DEPARTMENT OF FINANCE

INCLUSIVE DEVELOPMENT

HARNESSING THE VIRTUOUS CYCLE OF GROWTH AND GOOD GOVERNANCE

2014 ANNUAL REPORT

TABLE OF CONTENTS

ABOUT THE COVER

INCLUSIVE DEVELOPMENT

Harnessing the Virtuous Cycle
of Growth and Good Governance

The cover art, showing vibrant, dynamic splashes of color forming a circle, represents the virtuous cycle the Philippines has earned for itself after restoring confidence in its economy, institutions, and people. The virtuous cycle has self-sustaining and self-reinforcing elements, each augmenting the perpetuation of the cycle for which millions of Filipinos now benefit. From a firmer fiscal position to stronger sovereign credit ratings, and from expanded fiscal space to heavier investments in our people, the Philippines is riding a virtuous cycle of good governance and growth leading towards inclusive development.

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", operation would be paralyzed in no time.

That the birth of the Department of Finance (DOF) 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, financial market development, and fiscal management rest on the shoulder of the DOF. The Government must provide the citizenry with infrastructure, education, health and other basic services all geared towards spurring inclusive development.

The DOF is in the forefront of providing the funding requirements.

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:

- Formulation, institutionalization and administration of sound fiscal policies;
- Improvement of tax collection efficiency and non-tax revenue efforts;
- 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 with adequate resources for Government projects, infrastructure, education, health and other basic services ;
- 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; and
- A strong economic growth with equity and productivity.

MANDATE

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

- 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.

CREDO

I am a public servant in the Department of Finance.

I seize the initiative to improve a little each day:

- in the way that I am;
- in the way I care;
- in the way I work.

I strive for excellence in everything I do:

- by the pursuit of competence;
- by the constant search of professionalism;
- by the observance of team work.

I take the lead and serve:

- by putting country above self;
- by showing concern for others;
- by thinking of myself last.

I think and act to ensure:

- integrity in the life I live;
- the efficiency of the work I do;
- the effectiveness of the service I render.

I believe that God is my father who cares for and helps me always.

MESSAGE OF THE PRESIDENT

My warmest greetings to the Department of Finance on the publication of your 2014 Annual Report.

Inclusive growth has accelerated our transformation into a significant player on the global stage. Through the Daang Matuwid, we have given our countrymen greater opportunities to succeed: Our economy is thriving, unemployment has been reduced, and our democracy continues to be a model of empowerment around the world. This annual report is both a benchmark and a historical document that sheds light on our path to success. Through your partnership and initiative, we have restored integrity and accountability in Government. May you continue to be examples of public service and help Filipinos realize their full potential.

The challenges to equitable progress evolve along with our changing milieu. I urge you to maintain excellence in your sector so that we may capably overcome any obstacle to our advancement. May your endeavors elevate the Philippines into a beacon of prosperity and secure a bright future for our people.

I wish you a productive and meaningful year ahead.

BENIGNO S. AQUINO III
President
Republic of the Philippines

Last 2013, the Philippines achieved investment grade credit ratings for the first time. In 2014, the country further moved up the investment grade scales of Moody's and Standard and Poor's.

MESSAGE FROM THE SECRETARY

Virtuous cycles often start with just one good thing. For the Philippines, it was President Benigno S. Aquino III's vision of good governance. Four years into this commitment, the result has been abundantly clear: restored confidence reaping gains on almost every measure and sector, driving the country's inclusive development agenda forward.

The Philippine economy grew by 6.1 percent for the full year of 2014, marking 3 consecutive years of above 6 percent growth during a time of sluggish global recovery. Inflation has been kept within the manageable range. Tax effort reached 13.6 percent, reflecting expanded fiscal space to afford exponential increases in productive investments for our people.

Since the implementation of Sin Tax Reform in 2013, the National Government (NG) collected a total of P101.4 billion in incremental revenues, P24.6 billion higher than the projected collections for 2013 and 2014. True to its goal of furthering universal healthcare, the reform won measurable gains for the poor with increased health care coverage.

The Department of Finance has continued the vigorous pursuit and enhancement of tax administration reforms. Strengthening of enforcement programs such as the Run After Tax Evaders (RATE), Run After the Smugglers (RATS), and the Revenue Integrity Protection Service (RIPS) have provided the foundations for our stronger fiscal position.

Compared to 2010 figures, the education budget rose 73%, while the infrastructure budget jumped 78 percent. Healthcare grew by almost twice, while social services increased by a quintuple amount. These are real gains the virtuous cycle spins off to benefit our population.

Last 2013, the Philippines achieved investment grade credit ratings for the first time. In 2014, the country further moved up the investment grade scales of Moody's and Standard and Poor's. Improved credit ratings allow the Government and the private sector to borrow at cheaper rates, lower debt service levels, and free up more resources that can be channelled to sectors of the economy with substantial impact on job generation and social services.

I still firmly believe we are grossly underrated. The Republic's Credit Default Swap (CDS) levels, another measure of investor confidence, continue to tighten. We have even surpassed our single A-rated neighbors, making us among the safest bets in an increasingly uncertain environment.

Continuing our prudent liability management strategy, financing has increasingly turned towards domestic sources. Of the total financing for the year 2014, domestic financing accounted for 73 percent. Moreover, 40 percent of domestic issuances were medium-term securities, helping maintain the average time to maturity of the debt portfolio. NG debt to GDP shrunk to 45.4 percent from the 52.4 percent recorded in 2010, while General Government debt fell to 36.4 percent of GDP from 42.2 percent in 2010.

The establishment of the Treasury Single Account by the Bureau of the Treasury (BTr) in early 2014 is set to improve the efficiency and effectiveness of cash management operations. The TSA will consolidate all Government accounts into one account of the Treasury to provide a clear picture of the NG's cash resources.

The DOF, through the National Credit Council continued in 2014 its advocacy on financial inclusion development which includes enhancing the regulatory environment in the field of microfinance, microinsurance and access to financing of MSMEs. The Philippines was cited as among of the top ten best countries for financial inclusion in 2014.

Through the Municipal Development Fund Office (MDFO), the DOF has likewise continued to extend grants and loan assistance to the LGUs in the country. In 2014, the MDF-SGF approved subprojects reached to about P2.5 billion for 34 LGUs covering 40 subprojects which provide for basic infrastructure, economic and revenue-generating services, disaster prevention and rehabilitation, among others.

These are just some highlights from a year that saw the virtuous cycle of faster growth and better governance take us closer to inclusive development. Staying firmly in course will lead each boon to produce another in self-reinforcing ripples, ensuring we reap the most out of this window of opportunity.

May we all do our part in keeping this virtuous cycle alive for the generations that will come after us.

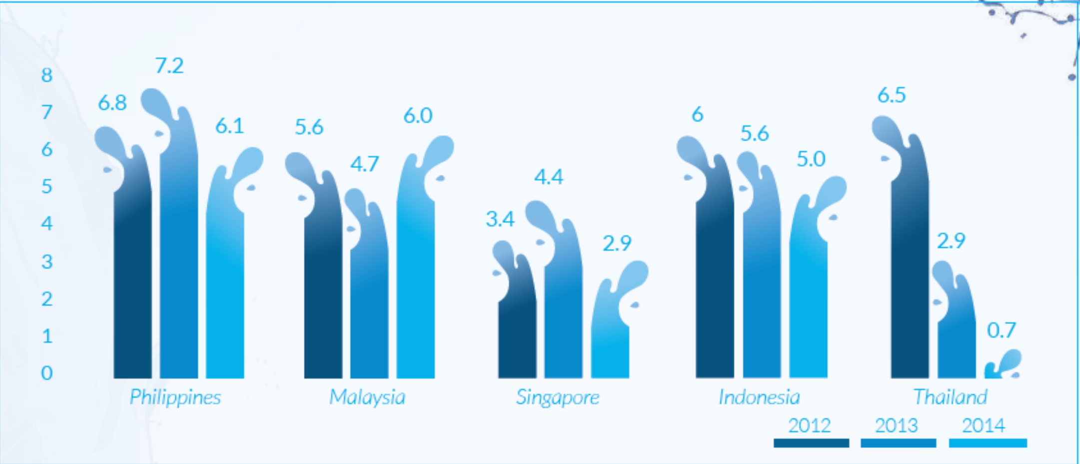
Sincerely,

CESAR V. PURISIMA
Secretary of Finance

2014 ECONOMIC HIGHLIGHTS

On the back of strong macroeconomic fundamentals, the country's economy surged by 6.1 percent in 2014, the fastest among ASEAN's five major economies.

Fastest growing economy among ASEAN-5 in the last 3 years



% GDP Growth, Source: IMF

The Philippine economy once again grew by more than 6 percent for three years in a row covering the period 2012-2014 since the 1950s. Fuelled by a vibrant IT-BPM (information technology and business process management) segment, services contributed 3.4 percentage points to last year's 6.1 percent growth. The industry sector likewise accounted for 2.5 percentage points as manufacturing continued to post above-average growth range.

A strong domestic economy has continued to buttress the country's overall economic performance amidst deteriorating economic performances in the West and the threat of China's slowdown. The country has been strengthening its macroeconomic fundamentals to foster an environment conducive to sustainable economic growth. Accounting for roughly 70 percent of GDP, household consumption, on the back of sustained OFW remittances, posted a growth rate of 5.4 percent, thereby contributing 3.7 percentage points to the overall GDP growth rate of 6.1 percent. Since 2009, average annual inflation rate has been consistently kept within the official target range. Since 2003, the country has enjoyed positive current account balance, bolstered by robust OFW remittances and IT-BPM earnings.
With these, and the gradual weaning from foreign financing dependence, the country has built a strong external position, backed by sizable reserves that can cover nearly a year's worth of imports.

With prudent fiscal management, the country is increasingly improving its fiscal performance. The Government has been working towards improving revenue collections in general and tax revenue in particular. Since 2012, tax revenue collections have grown at a faster rate than nominal GDP. Interest payments as share to total National Government (NG) expenditures have been declining thus having more funds available for infrastructure and social spending. Financing has been increasingly turning toward domestic sources. With decreasing reliance on external financing, the public sector has mitigated its exposure to exchange rate volatilities.

The Government's improving fiscal performance has indirectly helped foster the development of the country's financial markets. With manageable fiscal deficits, the Government no longer competes with the private sector for scarce financial resources, creating space for the further development of the country's capital markets especially the bond market. The Government's continued issuances of longer-dated securities also provided a benchmark for corporations to issue longer-dated bonds, further contributing to the deepening of the capital markets. At the grassroots level, microfinance and microinsurance continue to serve those at the bottom of the economic pyramid.

