DEPARTMENT OF FINANCE
2000 Annual Report

THE YEAR IN REVIEW

"REAL OUTPUT EXPANDS DESPITE POLITICAL TURBULENCE"

The country was rocked once again by a heavy dose of negative developments, making 2000 another critical year for the economy. A resilient first half was marred later by political instability which intensified during the impeachment trial of former President Estrada. The country's gross domestic product (GDP) posted a 3.2 percent real growth in the first quarter. Growth was more robust in the second and third quarters at 4.5 percent and 4.6 percent, respectively, but weakened at 3.6 percent in the final quarter. Overall, GDP growth for the year was posted at 3.9 percent, compared to 3.3 percent in the previous year.

Output expansion was broad-based. The industry sector recovered, accelerating 3.6 percent, and services sustained its favorable performance with growth of 4.4 percent. Growth in agriculture, however, slowed down to 3.4 percent as against the 6.0 percent posted in 1999.

Inflation is subdued and interest rate stable

A series of oil price hikes hurt many economies during the year. However, in the Philippines, its impact on commodity prices was not apparent by year-end. In fact, average inflation for the year was subdued at 4.4 percent as against 6.6 percent in 1999.

Meanwhile, the benchmark 91-day T-bill rate remained stable amidst the high deficit, declining to 9.9 percent from 10.2 percent in 1999.

The stock market slumps while the peso declines

While bearish mood prevailed in the local stock market, the value of the peso suffered substantial decline. In peso terms, the stock market turnover was down by 53 percent, compared to 95.8 percent growth in 1999.

On the other hand, the peso depreciated to a low of P55/US$ at the height of the political crisis, although the exchange rate averaged at P44.2/US$ for the year.

The fiscal deficit is a major concern

The state of the country's fiscal sector became an increasingly major concern as the deficit continued to grow beyond programmed levels. The NG deficit reached P134.2 billion, more than double the P62.5 billion target. The weak recovery in the corporate sector and a slump in the stock market resulted in huge shortfalls in internal revenue collections which in turn caused the higher fiscal deficit. Unfavorable market conditions during the year halted the scheduled disposition of government assets, hence the lower privatization proceeds.

.. including political stability and possible external shocks

Notwithstanding the healthy economic growth, issues about the domestic political situation remained unresolved as the year drew to a close, while a threat of a hard landing of the US economy added uncertainties about the future of the Philippine economy.

FINANCING PROGRAM

Much of the financing requirements for 2000 are pre-funded.

The country continued to enjoy unfettered access to the international financial markets in 2000. The highly positive investor response to our bond offerings confirms the continued confidence of the international community in the Philippine economy's prospects. Moreover, the country successfully obtained financing from multilateral and bilateral sources in the form of program and project loans. Meanwhile, relatively low domestic interest rates until October 2000 allowed the National Government to raise additional financing to cover the deficit.

.. as net financing doubled

In 2000, total net financing amounted to P198.3 billion, more than double the P81.6 billion programmed for the period. Domestic financing accounted for 60.3 percent (P119.5 billion) while external borrowings had a 39.7 percent (P78.8 billion) share.

Bridging the fiscal gap

The higher borrowings were used to finance a higher than programmed deficit and to build up the Treasury's cash reserves.

External Financing

Bulk of external borrowings through bond offerings

Gross external borrowings totaled P120.3B as against P120.4B the previous year. Bond offerings accounted for 83.0 percent at P99.9B while project and program loans, which accounted for P20.4 billion, had a share of 12.7 percent and 4.3 percent, respectively.

Bonds issued during the year included Global Bonds (P65.7B), Samurai Bonds (P14.3B), and RP Bonds (P20.0B). On the other hand, most projects loans were obtained mostly from multilateral institutions. Program loans were intended for U.S. Public Law-480(P1.1B), Grains Sector Development (P1.3B), Pasig Management Development (P1.7B) and Social Expenditure Management Project (P668 million).

GLOBAL AND SAMURAI BONDS ISSUANCES: CONTINUED CONFIDENCE IN THE PHILIPPINE ECONOMY.

GLOBAL BONDS

A total of US$1.6 billion new global bonds were issued in March 2000. The offering consists of US$600 million of new 10-year bonds maturing 2010 and carries a coupon rate of 9.875 percent, and new 25-year bonds maturing 2025 with a coupon rate of 10.625 percent.

Of the total US$1.6 billion issue, US$800 million represents new money for the National Government; US$500 million for the National Power Corporation's funding requirements and another US$300 million in new bonds in exchange for about US$340 million of outstanding NPC bonds.

SAMURAI BONDS

The Samurai Bonds were issued to support the government's various development objectives. This new issuance of the Republic, totaling US$400 million and which is due 2005, carries a 5-year 3.20 percent coupon, which is 192 basis points over the Yen-Yen swap rate of 1.27 percent at the time of pricing. The attractive pricing of the Bonds translated into debt service cost savings for the government.

Domestic Financing

Higher but innovative domestic borrowing continues

Gross domestic borrowings rose by 2.7 percent to P164.9B in 2000 from P160.5B the previous year. This figure also exceeded the P138.8 billion programmed for the year. Gross flotation of Treasury Bills reached P509.3 billion but higher redemption of maturing T-bills in the amount of P517.7 billion resulted in a negative net borrowing of P8.4 billion. Longer-term securities like the Treasury Bonds netted P140.4 billion.

It was during the year that a 25-year Treasury Note was issued thus lengthening the maturity profile of government's domestic debt.

The year 2000 was a period of milestones. In addition to the traditional sources of domestic financing, the government also tapped the domestic commercial banks through their foreign currency deposit units for financing. Dubbed as Note Facility Loan, the loan raised P19.6 billion for the Treasury. The year also saw the offering of the innovative Progress Bonds by the Bureau of the Treasury. This enabled government to attract more individual and institutional investors in government securities. True enough, the offering exceeded the P5 billion ceiling set by the government by P3 billion.

PROGRESS BONDS: AN INNOVATIVE APPROACH TO FUNDRAISING

The offering exceeded the original offer of P5 billion to P8 billion. The successful conclusion of the offering lies on the innovative feature of the offering which allows a bond holder an option to exchange the bonds for shares of government corporations at time of privatization or cash out during a trade sale. Investors are also entitled to an automatic 5 percent bonus applicable at the time of the exercise of the exchange option.

This landmark transaction is a watershed for the Republic of the Philippines, both domestically and internationally. The pioneering approach adopted by the Philippines placed the country among an elite group in the global community which include France and Greece, the only two other countries which have pursued a complex debt-to-equity transaction in order to fast track their respective privatization programs.

THE 25-YEAR FIXED RATE TREASURY BOND: A NEW BENCHMARK FOR PHILIPPINE DEBT INSTRUMENTS

The 25-year fixed rate treasury bond (FXTB) issue of the Republic of the Philippines (ROP) was substantially oversubscribed with the government accepting P5.3 billion out of P6.4 billion total tenders at a coupon rate of 18.25 percent.

The bond issue has the distinction of having the longest maturity in the domestic capital market in Asia, except Japan. Prior to this transaction, the longest fixed rate ROP treasury bond was the 20-year bond issued in April 1997.

The issue was jointly underwritten by Hongkong and Shanghai Banking Corporation (HSBC) and Banco de Oro Capital and Investment Corporation (BDO) with HSBC acting as the sole bookrunner.

The transaction proved once again that there is a market for long-term fixed rate issues. The resulting coupon rate has set a proper benchmark for the succeeding treasury notes issues.

FISCAL MANAGEMENT

Consolidated Public Sector Financial Position

The consolidated fiscal balance incurs a higher deficit

The Consolidated Public Sector Financial Position (CPSFP) - which is the combined fiscal position of the National Government, Bangko Sentral ng Pilipinas, monitored government-owned and controlled corporations (GOCCs), government financial institutions (GFIs), social security institutions (SSIs) and local government units (LGUs) - ballooned to P151.9 billion (4.6 percent of GDP) from P100.5 billion (3.4 percent of GDP) in 1999.

.. due to higher public sector borrowing requirement

The higher deficit was largely due to a higher public sector financing requirement of P174.8 billion, as well as lower surpluses registered by SSIs and GFIs. The largest contributors to the deficit were the National Power Corporation (NPC), the Philippine National Oil Company (PNOC), the Light Rail Transit Authority(LRTA), the National Development Company(NDC), the National Housing Authority(NHA) and the National Food Authority(NFA). On the other hand, the combined surplus of the Social Security System (SSS) and the Government Service Insurance System (GSIS) dropped significantly to P15.4 billion from P36.4 billion the previous year.

