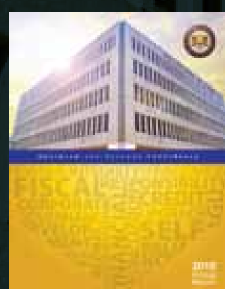
Optimism and Renewed **Confidence**

2010 Annual Report

2 Letter to the President
3 Messages
5 2010 Economic Highlights
7 Fiscal Performance
10 Privatization
11 Government Corporate Sector
14 Debt Management
18 Global Cooperation
22 Microfinance Initiatives
25 Local Government Finance
28 Municipal Development Fund Office
31 Frontline Operations
36 Management Information System
37 Human Resource Development
42 Department of Finance Officials
44 Department of Finance Directors
46 Department of Finance Heads
48 Directory
IBC Working Committee



COVER STORY

By the end of 2010, the Philippine economy posted a buoyant GDP growth of 7.6 percent. The impressive growth, fastest in more than two decades, is leading to renewed business confidence as the Philippine economy continues to build on sustained recovery.

Through the fiscal sustainability efforts spearheaded by the Department of Finance (DOF), the international community along with the entire Philippine society showed positive expectations of the economy and the new administration.

Hence, the cover depicts "Optimism and Renewed Confidence". The cover presents the DOF building as its main visual. The building, which serves as a metaphor for the solidness of the DOF as an agent of reform, casts a reflection over the lower part of the design. Instead of a shadow, terms denoting areas of reform were used as the silhouette of the facade. These words and phrases (laminated/ UV Spot) describe the roles, mandate and agenda of DOF as it stands tall at the frontline of economic defense. To give more emphasis to the theme of optimism and hopefulness, gold is used as the primary color of the design.

MANDATE

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

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

- A strong economy with stable prices and strong growth;
- A stable fiscal situation with adequate resources for government projects and budgetary which could be adequately financed;
- 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

VISION

Optimism and Renewed Confidence

MISSION

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

- Formulation, institutionalization and administration of sound fiscal policies;
- Improvement of tax collection efficiency;
- Mobilization of adequate resources on most advantegeous terms to meet budgetary requirements;
- Sound management of public sector debt; and
- Initiation and implementation of structural and policy reforms.

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.

LETTER TO THE **PRESIDENT**

His Excellency
BENIGNO S. AQUINO III
President
Republic of the Philippines
Malacañang, Manila

Dear Mr. President:

On behalf of the employees and officials of the Department of Finance and its attached bureaus and agencies, I am honored to submit to your Excellency our annual report for 2010.

It has been a good year for the country as economic performance generally exceeded expectations. The robust 7.6 percent growth in real gross domestic product (GDP) is testament to the strength of the country's economic fundamentals.

Our prospects are bright as we enter another year of service to our countrymen. We in the DOF will continue to implement fiscal reforms that support a strong economic recovery and sustained development, while pursuing our fiscal consolidation objectives.

We thank your Excellency for making fiscal sustainability as your administration's cornerstone for an effective governance agenda. With your Excellency's leadership, together with the support from our partners from both public and private sectors, we are confident that we will be able to achieve our common goal of building a better Philippines.

Very truly yours,

CESAR V. PURISIMA
Secretary
Department of Finance

MESSAGE OF THE **SECRETARY**

For many years, the gap between revenues and expenditures has been a major challenge for the Department of Finance. This is the result of a host of challenges, including poor governance among the major collecting agencies of the government, fiscal incentives, and revenue-eroding measures passed in the last Congress, among others.

The bearing of fiscal policy on our development agenda cannot be overemphasized. This is because the fiscal sector is a major pillar that provides support to the rest of the economy.

The fiscal sector is among the toughest to handle. While we deem it imperative to finance an expanding economy and increasing needs for public services, government efforts to shore up revenues are constantly challenged.

A determined effort to strengthen the fiscal sector requires resolute actions that can effectively address the erosion of the revenue base. Administrative measures and improved governance have been implemented by the Finance department and its attached agencies and bureaus in order to enhance collections.

This early, our efforts have already been rewarded. Revenue collections in 2010 went up 7.5 percent, contributing to a contained budget deficit equivalent to just 3.7 percent of total economic output as against a 3.9 percent cap. In liability management, we became the first Asian country to issue local currency debt offshore through global peso bonds, whose first issue last September raised $1 billion. This, and other debt management exercises were noted even by credit rating agencies, with Standard & Poor's raising the country's credit to just two notches below investment grade after only five months of the Aquino administration. We also started strengthening our watch on government-owned and –controlled corporations (GOCCs) via Executive Order No. 7 that suspended illicit perks and bonuses on GOCC officials.

But we will not stop there. Reforming the fiscal sector requires a strong partnership between the government and the private sector. While we at the Finance department are steadfast in our efforts to step up collections, let there be a resounding advocacy among our friends from the private sector that paying on time and paying the right amount of taxes are among the obligations of responsible citizens.

Indeed, our tax system will only benefit if we can prevent too much discretion and court battles arising from contestable circumstances. This way, we will be able to focus our limited resources, including our precious time, to other priorities that are important in nation building.

Since the Aquino administration took over, it has been our advocacy to plug every loophole and to seal the leak in our revenue system. We remain committed to that mission no matter how daunting that may be. We know that through a better tax administration system, we will succeed in raising revenues for our people.

Along those lines, I wish to enjoin the unwavering support of my colleagues at the Finance department and our partners from both the public and private sectors, including the international community. With our joint efforts, we shall build a better future for the whole Filipino nation.

CESAR V. PURISIMA
Secretary
Department of Finance

MESSAGE

The pump-priming activities that we started in previous years and carried out through 2010 had served their purpose. These kept the economic wheels rolling and laid down a more solid ground from which the Philippine economy picked up and sustained the recovery process.

It is encouraging to note significant developments during the year as fiscal consolidation efforts continued. Robust economic performance came with a 17 percent real growth in investment, along with a downtrend in the country's debt-to-GDP ratio, inflation and interest rates.

Debt-to-GDP ratio has declined to 52.4 percent in 2010 from a high of 74.4 percent in 2004. This is one important indicator that reflects how we have managed to create a fiscal space for priority expenditures without sacrificing fiscal sustainability and macroeconomic stability.

We have the moral obligation to take care of the needs of our most vulnerable citizens especially during difficult times.

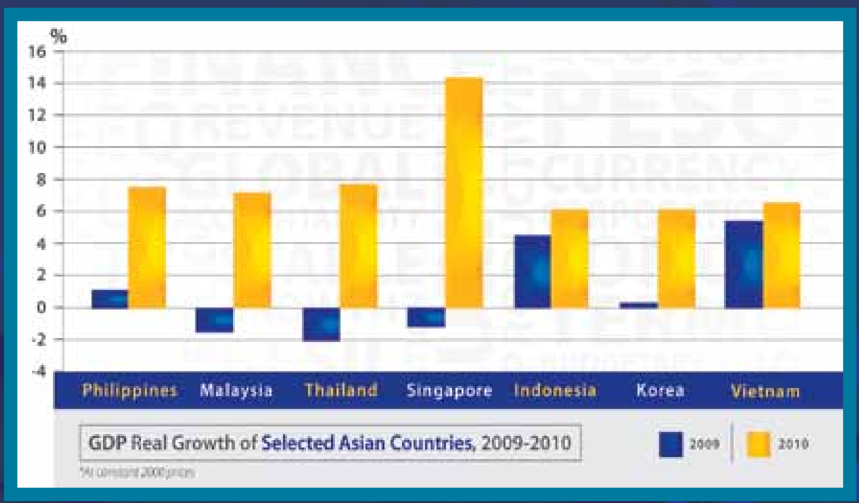
The economic and fiscal reforms that we have implemented in the past had created a more vibrant economic environment. Further reforms remain to be done to ensure fiscal sustainability and propel the economy to greater heights.

I would like to take this opportunity to express my deepest gratitude to the officials and staff of the entire DOF family and our partners from both the government and the private sector, the donor community and various institutions who have worked with us through the years. Your unwavering support is much appreciated and will be remembered.

Thank you.

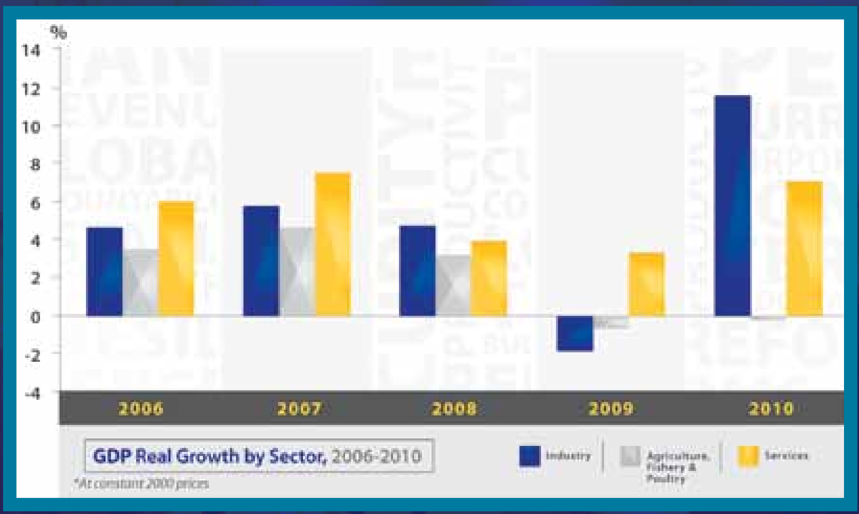
MARGARITO B. TEVES
Secretary
Department of Finance
*(July 9, 2005 – June 30, 2010)

2010 ECONOMIC HIGHLIGHTS



GDP Real Growth of Selected Asian Countries, 2009-2010

*At constant 2000 prices



GDP Real Growth by Sector, 2006-2010

*At constant 2000 prices

In 2010, the Philippine economy grew by 7.6 percent, recording one of its best performances since 1976. On a regional level, this strong recovery compares well with Thailand's 7.8 percent growth and Malaysia's 7.2 percent growth. Global economic recovery, rebound in exports, rise in consumer and business spending alongside renewed public trust in the new administration, all paved the way for this economic feat.

In the production sector, industry and services were the main drivers of growth. With the strong pick-up in demand and recovery in external trade, industry sector expanded by 11.6 percent from a 1.9 percent decline in 2009. The services sector remained firm as it grew by 7.2 percent. Agriculture, however, shrank by 0.2 percent due to the lingering El Niño phenomenon.

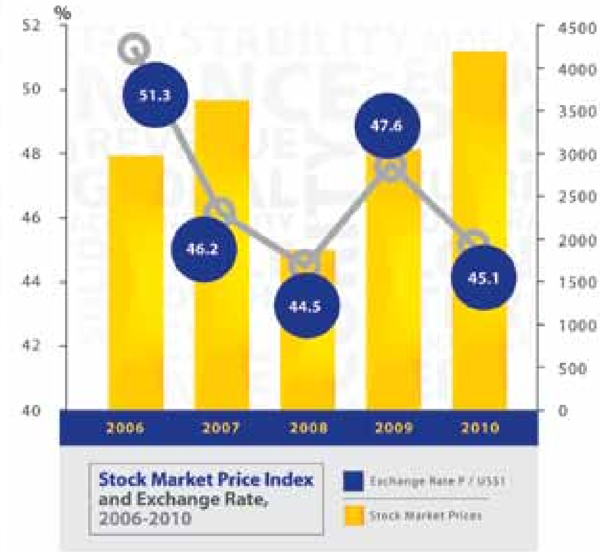
On the expenditure side, investment and exports propelled growth. Business confidence was up as domestic investments grew by 31.6 percent, with firms increasing their fixed capital investment by 19.5 percent. In the same manner, consumer confidence improved, with private consumption growing by 3.4 percent in 2010. Government consumption expanded by 4.0 percent. Due to the rebound in global trade, exports jumped by 21.0 percent, a reversal from the 7.8 percent decline in 2009.

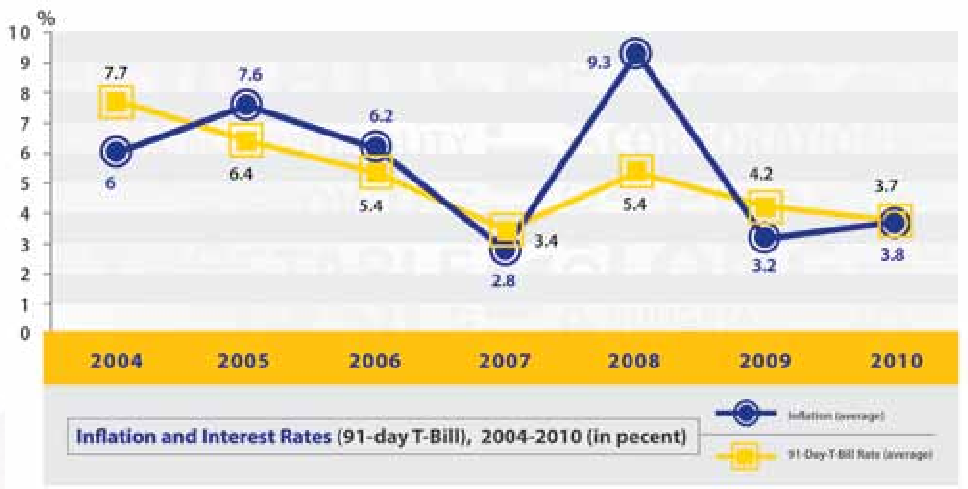
Despite increases in domestic oil prices, inflation was contained at moderate levels, averaging 3.8 percent in 2010. Stable prices of food and declining electricity rates during the latter part of the year which offset increases in the earlier months of the year, and a stronger peso contributed to the favorable trend.