With the public sector increasingly keeping its house in order, the private sector is also increasingly becoming an indispensable partner in the quest for sustainable development.

It is also worth noting that institutional reforms established have now been recognized internationally. Since 2010, the Philippines made the biggest improvement in global competitiveness rankings. With good governance as the groundwork for development agenda, the Government can ensure that economic gains will be enjoyed by all, especially the poor and marginalized sectors of the society.

International Accolades on Competitiveness and Governance

Source: BSP-IRO Credit Rating's Investment Grade Status

Investment Grade Ratings bode well in raising the country's international profile as a competitive investment destination

Back in 2013, the country has achieved, for the first time, investment grade ratings from three major credit rating agencies. In 2014, the country moved further up the investment grade scale of Moody's and Standard & Poor's on the back of strong growth and improved governance standards and institutions.

These improved credit ratings allow the Government and the private sector to borrow at cheaper rates, lower debt service levels, and free up more resources that can be channeled to sectors of the economy with substantial impact on job generation and social services.

The country successfully issued USD 1.5 billion in 10 year bonds last 09 January 2014. This marks the country's return to the international capital market since January of 2012 and its first as an investment grade sovereign. The transaction also included an Accelerated 1- day Switch Tender Offer as part of a liability management exercise.

It was the first of its kind in Asia, garnering for the country Finance Asia's citation as being among the ***"Region's Best Borrowers"*** for 2014.

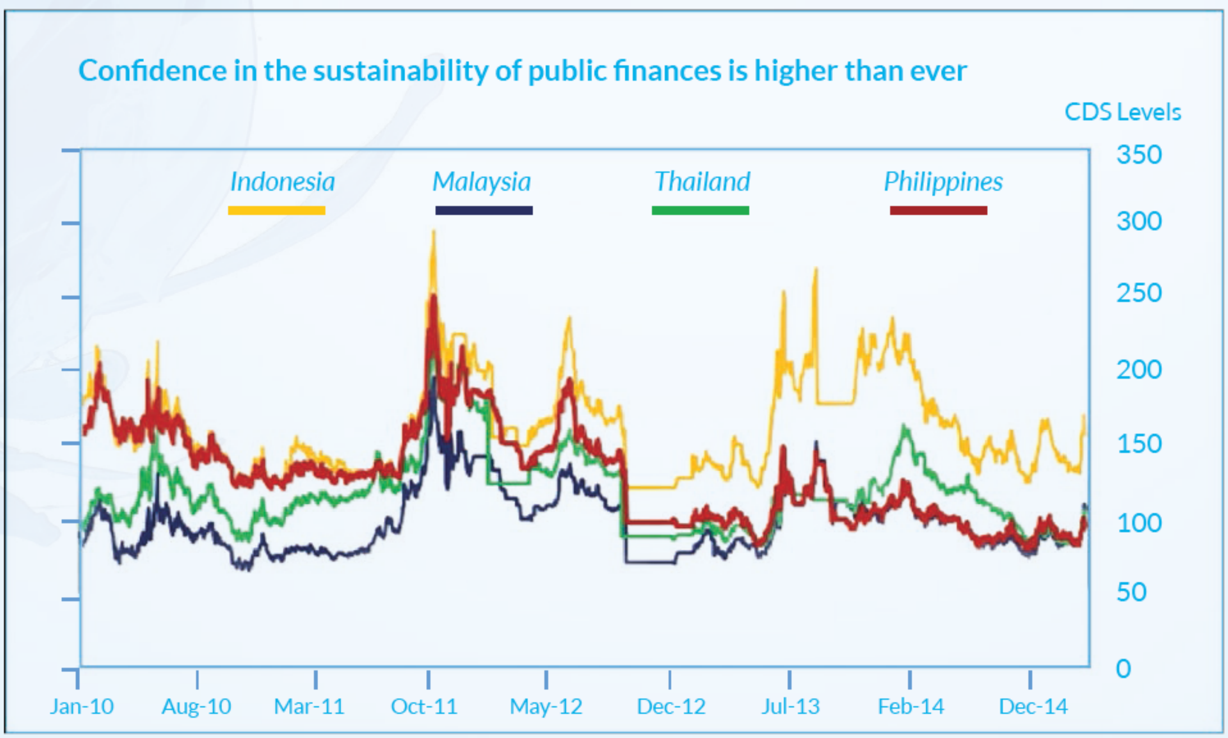
	2013	2014
Standard & Poor's	BBB-/Stable Investment Grade	BBB/Stable Investment Grade
Moody's Investors Service	Baa3/Positive Investment Grade	Baa2/Stable Investment Grade
Fitch Ratings	BBB-/Stable Investment Grade	BBB-/Stable Investment Grade

Source : BSP IRO

Tightening of Credit Default Swap (CDS) levels

The Republic's Credit Default Swap (CDS) levels, another measure of investor confidence, has continued to tighten. This implies that foreign creditors are more confident than ever in the sustainability of our public finances.

The performance of our CDS which used to be in line with Indonesia, has now surpassed our single A-rated neighbors --Thailand and Malaysia. This makes us among the most trusted sovereign issuers in the Association of Southeast Asian Nation (ASEAN).



FISCAL MANAGEMENT

National Government Fiscal Performance

In 2014, fiscal deficit stood at P73.1 billion, 55 percent lower than the shortfall posted in the previous year and is more than half of the P193.2 billion programmed for the year. Total deficit was equivalent to 0.6 percent of GDP.

Total revenues amounted to P1.9 trillion, 11.2 percent higher than the 2013 collection level of P1.7 trillion. The 2 main collecting agencies-the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) posted improved collections on a year-to year-basis. Total expenditures slightly increased by 5.4 percent or P2.0 trillion, from P1.9 trillion in 2013. The deficit-to-GDP ratio has improved from 1.4 percent in 2013 to 0.6 percent in 2014.

Tax Revenues

Tax revenues reached P1.7 trillion, surpassing the 2013 collection by 11.9 percent. Accordingly, tax effort improved to 13.6 percent from 13.3 percent in 2013 as a result of the increased collection of the BIR and BOC.

Tax revenues from BIR which accounted for about 77.6 percent of the total taxes grew by 9.7 percent year-on-year. The improved collection performance was attributed to the Bureau's implementation of stricter tax programs like Run After Tax Evaders (RATE) and the enhancement of the tax payment system and the various reforms in tax structure such as the Sin Tax Reform Act of 2012. Taxes on income accounted for 58.8 percent of total BIR collections. Value-added Tax (VAT) and Excise Taxes also contributed significant revenues at 20.9 percent and 10.1 percent of total BIR collections, respectively.

NG Fiscal Position (In Billion Pesos)	2013 Actual	2014 Actual	Growth Rate
Total Revenues	**1,716.1**	**1,908.5**	**11.2%**
Tax Revenues	1,535.7	1,719.0	11.9%
Tax Effort (%)	*13.3*	*1 3.6*	
BIR	1,216.7	1,334.8	9.7%
BOC	304.9	369.3	21.1%
Other Offices	14.1	14.9	5.9%
Non-Tax Revenues	177.5	187.6	5.1%
Fees and Charges	30.5	32.8	7.3%
Income from Treasury Operations	43.5	48.5	11.5%
NG Income Collected by BTR*	37.5	44.9	19.8%
Other Non-tax	65.6	61.1	-6.8%
Grants	0.3	0.2	-27.4%
Privatization	2.9	1.9	-33.7%
Expenditure	**1,880.2**	**1,981.6**	**5.4%**
Surplus/(Deficit)	**-164.1**	**-73.1**	**-55.4%**
**includes:*			
Interest on Advances to GOCCs	*190*	*142*	
Guarantee Fee	*2,245*	*3,120*	
Foreign Exchange Risk Cover Fee	*1,492*	*1,577*	

BIR Collection Performance

Taxes Revenues (In Billion Pesos)	2013	2014	% Growth	2014 % Distri-bution
Total Collections	**1,216.7**	**1,334.8**	**9.7**	**100.0**
Income Taxes	718.4	784.9	9.3	58.8
Excise Taxes	118.9	135.3	13.8	10.1
Value-Added Tax	250.1	278.7	11.4	20.9
Percentage Taxes	60.8	56.5	-7.1	4.2
Other Taxes	68.5	79.4	15.9	5.9

In 2014, total collections of BOC continued to improve as its total collection reached P369.3 billion, a double digit growth of 21.1 percent over last year's growth of 5.2 percent.

Import taxes, comprising VAT and excise tax, accounted for 83.8 percent of BOC's collections. VAT on non-oil goods brought in P203 billion for the year, which was 21.4 percent higher than in 2013.

Impact of Sin Tax

Since the implementation of the reform in 2013, the NG collected a total of P101.4 billion in incremental revenues from the reform, P24.6 billion higher than the projected collections for 2013 and 2014. Excise tax collection from tobacco products accounted for 80 percent or P81.2 billion of the total incremental revenues for the said period.

In 2013, the Government exceeded its target of P33.96 billion by 51 percent or P17.2 billion while in 2014, it collected 17 percent more or P7.3 billion of the targeted incremental revenue of P42.86 billion.

True to its promise, the reform has won measurable gains for the poor with their increased health care coverage. As provided for by law, substantial portion of the incremental value is allocated for the Universal Health Care.

The NG's allocation for the health insurance premiums of the indigents increased from P12.63 billion in 2013 to P35.2 billion in 2014. Furthermore, budgetary allocation for the Department of Health (DOH) increased by 57 percent in 2014 over the 2013 levels, from P53.34 billion to P83.72 billion in 2014 .

Accordingly, volume of removals of locally manufactured and imported cigarettes declined by 20.3 percent from 4.87 billion packs in 2013 to 3.92 billion packs in 2014.

BOC Collection Performance

Taxes Revenues (In Billion Pesos)	2013	2014	% Growth	2014 % Distri-bution
Total Collection	**304.9**	**369.3**	**21.1**	**100.0**
o.w. Tax Expenditure Fund	**2.4**	**11.5**	**378.2**	**3.1**
Import Duties	35.3	56.3	59.3	15.2
Non-Oil	35	55.9	59.9	15.1
Oil	0.4	0.4	4.5	0.1
VAT	239.8	279.1	16.4	75.6
Non-Oil	167.2	203	21.4	55
Oil	72.6	76.1	4.8	20.6
Excise Tax	26.9	30.4	12.9	8.2
Others	2.8	3.5	23	0.9

Incremental Revenue		Actual (a)	Projected (b)
2013	Tobacco	41.84	23.40
	Alcohol	9.33	10.56
	Total	**51.17**	**33.96**
2014	Tobacco	39.39	29.56
	Alcohol	10.79	13.30
	Total	**50.18**	**42.86**

Source: BIR

Volume of Removals for Sin Products

Volume of Removals in Billion	2013	2014	% Growth
Cigarettes (Packs)	4.87	3.92	-19.56
Fermented Liquors (Liters)	1.40	1.41	1.0
Distilled Spirits/ Compound Liquors (Proof Liters)	0.37	0.42	11.83

FISCAL MANAGEMENT

The increase in allocation for health and decline in volume of removals is an indication that the health objectives of the law were achieved.

