



## **OXFORD ANALYTICA**

**PHILIPPINES**

**FISCAL TRANSPARENCY**

**Country Report 2006**

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5 Alfred Street  
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# PHILIPPINES



## COMPLIANCE RATINGS

<i>Fiscal transparency</i>	2006	2005	2004	2003
Clarity of roles	●●●	●●●	●●●	●●●
Availability of information	●●●●	●●●●	●●●●	●●●●
Budget preparation	●●●●	●●●●	●●●●	●●●●
Accountability	●●●●	●●●●	●●●●	●●●
<b>Score</b>	<b>3.75</b>	<b>3.75</b>	<b>3.75</b>	<b>3.50</b>

## OUTLOOK & COMMENTARY

In 2006, fiscal policy transparency in the Philippines faced some setbacks, particularly in the budgetary process. As no budget was approved for 2006, the 2005 budget was re-enacted. As a result, funds earmarked for specific projects in 2005 were not given a clear allocation in 2006. The president issued an Executive Order -- which was watered down in November 2006 in the face of opposition -- to reinstate directed credit programmes by government agencies, but set out no clear rules or regulations for such spending.

However, improved government procedures have resulted in a more transparent procurement process. The government is also preparing a three-year rolling budget framework. Efforts to compile government finance statistics in accordance with the IMF's Government Finance Statistics Manual (GFSM) 2001 have continued, and the Department of Finance has set up a dedicated unit for this purpose.

A number of bills are pending in Congress which, if passed, would enhance fiscal transparency. These include a fiscal incentives bill that could eventually eliminate tax holidays. A Fiscal Responsibility Bill would rationalise the tax system further, and limit government obligations to Government Owned and Controlled Companies.

## **EXECUTIVE SUMMARY**

### **3.75 Compliance in progress**

In 2006, fiscal transparency in the Philippines has worsened on a number of counts, despite a few positive developments. In 2005, Congress did not approve a budget for 2006. Instead, the 2005 budget was re-enacted this year, and commentators expressed their concern about the complete lack of transparency in 2006 spending. Funds that were earmarked for specific projects in 2005 were used for other purposes this year. The government provided no guidelines as to how the funds should have been used.

Executive Order (E.O.) 558 of September 2006 authorised non-financial government agencies and Government Owned and Controlled Corporations (GOCCs) to extend credit without clear and transparent rules and regulations for implementation. Continuing opposition from the Department of Finance (DoF) and the international financial community resulted in an amended E.O. 558-A of November 2006, which limited the scope of these loans.

There have been concerns over the privatisation of assets, particularly in the electricity generation and transmission sectors. Rules and regulations governing the privatisation process in these sectors were not completely transparent, the bidding strategy changed during the process, and not all potential bidders were granted access to the necessary documents.

In 2006, the President attempted to amend the 1987 Constitution, but it is not clear whether a viable route to constitutional reform can be found. The thrust of the reform calls for adopting a unicameral parliamentary system in place of the existing bicameral legislature in a presidential republic. The change to a unicameral legislature might resolve the existing gridlock between the lower house and the Senate, which has delayed the passage of key legislation.

Procurement processes have been improving, owing to a number of reforms in government procurement procedures. In addition, performance monitoring of GOCCs has improved, and there are plans to adopt performance contracts for GOCCs. There have also been discussions about including some off-budget subsidies to GOCCs in the budget.

The draft Medium Term Philippine Development Plan (MTPDP) for 2004-10 originally aimed to achieve a balanced budget by 2010, but the government is currently aiming to attain this target by 2008. In order to align multiyear budgeting with the MTPDP, the government is developing a Medium-Term Expenditure Framework, i.e. a three-year rolling budget that will allow the tracking of the funding requirements of ongoing agency programmes and projects for the next three years. The government is also making progress in compiling government finance statistics in accordance with the Government Finance Statistics Manual (GFSM) 2001 framework. A dedicated unit in the Department of Finance has been set up for this purpose.

Legislation to rationalise fiscal incentives, for example by withdrawing inefficient and duplicate special investment incentives, is awaiting passage in Congress. This could form the basis for the eventual elimination of tax holidays. A Fiscal Responsibility Bill and legislation aimed at introducing a system of simplified net income taxation for the self-employed are also pending in Congress. Among other things, the Fiscal Responsibility Bill would -- in view of the already plentiful and complex tax legislation -- limit the number of tax bills to be issued. The Bill, if enacted, would also end the government's automatic guarantee of obligations incurred by GOCCs.

The Philippines' overall score is unchanged from last year.

## 1. CLARITY OF ROLES, RESPONSIBILITIES AND OBJECTIVES



Enacted

**The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed**

### Structure, functions, and responsibilities of government

The structure, functions and responsibilities of the different branches of government are clearly set out in the Constitution of the Republic of the Philippines and the Administrative Code of 1987.<sup>1</sup> Under the 1987 constitution, the Philippines is a presidential republic with a bicameral legislature.

The Philippines has a degree of fiscal federalism based on a two-tiered structure of government that includes the national government and local government units (LGUs). The national or central government operates through some twenty departments or agencies. LGUs generally include provinces, municipalities and component cities, and *barangays*, but there are also some independent or highly urbanised cities, as well as the Autonomous Region of Muslim Mindanao (ARMM). In addition to the national government and the LGUs, the public sector comprises GOCCs, the Bangko Sentral ng Pilipinas (BSP, the central bank), the Central Bank Board of Liquidators, two social security agencies and a health insurance company.<sup>2</sup>

In 1989-91, the Philippines launched a programme of substantial decentralisation, transferring powers, resources and expenditure responsibility to the LGUs. National government expenditure accounts for around 50-60% of total government spending, with the LGUs spending the remainder.

The national government has adopted a number of laws to establish clear fiscal relations with the LGUs, including the Local Government Code (Republic Act 7160) of 1991, Executive Order 507, and the Organic Act for Muslim Mindanao (R.A. 6734) of 1989. R.A. 6734 grants the government of the ARMM the automatic retention of national internal revenue collected in the region, as well as significant discretion in regional development planning and primacy for the regional government in delivering services and exploiting natural resources. R.A. 7160 -- which regulates non-ARMM LGUs -- explicitly defines the functions of local governments in Section 17(b). However, R.A. 7160 Sections 17(c) and (f) allow the central government, or a higher local authority, to continue devolving functions to LGUs. Section 17(f) allows elected politicians to introduce 'pork barrel' funds earmarked for their electorates by inserting new provisions in the General Appropriations Act (GAA).<sup>3</sup> Central government agencies use Sections 17(c) and (f) to transfer unfunded mandates, such as implementation of the salary standard law and budgetary support, to certain central government agencies (e.g. police, law courts, fire rescue services) operating at the local level.

R.A. 7160 details the taxes to be collected by the central government only and explicitly authorises each LGU level to collect certain others. For example, provinces and independent cities are empowered to collect real property tax and to share this revenue with lower LGU levels, while municipalities and component cities can collect community tax and local business tax.<sup>4</sup> In addition to self-raised taxes, non-ARMM LGUs are recipients of two types of intergovernmental transfers. The first one is based on a formula for internal revenue allotments (IRA), such that a set proportion of revenue is transferred to each LGU level (e.g. 23% to provinces) and then transferred to individual local authorities within that level according to population (50%), land area (25%), and equal sharing (25%). The

second kind of transfers consists of categorical grants made according to a specific project item in the central government's budget, an item in the budget of an individual national government agency, or as part of the Priority Development Assistance Fund (PDAF) allocation in the central government's budget.<sup>5</sup> The PDAF is made up of funds appropriated in the GAA to help individual legislators fund projects that voters will be identify with them personally. In the last few years, each congressman representing an electoral district has been allotted 65 million pesos (1.3 million US dollars) in PDAF, while party list congressmen have received 35 million pesos (700,000 US dollars) and senators 200 million pesos (4 million US dollars) each. Commentators argue that these PDAF practices allow legislators to collect bribes and commissions from the contractors of the PDAF-funded projects.<sup>6</sup> The Department of Budget and Management (DBM) says it has worked to rationalise and tighten the PDAF procedures during the Macapagal-Arroyo administration.<sup>7</sup>

In recent years, the central government introduced a uniform computerised accounting system for LGUs.<sup>8</sup> The Bureau of Local Government Finance (BLGF), within the Department of Finance (DoF), guides and assists LGUs by drafting manuals of standard procedures, and granting loans on soft terms for computerising their business tax and licensing procedures, as well as real property assessment and collection. The BLGF has established a financial performance monitoring system for LGUs.<sup>9</sup>

In 2006, a popular initiative supported by the President attempted to amend the 1987 Constitution. The amendment called for the adoption of a unicameral parliamentary system of government in place of the existing presidential system and bicameral legislature, and aimed to resolve the existing gridlock between the lower house and the Senate, which has delayed the passage of key legislation.<sup>10</sup> However, the Supreme Court declared the attempt null and void. Subsequently, President Gloria Macapagal-Arroyo indicated that she would convene the houses of congress into a constituent assembly to amend the constitution.<sup>11</sup>

### **Coordination and management of budgetary activities**

Mechanisms for the coordination and management of budgetary activities are well established within the Development Budget Coordinating Committee (DBCC), a cabinet-level interagency committee. The DBCC consists of a representative of the Office of the President and the heads of the chief economic agencies of government: the DBM, the National Economic and Development Authority (NEDA), the DoF and the BSP. The head of the DBM acts as chairperson, and the head of NEDA as co-chair.

