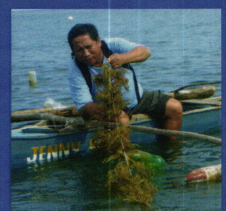
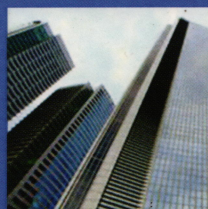
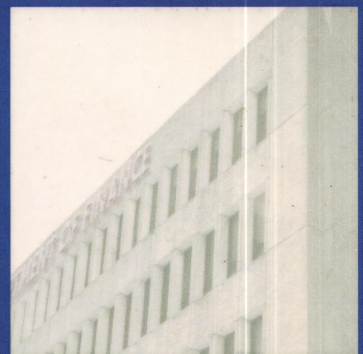


# Toward Stability and Growth



2005 ANNUAL REPORT  
DEPARTMENT OF FINANCE

## MISSION

**O**ur 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 at 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.

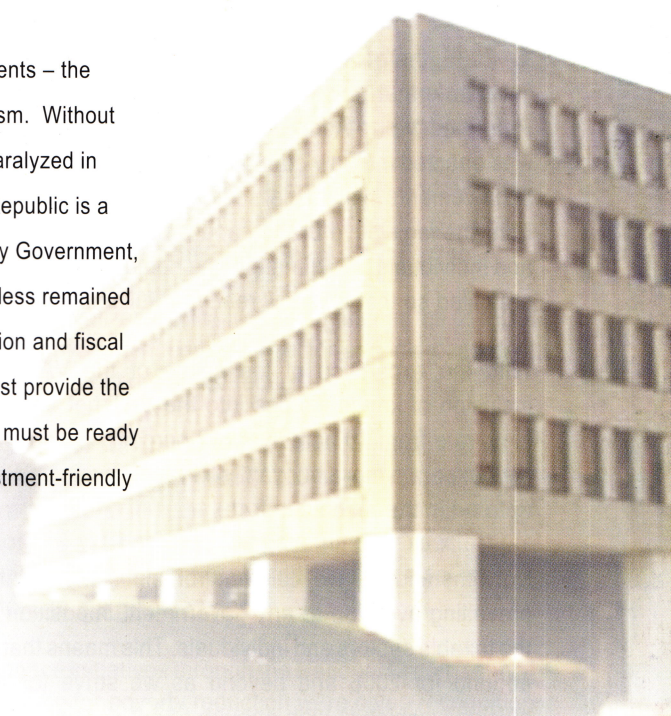
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# THE DEPARTMENT OF FINANCE

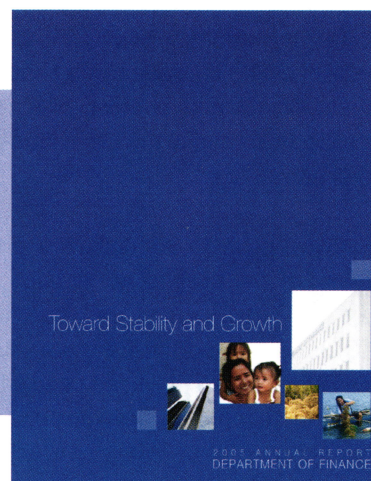
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In mammoth organizations – corporations, conglomerates, multi-nationals, governments – the indispensability of a central finance office to manage and mobilize resources is a truism. Without logistics and financial support “when needed, where needed”, operations would be paralyzed in no time. That the birth of the Department of Finance predated that of the Philippine Republic is a 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 program toward an investment-friendly environment, which is the catalyst for growth.



## OUR COVER

For the DOF, our economy must be one of the most dynamic in the world, globally competitive and onward looking. Our cover depicts this objective: the economy posting sustained growth across our three major sectors (agriculture, industry, and services), in turn providing a better quality of life for every Filipino family. The DOF, as always, has provided the solid foundation for a more vibrant domestic economy by building a strong fiscal position through sound fiscal policies.



In 2005, the government continued to pursue the necessary fiscal reforms that helped keep the economy afloat. The Reformed Value-Added Tax (R-VAT), or Republic Act 9337, was enacted into law during the year. It was one of the major achievements in the fiscal sector so far, but not without hurdles from the legislative branch and protests from various groups and individuals. Fortunately, the noble intentions of the RVAT prevailed so that it is now ready for full implementation.

With the expansion of the scope of the VAT through the inclusion of key industries into the VAT net and an increase in its rate from 10 percent to 12 percent, the government can now expect a more buoyant source of revenues to sustain an uptrend in the revenue effort.

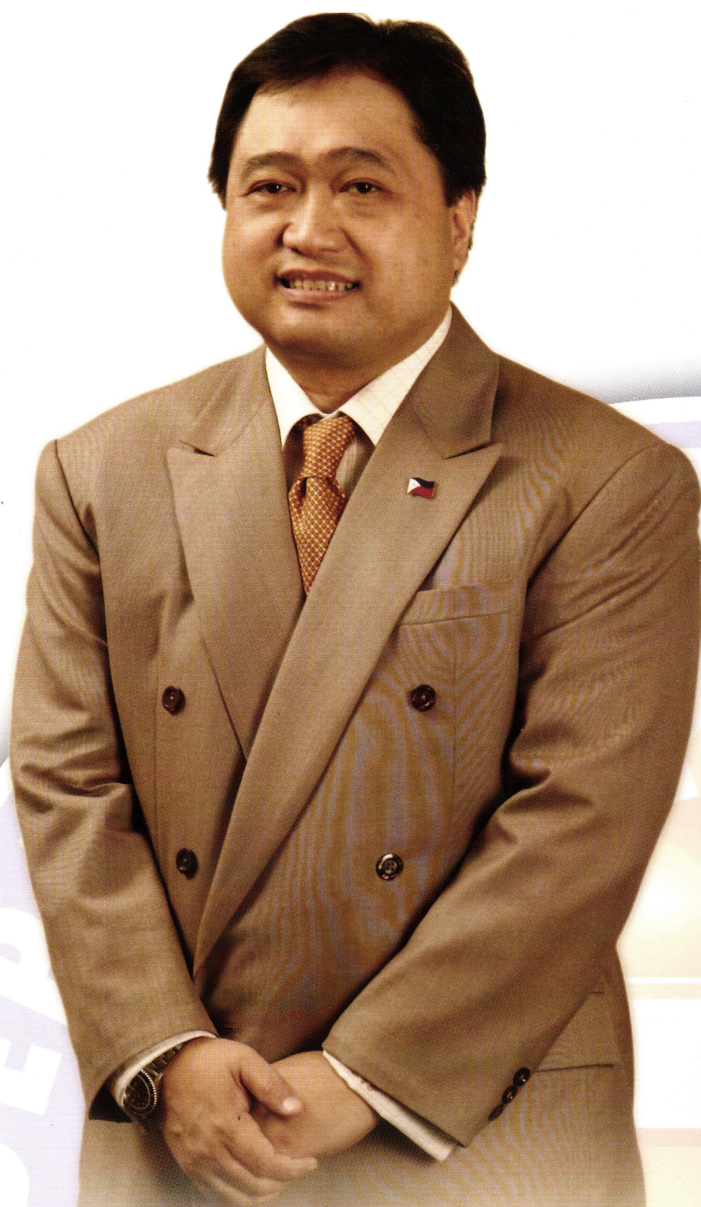
Notwithstanding, we can not remain complacent given the prevailing aversion to any government imposition by most of the taxable sectors and individuals. This means that challenges abound for 2006 and beyond as we strive for a collection efficiency which is high enough to get our fiscal performance on track and consistent with the country's medium-term fiscal program.

History tells us that fiscal constraints have been among the major obstacles to the country's quest for development. While we are all stakeholders in varied extents, there is much we can do to put our fiscal house in order. We can achieve much by working collectively and at the same time performing our individual moral obligations.

We in the DOF have begun to strengthen obeisance and deference to these moral obligations through the Run after Tax Evaders (RATE) Program, the Run After the Smugglers (RATS) Program and the Revenue Integrity Protection Service (RIPS) as we reminded people that the moral obligation to support the development of

the country is not discretionary but is in fact a legal imperative the breach of which results in clear, predictable and certain legal consequences.

I commend all the DOF officials and staff, together with all our partners in the different bureaus and agencies, for their strong resolve and dedication in pursuing the difficult but rewarding task of fiscal consolidation. May you continue to inspire our partners both in the public and private sectors so that in the near future a strong fiscal sector will emerge and the country's development will become a reality.



**CESAR V. PURISIMA**

Secretary of Finance

(March 19, 2005 to July 8, 2005)

**T**he economy in 2005 faced diverse challenges but emerged stronger. Overall growth registered at 5.7 percent, overcoming the difficulty resulting from destabilizing factors in the international and domestic fronts. Underpinning this growth was a resurgent industry (5.3 percent) and higher government consumption (2.7 percent) that cushioned the El Niño weakened performance of the agriculture sector (2 percent).

In the fiscal sector, obstacles abounded but we moved forward, met challenges head-on and never wavered. In line with our fiscal consolidation thrust, we were able to accelerate our deficit reduction program and tamed the deficit to a more manageable level. The National Government deficit declined to 2.7 percent of GDP from previous year's level of 3.9 percent, while the Consolidated Public Sector Financial Position (CPSFP) improved to 1.9 percent of GDP. Sustained economic performance, the passage of the Reformed VAT Law, improvements in tax administration, the continued implementation of governance measures such as the operations RATE (Run After Tax Evaders), RATS (Run After

The Smugglers) and the RIPS (Revenue Integrity Protection Service) have provided the foundation for stronger fiscal position. Our fiscal balance target has in fact been advanced

by two years from the original target of 2010. Our strong fiscal performance indicates our continuous effort to further improve the economy through more vigorous revenue mobilization.

As a result of the fiscal reform program and in line with our goal to reduce our debt, the government's debt to GDP ratio decreased to 72 percent from 2004's level of 79 percent.

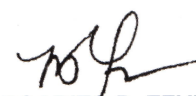
We accelerated privatization initiatives, strengthened the financial position of the government corporate sector and improved debt management as part of our deficit reduction program.

The passage of the Reformed VAT Law or Republic Act 9337 was the centerpiece of the year's tax policy reform. With expanded coverage to include key industries and an increase in its rate from 10 to 12 percent, the government expects more buoyant revenues that will be utilized for better delivery of social services to the Filipino people.