Non-Tax Revenues

Non-tax revenues totalled to P187.6 billion, higher than the 2013 level of P177.5 billion. Non-tax revenues include income of the Bureau of the Treasury (BTr), collections from Government Owned and Controlled Corporations (GOCCs), fees and charges and other non-tax revenues. As a result of pro-active cash and investment management, Income from Treasury operations (excluding guarantee fees, interest on National Government advances and foreign exchange cover collected from GOCCs), increased by 11.5 percent from P43.10 billion in 2013 to P48.5 billion in 2014.

For 2014, BTr income from Treasury operations of P48.5 billion and over-all collections from the GOCCs of P44.9 billion accounted for 26 percent and 24 percent of total non-tax revenues, respectively. On the other hand, fees and charges collected from various NG agencies totalled to P32.8 billion representing 17.3 percent of non-tax revenues.

Dividend collections reached P23.97 billion, which is 29 percent higher than the P18.5 billion collection in 2013. The biggest remittances came from Land Bank of the Philippines (LBP), Philippine Amusement and Gaming Corporation (PAGCOR), Development Bank of the Philippines (DBP), PNOC Exploration Corporation (PNOC-EC), Philippine Ports Authority (PPA), Philippine Reclamation Authority (PRA), Manila International Airport Authority (MIAA), Philippine Deposit Insurance Corporation (PDIC) and Power Sector Assets and Liabilities Management Corporation (PSALM).

Accordingly, collections from GOCCs totalled to P44.9 billion in 2014. These represent dividend collections from GOCCs pursuant to Republic Act 7656 or the Dividend Law, fees due to the NG and NG Share on generated revenues by GOCCs such as PAGCOR and MIAA, as prescribed by law.

The Treasury Single Account (TSA)

Complementing the cash management efforts of the BTR is the establishment of the TSA by the Bureau of the Treasury (BTr) covering NG revenue on 2 January 2014, to improve the efficiency and effectiveness of its cash management operations. The TSA aims to consolidate all Government accounts into one account of the Treasury to give a clear picture of the NG's cash resources. Additionally, the system translates into incremental revenue for the Government.

At the initial phase of the TSA, the BTr has removed the revenue float as a mode of compensation to Authorized Agent Banks (AABs) of the BIR and BOC, for their banking services to the NG, in exchange for a fee-based type of compensation. Under this new scheme, AABs will be required to remit all collections one day after receipt. Since April 2014, the banks have also transitioned into a new online reporting format for collections (tax, duties, fees and charges) that is submitted to the TSA Reporting and Monitoring System (TRAMS) of the BTr that allows BTr to track cash collection remittances to the TSA maintained at BSP, as well as its balances, on a daily basis.

The TRAMS, together with the fee-based compensation scheme have given way for a more transparent reporting of collections, in terms of the amount and number of transactions, and easier reconciliation. A total of 381 dormant bank accounts and 538 active bank accounts held by several agencies amounting to P455.1 million and P8 million, respectively have been closed and swept to the TSA as of June 2014.

Consolidated Public Sector Position

The consolidated public sector position- which is the combined fiscal position of NG, Bangko Sentral ng Pilipinas (BSP), monitored GOCCs, Government Financial Institutions (GFIs), Social Security Institutions (SSIs) and LGUs posted a surplus of P82.2 billion in 2014, equivalent to 0.7 percent of GDP. Major contributors to the surplus include the 14 Monitored Non-Financial Government Corporations (MNFGCs) with a surplus of P21.2 billion, SSIs with P68.8 billion, the GFIs with P12.2 billion and the Local Government Units (LGUs) with P51.4 billion. These surpluses were more than enough to offset the P73.1 billion deficit of NG and P10.7 billion deficit of the BSP.

Financial operations of the 14 MNFGCs resulted in a financing surplus of P21.15 billion in 2014. The surplus was contributed by the power corporations: National Power Corporation (NPC), National Transmission Corporation (TransCo) and PSALM mainly arising from the full payment for the privatization of Angat Hydropower Plant of P19 billion (USD 440.88 million). NHA posted a surplus of P10.2 billion mainly from the subsidy for housing programs for calamity stricken areas. PPA generated surplus of P3.3 billion from the increase in fee collection from the containers' terminal.

Compared to the surplus of P60.9 billion in 2013, surplus was lower in 2014 primarily due to the impact to PSALM/Transco of the P57 billion prepayment of concession fees made by NGCP in 2013.

The GFIs managed to maintain its positive contribution to the consolidated public sector financing position in 2014 although lower from the surplus of P15.32 billion in 2013. GFIs' earnings are derived from loans and investment portfolios, thus having more funds available for providing credit facilities to priority sectors of the Government at concessional terms.

The SSIs, on the other hand, improved its surplus level at P68.8 billion in 2014, as compared to P62.5 billion in 2013. This is attributed mainly to increase in Philippine Health Insurance Corporation (PhilHealth) member's premium contribution, and share from the sin tax collection which are given to PhilHealth programs for indigent members.

Consolidated Public Sector Financial Position in 2014

Particulars	2013 Actual	2014 Actual	Growth Rate
Total CPSFP *% of GDP*	44.8 *0.4%*	82.2 *0.7%*	*83.5%*
NG	(164.1)	(73.1)	*-55.4%*
GOCCs	60.9	21.2	-62.2%
SSIs	62.5	68.8	10.0%
BSP	(23.7)	(10.7)	-54.8%
GFIS	15.3	12.2	-20.2%
LGUs	83.4	51.4	-38.4%
Adjustment in net lending and equity to GOCCs	11.6	15.1	30.2%

Source: DOF

NATIONAL GOVERNMENT BORROWING AND LIABILITY MANAGEMENT

National Government Borrowings

For 2014, total gross borrowing reached P529.8 billion which is 4.5 percent lower than the P554.7 billion level for 2013. The lower funding requirement resulted from the narrow fiscal deficit translating into a healthier NG cash position. As of year-end 2014, NG total outstanding debt was recorded at P5,735.2 billion.

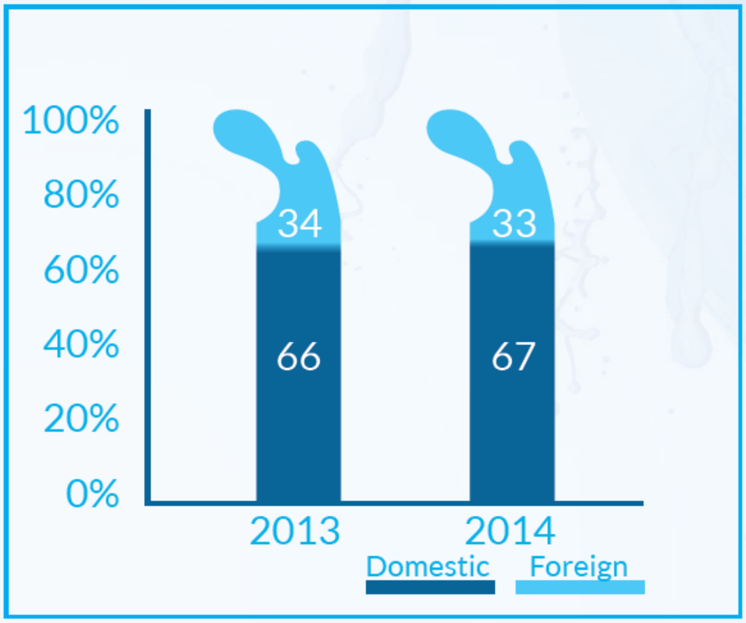
Liability Management

BTr contributed to the prudent and proactive management of NG debt through both its financing and liability management operations.

As of year-end 2014, NG total outstanding debt was recorded at P5,735.2 billion. Domestic debt amounting to P3,820.6 billion accounted for 67 percent of total NG obligations while external obligations were at P1,914.6 billion. The growth in the domestic component of NG debt supports the objective of reducing foreign exchange risks. Moreover, 40 percent of domestic issuances were medium-term securities to help maintain the average time to maturity of the debt portfolio subject to prevailing market conditions.

Debt sustainability indicators such as the debt-to-GDP ratio has progressively improved narrowing considerably to 45.4 percent as of end-December 2014 compared to 49.2 percent for the previous year. This attests the Government's effective liability management and sustained economic growth.

NG Outstanding Debt as of 2014 vs. 2013 showing decline in outstanding foreign component



Source: BTr

Government Debt as % of GDP

Alongside the improvements in the relative size of its debt, the Government was also successful in shifting the profile of its outstanding debt in line with cost and risk considerations.

- As of end-December 2014, only 6.83 percent of the total debt portfolio is subject to resetting, mitigating adverse swings and allowing for more certain projections such as those related to interest payments.

- Despite the rising interest rate environment, Weighted Average Interest Rate (WAIR) of the NG debt portfolio stays on a downward trend. WAIR for NG domestic and external obligations is at 5.7 percent and 4.8 percent from 5.8 percent and 5.1 percent as of end-2013, respectively. The average maturity of the debt portfolio has maintained a comfortable average of 9.9 years, residing on the upper bound of the country's medium-term debt target of 7 to 10 years.

Debt service metrics have simultaneously improved with interest payments (IP) taking up a lower percentage of revenues and expenditures. IP reached P321.2 billion in 2014, slightly less than the P323.4 billion for 2013. IP relative to revenues declined to 16.8 percent from 18.8 percent the previous year, implying improved NG capacity to service debt. Similarly, IP fell to 16.2 percent of expenditures from 17.2 percent in 2013, freeing fiscal space for more productive Government spending.

As part of the Government's program to manage its liabilities, rebalance its debt portfolio and enhance trades of its domestically-issued securities, BTr successfully conducted its 7th domestic bond exchange in August 2014.

The transaction extended the average maturity of the accepted bonds from 4.81 years to 5.19 years. In addition, the average coupon of the accepted bonds decreased by 157 bps from 5.7 percent to 4.125 percent thereby reducing financing costs while generating interest savings of P1.31 billion for the first year alone.

Furthermore, contributions to the Bond Sinking Fund (BSF) used for the redemption of maturing domestic obligations were scaled back to minimize the cost to the Government while adequately covering near-term maturities.

