1 Philippines

Rowena Salido

1.1 Introduction/Country Profile

The Republic of the Philippines is an island nation lying off the southeastern coast of Asia with a total land area of 115,831 square miles consisting of 7,107 islands with Manila as the country's capital. Most of the islands are small and uninhabited. The larger islands are mountainous. Mountains or hilly terrain make up 65% of the total land area. The vast majority of the people live on the eleven largest islands. The three major islands in the country are Luzon, Visayas and Mindanao. The Philippines has 72 provinces and 61 chartered cities. As for the elevation, the highest point is Mt. Apo on the island of Mindanao which is 9,692 feet above sea level while the lowest point is the Mindanao Deep (the Philippine Trench) which is 34,400 feet below sea level.

The Philippines is part of the "Ring of Fire," a narrow band of intense volcanic and earthquake activity that circles the Pacific Ocean. There are 21 active volcanoes, most of which are located on the eastern or Pacific Rim of the archipelago, and over 200 dormant volcanoes. The climate in the lowlands is warm and humid. The average temperature is 70 to 80 degrees Fahrenheit all year. The average rainfall ranges from 35 to 216 inches. From June to November, it is the wet season. In the cooler months, monsoon winds come from the northeast. From April to October, the monsoons blow from the southwest. The rainiest seasons occur from July through October. Overall, about 40 typhoons hit the Philippines each year. A three stage warning system is used to announce the onset of typhoons.

It was ruled for centuries by Spain, which brought European traditions and the Christian religion to the islands. The Philippines is the only country in Asia with a predominantly Christian population. The development of Christianity resulted from Spanish rule of the islands from the 16^{th} to the end of the 19^{th} century. Thus, 83% of the population is Roman Catholic; 9% is Protestant; 5% is Muslim; and the remaining population practice no established religion. Spanish missionaries were unable to convert the Filipinos living in the southern part of the country to Christianity. They have been converted to Islam (the religion of the Muslims) before the arrival of the Spaniards and refused to abandon their religion. These Muslims Filipinos, sometimes called Moros by the Christians, live on Mindanao and the Sulu islands.

Most Filipinos, as the people are called, are of Malay stock, closely related to the people of Malaysia and Indonesia. In appearance, they are usually of medium height, with brown skin and straight black hair. A number of Filipinos have some Spanish, American or Chinese ancestry. Chinese settled on the islands as merchants and traders over the centuries. Today, they make up a small but distinct minority. Filipino ancestors settled in different parts of the islands where they were often isolated from one another by the mountainous terrain. As a result, many different dialects were created. Thus, the Philippines has Filipino as the national language and uses about 87 dialects. English, however, is also spoken widely throughout the islands and is being used as medium of instruction in most schools, particularly in colleges and universities.

The people of the Philippines gained complete independence in 1946 and began the building of their own distinctive nation. The Philippines is a democratic and republican state headed by a president, who, under the present Constitution, must be elected to a six-year term without re-election.

There are three branches or departments of the Government which are co-equal with one another. These are the legislative branch is responsible for enacting/amending/repealing laws; the executive branch which implements the laws; and the judicial branch which interprets the laws of the land in cases of ambiguity. The Philippines is mainly an agricultural nation, although it is developing industries of various kinds. About two-thirds of all working people are engaged in agriculture or processing of agricultural products. Among the country's natural resources are timber, petroleum, nickel, cobalt, silver, gold, salt and copper. Public education in the Philippines is based on a three-level system-four years of primary school, two years of intermediate school and four years of high school. Under Spanish rule public education was not greatly encouraged. Education was encouraged by the United Stated of America during its governing period in the country. Filipinos place a high value on education. In fact, the Philippines has one of the highest literacy rates in Asia, with almost 90% of the population being able to read and write. As of May 2000, the country's population was surveyed at 75.33 million. The Philippines uses the metric system in weights and measures, and has the Philippine Peso as its monetary unit or currency. The country observes around 12 national holidays.

Table 1.1 Population (In Million Persons)

Year	1995	1996	1997	1998	1999
Total	70.27	71.90	73.53	75.16	76.78
% Change	2.40	2.32	2.27	2.22	2.16

Sources: National Statistical Coordination Board (NSCB), Bangko Sentral ng Pilipinas (BSP)

1.2 Overview of Economic Activity and Fiscal Position

The Philippine economy continues to enjoy strong fundamentals brought about by robust export performance, moderate inflation and interest rates, and healthy external accounts, among others.

1.2.1 Brief Review of Economic Activity

A) International Environment

Trade Balance and Current Account Balance

From 1993 to 1997 export has grown by an average of 26%. Even in 1998 when Asian exports were badly hit by the recent crisis, the country was able to achieve a remarkable 16.6% export growth. In 1999, the growth even climbed to 18.8%, while for January to August 2000, growth was registered at 11.4%. For January to August 2000, the US remains the country's biggest trading partner accounting to 29.4%, followed by the rest of Asia , 28.2%, Europe, 15.8% and Japan, 14.2%. The current account balance surplus surged to US$518 million in January 2001.

Exchange Rate and Exchange System/ Foreign Direct Investment

The country's exchange rate policy supports a freely floating exchange rate system. As of January 2001, while the overall financial account remained weak, the foreign direct investment account reversed to a UD$53 million from the US$82 million deficit incurred in January 2000.

B) Domestic Environment

Economic Growth Rate and Inflation Rate

The country's gross domestic product registered a 3.9% growth for the first half of 2000. This is achieved despite the Mindanao crisis and the series of oil price hikes which have been affecting the local stock market and the Philippine Peso. More than half of the economic growth was contributed by strong performance of services sector. Manufacturing, which accounts for about 70% of the industry sector, also posted an impressive 6.1% growth, while the agriculture sector performed better than expected in the second quarter to register 2.3% growth for the first half of 2000. Inflation has been maintained at relatively low levels. From an annual average of 9.7% in 1998, it declined significantly to 6.6% in 1999 and further down to an average of 3.8% for January to September 2000. For 2001, the rate is within the range expected.

Investment

Executive Order No. 226 (Omnibus Investments Code of 1987) provides a comprehensive set of incentives for local and foreign enterprises engaged in activities considered by the government as high priority for national development. This law is being implemented by the Board of Investments (BOI).

Capital Market Development and Stock Market Capitalization

Key reforms for capital market development continue to accelerate. The core reforms—full disclosure philosophy and the concept of self-regulation—are now in place in the administrative operations of the Securities and Exchange Commission. Under the full disclosure rules, all material and necessary information about the issuer of securities are disclosed in order to protect the interest of investors. On 29 June 1998, the Philippine Stock Exchange was conferred permanent self-regulatory organization (SRO) status. Market capitalization, defined as the closing price of stocks multiplied by the number of outstanding shares, increased by 22.8 % to PhP2.6 trillion as of end-December 2000 from PhP2.1 trillion at the end of the previous quarter. Similarly, stock market capitalization in US dollar terms rose by 13.9% during the comparable period despite the weaker peso. The average daily turnover, however, declined by 22.7% to PhP1.2 billion as of end-December from about PhP1.5 billion as of end-September, indicative partly of negative investor sentiment during the period.

Money Supply and Employment

For the period October-December 2000, base money(BM) posted an average of PhP 27.5 billion. Reserve money (RM) which is a main component of BM, registered an overperformance of PhP 12.1 billion during the same period. The domestic liquidity, which is the intermediate target of the monetary policy, remained well below the indicative monthly targets during the last quarter of 2000. On an annual basis, the level of RM contracted by 4.2%, or by PhP13.5 billion. Also on an annual basis, the growth of domestic liquidity decelerated to 4.6% in 2000 compared to the 19.3% growth registered in 1999.

Employment is one of the main and major thrusts of the Arroyo administration and the central program of the Department of Labor and Employment (DOLE). Thus, the DOLE and the entire government machinery have drawn up and are vigorously pursuing specific and practical strategies to assist jobseekers land full and decent jobs and those already employed get better working terms and conditions.

1.2.2 Fiscal Position

For 2001, the Government revenue program targets a level of PhP 607.2 billion or about 15.8% of GNP, about 8% higher than the revenue goal for 2000. This supports the proposed expenditure program of PhP 692.2 billion. The National Government deficit forecast for 2001 is PhP 85 billion. As for the National Government's cash budget program, about 90% of the total revenue, or PhP 549.3 billion will be collected by tax agencies. The tax effort of 15.3% of GDP represents a modest increase from 15.2% target set for this year. The revenue goal for the Bureau of Internal Revenue for the year 2001 is PhP 441.6 billion, roughly 12.3% of GDP and an 11% growth over the goal for 2000. To achieve this, the Bureau of Internal Revenue will continue its ongoing tax administration reforms, such as the full operation of the Large Taxpayers Service and the Excise Tax Service, strengthening of the tax computerization program, more effective tax audits and expanded taxpayer awareness program. The Bureau of Customs' goal for 2001 is PhP 100.5 billion, about 2.8% of GDP and 9.4% higher than target for 2000. The growth in the Bureau of Customs' revenues will be mainly premised on a projected import growth of 18% and will be attained despite a reduction of import duties on account of the Government's World Trade Organization commitments. Non-tax revenues are projected to be lower next year on account of the tapering off of the privatization program and expected lower interest income from government investments. The government shifted the thrust of fiscal policy from pump priming into cautionary spending. The budget deficit of the national Government amounted to PhP 82.98 billion during the first nine months in 2000, which is Php 35.48 billion higher than program. This amount is mainly due to the shortfall in privatization proceeds and in BIR collections. The privatization of big-ticket corporations, like the Philippine National Bank and the Manila Electric Company were rescheduled to the latter part of the year to await improvement in market conditions. The Government, however, remain committed to the pursuit of fiscal consolidation by tackling both revenue and expenditure programs of the Government.

1.3 Technical Assistance in Fiscal Affairs

The government of the Republic of the Philippines receives various forms of assistance from International Organizations such as the World Bank, International Monetary Fund, Asian Development Bank, and Japan Bank for International Cooperation. Of the 17 out of 45 Priority Projects for Facilitation, some projects that received the needed assistance in the area of fiscal affairs are the banking sector reform, the Community-Based Resource Management Project, the rural finance projects, social expenditure management project and the Rural Micro-enterprise Finance Project.

On the banking system reform (another area funded by World Bank) which is handled by the Department of Finance (DOF), the net commitment is US$300 million and the undrawn balance is US$200 million.The delayed release of the 2nd and 3rd tranches is due to unmet contionalities, vis: (1) passage of revised Bangko Sentral ng Pilipinas Charter; (2) amendment to the Philippine Deposit Insurance Commission (PDIC) Act; (3) the privatization of the Philippine National Bank (PNB); and (4) macroeconomic conditions. Along this line, the objective of the DOF is to fast track the rehabilitation program of the PNB and to lobby for the required legislations. . This project is being recommended for renegotiation.

The rural finance projects are primarily undertaken by the Land Bank of the Philippines in close coordination with DOF. (The projects' funding source also comes from World Bank)In this regard, the latter agency has yet to come up with a uniform marker-based pricing for all foreign funded programs. Some problems which are encountered in the implementation of this program are the overall slowdown in the economy, the excess liquidity in the banking system, and the inability of the Participating Financial Institutions to meet the Countryside Loan Fund accreditation.