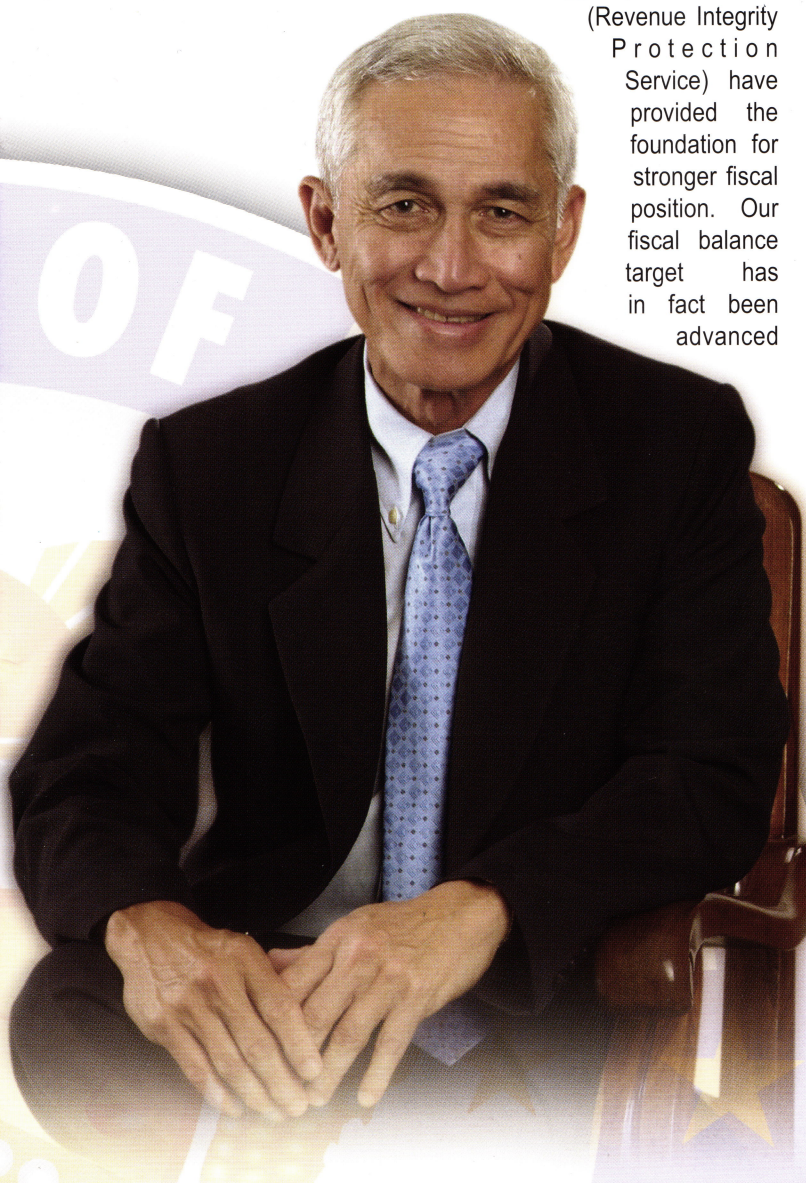
Our microfinance initiatives through the National Credit Council (NCC) in pushing for poverty reduction were given recognition by the Consultative Group to Assist the Poor (CGAP) during the celebration of the International Year of Microcredit on November 8, 2005 at the United Nation's Headquarters in New York City, USA. Of the 100 countries implementing microfinance programs, the Philippines was chosen in recognition of the establishment of the National Strategy for Microfinance that was formulated through the auspices of NCC. The award, which is a testimony of the government's perseverance to serve the poor, will serve as our inspiration to further embark in our relentless efforts to help them and make them contribute to the economic development of the country.

As we move forward, we will continue to build on the gains achieved through our unwavering commitment for reforms. Our efforts will be geared towards reducing borrowing costs, developing domestic capital market, and enhancing the tax structure.

I commend the officials and employees of the Department of Finance for their unwavering support to the fulfillment of our commitment even as we continue to create an economic environment that will sustain growth and provide better life and brighter future for all Filipinos.



**MARGARITO B. TEVES**  
Secretary  
(July 9, 2005 to present)



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 fiscal resources of the government;
- Supervision of the revenue operations of all local government units;
- Review, approval and management of all public sector debt, domestic and foreign; and
- Rationalization, privatization and public accountability of corporations and assets owned, controlled or acquired by the government.

*The Philippine economy sustained its growth momentum in 2005, posting 5.1 percent increase in real gross domestic product (GDP) and 5.7 percent in real gross national product (GNP) amid harsh conditions like soaring oil prices and the political bickerings that dominated the headlines starting from the middle of the year. The 2005 expansion, though, was lower than the 6.0 percent GDP growth registered in 2004 as weaker exports, particularly the electronics sub-sector and slowdown in investments dragged economic activities during the year.*

*The growth momentum was driven by the services and industrial sectors which posted 6.3 percent and 5.3 percent, respectively, fueled by domestic demand. Growth in these sectors made up for the deceleration in the agriculture, fishery and forestry sector to 2.0 percent from 4.9 percent in 2004.*

*Inflation in 2005 rose to 7.6 percent, because of higher petroleum prices. However, the improved credibility of the country's fiscal sector resulted in lower borrowing cost for the government with the 91-day Treasury Bill rate posted at an annual average of 6.2 percent for 2005 or 1.5 percentage points lower than the previous year's average.*

*The peso appreciated to P55.09 to a dollar from P56.04 in 2004 bolstered by stronger inflow of OFW remittances and favorable investor sentiment.*

*Overall, the improved fiscal performance during the year augured well for a better macroeconomic scenario, with NG deficit improving to 2.8 percent of GDP.*

The Philippines according to...

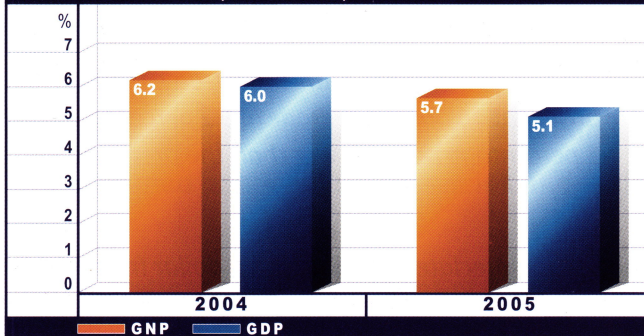
"The good 2005 fiscal performance was a strong positive for market confidence, especially since it was achieved despite the four-month delay in implementing the expanded VAT, which was to be the foundation of the government's plan to reduce the deficit. The national government deficit fell to 2.7% of GDP, which was below target, from 3.9% in 2004, with three-quarters of the improvement on the spending side. In 2006, Fitch expects the deficit to decline further, to 2.1% of GDP, with improvements this time on the revenue side as the VAT is fully implemented. The primary surplus is projected to reach 3.4% of GDP, which would be the highest level since the early 1990s."

Fitch Ratings  
International Credit Updates  
Philippines  
13 February 2006

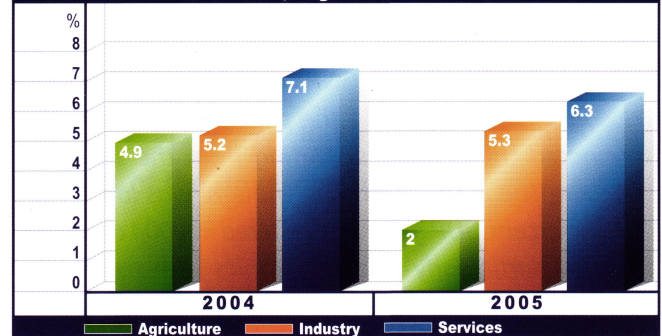
"December 2005 central government debt numbers show the first decline in the debt-to-GDP ratio in a decade (to 72.3% from 79% in 2004). And this, despite the transfer of PHP200bn or nearly 4% of GDP from NPC to the central government. This is a reflection of the virtuous cycle we have been writing about in our research: the fiscal adjustment process supporting capital inflows, in turn boosting the value of the peso, and thus reducing the peso value of external debt."

UBS Investment Research  
24 March 2006

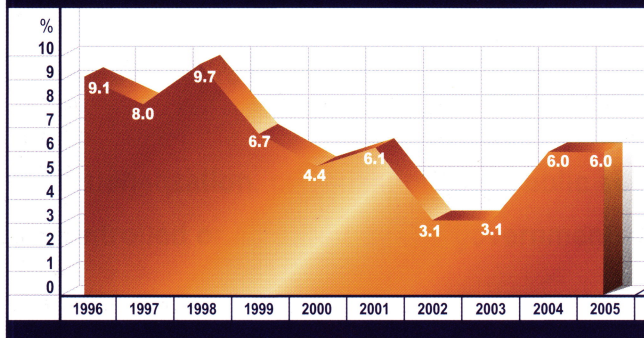
### Growth Rate (In Percent)



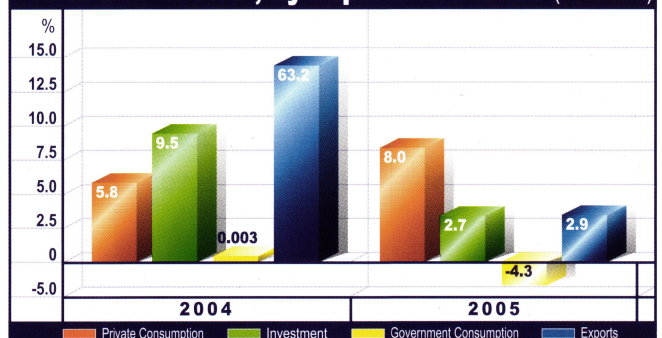
### Real GDP Growth, By Sector



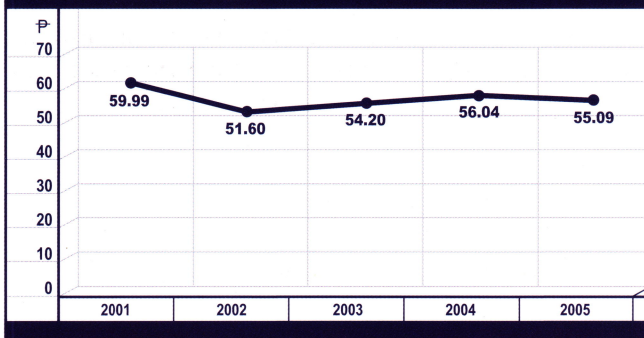
### Inflation Rate



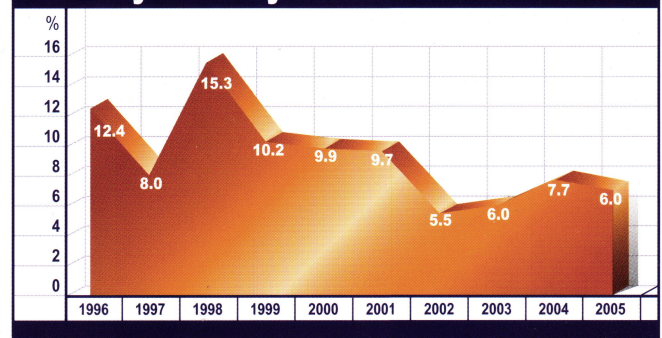
### Real GDP Growth, By Expenditure Share (In Percent)



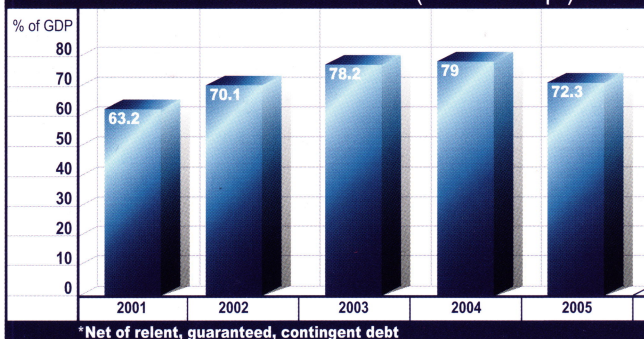
### Peso-Dollar Rate



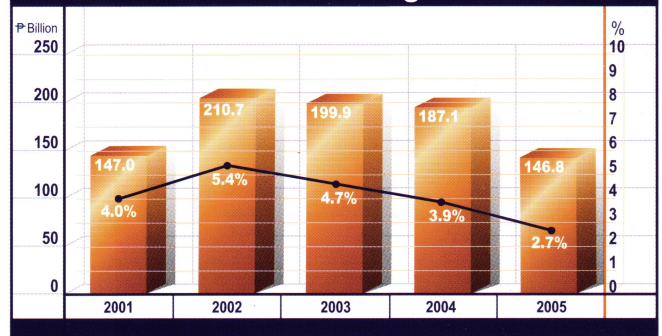
### 91 - Day Treasury Bill Rate



### National Government Debt (Net Concept)\*



### National Government Budget Deficit



## Overall Fiscal Performance

### Budget deficit significantly lower than target

The National Government's deficit went down to P146.8 billion in 2005, significantly lower than the P180.0 billion target for the year. At only 2.8 percent of GDP, the deficit reduction continued for the third consecutive year since 2002. Improved revenue performance combined with prudent spending helped reduce the deficit.