GDP GROWTH
2006-2010

By Expenditure Share*	2006	2007	2008	2009	2010
Investment	-15.1	-0.5	23.4	-8.7	31.6
o.w. Fixed Capital Investment	5.3	5.5	3.4	-2.0	19.5
Personal Consumption	4.2	4.6	3.7	2.3	3.4
Government Consumption	10.6	6.9	0.3	10.9	4.0
Exports	12.6	6.7	-2.7	-7.8	21.0
(o.w.) Merchandise Exports	10.5	3.1	-2.2	-11.2	24.7
Imports of Goods and services	3.5	1.7	1.6	-8.1	22.5

** rebased GDP with 2000 as base year*





In 2010, the US quantitative easing, alongside the European debt crisis and optimistic outlook in Asian economies, sparked capital flights to Asian emerging markets, including the Philippines, and strengthened their currencies. Foreign portfolio investments in the country posted a net inflow of US$3.3 billion, triple the previous year's US$1.1 billion. In addition, inflows of remittances from Filipinos working abroad remained strong, reaching P18.8 billion, or 8.1 percent higher than the 2009 level. The Philippine peso appreciated by an average of 5.1 percent against the US dollar, ending the year at P45.1 to the US dollar, compared to P47.6 in 2009. The Philippine stock market staged a strong recovery and posted another banner year in 2010 following the surge in capital inflows, as composite index went up by 37.6 percent to 4,201.1 in end-December 2010 from 3,052.7 in end-December 2009. Total market capitalization of all publicly-listed companies in 2010 reached P8.9 trillion, an increase of 47.1 percent from P6 trillion in 2009.

The combined effects of subdued inflation and a strong peso kept domestic interest rates low, with the reference 91-day t-bill rates averaging 3.7 percent during the year compared to 4.2 percent in 2009. The BSP, unlike its other Asian counterparts, maintained its loose monetary stance. Relatively low inflation and low interest rates provided a thriving environment for growth in the industry and service sectors.

In the fiscal front, the new administration took a more cautious spending policy during the second half of the year. This is offset by higher expenditures in the first half, such as the carry-over disbursements for the Ondoy Rehabilitation and reconstruction activities, increased provision for pro-poor programs like the conditional cash transfer (CCT), election-related spending, and implementation of second tranche of the Salary and Standardization Law (SSL 3), among others.

FISCAL MANAGEMENT

The National Government (NG) contained the deficit at the level of P314.4 billion, P10.6 billion lower than the revised program of P325.0 billion. The deficit from July to December only stood at P117.7 billion. Total deficit is equivalent to 3.7 percent of GDP, lower than the 3.9 percent program.

Total revenues for 2010 reached P1,207.9 billion, 7.5 percent higher than the 2009 collection level of P1,123.2 billion. The two main collecting agencies -- the Bureau of Internal Revenue (BIR) and the Bureau of Customs -- posted improved collections on a year-on-year basis. The BIR contributed a total of P822.6 billion for 2010, 9.6 percent higher than its 2009 collection of P750.3 billion. BOC collections improved by 17.7 percent, as revenue generated increased to P259.2 billion in 2010 from P220.3 billion in 2009.

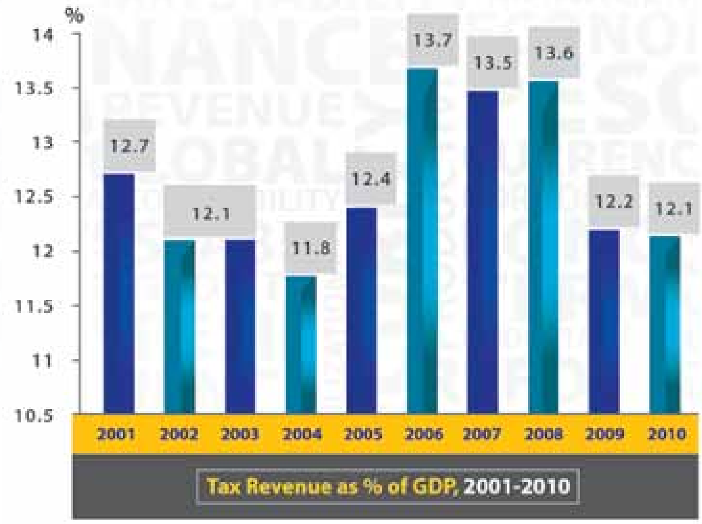
On the other hand, non-tax revenues dipped to P114.3 billion from P141.6 billion in 2009, mainly due to a one-time increase in 2009 fees and charges from the P14.4 billion sale of banked gas to the Philippine National Oil Company.

On the expenditure front, disbursements amounted to P1, 522.4 billion, 7.1 percent or P100.7 billion higher than the previous year's level. However, this was within the revised 2010 spending program of P1, 619.4 billion.

2010 NG FISCAL PERFORMANCE

In Billion Pesos	2009 Actual	2010 Program	2010 Actual	2010 Variance	Growth Rate (%)
Total Revenues	**1,123.2**	**1,294.4**	**1,207.9**	(86.5)	*7.5*
% of GDP	14.6%	*15.6%*			
Tax Revenues	**981.6**	**1,153.2**	**1,093.6**	**(59.6)**	*11.4*
% of GDP	*12.8%*	*13.9%*	*12.8%*		
BIR	**750.3**	**860.4**	822.6	(37.8)	*9.6*
% of GDP	*9.8%*	*10.3%*	*9.7%*		
BOC	**220.3**	**280.7**	259.2	(21.4)	*17.7*
% of GDP	*2.9%*	*3.4%*	*3.0%*		
Other Offices	11.0	12.1	11.8	(0.3)	*6.7*
Non-Tax Revenues	**141.6**	**141.2**	**114.3**	**(26.9)**	*-19.3*
% of GDP	*1.8%*	*1.7%*	*1.3%*		
BTr Income	69.9	60.1	54.3	(5.8)	*-22.3*
Fees and Charges	70.1	79.1	58.6	(20.5)	*-16.3*
Privatization	1.4	2.0	0.9	(1.1)	*-34.2*
Grants	0.2	0.0	0.4	0.4	*112.6*
Expenditure	1,421.7	1,619.4	1,522.4	(97.1)	*7.1*
o.w. Interest payments	278.9	327.0	294.2	(32.8)	*5.5*
Surplus/(Deficit)	(298.5)	(325.0)	(314.4)	10.6	*5.3*
% of GDP	*-3.9%*	*-3.9%*	*-3.7%*		

TAX EFFORT



In 2010, tax effort decreased by 0.1 percent to 12.1 percent, despite the robust expansion of the economy in terms of GDP. Tax effort slid down to the level it was in 2002 prior to the implementation of RA 9337, or the Reformed Value Added Tax (VAT) Law.

Implementation of revenue-roding measures enacted by Congress in 2009 and 2010 reduced the tax base. The following measures were approved and took effect in 2010 :

- VAT Exemption of Selected Goods and Services Purchased by Senior Citizens (RA 9994);
- Tax deductibility of actual free legal services rendered by lawyers or professional partnership of the poor (RA 9999);
- Restructuring of Documentary Stamp Tax (DST) on Life Insurance Policies and Reduction of Premium Tax on Life Insurance Policies from 5 percent to 2 percent (RA 10001);
- Migrant Workers and Overseas Filipino Act (abolition of DST on OFW Remittances);
- Income Tax Exemption and Condonation of Unpaid taxes of Local Water Districts (RA 10026);
- Creation of Special Economic and Freeport Zone in Aurora (RA 10083); and
- Tariff reduction programs implemented during the 1st half of 2010.

The combined effect of negative revenue measures reduced revenues by close to 1 percent of GDP.

TAX ADMINISTRATION

The DOF's cumulative steps to improve tax administration during the past years provided the groundwork to support the Aquino administration's thrust on fiscal sustainability and strong anti-corruption advocacy.

Several programs were instituted and are being rigorously implemented to run after corrupt officials, tax evaders and smugglers:

- As of end-2010, the Revenue Integrity Protection Service (RIPS), the anti-corruption arm of the DOF created by E.O. 259 dated December 17, 2003, has filed seventy-five (75) cases before the Office of the Ombudsman against one hundred twenty (120) public officials and personnel. As a direct and necessary consequence of the foregoing initiatives by DOF-RIPS, the Office of the Ombudsman meted out preventive suspensions against thirty-four (34) individuals, and dismissed from the service sixteen (16) individuals.[1]

- At the BIR, the Run After Tax Evaders (RATE) aims to investigate and prosecute individuals and/or entities engaged in tax evasion and other criminal violations of the National Internal Revenue Code (NIRC) of 1997, while generating the maximum deterrent effect. As of December 2010, the Bureau has filed twenty seven cases (27) cases at the Department of Justice, twenty three (23) of which were filed under the Aquino administration.

- At the BOC, Run After the Smugglers (RATS) and the re-launch of the Informants Rewards System enabled the agency to comply with the directive of President Aquino III for the BOC to file charges against smugglers twice a month. Between July and December 2010, the fortnightly filings resulted in the seizure of more than P5 billion worth of assorted commodities that were either misdeclared, undervalued or misclassified by their importers.

To enhance revenue and collection efforts, the following measures are being implemented at BIR and BOC:

At the BIR:

- sanction for non-compliance with essential requirements (e.g. issuance of receipts) through Oplan Kandado Program; and
- simplify and shorten business practices through web-based applications - Electronic Submission of Consolidated Report of Daily Collection (eCRDC), Accounts Receivables Conversion System (ARCS), Electronic Documentary Stamp System (eDST).

[1] *Subject dismissals are still subject to appeal.*

At the BOC:

- implementation of the agency's automation system called Electronic to Mobile (e2m) System in all 13 major ports; 12 provincial ports and 32 sub-ports;
- enhancement of the agency's post-entry audit capability;
- the strengthening of its Valuation Reference Information System; and
- engagement of services of cargo surveying companies.

LEGISLATIVE AGENDA

EXCHANGE OF INFORMATION ON TAX MATTERS ACT

Signed into law on March 5, 2010 as Republic Act 10021. The law is in compliance with the Internationally Agreed Tax Standard (IATS) for Exchange of Information. The law allows the country to carry out its commitments under bilateral tax treaties designed to combat tax abuses.

In particular, the law amends Sections 6 (f), 71 and 270 of the NIRC in order to: (a) authorize the Commissioner to inquire into bank deposits and other related information held by financial institutions in order to supply information to a requesting foreign tax authority pursuant to an international agreement to which the Philippines is a signatory; (b) allow requesting foreign tax authority to examine the income tax returns of taxpayers upon order of the President; and, (c) penalize officers/employees of the BIR for unlawful divulgence of information obtained from banks and financial institutions to persons other than the requesting foreign tax authority.

PURSUED THE FOLLOWING PROPOSALS:

1. **SIMPLIFIED NET INCOME TAXATION SCHEME**

   The proposal simplifies the taxation of self-employed individuals or those engaged in the practice of profession and/or business by limiting the allowable business deductions to expenses which are easily verifiable and directly expended on the production of goods or in the rendition of services.

2. **RATIONALIZATION OF FISCAL INCENTIVES**

   The DOF proposed rationalization of fiscal incentives aims to adopt a strategic approach to investment and growth through a fiscal incentives policy that promotes competitiveness and at the same time, ensures cost-efficiency and fiscal sustainability.

3. **STRENGTHENING THE ANTI-SMUGGLING PROVISIONS OF THE TARIFF AND CUSTOMS CODE**

   The DOF supported the intention of Congress to strengthen the anti-smuggling provisions of the Tariff and Customs Code. In particular, the DOF proposed the following: a) a provision that will strengthen the internal audit within the Bureau of Customs; b) deleting the basis for accreditation of importers and brokers from the information to be published by the BOC; and, providing that other information apart from the list of importers and brokers be sourced from the BOC upon official request; and lastly, c) amending all the provisions creating a Tariff and Customs Enforcement Council, and proposing to institutionalize the Ports Transparency Program for the PORTALS of the DOF and BOC.

4. **CUSTOMS AND TARIFF MODERNIZATION ACT**

   The bill seeks to amend/revise the Tariff and Customs Code to make it compliant with the provisions of the International Convention of the Simplification and Harmonization of Customs Procedures, otherwise known as the Revised Kyoto Convention (RKC),an aggregation of member-countries of the World Customs Organization (WCO). This initiative seeks to promote international trade by prescribing modern, simplified and harmonized customs procedures as well as best standards and practices.

   The following are the omnibus amendments introduced in the bill: (a) adopting customs policies, rules and procedures that are transparent and consistent with international agreements and best practices; and, (b) utilizing modern techniques in customs administration such as risk management and post clearance-based controls and maximizing the use of information and communication technology in carrying out the mandate of the BOC.

GOVERNMENT CORPORATE SECTOR

The DOF, through the Corporate Affairs Group (CAG), is the government spearhead in the promotion of corporate governance that would enhance best practices in transparency and accountability. Consistent with the core principle of the Aquino Administration of improving the standards of governance in the government, the DOF pursued fiscal policy initiatives to instill financial discipline among the GOCCs and to enhance public accountability in the use of government resources.

CONTRIBUTION TO THE CONSOLIDATED PUBLIC SECTOR FISCAL POSITION

a. 14 Major Non-Financial Government Corporations (MNFGCs)

In 2010, the consolidated net financing deficit for the 14 MNFGCs rose to P71.0 billion, a P51.8 billion increase in deficit level compared to 2009. The 2010 consolidated deficit of the 14 MNFGCs was higher due to the following developments:

- lower privatization proceeds and lower electricity sales from National Power Corporation (NPC)/ Transmission Corporation (TRANSCO)/ Power Sector Assets and Liabilities (PSALM). Privatization proceeds of PSALM in 2010 of US$0.6 billion was only a little over 1/3 of the 2009 privatization receipts.[2]
- higher investment in irrigation by the National Irrigation Authority (NIA)

Improved performance resulting from intensive marketing and increased demand for coal by the Philippine National Oil Company (PNOC) partly negated the downward performance of NPC/TRANSCO/PSALM, National Food Authority (NFA) and NIA. NFA and the power sector corporations (NPC/TRANSCO/PSALM) accounted for 85 percent of the consolidated deficit of the fourteen (14) major corporations.