NG Fiscal Position

The fiscal deficit worsens

The fiscal deficit reached P134.2 billion (4.0 percent of GDP) in 2000 or 20.0 percent higher than the P111.7 billion deficit posted in 1999 and more than double the P62.5 billion programmed for the year.

.. due to lower revenues and higher expenditures

The higher deficit resulted mainly from a shortfall in internal revenue collection, lower privatization receipts and additional expenditures arising from higher interest payments. Likewise, the downturn in economic activities due to adverse political developments led to depressed revenue collections.

Total revenues declined 11.8 percent to P505.7 billion from P566.9 billion posted in 1999. Total expenditures rose slightly compared to target, increasing 2.1 percent to P644.1 billion from P629.5 billion the previous year.

Tax Revenues

Tax effort declines

The total collection of BIR amounted to P353.9 billion, 12 percent (P43.7 billion) shy of its goal of P397.8 billion. Growth in internal revenue taxes was flat at 3.7 percent, far below the inflation rate of 4.4 percent and real GDP growth of 3.9 percent. With poor tax collection, the tax effort declined to 13.6 percent in 2000, from a high of 16.4 percent in 1997.

due to leakages from income tax and VAT collections

Large collection shortfalls from income taxes and value added taxes (VAT) pulled down tax collection growth rate to below inflation and real GDP levels. While income tax collections grew 9.1 percent to P221.1 billion from P184.0 billion in 1999, it fell short of the program by 9.2 percent (P20.4 billion). VAT collection totaled P55.3 billion, up 0.22 percent but P10.1 billion or 16.2 percent below program. Other major taxes like excise taxes and percentage taxes exceeded the previous year's collection level but fell short relative to collection goal.

Duty collections exceed the target, contrary to expectations.

The BOC consistently surpassed its targets, with cumulative total collections reaching P93.7 billion in 2000, 2.3 percent higher than the programmed level of P91.9 billion. The shift to transaction value in import valuation, the conclusion of the SGS contract and the reduced economic activity did not impact against duty collections as previously anticipated. BOC's favorable performance was due mainly to its streamlined procedures, such as the "Super Green Lane", which facilitated processing and release of shipments.

Non-Tax Revenues

Large non-tax revenues exceed shortfall in tax collections

The BTr exceeded its goal by a hefty 39.5 percent, with income reaching P29.2 billion as against the P21.8 billion programmed for the year. This was brought about largely by gains from dividends on shares of stocks, income from investments and interest on deposits. With prudent cash management and investment decision, the BTr's cash balance remained robust at year-end.

.. but unfavorable market condition dampens privatization proceeds.

The unfavorable business climate did not augur well for government's privatization efforts last year. With bids for government assets below indicative price, the government decided to defer their sale until economic conditions improve.

In 2000, privatization fetched P4.9 billion in additional proceeds, way off the P21.9 billion target for the period, but slightly higher relative to the 1999 privatization receipts of P4.2 billion. The sale of Philippine Phosphate Fertilizer Corp. (Philphos) worth P2.0 billion accounted for the bulk of privatization receipts. The rest came from the sale of government shares in Philippine National Bank PNB (P600 million) and assets administered by APT and PCGG (P2.3 billion).
As of December 31,2000, the privatization program of government, which started in 1987, has generated cumulative gross revenues of P200.4 billion of which P125.2 billion was remitted to the National Treasury. The disposal of 19 additional accounts in 2000 have brought to 479 the number of government corporations and assets successfully privatized out of the 581 accounts identified for disposition.

Collections from fees and charges rose relative to 1999 albeit lower than target

Collections from fees and charges increased by 11.9 percent to P17.9 billion in 2000 from P16.0 billion in 1999. However, the delay in the implementation of revised rates on fees and charges for services rendered by government agencies rendered collection to fall below target. As of December 31, 2000, only eleven agencies have revised their rates pursuant to Executive Order No. 197.

DEBT MANAGEMENT

The DOF vigorously pursued a debt management strategy designed to optimize official development flows, as well as avoid the "crowding-out" phenomenon. Thus, in 2000, the government adopted a fairly balanced borrowing mix of 58.0 percent domestic and 42.0 percent external.

Debt indicators improve

Significant debt indicators modestly improved in 2000. The average maturity of NG domestic debt improved from 3.8 years in 1999 to 4.1 years in 2000 on account of the longer-term debt instruments issued in recent years.

While the country's foreign debt increased from year-ago levels, government has relied less on short-term foreign borrowings. The average maturity of medium and long term (MLT) external debt of the public sector improved from 19.9 years in 1999 to 20.3 years in 2000 while the share of short-term external debt was reduced to 11 percent of the total external debt in 2000 from a high of 18.6 percent in 1997. This in turn improved the country's debt maturity profile with approximately 50 percent of outstanding external debt coming from concessional bilateral and multilateral sources.

Debt service ratios decline

In terms of ability to pay, the country's external debt service ratios, as a percent of exports and as a percent of GNP, were 12.5 percent and 7.4 percent, respectively. These ratios have shown declining trends since 1994.

Likewise, NG debt service as percent of GNP increased from 5.0 percent in 1997 to 8.7 percent in 2000. On the other hand, the share of NG debt service to total expenditures went up from 26.7 percent in 1997 to 43.7 percent in 2000. This higher ratio adversely affected the quality of disbursements under the budget. This includes debt service expenditures which will be absorbed by NG arising from contingent liabilities.

TAX REFORMS

In a globalized environment, the need for tax reforms becomes more imperative. The tax system must be restructured such that it can keep abreast with innovations, new transactions and developments in the economy. The pursuit of tax reforms has been invariably an essential component of the fiscal sector's reform agenda. Since 1986, major structural and administrative reforms have been instituted to enhance the Philippine tax system. The last major reform initiated was in 1997 when the Comprehensive Tax Reform Program (CTRP) was enacted into law. Among other significant features, the CTRP enhanced the equity of the personal income tax, as well as the efficiency and revenue productivity of the corporate income tax.

In 2000, the reform agenda focused on tax administration improvements and tax structure reforms like the financial sector taxation and fiscal incentives rationalization.

Tax Administration Reforms

On tax administration improvements, the Department implemented the following reforms at the BIR:

1. Enhance Voluntary Compliance - With the employment of a tax gadget through a raffle dubbed "Humingi ng Resibo: Milyun-Milyon Pa Rin ang Panalo", the BIR was able to increase its collection from VAT and other percentage taxes by P3 billion.

2. Monitor Large Taxpayers - The BIR closely monitored the compliance of top corporate taxpayers and large industry groups through an intensive conduct of audit. It also expanded the scope of Large Taxpayers Service (LTS) by integrating the Excise Taxpayer Service (ETS) into the regular large taxpayers and creating the Large Taxpayers District Office (LTDO) in Makati. As of end-2000, the large taxpayers unit monitors around 933 taxpayers. As a result of these efforts, the LTS managed to increase its share of revenue collection to the total collection to 55.5 percent (from 55.0 percent in 1999) and collected P300.7 million in additional revenues from its audit program.

3. Compromise Settlement Program - The program was intended to give opportunities to taxpayers with outstanding accounts payable and disputed assessment with the BIR to settle their liabilities through compromise settlement. The program generated P33.8 million in additional revenues from September (when it was implemented) to December 2000.

4. Expand the Use of Documentary Stamp Tax Metering Machines - The BIR expanded the use of DST metering machines with encryption to recover shortfall in collection. In 2000, a total of 516 metering machines with encryption were installed in 69 user/taxpayers and a DST Data Center was established.

5. Conduct Comprehensive Audit Program - In line with the need to enhance its audit work, the BIR issued revenue issuances (RMO 19-2000 and RMO 24-2000) to outline the workplans (including the numbers and types of audit and the expected revenue outcome for each region and district office) and detailed instructions for the conduct of audit. Around P1.5 billion of tax revenue was collected from the audit program in 2000.

6. Enhance Excise Tax Collection - The 2000 audit program that was implemented for excise taxpayers generated around P19.0 million in additional revenues.