The DoF has primary responsibility for managing the financial resources of the government, its subdivisions and associated agencies. It is responsible for formulating fiscal policy, generating and managing government resources, supervising the revenue operations of all LGUs, managing all public sector debt and contingent liabilities and privatising government corporations and assets. The DBM is tasked with formulating and efficiently implementing the national budget -- including budget programming -- and monitoring agency accountability. The NEDA coordinates social and economic development planning and monitors major projects.

### **Relations between the government and public sector agencies**

The relationship between the government and the central bank is clearly established in the New Central Bank Act of 1993, which grants operational autonomy to the BSP. The BSP does not regularly extend credit to the national government, but it can make provisional advances for expenditures authorised in the annual budget for a maximum period of six months.<sup>12</sup>

Other public sector agencies include government financial institutions, government corporate entities, and non-financial government corporations, many of which have their own subsidiaries, all of which in turn are classified as GOCCs and number in excess of 140.<sup>13</sup> They are directly attached to individual government departments, and are required by law to submit annual audited financial statements to the secretary of the department under whose

jurisdiction they fall.<sup>14</sup> Their balance sheets, cash flow statements and income statements are only included in the budget documentation when the government has provided a cash disbursement in a particular year. In 2003, the IMF expressed concern that government loans to one large GOCC, the National Power Corporation (NPC), were presented inconsistently in the national accounts as a below-the-line item, while other net lending to GOCCs was shown above the line.<sup>15</sup> As with other companies, financial information on the GOCCs is available through the Securities and Exchange Commission (SEC). Audited financial statements of GOCCs are available from the website of the Commission on Audit (CoA).<sup>16</sup>

The financial results of 14 GOCCs are included in the Consolidated Public Sector Financial Position (CPSFP). The combined balance of these 14 GOCCs has been in deficit in recent years -- significantly undermining the government's efforts at fiscal consolidation -- and the government believes that these GOCCs, including the NPC and the National Food Authority (NFA), present the greatest fiscal risk. In 2005, the deficit of the 14 monitored GOCCs amounted to 23 billion pesos (466 million US dollars), only about half of what had been expected; the deficits of these 14 GOCCs for 2006 and 2007 are expected to be higher.<sup>17</sup> A Fiscal Responsibility Bill to end the government's automatic guarantee of obligations incurred by GOCCs has not yet been enacted.<sup>18</sup>

In 2006, commentators said the performance monitoring of the 14 GOCCs had delivered positive results -- confirmed by statistics which showed a reduction in the GOCCs' deficit -- but they noted that the basic conflict between commercial operations and social obligations mandated by government remained.<sup>19</sup> In previous years, commentators had expressed concerns over the misuse of special funds allocated by the government to GOCCs, including the high-profile case of the Fertilizer Fund, for which the auditing conclusions of the CoA were not satisfactory. In 2006, commentators said the government was trying to include increasingly common off-budget subsidies and funding to GOCCs such as the National Food Authority (NFA) in the budget, thereby increasing budget clarity and transparency. According to the IMF, the authorities intend to establish performance contracts for GOCCs beginning with the NFA. This may pave the way for setting up monitorable targets for the larger public enterprises.<sup>20</sup>

In 2006, the government passed E.O. 558, which authorised non-financial government agencies and GOCCs to extend loans, including micro-finance loans. E.O. 558 undid E.O. 138 of 1999, which mandated the transfer of directed credit programmes implemented by government non-financial agencies to government financial institutions. Commentators noted that continuing opposition from the DoF and the international financial community resulted in an amended executive order, E.O. 558-A of November 2006, which limited the scope of loans, thus reducing fiscal risks and the competition with private sector micro-financiers. Commentators also noted that a trend has emerged to re-issue amended E.O.s in the face of opposition, and this raises questions about consultation and decision making processes.<sup>21</sup>

In principle, privatisation is conducted in an open manner, and its proceeds are recorded and reported within the budget and annual accounts. Specifically, privatisation proceeds derived from the sale of government equity, sales of government assets, and sales of assets held or managed by the Privatisation and Management Office, or sequestered by the Presidential Commission on Good Government, are recorded in the national accounts.<sup>22</sup> The bidding process is open to competition and inspection.<sup>23</sup> Laws covering privatisation are available on the DoF privatisation website.<sup>24</sup>

However, commentators continue to express concerns over the privatisation of assets in the power generation and transmission sectors. Rules and regulations governing privatisation in these sectors were not as transparent as they should have been, the bidding strategy changed during the process, and not all potential bidders were granted access to the necessary documents.<sup>25</sup>

## **Government involvement in the private sector**

Several laws and policies guide government involvement in the private sector. These include the requirement to publish all regulations issued by administrative agencies in a newspaper of general circulation; Memorandum Order No. 266 (1989), which provides guidelines on government minority investments and joint ventures with private entities; Executive Order No. 40 (2001), Republic Act No. 9184 (2003) and Executive Order No. 109A, which outline good governance principles with respect to government contracts awarded to private entities; and the Build Operate and Transfer Law (1994) which provides a regulatory framework for infrastructure investments.<sup>26</sup> The mandates and economic objectives of GOCCs that operate alongside the private sector are stated in the corresponding Republic Act that established each GOCC.

Two public social security funds, the Social Security System (SSS) and the Government Service Insurance System (GSIS) -- and a health insurance company, the Philippine Health Insurance Company (Philhealth) -- created in 1998 after transfers of funds and employees from the GSIS and SSS are owned by the government. The SSS and GSIS were under significant political pressure during the Estrada administration, and made improper investments in the private sector. Both social security funds are now subject to greater scrutiny, in order to avoid repeating past problems. For example, the CoA makes available the annual audits on the two public social security funds.<sup>27</sup>

In 2005-06, the SSS was in surplus for the first time in seven years, with member contributions exceeding benefit payments. The actuarial life of the SSS is reviewed every four years; the most recent review, for the year 2003, suggested that positive net revenue can be expected until 2021 and that the reserve fund would not be depleted until 2031.<sup>28</sup> This financial viability reverses a trend, identified earlier by the IMF and other commentators, in which SSS deficits had undermined the government's fiscal consolidation efforts.<sup>29</sup>

## **There should be a clear legal and administrative framework for fiscal management**

### **Legal framework for budgetary activities**

Comprehensive budget laws and publicly available administrative rules govern the disbursement of public funds in the Philippines. The president is required by the constitution to submit an annual budget proposal to Congress each fiscal year. A line-item veto over the GAA and other bills is retained by the president, who is allowed to deny provisions inserted by legislators. A Development Budget Coordination Committee (DBCC) -- comprised of the DBM, the DoF, NEDA, the Office of the President (OP) and the BSP -- determines the desirable level of expenditure and debt for the president's budget submission, in the context of the medium-term fiscal plan, whose formulation is mandated by E.O. 292.<sup>30</sup>

Government funds are allocated to individual departments on the basis of budget estimates that each head of department, government agency and public corporation must submit to the DBM. These estimates set out the principal costs of submitted projects, current operating expenditures, capital outlays, sources of revenues, and contingent liabilities, such as government guarantees of GOCC obligations and other transfers to GOCCs. The estimates are submitted to Congress as the president's budget, in the form of the National Expenditure Programme (NEP) and the Budget of Expenditures and Sources of Financing (BESF).<sup>31</sup>

Based on the NEP, Congress approves the GAA. The DBM uses the GAA as the basis for a cash budget programme for the upcoming calendar year -- drawn up in coordination with the spending agencies, the Bureau of the Treasury and the DoF -- and disburses authorised funds to individual departments on a quarterly basis. The Bureau of the Treasury ensures that disbursements authorised by the DBM are fully backed by revenues.