The actual consolidated deficit for 2010 exceeded the July programmed level by 16.4 percent mainly due to the unrealized projected revenue of PSALM and the accelerated rehabilitation and repair of irrigation facilities and structures.

b. Government Financial Institutions (GFIs) and Social Security Institutions (SSIs)

The financial performance of GFIs and SSIs contributed to the improvement of the consolidated public sector financial position. In 2010, the GFIs and SSIs posted positive cash position due to various diversification strategies in investment, including additional loans to members on the part of SSIs, and provision of various lending windows to priority sectors and projects of the government for the GFIs.

However, despite the expansion of the asset base of GFIs and increase in their volume of investments, the low interest rate regime that prevailed in 2010 lowered returns and overall performance in 2010. Their cash position posted a surplus of P7.9 billion, a drop by 26.4 percent from 2009 surplus of P10.8 billion, and also short by 18.9 percent of the full year program of P9.8 billion. The regime of lower interest rates significantly reduced core income of the Development Bank of the Philippines (DBP).

[2] *In 2009, substantial privatization proceeds were generated from upfront proceeds equivalent to 25 percent of the US$3.95 billion price to acquire the concession contract for the operation of the transmission system, and from full payments for the Tiwi-Makban, Palinpinon Tongonan Geothermal Power Plants and other small generation assets.*

Particulars	2009	2010 Program (July 2010)	2010 Prelim Actual	2010 vs 2009
	In Billion Pesos			
14 MNFGCs	-19.3	-61.0	-71.0	-51.8
GFIS (DBP, LBP, TIDCORP)	10.8	9.8	7.9	(2.8)
SSIs (GSIS, SSS,PHIC)	44.5	45.5	39.3	(5.2)

**Data reflect preliminary figures as of 28 April 2011 except for FY 2010 prelim actuals for SSS which include YTD Sept. 2010 Actuals and 4th Qtr. projections.*

Similar to the GFIs, financial performance of the SSIs for the year 2010 likewise declined, posting only P39.3 billion in consolidated cash surplus, P5.2 billion or 11.8 percent lower than 2009 surplus of P44.5 billion. The surplus also fell 11.5 percent short of the full year target of P45.5 billion. While the Social Security System (SSS) generated higher income, this was not enough to offset the impact of reduced cash position of the Government Service Insurance System (GSIS) and Philippine Health Insurance Corporation (PHIC) cash position.

As a result of the GSIS continuous updating of its members accounts, GSIS was able to expand its volume of lending to its members, thus, decreasing its expected surplus for the year.

In its effort to further expand the health benefits due its members, PHIC increased benefit pay-outs, thereby reducing its full year cash surplus as well.

INTENSIVE FISCAL CONSOLIDATION EFFORTS

NG collected a total of P27 billion in 2010 from dividends, shares and fees collectible from the GOCC sector pursuant to Republic Act 7656 or the Dividend Law, and other pertinent provisions of law.

The DOF mounted a program of accounting and pursuing the collection of the dividends in arrears, of the GOCCs and GFIs, including their subsidiaries.

Collections from GOCCs (In Billion Php)	January - December				
	2009	2010 FY Program	2010	Change	%
A. Dividends					
(a) GOCCs	7.8	6.5	6.8	(1.0)	-13
(b) BSP	6.0		5.2	(0.8)	-
B. Guarantee Fee	6.7	3.0	2.4	(4.3)	-64
C. Interest on Advances	0.5	0.7	0.04	(0.5)	-92
D. Foreign Exchange Risk Cover Fee	2.2	2.0	1.1	(1.1)	-50
E. NG Share - Airport Terminal Fee	0.4	0.3	0.5	0.1	25
F. NG Share on Income Received (PAGCOR & MIAA)	12.1	12.7	11.0	(1.1)	-9
TOTAL COLLECTIONS FROM GOCCS	**35.7**	**25.2**	**27.0**	**(8.7)**	**-24**

Dividend collections reached P12 billion, which is 85 percent higher than the 2010 full year target of P6.50 billion. The biggest remittances came from Bangko Sentral ng Pilipinas (BSP), Development Bank of the Philippines (DBP), Land Bank of the Philippines (LBP), Philippine Ports Authority (PPA), PNOC-Exploration Corporation (PNOC-EC) and Mactan-Cebu International Airport Authority (MCIAA).

PURSUIT OF CORPORATE GOVERNANCE INITIATIVES

Following the new Administration's thrust to improve governance in the operations of GOCCs, the DOF supported proposed legislations to promote financial viability and fiscal discipline among GOCCS.

In the interim, pending the enactment of the said legislation, the DOF drafted a proposed Executive Order aimed at addressing multiple oversight in the government corporate sector and to institute further reforms to deal with governance challenges faced by the sector. The relevant provisions under the proposed EO were later adopted as well in the proposed GOCC Bill by Congress. DOF participated in the review of compensation packages of Boards of GOCCs through its membership in the Task Force on Corporate Compensation (TFCC) created under Executive Order No. 7 signed by the President on 8 September 2010.

To improve transparency in government and curb corruption in GOCCs, the Aquino administration initiated the establishment of an improved GOCC database system to be consistent with international best practices on transparency and disclosures.

An effort on GOCC re-classification to comply with the International Monetary Fund – Government Financial Statistics is being pursued to make data comparable with other countries in the region which will likewise help in the improvement of the country's credit rating.

The DOF continues to be in alliance with international and local institutions such as the Organization for Economic Co-operation and Development (OECD), and the Institute of Corporate Directors (ICD). This has paved the way towards our continued involvement in the campaign and promotion of good governance among GOCCs/GFIs. In 2010, GOCCs were requested to submit a self-assessment questionnaire and Corporate Governance (CG) model code as compliance to governance standards.

SOCIAL DIMENSIONS AND OTHER INITIATIVES

- **On Housing Sector:** The DOF supported policy reforms in the provision of affordable housing, such as the low amortization payments, low interest rates, and longer repayment period. These reforms were supported with the viability of the housing institutions.

  Through DOF representations in the Boards of key shelter agencies, efforts were done in ascertaining that the housing production as well as its rightful distribution to every qualified citizen are being accomplished in an effective manner and consistent with the sector goal, and in pursuing sustainable long –term housing finance.

- **On Water Sector:** DOF supported the extension of the water concession agreement for the West Zone of the Metro Manila franchise area. Earlier in 2009, the DOF also reviewed and agreed to the extension of the water concession agreement for the East Zone.

PRIVATIZATION

The government's privatization program continues its role in stimulating economic recovery despite various factors that impede its disposition efforts. Similarly, it likewise explored alternative measures for investments like the public private partnership.

For the year 2010, privatization's remittances to the Bureau of the Treasury reached P0.9 billion. Remittances from privatization in 2010 were lower by 34.5 percent due to the deferment of FTI's privatization and the lease development of the Fujimi property.

REMITTANCES FROM PRIVATIZATION
2001 to December 31, 2010
*(in Billion Pesos)**

Year	PMO	PCGG	GOCCs	BCDA	Others	TOTAL
2001	0.5	0.5		0.1	1.3	2.5
2002	2.5	1.5	1.2			1.5
2003	0.5	0.1				0.6
2004	0.3	9				9.3
2005	0.2	7.4	2		0.2	9.7
2006	0.5	8.4	4.6		0.7	14.2
2007	1	25.3	63.2		1.2	90.6
2008	6.8	3.6	20.9			31.3
2009	0.5	0.9				1.4
2010	0.4	0.6				0.9
TOTAL	**10.8**	**55.8**	**91.9**	**0.1**	**3.3**	**161.9**

Source: DOF-Privatization Office
**Total may not add up due to rounding*

DEBT MANAGEMENT

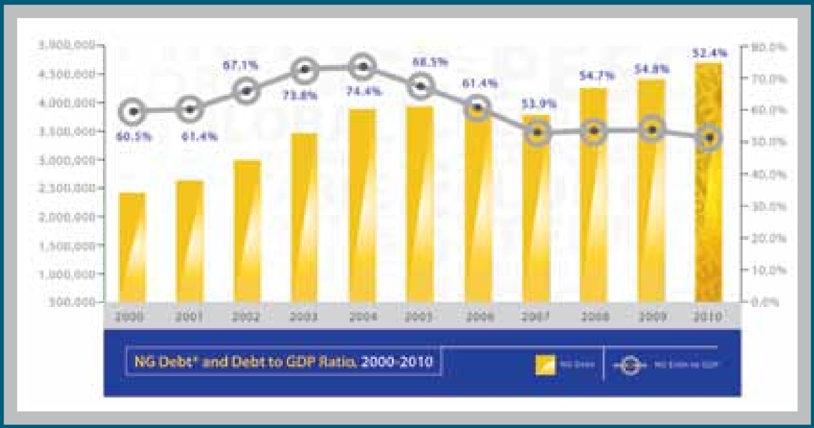
To improve the current debt profile, two objectives in line with proactive liability management strategy, guide the NG's financing operations: to maximize the utilization of available Official Development Assistance (ODA) loans and to increase the share of domestic financing sources to minimize interest costs and foreign exchange risk, respectively.

The DOF, by opportunistically accessing the market and taking advantage of favorable economic conditions and investor confidence in its commercial transactions, achieved the NG's maturity extension and cost-efficiency goals. Lastly, the institution of a Debt and Risk Management Division in May 2010 will insure that the National Government's debt is effectively controlled and monitored to maintain fiscal stability and sustain economic growth.

IMPROVED DEBT INDICATORS

Fiscal year 2010 was marked by significant progress in the NG debt management. Major debt indicators moved to more manageable levels. While outstanding debt grew by 7.3 percent to P4.7 trillion, NG outstanding debt as percentage of GDP declined to 52.4 percent from 54.8 percent in 2009.

**Debt in P million*



The strengthening of the peso helped dampen interest payments and reduced its share to total expenditures from 24.4 percent from 24.8 percent in 2009. Similarly lower was the ratio of interest payment to revenue to 19.3 percent from 19.6 percent in 2009.

COMPLETED 2010 FINANCING REQUIREMENTS

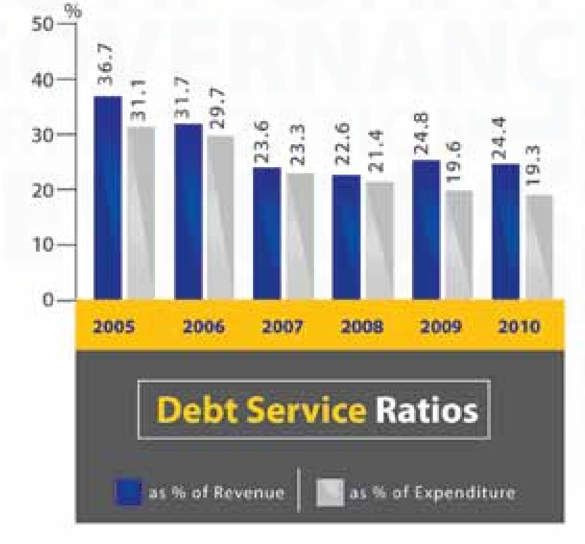
The NG raised financing to cover its total gross funding requirement of P747.2 billion to cover the deficit of P314.5 billion, and refinancing requirements at P395.6 billion.

DOMESTIC BORROWINGS FAVORED OVER FOREIGN FINANCING

To reduce foreign exchange rate exposure, and help develop the domestic debt market, the NG relied heavily on domestic borrowing to complete its financing requirement. Financing mix between domestic and foreign sources changed significantly from 56:44 in 2009 to 66:34 in 2010. As a result, the share of domestic debt to total NG debt stock rose to 57.6 percent

MAXIMIZED AVAILABLE ODA SOURCES

The DOF, in behalf of the NG, raised financing amounting to US$1.4 billion from multilateral and bilateral sources which comprised 23.6 percent of total external borrowing for the year. Actual disbursement in 2010 was US$791 million for program loans and US$558 million for project loans. The maximization of available ODA reduced the average interest rate on ODA loans from an initial 2.2 percent in 2009 to 2 percent by year-end of 2010.



The ODA loans supported projects and programs for social protection reform and community-driven development.

The Social Welfare and Development Reform Project funded by World Bank (WB) and the Social Protection Support Project funded by the Asian Development Bank (ADB) which together accounted for US$445 million of new loans in 2010, support the Conditional Cash Transfer Program of the government, also known as the Pantawid Pamilyang Pilipino Program (4Ps).

The NG also borrowed to finance post-typhoon recovery efforts, after the series of devastating typhoons in the last few months of 2009 and for budgetary support to help implement development projects.

CONTINUED TO BE OPPORTUNISTIC IN TAPPING THE INTERNATIONAL CAPITAL MARKET

Opportunistic tapping of the international debt capital market lowered the average interest rate on NG foreign securities to 7 percent from 8.2 percent in 2009. As a whole, average interest rate on the entire NG external obligations (ODA and commercial) improved to 4.9 percent from 5.7 percent in 2009. Meanwhile, in terms of interest rate exposure, the ratio of external debt with fixed rates relative to floating rates was maintained at a conservative level of 84:16.

Gross commercial bond issuance for 2010 is equivalent to US$4.4 billion, which is US$1.9 billion up from the US$2.5 billion program for 2010.

Re-opening of the Republic of the Philippines (ROP) US$850 Million Global Bonds Due 2034 and the Republic of the Philippines U$650 Million Global Bonds Due 2020

The NG kicked off 2010 with a re-opening of the Republic of the Philippines' 2020s and 2034s. By taking advantage of the huge investor demand for emerging market credit, the total orderbook reached US$10 billion, a massive 7x oversubscription, with 420 orders and diversified demand from Europe, Asia and the United States for both tranches. The NG raised funds early on in the year to avoid the possibility of higher risk premiums arising from the presidential elections scheduled in May.

Republic of the Philippines (ROP) JPY100 billion (US$1.3 billion) Shibosai Private Placement/Samurai Bonds Due 2020

DOF issued JBIC guaranteed Japanese Yen-Denominated Bonds amounting to JPY100 billion in February 2010. Through this issuance, the National Government generated savings of about 20 basis points (which is about JPY169 million or about P1.8 million) compared to what the issue would have cost in the US$ market.