7. Fast Track Computerization Program - Despite delays due to funding constraints, the BIR computerization program-- the Integrated Taxpayer System (ITS)-- has made a great headway since its inception. A roll-out of the major systems under the ITS has been completed. These include the following: registration, collection and bank reconciliation returns processing, taxpayers accounting, case monitoring, returns compliance, accounts receivable, NOMIS (Management Information) and office automation. These systems were rolled-out in the different regional and district offices of the BIR

8. Third Party Income Verification Checks - This strategy was employed to detect non-filers and stop-filers, and identify taxpayers who underreport their incomes. A pilot project in this regard was implemented in the latter half of 2000. The program was a success that the BIR generated P209.2 million of tax revenue, and resulted in the closure of 224,729 stopfiler cases.

At the BOC, the following reform measures were implemented:

1. Super Green Lane (SGL) - This clearance facility provided maximum facilitation and release of imported cargoes without having to pass through the usual documentary and physical examination process. This privilege is given to top 1000 importers with good compliance records. From May (when it was started) to December 2000, the SGL processed 1,220 import entries of some 20 SGL users worth $123 million, generating for the government more P1.0 billion in revenues.

2. Automated Customs Operation System (ACOS) - This is the very heart of BOC's automation project. It was developed using the ASYCUDA System, a software program on customs data management owned by the United Conference on Trade and Development. Under ACOS, core customs procedures such as import entry lodgment, assessment, payment, and cargo release have been effectively automated. The country's ports of entry are interconnected with the BOC's headquarters in Manila by means of a nationwide frame-relay network.

Apart from the ACOS System, a strategically distributed organization-wide electronic mail system (e-mail) also runs through the network. ACOS is comprised of various computerized system components, namely: the electronic manifest, the electronic filing system, the assessment module, the payment process, the on-line release system, and the selectivity program.

3. Customs Safety Nets - Safety nets were introduced following the termination of contract with SGS and the implementation of the WTO-mandated valuation system. The objective was to facilitate trade, enhance enforcement and preserve duty collections. These safety nets included the establishment of a valuation screen in Automated Customs Operating System (ACOS) -- the mainframe of BOC's automated processing, the use of metacube software to improve the selectivity functions of ACOS, and the redefinition of the role of Import Specialist Teams (IST) such that their intervention would not form part of the clearing process.

4. Enhanced Automated Systems - Additional automated systems were introduced into BOC's computerization program, namely, the WTO Valuation Support System, the Advance Payment Utilization System, and the Automated Bond Management System.

Tax Structure Reforms

The following legislative agenda is being pursued in Congress:

Financial Sector Taxation Reforms

Optimum Revenue Performance with Lateral Attrition Bill

Fiscal Incentives Rationalization

Court of Tax Appeals

The Financial Sector Tax Reform (FSTR) seeks to level the playing field in the taxation of financial institutions and instruments, and promote the development of the capital market. The proposed reform package consists of the replacement of gross receipts tax (GRT) with a financial institution tax (FIT) akin to the value added type of tax, the introduction of thin capitalization rule (maximum debt funding percentage rule), the rationalization of the taxation of foreign currency deposit units (FCDUs), and the rationalization of documentary stamp taxes (DSTs).

The Lateral Attrition Bill intends to implement a reward or incentive system to collection officers who exceed collection goal and a lateral attrition through transfer of post or separation from government service of those who underperform. The bill is viewed to enhance the efficiency of revenue collection by the major revenue collecting agencies with the reward or incentive as the motivating factor for better performance.

The Rationalization of Fiscal Incentives will pave the way for an incentive system that is highly focused, time-bound and simple to administer. It seeks to level the playing field by applying uniform incentives across all firms, locators in special economic zones and exporters and export-oriented enterprises under the Board of Investments (BOI) and the Philippine Economic Zone Authority (PEZA).

The Court of Tax Appeals Bill seeks to reorganize and expand the Court of Tax Appeals (CTA). Currently, criminal tax cases are heard in trial courts having general jurisdiction. Under the proposal, the CTA will be provided jurisdiction over criminal tax cases, in addition to current civil tax jurisdiction. The measure will also eliminate the intermediate appellate jurisdiction of the Court of Appeals, leaving only the Supreme Court as the final arbiter of decisions made by the CTA.

Both the Lateral Attrition and the Court of Tax Appeals measures are already in the advance stages of legislation while the FSTR and the Rationalization of Fiscal Incentives are in the committee level of both Houses.

THE GOVERNMENT CORPORATE SECTOR

The Department remained committed to improving the fiscal soundness of the government corporate sector. For 2000, it maintained a close watch on GOCCs, as well as the GFIs and the SSIs through the implementation of reforms that would enhance their ability to carry out greater financial discipline and better resource management. The reforms were also undertaken to lessen their dependence on government subsidy.

Among the reforms implemented were the more stringent review of GOCC requests for NG support for net lending and tax subsidy, and the tighter review and approval of NG guarantees for GOCC loans. With these reforms, the net transfer in 2000 declined to P billion from a high of P13.7 billion in 1997.

The corporate sector's financial position deteriorates

In the area of fiscal performance, the combined fiscal position of the 14 major non-financial GOCCs, the GFIs, and the SSIs posted a deficit P0.88 million, a reversal from the P35.1 billion surplus registered in 1999 and way below the target of P8.4 billion.

...as GOCC deficit rises

The negative position was due largely to the deficit posted by the GOCCs which rose to a substantial P19.2 billion from a year-ago level of P4.6 billion. Contributing to GOCCs' financial woes were the Philippine National Oil Company (PNOC), the National Development Company (NDC) and the National Food Authority. Their combined deficit totaled P11.4 billion or 59 percent of the aggregate deficit of P19.2 billion. Lower investment income by the SSIs also pulled down the overall surplus with their combined surplus down to P15.4 billion from P36.4 billion in 1999.

CAPITAL MARKET DEVELOPMENT

The Department continued to support reforms aimed at deepening the domestic capital market. As in the past, capital market development focused on three strategies: savings mobilization, passage of investment laws and pension reforms.

CAPITAL MARKET DEVELOPMENT STRATEGY

Savings Mobilization

Passage of Investment Laws

Pension Reform

SAVINGS MOBILIZATION

The Small Investors Program succeeds

To enhance savings mobilization efforts, the Department further tapped into small savers through the Small Investors Program (SIP). Since its launching in November 1998, the SIP has succeeded in transforming government securities as an alternative form of investments because of its risk-free and high-yielding features, and making them more widely available to small investors. In 2000, the total amount of placements in the SIP reached P 486.3 million. For the period January to November 2000 alone, total placements reached P357.7 million, far exceeding the 1999 total placements of P232.4 million.

.. with most placements coming from the masses

Interestingly, of the total placements in the small-denominated T-bills, around 80 percent were within the P5,000 to P50,000 investment range and over half were investments from the provinces.

To address the weaknesses in savings mobilization, the DOF moved to amend EO 364 (Creating the National Commission on Savings or NCS). The proposed amendments include refocusing NCS' role towards policy advocacy, reconstitution of the NCS to include the private sector and other non-bank institutions, and the creation of working committees to address specific areas of concern.

On May 12, 2000, EO 241 was approved, strengthening the NCS and amending EO 364. The new NCS is chaired by the DOF and co-chaired by the BSP. The NCS shall now serve as a clearing house for the different recommendations that will arise from government and private institutions performing savings related functions.

PASSAGE OF INVESTMENT LAWS

To attract greater capital into the country, the government further opened its doors to foreign investments through the passage of investment liberalization laws. Those enacted into law in 2000 were the Revised Securities Act, Retail Trade Liberalization Act and the E-Commerce Act. Moreover, the Department has been pushing for deeper reforms that would further strengthen the country's capital and financial markets. These include the Financial Sector Tax Reform, the Revised Investment Company Act, and the Pre-need Plans Code.

Under the Financial Sector Tax Reform, trading of financial instruments and financial innovation, and mobilization of savings will be enhanced. It will level the playing field among all financial players by freeing the market of taxes that distort investment decisions. The Revised Investment Company Act is aimed at developing the country's mutual fund industry through, among others, opening up of the sector to foreign participation and higher capitalization requirement while at the same time providing adequate safeguards to investors. The Pre-Need Plans Code seeks to strengthen the protection offered to pre-need planholders by ensuring the liquidity and solvency of pre-need companies. With the proliferation of pre-need plan companies, it has become necessary to enact a law to strengthen the rules regarding pre-need companies' organization, regulation, supervision and implementation.