### ...as revenues exceeded targets and expenditures remained within programmed levels

Revenues rose to P816.2 billion, 16.6 percent increase over 2004 level and P33.0 billion higher than the program of P783.2 billion. Expenditures amounted to P962.9 billion which is P300 million below the program. Interest payment savings of 13.6 billion for the year helped reduce total expenditures. Actual interest payments reached P299.8 billion against the program of P313.4 billion.

The Bureau of the Treasury (BTr) collected P70.6 billion compared to its target of P36.6 billion, the best revenue performance in 2005. The Bureau of Customs (BOC) likewise contributed to the revenue growth with P154.6 billion in collection, P3.4 billion higher than the P151.2 billion programmed for 2005. The Bureau of Internal Revenue (BIR) fell short of its collection target by P4.2 billion but, nonetheless, improved its actual collections by 15.9 percent to P542.7 billion in 2005, from P468.2 billion in 2004.

### Consolidated public sector financial position improves

Fiscal consolidation encompassed the bigger public sector. The consolidated public sector financial position (CPSFP) deficit for 2005 reached P97.6 billion (1.8 percent of GDP), a 58.9 percent reduction from the 2004 figure and was below the target by P82.7 billion.

### ...as all public sector groups contributed to the lower-than-target CPSFP

Aside from the lower NG deficit in 2005, the deficit of the government corporate sector also came in below the program. The 14 monitored government-owned and controlled corporations (GOCCs) posted an aggregate deficit of P23.0 billion, half the projected level of P42.5 billion. Higher receipts, lower interest expense and lower capital expenditures resulted in better financial performance of the monitored corporations.

Social security institutions (SSIs) generated a total surplus of P51.8 billion. Of this amount, The Government Service Insurance System (GSIS) accounted for P31.4 billion, mainly due to continued reforms in the system. The Social Security System (SSS) posted a surplus of P14.7 billion due to higher member contributions which exceeded benefit payments for the first time in six (6) years.

Government financial institutions (GFIs) registered a surplus of P6.2 billion on the strength of higher income from expanded loan portfolios. The local government units (LGUs) and the Bangko Sentral ng Pilipinas (BSP) likewise performed better during the year, registering a cash surplus of P22.1 billion and P3.6 billion, respectively.

### Key revenue measures sustain stronger fiscal scenario

While two vital measures were passed in late 2004 -- Republic Act 9334 (Sin Tax Law) and Republic Act 9335 (Lateral Attrition Law) -- only the Sin Tax Law provided a boost to the government's coffers, contributing P3.0 billion in additional revenues in 2005. Republic Act 9337 or the Reformed Value Added Tax Law (RVAT), passed in May 2005 but took effect in November 2005, already added P4.4 billion in additional revenues for the year. The RVAT will generate P75.1 billion additional revenues in an annual basis. The widening of the tax base through the removal of exemptions from the VAT improves the effectiveness of the law.

Although difficult to quantify its impact, the Lateral Attrition Law should improve systems and procedures in tax and customs administration that would redound to enhanced revenue collection.

## Tax Administration

### Intensified tax administration reforms

The Department intensified tax administration programs in both BIR and BOC with the implementation in March 2005 of the Run After Tax Evaders (RATE) and the Run After the Smugglers (RATS) Programs. As of December 2005, the RATE Program of the BIR has filed with the Department of Justice forty four (44) tax evasion and estafa cases against companies and high profile individuals with an estimated tax liabilities of P2.9 billion. Meanwhile, the BOC's RATS program has thirty eight (38) cases filed with the Department of Justice. The RIPS has filed before the Ombudsman 13 cases involving local government treasurers, revenue and customs officials.

### The Lateral Attrition Law (Republic Act 9335)

The Lateral Attrition Law was signed on January 25, 2005. It optimizes the revenue generation capacity of BIR and BOC by providing a system of rewards for officials and employees who exceed revenue targets and sanctions for officials and employees who underperform. Revenue targets refer to the original revenue collection expected of the BIR and BOC for a given fiscal year as stated in the Budget of Expenditures and Sources of Financing (BESF). The BIR and BOC shall submit to the Development Budget and Coordinating Committee (DBCC) the distribution of their agency targets among its revenue collection districts.

The coverage of the system shall include all officials and employees of the BIR and BOC with at least six (6) months of service, regardless of employment status.

The law creates the Rewards and Incentives Fund which will be sourced from the collection of BIR and BOC and the Revenue Performance Evaluation Board which will evaluate the performance of BIR and BOC officials and employees. Any incentive to be apportioned among the various units, officials and employees of the BOC and BIR shall be in proportion to their relative contribution to the aggregate amount of excess collection over the target.

### Consolidated Public Sector Financial Position (FY 2005) (in P billion)

	2004	2005	
	Jan-Dec Actual	Jan-Dec Program	Jan-Dec Prelim
TOTAL SURPLUS+/DEFICIT	(231.9)	(180.3)	(97.5)
Percent of GDP	-4.9%	-3.4%	-1.8%
TOTAL PSBR	(280.8)	(231.1)	(184.6)
Percent of GDP	-5.9%	-4.3%	-3.4%
National Government	(187.1)	(180.0)	(146.8)
o.w. Privatization	0.4	0.5	2.4
CB restructuring	(17.4)	(18.4)	(16.3)
Monitored GOCCs	(85.4)	(42.5)	(23.0)
Adjustment of net lending and equity to GOCCs	9.1	9.7	1.5
Other adjustments	0.0	0.0	0.0
OTHER PUBLIC SECTOR	48.8	50.7	87.1
SSS/GSIS/PHIC	24.3	25.9	51.5
BSP	3.2	1.0	3.6
GFIs	5.2	5.7	6.6
LGUs	14.8	18.0	22.1
Timing adjustment of interest payments to BSP	3.8	0.0	3.4
Other adjustments	(2.8)	0.0	0.0

### The Reformed Value Added Tax Law (Republic Act 9337)

One of the important features of RA 9337 is expanding the VAT base by removing unnecessary exemptions.

The following goods and services are now subject to VAT:

- Petroleum products and other indigenous fuels
- Power and electric cooperatives
- Services rendered by doctors and lawyers
- Domestic carriage of passengers by air and sea
- Non-food agricultural products.
- Works of art, literary works, musical compositions

The following goods and services are VAT zero-rated:

- Transport of passenger or cargo by air or sea to a foreign country
- Services rendered to aircrafts and vessels engaged in international transport
- Sale of goods, supplies and fuel to aircrafts and vessels engaged in international transport

Other VAT reform measures

- 5-year spread out crediting of input VAT on capital equipment
- Cap on input VAT crediting at not more than 70 percent of output VAT for the same quarter
- Removal of 1.5 percent presumptive input VAT on public works contractors
- Uniform 5 percent VAT withholding on government purchases of goods, services and public works contracts

Mitigating measures:

- Reduction of excise tax on kerosene, diesel and bunker fuel oil
- Removal of franchise tax on power distribution utilities
- Removal of franchise tax on domestic airlines and common carriers tax on domestic shipping
- Increase in presumptive input VAT of agro processors from 1.5 percent to 4 percent
- Increase in marginal threshold from P550,000 to P1.5 million per annum; rental threshold from P8,000/mo to P10,000; and real property threshold from P1 million to P2.5 million

### NG Fiscal Performance (in P billion)

Particulars	2004	2005
<b>REVENUES</b>	699.8	816.2
Tax Revenues	598.0	705.6
o.w. BIR	468.2	542.7
BOC	122.5	154.6
Non Tax Revenues	101.8	110.5
o.w. BTr Income	64.7	70.6
<b>EXPENDITURES</b>	886.8	962.9
<b>SURPLUS / (DEFICIT)</b>	(187.1)	(146.8)
% to GDP	-3.9%	-2.7%

### RATE, RATS, RIPS Performance (as of end 2005)

No. of cases filed under RATE	40
No. of cases filed under RATS	38
No. of cases filed before the Ombudsman under RIPS	13

## Privatization

### Accelerated privatization initiatives

Taking advantage of improved market condition the government's privatization program netted receipts of P2.4 billion in 2005 against P420.6 million in 2004. The bulk of income came from the sale of remaining government shares in the Philippine National Bank (PNB). The PNB sale generated P8.0 billion in proceeds, of which P2.0 billion was remitted as payment for government shares. The PNB sale is considered the largest privatization transaction since the sale of Fort Bonifacio property in 1995.

Aside from the PNB sale, the Privatization and Management Office (PMO) and the Presidential Commission on Good Government

(PCGG) remitted to the BTr, P240 million and P60 million, respectively, comprising sale of PMO assets and lease income and share from profits of PCGG-sequestered properties.

Other major accomplishments include:

- lease of a government real estate property in Kobe, Japan where the initial payment of P152 million has been remitted to the BTr;
- successful auction of the National Development Company (NDC)-owned Manila Gas Corporation; and
- the laying of the groundwork for the privatization of Maynilad.