Another program being implemented by LBP is the Rural Micro-Enterprise Project which is funded by the ADB. The project, having a net commitment of US$18.60 million, started in 1997 and is set to be completed in 2002.

Last September of this year, representatives of the Philippine government headed by the President met with Japanese officials in Tokyo for strengthened bilateral ties between Japan and the Philippines, as well as to explain the Philippine Government's economic plan to achieve sustained growth and development. Discussions focused on the Philippine Government's economic plan, which focuses on fiscal discipline, market-orientated reforms, good governance and poverty reduction. The Philippine Government's commitment to strong Philippine-Japan public and private sector relations, and the important role that Japanese investment plays in the economic development of the Philippines was highlighted throughout the visit.

The Philippine Economic Plan is a clear outline of the steps being taken to institute economic reform and to create an environment that is favorable to foreign investment and the government does value greatly the role that Japan has played and is playing in the country's economic development efforts. Explained were measures being taken to ensure a stable macroeconomic environment, stimulate investment and sustain the growth the nation's economy has been recording. A report on steps being taken to grow the use of official development assistance funding will be provided, as well as the priorities being given to development of the Philippine information and communications technology sector, a sector in which the Philippines has particular strengths.

The meeting with the Japanese government included a discussion of the implementation of a newly signed agreement between the Ministry of Finance of Japan and the Bangko Sentral ng Pilipinas providing for a US$3 billion bilateral swap arrangement. Under the arrangement, the Philippines will be able to swap Philippine pesos for US dollars with Japan in order to finance short-term liquidity requirements. The currency swap arrangement is a component of the Chiang Mai Initiative forged under an initiative of the Association of Southeast Asian Nations (ASEAN) to meet the liquidity needs of participating countries.

1.3.1 Tax Policy

A) Aggregate Tax Revenue

a. Revenue Sources

The Government derives its revenues from both tax and non-tax sources. The main sources of revenues include income tax and customs duties. The main sources of non-tax revenue consist of interest on deposits, amounts earned from Government owned corporations and privatization receipts. The Government sought to broaden its revenue base by enacting the Comprehensive Tax Reform Package and expanding the value-added tax regime. The Government has also sought to simplify the taxation of financial institutions by proposing the Financial Sector Tax Reform Package. In 1997, the country earned Php 9.6 billion from privatizations, exceeding the year's targets of PhP 8 billion. The Government generated PhP1.7 billion from sales by Assets Privatization Trust and the Presidential Commission on Good Government in 1998, below the revised target of PhP 2 billion for the year. In 1999, the Government earned PhP 4.2 billion from privatizations, mainly from the sale of its remaining shares in the Philippine Associated Smelting and Refining Corp.

b. Revenue Results

In 1994, Government revenues reached PhP 361.2 billion, representing an increase of 29.1% from 1993. A 115% increase in non-tax revenues, tied in part to the increased receipt of privatization proceeds and a number of new revenue measures, including an adjustment to the documentary stamp tax, drove revenue growth. In 1995, Government revenues totaled PhP 361.2 billion, an increase of 7.4 from 1994. Tax revenues rose due to a number of new tax laws and various administrative reforms in tax collection, including the expansion of the withholding tax system, the monitoring of large taxpayers and the improvement of information systems at the tax bureaus. In 1995, the Government recorded a surplus of PhP 11.1 billion. In 1996, Government revenues reached PhP 410.4 billion, 13.6% higher than in 1995, owing to improved income tax and customs duty collections. Revenues from non-tax sources declined to PhP42.6 billion as expenditures rose by more than 15%. In 1997, Government revenues rose to PhP 471.8 billion, an increase of 15% from 1996, due to higher tax revenues resulting from excise tax reforms, computerization of the tax authorities' offices and an increased number of tax audits, tied in part to the Government's Tax Reform Package of 1995. Non-tax revenue also rose as privatization receipts and dividends and other receipts from Government owned corporations climbed. These increases more than offset the loss of revenues from the tariff reductions that took effect in 1997. Nevertheless, revenues came in below projections because of lower than expected GNP growth. In 1997, the Government recorded a surplus of PhP 1.6 billion. In 1998, Government revenues decreased to PhP 462.5 billion compared with PhP471.8 billion for 1997, due, in part, to the general contraction of the economy and lower imports. Revenues collected by the Bureau of Internal Revenue increased to PhP 337.2 billion from PhP 314.7 billion, but still short of target estimates. Revenues from customs duties fell to PhP 76 billion from PhP 94.8 billion, just below its target for the year. In 1999, Government revenues amounted to PhP 478.5 billion, a 3.5% increase compared with 1998. The 1999 figure was, however, PhP 12.2 billion less than the revised target. Non tax revenues reflected a PhP 5.2 billion dividend payment from the Bangko Sentral ng Pilipinas and PhP 3.2 billion in proceeds from the sale of Philippine Associated Smelting and Refining Corp. Revenues collected by the Bureau of Internal Revenue were PhP 12.3 billion less thana the revised target. The shortfall was primarily attributable to the slow recovery of the industry sector. Revenues collected by the Bureau of Customs were PhP 2.9 billion more than the revised target.

B) The Bureau of Internal Revenue

a. Overall Performance

Despite the continuing effect of the economic crisis, the 1999 total internal revenue collection of P 341.320 B surpassed 1998 collections by P 4.14 B or 1.23%. Compared to the bureau's goal or P 353.631 B, this year's total internal revenue collection represented a 96.52 percent level of attainment. As reported by the National Statistics Coordination Board (NSCB), GCP for CY 1999 posted a 12.07% growth which is higher than the 10.15% growth recorded in 1998. However, economic growth is led substantially by the least taxed sector, the agriculture sector which posted positive growth of 16.36% compared to a negative 0.59% growth in 1998. The taxable sectors lagged behind for most of 1999. The service sector slowed down by registering a growth of 12.90% this year compared to 15.74% growth recorded in 1998. Growth in the industrial sector exhibited slight improvements from 7.87% in 1998 to 8.43% in 1999.The BIR's share to the total National Government Tax Revenue of P 478.502 B reached 71.33% while those of other agencies amounted to 28.67%.

b. Collection by Major Resources

Taxes on Next Income and Profit registered the highest contribution at 53.92% to the total tax revenues followed by Excise Taxes and Value Added Taxes at 18.10% and 16.16% shares, respectively.

Table 1.2 Collection by Major Sources

Income Taxes	VAT	Excise Taxes	Other Percentage Taxes	Other Taxes
53.92%	16.16%	18.10%	6.46%	5.37%

c. Taxes on Net Income and Profit

The total collection from Net Income and Profit amounted to P 184.024 B. This surpassed the 1998 collection by P 0.110 B or 0.06% but is short of goal by P 20.288 B or 9.93%.As for corporate income taxes, the collection slightly increased by 1.36% but fell short of goal by 13.66%. This could be attributed to the unfavorable business climate brought about by the regional currency crisis and high interest rates which resulted to a lot of business establishments opting to close shop or to downsize.

Withholding on wages performed positively compared to goal by 5.10% and previous year's collection by 16.41%. Changes made in the withholding tax scheme followed by an extensive information drive on the withholding tax system led to the increase compliance by the withholding agents. Collection from capital gains tax this year decreased by 16.26% over the 1998 collection and deficient by 26.84% compared to goal. This is explained by the decrease in volume of transactions from sale or real properties brought about by the implementation of Revenue Regulations No. 13-99 (Tax Exemption of Principal Residence). This year's number of tax returns filed from this source went down by 3,116 returns or 2.29% lower than the 1998 tax returns filed.

Final tax on bank deposits incurred an P 8.02 B or 31.86% deficit compared to goal and a P 9.58 B or a 35.83% decrease, compared to 1998 collection. This is due to the fact that even with the increase in the volume of deposits, corresponding average interest rates decreased.

Although collection for Treasury Bills/Bonds surpassed its 1998 collection by 2.64%, it is deficient by 5.82% compared to goal. The deficit in collection compared to goal was brought about by the decrease in net sales of T-Bills. The Bureau of Treasury reported a drop in net sales of T-Bills from P 43.319 B in 1998 to P 21.499 B in 1999.

d. Excise Taxes

Total Excise Tax collection of P 61.764 B exceeded its target by P 0.596 B or 0.97% but slightly lower than the 1998 collection by P 0.991 B or 1.58%. It was noted that consumers of high priced fermented liquors shifted to the comparatively lower priced liquors such as gin, rhum and whisky. Thus, excise tax collection from alcohol products declined by 8.07% compared to goal.

Revenues generated from tobacco products declined by 1.41% (P 0.236 B) compared to 1998. The current economic crisis greatly affected the cigarette industry considering that cigarettes are usually considered as luxury items (popularly known also as sin product). Tax collections from high and medium priced brand of cigarettes declined by 4.04% compared to tax collections in 1998. Likewise, tobacco inspection fee collections also declined by 65.50% over prior year's collection.

The drop in collection from petroleum products by 2.52% against 1998 collection is due to the effects of the oil deregulation law which brought in more players to the local oil market. Excise taxes on importations were credited to the Bureau of Customs. Several manufacturing industries dependent on diesel products for their machinery consumption have either closed or slowed down their operations resulting to a decrease in collection of P 254 M or an equivalent of 2.58%.

Also, there was a decrease in excise tax collection from removals of avturbo product on account of the tax exemption on sale to international carriers under the Tax Code. With regard to miscellaneous products, production and sales of locally assembled automobiles went down by 5,498 units or 17.08%. It posted a 6.81% decline in collection compared to 1998 but overshot its target collection by 17.13%. Mining and mineral products exceeded its target by 12.76%.

e. Value Added Tax

Value-added Tax collection of P 55.150 B registered an increase of P7.611 B or 16.01% over last year's collection and overshot the goal by P 1.651 B or 3.09%. The positive performance of Value Added Tax (VAT) is partly due to the intensified efforts to raise revenues from VAT with the "Humingi ng resibo" raffle promo. Increase in VAT payments were also due to the availment of Economic Recovery Assistance Payment (ERAP) Program and the increase in volume of government money payments. The improved collection in VAT is also attributed to the recovery from the Asian economic crisis of certain sectors of the economy which are VATable. For instance, the manufacturing sector managed to grow from 7.9% in 1998 to 9.8% in 1999 in nominal terms. The food subsector, comprising more than a third of total manufacturing, contributed much to the VAT increase with its 14.2% growth. The favorable performance of other VATable sectors such as transport, communication and storage, trade and the retail sector growing at 13.8%, 15.2% and 16.3% respectively, had positive impact on VAT collections.

f. Other Percentage Taxes

Collections from Other Percentage Taxes (OPT) increased by P 1.716 B or 8.44% compared to 1998 and overshot its target by P4.721 B or 27.26%. Collection from amusement taxes, insurance premiums and other percentage taxes registered positive growths of 6.28%, 64.59% and 92.54%, respectively, from previous year's collection The volume of returns from Insurance Premiums filed during the year increased by 372.40% compared to previous year due to the continuing awareness on the importance of insurance services, especially on health coverage. The decrease in the lending rates from 18.35% in 1998 to 11.78% in 1999 contributed to the decline of 30.47% in collections from financial institutions compared last year. Banks had no choice but to bring down the cost of loanable funds to encourage loan borrowings and stimulate demand. As reported by the National Accounts, the after effects of the financial turbulence in the Asian economies were evident in the slow growth posted by the financial sector at 8.5% this year from 13.8% in 1998. Banking activities which contributed more than 70% of the financial sector declined from 14.1% in 1998 to 7.5% in 1999. The insurance and non-bank sectors posted 12.3% and 8.6% growth in nominal terms, respectively.