Commentators said the exercise of the president's special line veto powers has historically been sparing, but not insignificant, and has included changes to planned budgetary expenditures.<sup>32</sup> Furthermore, under the General Appropriations Act, two specific sections safeguard against impoundment of appropriations as well as unauthorised disbursement of funds.

In 2005, congress did not approve a budget for 2006, and the 2005 budget was re-enacted this year. Commentators expressed strong concerns about the lack of transparency in 2006 spending, especially regarding funds of around 30 billion pesos (600 million US dollars) that were earmarked in 2005 for particular projects. Commentators also pointed out their suspicion that the administration was taking advantage of the 2006 budget situation to delay expenditure until nearer to the next election.<sup>33</sup> However, in late 2006, the process of developing and enacting a 2007 budget was well advanced.

At the start of each administration, the government adopts a fiscal plan and a set of revenue, expenditure and deficit targets as part of a Medium Term Philippine Development Plan (MTPDP). The draft MTPDP for 2004-10 originally aimed to achieve a balanced budget by 2010, but the government is currently aiming to achieve this target by 2008.<sup>34</sup> However, it has had difficulty attaining fiscal consolidation in the short term.

### **Legal framework for taxation**

An explicit legal basis for all taxes is provided in the constitution and in the National Internal Revenue Code. The latter was restated, with amendments and corrections, in the Tax Reform Act of 1997 and further amended by the reform of excise tax on tobacco and alcohol and the reform of the value-added tax.<sup>35</sup> The Code tasks the Bureau of Internal Revenue (BIR) with the collection of taxes. It gives wide-ranging authority to the head of the organisation, including the power to interpret tax laws, decide disputed cases, obtain additional information on tax returns, and summon individuals for tax inquiries. Taxation laws, regulations and rulings are available on the website of the BIR. Taxpayers may refer disputes to the Appellate Division of the BIR, to the Court of Tax Appeals, and, if still unsatisfied, to the Supreme Court.<sup>36</sup>

The government launched a Comprehensive Tax Reform Programme (CTRP) in 1998 to lower the chronically high tax-evasion rates and improve the country's tax administration by stamping out corruption in the BIR.<sup>37</sup> After a successful start to the RATE (Run After Tax Evaders) Programme, initiated in March 2005 and supervised by the DoF, the lack of high-profile cases or significant enforcement measures against well-known tax evaders has left the programme with little credibility.<sup>38</sup> The fragile condition of public finances has encouraged the government to further review and correct deficiencies in the tax system, including through proposals to remove tax exemptions, attempts to enhance the operational capabilities of the BIR and the Bureau of Customs (BOC),<sup>39</sup> and efforts to impose new streamlined taxes on buoyant economic sectors while keeping the neutrality of fiscal incentives.<sup>40</sup> As part of the efforts to improve adjudication of tax cases, the Court of Tax Appeals was reorganised through Republic Act No. 9282 -- approved on 20 March 2004 -- which expanded the court's jurisdiction to cover criminal offences relating to taxation, and elevated its rank to the level of a collegiate court with special jurisdiction. It also enlarged its membership from three to six judges.

One of the current administration's key efforts to revamp the tax and customs administration is the Lateral Attrition System, which institutionalises a system of incentives for revenue-collecting officials who meet or exceed targets and of sanctions for those who fail. All procedures are in place, and 2006 was the first year during which performance was assessed in both bureaus.<sup>41</sup>

Legislation to rationalise fiscal incentives, including the withdrawal of inefficient and duplicate special investment incentives, is awaiting passage in Congress.<sup>42</sup> This could form the basis for eventually eliminating tax holidays. Nevertheless, the list of special incentives remains long, and tax concessions are widely applied and not time-bound. In addition, the authorities are now facing pressure to grant income-tax incentives to the bio-fuels industry.<sup>43</sup>

Commentators said the complexity of the tax system and the weaknesses of the revenue-collecting institutions were among the several reasons why taxpayers were unwilling to pay taxes.<sup>44</sup>

The government has sent drafts of eight new laws to Congress to remedy deficiencies in the tax structure, widen the tax base, introduce performance-based incentives for revenue-collecting agencies, and institutionalise additional controls to ensure fiscal sustainability.<sup>45</sup> The 'Sin Tax', otherwise known as 'Reform on the Excise on Alcohol and Tobacco Products', was signed in December 2004 and increased the excise tax rates on these products. The Lateral Attrition System, which was signed into law in January 2005, institutionalises a system of incentives for revenue-collecting officials: 2006 was the first year in which the performances of officers in relevant bureaus were appraised. The VAT Reform was enacted in May 2005, and the additional revenue collected in 2006 was a positive addition to fiscal consolidation efforts. The Fiscal Responsibility Bill and legislation to introduce a system of simplified net-income taxation for the self-employed are still pending in Congress. One of the components of the Fiscal Responsibility Bill would limit the number of tax bills to be issued, in view of the already plentiful and complex tax legislation.<sup>46</sup>

### **Ethical standards for public servants**

Ethical behaviour of civil servants is promoted by laws and regulations, measures to ensure compliance with those laws, and agencies responsible for anti-corruption activities. The code of conduct for government officials is clear and well publicised by the government. Article XI of the 1987 Constitution, the Ombudsman Act (R.A. 6770) of 1989, the Code of Conduct and Ethical Standards (R.A. 6713) of 1989, and the Anti-Graft and Corrupt Practices Act (R.A. 3019) of 1960 provide the legal framework and guidelines for public office, as well as specific procedures for tackling misconduct and other violations.<sup>47</sup> The issue remains a primary concern for the Macapagal-Arroyo administration.<sup>48</sup> The current administration has established clear procedures for exposing wrong-doing, including a Presidential Anti-Graft Commission to investigate allegations against presidential appointees and a Revenue Integrity Protection Service (RIPS) to investigate allegations of corruption and to conduct lifestyle checks of DoF's and its agencies' employees.<sup>49</sup> Media reporting of anti-corruption activities is common -- almost a daily affair.<sup>50</sup>

There are continuing concerns that anti-corruption measures might have proven inadequate to ensure compliance with the code of conduct. More seriously, commentators say that highly publicised cases of corruption involving well-connected officials, including presidential appointees, have not been pursued, thereby weakening the perception of the government's commitment to fight corruption.<sup>51</sup>

Although commentators in 2006 said they had recently seen big improvements in efforts to stop corruption in the health sector, in 2005, a highly respected ombudsman, whose office is responsible for investigating and prosecuting graft cases, resigned.<sup>52</sup> Commentators said last year that the Office of the Ombudsman lacked sufficient funds and personnel to contribute to a successful anti-graft campaign and expressed their concern over his resignation, particularly in the midst of his efforts to promote lifestyle checks assessments.<sup>53</sup> In 2006, commentators expressed little confidence that the current ombudsman would provide the necessary strong leadership to pursue, independent of top politicians, anti-corruption checks of well-connected individuals.<sup>54</sup>

## 2. PUBLIC AVAILABILITY OF INFORMATION

### ●●●● Compliance in progress

#### **The public should be provided with full information on the past, current and projected fiscal activity of government**

Full public disclosure of all state transactions that concern the public interest is required by the constitution.<sup>55</sup>

##### **Central government operations**

Data on central government operations are disseminated on a monthly basis and within three weeks of the end of the reference month.<sup>56</sup> Data cover budgetary and extra-budgetary activities, and are presented on a consolidated basis, with transactions between the budgetary and extra-budgetary elements having been eliminated. Data are disseminated on revenue, expenditure, the balance (deficit/surplus), and financing, disaggregated into foreign and domestic.

An advance release calendar that gives one-quarter ahead notice of the precise release dates is posted on the National Statistical Coordination Board (NSCB) website.<sup>57</sup> Data are preliminary when first released, and are subject to revision for five weeks after the end of the reference month.<sup>58</sup> NEDA provides a web service -- *Economic Indicators Online* -- that monitors fiscal performance and government borrowing on a monthly basis with a three-month lag; the two data series started in the 1990s.<sup>59</sup> The NSCB employs a similarly refined web service to publish a set of national economic and financial data, which conform to the IMF Special Data Dissemination Standard (SDDS).<sup>60</sup>

##### **Public sector operations**

The DoF is in charge of compiling data on the Consolidated Public Sector Financial Position (CPSFP). These data are disseminated on a quarterly basis, and within six months of the end of the reference period.<sup>61</sup> Data cover the operations of the central government, including budgetary and extra-budgetary activities, the impact of central bank restructuring (which began in 1993), the operations of the 14 monitored GOCCs, the social security accounts, the BSP net income account, the three government financial institutions and all LGUs. Data are preliminary when first released and may be revised annually for up to three years.<sup>62</sup> A historical comparison of the annual CPSFP outturns for the previous six fiscal years is available on the DoF website.<sup>63</sup>

The DoF disseminates the full public resource budget, both consolidated and sectoral, for each of the years 2003-2005. Financial statements for all local government units and GOCCs are also included.<sup>64</sup> The Development Budget Coordination Committee (DBCC) issues six-year fiscal projections as part of a comprehensive government effort to develop multi-year planning and budgeting. The DBCC recommends six-year fiscal projections to the NEDA board, headed by the president, which are published in the Medium Term Philippine Development Plan (MTPDP) as well as the Medium Term Public Investment Programme (MTPIP).