### Cash Receipt from Privatization CY 2005 (in Million Pesos)

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
<b>*Sales</b>	<b>175.24</b>	<b>Presidential Commission on Good Government (PCGG)</b>	<b>56.90</b>
American Phil. Fiber	26.34	Proceeds of the partial redemption of LBP Bonds	4.07
Asialand Devt. Corp.	0.04	Prior year's income from IRC group companies	20.00
Atlas Developers Steel Corp.	1.85	Proceeds from antitrust settlement with respect to the proof of claim with the sale of Picasso paintings at Christies	0.48
Carruf Devt. Corp.	15.93	Director's fees for 5 nominated directors of SMC remitted for CARP Fund	24.00
Cellophil Resources	17.10	Profit share accruing to the Directors of PCGG in the Board of COCOCHEM CY 2004	4.29
Davao Sugar Central Corp.	32.19	Remittance for CARP	4.06
Davao Timber Corp.	0.28	<b>PNB</b>	<b>1,979.11</b>
Filipinas Marble Corp.	1.64	Proceeds from sale of NG holdings on PNB shares	1,979.11
Mc Adore International	9.00	<b>Phil. Consulate General</b>	<b>152.38</b>
Menzi Dev't Corporation	16.20	Kobe Property Dev. Fund (1st Tranche)	152.38
NOCOMIN	40.51	<b>Total Privatization Proceeds</b>	<b>2,431.50</b>
Panay Railways Inc.	9.11		
Pamintuan Devt. Corp.	2.22		
Peninsula Devt. Bank	0.79		
Radio Phil. Network	0.38		
<b>Lease Rental</b>	<b>24.98</b>		
<b>Interest Income</b>	<b>1.45</b>		
<b>Others</b>	<b>41.44</b>		

\*Proceeds from Sales of Transferred Assets from Government Financial Institutions

## The Public Sector

### All public sector groups contributed to the improvement in consolidated public sector financial position

The consolidated financial position of monitored non-financial government corporations (MNFGCs) posted a lower deficit of P23.0 billion in 2005 compared to the 2004 actual deficit of P85.4 billion. The improved financial position is mainly due to:

- the tariff hike imposed by the National Power Corporation (NPC);
- higher rice distribution by the National Food Authority;
- lower interest payments; and
- lower capital expenditures

The Social Security Institutions (SSIs) - GSIS, SSS, and PHIC - produced a surplus of P51.5 billion which is above the actual level of P24.4 billion in 2004. This is due to the increase in SSS members' contributions which enabled contributions to exceed benefit payments for the first time in six (6) years.

The local government units (LGUs) sustained a higher aggregate surplus of P22.1 billion, compared to the P14.8 billion registered in 2004. A combination of higher income from local sources such as

business tax, fees and charges and economic enterprises, as well as from improved systems and procedures pushed up the financial performance of LGUs.

### Pushed for the removal of National Government automatic guarantee on GOCCs

The DOF supported the Fiscal Responsibility Bill that calls for, among others, the removal of automatic guarantees by the National Government on obligations incurred by GOCCs. It also supported measures to impose stricter safeguards in the issuance of NG guarantees and undertakings of risk and to rationalize contingent liabilities.

The government financial institutions (GFIs) posted a combined surplus of P6.6 billion, which is above the 2004 actual level of P5.2 billion primarily due to higher income from expanded loan portfolios.

The Bangko Sentral ng Pilipinas (BSP) posted a surplus of P3.6 billion as against the previous year's level of P3.2 billion due to higher interest income and a prudent expenditure program.

Dividend collections from MNFGCs amounted to P5.2 billion, surpassing the target level of P3.0 billion. Guarantee fee collections reached P2.0 billion.

#### Statement of Financial Operations of 14 Monitored Non-Financial Government Corporations (in P billion)

	2004	2005
Total Receipts	194.9	272.0
Current Expenditures	268.0	263.2
Capital Expenditures	17.7	31.8
Financial Deficit (-)/Surplus (+)	(90.8)	(23.0)

#### Consolidated Financial Positions of Social Security Institutions 2005 (in P billion)

	GSIS	SSS	PHIC	Total
Revenues	63.8	58.1	23.2	145.3
Expenditures	32.4	43.5	17.5	93.4
Cash Surplus (+)/Deficit (-)	31.4	14.7	5.7	51.8

## Capital Market Development

The challenges posed by globalization, particularly the free movement of capital, has prompted the DOF to pursue capital market development as one of its key priorities. The underlying objective is to spur greater investments, deepen the capital market, expand the source of financing for domestic investors, and encourage higher economic growth.

### Improved regulatory framework

The DOF, through the Securities and Exchange Commission (SEC), implemented measures to establish a fair regulatory framework conducive to the development of the capital market and to foster effective coordination with other financial sector regulators, other government agencies, and securities regulators abroad. These measures include:

- SEC's undertaking for preparatory activities to operationalize the SEC-BIR Electronic Linkage;
- supporting efforts to improve microfinance operations in the Philippines wherein SEC committed to issue the related regulation requiring non-government organizations (NGO) to disclose information about its microfinance operations and related financial service activities;
- facilitating the processing of applications for the license to do business in the Philippines;
- enhancing the services for the generation and dissemination of capital market information;
- promoting accountability and transparency through formulation of appropriate disclosure statements, reporting formats, and related activities;
- protecting investors and the general public through investor education and timely issuance of alerts and conduct of public seminars; and
- improving the delivery of services to the public by streamlining internal processes.

In 2005, the SEC improved response time at the Public Reference Unit in delivering company records or documents requested by the public through the proper maintenance and upgrading of information technology resources which resulted in 88 percent of the clients being served within an hour on the average, an improvement over the 43 percent served within one hour in 2002 and less than 10 percent in 2001 prior to the IT upgrading project implementation.

On November 11, 2005, the SEC officially launched the SEC-iView. This module of the SEC-iReport allows the on-line viewing of certain documents, such as the Articles of Incorporation, the Articles of Partnership, the By-Laws, and the Audited Financial Statements, among others.

### Pursued capital market development bills

To further strengthen the capital market, the DOF pushed for the enactment and implementation of the following measures:

- Amendments to the Special Purpose Vehicle Act of 2002;
- Instituting a Pre-Need Code;
- Establishing a Credit Information System Act;
- Revised Investment Company Act;
- Amendments to the Cooperative Code of the Philippines and Reorganizing the Cooperative Development Authority;
- Amendments to the Securities Regulation Code; and
- Proposed Corporate Recovery Act.

The DOF and its attached agencies also conducted a study on the following reform measures for possible legislation in the future:

- Rationalization of Financial Sector Taxes;
- Pension System Reform;
- Establishment of a Personal Retirement Account;
- Amendments to the Charter of the Land Bank of the Philippines; and
- Amendments to the Charter of the Social Security System.

## Legislative Agenda

Capital Market Development Bills	Salient Features	Status
Amendment to the Special Purpose Vehicle Act of 2002	<p>Extends the application period for registering Special Purpose Vehicles (SPVs)</p> <p>Extends the period within which transfers of non-performing assets (NPAs) from financial institutions (FIs) to SPVs or from third party to FIs, or transfer by way of dation in payment shall be entitled to tax exemptions and fee privileges.</p> <p>Broadens the coverage of NPAs that could be transferred with tax and fee privileges</p>	Signed into law by the President as Republic Act 9343 on April 24, 2006
Instituting a Pre-Need Code	<p>Provides the regulator (SEC or IC) stronger regulatory oversight over pre-need companies</p> <p>Allows the regulator to act swiftly to protect planholders in cases where a pre-need company is in financial distress</p> <p>Provides higher sanctions and penalties on erring pre-need companies</p> <p>Establishes planholder protection plan</p> <p>Provides for a sufficient liquidity reserve fund</p>	<p><b>In the House of Representatives:</b> For Second Reading</p> <p><b>In the Senate:</b> Pending with the Committee on Banks and Financial Institutions and Currencies</p>
Credit Information System Act	<p>Establishes a comprehensive credit information system for the collection and dissemination of information relevant to, or arising from, credit and credit-related activities of all entities in the financial system</p> <p>Enables financial institutions to lower their credit risks</p>	<p><b>In the House of Representatives:</b> Pending with the Committee on Banks and Financial Intermediaries</p> <p><b>In the Senate:</b> On Second Reading. Period of Interpellation</p>
Revised Investment Company Act	<p>Ensures adequate protection for investors through proper regulation, mobilizes the funds of small investors, and promotes the development of long-term sources of funds.</p>	<p><b>In the House of Representatives:</b> Pending with the Committee on Trade and Commerce, Committee on Banks and Financial Intermediaries</p> <p><b>In the Senate:</b> Pending with the Committee on Trade and Commerce</p>
Amendments to the Cooperative Code	<p>Provides for adequate systems and procedures for the viability and growth of cooperatives</p> <p>Provides for a special provision on savings and credit cooperatives</p>	<p><b>In the House of Representatives:</b> Pending with the Committee on Cooperative Development</p> <p><b>In the Senate:</b> Pending with the Committee on Cooperatives</p>
Amendments to the Securities Regulation Act	<p>Ensures better governance at the Philippine Stock Exchange (PSE)</p> <p>Promotes a relevant self-regulatory organization (SRO) to prescribe the minimum net capital requirements and financial viability of the brokers and dealers</p> <p>Increase the number of independent directors of the PSE</p>	<p><b>In the House of Representatives:</b> Pending with the Committee on Banks and Financial Intermediaries</p> <p><b>In the Senate:</b> Pending with the Committee on Banks and Financial Institutions, Committee on Trade and Commerce</p>
Proposed Corporate Recovery Act	<p>Governs the recovery of financially distressed enterprises and the resolution of their indebtedness</p> <p>Offers four different means of relief: (1) court-supervised rehabilitation (2) pre-negotiated rehabilitation (3) fast-track rehabilitation (4) dissolution and liquidation</p>	<p><b>In the House of Representatives:</b> Pending with the Committee on Economic Affairs</p> <p><b>In the Senate:</b> Pending with the Committee on Banks, Financial Institutions and Currencies</p>

## Growth in National Government debt slowed down...

Stronger revenue performance coupled with fiscal discipline slowed debt growth in 2005, leading to a decline in the debt to GDP ratio from 79.0 percent to 72.3 percent. The outstanding NG debt of P3.9 trillion was only a slight increase over 2004 level of P3.8 trillion.

## ...as prudence in debt management is maintained

With the steady progress in its fiscal consolidation and prudence in the management of its external debt, the Republic, through the DOF, improved its access to the international capital markets, obtaining favorable terms to fund the financing requirements of the government in 2005.

The Republic's 2005 Global bond issuances received warm response from investors. The first bond issuance for the year garnered the highly coveted "Asian Best Sovereign Bond Deal" from both The Asset and Euro Money. This exceptional reception for the Republic's deals reflects the investors improving confidence in the Republic's economic policies and reform programs. Total commercial borrowings for 2005 amounted to US\$2.75 billion, almost equivalent to the previous year's level of US\$2.80 billion.

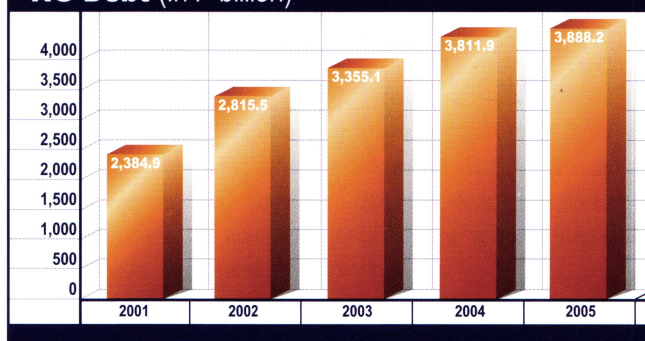
The DOF continued to tap Official Development Assistance (ODA), consisting of program and project loans, to take advantage of concessional rates and grants. ODA loan agreements covered new loans amounting to P39.2 billion in 2005, slightly lower than the 2004 level of P39.5 billion.

The maturity structure of debt portfolio remains on the long end. Medium and long-term external debt of the National Government accounted for 96.5 percent of total outstanding foreign debt in 2005. The total medium and long-term NG debt accounted for 83.6 percent as of end-December 2005.