PENSION FUND REFORMS

The pursuit of long-term pension reforms is intended to foster financial security in old age, provide affordable pension schemes and enhance the financial soundness of regulatory agencies. Central to the reform process is the fiscal sustainability of the program. As Chair of the Retirement Income Commission, the Department has been looking at ways and means to better reform the pension fund system. Some options for reforms are being considered, taking into account valuable lessons from the pension systems of other countries. Among these reforms are those that relate to benefit-linked contributions, contribution compliance and investment earnings, and effective regulatory framework.

While long long-term solutions are under consideration, a number of legislative bills aimed at reforming the pension fund system is pending in Congress. A major reform measure pending in committee level at the Lower House is the Personal Equity Retirement Account (PERA) bill. The bill is a voluntary defined contribution plan that will comprise the 4th layer (retirement benefits not mandated by government e.g. provident funds, occupational pension plans) of the Philippine retirement income system. It seeks to introduce a tax sheltered long-term savings instrument to those with employer-sponsored plans and an annuitized pension scheme to those who are self-employed.

Other priority measures that form part of the comprehensive contractual saving reform program being espoused by the Department include the Pre-Need Plan Code, Financial Sector Tax Reform Program, Revised Investment Company Act and the proposed Amendment of the PAG-IBIG Charter.

LOCAL GOVERNMENT FINANCE

In 2000, the Municipal Development Fund Office (MDFO) continued to provide loans and grants to local government units. It was able to mobilize resources from official development assistance and provide loans and grant funds to LGUs for projects such as municipal infrastructure, water supply, solid waste management, school construction, environmental protection and agricultural extension. LGUs which are of 3rd to 6th income classes primarily benefited from these loans and grants. The MDFO's lending program is unique in the sense that the grant component of the financial assistance is used for capacity and institutional development at the local level.

MDFO provides support to Local Government Units through

Local Government Finance and Development Project (LOGOFIND)

Community-Based Resource Management Project (CBRMP)

Local Government Finance and Development Project

As of December 2000, the MDFO, through its LOGOFIND Project, conducted 29 feasibility studies and appraised 18 LGU sub-projects. Likewise, it approved 5 LGU sub-projects amounting to P78 million. In support of these sub-projects, the LOGOFIND, through its Training and Capacity Building component, conducted LGU capacity-building needs assessments and training programs on Feasibility Study Preparation, Sub-Project Loan Agreement, and Orientation and Procurement.

Meanwhile, the LGU Resource Mobilization and Performance Monitoring component initiated resource mobilization activities such as Surveys of Non-Traditional Income Sources activity. A significant activity was the preliminary setting-up of fiscal monitoring systems which included the development of local fiscal indicators to be used in fiscal performance monitoring of LGUs.

In an effort to strengthen and streamline MDFO as a significant financing institution, the LOGOFIND project strengthened the operational and organizational structure of MDFO with the appointment of an Executive Director and two Deputy Executive Directors and the institution of streamlined operations.

Community-Based Resource Management Project

The Community-Based Resource Management Project (CBRMP), also under the MDFO, has provided financing assistance and capability building to LGUs engaged in environmental preservation and natural resource management projects. As of December 2000, 43 local governments belonging in 4th, 5th and 6th class income categories have ongoing/approved natural resource management projects under the financial and technical support of the CBRMP. The total project cost of the ongoing/approved LGU projects amount to P844 million.

These projects are configured to enable the LGUs to address rural poverty and environmental degradation, thus, it contains interrelated activities on natural resource management, livelihood and small-scale infrastructure. The CBRMP's assistance, aside from financing support, extends in all aspects including project planning, implementation, management and monitoring. Training and capability building activities are also provided through the CBRMP.

For the year 2001, the CBRMP aims to improve its systems on the delivery of services to LGUs and to facilitate the approval of 76 new LGU projects which are currently in the pipeline.

TOWARDS A MARKET-ORIENTED CREDIT POLICY

NATIONAL CREDIT COUNCIL

The phase-out of directed credit programs has set the tone for more rational and market-oriented financial and credit policies.

For the year 2000, the National Credit Council (NCC) continued to be in the forefront of providing the basic and key policies to guide the implementation of credit programs of government.

Following the signing of Executive Order 138 (which directs government entities involved in the implementation of credit programs to adopt the credit policy guidelines formulated by the NCC) on August 10 1999, the NCC Secretariat immediately held regional consultation workshops with various stakeholders. The consultation served to solicit from stakeholders inputs to the operating guidelines before finalization, as well as afford the NCC the opportunity to explain the policy reforms embodied in E.O. 138. The NCC Executive Committee approved the operating guidelines on March 29, 2000. The approved version was presented to stakeholders in a series of regional symposia to enable them to be further clarified on the provisions of the E.O. The approval of the operating guidelines paved the way for the government to finally implement the policy guidelines formulated by the NCC. Among others, the guidelines spell-out the rationalization program for directed credit programs (DCPs), the mechanics for the phase-out of credit programs for line agencies and the implementation of DCPs by the Government Financial Institutions (GFIs).

NCC IN 2000

Major Accomplishments

Approved operating guidelines of E.O. 138

Established Standard Chart of Accounts and Manual for Credit Cooperatives

Reviewed project proposals and foreign loans with credit component

Following the approval of the operating guidelines, the NCC identified the activities that need to be implemented to ensure the effective implementation of EO 138:

Laying of initial groundwork on the conduct of audit of DCPs

The NCC Secretariat organized a workshop with the concerned auditors of the Commission on Audit (COA). The Bureau of Treasury (BTr) and the Department of Budget and Management (DBM) were also being consulted in the formulation of a joint DOF-DBM-BTr-COA circular which will specify the mechanics for the conduct of audit of each of the DCPs and the transfer of DCPs from the Government Non-Financial Agencies (GNFAs) to the GFIs.

Transfer of funds from Government Non-Financial Agencies (GNFAs) to GFIs

One-on-one meetings with the concerned GNFAs were conducted to discuss the individual phase-out plans in accordance with the provision of EO 138.

Advocacy to foreign donors

Donor agencies were consulted to discuss the impact of EO 138 on their on-going and proposed program assistance in the Philippines.

Information dissemination

Series of symposia were arranged in Luzon, Visayas and Mindanao. A planning workshop of the NCC Secretariat with the technical staff of LandBank (being the co-chair of NCC) was also held to discuss the work program and various activities that need to be conducted in relation to the effective implementation of EO 138.

Upon the request of big cooperatives, the NCC initiated and spearheaded the establishment of the Standard Chart of Accounts and Manual for Credit Cooperatives. The NCC approved the final version in September 2000 after a series of regional training workshops.

Since the Technical Board of the Investment Coordinating Committee (ICC) required an NCC endorsement of proposed foreign loans and project proposals with credit component, three (3) of such projects were reviewed and endorsed by NCC to the ICC for consideration.

INTERNATIONAL COOPERATION

The Department actively participated in global affairs in fulfillment of the country's commitments to regional and international initiatives. It also enabled the government to draw lessons from the experiences of other economies and adopt the appropriate policy responses.

ASEAN Finance Ministers' Meeting

The Association of Southeast Asian Nation (ASEAN) Finance Ministers process has been carrying out a Finance Work Program, which spells out in detail the approaches to promote macroeconomic and financial stability within the region and steps to strengthen the financial systems of the member countries. It includes adopting sound international financial practices adhering to internationally accepted standards, deepening capital markets and improving corporate governance.

The Philippines co-chairs with Singapore the initiative on the development of Bond Markets in ASEAN and co-chairs with Vietnam on the enhancement of Tax and Public Finance matters. In developing the ASEAN bond markets, Singapore hosted in April 2000 a two-day workshop entitled "The Development of ASEAN Bond Markets and Asset Backed Securitization". During the workshop, participants recognized the need for closer cross-border collaboration among member-economies. They agreed to look into the possibility of harmonizing standards in accounting, bond conventions and code of conduct. With respect to public finance matters, the Philippines and Vietnam circulated a survey questionnaire among member countries on the proposed establishment of an ASEAN tax training institute. Results of the survey is expected to come out soon.