Government agencies and corporations are required to include the flows of contingent liabilities in their annual budget estimates, and to report periodically to the secretary of finance on the status of their government-guaranteed obligations. The CPSFP includes all quasi-fiscal operations and extra-budgetary contingent liabilities: the Budget of Expenditures and Sources of Financing reports the accrued debt and contingent liabilities stemming from the liabilities assumed by the national government.<sup>65</sup> Determining the precise level of obligations associated with the

insurance scheme for bank deposits, unfunded liabilities of the public pension schemes, guarantees on risks connected with Build-Operate-Transfer (BOT) contracts, and loan guarantees extended to GOCCs and government financial institutions (GFIs) is a difficult task. However, the DoF aims to capture all sources of contingent liabilities in order to include their present value in budget calculations.

Commentators have raised concerns over the level of debt guaranteed by GOCCs. The proposed, but not enacted, 2006 Budget allocated 8.3 billion pesos (145 million US dollars) to government corporations, of which 57.2% would have gone to net lending. The Congressional Planning and Budget Department, which acts as a think-tank for Congress, has raised the importance of closely monitoring the performance of GOCCs with regard to excessive spending on, for example, salaries and allowances.<sup>66</sup>

## **A commitment should be made to the timely publication of fiscal information**

### **Debt reporting**

Data are disseminated on the total outstanding and contingent debt of the central government -- including budgetary and extra-budgetary sources -- on a monthly basis, according to the IMF SDDS template.<sup>67</sup> Data comprise all liabilities of the central government, including debt liabilities for government securities such as Treasury bills and Treasury bonds, and re-lent loans to government corporations. Total outstanding debt is broken down by maturity into short, medium and long term. Data are also disseminated on debt guaranteed by government. Debt is broken down into foreign or domestic, based on the residency of the debt holder. All the above debt data are released within ten weeks of the end of the reference month.

Debt data identifying the entity that incurred debt now assumed by government are also available separately, on a monthly and annual basis.<sup>68</sup> The monthly data series cover the preceding calendar year and the months of the current calendar year.

The government also discloses monthly information on its cash operations, broken down into tax revenues from the BIR and the BOC and non-tax revenues, such as fees, charges and cash earned from privatisation, as well as the major disaggregation of disbursements, borrowings and changes in the Treasury cash balances. A comparison of annual outturns of the main fiscal aggregates is available for 1999-2004, together with monthly data for the current calendar year. Monthly data are released within three weeks of the end of the reference month; the annual cash operations report data are released within twelve working days of the reference period.<sup>69</sup>

The Investor Relations Office, a joint venture by the major economic agencies of government, provides a single source for the disseminated data on the cash operations, outstanding debt, debt service, debt indicators and fiscal position of the government.<sup>70</sup>

### **Advance release calendars**

Advance release calendars, giving one-quarter ahead notice for the precise dates of data disclosure on central government operations, debt and public sector operations -- as well as other data -- are posted on the NSCB and Treasury websites.<sup>71</sup>

### 3. OPEN BUDGET PREPARATION, EXECUTION, AND REPORTING

#### ●●●● Compliance in progress

#### **Fiscal policy objectives, macroeconomic framework, and risks**

##### **Fiscal policy objectives**

Annual budget proposals submitted by the president to Congress must include a statement setting forth the government's main budgetary focus for the year, the expected impact of the budget on development goals, and on monetary and fiscal objectives. The budget proposals of the Macapagal-Arroyo administration have been made within the broader development framework of MTPDPs. The MTPDP 2004-10 sets out ten basic tasks for the administration organised around five themes: economic growth and job creation, energy, social justice and basic needs, education and youth opportunity, and anti-corruption and good governance.<sup>72</sup>

To align multiyear budgeting with the MTPDP, the government is developing a three-year rolling budget -- Medium Term Expenditure Framework, MTEF -- where annual baseline budgets are formulated and only new spending proposals are reviewed during the budget drafting process. The MTEF is anchored on the MTPDP and has two components, the medium-term fiscal plan on the resource side and the medium-term public investment programme, along with performance indicators and reviews of agency effectiveness and performance, on the investment side. The MTEF includes a results framework for performance budgeting and uses two instruments to improve allocation efficiency of scarce public resources -- Sector Effectiveness and Efficiency Reviews (SEERs) and the Organisational Performance Indicator Framework (OPIF). The SEERs and OPIF are expected to enhance accountability for results, and improve service delivery in exchange for access to budgetary resources.<sup>73</sup>

As part of the MTEF, the DBM and NEDA have conducted sector effectiveness and efficiency reviews of government agencies' expenditure proposals, testing the latter for consistency with government priorities. Fifteen agencies have started pilot programmes of the OPIF. The MTEF and the OPIF are components of the Public Expenditure Management reform put in place five years ago. The OPIF focuses on the linkages between inputs, outputs, outcomes and impacts on social goals. The DBM has conducted agency performance reviews for all departments/agencies under the executive branch of government.<sup>74</sup>

##### **Macroeconomic framework**

Annual budget submissions are prepared and presented within the broad macroeconomic framework of the government, represented by the MTPDP. The MTPDP 2004-10 includes integrated macroeconomic and fiscal forecasts for the term of the plan. Broad macroeconomic assumptions for future years are contained in the Budget of Expenditures and Sources of Financing (BESF) for the relevant fiscal year.<sup>75</sup> The quantitative models used for budget calculations are not publicly available, but DoF and DBM officials have said in the past that their models are made available upon request.<sup>76</sup>

##### **Fiscal risks**

A number of government departments carry out internal calculations/analysis of fiscal risks, but these are not explicitly identified in the budget documentation. The government prepares a sensitivity analysis of variations to its

key macroeconomic assumptions underlying budget proposals. The sensitivity analysis is incorporated in a document that accompanies the budget submission to Congress.

Several reform measures are included in the Fiscal Responsibility Bill. They include the removal of the automatic guarantee provisions for certain GOCCs, a cap on debt as a percentage of GDP to be met by 2009, a provision stating that no new expenditures shall be enacted without accompanying new revenue measures, the formulation of a three-year Executive-Legislative Medium Fiscal Accord between the executive and the legislature, and measures to increase tax collection.<sup>77</sup>

As in 2005, The National Expenditure Programme (NEP) for 2006 provides for a number of special-purpose funds to cope with unforeseen circumstances, including the Calamity Fund, the Contingent Fund, and the Unprogrammed Fund.<sup>78</sup>

In 2006, commentators noted that LGUs such as Marikina City and Naga City have established a record of excellence in fiscal matters, but other LGUs still lag behind. Commentators also noted that the DoF continues to encourage LGUs to adopt best practices of fiscal management, with the result that large LGU deficits have become less likely, even in election years. Commentators flagged the impending reclassification of up to 20 existing municipalities and component cities to independent cities as a potential fiscal risk because of the associated increase in IRA.<sup>79</sup>

### **Fiscal sustainability**

Government analysis of fiscal sustainability is mandatory.<sup>80</sup> The DBM and NEDA are conducting spending-efficiency reviews of government programmes and projects, as part of the MTEF, to increase discipline of public expenditures. The CoA requires agencies to report expenditures quarterly; it identifies any expenditure in excess of an agency's appropriation and reports half-yearly. The ADB is providing technical assistance to the DoF to improve its debt and risk management abilities. According to the ADB, considerable progress has been made in debt management in recent years, particularly in lengthening the average maturity of national government debt and in maintaining a diverse portfolio of obligations. However, the growing stock of debt outside the national government's borrowing programme, such as GOCC and GFI debt, and the challenging issues in accurately quantifying and assessing the level of contingent liabilities, pose risks.<sup>81</sup> Formal fiscal sustainability analysis is not available.