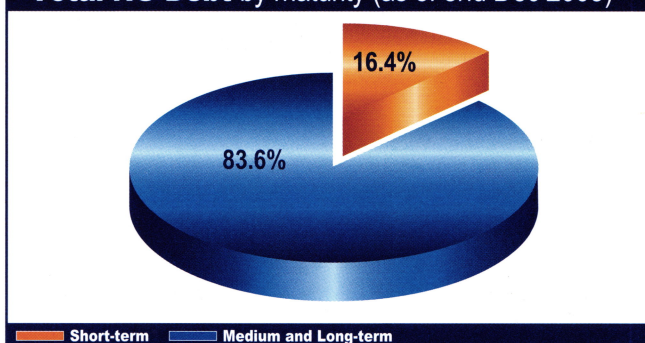
### NG Debt (in P billion)

	2004	2005
Outstanding Debt	3,811.9	3,888.2
% of GDP	79.0	72.3

### NG Debt (In P billion)



### Total NG Debt by maturity (as of end Dec 2005)



## 2005 ROP GLOBAL BONDS REAPED AWARDS

*ROP \$1.5 billion 9.500% Global bonds (Due 2030) is Asia's Best Sovereign 2005 by Euro Money and Triple A Best Bond Deal 2005 by The Asset*

## ROP Global Bonds

Completion Date/ Timetable	Transactions/Undertakings	Transaction Highlights
May 16, 2005	Reopening of ROP 8.875% Global Bonds due 2015 in an aggregate principal amount of \$250 Million and ROP 9.500% Global bonds due 2030 in aggregate principal amount of \$500 Million	The Republic once again beat the odds in its strategic access to the international bond markets at its second fund raising exercise in 2005. Despite the backdrop of soft market conditions and a 3-week hiatus in global emerging bonds where no issuer dared to brave the volatile market, the Republic successfully priced and completed this transaction by striking at a narrow, strategic market window which generated an exceptional investor momentum resulting in 7.2 times oversubscription. The transaction boosted confidence for other emerging markets sovereign issuers (such as Brazil and Uruguay) to price US Dollar Bonds on the tailwind of ROP's success.
September 14, 2005	ROP \$1.0Billion 8.00% Global Bonds due 2016	For its last fund raising exercise in 2005, the Republic launched a new benchmark issue to complete its borrowing requirement for the year. The transaction was very well timed as it took advantage of investors' favorable sentiments on the back of Supreme Court's affirmation of the R-VAT's constitutionality. The quick inflow of strong demand for the offering over the 12 hours execution time /bookbuilding generated 10 times oversubscription from the announced size (7.5 times the issue amount). This strong demand for the ROP bonds affirmed international investors' confidence in the Philippines and its ability to move forward with policy reforms necessary to sustain economic growth.

## Loans Signed in 2005

CREDITOR/PROJECT NAME	EXECUTING AGENCY/IES	ORIGINAL CURRENCY
<b>Asian Development Bank</b> Health Sector Development Program Loan Microfinance Development Program Loan Development Support Loan	DOH DOF-NCC SBGFC	US\$200,000,000 US\$150,000,000 US\$25,000,000
<b>United States of America</b> FY 2005 U.S. Public Law - 480 Title 1 Program Loan	DOF/DA	US\$20,000,000
<b>International Bank for Reconstruction and Development (IBRD)</b> Second Women's Health and Safety Motherhood Project Second Land and Administration Management Project Manila Third Sewerage Project	DOH DENR LBP	US\$16,000,000 US\$18,995,000 US\$61,420,000
<b>Dutch Government</b> Development of Sub-Specialty Capabilities for Heart-Lung-Kidney Patients in Luzon and Visayas	DOH	EUR7,860,938.00
<b>ING Bank</b> Development of Sub-Specialty Capabilities for Heart-Lung-Kidney Patients in Luzon and Visayas	DOH	EUR14,598,886.11
<b>Kreditanstalt fur Wiederaufbau</b> LGU Investment Program SME Finance Program	LBP SBGFC	EUR15,000,000 EUR11,700,000
<b>The Saudi Fund for Development</b> Mindanao Roads Improvement Project, Phase 1	DPWH	SR75,000,000
<b>Economic Development Cooperation Fund - The Export-Import Bank of Korea</b> Widening of the Gapan-San Fernando-Olongapo Road and Emergency Dredging Project	DPWH	US\$22,300,000

Improving local government units' (LGUs) financial performance and their capacity to raise revenues through innovative schemes is one of the key functions of the DOF. This will enable them to invest more on socio-economic development projects as well as implement projects in a sustainable manner without depending heavily on the Internal Revenue Allotment (IRA) coming from the National Government.

## **New LGU financial performance monitoring system undertaken...**

The DOF, through the Bureau of Local Government Finance (BLGF), established a new LGU financial performance monitoring system to sustain an accurate and timely LGU database that could be readily accessed by various stakeholders. This system involves the monitoring of fourteen (14) indicators that reflect how well an LGU manages its funds and the installation of a new Statement of Income and Expenditures (SIE) Reporting System. The new system has allowed the DOF to: (1) better monitor the fiscal health of LGUs; and (2) undertake the necessary interventions to assist LGUs in a more appropriate and timely manner.

## **...even as the Revenue Generation Program expanded...**

The Revenue Generation Program, the LGUs' catalyst in the development and implementation of tax collection enforcement programs, initially concentrated on improving the collection of real property taxes, the LGUs' major and most stable income source. The Program has expanded to include LGU collections on business taxes, fees and charges, and receipts from the operation of economic enterprises. The various components of the Program include:

- Real Property Tax Administration Project;
- General Revision of Real Property Values;
- enforcement of administrative remedies in the collection of taxes;
- installation of computerized systems of collection in LGUs; and
- updating of Local Revenue Code

## **...translating into a better financial performance**

The overall fiscal position of the LGUs showed a surplus of P22.2 billion in 2005 compared to the program of P18.0 billion. Total

income reached P188.8 as against expenditures of P166.6 billion. The higher-than-program surplus is a result of improved collection efficiency in all income sources except for real property tax which fell short of the target by 4.0 percent.

## **Better credit monitoring of LGUs underway...**

In cooperation with the BSP, GFIs, Municipal Development Fund Office (MDFO)/LGU Guarantee Corporation (LGUGC) and other LGU credit stakeholders, the BLGF is setting-up an integrated LGU credit database to monitor existing loans, bond floats and other forms of credit of LGUs. The database will serve as a basis of loans and credit availment by LGUs and as a reference for potential creditors in providing appropriate financing windows for LGUs. It also serves as a baseline input for computing LGU debt service and borrowing capacities. Loans and borrowings of LGUs are sourced from GFIs, MDFO, private banks and bond flotations.

## **...as non traditional sources of local revenues continued to be tapped.**

For 2005, a total of 13 LGUs was issued bonds in the total amount of P5.1 billion intended for various infrastructure projects such as public markets, toll parking, multi-purpose structures, hospitals, low-cost housing and transport terminals.

Comprehensive training programs were likewise implemented nationwide to orient LGUs on non-traditional sources of financing. The mechanics on the making of municipal bonds and build-operate transfer schemes was also introduced to LGUs to make them more adept in such engagements.

## **Resource Mobilization through the Municipal Development Fund Office**

The Department of Finance (DOF), through the Municipal Development Fund Office (MDFO), continued to actively mobilize foreign financial assistance to LGUs. It implements the Local Government Finance and Development Project (LOGOFIND), which is a loan window for LGU infrastructure and strengthening LGU capabilities in various operations, and the Community-Based Resource Management Project (CBRMP), which is designed to enhance LGU capacity in implementing natural resource and environment-related projects.

### LOGOFIND Project

*provides long-term financing and technical support to assist LGUs in expanding and upgrading basic infrastructure;*

*strengthens LGU capabilities in various operations such as municipal investment and development planning and revenue administration.*

### CBRM Project

*enhances the capacity of low-income rural LGUs to plan, implement, and sustain priority natural resources management projects;*

*strengthens higher levels of government system to transfer finance and environment technology, and improve implementation of environmental policies;*

*The project operates in four(4) regions: Bicol; Eastern Visayas; Central Visayas; and CARAGA.*

In 2005, MDFO provided loans and grant assistance in the amount of P1.2 billion, benefiting 573 LGUs. Of the total, P1.0 billion were provided as grants to LGUs by the NG, while P223.0 million were provided as loans. MDFO assistance focused led on:

- local infrastructure;
- development and improvement of local revenue-collection and real property tax systems; and
- policy-based local reform.

Collection efficiency on LGU loan amortization payments is 97 percent for 2005.

In 2005, LOGOFIND provided funding to 30 LGUs projects costing P754.9 million. Fifty nine (59) percent are in the form of loans, and forty one (41) percent are provided as grant.

The Support Fund Facility (SFF) of the CBRMP was made available for livelihood and natural resource management-related programs. The DOF approved for implementation 45 new sub-projects in 18 LGUs, costing P228 million. As of yearend, CBRMP is about 92.2 percent complete, with US\$28.7 million disbursed out of the US\$38 million total project cost. Disbursement rate is 75.45 percent.

### Policy-based loans for LGUs

The MDFO-Policy Governing Board (PGB) approved the utilization of the MDF Second Generation Fund to finance policy-based loans of LGUs (PROLEND). This program, which focuses on provinces, aims to meet policy reform objectives in the following areas:

- fiscal administration;
- revenue collection and resource generation;
- budgetary planning;
- expenditures management; and
- overall governance.

Under this loan facility, the Province of Negros Occidental is implementing a P120-million project to reform its Electronic Procurement System.



Public Market for the Municipality of Can-Avid, Eastern Samar. A 650.4 square meters public market worth P16.992 million, which features 58 stalls, elevated water tank, and a 465 square meters river landing. Through this, the LGU envisions to augment revenue generation while providing its constituents (around 3,300 HHs) in 28 barangays access to upgraded public market.



**Another Logofind Project.** School Buildings for the Municipality of Ilog, Negros Occidental. The P16.883 million sub-project, which involves the construction of 3 school buildings with 20 classrooms, intends to improve the quality of education for elementary students in three barangays.



Feed Supply Store (Paracale, Camarines Norte)



Marine Sanctuary (Lawaan, Eastern Samar)



Vegetable Industry (Rosario, Agusan del Sur)



Carabao Raising (Sta. Rita, Western Samar)



Sinamay Weaving (Malinao, Albay)

In line with its mandate to provide a conducive environment for microfinance and improve the credit delivery services to the poor, the NCC continued to aggressively pursue policy and regulatory reforms for microfinance through the Credit Policy and Improvement Program (CPIP).

## Performance Standards for Microfinance

Following a series of regional consultations, the NCC entered into a Memorandum of Agreement (MOA) with government financial institutions, regulatory authorities, the Rural Bankers Association of the Philippines, National Confederation of Cooperatives and the Microfinance Council of the Philippines to use and adopt the Performance Standards that it formulated with stakeholders in their respective areas of operation. The MOA, together with the Philippine Declaration on Microfinance, were presented to the President during the culmination of the International Year of Microcredit on October 10, 2005.

## Regulatory and Supervisory Framework for Credit Cooperatives

The NCC spearheaded the creation of a technical working group (TWG) composed of different stakeholders to draft rules and regulations for the safe and sound operations of cooperatives engaged in the provision of savings and credit services. This is among the NCC initiatives to strengthen the credit cooperative sector. The initial draft of the Manual of Rules and Regulations for Savings and Credit Cooperatives (SCCs) in the Philippines has been put through a series of regional consultations to solicit the credit cooperative sector's views. The final draft is expected to be approved by the Board of Administrators of the Cooperative Development Authority (CDA) for implementation in 2006.