g. Other Taxes

Collections from Other Taxes exceeded the goal by P 1.009 B or 5.82% but declined by P 4.303 B or 19.00% of last year's collection. Only transfer taxes exceeded its goal and previous collection by 50.32% and 20.94%, respectively, due to the increase in the number of tax returns filed from 38,161 filers last year to 39,492 filers this year. Although documentary stamp tax collection exceeded its target by 18.21%, a decline by 17.82% against last year's collection was recorded.

h. Collection by Region

Total Regional Collection for CY 1999 amounted to P 341.16 B which is P 3.52 B or 1.04% more than that of BY 1998 and P 12.37 B or 3.53% short of this year's goal of P 353.63 B. Revenue Region (RR) No. 8 (Makati) generated P 127.75 B representing 37.45% of the total regional collection. RR No. 7 (Quezon City) and RR No. 6 (Manila) followed with 19.61% and 15.16%, respectively. The combined efforts of these three regions generated 72.22% of the total CY 1999 regional collection. The remaining 27.78% was shared by the other sixteen (16) revenue regions led by RR No. 9 (San Pablo City), RR No. 4 (San Fernando, Pampanga), RR NO> 13 (Cebu City) and RR No. 5 (Valenzuela) with 11.33%, 5.19%, 2.59% and 2.41% contributions, respectively.Three (3) out of nineteen (19) revenue regions surpassed their assigned goal for CY 1999. Revenue Region No. 12 (Bacolod City) registered the largest percent of excess over target at P 1.21 B or 46.28%. The other two regions which posted percentage excesses are RR No. 17 (Butuan City) at 6.16% and RR No. 11 (Iloilo City) at 0.02%. Percentage deficits posted by the sixteen (16) other regions ranged from 0.05% to 15.09%.Compared to previous year's collection, eight (8) out of nineteen (19) regions increased their collection for CY 1999. Increases in collections ranged from 11.39% for RR No. 17 (Butuan City) to 0.01% for RR No. 16 (Cagayan de Oro City). Decreases in collections experienced by the eleven other regions ranged from 0.30% to 10.99%.

Table 1.3 Collection By Revenue Region CY 1999 (In Billion Pesos)

Revenue Regions	Collection
1. Calasiao, Pangasinan	2.27
2. Cordillela Administrative Region	1.13
3. Tuguegarao, Cagayan	0.90
4. San Fernando,Pampanga	17.69
5. Valenzuela	8.22
6. Manila	51.73
7. Quezon City	66.88
8. Makati	127.75
9. San Pablo City	38.66
10. Legaspi City	1.25
11. Iloilo City	1.86
12. Bacolod City	3.84
13. Cebu City	8.85
14. Tacloban City	1.36
15. Zamboanga City	0.87
16. Cagayan de Oro City	2.96
17. Butuan City	0.73
18. Cotobato City	1.22
19. Davao City	2.99
TOTAL	**P 341.16**

i. Collection by Manner of Payment

Cash collections from voluntary payment amounted to P 339.53 B in CY 1999 representing 99.52% of the total BIR collections. This year's collection from showed a P 4.15 B or 1.24% increase from that of CY 1998 collection of P 335.38 B. This improvement may be traced to the continuing tri-media information campaigns, strict monitoring of Large Taxpayers and the availment of the Economic Recovery Assistance Payment Program per Revenue Regulations No. 2-99. Collection generated from preliminary/final assessments and delinquent accounts amounted to P 1.54 B and P 0.08 B, contributing 0.45% and 0.03%, respectively, to the total collection.

C) Organizational Effectiveness Study in the Bureau of Internal Reveue

In preparation for the conduct of the BIR Strategic Planning Session this November, an organizational effectiveness study is being conducted to determine the present state of the Bureau's tax and business processes, organizational structure and human resources. The study is being undertaken through the assistance of the United States Agency for International Development and Accelerating Growth Investment and Liberalization with Equity (USAID-AGILE). To gather data, representatives from AGILE are interviewing all revenue officials from the Commissioner down to Division Chiefs. The interview questionnaire covers the organizational components that effect the Bureau's efficiency and effectiveness. A survey of rank-and-file employees is also being conducted to determine the issues concerning the Bureau, in general, and each unit or division, in particular.

D) E- Filing and Payment System at the Bureau of Internal Revenue

With the signing into law of the E-Commerce Act of 2000, the BIR is set to implement an electronic filing and payment system known as the Automated Data Capture System (ADCS).

Under the system, the electronic filing (E-filing) of individual and corporate income tax returns and payment of corresponding taxes will be made possible via the Bureau's internet web facilities. An application software and password will be provided to taxpayers who will use the system to avoid illegal access to and tampering of data.

The development of the System is currently being undertaken by Fujitsu Philippines, Inc., under the supervision of HREA Erlinda Simple of the Taxpayer Assistance Service. Pilot implementation of the System, which was targeted last March 2001 was done for the 730 large taxpayers and 2,000 volunteering BIR employees in the National Office.

E) The Need for Reforms at the Bureau of Internal Revenue

Rationale for Tax Reforms : This consists of both external and internal factors pointed out below:

As for external factors, the following were established:

- Public perception that government lacks fiscal discipline
- Low tax awareness and negative tax consciousness of Filipinos
- Agency is susceptible to political pressures
- Transformation/business plan has no continuity
- Perceived lack of collaboration among government agencies on prosecution of tax cases
- Business growth and increased taxpayer population
- More complex transactions due to globalization

The internal factors, on the other hand, are the following:

- Tax System
  - Complicated laws and regulations
  - Burdensome documentary requirements
  - Prone to undue exercise of discretion
  - Susceptible to avoidance/evasion
  - Not adopted to Philippine setting

- Processes and information and communication technology
  - Red tape; complicated tax processes and forms
  - Restricted venue for filing and payment; limited number of Accredited Agent Banks
  - Manual audit-prone to abuse and discretion
  - ITS needs to be updated to keep pace with the current technology

- Organizational structure
  - Does not support integration of operations/functions
  - Too many management layers
  - Uneven allocation of resources at the national, regional and district offices vis-à-vis workload and revenue potential

- Human Resources
  - Bloated workforce
  - Very low salaries and limited benefits
  - Graft and corruption
  - CIR has limited authority to dismiss incompetent, erring/recalcitrant personnel
  - Difficulty in hiring and retaining technically competent personnel
  - Demoralized personnel due to negative public image and unclear criteria for promotion

- Financial Resources

On top of all these, BIR has come up with short-term strategies (also denominated as survival strategies) described below:

* To Protect The Integrity of the Revenue Base

- Collect back taxes from local government units
- Audit selected entities (NGAs, LGUs, GOCCs, large taxpayers, tax exempt entities, regional cases, thrift banks, pawnshops)
- Develop a system to cover hard-to-tax taxpayers
- Allow compromise of delinquent accounts/disputed assessments
- Use electronic metering machines in the payment of Documentary Stamp Taxes
- Implement third party information initiatives
- Broaden the tax base
- Deliver efficient and effective taxpayer services
- Issue revenue regulations
- Full rollout of Integrated Tax System
- Expand Large Taxpayer operations
- Initiate joint work with key agencies to strengthen the integrity of databases and develop capability in revenue forecasting

* To Strengthen Enforcement

- Review tax fraud strategies
- Review prosecution strategies
- Develop exchange of information agreement with key agencies with key agencies (BOC, BSP, SEC, LRA, LGUs)
- Develop inter-agency strategy to minimize tax evasion and money laundering
- Link BIR's enforcement strategy with government's anti-smuggling strategy

The Philippine government has its Financial Sector Tax Reform Program which aims to level the playing field in the financial sector and free the market from taxes that distort investment decisions and that inhibit the development and active trading of financial instruments. One of the components of the reform that will greatly help in spurring the development of the capital market, particularly the private bonds market is the reform of the Documentary Stamp Tax (DST), by removing it on secondary transactions and making rates more uniform. The program is currently undergoing a series of consultations with the private sector and budgeting framework.

1.3.2 Tax and Customs Administration

The year 1998 was significant for the Bureau of Customs (BOC) computerization project. The Management Information System and Technology Group (MISTG) was organized to oversee the Bureau's management information systems as well as strengthen its computerization program. The BOC's modernization program is also a timely response to the ever increasing need to facilitate trade in a world where economies are rapidly turning global as well as technologically more advanced. The BOC launched and implemented the Direct Traders Input for remote entry lodgement and the BOC Electronic Data Interchange (EDI) Gateway to cater to warehousing entry lodgement. In a very short period of time, the computerization project has made headway in the BOC's effort to achieve a paperless, cashless, and queueless transaction process between the Bureau and its partners in the business community.

A) Philippine Customs Reform

How can Information Technology (IT) be an element of improving tax policy design and effectiveness? And how has IT assisted cross-agency data sharing, management practices, and audit procedures?

Using an "off-the-shelf" customs application package as the main building block, the Philippines Customs Bureau has developed an on-line system to process clearance of imports, payment of duty, and delivery of release orders for shipments to leave the docks. The new on-line system has lessened the cost of trade for businesses, reduced opportunities for fraud, and helped the Bureau to maximize revenue collection.

In 1995, the Customs authority in Philippines decided to implement a new IT based system for payment, clearance processing and shipment release from Customs control. Diversion of duty and tax payments through the banking system was a serious problem, as were the number of instances when Customs collecting officers ran away with their collections. Another major concern was the unduly long clearance time taken to clear the cargo. The process involved nearly 10 separate documents in multiple copies, that passed through several desks being logged into 20 registers. Over 90 steps and more than 40 signatures and initials were involved. As a consequence, surveys consistently named the Customs Bureau as one of the most bureaucratic and corrupt government offices.

Just like many other Customs administrations in the world, Philippine Customs also was faced with an ever-increasing workload against budgets that remained stagnant in real terms. In fact, the entire government was implementing cost saving measures which included a personnel attrition program.

The Bureau implemented a standard software package ASYCUDA, developed by UNCTAD and used by more than 60 countries. (A new version of the software was developed under a World Bank funded project.) Project Abstract Secure (PAS) is a joint undertaking between the Philippine Customs Bureau and the Bankers Association of the Philippines. Payment of duties and taxes must be made to the Authorized Agent Bank. Thus, no cash is handled by any Customs Officer.

The system also has become nearly paperless. An encrypted file verifying the payment received at banks is sent to Customs via a gateway. Customs computers match this information with the amount of duties and taxes payable. The need for a paper Order of Payment and a Customs Invoice have been eliminated. A release order for the shipment is issued once a match has been made.

In ports where authorized banks do not exist, in-house banks were established to handle collections, and the Bureau's Computerized Tellering System was extended to these banks. An electronic reconciliation system matches the amount collected by banks with the amount deposited with the Treasury. An Automated Customs Operating System (AOCS) allows an importer or an agent to create one single electronic clearance document using work stations in their offices. These documents are then processed by the Customs Bureau. For those who have not been extended this Tele-clearance facility, Service Centers operated by the Philippine Chamber of Commerce and Industry digitizes the paper declarations into electronic declarations that are then processed by Bureau computers electronically.