## **Budget presentation**

### **Data reporting**

The Philippines subscribes to the SDDS, and meets its requirements for periodicity, coverage and timeliness. Data on central government operations are presented on a consolidated basis, distinguishing revenue, expenditure, balance and financing. Expenditure is classified by economic, functional, and administrative categories. Data on central government debt comprise all liabilities of the national government and are broken down by maturity, the residency of the debt holder (domestic and foreign), and the issuer of the debt (such as government agencies and GOCCs whose loans the government guarantees). Data on public sector operations are presented on a consolidated basis (CPSFP), distinguishing revenue, expenditure, balance and financing. Data on financing are disseminated for the public sector as a whole and for the central government and major government corporations separately, broken down into domestic and external sources of financing. The CPSFP presents the most accurate picture of the fiscal activity of the Philippine public sector, and accuracy has been improved through the quantification and inclusion of many government contingent liabilities in the balance.<sup>82</sup> The IMF has pointed out that one important problem is that the

budget is presented on an obligations basis, while the deficit is reported on a cash basis, complicating comparisons of budgets and outcomes.<sup>83</sup>

The government is making significant progress -- with technical assistance from the World Bank -- on a shift towards performance-based budgeting. In September 2002, the DBM conducted the first agency performance review to assess mid-year agency performance and accomplishments. Performance targets are part of the requirements of agencies' submissions during the budget preparation, and the results of the agency performance reviews are considered while arranging the budget draft.

## **Budget execution and monitoring**

Recognising the need for an integrated financial management information system, the government is taking several steps -- one of which is the implementation of the Internet-based e-Budget System -- to strengthen the DBM's expenditure management capability, streamline budget-release procedures and improve front-line service, improve budget administration and accountability, update budget analysis and decision making and minimise the fabrication of documents and the opportunities for 'fixers' promising to arrange funds for agencies.<sup>84</sup> From October 2005, the e-Budget System has been used by the DBM Central Office to release budget documents.

### **Accounting basis**

The New Government Accounting System (NGAS) -- introduced in January 2002 by the CoA, the supreme audit authority of the Philippines -- is designed to simplify government accounting, improve the efficiency of monitoring public sector performance, and increase the transparency of government audits through civil society involvement. More importantly, the new framework shifts from cash- to accrual-based accounting and introduces modifications to the obligation-accounting techniques. It also mandates the introduction of valuation accounting for receivables and fixed assets, and envisages the full computerisation of government accounting, as well as the development of viable internal control systems within government agencies over the medium term.<sup>85</sup>

The modified accrual-based NGAS has been progressively rolled out, first in manual and then electronic versions, to the national government agencies and LGUs. Conversion from manual to electronic form was scheduled in batches from 2003 to 2008. The first batch replaced manual NGAS with e-NGAS starting in October 2003. An additional 40 government agencies, including 15 COA regional offices are converting from manual NGAS to e-NGAS with the help of teams from the COA. Both manual and electronic versions of NGAS use the modified accrual accounting.<sup>86</sup>

### **Procurement and employment**

The Philippine government has achieved substantial improvements in procurement methods and standards. In January 2003, the Government Procurement Reform Act (GPRA, R.A. 9184) was ratified.<sup>87</sup> The GPRA established governing principles for transparent and competitive procurement, mandated government procurement via electronic means (Government Electronic Procurement System or G-EPS), and detailed the processes to be followed. The GPRA also made permanent changes to the manual procurement procedures that were put in place in the previous three years to make them more competitive and transparent. The reform has also created the Government Procurement Policy Board (GPPB), charged with protecting the national interest in all matters affecting public procurement and formulating rules and guidelines on government procurement. Furthermore, the GPPB also oversees the implementation of the whole procurement reform process, including recommending changes to the GPRA, if necessary.

In 2003, government agencies and GOCCs were trained and introduced to G-EPS. In 2004, G-EPS became operational, with additional development scheduled. Again in 2004, the focus shifted to LGUs, including the

*barangay* level. Additional functions, including online bidding and an electronic payment system, were also developed.<sup>88</sup>

The G-EPS has led to clear efficiency gains, savings through competition and reduced costs, and has reduced the scope for corruption. The GPPB established its website in April 2005, providing immediately accessible information on the latest developments and policies concerning government procurement.<sup>89</sup>

Commentators noted that procurement had improved even before the adoption of G-EPS, owing to the aggressive approach taken by individual secretaries of certain government agencies. They agree that reformed government procurement procedures, which include non-government organisations as observers, have made significant advances in avoiding waste and corruption and in improving transparency. Procurement in the health and education sectors was highlighted as especially improved, but commentators were doubtful that defence procurement had made any gains in transparency, or was less corrupt than before.<sup>90</sup>

The Organisation, Position Classification and Compensation Bureau of the DBM issues circulars that specify standard employment regulations for government employees, accessible to all interested parties.<sup>91</sup> The Compensation and Position Classification Act of 1989 (R.A. 6758) regulates the remuneration of Philippine civil servants, as well as GOCCs, rank and file employees of the central bank. In 2004, the Civil Service Commission reviewed the salary standardisation law to streamline position classifications and introduce a more performance-based and market-based compensation system.

## **Fiscal reporting**

The government submits regular, quarterly reports on the ongoing implementation of the national budget to Congress. The GAA for each fiscal year requires each government department and agency to submit a quarterly financial and narrative accomplishment report to the House Committee on Appropriations and the Senate Committee on Finance, with copies sent to the DBM, CoA, and the appropriate committee chairperson of Congress. The financial reports must include cumulative allotments, obligations incurred or liquidated, total disbursements, unspent balances, and the results of expended appropriations. In addition, the DBM must submit a quarterly report to the above two committees on any disbursements made from the special purpose fund, and on supplementary expenditures.<sup>92</sup> In addition, the government reports its fiscal position regularly to the public, disseminating data on the website of the Investor Relations Office and briefing the business community and the media.<sup>93</sup>

## 4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY

### ●●●● Compliance in progress

#### Data quality standards

In the past, revenue forecasts prepared by the DoF proved overly optimistic and marred the credibility of the government's fiscal deficit targets. However, this year revenue collection is broadly on target.<sup>94</sup> Government departments, such as the National Statistical Coordination Board (NSCB), NEDA and the DBM, have improved the quality and amount of data available, both for historical series and forecasts.

An inter-agency committee on Public Finance Statistics chaired by the DoF was organised to implement the IMF's recommendations on specific statistics issues and to coordinate the implementation of the migration plan to the GFSM 2001 methodology. A dedicated unit in the DoF has been created to compile government finance statistics in accordance with the GFSM 2001 framework.<sup>95</sup> An IMF mission took place in March-April 2006 to assist the authorities in compiling and disseminating government finance statistics in accordance with GFSM 2001. A technical working group, composed of representatives from the Commission on Audit and the Bureau of Local Government Finance (BLGF) was created to harmonise data on the local government sector generated by the CoA and the BLGF.

Data on central government operations and debt are compiled in accordance with the rules of the CoA contained in the 1992 Government Accounting and Auditing Manual. The NGAS establishes additional provisions for accounting methods and standards for LGUs and national government agencies. Further information on the methodology and sources used is available upon request from the contact persons listed on the Philippines' SDDS Meta Data website.<sup>96</sup>

The Philippines subscribes to the SDDS, a signal of its commitment to improving the quality of fiscal data. Previous weaknesses and time delays in data reporting are being addressed. In particular, the government has made progress in correcting the analytical deficiencies of national accounts data.

#### Independent scrutiny of fiscal information

##### Independent audit

Under the Administrative Code, the CoA is given the authority to examine, audit and settle all accounts relating to the receipt of revenues and expenditure of funds by the government, its subdivisions and agencies, including government corporations. Where the internal control system of the audited agencies is deemed inadequate, the CoA may adopt measures -- such as temporary and pre-audits -- that it judges necessary to remedy these deficiencies.

Article IX of the constitution specifies that the CoA, and the other constitutional commissions, shall be independent and enjoy fiscal autonomy. Under Article IX-D of the constitution, the president appoints the chairperson and commissioners of the CoA, each for a term of seven years.<sup>97</sup> The length of their terms, in contrast to the six-year term to which a president is limited by the constitution, and the asynchronous nature of their terms give the chairperson and commissioners a measure of independence from the executive. Article IX-D mandates that the CoA has exclusive authority to define the scope and techniques of its audit and examination.

The CoA is required by Article IX-D of the constitution to submit an annual report to the president and Congress on the financial condition and operation of the government, its subdivisions and agencies, and instrumentalities including the GOCCs.<sup>98</sup> The annual report highlights the variance between original targets and actual outturns for different fiscal aggregates. Within two months of receiving this document, government departments, agencies and public corporations are required to submit a status report to the CoA on the actions they have taken to comply with the audit findings and recommendations. Additional copies of the status report are sent to the DBM, the House Committee on Appropriations, and the Senate Committee on Finance.