In line with the above initiative, the NCC started discussions with CDA on the proposed accreditation criteria for cooperative federations/unions that may be deputized as supervisors. These criteria will be used by the CDA in selecting and deputizing cooperative federations which will be tasked to examine the operations of primary credit cooperatives as supervisors.

The NCC also pushed for the amendments to the Cooperative Code and the Charter of the CDA. The proposed amendments include provisions to improve the financial operations of credit cooperatives and to strengthen the regulatory capacity of the CDA over credit cooperatives. As a result of the active participation of the NCC during the Congressional hearings for these bills, the amendments

now reflect provisions that mandate credit cooperatives to adopt performance standards and chart of accounts to ensure soundness of their operations. The Cooperative Code has been passed by the Lower House in 2005.

## Institutionalization of an Effective Credit Bureau

The NCC commissioned a study that would look into the legality of establishing a credit bureau within the Bangko Sentral ng Pilipinas and identifying an appropriate framework to operationalize a credit information system within the Philippine financial system. The operational design of a credit bureau was completed and served as inputs to the Credit Bureau Bill being deliberated in Congress. The passage of the bill will boost a major advocacy of the NCC to promote a more stable and sound financial system.

## Development of an Appropriate Rural Finance Framework

The NCC started a review of the rural finance sector because of concerns that the provision of financial services to the rural sector remains inadequate. The NCC, through CPIP, conducted a study to review the policy and legal environment for rural lending, including the available support systems for reducing the associated risks. The NCC held consultations with concerned agencies before final recommendations were made. Among the major recommendations are the following:

- GFI wholesaling activity should be supported, with retailing limited to clearly defined and distinct clientele.
- Allow banks that are in full compliance with the BSP regulations to open branches without prior BSP approval.
- Promote transparency for non-regulated lenders by supporting the implementation of standardized accounting and performance indicators.

## Microfinance Development Program

The NCC sought a program loan from ADB to further strengthen the microfinance industry in the Philippines. The program agreement between the government and ADB, which involves the adoption and implementation of specific policy measures and activities by government, was signed on November 22, 2005. In addition, the ADB provided technical assistance to the government in pursuing the policy reforms identified in the policy matrix agreed with

ADB. These include the strengthening of the CDA, privatization of the Philippine Postal Savings Bank, and the financial literacy and consumer protection programs of the National Anti-Poverty Commission (NAPC).

### **Philippine Microfinance Policies and Programs Win CGAP Award.**

The Consultative Group to Assist the Poor (CGAP)-- the World Bank-assisted body advocating for the development of microfinance-- granted the award to the National Committee of the Philippines from among 100 countries during the celebration of the International Year of Microcredit on November 8, 2005 at the United Nations' Headquarters in New York City, USA. This is a significant recognition of the initiative of the NCC to achieve poverty reduction in the country through microfinance development programs.

#### **CGAP Award presented to the National Committee of the Philippines**

*"In recognition of your outstanding achievements and tireless efforts in generating national commitment to build a more inclusive financial sector. We congratulate you for all that you have accomplished."*

*- Elizabeth Littlefield,  
Chief Executive Officer,  
The Consultative Group  
to Assist the Poor, November 7, 2005.*



The Members of the Technical Working Group on the Manual of Rules and Regulations for Credit Cooperatives pose for posterity during the regional consultation held at Holiday Inn, Clark, Pampanga on October 26, 2005



DOF Undersecretary and NCC Executive Director Gil S. Beltran raises a point during his attendance in the International Year of Microcredit held at the United Nations Headquarters in New York City, U.S.A. on November 8, 2005.

## ASEAN Finance Ministers Meeting

### • Roadmap for Monetary and Financial Integration

Liberalization of Trade in Financial Services – The DOF, in behalf of the Philippines, signed the Protocol on the Packages of Commitments on Financial Services under the ASEAN Framework Agreement on Services (AFAS). The Philippines assumed chairmanship of the Working Group for the AFAS' Fourth Round of Negotiations. A meeting was held in Manila on 29 August 2005 to finalize the guidelines for mode of negotiations for the fourth round of package of commitments under AFAS. The Fourth Round of Negotiations will be held on August 14-16, 2006 in Cebu City to discuss the fourth package of commitments.

### • 2nd ASEAN Finance Ministers Investment Seminar

The Philippines participated in the Seminar which was held on September 20-21, 2005 in London, United Kingdom. The Seminar's objective was to promote Southeast Asia as an attractive investment destination for foreign investors and to keep ASEAN on the radar screens of international investors.

of bond market development namely: (a) bond index; (b) securities borrowing and blending framework; (c) credit rating comparability; and (d) exchange rate funds.

A notable achievement under the Initiative was the issuance of Peso denominated bonds by the ADB in October 2005 amounting to P2.5 billion. This has provided significant benefits for the development and deepening of local bond markets. Among the benefits are to attract additional foreign investors, give local investors greater choice of investment opportunities, provide lower funding costs, and diversify funding sources.

### Chiang Mai Initiative

The purpose of this Initiative is to establish a regional financing arrangement in the ASEAN + 3. The Initiative has two components, namely: the Expanded ASEAN Swap Arrangement: which is a short-term liquidity facility where funds are provided by the ASEAN member countries; and the Network of Bilateral Swap Arrangements (BSAs).

In 2005, The Philippines renewed its BSAs with Korea amounting to US\$4.0 billion from the previous US\$2.0 billion on October 17, 2005. The BSA is intended to provide short-term financial assistance to the Philippines in the form of swaps of currencies between the two countries.

## ASEAN Finance Ministers + 3 (China, Japan, South Korea) Meeting

### Asian Bond Market Initiative

Under this Initiative, the Philippines availed of the consultancy services of the Daiwa Institute of Research of Japan on four areas

## World Bank Policy Framework

The DOF continued to advocate policy changes in the operations framework of the World Bank that would cater to the development needs of middle income countries. These would include introduction of new financial products that would more adequately answer the specific financing requirements of countries like the Philippines.

*"While understanding the attention given to the world's poorest countries, we would like the Bank to address more vigorously the needs of the Middle Income Countries (MICs). MICs too need assistance to achieve the Millenium Development Goals (MDGs). As the 2004 Annual Review of Development Effectiveness (ARDE) observes, "Most MICs, even though they have pockets of poverty and large numbers of near poor, have development goals that do not center on poverty reduction." The ARDE then goes to say that "the Bank should further articulate its mission of poverty reduction and progress on the MDGs in ways that align with these visions." Clearly, the Bank must deepen its engagement with MICs.*

*One way to do this is to offer innovative and flexible financial products. The lending products it presently offers are not flexible enough for the needs of MICs. The Bank has no refinancing windows where MICs can qualify for more liberal re-financing terms and conditions premised on its commitment to reforms. This is particularly important for MICs with high debt service such as the Philippines. A proposed refinancing window would enable a MIC to refinance expensive debts with lower cost Bank funds. The interest savings from the refinancing would be channeled to MDG projects.*

*We can also come up with creative ways to provide infrastructure for MICs. The MDGs cannot be achieved without growth. However, for countries to grow, they need to increase infrastructure spending. Many MICs have "fiscal space" problems that prevent them from providing the necessary public investment in pursuit of the MDGs. Under this situation, expanding public investment in infrastructure, even if economically justified, will increase fiscal stresses in MICs. Private investment is also not picking up the slack. The Bank, together with Multilateral Investment Guarantee Agency (MIGA) and International Finance Corporation (IFC), should work together more closely to address this issue. In addition, the Bank can scale up its local currency financing for infrastructure projects.*

*Finally, the Bank must listen more closely to MICs. The needs of MICs are more diverse and require a more tailored approach to development assistance. We need to pay more attention to implementation issues, including the removal of policy and operational aspects that impede decentralization.*

*The Bank needs to be ready to discuss the full range of policy options and the trade-offs involved, with due consideration to realistic assessment of the political economy and the implementation capacity for reform."*

**Secretary Gary B. Teves**  
*Joint Annual Meeting of WB and IMF  
 September 2005, Washington, D.C., USA*



The Frontline Offices of the DOF, composed of the Revenue Office, the Mabuhay Lane, and the One-Stop-Shop Tax Credit and Duty Drawback Center, are dedicated to spurring trade and investments through trade facilitation. These offices receive, evaluate and approve claims for tax credits and exemptions by sectors entitled to tax and duty exemptions.

In 2005, the Revenue Office processed a total of 7,675 exemption claims which resulted in the waiver of taxes and duties in the amount of P5.6 billion. The judicious review of claims for exemptions has minimized revenues foregone by Government.

Revenue Office		
	2004	2005
Duties and Taxes Waived (in P million)	5,644.5	5,632.3

## The Mabuhay Lane

One of the frontline offices of the Department is the Mabuhay Lane. The Mabuhay Lane processes claims for tax exemptions of importers of books, periodicals, and similar items; non-profit educational institutions; importers of capital equipment under Executive Order No. 226; importers under Section 105(r) of the Tariff and Customs Code; the Asian Development Bank; contractors for the Department of Energy; and importers of personal effects and household goods.

The taxes and duties waived on importations by the Mabuhay Lane amounted to P1,846.3 million in 2005, compared with P 1,870.8 million in 2004.

Mabuhay Lane		
	2004	2005
Duties and Taxes Waived (P million)	1,870.8	1,846.3

## One-Stop-Shop Inter-Agency Tax Credit and Duty Drawback Center

During the year, the Center issued a total of 1,883 Tax Credit Certificates (TCCs) amounting to P2.2 billion to 208 mostly export-oriented companies, broken down as follows:

- P1.3 billion from the Investment Incentive Group (IIG), which processes tax credit claims under E.O. 226 and other related incentive laws;
- P476.2 million from the Duty Drawback Group (DDG), which processes duty drawback claims under Section 103 of the Tariff and Customs Code of the Philippines; and
- P439.2 million from the Tax Revenue Group (TRG), which processes tax credit claims under Section 112 of the National Internal Revenue Code.

The amount is lower than the P 3.6 billion worth of TCCs issued in 2004. This is due to lower TCC issuances arising from modified review procedures and reduction of claims.

With the earlier completion of projects that improved and strengthened the TCC system for local exporters, the Center has enhanced its capability to administer the tax and duty drawback system for exporters.