At the heart of ACOS is a computer program called SELECTIVITY. The program analyzes the "risk profiles" of shipments by comparing their details with some 18 reference files, and then categorizing them as either High, Medium, or Low risk transactions. For low risk transactions it is only necessary to make an automated calculation of the required duty and match this to the amount actually paid to an authorized bank. If the transaction profile is deemed high risk, then a physical examination of the goods is mandated prior to assessment. Medium risk shipments require document checks, but not physical examination of goods. The On-Line Release System (OLRS) facilitates the final release of in-dock shipments from Customs control. The off-dock OLRS utilizes the public telephone system for transmitting release instructions to the inland Container Freight station located many kilometers from the ports. Previously, messengers had to hand carry the release authorizations, which could take a day or two to deliver due to traffic congestion in the metropolis. The physical handling of the release authorization also provided an easy opportunity for corruption.

Planning and management of the project was the biggest challenge. The project extended over 13 regions of the Philippines and involved multiple partners: the World Bank, Crown Agents, Unisys, UNCTAD, and the Department of Finance. Mistakes were made in developing a management structure for the project. For instance, Crown Agents, who handled all the procurement, were not part of the steering committee.

The long duration of the project also created several problems. Project system requirement specifications were drawn up in 1992. By 1999, when the project was nearing completion, the leading technology had changed from DOS based systems to a Widows platform. Nearly 550 nodes and 40 servers had to be upgraded. In addition, nearly 300 change request notices for modification were made to the implementers, escalating the costs by 40%.

Certainly, in the initial stages the effort required to undertake a project of this magnitude was under-estimated. A large effort to train 2,500 people had to be mounted, whereas the World Bank's SAR estimated that only 650 people would need new training. Project monitoring and advice from the World Bank team was unimpressive. A total of 51 staff weeks were spent on project identification, preparation, appraisal and negotiation.

Given the high propensity for corruption and fraud prevalent in the earlier system and the absence of a private/secure Wide Area Network, several features had to be built into the system to prevent electronic fraud. For instance, the electronic payment files kept in the Central Office are matched with those kept at the ports to check that electronic records have not been tampered with at the ports.

The total cost of the project was approximately $27 million, of which $19 million was provided by a World Bank loan. The bulk of the funding was used for hardware and software.

The project was expected to increase revenue collection. Given the phased roll out and varying economic conditions, it is difficult to determine the impact of computerization on revenue collection. However, the net present value of increased revenue is considered to be significantly higher than the expenditure. The department was not able to meet its revenue targets in 3 of the 6 years, but that may be attributed to the East Asian economic crisis.

Improved service was a major benefit. Quick clearance of a majority of transactions has brought down the cost of trade significantly. Cargo is released between four hours to two days, as opposed to eight days in the earlier system. Under the new system, business people also enjoy the greater convenience of making payments at familiar banks, instead of lining up for service at the Customs collection stations.

The manual system of reconciling payments collected by the banks and the remittances to the National Treasury used to have a back log of up to four months. The electronic reconciliation process is completed within the day. And banks that fail to remit any collection are immediately detected and penalized.

The automated computation of payables utilizes fifty-two reference tables such as the tariff database, the applicable exchange rates and the various taxation rules. The system enhances revenue generation as computational errors, deliberate or otherwise are avoided.

Customs cashiers now have additional time available to carry out audit and reconciliation work. And the SELECTIVITY program in ACOS also makes it easier to focus limited enforcement resources on a more manageable number of shipments.

Successful implementation was partly the result of using a standard, tried and tested software rather than re-inventing the wheel. The package ensured a significant amount of process simplification, which led to process re-engineering.

The use of an independent agency for procurement of hardware was considered a major contributor to the success of the project.

Use of a data warehouse (FINLINK) for analysis and linking revenue departments with the Ministry of Finance has led to improved policy formulation. This is an extension of the original project carried out during the last year. Developments such as this, which help to extract maximum value from investment in service delivery systems, can be jeopardized by a lack of assured maintenance budgets.

1.3.3 Budget and Public Expenditure Management

To address specific implementation problems, it was expressed that there is a need for the Department of Budget and Management (DBM)and the National Economic Development Authority (NEDA) to operationalize the performance-based budgeting with ODA performance as indicator.

The proposed National Government Budget for 2002 (presented in the amount of PhP780.8 billion) is a people-focused budget that is anchored on fiscal discipline, focused to fight poverty and designed to regain the people's trust in government. The proposed budget puts the Filipino people at the center of government's development efforts, enhancing the building blocks that will enable him to live a life that is decent and secure and provide him with an environment where he can achieve his full potential, under a government that is just and deserving of the people's trust. The present administration drafted the national budget as a key component of the socio-economic recovery program aimed at eradicating poverty within the decade. The proposed budget provides for the funding requirements of key programs, a clear indication of the government's sincerity and determination to push the government development agenda. It is considered that the 11.6 percent growth in the budget proposal for 2002 from PhP699.9 billion for 2001 is modest when compared with the huge funding demand.

The formulation of the overall budget took into account attainable macroeconomic targets such as a real growth rate of 4.3 percent, inflation rate of between 10 to 11 percent and a foreign exchange rate averaging P50 to P51 per US dollar. The budget deficit will be pegged to only PhP130 billion in 2002, consistent with the government's plan to balance the national budget by 2006. The PhP130 billion budget gap target for 2002 will enable the consolidated public sector, which includes national, local, as well as government corporations, to improve its fiscal position such that, no later than 2005, the public sector will gradually attain a fiscal balance.

The revenue targets were based on realistic scenario of gradual normalization of the economy beginning 2002 and has taken into account the shortfall of tax collections posted in 2001. The government expects to raise revenue collections of about PhP624.3 billion next year, 11.8 percent higher than year 2001 target of PhP558.2 billion, the bulk of which will come from taxes.

The Government has maintained a strategy of optimizing domestic and foreign borrowings at the most concessional terms. It tapped non-traditional sources of financing, opening new possibilities of alternative financing in the future.

Debt indicators remained within prudent levels in spite of the financial crisis. The National Government debt outstanding rose to PhP 1,496.2 billion in 1998 from PhP 1,388.6 billion in 1997. Despite increase, the ratio of debt outstanding to GNP declined from 53.5% in 1997 to 49.8% in 1998. The National Government debt service as a percentage of GNP rose slightly from 5.0% to 5.8%. The higher debt service expense which include principal payments and interest expense resulted largely from the hike in interest rates and the peso depreciation.

A) The Philippines' Pilot E- Procurement System: Efficient Government Purchasing

In November 2000, the Procurement Service of the Department of Budget and Management (PS-DBM), with the assistance of the Policy, Training, and Technical Assistance Facility (PTTAF) of the Canadian International Development Agency, launched the Internet-based Electronic Procurement System (EPS) pilot. This system has generated lower costs for government and increased transparency.

Through the Procurement Service, the DBM overseas the purchase of goods and services for a large number of government departments and agencies. The key roles of the PSDBM are to provide common office and related items to over 1,800 client agencies, support agencies with the procurement of non-standard items, and monitor the prices of goods and services. Lack of transparency in government procurement has been a systematic problem in the Philippines.

In addition, inefficiency due to manual and paper-driven procurement processes has resulted in poor service and low sales volume. A 1999 study of the PSDBM, with the assistance of PTTAF, found that establishing an Electronic Procurement System could improve transparency, efficiency, and value in money in government procurement. Stakeholders, government agencies and suppliers, showed their support for EPS system.

The EPS is composed of:

1. Public Tender Board to provide access to information and distribute bid packages;
2. Electronic Catalog to support purchase of goods and services by public sector agencies; and
3. Supplier Registry for the registration of supplier wishing to do business with government agencies.

Initially, the EPS will serve as the official system to advertise and distribute specifications for public bidding opportunities by the government of the Philippines, Procurement Service and other Government Agencies. The EPS also contains information related to doing business with the government such as rules and regulations, press releases, a directory of government agencies and contacts, planned and historical agency procurement, bid matching for suppliers, potential competitors, winning bidders, and a frequently asked questions section. In the future the system will be extended to support other aspects of the procurement process including direct purchases, bid submissions, central accreditation and payments. The pilot design had to facilitate better communication, greater transparency, and better supply chain management. In addition, the platform had to be expandable, with the potential to become the single portal for doing business with the government. Cebra Inc., a private sector firm managing the MERX Service (the Canadian Government's procurement site), developed the EPS. It was patterned after the MERX service platform, but all forms and processes were designed by PSDBM to ensure that they were customized to Philippine procurement requirements. The EPS is supported by two Executive Orders issued by the President of the Philippines. Executive Order 322 required all bid opportunities, notices, and awards be advertised and posted in the EPS, and that all suppliers that wish to conduct business with national government agencies register in the system. The implementing rules and regulations of Executive Order 262 states that "bid requirements should be placed in two consecutive issues of two newspapers of general circulation and posted in the EPS and the website of the concerned agency." The previous practice was to advertise the bids in three major newspapers. This change has saved the government money in advertising costs.

Republic Act 8792 (the E-Commerce Law) further supported the EPS as it gave electronic documents the same legal protection as paper-based documents. Furthermore, the Act mandated that all government offices are to be internet-enabled not later than June 2002. Even with high-level political support for the EPS, its adoption has been relatively slow and inconsistent since it "went live" on December 1, 2000. Not all agencies have adequate resources to support the introduction of electronic services.

Only around 25% of the agencies trained on the EPS were ready for Internet services. In addition, a study by ACNielsen in 1999 revealed that only eight percent of Filipinos were using the Internet (although it is not clear what percent of businesses are online). This was due to the relatively prohibitive cost and undeveloped information technology infrastructure in the Philippines. PSDBM set up a Customer Service Area and created an EPS Division to assist and answer queries from government agencies and suppliers. Some public terminals were set up to provide access to EPS for those who do not have a computer or Internet connection. Still, the issue of accessibility will continue to be a challenge in broadening the base for the EPS.

Resistance to change by Public Service employees and the government agencies has also been an obstacle. PSDBM employees feared that computerization would result in job losses. Meanwhile, government agencies were concerned that they would lose control of their procurement authority and that major changes would be made to their procurement process.

Internal and external marketing was conducted before and after the launch of the EPS. PSDBM employees were informed that an efficient system would result in more business transactions and all of them would be trained on how to use the EPS. The government agencies, on the other hand, were told that the EPS is primarily for information dissemination and they will still handle their own bid evaluation activities. Support was also solicited from the executive and legislative branches of the government, donor agencies, and the private sector to encourage the use of the EPS service.

The Procurement Policy Board is the highest governing body for government procurement. It needs to become more involved with the EPS in setting long-term policy, developing planning strategies and encouraging implementation to ensure the system becomes the central portal for government procurement.

Another factor that has contributed to the relatively slow adoption of the EPS was the political uncertainty that plagued the Philippines during the impeachment trial and eventual ouster of President Estrada. There were many uncertainties at that time about the future of the project since the tenure of the DBM Secretary was co-terminus with that of the President.

It has been important for the government to understand that the EPS is a business solution and not simply a technology solution. Increased efficiency and business transactions will not materialize with the establishment of the EPS if the PSDBM does not improve its overall operations -- including delivery time, quality of products, and accounting procedures. Initial steps were taken to address these issues, however, considerable resources and efforts are still needed to move the system forward.