The CoA is changing to an audit team approach, using a team of roving auditors to carry out audits, to replace resident auditors. Teams are being reshuffled to improve objectivity and eliminate the corruption that characterised the resident auditing regime. The CoA has also adopted a Participatory Audit Programme that works with civil society organisations to improve the transparency of the government auditing process.<sup>99</sup>

### **National Statistics Agency**

The NSCB is the highest policy-making and coordinating body of the decentralised Philippine statistical system. It is the country's independent economic development and planning agency.

The NSCB does not collect data directly. The government agency responsible for collecting, compiling and disseminating general-purpose statistics is the National Statistics Office, which is required to assist the NSCB in formulating a comprehensive statistical programme for the government.<sup>100</sup>

The 1987 executive order creating the NSCB does not explicitly guarantee the organisation's institutional independence, but it stipulates that NSCB decisions on statistical matters are final.<sup>101</sup> The executive order does, however, embrace the need for a statistical system characterised by independence, objectivity and integrity. A 1996 executive order grants the NSCB technical independence and control over the NSCB's system of designated statistics.<sup>102</sup>

The NSCB maintains the most sophisticated website of all Philippine government agencies. Commentators said that the NSCB operates independently of the executive arm of government and, in 2004, praised the timeliness and accuracy of its macroeconomic statistics.<sup>103</sup>

However, in 2006, commentators expressed strong reservations about economic statistics, repeating concerns raised in 2005. A change in the definition of unemployment, leading to a new series of unemployment statistics, was a new concern; commentators argued that the only way to ensure transparency was to continue both series of unemployment statistics. Commentators especially questioned the validity, reliability, accuracy and completeness of statistics on revenue collection, inflation, investment and GDP. They acknowledged that there were constraints on resources in the NSO, but believed that other issues were involved and noted that they had been unsuccessful when seeking explanations for cases of revisions.<sup>104</sup>

## INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to the Philippines between 21 and 27 November 2006.

### Department of Finance (DoF); Securities and Exchange Commission

#### 22 November 2006

Ma.Teresa S. Habitan	Director IV	Fiscal Policy and Planning Office
Stela B. Montejo	Chief	Fiscal Policy and Planning Office

### Bangko Sentral ng Pilipinas

#### 22 November 2006

Diwa C. Guinigundo	Deputy Governor	Monetary Stability Sector
Carmen V. Hemedes	Acting Deputy Director	Department of Economic Research
Illuminada T. Sicat	Director	Department of Economic Statistics
Regina Juinio	Acting Deputy Director	Department of Economic Statistics
Amy Doreen Cruz	Bank Officer III	
Maria Dorecyl Evidente	Senior Research Specialist	

## ADDITIONAL INTERVIEWS

#### 21 November 2006

Rene G. Banez	Chief Governance Officer	Philippines Long Distance Telephone Company
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#### 23 November 2006

Guillermo M. Luz	Executive Director	Makati Business Club
Eric Jude O. Alivia	Assoc. Research Director	Makati Business Club

#### 27 November 2006

Joseph Yap	President	Philippine Institute for Development Studies
Rosario G. Manasan	Research Fellow	Philippine Institute for Development Studies

## NOTES

- <sup>1</sup> See the 1987 Constitution at <http://www.gov.ph/aboutphil/constitution.asp> and the Administrative Code of the Philippines (Executive Order No. 292) 25 July 1987 at [www.chanrobles.com/administrativecodeofthephilippines.htm](http://www.chanrobles.com/administrativecodeofthephilippines.htm)
- <sup>2</sup> For a list of national government departments and agencies, and GOCCs, see [www.dbm.gov.ph/web\\_linkages.htm](http://www.dbm.gov.ph/web_linkages.htm)
- <sup>3</sup> The legislature adopts a General Appropriations Act (GAA) for the upcoming calendar year, committing public funds to government departments, agencies and corporations. See, for instance, GAA (2005) at: [www.dbm.gov.ph/dbm\\_publications/gaa\\_2005/gaa\\_2005.htm](http://www.dbm.gov.ph/dbm_publications/gaa_2005/gaa_2005.htm)
- <sup>4</sup> See the Local Government Code (R.A. 7160) 1991 at [www.lawphil.net/statutes/repacts/ra1991/ra\\_7160\\_1991.html](http://www.lawphil.net/statutes/repacts/ra1991/ra_7160_1991.html); Section 133 of RA 7160 reserves certain taxes for the national government, while Sections 134-141 detail taxes that provinces can apply and Sections 142-150 do the same for municipalities. For a summary of the two-tiered, multi-level taxing, see Rosario G. Manasan, *Local Public Finance in the Philippines: In search of autonomy with accountability*, PIDS Discussion Paper Series 2004-42, Manila: Philippine Institute for Development Studies, 2004, p. 18.
- <sup>5</sup> The formulas for the Internal Revenue Allotment can be found in Section 285 of RA 7160.
- <sup>6</sup> Interviews in the Philippines, 21-27 November 2006.
- <sup>7</sup> See [www.dbm.gov.ph/abt\\_dbm/history.htm](http://www.dbm.gov.ph/abt_dbm/history.htm)
- <sup>8</sup> The *Manual on the New Government Accounting System for LGUs* is available on the government portal: [www.gov.ph/cat\\_localgov/LGU-NGAS-Manual.zip](http://www.gov.ph/cat_localgov/LGU-NGAS-Manual.zip). The Department of Budget and Management publishes a *Primer on Barangay Budgeting* at: [www.dbm.gov.ph/dbm\\_publications/all\\_pub.htm](http://www.dbm.gov.ph/dbm_publications/all_pub.htm)
- <sup>9</sup> See the Bureau of Local Government Finance website at [www.blgf.gov.ph/index.php](http://www.blgf.gov.ph/index.php)
- <sup>10</sup> See Oxford Analytica Daily Brief, “Constitutional change likely this year”, 9 February 2006.
- <sup>11</sup> See ‘GMA: Cha-cha must go on,’ *Philippine Daily Inquirer*, 24 November 2006, pp. A1, A21.
- <sup>12</sup> See: [www.bsp.gov.ph/Statistics/ifs/IFS-10G.htm](http://www.bsp.gov.ph/Statistics/ifs/IFS-10G.htm)
- <sup>13</sup> In its 2005 report, the Commission on Audit reports on 142 of 143 GOCCs, not including 452 water districts, which are audited on a cyclical basis. See [www.coa.gov.ph/COA\\_hm/Report\\_Highlights.htm](http://www.coa.gov.ph/COA_hm/Report_Highlights.htm)
- <sup>14</sup> Administrative Code (1987), Book IV, Chapter 7.
- <sup>15</sup> IMF Country Report 04/180, *Philippines: Report on the Observance of Standards and Codes – Fiscal Transparency Module – Update*, June 2004, p. 2 (see [www.imf.org/external/pubs/ft/scr/2004/cr04180.pdf](http://www.imf.org/external/pubs/ft/scr/2004/cr04180.pdf)).
- <sup>16</sup> See [www.coa.gov.ph/COA\\_hm/Audit/AAR.htm](http://www.coa.gov.ph/COA_hm/Audit/AAR.htm); the link ‘Previous Years’ gives access to reports for 1998-2003.
- <sup>17</sup> Department of Finance, *Towards Stability and Growth: 2005 Annual Report*, pp. 7, 8; information on the deficits of the 14 monitored GOCCs expected in 2006 (P47.8 billion) and 2007 (P55.5 billion) is from Interviews in the Philippines, 21-27 November 2006.
- <sup>18</sup> See DoF, *Towards Stability and Growth: 2005 Annual Report*, p. 10; Interviews in the Philippines, 21-27 November 2006.
- <sup>19</sup> For estimates of GOCC deficits, see *Mid-2006 Post-Program Monitoring Discussions*, IMF Country Report No. 06/355, October 2006.
- <sup>20</sup> *Mid-2006 Post-Program Monitoring Discussions*, IMF Country Report No. 06/355, October 2006.
- <sup>21</sup> See ‘GMA approves new version of credit services law,’ *Philippine Daily Inquirer*, 23 November 2003, p. B3. Interviews in the Philippines, 21-27 November 2006.
- <sup>22</sup> See DoF, *Towards Stability and Growth: 2005 Annual Report*, p. 9.
- <sup>23</sup> See [www.dof.gov.ph/cop/html/bid1.htm](http://www.dof.gov.ph/cop/html/bid1.htm)
- <sup>24</sup> [www.dof.gov.ph/cop/html/PrivaLaws-3a.htm](http://www.dof.gov.ph/cop/html/PrivaLaws-3a.htm)
- <sup>25</sup> Interviews in the Philippines, 21-27 November 2006.
- <sup>26</sup> Interviews in the Philippines, 11-15 October 2004.
- <sup>27</sup> See ‘Cluster II – Financial B’ at [www.coa.gov.ph/COA\\_hm/Audit/AAR.htm](http://www.coa.gov.ph/COA_hm/Audit/AAR.htm)
- <sup>28</sup> SSS: *Serving the Filipino at home at around the world: 2005 Annual Report*, pp. 6, 13; also available at [www.sss.gov.ph/fact/ar\\_2000s/2005ar/ar\\_small.pdf](http://www.sss.gov.ph/fact/ar_2000s/2005ar/ar_small.pdf)
- <sup>29</sup> IMF Country Report No 05/372, *Philippines: Post Program Monitoring Discussions – Staff Report, Staff Supplement, Public Information Notice on the Executive Board Discussion, and Statement by the Executive Director for the Philippines*, October 2005, [www.imf.org/external/pubs/ft/scr/2005/cr05372.pdf](http://www.imf.org/external/pubs/ft/scr/2005/cr05372.pdf).
- <sup>30</sup> Executive Order No. 292 (Administrative Code of 1987).
- <sup>31</sup> See the NEP 2005 at [www.dbm.gov.ph/dbm\\_publications/nep\\_2005/nep\\_2005.htm](http://www.dbm.gov.ph/dbm_publications/nep_2005/nep_2005.htm); and BESF 2005 at [www.dbm.gov.ph/dbm\\_publications/besf\\_2005/besf\\_2005.htm](http://www.dbm.gov.ph/dbm_publications/besf_2005/besf_2005.htm)
- <sup>32</sup> Interviews in the Philippines, 21-27 November 2006.