OSS-Center		
	2004	2005
Total TCCs (in P billion)	3.6	2.2

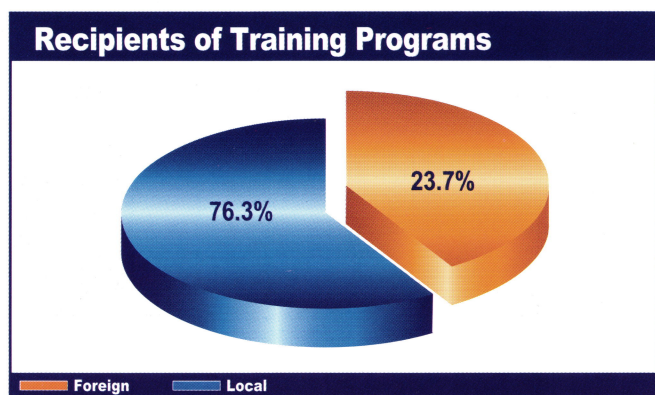
## Tax Subsidy

In the area of tax subsidy, the provision of the 2005 General Appropriations Act was made open-ended to enable any government corporation to apply for tax subsidy particularly if the tax obligation involved is going to pose a financial difficulty in the pursuit of its mandate. During the year, the FIRB evaluated a number of tax subsidy applications. Foremost among these were Light Rail Transit Authority (LRTA), Armed Forces of the Philippines Commissary and Exchange Service (AFPCES), Philippine National Police Service Stores System (PNPSSS), Philippine Heart Center (PHC), National Kidney and Transplant Institute (NKTi), National Food Authority (NFA), Philippine International Trading Corporation (PITC), National Dairy Authority (NDA) and Bases Conversion Development Authority (BCDA). A total of P11.8 billion worth of tax subsidy was granted to the aforementioned national government agencies.

## Career Development Program

The Department of Finance has embarked on a proactive career development program geared to increase employee productivity and sustain the DOF as one of the top performing agencies in the whole bureaucracy. Scholarships and training programs continued to provide the employees with the tools and opportunities to enhance their skills and thus contribute to a more efficient and effective DOF.

For the year 2005, a total of 186 personnel were recipients of trainings, seminars and scholarships. Forty four (44) personnel attended foreign trainings while one hundred forty two (142) were recipients of local trainings.



Seven (7) employees availed of the Study Leave Grant on Official Time to review for the licensure and bar examinations. Four (4) employees completed their graduate degree courses during the year, three (3) from local universities and one (1) from a university in Japan under the auspices of Japan-IMF Scholarship Program for Asia.

## Staff Recognition

Based on the DOF's Program on Awards and Incentives for Service Excellence (PRAISE), the following awards were conferred to deserving employees in 2005:

- Promotions for seventy nine (79) qualified and deserving employees;
- Service Awards for four (4) employees for their long years of service rendered to the DOF;
- Loyalty award for eighty five (85) employees who have rendered continuous and satisfactory service for at least ten years;
- Length of Service Incentive or Longevity for one hundred one employees (101) for having rendered at least three (3) years of continuous service in the same position; and

- Recognition and compensatory day-off pursuant to R.A. 6713 for eight employees who obtained perfect attendance during the Flag Raising Ceremonies for six consecutive months

## Participation in National Events & Community Service

National events and community services participated in by DOF this CY 2005 were the following:

- International Women's Day Celebration;
- Commemorative Mass on the occasion of the 4th Anniversary of EDSA II;
- Blood Donation Program conducted by the Philippine Children's Medical Center;
- Gift-giving at Mother Theresa's Missionaries of Charity for youth and children at Del Pan, Tondo, Manila;
- National Statistics Month; and
- National Civil Service Month where selected Policy Development and Management Services Group (PDMSP) staff were tapped as members of the Secretariat for the National Public Sector Labor Management Congress, an activity which highlighted the CSC month.

In-house courses and seminars were conducted to enhance the knowledge, competencies and skills of a greater number of DOF personnel. Among these are:

- a) Supervisory Development Course (SDC Track 1);
- b) Seminar on the Impact of Value Added Tax on Agriculture Production and Selling Price;
- c) Training on Adobe Acrobat;
- d) Seminar on electronic New Government Accounting System (e-NGAS);
- e) FPPO Quarterly Lecture Series: Philippines' Poverty Profile and Situationer (Pobreng Pinoy) and Understanding the Value Added Tax ;
- f) Focus Group Discussion on New Career Executive Service Performance Evaluation System for the third level positions; and
- g) Briefing on the Rationalization Program under E.O. 366.

## Gender Development

The Gender and Development efforts in the Department focused on two (2) major activities. The first was the participation of the DOF in Women's Month in March 2005 where it sent a delegation to the International Women's Day celebration held at Intramuros. The second was the participation of DOF in the 4F Day (Fun and Festival for Fit Female) held at the Rizal Memorial Sports Complex.

In support of the commemoration of the International Day for Elimination of Violence against Women, the GAD Focal Point System of DOF coordinated the conduct of Briefing on RA 9262 otherwise known as “Anti-Violence Against Women and their Children Act of 2004” and RA 9208 or the Anti-Trafficking in Persons Act of 2003” where GAD Focal Points of bureaus and attached agencies also participated.

Other GAD-related activities included the attendance in the “Anti-Corruption Lecture Series” held at the Bureau of Customs which is in support of the DOF thrust to combat corruption in government.

A Multi-Stakeholder's Consultation on CEDAW (Convention on the Elimination of Discrimination Against Women) was also attended by a DOF GAD Focal Point.

## Systems Improvement

The Personnel Management System and Payroll Management System at the PSD was put in place and has been operationalized for improved personnel service delivery. The system is still being subjected to further refinements to improve accuracy and quality of output.

### Foreign Trainings Attended by DOF Personnel for CY 2005

Training Program	Country
IMF Course on Government Finance Statistics	Washington, DC, USA
Regional Conference on Developing Financial Accounting Standards for Non-Profit Organizations	Bangkok, Thailand
IMF 3rd Semi-Annual Forum for Public Debt Managers	Washington, DC, USA
Seminar for the Development of Training Curricula for Pension System in Southeast Asia	Indonesia
KOICA Course on Administrative Information Management	Seoul, Korea
Course on Complex Financial Crimes Investigations	Bangkok, Thailand
ADB Development Management for Senior Executives Workshop-Results-Based Management	Tokyo, Japan
IMF-STI Macroeconomic Impact of the Budget	Singapore
MOF 4th Annual Seminar on Economic Policies	Tokyo, Japan
International Policy Workshop on the Role of Conditionality in Policy-Based Lending	Berlin, Germany
Masters Degree in Taxation Policy and Management	Tokyo, Japan
Regional Workshop on Quantitative Methods for Economic & Financial Monitoring & Strengthening of National Surveillance Units in East Asia	Jakarta, Indonesia
IMF-STI Course on Government Finance Statistics	Singapore
ASEAN +3 Training Workshop on Reform and Development of Banking Sector	Shanghai, PROC
18th Public Utility Research Center/WB International Training Program on Utility Regulation and Strategy	Florida, USA
IMF-STI Course on Fiscal Policy in Low Income Countries	Washington, DC, USA
Course in Government Budgeting incl. Performance Budgeting and Zero-based Budgeting	India
IMF Course on External Debt Statistics in English	Washington, DC, USA
Conference for Senior Policy Makers on Managing Fiscal Risks in Asia	Singapore
Master in International Development	Tokyo, Japan
2005 APEC Future Economic Leaders Think Tank	Sydney, Australia
Workshop on Sustainable Approaches to Local Govt. Capacity Building: Meeting the Challenges of Decentralization & Governance Reform	Bali, Indonesia
Conference on Expanding ASEAN-EU Economic Links	Kuala Lumpur, Malaysia
ILIA Advanced Management Course	New Mexico, USA
9th Workshop of the Economic Development Cooperation Fund	Seoul, Korea
3rd International PG Certificate Course in Corruption Studies	Hong Kong
KOICA Course on Overcoming of Financial Crisis and the Role of Non-Performing Loan Resolution Agency for ASEAN Member Countries	Seoul, Korea
KOICA Course on 2nd Economic Development Policy for Philippine Officials	Singapore
IMF-STI Course on Financial Programming and Policies	Tokyo, Japan
ADB 15th Tax Conference	USA, France & Spain,
East Asia & the Pacific Urban Development Unit Study Tour on Municipal Finance & Capacity Building	Sweden
Study Mission on Urban Development	Singapore
Hitotsubashi Executive Program for Macroeconomic Policymakers	Tokyo, Japan
Treasury Workshop on Designing Government Debt Management Strategies	Washington, DC, USA

## DOF Secretary Margarito B. Teves

*Secretary Teves assumed the Finance portfolio at a critical time in July 2005. He quickly showed his mettle as a fiscal expert with political astuteness, quietly but effectively lobbying for the implementation of the much-debated Reformed Value-Added Tax (R-VAT) Law.*

*Secretary Teves is now faced with the challenge of sustaining fiscal reforms by making sure that the collecting agencies consistently meet their targets and the much-needed additional collections arising from the R-VAT Law are realized in the years to come.*

*Secretary Teves is an economist and a constitutionalist. He has been a congressman, a businessman, and a banker. Educated in London, Spain and the United States, this native of Dipolog, Zamboanga del Norte and Dumaguete, Negros Oriental earned the equivalent of a Bachelor's degree in Business Economics from the City of London College in England and a Master's degree in Development Economics from Williams College in Massachusetts, USA.*

*Upon his return to the Philippines, he joined the Bank of Asia and subsequently, the Presidential Economic Staff, the predecessor of the National Economic and Development Authority (NEDA). He was then elected as a delegate to the 1971-72 Constitutional Convention. His stints in the private sector, for organizations such as the Ayala Corporation, the Ayala Foundation, Metrobank and the Philippine Stock Exchange, further honed his expertise in the fields of economics and finance.*

*He represented the 3rd District of Negros Oriental in Congress for three consecutive terms, from 1987 to 1998, authoring important legislations on trade, investment, fiscal and financial reform, most notably laws that liberalized the banking system to allow the entry of foreign banks.*

*From 1988 -2000, he was Chairman and Chief Executive Officer of Think Tank, Inc. -- an organization involved in political, economic and financial environment scanning, as well as policy advocacy.*

*In September 2000, he was appointed President and CEO of LANDBANK. Under his leadership of nearly five years, the bank's financial performance showed significant improvement, becoming the country's third largest bank in terms of assets, deposits and loans. He is also credited for successfully steering the Bank back to its original mandate of spurring development and alleviating poverty in the countryside.*

*In July 2005, he assumed his present and most challenging position to date as the Secretary of Finance.*

**Margarito B. Teves**

Secretary



# THE UNDERSECRETARIES

27



**Nieves L. Osorio**

Policy Development and Management  
Services Group



**Ma. Gracia M. Pulido-Tan**

Revenue Operations Group  
(May 05, 2003 to February 15, 2005)



**Emmanuel P. Bonoan**

Revenue Operations Group  
(March 01, 2004 to December 31, 2005)



**Gabriel R. Singson, Jr.**

Corporate Affairs Group



**Roberto B. Tan**

International Finance Group



**Gil S. Beltran**

Domestic Finance Group

# THE ASSISTANT SECRETARIES



**Ma. Eleanor F. dela Cruz**

Special Concerns



**Jeremias N. Paul, Jr.**

International Finance Group



**Arlene A. Mendoza**

Revenue Operations Group  
(February 28, 2005 to July 15, 2005)



**Carlito P. Yu**

Policy Development and Management  
Services Group

(Not in photo)

**Jude B. Ocampo**

Office of the Secretary  
(February 28, 2005 to July 15, 2005)