The issuance, which was structured under a private placement format exclusively targeting Japanese Qualified Institutional Investors, attracted participation from banks, insurance companies, cooperatives and other financial institutions in Japan. The ROP issuance brought in the largest number of participants for the aforesaid sovereign compared to that of the past three JBIC guaranteed transactions done in 2009.The total investor interest far exceeded the actual size of JPY100 billion, and represents by far, the largest bond issue by any non-Japan Asian issuer in the Japanese market.

Republic of the Philippines (ROP) P44.1 billion (US$1.0 billion) Global Peso Notes Due 2021

The NG issued its first 5 percent 10-year Global Peso Notes (GPN) amounting to US$1 billion (equivalent to P44.1 billion). The said liability management transaction minimized exposure to foreign exchange risk and also enhanced the investor base of the government's debt and increased participation of offshore investors in the domestic bond market.

This maiden transaction of the Republic received a number of recognitions:

- Best Sovereign Bond and Best Philippine Deal from the FinanceAsia Achievement Awards 2010;

NG DIRECT AND GUARANTEED LOANS SIGNED IN 2010

Republic of the Philippines (as of 31 December 2010)

PROJECT / PROGRAM NAME	EXECUTING AGENCY / IES	LOAN AMOUNT (IN USD)	LOAN AGREEMENT SIGNING DATE
International Bank for Reconstruction and Development (IBRD)			
1. Social Welfare and Development Reform Project	DSWD	$405,000,000.00	January 7, 2010
2. Food Crisis Response Development Policy Operation: Supplemental Support for Post-Typhoon Recovery	DOF	$250,000,000.00	June 28,2010
3. Additional Financing for ARMM Social Fund Project	ARMM	$30,000,000.00	August 31,2010
4. Additional Financing for KALAHI-CIDSS	DSWD	$59,120,000.00	December 3,2010
Asian Development Bank (ADB)			
5. Social Protection Support Project		$40,000,000.00	September 14,2010
Agence Francaise de Developpement (AFD)			
6. Local Government Budget and Reform Program (co-financing with the ADB)	DOF	$198,360,000.00	February 15,2010
Japan International Cooperation Agency (JICA)			
7. Development Policy Support Program III (co-financing with the Asian Development Bank)	DOF	$112,484,000.00	March 15,2010
8. Emergency Budget Support Japanese ODA Loan	DOF	$168,726,000.00	March 15,2010
9. Post Ondoy and Pepeng Short-Term Infrastructure Rehabilitation Project	DPWH	$120,926,400.00	May 26,2010
TOTAL		$1,384,616,400.00	

- Best Sovereign Bond from the Asset Triple A Regional Awards 2010;
- Best Sovereign Bond and Best Local Currency Bond from the AsiaMoney Awards 2010 ;and
- Domestic Bond Deal and Philippines Capital Markets Deal from IFR Asia Awards 2010.

LENGTHENED MATURITY OF THE GOVERNMENT'S DEBT PORTFOLIO

With 88.8 percent of government debt classified as medium to long-term debt from 85.9 percent in 2009, the NG reduced refinancing risk of its debt portfolio. The buoyant growth of the Philippine economy combined with strong investor confidence and historically low interest rates enhanced NG's ability to successfully issue longer dated securities. In addition, proactive liability management, most notably the bond exchange exercise, helped extend average maturity to 11.4 years in 2010 from 10.6 years in 2009.

On September 2010, the DOF executed a Bond Exchange in the international market, by inviting holders of 14 types of old bonds to exchange their bonds for either New ROP 2021 Bonds or the Re-opened ROP 2034 Bonds (Exchange Offer).The NG accepted US$1.5 billion for the new 10-year mark bonds and US$767 million for the re-opening of Republic of the Philippines Global Bond 2034.

This liability management exercise supports NG's debt strategy of mitigating refinancing risk by extending maturity and duration of the bonds by 9 years and 5 years, respectively. The NG accepted US$1.5 billion for the new 10-year benchmark bonds and US$767 million for the re-opening of ROP Global Bond 2034. It also reduced government annual debt service cost by about US$69.6 million.

IMPROVED CREDIT RATING

Towards the end of fiscal year 2010, Standard and Poor (S&P) upgraded the country's rating from BB- to BB, which is 2 steps below investment grade, in recognition of the government's efforts to stabilize its budget position and to reduce its reliance on foreign financing.

ESTABLISHMENT OF DEBT AND RISK MANAGEMENT DIVISION

The establishment and staffing of a Debt and Risk Management Division (DRMD) was approved by the Department of Budget and Management (DBM) on 11 May 2010, ahead of the approval of the overall Rationalization Plan of the DOF. The DRMD is under the Funding Operations and Debt Management Group (FODDMG), currently existing as the International Finance Operations Office (IFOO).

The DRMD will serve as a middle office that will be established in order to: (a) institutionalize policy and debt strategy formulation to manage public sector debt; and (b) to monitor, report, and ensure compliance with debt management policies, considering the challenges posed by the NG's debt and contingent liabilities, among others. The other divisions of the International Finance Operations Office, where the DRMD is housed, will serve as the front office; while the back office will be with the Bureau of the Treasury.

Average Maturity

YEAR	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
NG	8.8	8.1	8.0	7.5	7.3	7.6	7.9	7.7	8.0	8.7
Domestic	5.4	4.7	4.7	4.4	4.6	5.2	5.2	5.2	6	6.7
Foreign	12.6	11.9	11.4	10.8	10.7	10.6	11.8	11	10.6	11.4

STRENGTHENING THE MANAGEMENT OF CONTINGENT LIABILITIES AND FISCAL RISK

Adhering to the concept that disclosure of fiscal risks leads to better fiscal management, informed policies, and transparent financing, the Department of Finance as a member of the Development Budget Coordination Committee (DBCC), helped to formulate the first Fiscal Risk Statement (FRS) published in November 2010 as an annex to the 2011 National Government budget. With this landmark statement, the Philippines joined a select group of countries (e.g. Australia, Brazil, Chile, Colombia, Indonesia, and New Zealand) in instituting disclosure and transparency in fiscal policy making.

The FRS assessed that the primary sources of fiscal risk lie in public debt and contingent liability. To address these issues, the DOF is pursuing a program of institutional capacity building in debt management and management of public-private partnerships (PPPs).

Parallel with the thrust of the current administration to aggressively pursue the public-private partnerships (PPP) as an avenue to accelerate infrastructure development in the country, the DOF, along with the National Economic Development Authority (NEDA), crafted a risk allocation policy for PPP schemes. This will facilitate smooth implementation of PPP projects and the efficient valuation and monitoring of contingent liabilities associated with such projects and their timely budgeting, in the event these liabilities become real. The efficient management of contingent liabilities is an important component of the country's fiscal risk management.

"Fresh into office the Aquino government established a comprehensive assessment of fiscal risks and published the outcome in a fiscal risk statement in November 2010. International experience reveals that disclosure of fiscal risks generates important benefits in terms of lower and better managed fiscal risks, improved policies, and lower cost of financing. Historically, fiscal risks have been prevalent in the Philippines and at times have generated large and unexpected fiscal costs. Important weaknesses in the Philippines public financial management framework have contributed to heightened fiscal risks. As the Fiscal Risk Statement (FRS) of the government reveals, while fiscal risks have abated in important areas, they still remain sizeable in 2010. To improve the management of fiscal risks, the government is actively pursuing a program of institutional capacity building."

--Foreword to the (first) Philippines Fiscal Risk Statement published in November 2010 by the Development Budget Coordination Committee (DBCC) as an annex to the 2011 National Government budget

GLOBALCOOPERATION

ASEAN FINANCE MINISTERS MEETING (AFMM)

The Philippines concluded its 5th round of negotiations in the ASEAN Finance Ministers Working Committee on Financial Services Liberalization (WC-FSL). It has committed to increase its market access in the insurance subsector allowing ownership ceiling of foreign insurance companies in existing or newly incorporated local insurance companies providing life and general non-life insurance services. This resulted in the increase of voting stock from 60 percent to 70 percent on insurance companies.

ASEAN HARMONIZED TARIFF NOMENCLATURE (AHTN)

The Philippines signed the 2nd Protocol to amend the previous protocol governing the implementation of the ASEAN Tariff Nomenclature for uniform classification of traded goods that will facilitate regional trade and investment.

ASEAN+ 3 FINANCE MINISTERS MEETING (AFMM+ 3)

The meeting in 2010 resulted in the following:

- **Implementation of the Chiang Mai Initiative Multilateralization (CMIM).**
  The CMIM entered into force on 24 March 2010, ninety days after it was signed on 24 December 2009. It has a core objective of addressing the balance of payments and short-term liquidities in the region, and supplementing the existing financial arrangements.

- **Philippines Capital Adjustment.**
  The AFMM+3[3] also agreed to adjust the contributions of Indonesia, Malaysia, Philippines, Singapore, and Thailand with each contributing equally the amount of US$4.5 billion to the CMIM.

ASEAN Finance Ministers join hands during the 14th ASEAN Finance Ministers' Meeting held on 4 – 8 April 2010 at Nha Trang, Viet Nam.

The adjustment will have the following benefits:

- Increase in its votes based on contribution from US$ 3.7 billion to US$4.5 billion. This will make the Philippines equal to its ASEAN 4[4] member countries in terms of weight in decision–making process of the CMIM; and

- Increase in its total voting power from 3.8 percent to 4.6 percent. This will also make the Philippines at par with the 4 ASEAN member countries in the voting process in relation to the disbursements of the CMIM assistance.

- **Establishment of the CGIF**
  Under the Asian Bond Markets Initiative (ABMI) Framework, the ASEAN + 3 Finance Ministers have agreed to establish the Credit Guarantee and Investment Facility (CGIF) with an initial capital of US$700 million. The main objectives of the CGIF are to support the issuance of corporate bonds in our region, and to contribute to the development of regional bond markets. The CGIF Contributors Meeting was held at the fringes of the ASEAN + 3 Finance and Central Bank Deputies' Meeting (AFDM+3) in Xian, China last November 23-24, 2010 where they nominated the Board of Directors for the CGIF.

---

[3] *ASEAN Plus Three (China, Japan and Republic of Korea) Finance Minister Meeting*
[4] *Indonesia, Malaysia, Singapore and Thailand*

Establishment of AMRO

The ASEAN +3 Finance Ministers also reached agreement on all key elements of the ASEAN + 3 Macroeconomic and Research Office (AMRO). It will be located in Singapore to monitor and analyze regional economies and will effectively assist in the decision-making of the CMIM. The contribution to the establishment of the AMRO will be similar to the CMIM process, 80 percent will be borne by the Plus 3 and 20 percent will be borne by ASEAN.

APEC FINANCE MINISTERS' PROCESS (FMP)

The APEC-FMP provides an annual forum for its Member Economies to exchange views and information on regional macroeconomic and financial developments and on national and regional policy priorities. The 17th APEC FMP was held in Kyoto, Japan last November 6, 2010 at the Kyoto International Conference Center.

The strategic goals of the FMP are to promote sound and credible policies for:

- sustainable and broad-based development with equity in the APEC region
- macroeconomic stability in the APEC region
- prudent public finance management
- good corporate governance
- stable and efficient capital markets
- greater economic cooperation, integration and openness among APEC economies
- facilitation of economic and technical cooperation within the region

The APEC Secretariat approved a Philippine Initiative on financial inclusion in APEC entitled "Accelerating Financial Inclusion in Asia and the Pacific: An Operational Dialogue on Innovative Financial Inclusion Policies". The initiative aims to provide an effective platform for discussing financial inclusion initiatives at the operational level as well as showcase best practices and concrete financial inclusion programs in the APEC region among other objectives.

THE PHILIPPINE COMPACT PROGRAM

The NG, acting through the Department of Finance, signed the Compact Agreement with the US Millennium Challenge Corporation (MCC) on September 23, 2010. The five-year Compact made available US $434 million to fund three major projects to support economic growth:

1. **Revenue Administration and Reform Project (RARP) of the DOF's Revenue Integrity Protection Service (RIPS) and the Bureau of Internal Revenue (BIR)**
   This project aims to increase tax revenues over time and supports the DOF's initiative to detect and deter corruption within its revenue agencies. Under this project are two activities: (i) an activity focused on BIR's efforts to re-engineer its policies and practices and to implement the electronic Tax Information System ("eTIS"); and (ii) an ctivity focused on supporting the Philippines' RIPS, the anti-graft investigation unit within the DOF.

2. **Kapit-Bisig Laban sa Kahirapan – Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS) of the Department of Social Welfare and Development (DSWD)**
   This is an expansion of the KALAHI-CIDSS project previously funded by WB. In giving grants to municipalities that have poverty incidence above the national average, this project aims to improve the responsiveness of local governments to community needs; encourage communities to engage in development activities; and deliver benefits to barangay residents through the individual sub-projects.

Secretary Cesar V. Purisima shakes hand with Thailand Finance Minister Korn Chatikavanj after the conclusion of their bilateral meeting on the possibility of putting up a Climate Change Fund for the ASEAN region.

Secretary Cesar V. Purisima raises a point during the ASEAN Minister's side meeting during the APEC FMM in Kyoto, Japan.

President Benigno Aquino III with Finance Secretary Cesar V. Purisima and U.S. Secretary of State Hillary Rodham Clinton preside over the signing of a five year $434 million poverty reduction grant from the U.S. Government's Millennium Challenge Corporation.

Secretary Cesar V. Purisima with Singapore Finance Minister Tharman Shanmugaratnam after the conclusion of their bilateral meeting.

3. **Secondary National Roads Development Project (SNRDP) of the Department of Public Works and Highways (DPWH)**
   MCC Funding will be used to reconstruct and rehabilitate 220 kms of roads that cross provinces of Samar and Eastern Samar. Aside from the construction costs, also covered by funding are the environmental and social mitigation (including resettlement) and other project management costs and technical assistance.

