include provisions on the obligations of the organizer or exhibitor of space for the operation of "tiangges".

Revenue Regulation Nos. 21-2003 and 25-2003 (Excise Tax on Automobiles). These were issued to rationalize the collection of excise tax on automobiles. All importers and assemblers of cars are required to submit a notarized inventory of completely-built-up (CBU) cars, including completely-knocked-down (CKD) and semi knocked-down (SKD) units that are located within the assembly plant, warehouse or customs premises, indicating therein the engine, body and chassis numbers.

Revenue Regulation Nos. 22-2003 and 23-2003 (Reclassification of cigarette brands and alcohol products). These regulations revised the tax classification of new brands of cigarettes, alcohol products and variants using current net retail prices.

Revenue Memorandum Order Nos. 15-2003 and 21-2003 [One-time Transactions (ONETT)]. ONETT team was established in every Revenue District Office to serve as a one stop-shop for ONETT taxpayers. The team provides frontline services, from assistance to issuance of tax clearance.

### **Third Party Information - Computer Linkages and Data Matching**

A data warehouse was established to support the efficient and timely administration of taxes, programs, and initiatives pertaining to audit and collections used in the RELIEF project as well as the matching of Bureau of Customs (BOC) transactions (importers and exporters) data with tax returns.

### **Enhancement of the Stopfiler Management System and the Delinquency Account System**

## **3. Intensified Enforcement of Audit and Assessment Findings**

### **Audit of Exempt Entities and Non-Remittance/Delay of Withholding Agents**

Intensified audit resulted in the collection of expanded withholding tax on government contracts from National Government Agencies and Government-Owned and Controlled Corporations



amounting to P 75.8 Million and P 17.8 million, respectively. The withholding of VAT and percentage taxes on government contracts from NGAs and GOCCs amounted to P 260.7 million and P 4.9 million, respectively.

#### ● **Recovery of Marcos Properties**

### **4. Adoption of Good and Honest Governance Program with the Private Sector**

### **5. Implementation of Technology-Based Projects to Upgrade and Enhance Services to Taxpayers**

#### ● **Implementation of Electronic Filing and Payment System (eFPS)**

eFPS Expansion - The BIR formally kicked off the full outsourcing of the eFPS to the AyalaPort on May 6, 2003 to expand its capabilities and coverage in delivering better service to the taxpaying public. The coverage aims to include the top 10,000 taxpayers nationwide. Additional BIR Forms were made available on-line and new features were incorporated for easier and more efficient use of the System by the taxpayers and the BIR as well.

Payment Gateways (through Bancnet) - This alternative allowed taxpayers to e-pay using the BANCNET ATM gateway for on-line interface with eFPS. Eleven (11) accredited eFPS banks have already signified their services in this endeavor, namely: Landbank of the Philippines, Philippine National Bank, Development Bank of the Philippines, Security Bank, Equitable Bank, Metrobank, Banco de Oro, Rizal Commercial Banking Corporation, Bank of the Philippine Islands, Standard Chartered Bank, and Union Bank.

Payment Warehousing - This is a facility that allows taxpayers to e-file before or within deadline period and at the same time, electronically inform the bank as to the schedule of their payments.

#### ● **E-Substituted-filing/e-Filing of tax returns**

E-Substituted filing pertains to the transmission of the employee's annual information return to the BIR. It would serve as the "substitute" Income Tax Return (ITR) of employees qualified for substituted filing when duly received and acknowledged by BIR.

This program was rolled-out on January 15, 2003 in nine (9) volunteering companies operating within the Philippine Economic Zone Authority (PEZA). These are: Philips; Intel Technology Philippines, Inc.; Intel Philippines Manufacturing, Inc.; Zilog; American Power Conversion; P. IMES; Toshiba Information; Integrated Micro Electronics, Inc.; and Texas Instruments.

#### ● **Electronic Broadcasting System**

The Electronic Broadcasting System (e-Broadcasting) project was launched to secure the BIR payment system and address the problem of diversion of tax payments to the personal accounts of criminal elements.

It provides for a multi-channel payment confirmation facility, and encourages the proactive participation of the taxpayers in confirming their tax payments with eBroadcasting services, namely: Short Messaging System (SMS), BIR Web, and e-mail. Payments made by taxpayers to the BIR shall be confirmed through Accredited Agent Banks (AABs) within 48 hours from transaction date via these services.



● **BIR Contact Center/Knowledge Database Management and Technical Assistance from Donor Agencies**

The BIR Contact Center (BIRCC) was established last August 4, 2003. The BIRCC is envisioned to be the first and single point of contact where taxpayers' queries, complaints and feedback can be consistently and accurately handled. With the help of the BIRCC, transaction time in the RDOs is expected to be significantly reduced.

● **E-TIN (TIN on the Web) Application**

The "TIN on the Web" project (also known as the e-TIN System) is a web-based application system that provides TIN via the internet. Started on March 24, 2003, taxpayers classified as professionals may get their TIN from the BIR website ([www.bir.gov.ph](http://www.bir.gov.ph)) by simply clicking the e-TIN logo and filling up electronic TIN application form (BIR Form 1904).

The BOC pursued the following measures in 2003:

**1. Collections from Forfeitable Bonds**

These become collectible from the bonding company, i.e, insurance company, when the guaranteed payment of customs duties and taxes is not made or a temporary importation is not re-exported within deadline specified in the grant of temporary importation.

**2. Additional Billings Arising from Warehousing Audit and from Liquidation of Entries**

A review is undertaken to check/verify whether the right amount of customs duties and taxes has been paid. Entry declarations found to be with discrepancies are proceeded against for the purpose of collecting the deficit.

**3. Proceeds from Auction Sales**

Importations attended with major violations of the country's customs laws, rules and regulations or those that are abandoned are forfeited in favor of the government. These are subsequently sold in public auctions.

**4. Proceeds from Settlement and Redemption of Seized Cargo**

There are importers who prefer the remedy of settlement/redemption to get back shipments seized by the BOC for violation of customs laws. With the approval of the BOC, the importers are asked to pay fines/penalties on the redemption value, the payment of which would not have been made if the goods had not been seized.

**5. Collection from Transferee of Fraudulently Secured TCCs**

This is a measure to collect from misrepresented and submitted spurious documents to claim billions of pesos worth of Tax credit Certificates (TCCs) from the One Stop Shop Inter-agency Tax Credit and Duty Drawback Center, mostly BOI-related TCCs.





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Hon. Jose Isidro N. Camacho

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