<sup>33</sup> Interviews in the Philippines, 21-27 November 2006.

<sup>34</sup> See the presentation, by socio-economic planning secretary Romulo L. Neri, on the NEDA website [www.neda.gov.ph/ads/mtpdp/MTPDP2004-2010/MTPDP%20presentation\\_166slides.zip](http://www.neda.gov.ph/ads/mtpdp/MTPDP2004-2010/MTPDP%20presentation_166slides.zip). The MTPDP was approved on November 12, 2004 and is posted on the NEDA website. Interviews in the Philippines, 11-15 October 2004.

<sup>35</sup> Constitution of the Philippines (1987), Article VI, Section 28 & 29; Tax Reform Act of 1997 (R. A. 8424). See [www.bir.gov.ph/leg\\_guide.html](http://www.bir.gov.ph/leg_guide.html) and the Tax Reform Act of 1997 at [www.bir.gov.ph/issu\\_nir.html](http://www.bir.gov.ph/issu_nir.html)

<sup>36</sup> See [www.bir.gov.ph/fyi\\_tpbi.html](http://www.bir.gov.ph/fyi_tpbi.html)

<sup>37</sup> 'IMF Concludes Post-Programme Discussion on the Philippines', IMF PIN No. 02/41, 09/04/02. The CTRP law was passed in 1997 and became effective in 1998, but some provisions became effective only in 2001.

<sup>38</sup> Interviews in the Philippines, 3-11 November 2005.

<sup>39</sup> A Run After the Smugglers (RATS) programme is now underway at the BoC.

<sup>40</sup> Other measures, such as the long-awaited Special Purpose Vehicle Act (passed in January 2003) grant tax breaks and privileges for investors to create asset management companies that will acquire and invest in banks' non-performing assets and liquefy the financial system. This law appears crucial to help banks sell up sizeable amounts of bad loans and foreclosed assets, in order to reinvigorate the banking system and help rehabilitate failed businesses.

<sup>41</sup> Interviews in the Philippines, 21-27 November 2006.

<sup>42</sup> Interviews in the Philippines, 21-27 November 2006.

<sup>43</sup> *Mid-2006 Post-Program Monitoring Discussions*, IMF Country Report No. 06/355, October 2006.

<sup>44</sup> Interviews in the Philippines, 21-27 November 2006.

<sup>45</sup> Interviews in the Philippines, 11-15 October 2004.

<sup>46</sup> Interviews in the Philippines, 3-11 November 2005.

<sup>47</sup> A compendium of anti-corruption legislation, presidential decrees, Supreme Court orders, and executive orders is available at [http://www.dbm.gov.ph/dbm\\_publications/compendium/compendium.htm](http://www.dbm.gov.ph/dbm_publications/compendium/compendium.htm).

<sup>48</sup> In July 2003, the president ordered focused efforts against corrupt government officials to be pursued "with the same intensity as the present campaign against terrorism and illegal drugs". She ordered the removal of four officials (three from the BIR and one from the BoC) after they failed the 'lifestyle check' performed by the Department of Finance.

<sup>49</sup> See the mission statement of the Presidential Anti-Graft Commission at [www.pagc.gov.ph/mvg.pdf](http://www.pagc.gov.ph/mvg.pdf). The Revenue Integrity Protection Service maintains a website at [www.rips.gov.ph](http://www.rips.gov.ph) to publicise ethical standards and allow allegations of corruption to be made and the progress of cases of corruption to be monitored.

<sup>50</sup> For example, (1) 'Customs man cries foul over graft probe,' Philippine Daily Inquirer, 23 November 2006, p. A7, reports a Bureau of Customs officer denying RIPS' allegations that he had improperly acquired properties and motor vehicles worth over P11 million while his income in the past three years amounted to only P1.2 million and his spouse had an annual salary of P255,000. RIPS has asked the Ombudsman to suspend the Customs officer; and (2) 'Bangko Sentral exec sacked by Ombudsman', Philippine Daily Inquirer 25 November 2006, p. A7, reports that a BSP manager in Bacolod City was sacked by the Ombudsman for dishonesty, with criminal charges soon to commence, after P5 million were found missing from BSP-Bacolod City accounts.

<sup>51</sup> Interviews in the Philippines, 21-27 November 2006.

<sup>52</sup> Interviews in the Philippines, 21-27 November 2006.

<sup>53</sup> Interviews in the Philippines, 3-11 November 2005.

<sup>54</sup> Interviews in the Philippines, 21-27 November 2006.

<sup>55</sup> Constitution of the Philippines (1987), Art. II, Section 28

<sup>56</sup> [www.nscb.gov.ph/sdds/meta\\_fis\\_govtooper.asp](http://www.nscb.gov.ph/sdds/meta_fis_govtooper.asp). See the data at [www.nscb.gov.ph/sdds/nsdp.asp#fiscal](http://www.nscb.gov.ph/sdds/nsdp.asp#fiscal)

<sup>57</sup> [www.nscb.gov.ph/sdds/calendar.asp](http://www.nscb.gov.ph/sdds/calendar.asp)

<sup>58</sup> [www.nscb.gov.ph/sdds/meta\\_fis\\_puboper.asp](http://www.nscb.gov.ph/sdds/meta_fis_puboper.asp)

<sup>59</sup> [localweb.neda.gov.ph/%7Eioneda/National/PubFinance.html](http://localweb.neda.gov.ph/%7Eioneda/National/PubFinance.html)

<sup>60</sup> [www.nscb.gov.ph/sdds/nsdp.asp](http://www.nscb.gov.ph/sdds/nsdp.asp)

<sup>61</sup> See [www.dof.gov.ph/stat/CPSD-CY2004.pdf](http://www.dof.gov.ph/stat/CPSD-CY2004.pdf)

<sup>62</sup> [www.nscb.gov.ph/sdds/meta\\_fis\\_puboper.asp](http://www.nscb.gov.ph/sdds/meta_fis_puboper.asp)

<sup>63</sup> [www.dof.gov.ph/statistics.asp?id=5](http://www.dof.gov.ph/statistics.asp?id=5)

<sup>64</sup> [www.dbm.gov.ph/dbm\\_publications/besf\\_2005/besf\\_2005.htm](http://www.dbm.gov.ph/dbm_publications/besf_2005/besf_2005.htm)

<sup>65</sup> See the BESF, at [www.dbm.gov.ph/dbm\\_publications/besf\\_2005/besf\\_2005.htm](http://www.dbm.gov.ph/dbm_publications/besf_2005/besf_2005.htm), for the tables on liabilities assumed by the National Government: B.21 (Domestic Debt Services) B.23 (Foreign Debt Services), D.5 (Outstanding Domestic Debt) and D.7 (Outstanding Foreign Debt).