ASEAN Surveillance Process

Upon the suggestion of the Philippines, the Asian Development Bank was asked to provide technical assistance for the ASEAN Surveillance Process (ASP). The ASP rests on three institutional pillars namely: the ASEAN Ministries of Finance (MOFs); the Asian Surveillance Coordination Unit (ASCU) and the ASEAN Surveillance Technical Support Unit based at the Asian Development Bank (ADB). All three pillars are recipients of ADB Technical Assistance grants. It should be noted that the Philippines together with Indonesia and Thailand has been chosen by ADB in that initial batch of recipients for the strengthening of their respective surveillance units. The grant is designed to strengthen the institutional and technical capacities of the ministries of finance of the aforementioned countries in discharging their surveillance responsibilities. This will be achieved by providing training to concerned government officials, providing capacity building support for the surveillance units and support research activities carried out under the auspices of the ASP.

ASIA-PACIFIC ECONOMIC COOPERATION (APEC)

The Department, with the support of the Asian Development Bank, hosted a core group meeting on the Philippines' collaborative initiative on credit rating agencies (CRAs) last 9-10 November 2000. The meeting resulted on the core group's refining the main survey report into a concise working paper containing the major findings of the survey and two-pronged recommendations. The first prong involves what APEC economies can do to promote increased transparency and disclosure and to establish an environment conducive for efficient and reliable ratings. The second prong refers to what APEC authorities can do to encourage CRAs to address concerns raised by APEC economies on transparency, accountability and credibility of the CRAs and the ratings process.

Manila Framework Group

The Department took the lead in the substantial preparations of the country's participation to the Manila Framework Group (MFG). The MFG is a meeting of APEC Finance and Central Bank Deputies to discuss regional surveillance and global issues affecting the region. Two meetings were held last year in Hongkong, Special Administrative Region (SAR) and Bangkok, Thailand to discuss global developments and challenges and the policy responses as a region and individually.

ASIA-EUROPE MEETINGS

The ASEM, as may be recalled, is an informal yet very significant convergence of European and Asian nations which meet to forge and effect commitments in political, economic and cultural areas of partnership. A milestone in ASEM was the launching in June 1998 of the Asian Financial Crisis Response Trust Fund by the European Commission and EU Member States to facilitate the recovery of countries affected by the financial and economic crisis in East Asia. The Trust Fund, administered by the World Bank, had provided US$6 Million in grant funds to the Philippines alone, (or roughly 14% of the total Fund) as well as more than US$4 million to other countries (including Philippines) in regional grants. Such grants, channeled to projects of specific executing agencies of the Philippine government, have been utilized to mitigate the crisis' social effects, foster anti-poverty programs, and support reforms on governance and in the financial, corporate, and pension sectors among others. The World Bank coordinates ASEM Trust Fund activities with the Department of Finance, which handles overall coordination with other government agencies such as the DFA and NEDA.

The annual ASEM Finance Ministers meeting was held in Kobe, Japan on January 13-14, 2001. The meeting focused on economic developments in Asia and Europe, financial cooperation, exchange rate regimes, reform in the international financial architecture and the launching of Kobe Research Project. One of the major highlights of the meeting was the Ministers' concurrence to the Philippine intervention of keeping European markets open to Asian exports. The next ASEM finance ministers meeting will be held in Copenhagen in 2002.

Sovereign Credit Ratings

The Department coordinated the sovereign credit rating review process performed by Fitch IBCA, JCR, Standard and Poor's and Moody's credit rating agencies last March, August and December 2000, respectively. The said review process resulted in the maintenance of a double B + (BB+) rating and with a stable outlook (second quarter) for the Philippines. However, during the last quarter, almost all of the CRAs, except that of the JCR changed their outlook on the Philippines from stable to negative due to public perception of cronyism, poor governance and graft and corruption in government.

DYNAMIC SUPPORT TO THE PRIORITY SECTORS

The Department's role is not only to generate revenue and mobilize resources It helps stimulate overall production by assisting certain industries through fiscal incentives. With these incentives, the growth of priority sectors can be fostered. One of the priority sectors is the export sector which is vital in economic growth. It provides the needed foreign exchange and employment that can stimulate the country's economic growth. It is in this light that the Department has created frontline offices tasked to facilitate processing of claims for duty and tax exemption by priority sectors.

THE REVENUE OPERATIONS GROUP

The Revenue Operations Group (ROG) receives, evaluates and approves claims for exemptions by sectors entitled to tax and duty exemptions. In 2000, ROG received a total application for exemption of 12,629. Of this total, 7,555 were filed with the Revenue Express Lane while 5,074 were applied with the Internal Revenue Division. Around 11,996 of the total applications were processed while the rest were either withdrawn or filed for ready reference of the ROG.

The taxes and duties waived on importation totaled P7.2 billion in 2000, up from the P4.1 billion granted the previous year. The Customs and Tariff Division provided a total exemption of P4.0 billion while the Internal Revenue Division waived P3.2 billion. The bulk of exemption were granted to telecommunication companies Philippine Long Distance Telephone Company (PLDT) and Globe Telecommunications, and the Philippine Veterans Development Industrial Corporation (PHIVIDEC). Their combined claims amounted to P3.2 billion or 44 percent of the total taxes and duties waived.

THE MABUHAY LANE

The Mabuhay Lane is one of the Department's frontline services which caters to the following sectors:

1. Importers of books, periodicals and other similar items;
2. Non-stock, non-profit educational institutions;
3. Importation of capital equipment by BOT and non-BOT enterprises pursuant to RA 7369, RA 7103, and EO 226;
4. Importation under Section 105 (r) of the Tariff and Customs Code;
5. Importation of capital equipment of qualified export-oriented firms pursuant to Section 16 (b) of RA 7844;
6. All importations made by the ADB;
7. All importation of contractors for the Department of Energy; and
8. Importation of personal effects and household goods.

The total taxes waived by Mabuhay Lane rose significantly to P18.5 billion in 2000 from P8.5 billion in 1999. The jump was due to higher taxes waived to non-stock,non-profit educational institutions and energy sector with claims amounting to

P9.3 billion and P6.4 billion, respectively. Likewise, all the other sectors serviced by Mabuhay Lane except the BOI-registered companies were granted higher exemptions.

(Table: Sector, value of importation, duties waived, VAT waived, total)

THE ONE-STOP SHOP DUTY DRAWBACK AND TAX CREDIT CENTER

The year 2000 was a banner year for the One-Stop Shop Inter-Agency Tax Credit and Duty Drawback Center (CENTER) in that it institutionalized structural and procedural reforms to strengthen the administration of tax credit and duty drawback in the country which led to the adoption a new Manual of Operations under a Process-Based system of processing tax credit and duty drawback. The new system, patterned after an assembly line type of operation, was devised to depart from a "one claim/one evaluator" method of evaluation, totally eliminating the risk of collusion and errors in evaluation. The main feature of the process-based method is the movement of the applications to various stages of screening and evaluation, particularly a financial validation phase where TCC related transactions are checked versus the claimant's book of accounts, and a verification/authentication phase where documents submitted are verified with the Bureau of Customs.

Despite some hitches encountered in the transition to the process-based system, the year 2000 proved to be a productive year in terms of Tax Credit Certificate (TCC) issuances. A total of 1,259 tax credit and duty drawback certificates valued a P 3.47B were issued. The upsurge in the issuances can be attributed to the CENTER's re-engineering, the resolution of major policy issues and the implementation of the program of expediting the processing of the Semiconductor Industry claims under the Tax and Revenue Group, which is the BIR window of the CENTER.

The year 2000 also paved the way for the initiation of the following major reforms in the CENTER:

1. Adoption of a new set of guidelines on TCC transfers that would prevent the formation of the secondary lucrative market resulting from the filing of fake tax credit claims;
2. Activation and formation of critical control units under the Investment Incentive Group namely:

Receiving, Pre-evaluation and Documentation Division
Financial Validation Division
Verification and Verification Division
Post-Audit and Monitoring Division
Policy, Research and Planning Division

3. Creation of the Office of Special Concerns as the repository of inquiries, complaints, suggestions and other operational concerns;
4. Development of the CENTER's very own website featuring a Claim Tracking System that allow claimants to access on-line the status of claims under the IIG window.
5. Creation of two processing lanes under the Investment Incentive Group, with one group handling the backlog and the other processes all newly filed tax credit claims.