**Lourdes Z. Santiago**

Central Administration Office

**Ma. Lourdes V. Dedal**

Central Financial Management Office

**Soledad Emilia J. Cruz**

Corporate Operations Office

**Ma. Lourdes B. Recente**

Research and Information Office

**Thelma A. Mariano**

Legal Affairs Office

**Porfirio B. Villena**Policy Development and Management  
Services Group



**Ma. Teresa S. Habitan**  
Fiscal Policy and Planning Office



**Helena B. Habulan**  
Municipal Development Fund Office



**James H. Roldan**  
International Finance Operations Office  
(May 25, 2000 to April 28, 2005)



**Ernesto Q. Hiansen**  
One-Stop Shop Tax Credit and  
Duty Drawback Center



**Ma. Edita Z. Tan**  
International Finance Operations Office



**Vicente J.A. Sarza**  
Privatization Office



## THE DIRECTORS



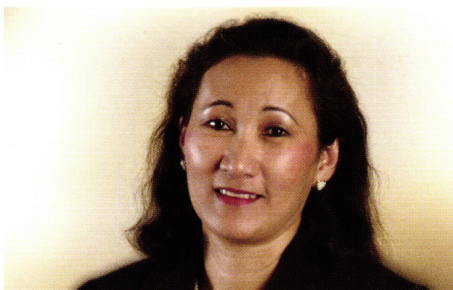
**Fidel G. Condrada**

Legal Affairs Office



**Joselito S. Almario**

Fiscal Policy and Planning Office



**Gilda Victoria G. Mendoza**

International Finance Policy Office



**Lilanie O. Magdamo**

Municipal Development Fund Office

## THE HEADS OF ATTACHED BUREAUS



**Jose Mario C. Buñag**

Commissioner  
Bureau of Internal Revenue



**Alexander M. Arevalo**

Commissioner  
Bureau of Customs



**Omar T. Cruz**

Treasurer of the Philippines  
Bureau of the Treasury



**Ma. Presentacion R. Montesa**

Executive Director  
Bureau of Local Government Finance

## THE HEADS OF ATTACHED AGENCIES

31



**Fe B. Barin**

Chairman  
Securities and Exchange Commission



**Evangeline C. Escobillo**

Commissioner  
Insurance Commission



**Lecira V. Juarez**

Chairman  
Cooperative Development Authority



**Lina D. Isorena**

Executive Director  
National Tax Research Center



**Mr. Jose A.R. Bengzon III**

Chief Privatization Officer  
Privatization Management Office



**Cesar S. Gutierrez**

Commissioner  
Central Board of Assessment Appeals

## THE HEADS OF ATTACHED CORPORATIONS



**Ricardo M. Tan**

President and CEO  
Philippine Deposit Insurance Corporation



**Virgilio R. Angelo**

President  
Philippine Export-Import Credit Agency (PHILEXIM)

OFFICE/GROUP	ADDRESS	TELEPHONE NUMBERS
<b>Office of the Secretary</b>	6th Floor, DOF Building, BSP Complex, Roxas Boulevard, Manila 1004	523-60-51; 526-73-36; 523-92-51 523-92-19 (Fax) 526-84-74; 521-94-95
<b>Chief of Staff</b>		525-02-60
<b>Deputy Chief of Staff</b>		525-41-94
<b>Policy Development &amp; Management Services Group</b>	7th Floor, EDPC Building, BSP Complex, Roxas Boulevard, Manila 1004	
<b>Office of the Undersecretary</b>	5th Floor, DOF Building, BSP Complex, Roxas Boulevard, Manila 1004	400-68-82; 524-52-21
<b>Office of the Assistant Secretary</b>	5th Floor, DOF Building, BSP Complex, Roxas Boulevard, Manila 1004	526-84-59
<b>Central Administration Office</b> Office of the Director Personnel Services Division Central Records Management Division General Services Division Property & Procurement Section Cash Section Library Section	7th Floor, EDPC Building, BSP Complex, Roxas Boulevard, Manila 1004	526-12-65 525-02-44 526-84-70; 526-55-73 526-8475; 525-42-27 526-47-86 526-55-73 526-84-10
<b>Central Financial Management Office</b> Office of the Director Budget Division Accounting Division Management Services Division	7th Floor, EDPC Building, BSP Complex, Roxas Boulevard, Manila 1004	526-81-66 526-84-64 523-56-24 526-69-32
<b>Management Information System</b>	4th Floor, DOF Building, BSP Complex, Roxas Boulevard, Manila 1004	525-44-51; 526-84-67; 525-46-97
<b>Corporate Affairs Group</b>	5th Floor, DOF Building, BSP Complex, Roxas Boulevard, Manila 1004	
<b>Office of the Undersecretary</b>		400-68-82; 524-52-21
<b>Corporate Operations Office</b> Office of the Director Corporate Policy Research Division Corporate Programs Division GCMCC Infrastructure Division GFIs		525-74-27; 525-13-13(Telefax) 525-73-09; 523-71-72 525-73-09; 523-71-72 525-73-09; 523-71-72 525-73-09; 523-71-72 525-73-09; 523-71-72

OFFICE/GROUP	ADDRESS	TELEPHONE NUMBERS
<b>Privatization Group</b>  <b>Office of the Undersecretary</b>  <b>Privatization Office</b> Appraisal and Evaluation Division Issues and Procedures Division COP Secretariat	5th Floor, DOF Building, BSP Complex, Roxas Boulevard, Manila 1004	523-57-27; 525-13-21; (Fax) 523-51-43   524-16-63 524-16-63 524-16-63
<b>Domestic Finance Group</b>  <b>Office of the Undersecretary</b>  <b>Office of the Assistant Secretary</b>  <b>Fiscal Policy and Planning Office</b> Office of the Director Fiscal Policy Division Fiscal Planning Division Statistics Division Special Studies Division  <b>National Credit Council</b>  <b>Japan Fund for Poverty Reduction Reduction (JFPR)</b>  <b>Research and Information Office</b> Office of the Director Research and Liaison Division Information Division	4th Floor, DOF Building, BSP Complex, Roxas Boulevard, Manila 1004	523-56-71; (Fax) 523-38-25;  524-06-07   523-56-78; (Telefax) 523-38-25 (Telefax) 524-06-07 523-56-78; (Telefax) 523-38-25 523-56-78(Telefax) 523-38-25 (Telefax)523-38-25  (Telefax) 523-38-25  525-04-87; (Telefax) 525-04-97 525-43-32   523-69-68 524-06-18 524-06-19
<b>International Finance Group</b>  <b>Office of the Undersecretary</b>  <b>Office of the Assistant Secretary</b>  <b>International Finance Operations Office</b> Office of the Director Debt Restructuring Div. & ADB Multilateral Assistance Division Bilateral Assistance Division  <b>International Finance Policy Office</b> Office of the Director International Economy Division External Adjustment Division	5th Floor DOF Building, BSP Complex, Roxas Boulevard, Manila 1004	523-92-21; (TL) 523-99-11 to 14 loc 101  (TL) 523-99-11 to 14 loc 126   526-99-90; (TL) 523-99-11 to 14 local 125 521-87-91; (TL) 523-99-11 to 14 loc 106 521-87-92; (TL) 523-99-11 to 14 loc 104 523-92-23; (TL) 523-99-11 to 14 loc 110  400-74-46; (TL) 523-99-11 to 14 loc 115 400-74-46; (TL) 523-99-11 to 14 loc 127 400-74-46; (TL) 523-99-11 to 14 loc 111

OFFICE/GROUP	ADDRESS	TELEPHONE NUMBERS
<b>Revenue Operations Group</b>  <b>Office of the Director</b> Customs and Tariff Division Internal Revenue Division Research Monitoring Division Mabuhay Lane	Podium, DOF Building, BSP Complex, Roxas Boulevard, Manila 1004	526-84-58 526-84-58; 526-84-76 526-84-76; 526-73-11 526-73-11; 526-84-58
<b>Legal Affairs Office</b> Office of the Director International Legal Services Division Domestic Legal Services Division Hearing and Litigation Division	4th Floor, DOF Building, BSP Complex, Roxas Boulevard, Manila 1004	526-84-58 526-74-90; 526-84-49 526-84-49 526-84-49
<b>One-Stop-Shop Tax Credit and Duty Drawback Center</b>  <b>Office of the Executive Director</b> OSS Operations OSS-TCCIAD/TDM OSS-Receiving OSS-Policy OSS-MIS OSS-Admin. OSS-BOC OSS-BIR OSS-Post Audit	3rd Floor, DOF Building, BSP Complex, Roxas Boulevard, Manila 1004	526-81-78 523-92-17 526-84-50 526-13-08 526-08-42 526-17-81 526-00-76 256-07-51 526-88-49 526-48-22
<b>Municipal Development Fund Office</b>  <b>Office of the Executive Director</b> Office of the Deputy Executive Director Finance and Administrative Division Accounting Division CBRM Project LOGOFIND Project	Podium, DOF Building, BSP Complex, Roxas Boulevard, Manila 1004	523-99-35 523-99-35  525-91-88 523-99-37 521-71-95; 523-99-36 525-91-86; 525-91-87

# DIRECTORY OF DOF BUREAUS, ATTACHED AGENCIES & CORPORATIONS

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AGENCY NAME/OFFICE	ADDRESS	TELEPHONE NUMBERS
Bureau of Customs (BOC)	BOC Building, Port Area, Manila	526-63-55; 527-45-11
Bureau of Local Government Finance (BLGF)	8th Floor, EDPC Building, BSP Complex, Roxas Boulevard, Manila	527-27-80; 522-87-73
Bureau of Internal Revenue (BIR)	Agham Road, Diliman, Quezon City	921-04-30; 922-32-93
Bureau of the Treasury (BTr)	Palacio del Gobernador, Intramuros, Manila	527-31-84; 527-31-78; (TL) 522-81-22
Central Board of Assessment Appeals (CBAA)	7th Floor EDPC Building, BSP Complex, Roxas Boulevard, Manila	525-14-11; 525-14-10 526-74-85
Cooperative Development Authority (CDA)	5th Floor Ben-Lor Building, 1184 Quezon City	371-20-77; 373-69-06
Fiscal Incentive Review Board (FIRB)	23rd Street corner A.C Delgado Street, Port Area, Manila	527-20-71; 527-20-62
Insurance Commission (IC)	IC Building, 1071 U.N Avenue, Manila	525-20-15; 523-84-61 to 70
National Tax Research Center (NTRC)	23rd Street corner A.C Delgado Street, Port Area, Manila	527-20-50; 527-20-64
Philippine Deposit Insurance Corporation (PDIC)	PDIC Building, Pasong Tamo Extension, Makati City	818-69-06; 817-14-45
Philippine Export-Import Credit Agency (PhilExim)	17th Floor, Citibank Plaza, 8741 Paseo de Roxas, Makati City	893-46-32; 893-48-09 (TL) 848-19-00
Privatization and Management Office (PMO)	104 Gamboa Street, Legaspi Village, Makati City	893-23-83; 893-12-09
Securities and Exchange Commission (SEC)	SEC Building, EDSA Greenhills, Mandaluyong City	727-45-43; 724-47-57

Undersecretary Gil S. Beltran

Director Ma. Teresa S. Habitan

Director Joselito S. Almario

Napoleon P. Micu

Aurora Luz D. Villaviray

Febe J. Lim

Ricardo P. Toquero

Eric C. Tipgos

Irene R. Sta. Ines





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*Cover Design:* Katrina Feona Almario & Anatalia Milrose Cheree Almario



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