The total cost to develop and test the pilot EPS was US$400,000. The costs were shared equally by DBM and PTTAF.

Five months after the launch of EPS, there were 71 bid notices posted on the EPS, and 86 agencies and 62 suppliers were registered. The EPS provides agencies access to another advertising channel -- in addition to the newspaper and bulletin boards -- at essentially no cost. The information available to all suppliers from the day it is published until it closes. The cost savings from reducing bid notice newspaper advertising will be substantial over time as more and more notices are published on the EPS. Eventually, all government procurement notices will be posted on the EPS web site.

Suppliers are able to access government bid opportunities seven days a week and 24 hours a day. They do not have to visit government agencies to monitor the bid notices. With the bid matching feature of the system, suppliers can download the bid documents immediately. Furthermore, they will know the potential competitive bidders for a particular product or service.

Transparency in government procurement is being enhanced since government opportunities and transactions are provided online. Information on the winning bidder, the reason for the award, and the contract amount are all accessible through the EPS.

In addition, the electronic catalog, which provides information on the pre-approved cost of commonly-used items, will help government auditors check that supplies purchased by a government agency are not grossly over-priced.

The encouraging result of the pilot project prompted the government to continue running EPS for another year from May 1, 2001 to April 30, 2002. The government also will begin to formulate a long-term strategy for the EPS to institutionalize it as the core information center for government procurement at all levels.

The safest approach to adopting a new technology with a steep learning and adoption curve is to take small steps with activities that are manageable within relatively short timeframe. This allows greater flexibility for tailor-fitting the system and formulating a long-term strategy based on the actual experience of the organization and feedback from the clients. In the design of the EPS, no significant changes were made in the procurement process so that clients and project proponents could concentrate solely on how to get familiar with the new electronic system and thereby minimize resistance to change.

When it comes to choosing a technology or system, there is no need to reinvent the wheel. Customization of an existing system is often much easier. An organization that plans to implement an e-commerce strategy for the first time will benefit by seeking assistance from an organization that already has experience is this arena. However, management of the project should be in the hands of the implementing agency so that they will gain ownership of the project and ensure that the local situation is considered in coming up with a strategy.

Leadership must come from the highest level of the organization. The project champion must be able to harness the cooperation and commitment of the different sectors or stakeholders in this kind of project. Leadership by example is also essential. It will be easier for implementing organizations to convince their customer to use the system if they themselves use it.

An organization must have an intimate knowledge of its target market and know how to segment it. Each segment requires a distinct marketing strategy and also has different service level expectations. Customers will only use a new system if it adds value to them through the content and quality of the information presented, and if the system and its support services reach or exceed their service level expectations.

1.3.4 Expenditure Policy

A) Government Expenditure

During the four years ending 31 December 1997, Government disbursements grew at an average annual rate of 13.5%. The Government enjoyed budget surpluses each year beginning in 1994 because of its conservative fiscal policy.

The Peso depreciation and resulting rise in interest cost in Peso terms significantly reduced the surplus in 1997 and contributed to budget deficits in 1998 and 1999.

In 1994, interest payments accounted for one quarter of the Government's expenditures of PhP 319.9 billion, lower than any of the preceding five years.

The increase in the size of the 1994 cash budget permitted substantial increases in the allocations for infrastructure, trade and industry and basic social needs such as education, security benefits and health services.

In 1995, Government expenditures amounted to PhP 350.1 billion, an increase of 9.4% over 1994 expenditures. Reduced allocations to Government owned corporations permitted higher capital spending, amounting to 2.7% of GNP in 1995. Efforts to control expenditures resulted in an expenditures to GNP ratio of 17.9% compared with 18.4% in 1994.

The PhP 402.2 billion in expenditures in 1996 represented a 15.5% over 1995, partly due to one-time payment to the oil price stabilization fund in anticipation of deregulation of the oil company. Expenditures for social programs outpaced those for other sectors, with education receiving the largest allocation.

Expenditures for 1997 amounted to PhP 470.3 billion, an increase of 16.4% from 1996. Personnel expenses accounted for the largest increase, from PhP 135.4 billion in 1996 to PhP 150.4 billion in 1997, an increase of 11.1%, due to the implementation of the last phase of the Salary Standardization Law, which reduced the gap between the public-and-private-sector salaries. Capital outlays also climbed because of irrigation projects devised to offset the effects of the El Nino phenomenon on agricultural production levels. Allotments to local Government, especially for infrastructure projects, rose significantly. Interest expenses rose as a result of the depreciation of the value of the Peso due to regional economic turmoil.

Expenditures in 1998 increased to Php 512.5 billion compared to PhP 470.3 billion in 1997, the greater increase in expenditures compared to revenues of PhP 471.8 billion resulted in deficit of PhP 50.0 billion in the Government fiscal position for 1998, compared to a surplus of PhP 1.6 billion in 1997.

Expenditures in 1999 increased to PhP 590.2 billion compared to PhP 512.5 billion in 1998. The total expenditures were PhP 14.1 billion more than the revised target. The increase in expenditures in 1999 was due in large part to pump priming effort by the Government and in part to the repayment of certain accounts payable that were outstanding from previous Government administrations.

B) The Social Expenditure Management Project

The Social Expenditure Management Project (SEMP), the funding of which is being provided by World Bank, is jointly undertaken and being implemented by the Department of Budget and Management (DBM), the Department of Education, Culture and Sports (DECS) and the Department of Social Welfare and Development (DSWD). The said project aims to provide the much-needed textbooks for the public schools and hopes to help repair and maintain school buildings.

On a note, the government will continue to focus spending on rural infrastructure and basic social services and will continue to promote greater private sector participation in infrastructure provision. These will ensure more active participation of the regions and the rural sector in the growth of the economy as well as faster pace of infrastructure development and more efficient provision of services.

The government will continue to promote greater private sector participation in infrastructure provision through the Built-Operate-Transfer (BOT) and similar schemes, particularly in areas with high social impact, such as telecommunications, toll ways and mass transportation, water supply and treatment and solid waste management.

The education sector is still to receive big budgetary allocation, even higher than the combined budgets of the Armed Forces of the Philippines (AFP) and the Philippine National Police (PNP).

The budget will include, among others, certain amount for the DECS-Basic Education Facilities Program; for the acquisition of new textbooks; for the purchase of desks; for the requirements of newly-created teaching and non-teaching positions for DECS; and, as Government Assistance to Students and Teachers in Private Education (GASTPE). According to the budget chief, the education sector, in fact, already accounts for 70 percent of the total national budget for social services.

It was emphasized that the education sector budget does not only count government's direct support for basic education and tertiary education but also includes government subsidies to state higher learning institutions and educational programs of local government units (LGU).

It was likewise stated and explained that the government intends to put in more funds for the education sector to improve the quality teaching, provide more classrooms and school facilities and improve teachers' pay. Under the medium-term fiscal plan, the education sector is being proposed to receive at least 30 percent of the national budget, or 69% of the social services allocation over the 2000-2004 period. Basic education is being proposed to be given topmost priority, to grow by 16.4 percent over the same period.

C) Borrowings

a. Domestic Borrowings

Gross securities flotation of the National Government reached PhP 569 billion in 1998. Treasury Bill offerings amounted to PhP 498 billion as against PhP 370 billion in 1997. To limit the impact of high interest rates which prevailed in the first quarter of the year and avoid being locked into high interest rate bonds, most of the Treasury Bill offering were concentrated on short-term securities. However, as interest rates declined, the Bureau of Treasury resumed the issuance of Treasury Bonds. Treasury bond flotation rose only by PhP 3 billion, from PhP 68 billion in 1997 to PhP 71 billion in 1998. The National Government domestic debt reached PhP833 billion or an increase of 11.1% over the previous year's level of PhP749.7 billion. The National Government cut its weekly auction of Treasury Bills to PhP5 billion. In the end of 1998 it tapped small investors by issuing small denomination Treasury Bills. Likewise, the National Government tapped a bridge financing amounting to US$610 million from a syndicate of domestic commercial bank.

Table 1.4 Outstanding Domestic Debt of the National Government (In Billion Pesos)

1995	1996	1997	1998	1999
729.0	748.3	757.2	859.6	986.7

Source: Bangko Sentral ng Pilipinas (BSP)

b. Borrowing From Abroad

The country's current loan portfolio as of August 2001 consists of 194 active loans with net commitments of US$12.7 billion. Of these loans, 188 are project-type worth US$11.5 billion while six are program type worth US$11.5 billion while six are program-type worth US$1.1 billion. Of the country's 194 active loans, JBIC has the lion's share with 90 loans worth US$7.7 billion comprising 61% of net commitments, ADB has 50 loans worth US$2.8 billion (22%), WB has 27 loans worth US$1.6 billion (12%), while other bilateral ODA funding agencies have 27 loans worth US$600 million (5%).

Last year, only about US$1 billion or 13% of the outstanding balance of US$7.7 billion in ODA funds were utilized during the year.

In 1998, the Department of Finance secured 41 loan agreements totaling US$2.8 billion. The bulk of these loans came from Japan (US$1.0 billion or 36% of the total loans signed), the Asian Development Bank (US$863.81 million or 31%) and the World Bank (US$670.8 million or 24%). Other creditors include the United States of America, Korea, Swedish International Development Cooperation Agency (SIDA), Canada, Austria, France, Australia and Kuwait Fund. These loans financed projects related to power restructuring, air quality improvement, financial reforms, agricultural and rural development, social services, health services, and economic development in Special Zone of Peace and Development (SZOPAD) in Mindanao.

The country's external debt outstanding reached US$47.9 billion or 0.5% higher than the 1997 level of US$45.4 billion as a result of the peso depreciation and additional foreign loans by the government to shore up revenues and pump-price the economy.

The external debt ratio as a percentage of GDP rose from 53% in 1997 to 70.2% in 1998. However, buoyant export receipts allowed the ratio of external debt service to exports of goods and services to stay at the manageable level of 11.7%.

At present, of the country's 184 active loans, Japan Bank for International Cooperation (JBIC) has the lion's share with 87 loans worth US$7.2 billion comprising 58% of net commitments, Asian Development Bank (ADB) has 50 loans worth US$2.9 billion (23%0, World Bank (WB) has 26 loans worth US$1.8 billion (14%), while other bilateral Official Development Assistance (ODA) funding agencies have 27 loans worth US$628 million (5%).

Table 1.5 External Debt (In Million US$) and External Debt Service Ratio In %

	1995	1996	1997	1998	1999	2000
External Debt As% of GNP	39367 51.7	41875 48.5	45433 53.0	47817 69.5	52210 64.7	52060 65.6
Service Ratio	15.26	12.34	11.25	11.53	13.11	12.19

Source: Bangko Sentral ng Pilipinas (BSP)

ODA Disbursements from World Bank

The World Bank is extending some $200m this 2001 in the form of Overseas Development Assistance (ODA) to fund basic social services such as livelihood and housing.