6. Resolution of major pending policy issues that hampered the CENTER's operations, namely:

10-year Prescriptive Period
Transferability of TCCs issue under the provision of E.O. 226 and the NIRC
Indirect Importation
Eligibility of claims whose duty payments are made after date of exportation
While the CENTER has been successful in its strategy to prevent the creation of a new backlog, the need for a more aggressive program is still in the works that would resolve with finality the inherited backlog from the previous administration. Other projects currently being contemplated include the following:

Development of the on-line verification system with all major ports before the end of CY 2001
Completion of the CENTER's Database Development Program
Implementation of an Electronic Document Storage, Management and Retrieval System using imaging technology
Development of a Risk Classification System to create three processing lines: Red Lane, Green Lane, and Yellow Lane
Expansion of the coverage of the Claim Tracking System to include the Duty Drawback Group and Tax Revenue Group of the CENTER

HUMAN RESOURCE DEVELOPMENT

Today's global trends in technology, business and economy evolve at a fast pace. To cope up with the vicissitudes of time, the Department continued to strengthen its human resource program. In 2000, it focused on providing more training and capacity-building exercises and scholarship grants to deserving DOF employees, and on rationalizing the administration of performance appraisal system. To heighten the social awareness and concern of DOF employees, the Department actively participated in development activities such as those related to gender and women issues.

As envision for the New Millennium which called for a more dynamic, result-oriented and globally competitive human resource, deserving DOF officials and employees were sent to capacity-building seminars, scholarships and training programs abroad like those related to taxation and tax-related courses, financial management, skills development, macroeconomic management and policies, public and international finance, intellectual property rights, corporate governance, policy issues in privatization and enterprise reform, fiscal and monetary policy, macroeconomic and fiscal policy & reforms, revenue forecasting, and government finance statistics. The year 2000 saw four personnel completing their respective masteral degrees.

To further encourage the pursuit of professional growth and career advancement among DOF personnel, the Study Leave Grant on Official Time was created under D.O. No. 44-2000 dated 07 August 2000 which allows qualified employees to avail of study leave with pay to prepare for Bar or Board Exam or to complete masteral degree. Its creation is in accordance with CSC MC No. 14, Series of 1999 dated 23 August 1999 amending CSC MC No. 41, series of 1998.

A number of qualified personnel were also sent to attend short-term courses in accounting, budgeting and financial management, administrative management, personnel management and administration, information technology, medical updates, records management, statistics and other courses relevant to DOF mandate and function of respective offices. Relevant in-house training courses were continually availed of by interested DOF personnel like health & nutrition briefings, physical fitness program and orientation seminar for new entrants of DOF. Likewise, Department personnel actively participated in government-sponsored activities like the EDSA Anniversary Celebration, CSC Mass Calisthenics and the nationwide Flag Raising Ceremonies.

On scholarship administration, the Department of Finance Personnel Career Development Committee (DOF-PCDC) was reconstituted in March 2000 which brought to the fore cleaner guidelines on foreign and local travels of officials and employees of DOF, its bureaus and attached agencies. The PCDC meets regularly to discuss scholarship/training matters, as well as administrative concerns.

Corollary to official travels like Philippine international commitments, loan negotiation, etc., the President of the Philippines issued a memorandum dated 07 July 2000 granting authority to the Secretary of Finance along with Secretaries of Foreign Affairs and Trade and Industry to issue Travel Authorities to its respective personnel and those of Bureaus and Attached Agencies to ensure expeditious processing of travel request.

The Department has laid the groundwork for the immediate implementation of the New Performance Appraisal System (NPAS) enunciated by the Civil Service Commission. One of the salient features of the NPAS is the creation and operation of Performance Evaluation Review Committee (PERC) which reviews and evaluates employees' performance targets and standards, determines employees' final rating, monitors and evaluates the effectiveness of the system. In compliance with the CSC memorandum, the DOF-Performance Management System (DOF-PMS) was established under Department Order No. 43-2000 dated 17 July 2000. Consequently, the DOF-PERC was also constituted under D.O. No. 46-2000 dated 01 September 2000. The DOF-PMS aims to: (1) continuously foster improvement of employee performance and efficiency; (2) enhance organizational effectiveness & productivity; and (3) provide an objective performance rating which serves as basis for incentives & rewards, promotions, training and development, personnel actions and administrative sanctions.

The Department continued to support gender and development activities and women empowerment efforts through active participation of DOF GAD Focal Points to seminar-workshops and conventions which tackled women and children's issues and concerns. Likewise, the DOF completed its gender sensitivity training for officials and employees.

To ensure a healthy workforce, the Medical and Dental Clinic continued to conduct total cholesterol screening, aside from the regular medical and dental service given to concerned personnel. Additionally, interested personnel availed of the free "operation bone check" conducted in cooperation with private institution.

Year by year, the Department's human resource development efforts take a leap forward for greater productivity and improved delivery of public service.

HIGHLIGHTS OF OPERATIONS OF DOF BUREAUS AND ATTACHED AGENCIES

BUREAU OF INTERNAL REVENUE

The total collections of the Bureau for 2000 amounted to P360.8 billion which was 5.7% higher than last year's collection. Of the total amount collected, P203.8 billion accounted for taxes on net income and profit, P61.7 billion excise taxes, P53.2 billion value added taxes, P24.5 billion other percentage taxes and P17.6 billion documentary stamp taxes and other taxes.

Collections, although adversely affected by the weak recovery in the corporate sector, was beefed up through programs and reform measures implemented by the Bureau.

Owing to the success of last year's raffle promo, the Bureau conducted another nationwide raffle dubbed "Humingi ng Resibo, Milyun-Milyon pa rin ang Panalo". Designed to encourage consumers to demand receipts for all purchases made, the raffle promo contributed significantly to the increase in VAT and other percentage tax collections.

The Bureau continued to monitor the compliance of top corporate taxpayers and specialized industry groups, which resulted in improved collections in corporate income taxes. Some of the more significant activities undertaken include the conduct of an Audit Program for Large Taxpayers and the establishment of Large Taxpayers District Office in Makati City.

The Compromise Settlement Program accelerated the settlement of delinquent accounts while the Audit Program 2000, which covers investigation and audit of income taxes withheld, yielded positive results. Other measures include the expanded usage of Documentary Stamps Metering Machines to ensure that documentary stamp tax collections are properly reported to the Bureau and the implementation of the Stop-Filer Capability (Returns Compliance System).

By virtue of EO 306, the Bureau undertook organizational restructuring to improve efficiency in its transactions with the public and with other government offices. Specifically, the EO, which was approved by President Joseph Estrada on October 31, 2000, streamlined and simplified the Bureau's operations to improve its administrative control over certain categories of taxpayers as well as enhance the effectiveness of its computerized integrated tax system.

BUREAU OF CUSTOMS

The Bureau consistently surpassed its collection targets, with cumulative total collections reaching P93.7 billion in 2000, 2.3 percent higher than the programmed level of P91.9 billion. The shift to transaction value in import valuation, the conclusion of the SGS contract and the reduced economic activity did not impact against duty collections as previously anticipated. BOC's favorable performance was due mainly to its streamlined procedures, such as the "Super Green Lane", which facilitated processing and release of shipments.

At the BOC, the following reform measures were implemented:

1. Super Green Lane (SGL) - This clearance facility provided maximum facilitation and release of imported cargoes without having to pass through the usual documentary and physical examination process. This privilege is given to top 1000 importers with good compliance records. From May (when it was started) to December 2000, the SGL processed 1,220 import entries of some 20 SGL users worth $123 million, generating for the government more P1.0 billion in revenues.

2. Automated Customs Operation System (ACOS) - This is the very heart of BOC's automation project. It was developed using the ASYCUDA System, a software program on customs data management owned by the United Conference on Trade and Development. Under ACOS, core customs procedures such as import entry lodgment, assessment, payment, and cargo release have been effectively automated. The country's ports of entry are interconnected with the BOC's headquarters in Manila by means of a nationwide frame-relay network.

Apart from the ACOS System, a strategically distributed organization-wide electronic mail system (e-mail) also runs through the network. ACOS is comprised of various computerized system components, namely: the electronic manifest, the electronic filing system, the assessment module, the payment process, the on-line release system, and the selectivity program.

3. Customs Safety Nets - Safety nets were introduced following the termination of contract with SGS and the implementation of the WTO-mandated valuation system. The objective was to facilitate trade, enhance enforcement and preserve duty collections. These safety nets included the establishment of a valuation screen in Automated Customs Operating System (ACOS) -- the mainframe of BOC's automated processing, the use of metacube software to improve the selectivity functions of ACOS, and the redefinition of the role of Import Specialist Teams (IST) such that their intervention would not form part of the clearing process.

5. Enhanced Automated Systems - Additional automated systems were introduced into BOC's computerization program, namely, the WTO Valuation Support System, the Advance Payment Utilization System, and the Automated Bond Management System.