TOTAL COST OF THE PHILIPPINE COMPACT PROGRAM

In million US$

PROJECT	MCC COMPACT	GOP 1/	TOTAL
A) DOF-BIR Revenue Administration Reform Project	54.3	-	54.3
B) DSWD KALAHI-CIDSS	120	47.9	167.9
C) DPWH Secondary National Roads Development Project	214.4	7.7	222.1
D) Monitoring & Evaluation	8.3	-	8.3
E) Program Administration & Oversight	36.9	2.5	39.4
TOTAL	**433.9**	**58.1**	**492**

ASEAN SINGLE WINDOW (ASW)

In 2010, the DOF continued to be a vital presence in the ASW Technical Working Group (ASW-TWG) as part of the Government's commitment to the ASEAN. The ASW hopes to provide an environment conducive to electronic trade facilitation.

INTERNATIONAL TAX DIALOGUE (ITD)

The DOF hosted the ITD Asia Conference from March 2 – 5, 2010 at the Peninsula Hotel, Makati, Philippines with the theme "Effective Micro and Small Business Compliance Management – Tax Policy and Tax Administration Solutions." It was participated in by some 100 senior-level tax policymakers from Ministries of Finance, tax administration heads, and senior tax administration managers from more than 21 Asian countries. International experts from the member organizations of the International Tax Dialogue as well as other bilateral and multilateral aid agencies shared with the participants their technical expertise on the theme of the conference.

The conference provided an opportunity to continue and deepen, with a regional focus, the deliberations launched at the global ITD conference on small business taxation, held in Buenos Aires in October 2007. It addressed specific difficulties faced by Asian tax administrators and tax policy makers in the taxation of MSME which forms a big part of the

Finance Secretary Margarito Teves delivers his opening remarks at the International Tax Dialogue Asia Conference on 2 to 5 March 2010 at The Peninsula Hotel, Makati, Philippines.

region's economies. It was, in particular, aimed at identifying strategies to facilitate the formalization of small businesses, highlight best practices in designing simplified tax systems for micro and small businesses, and discussed options to introduce a cost-efficient compliance management system.

BIMP-EAGA (BRUNEI DARUSSALAM-INDONESIA-MALAYSIA-PHILIPPINES EAST ASEAN GROWTH AREA)

The BIMP-EAGA Ministers/Leaders agreed to position and develop the sub regional growth area as the food basket for ASEAN and Asia, and as the premier eco-tourism destination in ASEAN. To support this, senior officials of BIMP, representative of business councils and development partners including ADB and the German Technical Cooperation (GTZ) came up with priority plans for 2011-2015 which includes (a) Completion of a business model for high value aquaculture investment and fishing consortium (b) identification of five Small Medium Enterprises (SMEs) Champions by each member-country guided by a common set of criteria, and (c) business support services for halal, seaweeds, virgin coco oil, eco-tourism and integrated coconut processing. The BIMP-EAGA Private Sector Development Fund (PSDF) Taskforce was organized to select SME champions and facilitate the provision of capacity building to concerned SMEs.

The DOF chairs the BIMP-EAGA Private Sector Development Fund (PSDF) Taskforce for the identification of five (5) SMEs with committed support from the Land Bank of the Philippines (LBP), DBP, Al Amanah Bank, Small Business Corporation (SBCor) and Philippine Postal Savings Bank (PPSB) which may extend credit financing and may hold nominal equity shares in SMEs.

Aside from the consideration of the common evaluation criteria agreed upon with BIMPEAGA counterparts, the Task Force considered the significance of the SME/project in terms of poverty alleviation. Likewise, in addition to the PSDF equity fund, the Task Force adopted a framework where SMEs may be matched with financing options offered by Task Force member institutions such as credit and joint venture, whichever is appropriate to their needs and organization set-up.

The Task Force was able to short list seven (7) champion SMEs from about 120 SMEs/projects for promotion based on their organizational strength, unique capability and growth potential. The champion SMEs will then be provided capacity building within one year, prior to promotion and matching with equity funders.

Two Memoranda of Commitments and Understanding (MOCU) were signed to formalize the commitments made by the members of the PSDF Task Force with selected SMEs to formalize their engagement to assist the capability building of the latter, the first one signed with LBP and DBP in Puerto Princesa City, Palawan on 28 May 2010, and the second one with SBCorp, Al Amanah Bank and PPSB in Davao City on 22 June 2010.

As next steps, the anchor institutions shall assist the champion SMEs in the preparation of Technical Proposal/ Business Plan specific to the SMEs' financing needs/ requirements. Meanwhile, other SMEs not selected as champion SMEs will be assisted by the assigned institutions based on their existing windows.

Signing of Memorandum of Commitment and Understanding, among DOF, DTI, DBP and LBP held on 28 May 2010 at Puerto Princesa City, Palawan

MICROFINANCE INITIATIVES

The Philippines' National Strategy for Microfinance and the Regulatory Framework for Microfinance that were crafted by the Department of Finance-National Credit Council (DOF-NCC) in 1997 are recognized worldwide as models in setting up a conducive policy environment for financial inclusion. In the 2010 study of the Economic Intelligence Unit involving fifty four (54) countries, the Philippines was adjudged as the best in overall regulatory environment for microfinance, and second (2nd) overall across three categories: regulatory framework, general investment climate, and institutional development. The study noted that "since the adoption of a National Strategy for Microfinance in 1997, the government has promoted a regulatory and policy framework that is conducive to microfinance activity".

As the lead implementing agency on microfinance, the DOF -NCC continued its efforts in following through on the accomplishments achieved so far. Activities focused on further enhancing the policy and regulatory environment for financial inclusion, particularly with regard to financial cooperatives and microinsurance.

STRENGTHENING FINANCIAL COOPERATIVES

Cooperatives have great potential as valuable vehicles for providing financial services in the rural areas. In particular, financial cooperatives continued to receive support. The building up of the institutional capacity and regulatory functions of the Cooperative Development Authority (CDA) also continued to receive assistance. With technical assistance from the Japan Fund for Poverty Reduction (JFPR) through the ADB, the DOF finalized the Draft Supervision and Examination Manual for Cooperatives for use by the CDA. To ascertain its applicability, the Manual was pilot-tested among six (6) savings and credit cooperative across the Philippines.

The DOF conducted several trainings and orientation seminars as part of its advocacy to enhance the regulatory environment. Cooperative Development Specialists of the CDA and representatives from cooperative federations and unions participated in intensive training courses on risk-based supervision and examination. The DOF also conducted orientation seminars for the CDA Staff on the salient features of the New Cooperative Code of 2008, its Implementing Rules and Regulations, and Other Regulatory Requirements.


Economist Intelligence Unit

Global microscope on the microfinance business environment 2010

An index and study by the Economist Intelligence Unit

Key findings

Philippines

*This article was adapted from a publication by Economist Intelligence Unit

Sec. Margarito Teves (seated, third from the right) leads the signing of the two (2) Milestone documents on Microinsurance. Others in photo are (from left) BSP Governor Amando Tetangco, Jr., SEC Chair Fe Barin, IC Commissioner Eduardo Malinis, CDA Chair Lecira Juarez and PhilHealth President Rey Aquino

All CDA personnel directly involved in the operation of cooperative registration underwent training on the use of the Registration Information Systems (RIS) and Cooperative Annual Performance Report (CAPR) to enhance the management information system that was set up in the CDA with assistance from the DOF. The training aims to ensure that the enhanced RIS, its operational requirements, the functional design specifications and relevant guidelines are adequately communicated to all primary system users for an efficient and effective registration of cooperatives.

INCREASING ACCESS TO MICROINSURANCE

Insurance coverage in the country is low particularly among the low-income and informal sectors of society. To spur accessibility of these sectors to simple and affordable insurance products, the DOF and the Insurance Commission (IC) launched the National Strategy for Microinsurance and the Regulatory Framework for Microinsurance in January 2010. These two (2) milestone documents were crafted with close consultations with other government regulatory bodies and agencies, including major private sector stakeholders in the insurance sector.

The Regulatory Framework for Microinsurance provides a policy and regulatory environment that will facilitate the participation of the private sector in providing risk protection for the low-income sector, and ensure that the rights and privileges of the insured will be protected. The framework also gives insurance providers flexibility to put in place the necessary safeguards against fraudulent and scrupulous claims.

On the other hand, the National Strategy for Microinsurance lays out the general direction of the NG in providing the low-income and informal sectors increased access to microinsurance products and services. It includes among others, the mainstreaming of informal insurance, insurance-like, and other similar activities/schemes, and the institutionalization of financial literacy that will inform the general public of the importance of microinsurance for risk protection, the current applicable rules and regulations on insurance, the duties and responsibilities of insurance providers towards their clients, and the rights and privileges of the insured.

To implement the strategy and the regulatory framework, several measures and circulars were issued to encourage, enhance and facilitate the safe and sound provision of microinsurance products and services.

THE 6TH INTERNATIONAL MICROINSURANCE CONFERENCE

The DOF-NCC cooperated with the Munich Re Foundation in hosting the 6th International Microinsurance Conference held in Manila on 9 - 11 November 2010. The Conference served as a forum to share the experiences across different continents and discuss current practices and lessons learnt on microinsurance.

Hundreds of experts from around the world exchanged experiences and discussed the challenges of microinsurance. They included representatives from international organizations, non-government organizations, development aid agencies, insurance and reinsurance companies, academics, policy makers and regulators.

The Conference agenda focused on independent case studies and academic research which were put together by a panel of microinsurance experts and representatives from all corners of the world. These include new distribution channels, claims handling mechanisms, strategies for enabling the environment to develop microinsurance, solutions for natural disasters and insurance literacy.

Finance Secretary Cesar V. Purisima welcomes foreign and local delegates during the 6th International Microinsurance Conference held at Hotel Intercontinental, Makati City on 9 to 11 November 2010.

Undersecretary and NCC Executive Director Gil S. Beltran discusses the Microinsurance Regulatory Setting in the Philippines before the international delegates of the 6th International Microinsurance Conference.

"On the part of the government, we will create the environment to make sure that we give microinsurance as best a chance of success as possible by having the right regulatory environment, by having the right support mechanism, and by helping in the education of our people because even beyond the micro-level, the penetration rate of microinsurance products in the Philippines is not as deep as other countries. After all, insurance is a way of mobilizing a country's savings. In fact, one of the three goals of President Aquino in reducing the infrastructure gap of our country would depend on our ability to tap and mobilize savings in our country because infrastructure requires substantial investments and long term capital. So we need to match insurance money, long term savings with long term investment and the role of government is to create the framework for that to happen.

We at the Department of Finance are committed to make sure that that happens."

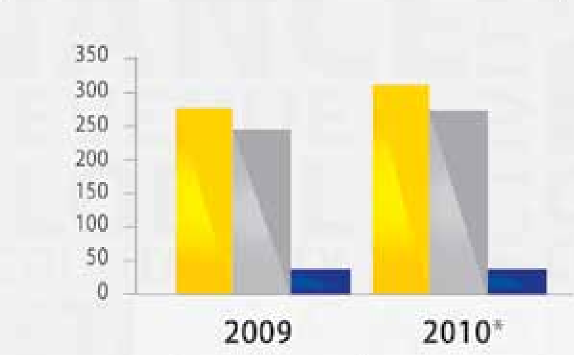
**Excerpt from Sec. Cesar V. Purisima's opening remarks during the Conference.*

LOCAL GOVERNMENT FINANCE

The Bureau of Local Government Finance (BLGF) monitors the fiscal and financial performance of the LGUs thru the Statement of Receipts and Expenditures (SRE) Reporting System. In 2010, LGUs started using the eSRE System, an electronic web based system to upload Statement of Receipts and Expenditures Reports of LGUs to the BLGF Central Database. The system has facilitated the processing of relevant and important LGU financial information.

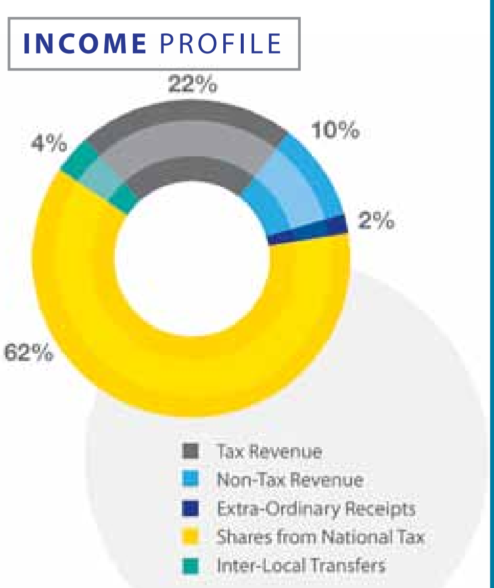
LGUs posted a combined surplus of P33.5 billion for the year 2010. The 3.4 percent decrease from the 2009 surplus resulted from expenditures related to the conduct of national and local elections.

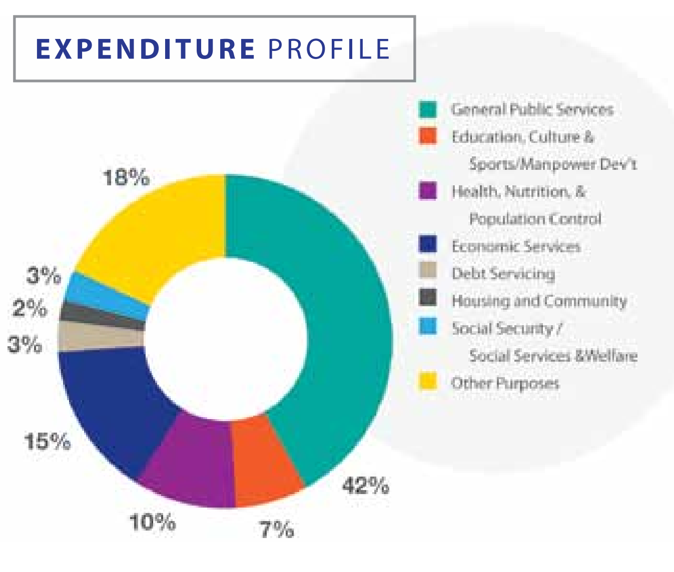
2010 SRE (in Billion Pesos)



	2009	2010*
Income	274	304.8
Expenditure	239.2	271.3
Surplus	34.7	33.5

** Preliminary as of December 2010*





REVENUE GENERATION PROGRAM
LGU Collections
PRELIMINARY AS OF DECEMBER 2010

LGU INCOME BY SOURCE	
Real Property Tax	
Target: P42 B	*Actual: P30.4 B*
Buisness Tax	
Target: P31.8 B	*Actual: P30.3 B*
Fees & Charges	
Target: P10.4 B	*Actual: P11.9 B*
Economic Enterprise	
Target: P9.5 B	*Actual: P11.1 B*
Target: P93.8 B	*ActualL P83.7 B*

For the year 2010, internal revenue allotment (IRA) remained to be the lifeblood of LGUs operations, accounting for 62 percent of the total income, comparable to 2009 income allotment. Only 22 percent came from tax revenue, 10 percent from non-tax revenue while 4 percent came from inter-local transfers and 2 percent was derived from extraordinary receipts.