TAX ADMINISTRATION AND GOVERNANCE

Tax Administration reforms were vigorously pursued and further enhanced to boost the tax collection and curb corruption.

Revenue Integrity Protection Service (RIPS)

In 2014, in compliance with its mandate, RIPS investigated 107 personalities vis-a-vis its 72 target, which translates to 149 percent accomplishment. 37 personalities were charged which is equivalent to 100 percent accomplishment - 11 complaints were filed with the Office of the Ombudsman (OMB), 21 cases were filed with the Civil Service Commission (CSC), 1 case was referred to the BOC and 4 cases were referred to the BIR for the filing of formal charge. Of the 37 personalities charged, 22 and 13 are officials/ employees of the BOC and BIR, respectively. The other 2 are treasurers of the LGUs under the oversight of the BLGF.

Moreover, 16 favorable Orders, Decisions and Resolutions from the Court, OMB and CSC were received by RIPS in 2014. The penalties were as follows: a) dismissal from the service with accessory penalties for 3 employees of the BIR, 5 employees of the BOC and 1 employee of the DOF; b) imprisonment with fine for 1 employee of the BOC; c) forfeiture of the retirement benefits for 1 employee of the BOC; d) fine and all the necessary penalties of dismissal for 1 employee of the BOC; e) suspension for 1 employee of the BIR; f) filing of criminal case and/or forfeiture of the alleged ill-gotten wealth against 2 employees of the BIR, 4 employees of the BOC and 1 employee of the DOF; g) fine against 1 employee of the BIR; and, h) reprimand against 1 employee of the BIR.

Because of its role in maintaining the integrity and efficiency of revenue generation/ collection, RIPS was a recipient of a grant under the Millennium Challenge Compact for the period of July 2010 up to June 2016.

The goal of the Compact grant is to boost and enhance the capacity of RIPS' personnel in conducting investigations of graft and corrupt practices and lifestyle checks.

Seminars and Trainings Undertaken by RIPS' personnel in 2014:

- RIPS Strategic Planning Workshop
- Certified Fraud Examiner Course
- Certified Forensic Accountant Course
- GAD Awareness and Corruption Issues

Run After the Smugglers (RATS) and Run After Tax Evaders (RATE) Programs

In 2014, the BOC under its RATS program has filed 194 smuggling-related cases before the Department of Justice (DOJ) with dutiable value of over P56 billion, of which 134 are pending preliminary investigation at the DOJ, and 46 have been elevated or filed as cases before the courts. The RATS program, focuses on monitoring or profiling, case-building, and prosecution of smugglers.

BOC was able to file 18 rice smuggling-related cases before the DOJ with dutiable value of over P1.4 billion.

Likewise, it has also taken significant steps to improve program that includes capacity-building for more effective investigation, case profiling, and case build-up.

Meanwhile, the BIR filed a total of 123 cases with the DOJ involving estimated tax liabilities amounting to P20.4 billion, under its RATE program. The RATE program investigates and prosecutes individuals and/or entities engaged in tax evasion and other criminal violations of the National Internal Revenue Code (NIRC) of 1997.

Fiscal Intelligence Unit (FIU)

The Fiscal Intelligence Unit (FIU) was created and formalized as a data analytics unit under the supervision of the DOF was placed under the Revenue Operations and Legal Affairs Group (ROLAG) per Department Order No. 044.2014[1]. It was re-organized into the FIU-Analytics and Intelligence Unit (FIU-ANI) and the FIU-Post Entry Audit Unit (FIU-PEA) per DO 14-2014. The FIU-ANI is tasked to identify potential revenue sources and leakages by analyzing data from BIR, BOC, BLGF as well as other revenue generating agencies attached to DOF. It also monitors the revenue performance of the implementing offices of the said revenue generating agencies, among others.

On the other hand, the FIU-PEA is mandated to perform audit functions of the defunct Post-Entry Audit Group of the BOC, in accordance with President Benigno Aquino III's Customs Reform Agenda under Executive Order No. 155, s. 2013[2]. It is likewise tasked to set policies, guidelines, manuals and standard operating procedures pertaining to post-entry audit, and to conduct audit examination, inspection, verification or investigation, and to submit audit reports accordingly.

In 2014, FIU analyzed import entries of 80 importers, 75 of which were elevated for further evaluation and review. As of 31 December 2014, the FIU has issued 38 Notices of Post Entry Audit Findings (PEAFs) to concerned importers with deficiency duties and taxes amounting to P3.96 billion.

By the end of December 2014, only 14 out of the 38 importers filed replies with the FIU for evaluation.

Moreover, the Tax Watch Team comprising of staff from the OSEC, FIU and BLGF published the Tax Watch (TW) ads in general circulation which aims to increase transparency in tax payments and to encourage people to be conscientious in paying right taxes.

The publication of TW ads has effected in increased import valuation particularly in tobacco, resins, and steel imports. The BIR and BOC ads also triggered the investigation of some taxpayers and called the attention of importers with under-declared importations.

Other Administrative Reforms

Other tax administration reforms were implemented within the BIR and the BOC to boost tax collection and curb corruption.

At the BIR, reforms include the implementation of web-based systems and continuous upgrading of their existing operational systems.

BIR Reforms:

- Internal Revenue Stamps Integrated System (IRSIS)
- Electronic Official Registry Book (eORB) for Tobacco
- Accounts Receivable Management System
- BIR e-Lounges
    - eBIR Forms
    - Mobile Revenue Collection Officers System (MRCOS)
    - Tax Ruling and Case Management System (TRCMS)
    - Electronic Tax Information Systems (eTIS-1)
    - Electronic Certificate Authorizing Registration (eCAR)

At the BOC, several process reforms were introduced to enhance the delivery of its services.

BOC Process Reforms:

- Automation of and simplified procedures for PEZA shipments
- Publication of regulated goods
- Publication of FTA rates
- Online submission of air manifests for forwarders and airlines

1 Department Order No. 044.2014 dated 17 June 2014, "*Post Entry Audit Guidelines Under the Fiscal Intelligence Unit, Department of Finance, Pursuant To Executive Order No. 155, S. 2013*"

2 Executive Order No. 155 dated 18 December 2013, "*Amending Executive Order No. 160 (S. 2003), And For Other Purposes*"

TAX ADMINISTRATION AND GOVERNANCE

The Bureau also started studying and reviewing several processes in import and export, warehousing, and arrastre operations.

On improving trade facilitation, the Bureau was able to increase the members of the Super Green Lane (SGL) from 89 members as of end of 2013 to 99 members of same period in 2014. SGL allows importers to file process import entries, pay duties and taxes and release goods from customs custody without face-to-face interaction with customs personnel.

CMO 04-2014 as amended by CMO 11-2014 simplified the requirements for accreditation at the BOC which reduced the number of required documents from 20 to 8. While it no longer require pre-inspection of the premises before approval, importers and brokers are required to secure from the BIR the Importer's Clearance Certificate (ICC)/ Broker's Clearance Certificate (BCC) for good record of tax compliance.

Likewise, the Bureau further intensified its battle against smuggling and other forms of custom fraud by issuing 1,064 alerts and hold orders against shipments suspected with misdeclaration, misclassification, undervaluation and other violations by its Intelligence Group. Estimated value of goods issued with warrant of seizure and detention and under abandonment proceedings reached P3.4 billion in additional duties and taxes. It likewise conducted around 9,099 spot-checks in major ports of entry and examinations in 10 major ports leading to seizures of agricultural products, second hand goods, assorted liquor, steel coil, computers, plywood, steel products and illegal drugs.

In addition, BOC's Enforcement Group issued a total of 305 alerts/holders in 2014, of which 240 cases were found positive/ committed violations , with a total estimated value of P481 million. It also apprehended over P1.2 billion worth of smuggled goods consisting of highly dutiable cargoes including rice, meat, agricultural products, and petroleum products, among others.

Visits To Regional Offices

Revenue performance evaluation meetings were conducted in BIR Revenue Regions (RR) in Metro Manila (Makati, Quezon City, Manila and Caloocan), Cebu and Davao in the presence of the heads of the DOF and the BIR. These meetings were intended to apprise the RRs of their revenue performance, areas of improvements, e.g., registration, collection and audit potentials, and summary insights of the BIR KRAs per RMO 30-2013.

The DOF and BOC Heads met with officials of the Ports of Cebu and Davao to discuss the revenue evaluation reports of the said ports. The FIU continued the meetings in the other revenue regions and collection districts.

The DOF meetings with the BIR regional offices and BOC ports have caused awareness among the region and port officials about the status of their collection performances. During the meetings, the BIR and the BOC regional and port officials also apprised the Secretary of Finance on various measures they have undertaken to improve collections. Among others, these said measures include the investigation of some taxpayers and importers who were noted in several Tax Watch ads published in 2014, gathering third party information such as the list of top payers of utilities in the revenue regions, and clean up of taxpayers' registry.

PHILIPPINE EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (PH-EITI)

The EITI is a global standard of transparency that requires oil, gas, and mining companies to publish what they pay to the Government, and the Government to publish what they collect from these companies. The initiative aims to encourage countries to be more transparent in reporting the benefits they receive from their country's natural resources.

PH-EITI submitted its first EITI country report on December 29, 2014 that was well within the deadline set by the EITI International Board, disclosing payments from 30 mining companies and 6 oil and gas companies for the year 2012, covering a total revenue of P52.7 billion representing taxes, royalties, transportation fees, customs duties, mandatory social expenditures and environmental fees, Government shares, and payments to LGUs. The report also includes information on the shares of 33 LGUs from national wealth coming from extractive industries within their localities, the legal and regulatory framework explaining the existing fiscal regimes, licensing processes, subnational payments, operations of state-owned enterprises, and rules relating to extractive operations affecting indigenous peoples and employment data, among others.

PH-EITI's first cycle of implementation is being cited as best practice by the EITI international secretariat due to the level of engagement of all the sectors, the able leadership of the Government with the DOF as convenor, and the comprehensive and high quality report published by the Multi Stakeholders Group. Another significant milestone of PH-EITI is the public disclosure of extractive contracts and MOAs executed by Indigenous Peoples with mining companies through the establishment of a contracts dashboard with Open Data Philippines.

Additional major accomplishment is the formulation of recommendations to address gaps in existing Government systems with the objective of improving the transparency and accountability in the extractive sector. Moving forward, PH-EITI aims to stimulate public debate and use the EITI process as a tool to promote data-tdriven governance.