BUREAU OF THE TREASURY

For the year 2000, the Bureau of the Treasury exceeded its income target by P7.4 billion or 39.5% over the program level of P21.8 billion. This can be attributed to the higher than expected level of deposits and other miscellaneous income.

The Bureau was instrumental in keeping interest rates for government-issued securities more stable. Despite inching up in the last quarter due to the political turmoil, the average 91-day T-bill rate for the full year was recorded at 9.93%, slightly lower than last year's average rate of 9.99%. On the other hand, the rates for 182-day and 364-day averaged 11.02% and 11.98% respectively.

The Bureau also continued to tap small and household savers though its Small Investors Program (SIP). The total investments in SIP for 2000 reached a huge P486.3 million, bringing the aggregate SIP placements to P620.3 million as of end-2000.

BUREAU OF LOCAL GOVERNMENT FINANCE

The BLGF continued to pursue its thrust towards the promotion of local fiscal autonomy, clarification of issues on local taxation, valuation of real property and related local revenue matters, easier and wider access of local government units to credit financing, and capacity building.

On local taxation, the BLGF fulfilled its quasi-judicial functions by rendering opinions / rulings on local taxation matters. LGUs continued to post efficient and robust real property tax collections. Out of the annual target of P20.3 billion on real property tax collections, LGUs have realized a total of P16.7 billion as of November, indicating a collection efficiency of P82.2%.

The Bureau in coordination with the Municipal Development Fund Office, promoted Local Government Finance and Development (LOGOFIND) projects in LGUs and encouraged local officials to avail of the program as a means of improving their finances. The Bureau likewise facilitated the preparation of the Terms of References (TOR) on the proposed redesign of Real Property Tax Assessment (RPTA) project and on the review of the LGUs' income classification.

To abate the occurrence of irregularities in the Treasury service, the Bureau continued the implementation of audit programs in local treasury and assessment offices. The Regional Offices conducted revenue assessment audits in 27 LGUs.

In line with its capability building program, the Bureau conducted seminar workshop for newly appointed Local Treasurers at the Ateneo Professional Schools in Makati.

SECURITIES AND EXCHANGE COMMISSION

The past year was tumultuous for the Securities and Exchange Commission (SEC) as the stock manipulation scandal at the Philippine Stock Exchange brought the integrity of the Commission into question. The SEC, however, emerged stronger and more committed in fulfilling its primary mandate of regulating and developing the Philippine capital market.

A milestone capital market development initiative in the past year was the passage of the new Securities Regulation Code in August. The Code strengthened the regulatory mechanism and authorized the reorganization of the Commission to ensure full development of the capital market. The Commission spearheaded the drafting of the implementing rules and regulations (IRR) for the Code and after due consultation with players in the capital market, the IRR was issued on December 15, 2000. Following are the key rules formulated to effectively implement the Securities Regulation Code:

Provision of additional protection to investors;

Identification of prohibited market practices;

Elimination of abusive market practices;

Imposition of additional requirements to promote self regulation by market participants;

Addressing systemic risks for the protection of customer accounts;

Clarification of an Exchange to operate in the public interest; and

Provision of additional enforcement powers for the Commission.
Also a major accomplishment for the Commission was its successful reorganization, which was undertaken to streamline its structure and operations, upgrade its human resources and thus enable it to more effectively perform its functions. The disposition and transfer of over a thousand cases of intra-corporate disputes to the regional trial courts, as provided in the Securities Regulation Code, was also completed.

INSURANCE COMMISSION

The Insurance Commision remained committed to ensuring a sound and stable insurance industry. For the year 2000, the Commission issued a total of 33,839 licenses and/or certificates of authority to insurance companies, intermediaries, mutual benefit associations, and trust for charitable uses. As of December 31, 2000, there were 154 insurance companies authorized to do business of which 2 were new being licensed on August 24, 2000 and September 11, 2000, and 1 company was rehabilitated on September 8, 2000. It approved 157 request for investment of insurance funds amounting to 7.9 billion and an additional US$130.2 million placed abroad.

To monitor the solvency of insurance companies, the Commission conducted examination into the affairs, financial condition and methods of doing business of 85 insurance companies, 12 mutual benefit associations, and 47 insurance/reinsurance brokers; transmitted 129 synopses of approved annual statements and verified annual statements of 27 mutual benefit associations to ensure their financial stability for the protection of members.

The Commission likewise reviewed 1,250 investment reports and 525 reports on Statement of Paid-Up Capital and Reserve Investments requirements (SPUCRI). It managed and administered the P10 Million Security Fund of insurance companies and the Guaranty Fund set up by mutual benefit associations.

As part of its public assistance and claims adjudication function, the Commission conducted 3,098 hearings/conferences relating to adjudication of 1,030 insurance claims cases; assisted the public in 8,602 request for assistance; analyzed 67 financial reports of companies under conservatorship, receivership and liquidation; issued 69 resolutions relative to administrative complaints against agents and officials of insurance companies, and resolved 4 administrative cases.

Following the memorandum agreement signed by DOF and BIR, designating the Commission as special tax collecting agent, a total of P6.6 billion was collected in 2000, representing premium tax, value added tax, documentary stamp tax, withholding tax, income tax and other taxes.

PHILIPPINE DEPOSIT INSURANCE CORPORATION

As of November 2000, total assets of the Corporation amounted to P 51.7 billion, 104.6% higher than yearend 1999 level of P 25.3 billion. Increase in assets resulted from assessment collection and borrowings from the BSP. Total liabilities increased to P 23.9 billion, almost 13 times higher than yearend 1999 level of P 1.9 billion.

Deposit insurance fund (insurance reserves, donated surplus and contingent surplus) reached P 27.9 billion, 19.1% higher than yearend 1999 level of P 23.4 billion.

Gross income for the eleven-month period amounted to P7.0 billion, of which income from assessment at P 3.4 billion comprised 49.2% and income from investments (net of tax) at P 2.7 billion accounted for 38.5%. Expenses, on the other hand, aggregated P 5.9 billion, with provision for insurance losses at P4.7 billion or 78.8% of total expenses. Net income was recorded at P 1.1 billion (subject to adjustment at year-end).

The PDIC's insurance reserves reached P26.8 billion as of November 2000, 14.5% higher than year-end 1999 level of P 23.4 billion. Insurance reserves is composed of paid-in capital or the permanent insurance fund (PIF) provided by the government at P 3.0 billion, provision for estimated insurance losses at P 23.5 billion, and retained earnings at P 0.3 billion cumulated over the years.

Insured deposits increased from P 349.4 billion in 971 member banks as of December 1999 to P 398.47 billion in 952 member banks as of September 2000. The ratio of insured deposits to total deposit increased from 18.4 percent in 1999 to 20.4 percent as of September 2000. Insurance reserves as a percentage of insured deposits remained unchanged at 6.7 percent as of November 2000 relative to 1999.

With PDIC's power to examine banks repealed upon passage of the New General Banking Act in May 2000 the PDIC in the second half of the year focused on further strengthening coordination with the Bangko Sentral (BSP) regarding harmonization of examination practices, conduct of joint examinations, information exchange and problem bank resolution. A draft Memorandum Agreement between BSP and PDIC to cover operational details of information exchange is expected to be completed by first semester of 2001.

The PDIC assists banks in danger of closing if there is a viable rehabilitation plan, strong management, and full restoration of capital. Moreover, the cost to PDIC of such assistance should be less than the cost PDIC expects to incur if the bank were to be closed. For 2000, PDIC granted direct loans to three commercial banks amounting to P25 billion. One thrift bank also received financial assistance in the form of purchase of assets with buyback amounting to P 2.0 billion. Total outstanding financial assistance as of December 2000 amounted to P 27.8 billion.

Total payment of insured deposit claims made in 2000 amounted to P 3.26 billion involving 80,897 accounts. Of the total, P 2.14 billion involving 51,628 accounts was paid to depositors of banks closed in 2000, 66.9 and 30.4 percent of estimated insured amounts and accounts, respectively. Since PDIC started paying insurance claims in 1970, payments as of 08 December 2000 aggregated P 10.13 billion involving 1.35 million accounts in 384 closed banks.