On expenditure, LGUs spent 42 percent of their total budget for general services while 18 percent of the total budget was allotted for other purposes such as calamity fund, interfund transfers and aids to national government agencies, among others. Operational expenses for economic services comprised 15 percent of total expenditure.

The Revenue Generation Program remains a priority program of the BLGF. Through this program, the BLGF provided technical assistance to LGUs in implementing tax collection enforcement programs and strategies aimed at improving their performances in generating locally sourced income.

The LGUs collected P83.7 billion compared to the P93.8 billion target as of December 2010. Non-tax revenue receipts from economic enterprises and fees and charges exceeded targets by 17 percent and 14 percent, respectively.

The LGU revenue bases were enhanced through the implementation of programs and projects such as the Real Property Tax Administration Project, conduct of General Revision of Real Property Values, enforcement of administrative remedies in the collection of taxes, installation of computerized systems of collection in LGUs, and the updating of their local revenue codes.

The LGU Debt Monitoring System and the Creditworthiness Rating System are used in conjunction with the LGU Debt Service Certification System. These determine the maximum amount an LGU can allocate for debt service. The BLGF issued certifications to a total of 283 LGUs as a requirement for sub-loan projects under the MDF-FAPS, GFIs, Assessment Loan Revolving Fund (ALRF), and for bond flotation.

LGU DEBT MONITORING AND CREDITWORTHINESS RATING YSTEM

LGU LOANS AND BORROWINGS (in Billion Pesos)*

as of 31 December 2010

GFIs	Loan Amount	Availment Amount	% Availment
Land Bank	67.4	62.4	92.5
Phil. Veterans	6.1	4.5	72.5
Mun. Dev. Fund	4.8	4.9	100
Phil. Nat'l Bank	9.3	7.5	79.8
DBP	19.5	16.6	85.4
TOTAL	107.2	95.7	89.3

LGU BONDS

GFIs	Bond Amount	Bonds Outstanding	%
Phil. Veterans	0.3	0.3	100
LGUGC	1.1	0.5	49.6
TOTAL	1.3	0.8	59.1

**Total may not add up due to rounding*

LAND ADMINISTRATION AND MANAGEMENT PROJECT II (LAMP2)

BLGF implemented the LAMP2 Component 4 – Property Valuation and Taxation. The valuation component is aimed at improving the quality of government and private sector property appraisal performance through the establishment of a single valuation base and the separation of the valuation and assessment functions from tax-setting and political influence. The single valuation will provide a sound basis for the assessment of real property taxes, widen the taxation base and assist in the improvement and enhancement of tax collection. The accomplishments made by Component 4 in 2010 earned a positive rating from the WB and the Australian Agency for International Development (AusAid) in their missions concluded in June and November 2010.

ADB TA 7451- SUPPORT TO LOCAL GOVERNMENT FINANCING

The following activities were initiated under the ADB TA 7451 project for the development of guidelines and prototype programs:

- development of local business taxpayer database;
- use of presumptive gross sales figures to calculate business tax liability of business establishments;
- implementation of a strong LGU to weak LGU mentoring and training program with performance improvement contracts possibly linked to grants and/or loans;
- use of Financing Modalities and Debt Management Manuals and BLGF's creditworthiness and debt capacity certification process for LGUs;
- use of creditworthiness indicators as prioritization criteria for development investment programming and
- development of the competency certification system and enhancement of performance standards for local treasurers.

MUNICIPAL DEVELOPMENT OFFICE

The DOF, through the Municipal Development Fund Office (MDFO), in pursuit of its mandate to provide development financing support at the local level, accelerated its lending operations through expansion of LGUs coverage and reduction of interest rates in 2010.

SECOND GENERATION FUND (SGF) IMPLEMENTED FINANCING WINDOWS PORTFOLIO

In 2010, the MDFO expanded the use of Second Generation Fund (SGF) which came from accumulated resources from repayment of foreign loan proceeds on-lent to LGUs and made available to LGUs the total amount of P4.7 billion through its seven (7) financing windows.

ALLOCATION OF MDF-SGF BY FINANCING WINDOW

Financing Windows	Fund (in Billion Php)
1. Program Lending (PROLEND)	2.0
2. Millenium Development Goal (MDG) Fund	0.5
3. Mindanao Basic Urban Services Sector Project (MBUSSP)	0.4
4. Municipal Development Fund Project	0.5
5. Philippine Water Revolving Fund (PWRF)	0.5
6. Disaster Management Assistance Fund (DMAF)	0.7
7. Project Technical Assistance and Contingency Fund	0.1
TOTAL	4.7

SCHEDULE OF MDFO FUND RELEASES

PROJECT	No. of Approved LGUs			No. of LGUs Releases			Total Releases (in Million Pesos)		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
DMAF	0	5	14	0	3	9	-	26.1	99.1
MBUSSP	5	11	11	2	6	10	38.6	116.6	234.6
MDF	2	2	2	0	2	2	-	19.5	29
MDGF	12	20	25	1	11	18	4.5	107.2	184.7
PROLEND	5	5	5	3	3	4	166.8	187.8	208.3
PTACF	1	1	1	1	1	1	.5	.5	.5
PWRF	0	0	0	0	0	0	-	-	-
TOTAL	25	44	58	7	26	44	210.4	457.7	756

The facilities provide support to a wide range of priority needs identified by the LGUs in their Local Development Plans and Annual Investment Programs such as physical and social infrastructures, policy reforms, climate change adaptation, and technological advancement. By end of 2010, 16.3 percent or P756 million of the allocated amount has been released to 44 LGUs compared to 4.5 percent or P210.4 million to 7 LGUS and 9.8 percent or P756 million to 26 LGUS in 2008 and 2009, respectively.

A total of 80 subprojects were approved, 42 of which or 53 percent were for revenue generating projects such as level III water supply, public markets, slaughter house, bus terminals, among others, amounting to approximately P456.6 Million. Of the 80 subprojects, 27 have already been completed.

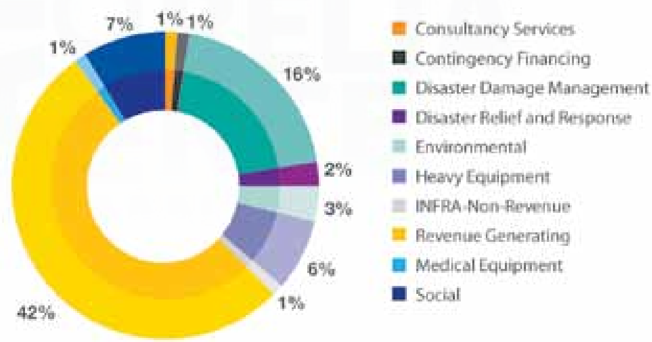
As a response to the decline in market interest rate, the MDFO-Policy Governing Board reduced the interest rate of MDF-SGF Financing Windows. The objective is to make available low cost funds to LGUs to accelerate development.

The action highlighted the move towards greater transparency in lending and a come-on for less creditworthy LGUs. With the reduction of interest rate from 8.5 to 9 percent to 6.0 percent, the loan facilities became more favorable to lower income class LGUs but not necessarily neglecting the high income class LGUs. The higher interest rate for higher class LGUs is still within the context of the NG-LGU financing framework.

DOF AND THE MILLENNIUM DEVELOPMENT GOALS (MDG)

The DOF, through MDFO, partnered with the Department of Health (DOH) in implementing an official development assistance (ODA) Project through the KFW-Health Sector Reform Agenda Support Programme (HSRASP). The €10Million programme intends to improve the health status of the population especially the poor, and support development undertakings geared towards the achievement of the health related Millennium Development Goals (MDGs). Of the committed amount totaling P217.2 million, P38 million or 17 percent has already been released as of December 2010.

CURRENT MDF-SGF IMPLEMENTED FINANCING WINDOW: SECTORAL DISTRIBUTION OF FUNDED SUBPROJECTS



FUND CONDUIT TO FOREIGN ASSISTED PROJECTS (FAPS)

Likewise, the DOF through the MDFO, acted as a fund conduit to fourteen (14) ongoing FAPs being implemented by different government agencies such as Department of Agrarian Reform (DAR), Department of Agriculture (DA), DOH, Department of Environment and Natural Resources (DENR) and National Irrigation Administration (NIA), among others.

The allocated funds for the 14 ongoing FAPs inclusive of the required equity contribution of the LGU amounted to P11.5 billion, of which the amount of P 7.5 billion has already been released to LGUs.

Type of Subproject	Highly Urbanized Cities (HUCs)	Cities		Provinces		Municipalities	
		1st - 3rd	4th - 6th	1st - 3rd	4th - 6th	1st - 3rd	4th - 6th
A) Public Economic Enterprise/ Revenue Generating Subprojects	8.0%	7.5%	7.0%	7.0%	6.5%	7%	6.0%
B) Social and Environmental Subprojects	7.5%	7.0%	6.5%	6.5%	6.0%	6.5%	6.0%
C) Solid Waste Management Facilities	7.0%	6.5%	6.5%	6.5%	6.5%	6.5%	6.0%

HEALTH SECTOR REFORM AGENDA SUPPORT PROGRAMME

Name of LGU	Subproject Type	CAF Issued (Subloan and Grant) (in Pesos)	Releases (in Pesos)
1. Province of Biliran	Expansion of the Provincial Hospital	38,864000.00	27,083,937.04
2. Casiguran, Sorsogon	Expansion of Municipal Health Center	3,405,913.43	3,397,832.42
3. San Mariano, Isabela	Proposed Construction of Rural Health Unit	16,767,976.45	4,340,801.92
4. Tarragona, Davao Oriental	Procurement of Dental Chair and Autoclave	1,649,000.00	256,734.00
5. Gamu, Isabela	Construction of Rural Health Unit with Birthing Facility Goods	4,849,729.40	1,298,988.49
6. Solano, Nueva Vizcaya	Proposed Construction of RHU with Lying-In and Laboratory	8,442,090.53	1,624,141.24
7. Province of Lanao del Norte	Construction of Kapatagan Provincial Hospital	99,146,731.36	
8. Province of Catanduanes	Repair and Rehabilitation of 8-units Hospital	38,760,000.00	
9. Luna, Isabela	Rehabilitation of Barangay Health station, Municipal Health Center and Construction of Birthing Facility	10,289,281.50	
TOTAL		**217,174,722.67**	**38,002,435.11**

PROJECTS WHERE MDFO IS A FUND CONDUIT

Projects	No. of LGUs	No. of Subprojects	Project Cost (in Pesos)	Releases (in Pesos)
1. Second Agrarian Reform Communities Development Project (ARCDP 2)	108	258	4,400,218,711	1,693,449,624
2. Agrarian Reform Communities Project II (ARCP II)	16	17	98,206,379	
3. Help for Catubig Agricultural Advancement Project (HCAAP)	3	4	144,299,344	147,735,560
4. Health Sector Development Program (HSDP)	4	4	344,431,152	256,126,880
5. Integrated Coastal Resources Management Project (ICRMP)				
6. Infrastructure for Rural Productivity Enhancement Sector (INFRES)	91	139	3,565,373,905	1,698,507,941
7. Second Kennedy Round 2 (KR-2)	243	752	252,346,185	136,817,030
8. Laguna de Bay Institutional Strengthening and Community Participation Project (LISCOP)	23	22	201,533,198	173,910,032
9. Metro Cebu Development Project II (MCDP II)	2	3		295,080,209
10. Metro Cebu Development Project III (MCDP III)	2	2		1,420,114,307
11.Metro Iligan Regional Infrastructure Development Project (MIRIDP)	1	1	1,658,380,000	1,398,033,906
12. Mindanao Rural Development Project II (MRDP II)	133	209	805,690,727	257,224,394
13. National Program Support-Environment National Reform Management Program (NPS-ENRMP)	3	8	18,973,610	5,623,631
14. Southern Philippines Irrigation Sector Project (SPISP)	1	7	49,197,923	48,369,904
TOTAL	**630**	**1,426**	**11,538,651,136**	**7,530,993,418**

FRONTLINE OPERATIONS

In addition to the DOF's tasks of revenue generation and resource mobilization, the Department also helps nurture domestic production of certain priority industries and improve their competitiveness through the judicious provision of fiscal incentives.

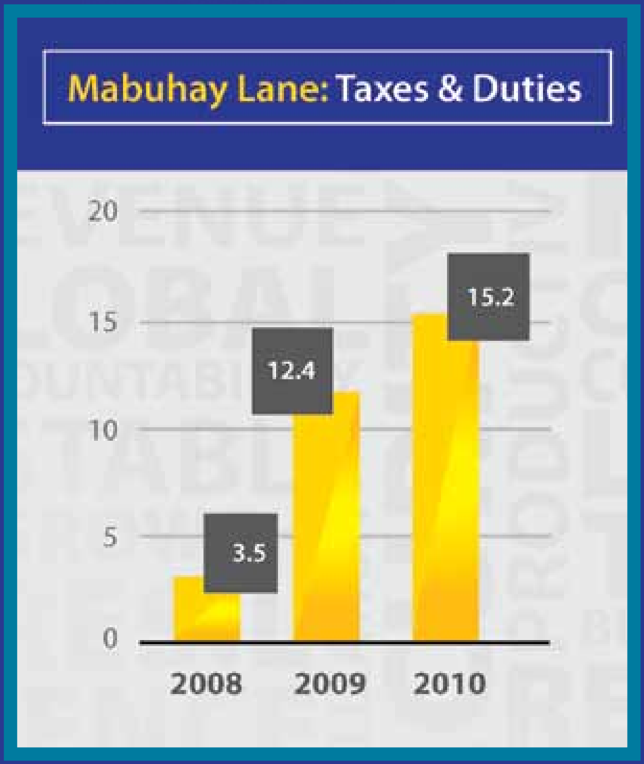
THE MABUHAY LANE

The Mabuhay Lane, one of the frontline offices of the DOF, processes tax exemption claims of the following:

- importers of books, periodicals and similar items;
- importers of personal effects and household goods;
- importers of capital equipment as provided for under Executive Order No. 226; importers identified under Section 105 of the Tariff and Customs Code; contractors for the Department of Energy; and
- claims of the Asian Development Bank and non-profit, non-stock educational institutions.