FINANCIAL INCLUSION

Financial Inclusion Initiatives

The DOF through the National Credit Council (NCC) continued in 2014 its advocacy on financial inclusion development which includes regulatory environment, microfinance and microinsurance. These efforts resulted to the Philippines' financial inclusion gaining another international commendation. The Philippines is regarded as an advanced economy in the area of financial inclusion and the DOF continued to play significant roles in its development. The Philippines was among the list of top ten best countries for financial inclusion in 2014. As stated in the key findings of The Economist-Intelligence Unit, "Peru, Colombia and the Philippines demonstrate the most conducive environments for financial inclusion."

For the year, the DOF together with Partners (Government agencies, donor and private sector stakeholders) was also persistent in coming up with policy initiatives that would provide financial sustainability through access and provision of financial services to the poor and low income sectors. These include formulation of specific frameworks on microinsurance and an effort to establish a movable collateral registry to help micro, small and medium enterprises (MSMEs).

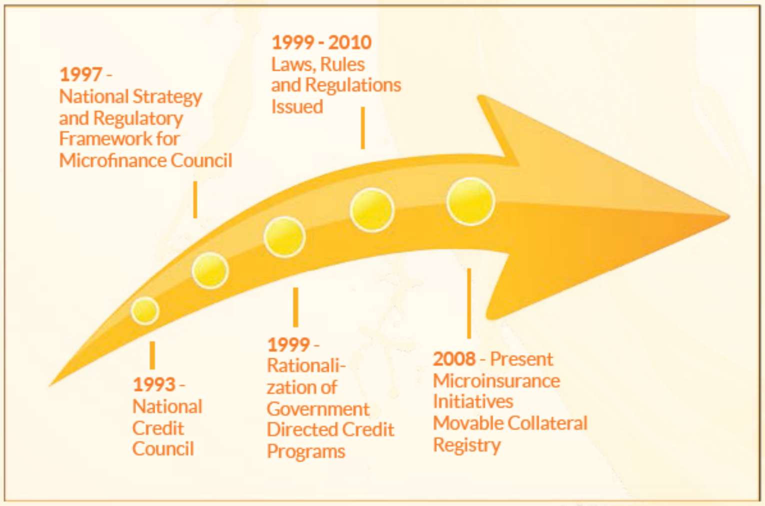


Figure 1. DOF-led Government Initiatives on Financial Inclusion

Furthermore, it is worth noting that the country is a leading good example among its Asian peers in terms of risk protection initiatives. The microinsurance sector significantly grew from 2.9 million lives and properties covered in 2009 to 31.1 million (of which 21.1 million lives were covered) in 2014 based on data from the Insurance Commission (IC). As of December 2014, 162 microinsurance products were registered with IC, a sharp increase from 18 products in 2009. The number of licensed and active microinsurance agents has also grown to 170 (122 individual agents, 48 rural bank agents) at the end of 2014.

A broad network of cooperatives, rural banks, MBAs and agents place microinsurance stakes deeper in the ground to ensure that more poor and marginalized people will have access to inclusive risk protection.

Microinsurance "Small Steps Lead to Big Strides"

During the celebration of the Microinsuance Month in 30 January 2014, the DOF launched the Asian Development Bank-funded Capacity Building for Microinsurance Project (TA 8258) under its Japan Fund for Poverty Reduction Project. The event was attended by the industry players and representatives of banks, microfinance institutions (MFIs), concerned Government agencies, GFIs, bilateral and multilateral agencies, LGUs, training institutions and academe.

The TA is a follow through of the ADB-funded Developing Regulatory Framework for Microinsurance Project (ADB-TA 9118) that produced 2 major microinsurance documents, the National Strategy for Microinsurance and the Regulatory Framework for Microinsurance in 2010. The TA would promote more affordable contingent risk insurance among low income households including the climate change and natural disasters related risks. The DOF together with IC enjoined the participation of concerned Government agencies and encouraged insurance industry participation in the formulation of policies and regulations for the promotion of microinsurance and protection of microinsurance clients.

Perils

- Drought
- Frost
- Typhoon
- Flood
- Excess Train
- Extreme heat
- Tsunami/ Storm Surge
- Earthquake
- Volcanic eruption
- Landstore
- Tornado
- Sinkhole
- Pest and diseases
- Fire
- Lightning

- Either Indemnity-based or Parametric-based microinsurance
- For parametric MI, indices may be used to measure triggers:
  - Wind speed (kph),
  - Temperature (degrees Celsius),
  - Relative humidity (percentage)
  - Water levels, rainfall (amount of, in mm)
  - and other similar indeces that may be permitted by the Insurance Commission.
- Area-based yield/ average-based yield measurements and methodologies (crop-cutting, remote imagery and others) can be applied for determining payout values.

Along this line, 3 DOF-chaired technical working groups (TWGs) that would draft specific microinsurance frameworks were created as follows: Risk-Based Capital (RBC), Enhanced Policy and Regulatory Environment for Microinsurance (EPREM), and Agriculture (Agri) and Parametric-Based Microinsurance.

Source: Draft Agri-Parametric Based Insurance Framework

The Task Force on Formalization (of informal insurance) was likewise formed that consists of DOF-NCC as Chair, IC as Co-Chair together with other regulatory bodies-Securities and Exchange Commission (SEC), BSP and Cooperative and Development Authority (CDA) to devise a reporting and monitoring system and institutionalize an Information Exchange Mechanism among the regulators concerned.

Further in 2014, a training program was designed on the revised Standard Chart of Accounts for Mutual Benefit Associations (MBAs) which considers the unique characteristics of the MBAs and reflects new accounts that are exactly suitable to their transactions. Series of trainings for IC personnel and MBAs in preparation for the adoption of the revised chart of accounts for MBAs were conducted in June to July of 2014.

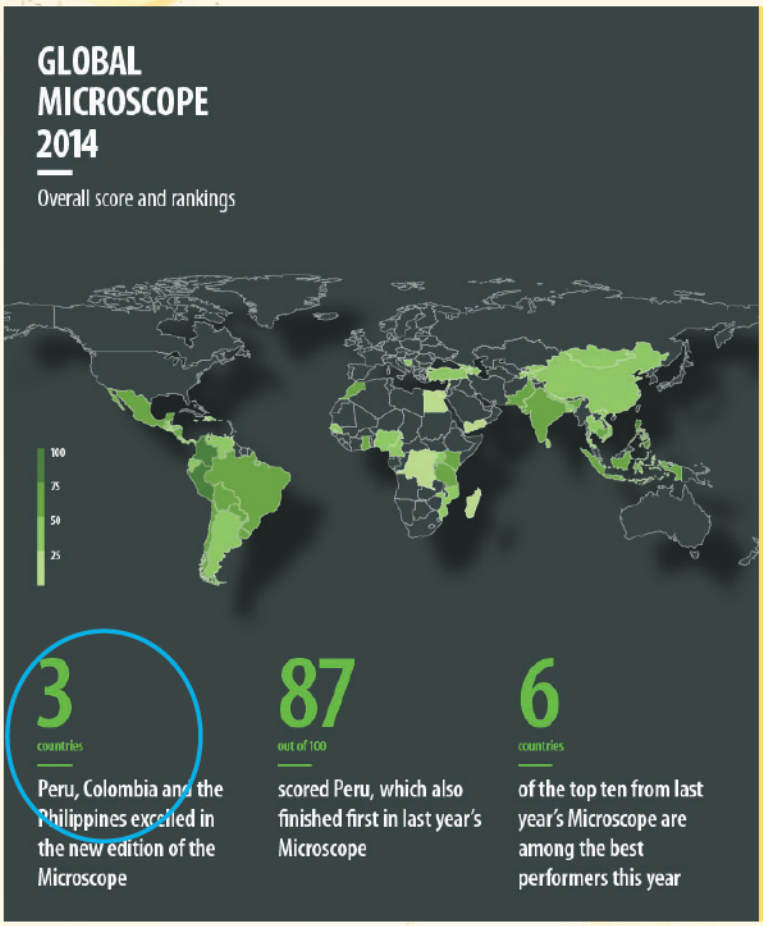
In addition, the DOF and IC in collaboration with DOH sought the support of German International Cooperation (GIZ) for another technical assistance focusing on developing health microinsurance in the country. This will complement the social health insurance in the country outlining the Government's overall policy direction and thrusts on Universal Health Care ensuring that "all Filipinos, especially the poor have equitable access to quality health care" as embodied in the Philippine Development Plan (2011-2016).

Movable Collateral Reform

The DOF-NCC continued its engagement with the International Finance Corporation under the Movable Collateral Registry Memorandum of Understanding that was signed in 2013, which aims to improve regulations and processes.

FINANCIAL INCLUSION

2014 International News



New Releases

Nov 6, 2014

Five Latin American Countries among Top Ten with Best Environment for Financial Inclusion

Revamped Gobal Microscope 2014 offers an index on the enabling environment for access to finance

GUAYAQUIL, Ecuador - Peru, Colombia, Chile, Mexico and Bolivia have among the world's ten most conducive conditions for expanding access to financial services for underserved populations, according to the report Global Microscope 2014: The Enabling Environment for Financial Inclusion, released today.

In other regions, the Philippines, India, Pakistan, Cambodia, and Tanzania score the highest, completing the list of the top ten best countries for financial inclusion in 2014.

> "Peru, Colombia and the Philippines demonstrate the most conducive environments for financial inclusion."

LOCAL GOVERNMENT FINANCE

Bureau of Local Government Finance

As a main strategic priority, the Bureau of Local Government Finance (BLGF) continued to undertake vital tasks that aim to sustain local government revenue generation efforts and ensure fiscal sustainability. The plans and programs which were carried were geared towards strengthening the revenue-generating machinery of the LGUs, enhancing the managerial and technical capacities of local treasury and assessment officials, monitoring of operations and performance across regions to institutionalize good governance, transparency and accountability.