ODA Disbursements from Japan

Of the overall foreign assistance extended to the Philippines, Japan's ODA occupies the largest portion. In 1997, Japan's ODA accounted for 46% of the overall ODA to the Philippines. The Philippines has been among the largest recipients of Japan's ODA. The amount of ODA was approximately US$ 319.0 million in 1997. The country was the fifth largest recipient of Japanese ODA in 1997, next to China, Indonesia, India and Thailand. Lan disbursements from ODA from Japan reached 65.8 billion Yen during the Japanese Fiscal Year 2000. This was the highest level of disbursement attained in the 20-year history of Japanese ODA to the Philippines. The said amount is 15% higher than the 57.2 billion Yean disbursement posted last year. Confirmed are ten publicly-bidded contracts amounting to PhP 4.3 billion funded by Japan Bank for International Cooperation (JBIC). These contracts include: the construction and rehabilitation of seven feeder ports; construction and rehabilitation of five feeder ports- both contracts are under the social reform related feeder ports development project; consultancy services under the maritime safety improvement project; consultancy services under the Bohol irrigation project phase II; construction of pumping station and floodgates under the Metro Manila flood control project West of Manggahan floodway; Bamban river improvement works—under the Pinatubo hazard urgent mitigation project phase II; Masao river improvement and construction of urban drainage system—under the lower Agusan development project stage 1, phase II; civil works contruct for the construction/improvement of Santiago-Lidlidda-San Emilio Road- under the rural road network development project; and the restoration of Dalton Pass section (Sta. Ana Rita-Aritao road)-under the arterial road link development project. The Government of Japan reaffirmed its support for and confidence in the Arroyo Administration following the Exchange of Notes between Japan and the Philippines for nine ODA loans amounting to 54.6 billion Yen under Japan’s 24th Yen Credit.

ODA Disbursements from Spain

The Spanish government, through the Agencia Española de Cooperation Internacional (AECI), extended a $26.3m in ODA to the Philippines for 2001 to 2003. The program’s focus is in the areas of the Autonomous Region of Muslim Mindanao (ARMM), CARAGA, Misamis Oriental and Camiguin in Mindanao; Ilocos Sur and Metro Manila in Luzon; and Cebu in the Visayas. Covered under the program are a $7m microcredit project, the second phase of the Development of Philippine Industries for the Small and Medium Scale Enterprise, the Enterprise Cooperation Program for Philippine-Spanish development between the Confederation Española de Organizaciones Empresariles (CEOE) and Employers Confederation of the Philippines, and continued collaboration in the field of ecotourism in the Philippines.

Revenues and Expenditures						Jan-Sep	Budget	
	1994	**1995**	**1996**	**1997**	**1998**	**1999 (1)**	**1999 (2)**	**2000 (3)**
Revenues	**In Billion Pesos, except percentages**							
Tax Revenues								
Bureau of Internal Revenue	187.4	210.2	260.8	314.7	337.2	341.3	353.6	397.8
Bureau of Customs	81.6	97.6	104.6	94.8	76.0	865	83.6	91.9
Others (4)	2.2	2.7	2.6	2.7	3.4	**3.2**	3.9	8.8
- Total tax revenues **- As a percentage of GNP**	**271.3** **15.6%**	**310.5** **15.9%**	**367.9** **16.1%**	**412.2** **16.1%**	**416.6** **14.9%**	**431.7** **13.8**	**441.1** **14.2**	**499.5** **14.3**
Non-Tax Revenues								
Bureau of the Treasury income (5)	21.8	16.5	25.5	34.3	22.5	26.2	22.4	24.4
Fees and other charges (6)	12.4	10.4	10.8	13.2	21.0	16.0	21.7	21.8
Privatization (7)	29.9	22.8	5.7	9.4	1.7	4.2	5.0	22.0
Economic Support Fund	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2
Foreign Grants	0.7	1.0	0.6	1.7	0.4	0.3	0.2	0.2
- Total non-tax revenues **- Total tax revenues** **- As a percentage of GNP**	**64.9** **336.2** **19.4%**	**50.7** **361.2** **18.4%**	**42.6** **410.4** **18.0%**	**59.7** **471.8** **18.4%**	**45.6** **462.5** **16.6%**	**46.8** **478.5** **15.2%**	**49.5** **490.7** **15.8%**	**68.5** **567.0** **16.3%**
Expenditures								
Personnel services	92.7	109.1	135.4	150.4	198.5	202.0	202.4	222.8
Maintenance and operating expense	46.8	46.9	48.7	108.1	64.4	70.8	66.41	70.2
Other current operating expense	4.4	3.6	6.7	6.1	0.2	6.8	6.3	5.5
Interest payments								
- Foreign **- Domestic**	19.3 59.8	21.8 50.8	17.5 59.0	19.6 58.4	26.3 73.5	31.3 75.0	30.4 89.7	42.0 85.0
- Total interest payments	**79.1**	**72.6**	**76.5**	**78.0**	**99.8**	**106.3**	**105.9**	**127.0**
Subsidies to Government owned corporations	7.0	3.6	5.9	5.9	4.7	6.6	5.0	8.1
Allotment to local government units	47.2	53.2	57.4	71.0	72.0	96.4	102.2	114.9
Transfers to the Oil Price Stabilization Program	0.0	0.0	10.0	0.0	0.0	0.0	2.4	1.0
Comprehensive Agrarian Reform Program								
(land Acquisition and credit)	0.0	0.0	2.9	0.0	0.5	0.0	3.0	5.3
Infrastructure and other capital outlays	33.6	52.7	57.5	47.9	71.3	96.2	80.4	73.2

Equity and net lending	9.0	8.4	3.2	3.0	1.1	4.7	2.3	1.6
Total expenditures	**319.9**	**350.1**	**404.2**	**470.3**	**512.5**	**590.2**	**576.0**	**629.5**
As a percentage of GNP	**18.4%**	**17.9%**	**17.9%**	**18.6%**	**18.4%**	**18.8%**	**18.7%**	**18.1%**
Surplus/(Deficit)	16.3	11.1	6.3	1.6	(50.0)	(111.7)	(185.3)	(62.5)
Financing								
Domestic financing	(4.7)	2.3	(0.3)	5.3	37.6	28.8	13.7	(3.6)
Net domestic borrowings	(10.4)	24.3	47.7	(20.3)	76.5	98.9	41.7	40.5
Non-budgetary accounts	(34.1)	(39.3)	(17.4)	(7.0)	(56.0)	(31.1)	(21.4)	(30.5)
Use of cash balances	39.8	17.2	(30.7)	32.6	17.1	39.0	(6.6)	(13.6)
Foreign financing	(11.6)	(13.3)	(5.9)	(6.8)	12.3	82.8	71.6	66.0
Total financing	**(16.3)**	**(11.1)**	**(6.3)**	**(1.6)**	**50.0**	**111.7**	**85.3**	**62.5**

(1) Preliminary figures for the full year 1999 show total revenues of P478.5 billion and total expenditures of P590.2 billion, resulting in a deficit of P111.7 billion

(2) In September 199, the IMF and the Government agreed to raise the budget deficit target for 1999 from P68.4 billion to P85.3 billion.

(3) The original year 2000 budget was subsequently revised, and approved and signed by President Estrada on February 16, 2000. the revised year 2000 budget contemplates total revenues of P567.0 billion and total expenditures of P629.5 billion resulting in a deficit of 62.5 billion.

(4) Represents tax revenues of the Department of Environment and Natural Resources, bureau of Immigration and Deportation, Land Transportation Office and other Government entities.

(5) Represents interest on deposits, interest on advances to Government owned corporations, interest on securities, dividends from Government owned corporations, earnings received from the Philippine International Airport, guarantee fees and others.

(6) Represents receipts from the Land Transportation Office, Department of Foreign Affairs and other Government agencies.

(7) Represents remittances to the National Government from the sale of interests in Government owned corporations, Government financial institutions and other Government-owned assets and from the sale of assets by the Presidential Commission on Good Government and the Asset Privatisation Trust.

D) Fiscal Federalism

The Bureau of Internal Revenue, the Department of Interior and Local Government (DILG) and the Local Government Units (LGUs) have committed to unite their efforts to enhance tax enforcement and revenue collections.

The commitment was made through a Memorandum of Agreement (MOA).

The DILG will help the BIR in facilitating LGUs' compliance with the withholding tax laws and regulations, as well as in the remittance of the withheld taxes on time.

The LGUs, represented by their league presidents, agreed to assist the Revenue District Offices in tracking down unregistered and delinquent taxpayers, and will allow the BIR to have access to the tax records of all LGUs, among others.

In return, the BIR will provide the LGUs with the annual internal revenue tax collections and facilitate the issuance of copies of certificates needed by LGUs, among others.

The devolution of more powers and resources to local government units (LGUs) under the Local Government Code of 1991 has allowed LGUs greater leeway to grow in the direction they have set for themselves and according to their own capabilities. With greater fiscal autonomy, local officials have been able to provide and deliver services according to their needs and preferences.

a. The Bureau of Local Government Finance

The Bureau of Local Government Finance (BLGF), as the Department of Finance's (DOF) arm principally responsible for the enhancement and supervision of LGU's financial operations, continues to perform a catalytic role in bringing development changes to the local government sector. For CY 1998, it continued to pursue its thrusts towards skills development and capacity building for local assessment and treasury personnel, formulation of policies for the promotion of local fiscal autonomy, clarification of issues on local taxation, real property valuation and related local revenue matters, easier and wider LGU access to credit financing, and enhancement of local development pursuits.

With the real property tax, being the main source of local government revenue, the continued implementation of the Real Property Tax Administration Project (RPTA) afforded the DOF through BLGF the logistics to assume a larger and more proactive role in the provision of responsive and efficient property tax administration machinery. The Local Development Assistance Program (LDAP) has been completed covering around 63.5 percent of the entire country or some 1,022 LGUs. The continuous monitoring of the financial performance of LGUs indicated that the collection of real property tax has exceeded the target during the past year.

The BLGF, in collaboration with the BOT Center, is promoting a new financing paradigm to improve LGU's fund sourcing capability. The BLGF has prepared an action program that would open LGU access to private sector financing of local government services and infrastructure. Regional seminars on credit financing and BOT arrangements and other forms of private sector participation were staged nationwide informing LGU officials of various sources of financing such as loans, bonds, BOT and its derivatives and other joint venture programs.

b. The Municipal Development Fund

The Municipal Development Fund (MDF), established in 1984 by virtue of Presidential Decree No. 1914 to operate a revolving fund, continued providing financing to LGU development projects. A total of 126 LGUs had availed of funds for infrastructure and economic enterprises while some 850 LGUs were given grants to improve the real property tax administration.

The role of MDF was further strengthened with the issuance of Executive Order No. 41 on November 20, 1998 which created the Municipal Development Fund Office (MDFO) under the DOF.

c. The LOGOFIND Project

The Local Government Finance and Development (LOGOFIND) is a project of the DOF aimed at providing long term credit financing and technical support to LGUS through the MDF. The project is funded by the World Bank and has the following objectives: (1) To assist LGUs in expanding and upgrading basic municipal and urban infrastructure, services and facilities by making available financial assistance in the forms of loans and grants; and (2) To strengthen LGU capabilities in municipal investment and development planning, revenue administration, and project preparation and implementation, by extending technical assistance and through a capability building program that is responsive to the needs of the LGUs.

The main target beneficiaries of the project are low-income LGUs. It follows the demand-driven approach by which LGUs will be given a choice of sub-projects that are eligible for LOGOFIND financing.