In 2010, the Mabuhay Lane waived P15.2 billion in taxes and duties as compared to P12.4 billion in 2009. The 22.8 percent increase of duties and taxes waived in 2010 was mainly due to the increased activities of oil exploration companies requiring capital intensive equipments. The importation of machinery, equipments and spare parts by energy contractors under Oil Exploration and Development

Duties and Taxes Waived (In billion pesos)	2008	2009	2010
TOTAL	3.5	12.4	15.2



P12.1 BILLION

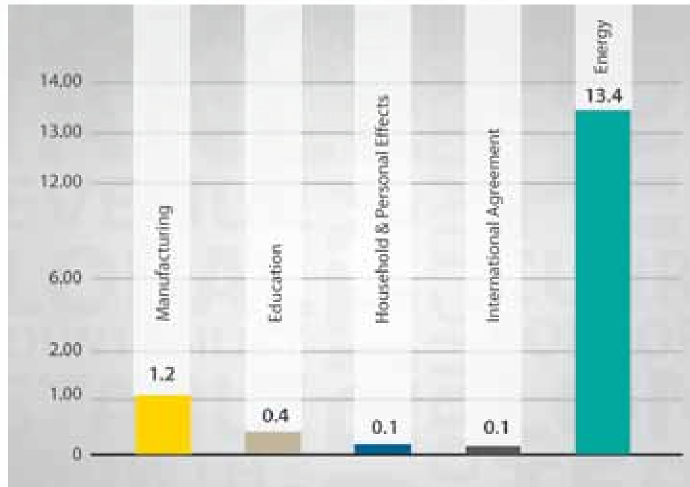
Importation of machinery, equipments and spare parts by energy contractors under Oil Exploration and Development Act of 1972 (Presidential Decree No. 87)

P1.2 BILLION

Importation of machinery, equipments and spare parts by energy contractors under Coal Development Act of 1976 (Presidential Decree No. 972)

ESTIMATED TAXES AND DUTIES WAIVED ON IMPORTATIONS (in Billion Pesos)	2009	2010
1 . Importation of Capital Equipment (Spareparts and Machineries) by BOI-Registered Enterprises, Legal Basis: EO No. 226 E.O 313/528 (Marina)	1.1	1.1 0.02
2 . Importation by Non-Stock, Non Profit Educational Institution Legal Basis: Art. XIV, Sec 4(3) of the New Constitution	0.9	0.05
3 . Magazine/Publication Books under YBESCI (Florence), Sec 105 (s) and RA 8047	.4	0.4
4 . Importation w/ NEDA Recommendation for Tax and Duty Entry Legal Basis: Section 105 ® of the TCCP	.1	0.1
5 . Importation Under Sec. 44 of the Headquarters Agreement Between the Gov't. of the Philippines and ADB	.07	0.06
6 . Importation of Personal Effects and Households Goods Legal Basis: E) No. 226; RA 7157 etc.	.02	0.0
7 . Importation of Machinery/Equipments/ Spare Parts by energy contractor under PD 1442	.5	0.03
8 . Importation of Machinery/Equipment/ Space Parts by energy contractor under PD 972	.7	1.2
9 . Importation of Machinery/ Equipment/Space Parts by energy contractor under PD 87	9.5	12.1
10 . Importation of Machinery/ Equipments/Spare Parts by mini hydropower under RA 9315	.01	0.1
11 . Importation of Machinery/ Equipment/Spare Parts under E.O. 462	.0007	0.001
GRAND TOTAL	12.5	15.2

ESTIMATED TAXES AND DUTIES WAIVED ON IMPORTATIONS (In Billion Pesos)



Act of 1972 (Presidential Decree No. 87) received the largest share of tax and duty exemptions, amounting to P12.1 billion, followed by the importation of machinery, equipments and spare parts by energy contractors under Coal Development Act of 1976 (Presidential Decree No. 972) with P1.2 billion.

ONE-STOP-SHOP (OSS) TAX CREDIT AND DUTY DRAWBACK CENTER

Pursuant to its mandate under Administrative Order No. 266, the OSS CENTER issued a total of P4.5 billion worth of tax credit certificates (TCC) to nearly 200 exporters and investors in 2010.

In terms of amount, the TCC issuances in 2010 increased by 21percent from a total of P 3.7 billion worth of TCC issuances in 2009.

Group	Number of TCC		TCC Amount (in billion pesos)	
	2009	2010	2009	2010
Investment Incentives Group (IIG/BOI claims)	408	543	1.2	1.7
Duty Drawback Group (DDG/BOC claims)	395	225	1.4	1.2
Tax & Revenue Group (TRG/BIR claims)	580	568	1.1	1.7
TOTAL	1,383	1,336	3.7	4.6

PLANT INSPECTIONS

The Center continued the conduct of plant inspections as part of its efforts to strengthen its claimant pre-qualification requirements and to reinforce its mandate to protect the integrity of the tax credit system. In 2010, the total number of firms inspected has increased by 8.7 percent from 21 in 2009 to 23 in 2010. The inspections were performed on the plant facilities of most of the TCC claimants (primarily textile and garment exporting firms) at its BOI section. These plant inspections were intended to verify the existence of the plant and production facilities of TCC claimants.

EXPEDITING THE PROCESSING OF VAT REFUND/CREDIT CLAIMS OF JAPANESE COMPANIES

Since the last quarter of 2009, the DOF, thru the Office of the Undersecretary for Legal and Revenue Operations Group and the OSS Center, has been coordinating and facilitating meetings between BIR officials and Japanese companies with pending VAT refund/TCC claims.

The meetings were conducted in support of the objectives of the Japan-Philippines Economic Partnership Agreement (JPEPA) Sub-Committee on Improvement of the Business Environment. The meetings helped to clarify requirements for processing VAT refund/credit claims, resolve certain issues affecting such claims, as well as establishing better coordination between the BIR and Japanese companies in facilitating the expeditious processing of pending claims. [5]

[5] *Cognizant of the VAT-TCC-related challenges, the DOF, along with DBM, will soon introduce a substantial change in giving out VAT refunds. The DOF and DBM have approved in principle the shift from the practice of using TCCs to cash refunds.*

MANAGEMENT INFORMATION SYSTEM

Pera ng Bayan Homepage

Participants to the Document Tracking System Seminar.

PERA NG BAYAN WEBSITE

To promote transparency, accountability and private participation, the DOF, launched the PERA ng Bayan Website. The website serves as an avenue to report abusive civil servants as well as tax evaders and smugglers.

Since its launch in July 2010, the Pera ng Bayan has received reports involving more than 1,500 cases. The reports came from: (a) Straight Blind Reports as submitted in the web facility; (b) Emails where there are immediate acknowledgment and status report; and (c) reports with attachments where images can be uploaded and reported.

To further reach the public, the DOF has established its presence in 2 social networking sites, namely: Facebook [Pera ng Bayan (fanpage)] and Twitter (@perangbayan). The two social networking sites provide feedback mechanism to the Department from the public.

ASSET INFORMATION MANAGEMENT PROGRAM **(AIM-P)**

The DOF also initiated the implementation of the project, Assets Information Management Program (AIM-P), in coordination with other agencies namely the BIR, Land Registration Authority (LRA), Department of Trade and Industry (DTI), Securities and Exchange Commission (SEC) and Land Transportation Office (LTO). RA 9480 or the General Tax Amnesty Law of 2007 mandated the establishment of the AIMP to serve as a management tool to enhance revenue administration, and collection by the BIR of all unpaid internal revenue taxes due to the grant of tax amnesty in 2005 and prior years.

The Commission on Information and Communications technology (CICT) approved the E-gov funding activity of AIM-P amounting to P400M which will be implemented in 3 years for DOF and BIR. The project aims to:

1. Map and process the data from the Tax Amnesty Returns and Statement of Asset and Liabilities SALN) filed under RA No. 9480 which will serve as the baseline information of taxpayers' "true and correct" net worth for purposes of determining future tax liabilities;

2. Broaden existing linkages and create new linkages with other National Government Agencies (NGAs), that are third-party resource institutions, and facilitate necessary data interrelation between the BIR and these relevant government agencies, thus, enriching the baseline database;

3. Build a taxpayer database management system, to be shared by and housed in both the DOF and BIR, of assets-related information and transactions from processed tax amnesty returns, third-party information and other existing, internal information within the BIR (e.g., registration, declarations, collections, audits) that can be added-on to complete the AIM-P database;

4. Develop necessary business intelligence solutions for revenue administration;

5. Develop necessary business intelligence solutions for tax policy analysis at the DOF which will involve the use of analytical tools and simulation models to study and evaluate various policy scenarios including estimating potential revenue collections from asset based transactions; and

6. Develop a tax policy analysis framework using the assets database management system, analytical tool and simulation models to make possible well-rounded and in-depth policy work contributing to structural and administrative reforms, and eventually, a more robust tax system.

Attendees to the Voucher Tracking System Seminar.

The GEPCSET Roadshow Keynote Speaker, Cong. Sigfrido Tinga (center) with DOF Undersecretary Gil S. Beltran and DTI Director Lourdes Yap Tinchay.

DOCUMENT MANAGEMENT AND WORKFLOW SOLUTION

In 2010, the DOF implemented the initial stage of its Document Management and Workflow (DMWF) Solution project that aims to attain efficiency in managing documents and enhancing service delivery.

Seminars for DOF personnel on the following DMWF systems were conducted in 2010:

1. **Document Tracking System (DTS)**
   Electronic logging of documents received by DOF through barcode reading and generating unique barcode labels for all documents captured by the system that allows tracking of transactions from receipt of a document to its release or storage at any given time;

2. **Tax Exemption System (TES)**
   Enable scheduling and tracking of the status of an application for Tax Exemption through the end-to-end business procedure (from filing of letter request to approval / disapproval of application);

3. **Voucher Tracking System (VTS)**
   Automates the procurement processes including the generation of Request of Issues Slip (RIS), Request for Obligation and Allotment (ROA) and Disbursement Voucher; and

4. **Backfile Conversion/Digitization**
   Provides image capture of documents, organized tagging and filing of digital copy into the repository, and facilities for the efficient storage and retrieval of documents with security settings.

NETWORK INFRASTRUCTURE

The DOF network infrastructure continues to be upgraded to respond to the evolving needs of the Department. To ensure a more efficient and robust network, the following initiatives were institutionalized in 2010:

a) Upgrading of mail system from Lotus Notes Version 5.0 to Version 8.5 that includes Webmail Access;
b) Fail-Over Technology and Redundant Internet Service Provider(ISP)
c) SMS Alert Notification System
d) Expanded access points

Participants to the seminar on Tax Exemption System

GOVERNMENT ELECTRONIC PAYMENT AND COLLECTION SYSTEM EVALUATION TEAM **(GEPCSET)**

The GEPCSET, Chaired by the DOF and co-Chaired by the Department of Trade and Industry, hosted its Second GEPCSET Roadshow with the theme: "Moving Forward with Electronic Payment and Collection for Good Governance" held last November 17, 2010 at the Hotel Intercontinental Manila, Makati City.

The Roadshow promoted awareness compliance by government entities to R.A. No. 8792, or the Electronic Commerce Act (ECA), implemented under DTI-DOF Joint Department Administrative Order No. 02 s. 2006. Moreover, it aimed to encourage government entities to use Electronic Payment and Collection System (EPCS) for their services to serve the needs of the citizenry and the public. The Roadshow attracted 91 participants from 40 government agencies.

91 participants from 40 government agencies attended the the roadshow.

The GEPCSET TWG Members during the Roadshow.

GOVERNMENT INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM **(GIFMIS)**

The GIFMIS was formulated to strengthen the financial management capacity of the government through the linking of budget preparation and execution, accounting, cash management, reporting and auditing. This would create a more effective and responsive system of managing, monitoring and reporting of the financial performance of the government.

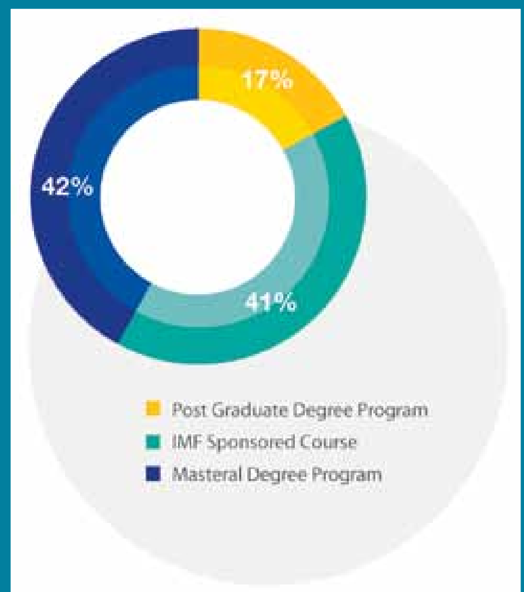
On January 21, 2010, a Memorandum of Agreement on the Cooperation to Foster the Development of the GIFMIS was signed by three oversight agencies involved in financial management, namely: the DOF, DBM and COA. This is in line with the Philippine Public Financial Management (PFM) Reforms Roadmap that is geared towards improved public governance, effective accountability and enhanced transparency.