BLGF PROGRAM	IMPACT
REVENUE GENERATION PROGRAM - BLGF provided technical assistance in the form of capacity building, workshops/seminars, and mentoring to improve their capacity in generating locally-sourced income.	The effort resulted in a collection efficiency in the average of 98.0 percent collection efficiency on all local income sources, 5 percent higher than year 2013 collection.
LGU FINANCIAL MONITORING SYSTEM - The electronic Statement of Receipts and Expenditure System (eSRE) supports the system and serves as a tool to gather baseline data for simulation of basic and vital information on the fiscal performance of the LGUs.	The submission of the SRE reports by the LGUs was prompt at 96 percent submission rate which ensured the provision of timely and accurate data to all stakeholders of LGU financial data.
Institutionalization of Continuing Professionalization Education (CPE) and Capacity Building for local assessors and treasurers	The conduct of Continuing Professional Development is aimed at improving valuation and assessment operations in the LGUs and to support the local assessors and appraisers in the renewal of their Real Estate Service Act (RESA) licenses.
PERFORMANCE STANDARDS AND RATING SYSTEM - The System was finalized in 2014 with Department Order No. 006-2015 consisting of Operational Performances Goals (OPG) and Competency Performance Goals (CPG).	The **System** shall set the criteria and benchmarks for the regular performance appraisal of local treasurers and assistant treasurers.
INTEGRATED INFORMATION MANAGEMENT SYSTEMS (I2MS)- The implementation and adoption of the I2MS was pursued in 2014 by phases, covering LGU Debt Information System (LGU debt monitoring), Local Real Property Information System, Document Management and Archiving System and BLGF Operations Management System.	The 12MS combines the related components of the BLGF programs into one system for easier management and operations and improved business processes.
ENHANCED ELECTRONIC STATEMENT OF RECEIPTS AND EXPENDITURES (ESRE) VERSION 2.1 - The enhanced system provides the facility to forecast revenues and expenditures based on a macroeconomic model and framework; Determine financial stability of LGUs through 19 financial indicators and the LGU Credit Rating System which is a regular credit worthiness tool – a criterion which shall be used other than net debt service ceiling and borrowing capacity.	A total of **1,486 trainings** on the enhanced system for municipalities nationwide were conducted to familiarize the LGUs on the use of the system.

LOCAL GOVERNMENT FINANCE

Comparative Collection Efficiency
FY 2013 vs FY2014

	Target (in P billion)		Collection (in P billion)		Efficiency	
	2013	2014	2013	2014	2013	2014
Real Property Tax	58.72	59.68	45.60	47.99	78%	80%
Business Tax	52.56	58.27	55.14	62.46	105%	107%
Fees and Charges	16.61	16.79	16.14	19.84	97%	118%
Economic Enterprise	15.4	16.73	16.92	17.67	110%	106%
TOTAL	143.29	151.47	133.79	147.97	93%	98%

Consensus Building Workshop for the Development of the Manual on the Evaluation of Local Treasury Operations (MELTO)

Training Workshop on the Deployment and Use of the Enhanced Electronic Statement of Receipts and Expenditures version 2.1 (eSRE v2.1) Systems for Provinces and Cities

Consensus Building Workshop on the Enhancement of Assessment Evaluation/ Examination and Monitoring Manual (AEEM) for Non-Computerized Local Government Units (LGUs)

LOCAL GOVERNMENT FINANCE

Municipal Development Fund Office (MDFO)

Municipal Development Fund - Second Generation Fund (MDF-SGF)

As of 31 December 2014, the MDFO-SGF reached to about P12.4 billion wherein P11.6 billion was already allocated to different financing windows; the balance of P700 million could be tapped in accelerating LGU developmental projects.

Particulars	ALLOCATION
1. Municipal Development Fund Project	2,685.00
2. Disaster Management Assistance Fund	2,300.00
3. Project Technical Assistance and Contingency Fund	50.00
4. Refinancing Facility	1,000.00
5. Program Lending	2,000.00
6. Millennium Development Goals Fund	508.00
7. Mindanao Basic Urban Services Sector Project	450.00
8. Public-Private Partnership Fund	1,000.00
9. Philippine Water Revolving Fund	500.00
10. Agrarian Reform Communities Project II_a/	285.00
11. Mindanao Rural Development Project II _a/	100.00
12. Laguna de Bay Institutional Strengthening and Community Participation (LISCOP) _d/	63.00
13. Integrated Coastal Resources Management Project _a/	50.00
14. Local Government Finance and Development Project _b/	136.53
15. Programs for Essential Municipal, Infrastructure Utilities, Maintenance and Engineering Development _c/	508.44
TOTAL	**11,635.96**

_a/Loan for LGU equity to ODA subproject financing • _b/Financed by SGF due to LGU oversubscribing in ODA Projects
_c/30% of the subscription component was financed from the SGF • _d/Bridge Financing

Ongoing Financing Windows funded through MDF-SGF

For 2014 alone, the MDF-SGF approved subtprojects reached to about P2.5 billion for 34 LGUs covering 40 subprojects which provides for basic infrastructures, economic and revenue-generating services, disaster prevention and rehabilitation, among others.

Projects	Imple-menting Agency	CAF issued in P Million	No. of LGus	No. of SPs	Releases in P Million			Total Releases
					Loan	Grant	GOP	
Agrarian Reform Communities Project II	DAR	2,981.4	161	523		497.9		497.9
RP-Japan Increase in Food Production Program		308.5	243	752		253.7		253.7
National Program Support Environmental Natural Resources Management Project		159.6	23	41	143.3			143.3
Health Sector Reform Agenda Support Program	DOH	497.9	20	25	259.4	204.3		463.7
Infrastructure for Rural Productivity Enhancement Sector-GOP	DA	298	21	29			296.7	296.7
Laguna de Bay Institutional Strengthening and Community Participation Project-AF		136	9	23	59.9	46.2		106.1
Mindanao Rural Development Project II		3,395.8	242	951		2,837.8		2,837.8
Metro Cebu Development Project 3158		1,485.0	1	4		739		739
Metro Cebu Development Project		287	1	3		200.4		200.4
Integrated Coastal Resources Management Project		185.7	14	14	98.7	76.2		174.9
TOTAL		**9,734.8**	**735**	**2,365**	**561.2**	**4,855.6**	**296.7**	**5,713.5**

Ongoing Foreign Assisted Projects (FAPs) as of 31 December 2014

LOCAL GOVERNMENT FINANCE

MDFO as Fund Conduit for Official Development Assistance (ODA) Projects

One of the major functions of MDFO is to serve as fund conduit for Foreign-Assisted Projects (FAPs) or Official Development Assistance (ODA) projects of partner National Government Agencies (NGAs). As of 31 December 2014, 41 FAPs have been completed while 8 projects are still ongoing. For those ongoing FAPs, a total of P5.7 billion has been released (combination of loans, grants and releases from the GOP) out of the total project cost of P9.7 billion. The beneficiaries of the releases include 735 LGUs with 2,365 subprojects related to the environment, social, livelihood and other infrastructure priority projects.

MDFO-Policy Formulation Action

Disaster Management Assistance Fund (DMAF)

A. Interest Rate Adjustment to Yolanda-Affected LGUs (MDFO-PGB Resolution No. 07-03-24-2014) with existing loans from MDFO following the scheme as presented below:

1. Interest rates of existing loans of LGUs affected by Typhoon Yolanda and magnitude 7.2 earthquake last 15 October 2013 will be reduced to 3 percent retaining their current remaining repayment period; or

2. The interest rates shall be reduced to 3 percent with a restructured repayment period of either 4, 10, or 15 years depending on their remaining repayment period.

Remaining Repayment Period	Restructured Repayment Period
1-4 years	4 years
5-9 years	10 years
10 years and above but not more than 15 years	15 years

Options	No. of LGUs Affected by		No. of Subprojects		Project Cost in P million		
	Typhoon Yolanda	7.2 Magnitude Earthquake	Typhoon Yolanda	7.2 Magnitude Earthquake	Original Cost (P+I)	Restructured (P + I)	LGU Savings
Current Repayment Years	34	29	36	31	395.3	322.4	72.9
5	3	0	3	0	52.1	46.1	6.0
10	3	0	3	0	21.2	16.0	5.2
15	5	1	5	1	310.7	255.9	54.8
TOTAL	45	30	47	32	779.3	640.4	138.9

A total of 75 LGUs has availed of the interest reduction/restructuring for both earthquake and typhoon Yolanda-affected areas, benefitting a total LGU savings of P138.9 million.

B. Adoption of 3 percent fixed interest rate to disaster-affected LGUs (MDFO-PGB Resolution No. 08-11-24-2014) - a policy that provides special rates to LGU subprojects not covered by DMAF, such as equity counterparts, refinancing, and other infrastructure requirements of LGUs. The prescriptive period set in approving 3 percent interest rate, on a case-to-case basis to LGUs affected by calamities regardless of the date of occurrence is up to December 2015 only.

DOLORES, EASTERN SAMAR

Water Supply System Level III
(15 Poblacion Barangays of Dolores)
P 35, 877, 503.27

1. Groundwater Development (Well Drilling)
   a. Deep Well Pump House
   b. Pumping Equipment and Accessories
2. Storage Facility
3. Water Treatment Facility
4. Transmission Mains
5. Distribution Network
   a. Pipe Network
   b. Fire Protection
6. Service connections
7. Miscellaneous Items
   a. Construction of Perimeter Fence
   b. Power Supply
   c. Access Road
   d. Pavement Demolition and Restoration

SAN JUAN, LA UNION

Expansion of Public Cemetery
Barangay Ili Sur, San Juan, La Union
P 13, 447, 207.30

1. Demolition and Excavation of Old Cemetery Structures
2. Earth-filling
3. Portland Cement Concrete Pavement
4. Mass Grave
5. Condo Type Concrete Tomb
6. Landscaping and
7. Perimeter Fencing for the Covered Area

LOCAL GOVERNMENT FINANCE

TUNGAWAN, ZAMBOANGA SIBUGAY

Construction of Public Market cum Transport Terminal

P 16, 913, 380.00

Three (3) Separate one –storey reinforced concrete buildings:

1. Two (2) buildings are intended for dry goods:
   a. Building 2: Dry Goods/Commercial: 8 stalls = 140 sq.m.
   b. Building 3: Dry Goods: 10 stalls = 217 sq.m.
   c. Comfort rooms = 35 sq.m.
   d. Bagsakan Area
   e. Parking Area and Unloading bays that can accommodate at least 20 vehicles

2. Other Building is for the Integrated Transport Terminal = Floor Area 198 sq.m.
   a. Ground Floor for the passenger's waiting area
   b. Comfort rooms
   c. Four Berthing Bays for Buses and Loading/ Unloading area:
      - Vans
      - Tricycle
      - Habal-Habal
   d. Mezzanine for the offices of the market and terminal administrations

3. Suppor Facilities: Construction of Elevated Water Tank, Waste Treatment, Drainage System, Road Network, and the Installation of CCTV Cameras and Street Lights

PASSI, ILOILO

Satellite Health Center in Barangay Salngan

Passi, Iloilo, Brgy. Salngan
P 20,000,000.00

1. Located in Lot E-27, Psd -06-0108085 (OLT) in Barangay Salngan covering an area of 10,000 sq.m
2. Medical equipment such as basic emergency obstetric and newborn care equipment, furniture and fixtures

Major Component of the Health Center

Sections	Sections Area (sq.m.)
Birthing Area	30
OB Ward	20
Sterile and sub-sterile Area	12
Staff Lounge Area	6
Labor Room	30
Dental Room	15
TB DOTS area	8
Clinical Laboratory	12
Pharmacy with storage area	15
Emergency Room consultation area	30
Pantry	15
Office of the City Health Officer	20
Doctor's On-Duty Room	15
Administrative Office and Nurse's and Midwife's Office	25
Storage Areas	6
RSIOffice	15
Male and Female Toilet	15

PRIVATIZATION

After the historical P24 billion privatization of the Food Terminal Inc. in 2013, the Privatization Management Office (PMO) was able to obtain some resources to undertake a physical inventory intended to establish a comprehensive asset registry that will identify, survey and reconcile the assets assigned/transferred to PMO by various entities, including the properties assigned to PMO under the expiration term of the Asset Privatization Trust comprising 7 transferred assets, 12 Government corporations and 43 other assets.