E) Other Special Assistance

On May 4, 1999, the World Bank's Board of Executive Directors discussed the Bank Group's Country Assistance Strategy (CAS) for the Republic of the Philippines, covering July 1999–June 2002. The World Bank noted that poverty reduction remains a formidable challenge, in view of the slowdown of growth and a relatively high population growth rate. The proportion of households living in poverty fell from 40 percent in 1991 to 32 percent in 1997.

However, the number of rural poor grew by 2.4 million, and rich-poor, urban-rural income gaps are thought to have widened. Rural development has become a top national priority, as agriculture's poor growth record is directly associated with rural poverty. To protect past gains and make progress in the future, human development efforts will have to be redoubled. Protecting the environment remains a key challenge, as the Philippines is rapidly urbanizing. It went on to say that the Philippines faces these challenges with a number of strengths. It has become a relatively stable democracy.

The distribution of power among three branches of government, decentralization of political power to local government units, active participation by civil society, freedom of expression, and broad social consensus on an outward-oriented society all support political stability. The new administration is demonstrating its commitment to pro-market policies, growth with equity, and combating graft and corruption.

The Philippine Economy has withstood the regional financial better than most other East Asian market economies, but GNP growth collapsed to about 0.1 percent in 1998. The government forecasts steady recovery, starting in 1999, unless world market developments derail these projections.

Restoring economic growth while reducing poverty and improving equity is the overarching goal of the Medium Term Philippines Development Plan and the Bank Group's CAS endorsed by all participants in the preparation process. To support poverty reduction, the Bank Group will join with government, donors, civil society, and the private sector to generate and disseminate information on effective poverty reduction programs and to invest in antipoverty programs.

The proposed IBRD lending program for FY00–02 totals US$1.3 billion, including one new crisis-related adjustment loan. About half the investments are planned as Adaptable Program Loans for poverty reduction and sectors needing long-term interventions for sustained impact.

Analytical and advisory services, comprehensive monitoring of developments in the economic, financial, corporate, human development, agricultural, and environmental areas complement Bank lending. In addition, IFC plans to invest between $350 and $500 million in private sector projects.

On the part of the World Bank Group, it expressed seven strategic action areas, reflecting closely the government's own development priorities, to wit:

A. Address crisis effects and promote economic recovery. Assistance will focus on enhanced economic and financial monitoring and designing and implementing selected structural reforms to strengthen the financial sector and public sector management.

B. Enhance human development and social services for the poor. Lending and advisory services will focus on measures to enhance social services for the poor and on intensifying investments and reforms in education and health to cut poverty and income inequalities in the long term.

C. Accelerate environmentally sustainable rural development. The Bank will strongly support the administration's goal of accelerating environmentally sustainable agricultural growth and alleviating rural poverty by making agriculture more competitive internationally, assuring essential rural infrastructure investments, investing in research and extension and investments to least developed areas and groups, and improving natural resource management.

D. Promote sustainable urban development and combat urban poverty. For urban development the Bank will assist government's five strategic areas: urban poverty, affordable urban housing, safe water and improved sanitation, environmental health, and urban governance.

E. Develop infrastructure, particularly in the provinces. The Bank will continue to assist infrastructure development by selective interventions where prospects of private financing are limited, and structural reform is necessary. Since other donors and private investors are also active, the Bank Group will focus on specific subsectors in energy and transport where it expects to be most effective.

F. Enable expansion of the private sector. The Bank will focus on: corporate restructuring and governance reform, competition enhancement, small and medium enterprise growth, private participation in infrastructure, and attracting foreign direct investments.

G. Improve governance and transparency and combat corruption. The Bank will strengthen procurement, financial management, and auditing functions in its projects; support reforms to enhance transparency and competition; selectively support government's efforts to improve governance in public institutions; and work closely with the donor community and civil society to assist government efforts.

The Bank Group (International Bank for Reconstruction and Development, International Finance Corporation, Multilateral Investment Guarantee Agency, World Bank Institute) will work together to support CAS objectives. Partnership culture, inherent in the Bank's activities in the Philippines, transcends the relationship with the Bank's main partner—government—to other stakeholders (donors, nongovernmental organizations, private citizens and companies). Selectivity and focus in the Bank's assistance strategy entails agreement among these actors to achieve common development goals—and partnership with them. The Consultative Group will continue to enable consistency of priorities. According to the World Bank, as of August 15, 2000, the Philippines portfolio consists of 25 projects, amounting to $1.8 billion (net of cancellations), of which $1.25 billion is undisbursed.

The 25 projects include one Montreal Protocol and the 2 GEF-financed projects with total commitments of $36 million. By sector, rural development projects now constitute the largest share (30 percent), followed by infrastructure projects (27 percent), human development (15 percent), energy (11 percent), and others/adjustment loans (16 percent). During FY00, the World Bank approved 3 loans for a total of $277.5 million: Mindanao Rural Development ($27.5 million), National Roads Improvement and Management ($150 million), and Social Expenditure Management Loan ($100 million). All are now effective. In addition to its lending program, the Bank is providing technical assistance and analytical advice.

FY00 completions include: Social and Structural Review, Combating Corruption in the Philippines, Rural Development and Natural Resource Management Trends and Strategy Implementation Note, and Environment Monitor. In addition, a Poverty Assessment will soon be completed.

The World Bank also manages special grants such as from Japan and the European Union. Examples of recently approved grants that provide technical assistance are in the areas of (a) strengthening social protection (b) financial sector monitoring and reform, and (c) social expenditure management, and (d) capacity building for portfolio improvement.

The World Bank has traditionally chaired the Consultative Group (CG) on the Philippines, which serves as a forum for dialogue among the donor community and the government. The twenty-third meeting of the CG was held on June 19-20, 2000 in the Philippines. The World Bank co-chaired the meeting with the Philippine Government, which hosted a CG for the first time. It resulted in donors pledging a total of approximately US$2.6 billion for 2000. In recognition of the Mindanao situation, the donors pledged $361 million (out of the $2.6 billion) for Mindanao development. Interim meetings among the government and members of the donor community are routinely held in Manila through CG working groups. In FY00, the International Finance Corporation (IFC) approved seven investments worth about $105 million or about twice the total of approvals in FY99. Philippines is now among IFC's top ten country exposures worldwide with a gross portfolio of about $750 million. The emphasis in FY01 will be on infrastructure, information technology, financial sector, education, agribusiness, and support to SMEs.

The Philippines accounts for 1.4 percent of Multilateral Investment Guarantee Agency’s gross exposure. Its outstanding portfolio in the country consists of three contracts of guarantee – two in financial and one in the infrastructure sector – with a total gross exposure of $60 million. Investors have been expressing interest in infrastructure projects, and MIGA currently is working on an infrastructure project.

1.4 Country-Specific Technical Assistance Requirements

In view of the rapid globalization pace, three areas are identified to be the priorities for the much needed technical requirements. They are the country’s (1) electronic environment ; (2) anti-money laundering scheme, and (3) continuing education and research funding opportunities.

1.4.1 Electronic Development and E-Government in the Philippines

The coming of the internet has heralded the dawning of a new era of the networked world. This era has raised numerous challenges for all nations. While internet really began as an American phenomenon, it soon has emerged as a global phenomenon. The coming of internet has also required hitherto sleeping nations into brisk activity. Asia is no exception to the said rule, specifically, the Philippines.

One of the most persistent criticisms of open markets and free trade is that they increase the gap between developed and developing countries. The world economy is in the midst of a profound transformation, spurred by globalization and supported by the rapid development of Information and Communications Technology that accelerates the transmission of information and knowledge.

In response to all of these, the Philippines passed Republic Act No. 8792 [An Act Providing for the Recognition of Electronic Commercial and Non-Commercial Transactions and Documents, Penalties for Unlawful Use Thereof and For Other Purposes] otherwise known as the Electronic Commerce Act of 2000. This was signed into law by then President Joseph Estrada on 14 June 2000.

Declaration of the country’s policy on this aspect is enunciated in Section 2 of the Act which provides:

> “The State recognizes the vital role of information and communications technology (ICT) in nation building; the need to create an information-friendly environment which supports and ensures the availability, diversity and affordability of ICT products and services; the primary responsibility of the private sector in contributing investments and services in telecommunications and information technology; the need to develop, with appropriate training programs and institutional policy changes, human resources for the information technology age, a labor force skilled in the use of ICT and a population capable of operating and utilizing electronic appliances and computers; its obligation to facilitate the transfer and promotion of adaptation technology, to ensure network security, connectivity and neutrality of technology for the national information

> structures, comprising in both telecommunications network and strategic information services, including their interconnection to the global information networks, with the necessary and appropriate legal, financial, diplomatic and technical framework, systems and facilities."

E-Government refers to the use by government agencies of information technologies (such as Wide Area Networks, the Internet, and mobile computing) that have the ability to transform relations with citizens, businesses, and other arms of government. These technologies can serve a variety of different ends: better delivery of government services to citizens, improved interactions with business and industry, citizen empowerment through access to information, or more efficient government management. The resulting benefits can be less corruption, increased transparency, greater convenience, revenue growth, and/or cost reductions.

Traditionally, the interaction between a citizen or business and a government agency took place in a government office. With emerging information and communication technologies it is possible to locate service centers closer to the clients. Such centers may consist of an unattended kiosk in the government agency, a service kiosk located close to the client, or the use of a personal computer in the home or office.

Analogous to e-commerce, which allows businesses to transact with each other more efficiently (B2B) and brings customers closer to businesses (B2C), e-government aims to make the interaction between government and citizens (G2C), government and business enterprises (G2B), and inter-agency relationships (G2G) more friendly, convenient, transparent, and inexpensive.

E-Commerce has evolved already through four stages: 1) publishing, 2) interactivity, 3) completing transactions, and 4) delivery. To date, most e-government activity has centered on publishing. A study by Anderson Consulting finds vast differences among countries in the maturity of their e-government effort. Perhaps the key finding, however, is that even the most mature countries have tapped less than 20% of the potential.

Table 1.7 The E-Business-Readiness Rankings: Asia and the Pacific Region

Rank	Countries	Business Environment Ranking, 2002-04	Connectivity Rating	E-Business Readiness Ranking
8	Singapore	8.55	8	8.3
9	HK, China	8.52	8	8.3
16	Australia	8.14	8	8.1
17	New Zealand	8.10	8	8.1
21	Japan	7.43	8	7.7
24	Rep. Of Korea	7.30	7	7.2
27	Taipei, China	8.13	5	6.6
28	Thailand	7.27	5	6.1
32	Malaysia	6.91	5	6.0
38	Indonesia	6.16	5	5.6
46	Philippines	6.72	3	4.9
50	India	5.97	3	4.5
51	PROC	5.88	3	4.4
52	Sri Lanka	5.87	3	4.4

Source: Charmonman, Sriskadi, 2000. The Role of Internet in ASEAN Development. Paper presented to ITU Telecom Asia 2000 Forum, Gateway to Opportunity, Hong Kong, China. The E-Commerce variables used to rank the E-business readiness include logistics, telecommunications infrastructure, and financial systems.