A total of 24 banks (1 KB, 4 TBs, and 19 RBs) were ordered closed by the Monetary Board for the year, with combined assets (as of closure date) amounting to more than P 17.18 billion and liabilities of more than P 19.85 billion. These brought the total number of closed banks under PDIC receivership/liquidation to 388, with estimated realizable value of assets and liabilities of more than P 30.72 billion and P 41.69 billion, respectively.

Total asset recoveries for the first nine months of 2000 amounted to P 212.67 million as compared to P 190.64 million in 1999.

CENTRAL BOARD OF ASSESSMENT APPEALS

The Central Board of Assessment Appeals (CBAA) is an appellate quasi-judicial body which decides cases appealed from the 165 Loacal Boards of Assessment Appeals throughout the country.

As of December 31, 2000, the CBAA, a quasi-judicial and appellate collegial body, has acted on 1,002 cases involving real properties. These properties consist of land, building, machineries and other and other improvements or real estate. The total market values of these properties amounted to P16.0 billion, with the aggregate assessed values at P5.4 billion.

Apart from its adjudicatory powers, the CBAA also performs various secondary functions as follows:

1. Provides consultative services to the chairmen and members of the Local Boards;
2. Renders collaborative services to the office of the Solicitor General on cases elevated to the Supreme Court;
3. Renders technical supervision over all Local Boards of Assesment Appeals, nationwide;
4. Renders advisory services to other government functionaries, legal practitioners and taxpayers;
5. Upon designation of the Supreme Court, acts as a fact-finding body on specific assessment cases filed before the said Court; and
6. Conducts information dissemination campaign regarding the tax remedies available to the taxpayers on matters of realty tax assessments and collections. It also involves itself in the dissemination of informations regarding the latest jurisprudence of the Board on real property taxation matters.

The very existence of the CBAA is anchored on the fundamental mandate of the Constitution of the Philippines and The Local Government Code of 1991 which is "to warrant the observance of the due process of law and clause in the assessment and collection of real property taxes".

Worthy to mention is the fact that, since the creation of the CBAA, our Supreme Court has affirmed with finality all the decisions rendered by this agency.

TRADE AND INDUSTRY DEVELOPMENT CORPORATION OF THE PHILIPPINES

The Trade and Investment Development Corporation of the Philippines (TIDCORP) is a full-fledged export credit agency, serving the needs and supporting the growth of the country's export sector.

As of December 31, 2000, the Corporation's total guarantees outstanding amounted to P6.0 billion, reflecting 13% growth from last year's end level. Growth was due to increased issuances of new accounts under the Term Loan Guarantee Program (TLGP) and the General Facility Program, and the foreign exchange differential of the Meralco account.

Guarantee issuances from January 1 to December 31, 2000 amounted to only P424.9 million as banks continued their cautious stance in providing credit to the manufacturing sector, especially the small and medium enterprises (SMEs). The merger of five participating financial institutions also caused delays in the processing of applications.

Guarantee assistance, amounting to P122.4 million was granted under the Preshipment Export Finance Guarantee (PEFG), a program offered by the Corporation to improve SMEs' access to credit financing by providing guarantee as an alternative to traditional collateral required by banks. Meanwhile, the Post Shipment Export Risk Guarantee (PERG) facility, which gives facility to exporter-clients even before they receive payment from foreign buyers, provided P53.8 million assistance. Issuances under the Automatic Guarantee Line (AGL) facility, a supplemental program to PEFG and PERG, amounted to P42.0 million.

Handicrafts (41%), furniture (30%) and garment (13%) remained the top three industries that benefited from these facilities. Small-sized export firms with asset size of P15.0 million and below constitute the bulk of the Corporation's clientele. Data from the participating financial institutions and client firms show that the guarantee-assisted firms generated total export sales of US$1,097.2 million in 2000. Meanwhile, the Export Credit Insurance (ECI) and the Direct Lending Programs brought in US$0.2 million and US$0.44 million of export sales, respectively. In terms of employment generation, estimates show that the 2000 TIDCORP-assisted firms generated employment for about 46,700 workers.

The Corporation managed to realize a net income of P77.4 million for 2000, 8% higher than the previous year's figure. TIDCORP's profitability ratios as indicated by the rate of return on total assets and on net worth, were 6.2% and 6.2%, respectively. Total assets as of yearend stood at P1.38 billion, while total liabilities and net worth amounted to P0.14 billion and P1.24 billion, respectively.

NATIONAL TAX RESEARCH CENTER

For 2000, the National Tax Research Center (NTRC) continued to function in accordance with its mandate to conduct continuing research on taxation as a basis for tax policy formulation/legislation consistent with the development plans of the government.

For the year under review, the NTRC completed the report on Phases I and II of its major project entitled, "An Assessment of the Local Business Tax structure." The NTRC also conducted studies aimed at revenue enhancement, rationalization of fiscal incentives, improvement of the tax structure, promotion of equity, improvement in taxpayer's compliance and efficiency in tax administration. These studies include:

A. On Direct Taxation

Proposed Tax Deductibility from Gross Income of the Loan Loss Provisions of Banks.

Study on Gender Bias in the Income Tax Provisions of the National Internal Revenue Code (NIRC) of 1997

Review of 25% Tax Imposed on Non-Resident Cinematographic Film Owner

B. On Indirect taxation

Taxation of Actors, Actresses and Other Talents (Section 17 (a) of the National Internal Revenue Code (NIRC), as Amended

Proposed VAT-Exemption on Sale of Real Properties to Filipino-Americans/Former Filipino Nationals

Assessment of RA No. 8761 re Deferment of VAT on Certain Services

Taxation of Services Performed in the Exercise of profession and Professional Services Performed by Registered Professional Partnerships.

C. On Local Finance

Analysis of the Local Business Tax Structure Vis-à-vis the Proposal to adopt a Rate of Not Exceeding Two Percent (2%) of Gross Receipts for All Businesses

Proposals to Prohibit Local Government Units From Imposing Taxes on the Gross Receipts Derived by Banks From Their Lending Operations

Proposal to Amend the Disposition of the Proceeds of the Real Property Tax

Proposed Transfer of the Authority to Impose the Amusement Tax From the Province to the Municipality, Amending for the Purpose Sec. 140 of the Local Government Code of 1991 (LGC.)

Feasibility of Imposing an Additional Tax of Two to Three Percent (2% - 3%) on the Sale of Real Properties Based on the Gross Selling Price

The Feasibility of Allowing LGUs to Grant Real Property Tax Incentives to New Investments

Examination of the Proposed Amendments to the Special Education Fund Tax

D. On Fiscal Incentives

An evaluation on the Impact of Tax Subsidy on the Operations of the Home Development Mutual Fund (HDMF)

Recent Developments in Investment Incentives in Selected Asian Countries

Assessment of Laws on Fiscal Incentives Enacted in 1999

Evaluation of the Rice Research Program of the Philippine Rice Research Institute (PhilRice)

Policies and Best Practices for Small and Medium Enterprises (SMEs) in Selected Asian Countries and Stock Exchanges Dedicated to SMEs

Strict Implementation of the $US 100 per Month Duty Free Shopping Privileges of the Subic and Clark Economic Zones (Ecozones) Residents

Revenues Waived from Various Fiscal Incentives Provision
The NTRC likewise prepared draft bills on the Imposition of the Motor Vehicle User's Charge (MVUC) and amendments to certain provisions of the Local Government Code. It also drafted the executive order including the implementing rules and regulations re: Reactivating the Task Force on Fees and Charges, Expanding its Membership and Functions and Providing Guidelines for the Review of the Proposed Rate Increase of Fees and Charges by National Government Agencies and Government-Owned and - Controlled Corporations Under EO 197.

The NTRC evaluated Senate and House Bills and other proposals referred by the 11th Congress and other government agencies as well as the private sector. These served as inputs during executive and congressional deliberations of said proposals. The NTRC also provided technical support to the Working Group of the Development Budget Coordinating Council/Executive Technical Board; Task Force on Zonal Valuation; Task force on the Revision of Fees and Charges; and Tax Reform Committee.

In support of the tax information and taxpayer awareness program, the NTRC published the NTRC and FIRB 1999 Annual Reports, Guide to Income Taxation For Resident Individuals, Primer on Exciseable Articles, and the bimonthly NTRC Tax Research Journal.

As Secretariat of the Fiscal Incentives Review Board (FIRB), the NTRC processed and evaluated applications for tax subsidy availments requested by government-owned and controlled corporations for consideration of the FIRB Technical Committee and the Board Paper. It likewise provided technical services to the Committee and Board's meetings during the period.