The inventory continued in 2014 that resulted in identifying 22,000 landholdings under the defunct Board of Liquidators (BOL), with current estimated value of P28 billion. In addition, the PMO undertook the reconciliation of long overdue financial claims conveyed by the various GFIs to the NG.

INTERNATIONAL INITIATIVES

ASEAN Framework Agreement on Services (AFAS)

The Philippines, along with ASEAN, has concluded negotiations on the 6th Package of financial services commitments under the ASEAN Framework Agreement on services. Under the AFAS, ASEAN Member States have agreed to liberalize trade in services (including financial services) by substantially eliminating market access restrictions and national treatment limitations in their respective jurisdictions. The implementation of the protocol to implement the 6th package is a step towards greater financial integration in ASEAN and to further widen intra-ASEAN market access in the financial sector in line with the ASEAN Economic Community pillar on single market and production base.

10th ASEAN Finance Ministers' Investor Seminar (AFMIS)

10th ASEAN Finance Ministers' Investors Seminar, The Peninsula Hotel, 20 May 2014

The AFMIS is a forum organized to promote the region as an attractive investment destination for global and regional investors. It serves as a valuable platform to promote greater intra-regional investment and collaboration, to enhance awareness of opportunities in the region and to act as a focal point for financial market players in order to explore mutual opportunities for cross-border business and expansion.

The event was held in Makati City last 20 May 2014. It provided an opportunity to jointly and openly discuss various opportunities and issues affecting the economies in the region, and the various pro-investment initiatives that have been adopted by each ASEAN Member State. It was co-organized by DOF and 4 investment banks: Citibank, Hongkong and Shanghai Banking Corporation (HSBC), Morgan Stanley and Standard Chartered Bank.

The Ministers shared developments in their respective economies as well as their perspectives on ASEAN's regional strengths and value proposition as a global investment destination. They likewise discussed investment opportunities in the ASEAN particularly on energy, infrastructure and tourism sectors, as well as on the importance of initiatives undertaken to maintain financial stability in the region.

ASEAN+3 Macroeconomic Research Office (AMRO)

AMRO was established by ASEAN +3 countries (ASEAN + China, Japan and South Korea) as an independent regional surveillance unit to monitor and analyze regional economies and support Chiang Mai Initiative Multilateralisation (CMIM). The CMIM is a multilateral currency swap agreement which aims to address potential and actual balance of payments and short-term liquidity issues in the region, as well as to support current international financial arrangements.

World Economic Forum

With the theme "Leveraging Growth for Equitable Progress," the World Economic Forum (WEF) on East Asia was held in the Philippines from May 21 to 23, 2014. More than 600 participants, 70 public figures, and 460 business leaders participated in the forum where the **Philippines** was tagged as **Asia's next miracle**. (*DOF Official Newsletter, Issue #3, June 2014)*

President Benigno Simeon Aquino III (second from the left) with World Economic Forum Founder and Executive Chairman Professor Klaus Schwab, (from L to R), Indonesian President Susilo Bambang Yudhoyono, Vietnam Prime Minister Nguyen Tan Dung and Myanmar Vice President U Nyan Tun during the opening plenary session, Manila, 22 May 2014 (Photo courtesy of REUTERS)

"Tackling corruption is the overarching philosophy that has guided our reforms, our policies and our social and economic resurgence, and it is in line with this philosophy that we are fostering a business environment in our country that is highly conducive to broad-based growth."

President Benigno Simeon Aquino III
Manila, 22 May 2014

INTERNATIONAL INITIATIVES

International Tax Forum, A Dialogue on Taxation in the Context of ASEAN Regional Integration, Makati City, 12-14 November 2014

International Taxation & Korea's Experience, The Bilateral Programme with the Department of Finance, Manila 3-4 September 2014

International Tax Forum

The DOF hosted the International Tax Forum (ITF), a dialogue on taxation in the context of ASEAN Regional Integration, from 12-14 November, 2014, at the Fairmont Hotel in Makati City.

The ITF convened various experts and professionals from national Government agencies, international financial and development institutions, the private sector, as well as academe and civil society to discuss relevant issues on taxation in light of regional integration and economic opportunities as an upshot of the ASEAN economic integration in 2015.

High-level officials who develop and implement tax policies, shared experiences, information, and developments on tax reforms with and among ASEAN and emerging countries.

"Countries like the Philippines have much to gain in inviting experts with rich experiences on these issues to share best practices and innovations on taxation."

- Secretary Cesar V. Purisima

CAPITAL MARKET DEVELOPMENT AND CORPORATE GOVERNANCE

In 2014, the SEC endeavoured to further strengthen the corporate and capital market infrastructure of the economy in pursuit of the goal to maintain a resilient and inclusive financial system.

It established and maintained a regulatory environment that strengthens the corporate and capital market infrastructure through the issuance of 23 SEC Memorandum Circulars (MCs) during the year.

SEC likewise worked with international organizations such as the Asia-Pacific Economic Cooperation (APEC), Association of Southeast Asian Nations (ASEAN), International Organization of Securities Commissions (IOSCO), and United Nations (UN) among others, in order to align its rules and regulations with international standards and practices.

In the domestic front, SEC closely coordinated with different Government agencies like the BSP and Congress and actively participated in various inter-agency bodies such as the Anti-Money Laundering Council (AMLC), Financial Sector Forum (FSF), Financial Stability Coordinating Council (FSCC), and Task Force on Ease of Doing Business, with intention to harmonize Government policies and initiatives on financial and economic development.

The SEC's vigilant monitoring of regulated entities and individuals resulted to its imposition of fine/penalty to a total of 22,831 errant firms and individuals that were found to be non-compliant with the Corporation Code of the Philippines (CCP), Securities Regulation Code (SRC) and other laws that are being enforced by the SEC.

Furthermore, in line with improving the ease of doing business and maintain an inclusive financial system, SEC opened its Ali Mall Satellite Office to ease public access to its registration and monitoring services. It also offered the SEC Express System as an alternative mode of securing copies of the corporate and partnership documents, such as Articles of Incorporation/Partnership, By-laws, and Resolution (Minutes), among others, which may be requested for courier delivery either through online application or through call center facility, or for personal pick-up by appointment.

Objectives of the Circulars	No. of Circulars Issued
To enhance transparency and integrity of reports and disclosures	8
To raise corporate governance standards and practices of regulated entities and individuals	6
To improve the ease of doing business in the country	6
Clarification/simplification of certain SEC rules and regulations	7
To foster compliance with national and international financial regulations	3

Number of Errant Firms and Individuals Fined/Penalized	
Firms non-compliant with the CCP	22,300
Firms non-compliant with the SRC	175
Individuals non-compliant with the SRC	106
Firms non-compliant with the Lending Company Act	14
Firms non-compliant with the Financing Company Act	15
Firms non-compliant with various laws	221
Total	**22,831**

IMPROVING OPERATIONS AND UTILIZING TECHNOLOGY FOR BETTER DELIVERY OF SERVICES

Information Security Workshop

To uphold the information security of all its information technology assets, DOF's Central Management Information Office began the adoption of information security management practices based on ISO 27001:2013. The focus of ISO 27001 is to protect the confidentiality, integrity and availability of the information in the Department. The main philosophy of ISO 27001 is management of risks done through assessment of risks or potential problems to the information and determination of the necessary risk mitigating measures. The following activities were held to embrace ISO 27001:2013:

- ISO 27001:2013 Awareness Seminar
- ISO 27001:2013 Documentation tutorials

To enable the Department to become ISO 27001:2013 compliant, the following documents were created:

- Scope of the ISMS
- Information security policy and objectives
- Risk assessment and risk treatment methodology
- Statement of Applicability
- Risk treatment plan
- Risk assessment report
- Definition of security roles and responsibilities
- Inventory of assets
- Acceptable use of assets
- Access control policy
- Operating procedures for IT management
- Secure system engineering principles
- Supplier security policy
- Incident management procedure
- Business continuity procedures
- Statutory, regulatory, and contractual requirements

HUMAN RESOURCES DEVELOPMENT

Staff Training and Development

Investing in human development and hiring the best people have always been the key priorities of the Department. To realize its mission, the DOF continued to strengthen its human resource through trainings, both at the technical and administrative levels in order to sustain its core of competent and efficient staff.

The DOF together with the ADB developed the Core Competency Model Project with the Resource Guide for Competency Learning and Development and Core Competencies and Skills of its employees in preparation for the Leadership Development Program.

The Revenue Integrity Protection Service personnel were provided Gender and Development (GAD) Learning Session through the sponsorship of Millennium Challenge Account-Philippines (MCA/P) for its project on digitization of gender sex-disaggregated data. The aim of this project is to monitor and determine whether gender affects the increasing number of cases filed on graft and corruption.

The DOF continued the yearly Summer Internship Program in 2014 that was likewise supplemented with observation tours to the DOF's attached bureaus and agencies. The student interns from various universities were exposed to actual work situation and hands-on training in DOF offices.

Orientation/Reorientation Course with Values Enhancement and Public Accountability, Visayas Room, DOF Building, 29 May 2014

Personnel Development Statistics

2014 Capacity Building	No. Of Staff Benefitted
Local trainings, seminars, workshops and conventions	95
International trainings and seminars	311
Secondment	6
Postgraduate study	4

HUMAN RESOURCES DEVELOPMENT

Refresher Seminar Workshop on Strategic Performance Management System at Century Park Hotel, Manila, 3 October 2014

Chevening Information Session conducted by the british Embassy, Visayas Room, DOF Building, 8 July 2014

In 2014, local training courses and seminars focused on Philippine Government Electronic Procurement System (PHILGEPS), legal education, human resource management, property/supply management, technical writing, among others.

Technical trainings abroad focused on economic policies and economic development; tax policies and administration; financial programming and policies; accounting and budgeting; treasury/debt management; capital market; laws and rules on international trade; custom and tax treaties and procedures; insurance; deposit insurance; banking; and SMEs, among others.