Presently, the Philippines is way behind electronic development. Although some Technical Assistance (TA) has already been provided by some institutions [like the TA provided by ADB for strengthening the Management Information System (MIS) of the Philippine Deposit Insurance Corporation (PDIC) and Insurance Commission (IC), as well as TA for LAN and MIS for the Securities and Exchange Commission (SEC)] still there is inadequacy. The Government Information System Plan (GISP) must be fully supported and must have the resources it needs in all areas like the need for capacity building and other technical assistance.

There is the need to promote technological change in key industry sectors by pulling together the resources and efforts of the private sector, government and the academe. There is a need for comprehensive and intensive training and education among the people representing different environment.

Also an important matter to be taken here is the issue on taxing e-commerce transactions. An in-depth study has to be made the soonest time possible in view of the expanding business transactions undertaken via internet. This is a new branch of the taxation field which has raised numerous tedious legal issues.

The country stands to lose substantial amount of revenue unless the problems posed by electronic commerce for the country's tax system are identified and the solutions for the same are made available. Thus, the very obvious need for valuable and timely assistance in this respect must be met considering the increasing budget deficit of the country.

1.4.2 Anti-Money Laundering Measures

In a speech delivered by ADB Vice President John Lintjer (*Money Laundering, A Challenge to Financial Stability and Economic Development, 1999, Manila*), He said that " [T]he existence of anti-money laundering legislation is certainly an important factor determining the quality of economic governance. The international community now fully recognizes this as well as the need to take global action against money laundering. This is particularly reflected in the work of the FATF (Financial Action Task Force) of the OECD. International concern arises from the very serious threat that money laundering poses for economic development and the world financial system, and from the potential it has for undermining national integrity systems. Laundered money distorts asset and commodity prices and leads to misallocation of resources. For financial institutions it can lead to an unstable liability base and to unsound asset structures thereby creating risks of monetary instability and even systemic crises. The loss of credibility and investor confidence that such crises can bring has the potential of destabilizing financial systems, particularly in smaller economies. Unanticipated cross border transfers can also lead to volatility in exchange and interest rates. Developing countries are particularly vulnerable to such risks unless they adopt adequate anti-money laundering measures in the process of dismantling their exchange controls and liberalizing their capital markets. The social and political costs of laundered money are also serious as laundered money may be used to corrupt national institutions. Bribing of officials and governments undermines the moral fabric in society, and, by weakening collective ethical standards, corrupts our democratic institutions. When money laundering goes unchecked, it encourages the underlying criminal activity from which such money is generated".

Sharing the same view, the Philippine made the appropriate legislation on the subject. Thus, Republic Act No. 9160[An Act Defining the Crime of Money Laundering, Providing Penalties Therefor and For Other Purposes], also cited as the Anti-Money Laundering Act of 2001, was enacted. The legislative act was pursuant to the policy of the State to protect and preserve the integrity and confidentiality of bank accounts and to ensure that the Philippines shall not be used as a money laundering site for the proceeds of any unlawful activity.

Consistent with its foreign policy, the State shall extend cooperation in transnational investigations and prosecutions of persons involved in money laundering activities whenever committed.

The task at hand, however, for the Philippines in this area is not that easy considering that the concept is a new one in our jurisdiction. The same law just created the Anti-Money Laundering Council (AMLC) and it is not yet in operation. There is an immediate need for trainings and seminars to equip personnel of the knowledge and technical requirements for them to efficiently and effectively perform their jobs. They need to know how and what other countries are doing in connection with the functions of their office. Indeed, they must have the idea of the complexities of the scheme in order for the objectives of the government to be realized the way they should be. Hence, this initial stage is very critical for the country and so, assistance along this line must be sought.

1.4.3 Scholarship and Research Grants

The various scholarship and research grants being offered by different agencies and institutions are needed by the country for its human capital development. It can be said, however, that there are only few, in fact very minimal, who get the opportunity to receive such grants most specially in the area of research. Research and information development, we all know, are very vital keys needed to come up with wise decisions and choices.

As pointed out by a noted economist, knowledge easily becomes obsolete. Further, this same knowledge differs from all other means of production, in that it cannot be inherited or bequeathed. It has to be acquired anew by every individual, and everyone starts out with the same total ignorance.

The World Bank, IMF and JICA programs are very much appreciated in the country. It is hoped that the Philippines will continue to benefit from the same.

1.5 Conclusion: Where We Stand and Where We Go

1.5.1 Where We Stand/ Fiscal Issues

A) Higher Than Programmed Deficit

This was due to the shortfall in collection of the Bureau of Internal Revenue and in privatization proceeds. These sent the National Government deficit to exceed the program level. To keep the program deficit, the National Government is focusing its efforts on putting a stronger tax administration machinery that will effectively track and monitor the tax base, thus raise more revenues.

Also in line with increasing revenues, collection of fees and charges for various services provided by government agencies are being pushed through Executive Order No. 197, which mandates an increase in the rates of fees and charges to allow the improvement in the provision of services, or in most cases, merely to reflect the actual costs of the services provided. Corollary to this, the privatization programs are still being pursued vigorously.

To ensure macroeconomic stability, it is urgent that the fiscal deficit be addressed. Decisive measures to rationalize government expenditures and improve the efficiency of revenue collection should help attain fiscal consolidation.

B) Weakening of the Philippine Peso

On these aspect, two hard choices are available to the Government, thus, to let the peso go or to raise interest rates. Obviously these choices are akin to a razor-sharp, double-edged blade. On the first option, it is a fact that there are about five million overseas Filipino workers with five million families to support. These overseas workers maintain dollar accounts with banks and remit dollars to their families. Also, the Philippines has a very strong export sector.

On the other side of the ledger, the imports as well as external debt payments must be considered. As a result, rightly or wrongly, the exchange rate is seen by most people as a barometer of the economy's condition. Thus, if the peso goes on a free fall, it will be like entering unchartered waters.

While it may be easy to say that the peso should bear all the brunt of adjustment, in a small, open economy in the Philippines this could have dire consequences. The impact on markets will be almost immediate: oil price increases, transport fare adjustments, and wage hike petitions that go over and beyond productivity increases.

On the alternative choice of raising interest rates, it is important that the Government remain sensitive to its adverse effects on the real and financial sectors. High interest rates discourage investment and production. High interest rates contribute to further corporate distress and in turn, affect asset quality.

C) Tax-Related Issues

While the Philippines has very good tax laws and policies, the problem lies with the effective enforcement, implementation and administration of said laws. Here, the political and moral and social factors play a very significant role.

Among the identified problems are the following:

1. Corruption;
2. Ambiguity in the interpretation of some tax laws and administrative problems in their implementation;
3. Foregone/waived revenues due to tax exemptions; and
4. Tax avoidance and tax evasion.

1.5.2 Where Do We Go From Here?

The Government is set to maintain prudent macroeconomic management and is determined to vigorously pursue legislative and administrative measures to sustain economic recovery, strengthen the financial system, and bring back its fiscal house in order. The following legislative measures have already been passed:

Amendments to the General Banking Act. This empowers the Bangko Sentral ng Pilipinas , the country's central bank, to supervise and regulate the organization and operation of banks and quasi-banks. This has been signed into law by President Joseph Ejercito Estrada as Republic Act No. 8791 on 23 May 2000.

The Securities Act of 1999. This is expected to promote full development of the Philippine capital market by providing for a shift from merit regulation to a full disclosure regime. This was signed into law by President Joseph Ejercito Estrada as Republic Act No. 8799 on 19 July 2000.

The Retail Trade Liberalization Act. This allows the entry of more foreign participation in the country's retail industry. This was signed by President Joseph Ejercito Estrada as Republic Act No. 8762 on 07 March 2000. With this law, domestic industries are expected to become more efficient and more competitive as they are exposed to more aggressive foreign competition. Thus, consumers are expected to benefit through lower prices and better services.

The E Commerce Act. This provides regulatory frameworks for electronic transactions. This was signed into law by President Estrada as Republic Act No. 8792 on 14 June 2000.

Import Safeguards Act. This law provides safeguard mechanisms against import surges which are detrimental to local industries. It was signed by President Joseph Estrada as Republic Act No. 8800 on 19 July 2000.
Regional Headquarter's Law. This aims to attract multinational companies to locate their headquarters in the Philippines. This was signed by President Joseph Ejercito Estrada as Republic Act No. 8756 on 25 November 1999.
The Anti-Money Laundering Law. The law is in accord with the aim that the Philippines shall not be used as a money laundering site for the proceeds of any unlawful activity. This was signed into law by President Gloria Macapagal Arroyo in the year 2001.

Other measures which are now at the advanced stage of legislation include the following:

1. *The Power Sector Reform*. This involves the restructuring of the power sector and the privatization of the National Power Corporation. This will restructure and promote the modernization of the power industry. Proposals are now pending in the Bicameral Conference Committee of both houses.
2. *Amendment to the Bangko Sentral ng Pilipinas Charter*. This enables the central bank's Monetary Board to adopt internationally accepted banking supervision and regulation standards. This has already been approved on 3rd reading by the Senate and it is on 2nd reading perod of interpellation by the House of Representatives.
3. *Lateral Attrition Law*. The purpose of this proposal is to optimize the colletion performance of officials in revenue-generating agencies of the Government. It has been approved on 3rd reading in the House of Representatives and now pending in the Senate's Committee on Ways and Means.
4. *Court of Tax Appeals.* This bill elevates the rank of the Court of Tax Appeals to the level of a collegiate court with special jurisdiction, enlarging organizational structure and expanding its jurisdiction.

Various sectors of the government will continue to coordinate to have all legislative proposals passed into laws as the government continues to promote an environment conducive to economic growth. This way, the Government is confident that the macroeconomic and fiscal targets will be achieved. The Department of Finance, on the other hand, will continue to pursue reforms in financial sector taxation to remove distortions and ensure a more neutral tax treatment. These include the following:

1. Replacement of the gross receipt tax (GRT) with Financial Institution Tax
2. Rationalization of the Documentary Stamp Tax (DST);
3. Harmonization of taxes on different income sources and types of deposits;
4. Equitable tax treatment for the contractual savings sector.

Indeed, the Government is doing everything it can towards attaining its fiscal targets. It has launched a set of revenue enhancement measures that will raise more revenues which include the installing of electronic metering machines in major offices of banks to plug leakages. Efforts are being accelerated in pursuing settlement of receivables from taxpayers. Moreover, intensive audits of various taxpayers and industries are being conducted, and there is vigorous implementation of a new system for direct remittance to the Bureau of Internal Revenue of withholding taxes from National Government agencies, and this includes the plan to extend the application to the Local Government Units (LGUs).

On the expenditure side, the Government, through the Department of Budget and Management, will continue to control disbursements of funds.

Finally, the remarks made by then Finance Secretary Jose Trinidad Pardo is enlightening. It goes:

> *"We realize that the international as well as the local business community may have been impatient with the pace of reforms and with the seemingly inefficient way in which they are being carried out. But please forgive me if I will constantly remind you that we are doing all of these within a democratic system. It may not be as quick and as focused a way of doing economic reforms as those existing in other countries, but we maintain that it is a more durable and stable way. You may note that all these reforms are embodied in laws, and therefore have a more solid footing and are ensured of continuity even as administrators come and go. They also ensure that all concerned sectors are heard and that they have broad acceptability and therefore are more likely to succeed in the long term. For this is the way we intend to foster economic development in this country—with the participation, in terms of both benefit and contribution, by all sectors of our society and people".*

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