- <sup>66</sup> 2006 Budget Brief, Dimensions of the 2006 Expenditure Programme, No. 2005-02, October 2005, p. 13.
- <sup>67</sup> [www.treasury.gov.ph/statdata/sdds/sdds\\_cgdebt.pdf](http://www.treasury.gov.ph/statdata/sdds/sdds_cgdebt.pdf)
- <sup>68</sup> Monthly series at: [www.treasury.gov.ph/statdata/monthly/mo\\_outstandingdebt.pdf](http://www.treasury.gov.ph/statdata/monthly/mo_outstandingdebt.pdf); annual series at [www.treasury.gov.ph/statdata/yearly/yr\\_outstandingdebt.pdf](http://www.treasury.gov.ph/statdata/yearly/yr_outstandingdebt.pdf)
- <sup>69</sup> [www.nscb.gov.ph/sdds/nsdp.asp](http://www.nscb.gov.ph/sdds/nsdp.asp); and [www.treasury.gov.ph/statdata/statdata.html](http://www.treasury.gov.ph/statdata/statdata.html)
- <sup>70</sup> [www.iro.ph/ecofindata\\_monthly-fiscalaccounts.asp](http://www.iro.ph/ecofindata_monthly-fiscalaccounts.asp)
- <sup>71</sup> [www.nscb.gov.ph/sdds/calendar.asp](http://www.nscb.gov.ph/sdds/calendar.asp); and [www.treasury.gov.ph/statdata/arc/arc.pdf](http://www.treasury.gov.ph/statdata/arc/arc.pdf)
- <sup>72</sup> For details on the MTPDP 2004-10, see: [www.neda.gov.ph/ads/mtmdp/MTPDP2004-2010/MTPDP%20presentation\\_166slides.zip](http://www.neda.gov.ph/ads/mtmdp/MTPDP2004-2010/MTPDP%20presentation_166slides.zip)
- <sup>73</sup> <http://www.adb.org/Documents/CSPs/PHI/2005/csp0300.asp>
- <sup>74</sup> Government-wide Audit Report on the Performance Reporting System of the Philippine Overseas Labour Offices (CYs 2001 - 2002) at: [www.coa.gov.ph/COA\\_htm/GWSPA/2001-2002/PRS/POLO-DOLE\\_PRS01-02.htm](http://www.coa.gov.ph/COA_htm/GWSPA/2001-2002/PRS/POLO-DOLE_PRS01-02.htm)
- <sup>75</sup> For the assumptions underpinning the 2005 budget, see: [www.dbm.gov.ph/dbm\\_publications/besf\\_2005/besf\\_2005\\_html\\_files/a\\_1.pdf](http://www.dbm.gov.ph/dbm_publications/besf_2005/besf_2005_html_files/a_1.pdf)
- <sup>76</sup> Interviews in the Philippines, 14-16 October 2002.
- <sup>77</sup> Interviews in the Philippines, 3-11 November 2005.
- <sup>78</sup> See: [www.dbm.gov.ph/dbm\\_publications/nep\\_2005/general\\_intro.htm#nep\\_2005\\_table2-2](http://www.dbm.gov.ph/dbm_publications/nep_2005/general_intro.htm#nep_2005_table2-2) and [www.dbm.gov.ph/dbm\\_publications/nep\\_2006/tables/tableI.pdf](http://www.dbm.gov.ph/dbm_publications/nep_2006/tables/tableI.pdf)
- <sup>79</sup> Interviews in the Philippines, 21-27 November 2006.
- <sup>80</sup> See Section 3, Chapter 2, Book VI of the Administrative Code of 1987 (Executive Order No. 292).
- <sup>81</sup> Technical Assistance: Republic of the Philippines – Debt and Risk Management Project at: [www.adb.org/Documents/TARs/PHI/38281-PHI-TAR.pdf](http://www.adb.org/Documents/TARs/PHI/38281-PHI-TAR.pdf)
- <sup>82</sup> Interviews in the Philippines, 21-27 November 2006.
- <sup>83</sup> *2005 Article IV Consultation*, IMF Country Report No. 06/92, March 2006.
- <sup>84</sup> Interviews in the Philippines, 11-15 October 2004.
- <sup>85</sup> [www.coa.gov.ph/COA\\_htm/NGAS/ngasmanual.asp](http://www.coa.gov.ph/COA_htm/NGAS/ngasmanual.asp)
- <sup>86</sup> See [www.coa.gov.ph/COA\\_htm/Gen\\_Information.htm](http://www.coa.gov.ph/COA_htm/Gen_Information.htm) for progress reports; a description of the roll-out schedule is at [www.coa.gov.ph/COA\\_htm/COA\\_News/2003/v4n3/news5\\_v4n3.asp](http://www.coa.gov.ph/COA_htm/COA_News/2003/v4n3/news5_v4n3.asp)
- <sup>87</sup> See the GPRA at: [www.i-site.ph/Record/GPRA/Republic%20Act%209184\\_\(GPRA\).doc](http://www.i-site.ph/Record/GPRA/Republic%20Act%209184_(GPRA).doc)
- <sup>88</sup> Interviews in the Philippines, 11-15 October 2004. See the G-EPS portal at: [www.procurementservice.org/ps/index.cfm](http://www.procurementservice.org/ps/index.cfm)
- <sup>89</sup> [www.gppb.gov.ph](http://www.gppb.gov.ph)
- <sup>90</sup> Interviews in the Philippines, 21-27 November 2006.
- <sup>91</sup> See the salary standardisation legislation and regulations at: [www.dbm.gov.ph/dbm\\_publications/salary\\_standardization/salary\\_standardization\\_new.htm](http://www.dbm.gov.ph/dbm_publications/salary_standardization/salary_standardization_new.htm)
- <sup>92</sup> Administrative Code (1987), Book VI, Chapter 5, Section 33; DBM, General Appropriations Act for Fiscal Year 2003, General Provisions, Section 89: [www.dbm.gov.ph/dbm\\_publications/gaa\\_2003/gaa\\_links/GENPRO03.htm](http://www.dbm.gov.ph/dbm_publications/gaa_2003/gaa_links/GENPRO03.htm)
- <sup>93</sup> Interviews in the Philippines, 11-15 October 2004. Although not in place in October 2004, government officials said quarterly budget data would in the near future be available on the Investor Relations Office website, see: [www.iro.ph/ecofindata.asp#quarterly](http://www.iro.ph/ecofindata.asp#quarterly). For annual fiscal accounts 1999-2004, see: [www.iro.ph/ecofindata\\_annual-fiscalaccounts.asp](http://www.iro.ph/ecofindata_annual-fiscalaccounts.asp)
- <sup>94</sup> *Mid-2006 Post-Program Monitoring Discussions*, IMF Country Report No. 06/355, October 2006.
- <sup>95</sup> *2005 Article IV Consultation*, IMF Country Report No. 06/92, March 2006.
- <sup>96</sup> [www.nscb.gov.ph/sdds/meta\\_fis\\_govtoper.asp](http://www.nscb.gov.ph/sdds/meta_fis_govtoper.asp)
- <sup>97</sup> See the relevant sections of Article IX-D at: [www.coa.gov.ph/COA\\_htm/Gen\\_Information.htm](http://www.coa.gov.ph/COA_htm/Gen_Information.htm)
- <sup>98</sup> Interviews in the Philippines, 14-16 October 2002. Given that the president appoints the CoA chairman, the latter's position might be subject to political pressures. In addition, the CoA sets the accounting standards on which its external audits are based. See also IMF, Philippines: ROSC—Fiscal Transparency Module, IMF Country Report No. 02/216, October 2002.
- <sup>99</sup> 'The Medium Term Philippine Development Plan 2001-2004 – Part 4: Good Governance and the Rule of Law'; World Bank, *Combating Corruption in the Philippines: An Update*, Report No. 23698-PH (2001), p. iii
- <sup>100</sup> Section 5 of Presidential Decree No. 418. See the website of the National Statistics Office at: [www.census.gov.ph/](http://www.census.gov.ph/)
- <sup>101</sup> See Executive Order 121 of 1987 at: [www.nscb.gov.ph/pss/laws/eo121.asp](http://www.nscb.gov.ph/pss/laws/eo121.asp)
- <sup>102</sup> See Executive Order 352 of 1996 at: [www.nscb.gov.ph/pss/laws/eo352.asp](http://www.nscb.gov.ph/pss/laws/eo352.asp)

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<sup>103</sup> Interviews in the Philippines, 11-15 October 2004.

<sup>104</sup> Interviews in the Philippines, 3-11 November 2005; Interviews in the Philippines, 21-27 November 2006.