Staff Recognition	No. of Staff Benefitted
Length of Service	56
Promotion	19
Salary Adjustment	99

Participation in National Events

The DOF actively participated in national events. These events include the following:

- Women Human Symbol Formation, in celebration of the National Women's Month held in Quirino Grandstand
- "R.A.C.E To Serve 4 Fun Run 2014", in celebration of the 114th anniversary of the Civil Service Commission
- Walk for Life in celebration of Elderly Week
- Walk to End Violence Against Women

Gender and Development (GAD) Activities Attended by the DOF GAD Focal Point System:

- Conference/Workshop on the Preparation of GAD Plan and Budget and GAD Accomplishment Report 2013
- Workshop on Gender Analysis with emphasis on Harmonized GAD Guidelines
- Orientation/Workshop on Gender Mainstreaming Monitoring System (GMMS)
- GAD Planning and Budgeting Forum for NGAs, Bureaus and GOCCs
- Workshop on Gender Mainstreaming of Agency Operations
- GAD Learning Session for RIPS Personnel

Regular Seminars Being Conducted by the DOF for Its Personnel and attached Agencies:

- Friday Learning Sessions
- Echo-Seminars
- Orientation/Reorientation Course with Values Enhancement and Public Accountability
- Quarterly Lecture
- National Statistics Month

DOF Population

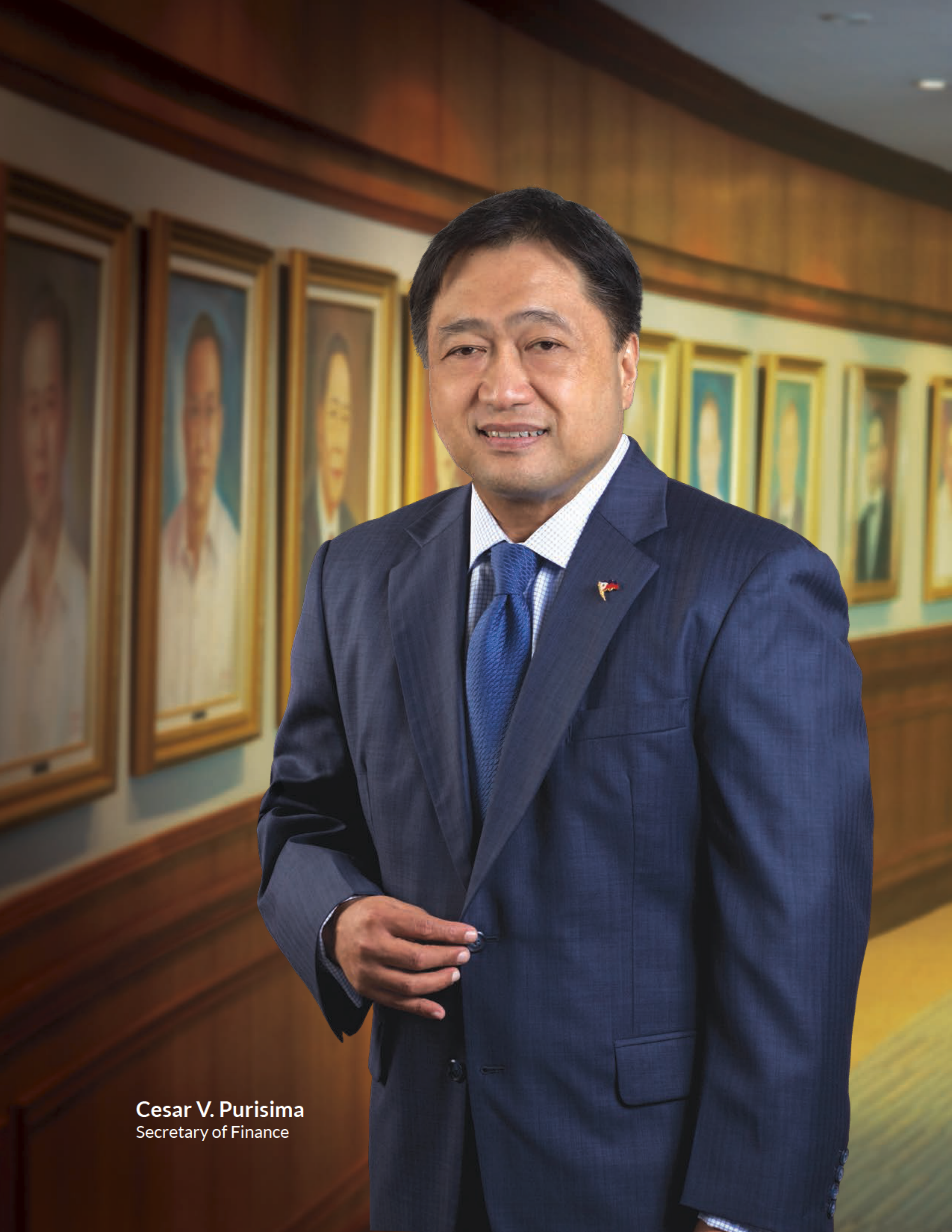
117

aged 30 & below

**As of December 2014, the DOF has employed 117 young professionals (30 years old and below)*

ORGANIZATIONAL STRUCTURE

DEPARTMENT OF FINANCE



Cesar V. Purisima
Secretary of Finance

MANAGEMENT TEAM

Secretary **Cesar V. Purisima**

Undersecretary **Gil S. Beltran**

Undersecretary **Jeremias N. Paul, Jr.**

Undersecretary **Roberto B. Tan**

Undersecretary **Carlo A. Carag**

Undersecretary **Jose Emmanuel P. Reverente**

ASSISTANT SECRETARIES

Soledad Emilia J. Cruz

Ma. Lourdes B. Recente

Ma. Teresa S. Habitan

Ma. Caridad P. Manarang

Ma. Edita Z. Tan

<u>No photos:</u>

Ephyro Luis B. Amatong

DIRECTORS

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Carmelo T. Casibang, Jr.

Danielle Marie S. Rieza

Herminio C. Runas, Jr.

Ma. Estela C. Laureano

Stela B. Montejo

Jennifer J. Tan

Helena B. Habulan

Jesus Nathaniel Martin B. Gonzales

Joanna P. Castillo

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Joselito S. Almario

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Angelica I. Sarmiento

Ma. Lourdes V. Dedal

Rommel S. Herrera

Shiela N. Castaloni

Thelma A. Mariano

<u>No photos:</u>

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Ma. Bianca Ofelia Sison- Tabaquin

REVENUE CLUSTER

Carlo A. Carag
Undersecretary

Jeremias N. Paul, Jr.
Undersecretary

Kim S. Jacinto-Henares
BIR Commissioner

Emmanuel M. Santiaguel
CDA Chairman

Salvador M. Del Castillo
BLGF Executive Director

John Philip J. Sevilla
BOC Commissioner

Roberto D. Geotina
CBAA OIC Chairperson

Trinidad A. Rodriguez
NTRC Executive Director

LIABILITY MANAGEMENT

Valentin A. Araneta
PDIC President

Teresita J. Herbosa
SEC Chairperson

Emmanuel F. Dooc
Insurance Commissioner

Francisco S. Magsajo, Jr.
PhilExim President

Rosalia V. De Leon
National Treasurer

GOCC

Jose Emmanuel P. Reverente
Undersecretary

Atty. Toni Angeli V. Coo
OIC Chief Privatization Officer

DIRECTORY OF DOF OFFICES

OFFICE	CONTACT DETAILS
OFFICE OF THE SECRETARY	523-9215; 523-6051; 526-7336; 523-9251; 523-9219; 526-8474 (TeleFax)
Chief of Staff	523-9215
Revenue Integrity Protection Service (RIPS)	404-1775
POLICY DEVELOPMENT & MANAGEMENT SERVICES GROUP	
Office of the Undersecretary	523-5671
Central Administration Office	
Office of the Director	526-1265
Personnel Services Division	525-0244
Medical and Dental Division	526-6967
Central Records and Management Division	526-8470
General Services Division	526-8475; 524-4227
Property and Procurement Section	526-4786
Cash Section	526-5573
Library Section	526-8410
Central Financial Management Office	
Office of Director	526-8166
Budget Division	526-8464; 526-6941 (TeleFax)
Accounting Division	523-5624
Management Division	526-6932
Central Management Information Office	526-8467; 525-4697
REVENUE OPERATIONS GROUP	
Office of the Undersecretary	523-4955
Office of Assistant Secretary	526-0531
Office of the Director	526-7490
Customs and Tariff Division	526-7311
International Revenue Division	526-8476
Research Monitoring Division	526-7311
Mabuhay Lane	526-8458
One-Stop-Shop Tax Credit and Duty Drawback-Center	
Office of the Director	526-0076
OSS-Operations	526-0842
OSS-Policy	526-1787
OSS-MIS	526-8450
OSS-BOC	526-0751
OSS-Admin	526-0076
Legal Affairs Office	526-8449

OFFICE	CONTACT DETAILS
PRIVATIZATION GROUP	
Privatization Office	524-1633
Office of the Director	524-1633
Appraisal and Evaluation Division	524-1633
Issues and Procedures Division	524-1633
INTERNATIONAL FINANCE GROUP	
Office of the Undersecretary	526-9990
International Finance Operations Office	
Office of the Director	526-9990
Debt Structuring Division	526-9990
Multilateral Assistance Division	523-9912
Bilateral Assistance Division	523-9911
International Finance Policy Office	
External Adjustment Division	400-7446; 514-8981
Municipal development Fund Office	523-9936; 523-9937 (Trunk line)
Office of the Director	523-9935 (Direct Line)
Office of the Deputy Director	525-9185 (Direct Line)
Finance Division	521-7192 local 204 (Direct Line)
Accounting Division	523-7192 local 210
CORPORATE AFFAIRS GROUP	
Office of the Undersecretary	524-5221
Office of the Assistant Secretary	523-9938
Corporate Operations Office	
Office of the Director	527-3826
Corporate Policy Research Division	525-7309
DOMESTIC FINANCE GROUP	
Office of the Undersecretary	524-5222
Office of the Assistant Secretary	523-9938
Fiscal Policy and Planning Office	523-3825 (TeleFax)
Office of the Director	524-0607
Fiscal Policy Division	524-0607
Fiscal Planning Division	524-4332
Statistics Division	525-4332
Special Studies Division	523-3825 (TeleFax)
National Credit Council	523-3825 (TeleFax)
Research and Information Office	
Office of the Director	526-6368
Research and Liaison Division	524-0618 (TeleFax)
Information Division	524-0619

DOF EMPLOYEES

AR COMMITTEE

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Assist. Sec. Soledad Emilia J. Cruz

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Irene R. Sta. Ines

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