HUMAN RESOURCE DEVELOPMENT

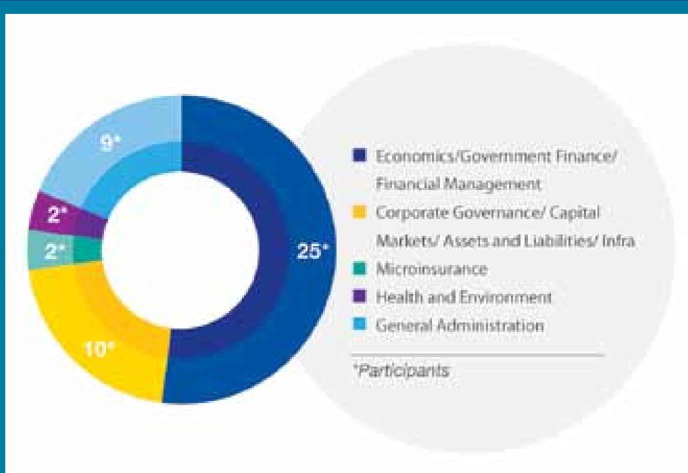
The DOF Strategic Planning in 2010 paved the way for the identification by every office of their major final outputs (MFOs) to ensure effective and efficient realization of the DOF's Vision, Mission and Goals.

To complement this effort, job description writeshops and performance target setting workshops financed by a KfW project were conducted in the first batch of DOF Offices (IFPO, CAG, CAO and CFMO). The process involved the review of the offices' specific key result areas (KRAs) and to identify competencies, knowledge and skills required to accomplish the KRAs.

MAJOR TRAINING OPPORTUNITY



FOREIGN TRAINING AND SEMINAR
(BY MAJOR FIELD/AREA)



NUMBER OF TRAINEES PER GROUP:

DOMESTIC FINANCE GROUP	- 14
INTERNATIONAL FINANCE GROUP	- 16
CORPORATE AFFAIRS GROUP	- 5
PRIVATIZATION OFFICE	- 3
MDFO	- 1
CENTRAL MANAGEMENT INFO OFFICE	- 3
PERSONNEL DEVELOPMENT AND MANAGEMENT SERVICES GROUP	- 2

GAD Mainstreaming Seminar, Financial Literacy with Savings Advocacy and Microfinance and Women with Disabilities/Elderly Day held on March 25-27, 2010, BIR Regional Office, San Pablo City as part of the Women's Month celebration.

To provide progressive training and development opportunities to its personnel, the DOF sent a total of 48 participants to foreign trainings and seminars in 2010.

For the year 2010, the major training opportunities produced for DOF, 2 post graduate degree holders from international universities while 5 scholars are still pursuing their masteral degree programs in different universities abroad. DOF personnel also attended 5 courses sponsored by the International Monetary Fund in 2010.

The following activities were conducted by DOF to enhance the capacity and understanding of its personnel on work related issues and concerns:

- Re-orientation/Workshop on Performance Management System-Office Performance Evaluation System (PMS-OPES)
- Seminar-Workshop on National Archives of the Philippines Act of 2007 (RA 9470) and Basic Records and Archives Management
- Forum on Understanding Climate Change and Its Fiscal Implication in the Philippines

ANTI-GRAFT AND CORRUPTION INITIATIVES

- The DOF conducted the Anti-Corruption Scorecard (ACS) Administration per requirement of the Presidential Anti-Graft Commission (PAGC). Selected respondents comprised of DOF Undersecretaries, rank and file employees, clients and stakeholders of DOF. A Progress Report on this was submitted for the first quarter of 2010.
- Continuing conduct of Integrity Check of DOF personnel proposed for promotion.

GENDER AND DEVELOPMENT INITIATIVES

In 2010, the Philippine Commission on Women (PCW) (formerly National Commission on the Role of Filipino Women or NCRFW) gave its second commendation to DOF, for its sustained effort to mainstream gender concerns, particularly in its continuing conduct of Gender And Development (GAD) mainstreaming seminars in the regions and the conduct of capability building seminars for budget officers at the national and local levels.

In line with the PCW's approved 2010 GAD Plan and Budget, the DOF-GAD Focal Point System conducted the following initiatives to uphold women's rights and empowerment:

- Briefing on Magna Carta of Women and GAD Focal Points Teambuilding
- GAD Mainstreaming Seminar, Financial Literacy with Savings Advocacy and Microfinance and Women with Disabilities/Elderly Day
- GAD Anti-Corruption Lecture Series and Discussion on the IRR of the Magna Carta of Women
- Good Governance Lecture Series and Gender Mainstreaming
- Forum on Financial Empowerment for members of transport groups/associations/cooperatives and their spouses
- Good Governance Lecture Series, Bill of Rights and Gender Audit Lecture/Discussion
- Good Governance Lecture Series, Discussion on IRR of the Magna Carta of Women and Gender Audit Discussion
- GAD Livelihood with DOST for PMO employees lecture/discussion on liquid soap making with hands on exercises

DOF participated in the PCW initiated Women's Month Kick-off Activity in NBC Tent in the Fort, Taguig City and National Women's Day Celebration: "Go Negosyo" held in World Trade Center, Pasay City wherein a DOF GAD Focal Point Person became a resource speaker in one of its program seminars.

Donation of medicines to the DSWD – San Pablo City Office as part of the Women's Month celebration held on March 27, 2010, BIR Regional Office, San Pablo City.

COMMUNITY SERVICES

- In celebration of its 113th Founding Anniversary and in line with its tradition of bringing the government closer to the people, the DOF conducted an outreach to 100 poor children of Our Lady of Assumption Parish, Leveriza, Manila on April 30, 2010.

- Donation of medicines to the Department of Social Welfare and Development – San Pablo City Office held on March 27, 2010 as part of the Women's Month celebration.

Mr. Rolando Toledo, Department of Budget and Management, receives a certificate of recognition as a resource speaker during the FPPO Lecture: Fiscal Implications of Climate Change in the Philippines on 4 November 2010.

OFFICIALS

Cesar V. Purisima
Secretary

UNDERSECRETARIES

1. GIL S. BELTRAN
   Domestic Finance Group and Policy Development & Management Services Group
2. ESTELA V. SALES
   Revenue Operations Group
   (May 9, 2008 – July 15, 2010)
3. CRISANTA S. LEGASPI
   Privatization Group
   (Oct. 16, 2007 – July 29, 2010))
4. JEREMIAS N. PAUL, JR.
   Corporate Affairs Group
5. JOHN PHILIP SEVILLA
   Privatization Group
   (July 14, 2010 to present)
6. CARLO CARAG
   Revenue Operations Group
   (August 27, 2010 - present)
7. ROSALIA S. DE LEON
   International Finance Group

ASSISTANT SECRETARIES

1. ROBERTO D. GEOTINA
   (Jan.-Sept. 9, 2010)
2. SOLEDAD EMILIA J. CRUZ
3. MA. ELEANOR F. DELA CRUZ
4. PETER CALIMAG
5. MA. LOURDES B. RECENTE
6. MA. TERESA S. HABITAN

DIRECTORS

1. **LOURDES Z. SANTIAGO**
   Central Administration Office
2. **VISITACION U. UGALINO**
   Central Administration Office
3. **MA. LOURDES V. DEDAL**
   Central Financial Management Office
4. **STELA MONTEJO**
   Fiscal Policy & Planning Office
5. **THELMA A. MARIANO**
   Revenue Office
6. **FIDEL CONDRADA**
   Legal Affairs Office
7. **JOSELITO ALMARIO**
   Fiscal Policy & Planning Office

DIRECTORS

8. GILDA VICTORIA C. MENDOZA
International Finance
Policy Office (Jan-Nov. 18, 2010)

9. ELEAZAR C. CESISTA
Revenue Operations Group

10. ESTELA C. LAUREANO
International Finance
Operations Office

11. HELENA B. HABULAN
Municipal Development
Fund Office

12. NORBERTO G. MALVAR
Municipal Development
Fund Office

13. MA. EDITA Z.TAN
International Finance
Operations Group

DIRECTORS

14. **VILLAMOR VENTURA PLAN**
    One-Stop Shop Tax Credit & Duty Drawback Center

15. **CHARISSA P. HIPOLITO**
    Corporate Operations Office

16. **CARMELO T. CASIBANG, JR.**
    One-Stop Shop Tax Credit & Duty Drawback Center

17. **ROMEO D. TOMAS**
    Revenue Integrity Protection Service

18. **MA. BIANCA OFELIA SISON**
    Revenue Integrity Protection Service

19. **CLARICEL M. YUVIENCO**
    OIC, Central Management Information Office

HEADS OF
ATTACHED BUREAUS

1. **KIM JACINTO-HENARES**
   Commissioner – Bureau of Internal Revenue
2. **ROBERTO B. TAN**
   Treasurer of the Philippines – Bureau of Treasury
3. **ANGELITO A. ALVAREZ**
   Commissioner – Bureau of Customs
4. **PRESENTACION R. MONTESA**
   Executive Director – Bureau of Local Government Finance
5. **DANTE SY**
   Executive Director – National Tax Research Center
   (March 15, 2010 to present)
6. **CESAR S. GUTIERREZ**
   Central Board of Assessment Appeals

HEADS OF ATTACHED AGENCIES

1. VIDA T. CHIONG
   OIC, Insurance Commission

2. LECIRA V. JUAREZ
   Chairperson – Cooperative Development Authority

3. GUILLERMO N. HERNANDEZ
   Chief Privatization Officer, Privatization Management Office
   (March 1, 2007 to July 31, 2010)

4. FRANCISCO S. MAGSAJO
   President – Philippine Export-Import Credit Agency

5. JOSE C. NOGRALES
   President – Philippine Deposit Insurance Corporation

6. CRISANTA LEGASPI
   Chief Privatization Officer, Privatization Management Office
   (August 1, 2010 to Present)

DIRECTORY

OFFICE OF THE SECRETARY | 405-7663; 523-9251; 523-9219
Chief of Staff | 523-9215; 523-9219 (F) 523-8474

CORPORATE AFFAIRS GROUP
Office of the Undersecretary | 400-6882; 524-5221
Corporate Operations Office | 523-9938;523-9222

DOMESTIC FINANCE GROUP
Office of the Undersecretary | 523-5671
Fiscal Policy and Planning Office | 523-5678;523-3825;524-0607
DOF-National Credit Council
ADB Projects | 525-0487;525-0497
Research and Information Office | 524-6968

INTERNATIONAL FINANCE GROUP
Office of the Undersecretary | 525-4194; 525-4195; 405-7481
International Finance Operations Office | 523-9221; 523-9223; 526-9990
International Finance Policy Office | 400-7446

POLICY DEVELOPMENT & MANAGEMENT SERVICES GROUP
Office of the Undersecretary | 524-1633; 523-5143; 523-5727
Central Administrative Office | 526-1265
Central Financial Management Office | 526-8166
Central Management Information Office | 525-4451;526-8467; 525-4697

PRIVATIZATION GROUP
Office of the Undersecretary | 523-5727; 525-1321;523-5143
Privatization Office | 524-1633

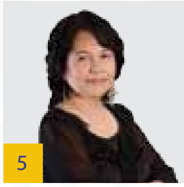
REVENUE OPERATIONS GROUP
Revenue Office | 526-7490
Legal Affairs Office | 526-8449
One-Stop-Shop Tax Credit and Duty Drawback Center | 526-0076
OSS-BIR | 526-8849
OSS-BOC | 526-0751

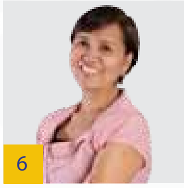
MUNICIPAL DEVELOPMENT FUND OFFICE
Office of the Director | 523-9935;525-9185; 523-7192;525-9188;525-9186

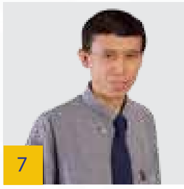
Attached **Agencies** and **Bureaus**

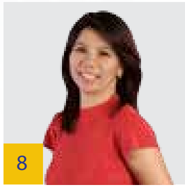
AGENCY NAME/OFFICE	TELEPHONE NUMBER/S	WEBSITE
Bureau of Customs (BOC)	526-63-55; 527-45-11	www.customs.gov.ph
Bureau of Internal Revenue (BIR)	921-04-30; 922-32-93	www.bir.gov.ph
Bureau of Local Government Finance (BLGF)	527-27-80; 522-87-73	www.blgf.gov.ph
Bureau of the Treasury (BTr)	527-31-84; 527-31-78; (TL) 522-81-22	www.treasury.gov.ph
Central Board of Assessment Appeals (CBAA)	525-14-11; 525-14-10; 526-74-85	
Cooperative Development Authority (CDA)	371-20-77; 527-20-62	www.cda.gov.ph
Fiscal Incentive Review Board (FIRB)	527-20-71; 527-20-62	
Insurance Commission (IC)	525-20-15; 523-8461 to 70	www.insurance.gov.ph
National Tax Research Center (NTRC)	527-20-71; 527-20-62	www.ntrc.gov.ph
Philippine Deposit Insurance Corporation (PDIC)	818-69-06; 817-14-45	www.pdic.gov.ph
Philippine Export-Import Credit Agency (PhilExim)	893-46-32; 893-48-09 (TL) 848-19-00	www.philexim.gov.ph
Privatization and Management Office (PMO)	893-23-83; 893-12-09	www.pmo.gov.ph
Securities and Exchange Commission (SEC)	727-45-43; 724-47-57	www.sec.gov.ph

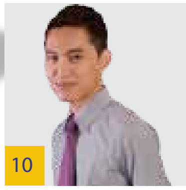
WORKING
COMMITTEE











1. Gil Beltran
2. Ma. Teresa Habitan
3. Stela Montejo
4. Joselito Almario
5. Aurora Luz Villaviray
6. Febe Lim
7. Ricardo Toquero
8. Irene Sta. Ines
9. Annabelle Magno
10. Joel Campipi, Jr.

DOF Bldg., BSP Complex, Roxas Blvd., 1004 Metro Manila, Philippines

www.dof.gov.ph