



Daylight in the Philippines: Accelerating Progress

Philippine Development Forum

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Agenda

1 Aquino Administration's Policy Thrusts

2 Fiscal Sustainability: An Integral Part of the Effective Governance Agenda

3 Improving Competitiveness: Attracting More Investments

4 The PPP Program: Focus on Infrastructure





Aquino Administration's Priority Thrusts

Focused on improving governance, attracting more investments, and creating more jobs

- Ensuring Fiscal Sustainability
- Improving Competitiveness
- Pursuing Public-Private Partnerships (PPP)



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Fiscal Sustainability: An Integral Part of the Effective Governance Agenda

The Aquino administration has identified fiscal sustainability as a top priority

The administration has a clear fiscal strategy for the medium term

Stringent Tax Enforcement to Achieve National Government Tax Effort of 18.1% by 2016

- Rigorously implement RATEs, RATS and RIPS programs to go after evaders, smugglers and corrupt officials, respectively
- Restructure and strengthen the Large Taxpayer Service
- Establish a tax registry that includes all taxpayers
- Improve VAT refund mechanism and enhance risk-based audit on such refund
- Maintain a transparent and productive tax audit program
- Complement tax collection agencies with competent and adequately trained staff
- Establish appropriate performance standards and evaluations for collection officials
- Set-up BIR key performance indicators and public actual results
- Strengthen Lateral Attrition Law by instituting a more effective system of rewards and penalties



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The administration has a clear fiscal strategy for the medium term

Legislative Reforms

- Finalize proposed Fiscal Incentives Rationalization Bill
- Push for enactment of Deficit-Neutral (Pay-Go) Bill to match new expenditure and revenue-eroding legislation with revenue-increasing measures
- Push for the GOCCs Reform Bill
- Push for the Amendments to the Build-Operate-Transfer (BOT) Law

Tight Expenditure Discipline to Use Public Resources in the Most Efficient Manner

- Zero-based budgeting: across-the-board review of all budgets to cut waste
- Focused targeting of social programs making sure funds go to those truly in need
- Tighter implementation of procurement laws allowing greater scrutiny of all public procurement to cut waste



The Reform Budget of 2011

Enforcing good governance principles; Ensuring spending that is driven by strategic priorities

	2009 Actual	2010 NEP*	2010 GAA**	2011 GAA**
Php Bn	1,434.1	1,541.0	1,540.6	1,645.0
% of GDP	18.7	18.5	18.5	18.2
Growth Rate (gross)				6.8

* National Expenditure Program

** General Appropriations Act

Governance Principles in 2011 and Beyond

- Zero-Based Budgeting Approach
- Bias for the Poor and Vulnerable
- Private-Public Partnerships
- Fiscal Responsibility
- Transparency, Accountability and Good Governance



Fiscal Sustainability: An Integral Part of the Effective Governance Agenda

The Aquino administration has identified fiscal sustainability as a top priority

The administration has a clear fiscal strategy for the medium term

Sustainable Deficits and Healthy Public Finances

- Target budget deficit of 2% of GDP by 2013
- Achieve gradual reduction in Gross and Net Debt / GDP
- Provide capital for priority investments in infrastructure to accelerate economic growth
- Improve financial sustainability of government corporations with special attention to GOCCs

Prudent Debt Management

- Reduce the debt stock and debt service payments and lengthen the maturity profile through debt swaps and exchanges
- Diversify the capital structure and currency mix: examples already implemented include the Retail Treasury bond, Japanese Yen issue, Global Peso bond issues
- Create a Debt and Risk Management Unit at the Department of Finance
- Set up comprehensive debt management system including contingent liabilities and PPP-related fiscal risks
- Subject to rigid test of project viability and procurement processes projects funded out of borrowing whether or not government-to-government, automatically guaranteed under GOCC charters and under BOT or PPP arrangements



Fiscal Sustainability: An Integral Part of the Effective Governance Agenda

The hands-on approach to increasing tax revenues is on track

In just a few months, the current administration's commitment to enforce tax collection is paying dividends

- **The Philippines was removed from the OECD tax haven grey list in September 2010**
 - Philippines moved from tax haven “grey list” to the “white list” by OECD on adherence to “substantially implemented the internationally-agreed tax standards” with the implementation of The Exchange of Information on Tax Matters Act.

- **Signed the first Capacity-Building Partnership Agreement with the IMF and the MCC in October 2010 to help reform tax administration**
 - MCC to contribute US\$4.6 million for technical assistance from IMF to help Bureau of Internal Revenue (BIR) improve its revenue administration policies and procedures
 - The 40-month project will bolster the effectiveness of revenue collection and reduce opportunities for corruption.



Fiscal Sustainability: An Integral Part of the Effective Governance Agenda

The hands-on approach to increasing tax revenues is on track

In just a few months, the current administration's commitment to enforce tax collection is paying dividends

- **Several tax evasion, smuggling and corruption cases have already been filed**
 - Under its Run Against Tax Smugglers (RATS), the Bureau of Customs (BOC) has filed 144 cases as of Feb 17
 - ❑ o.w. 27 cases were filed under the Aquino administration
 - Under its Run Against Tax Evaders (RATE), the Bureau of Internal Revenue (BIR) has filed 157 as of Feb. 10
 - ❑ o.w. 28 cases were filed under the Aquino administration
 - Under the Revenue Integrity Protection Services (RIPS), the DOF has filed 80 cases with 120 respondents, 17 personnel dismissed and 35 suspended as of Feb. 23
 - ❑ o.w. 6 cases were filed, 3 personnel dismissed and 5 suspended under the Aquino administration



Fiscal Sustainability: An Integral Part of the Effective Governance Agenda

Keeping the deficit within manageable levels is a fundamental goal for the new administration

2011 NG Fiscal Program

In Billion Pesos	2009	Actual Jan-Nov		2010	2011	Growth Rate (2011/2010)
	Actual	2009	2010	Program	Program	
Total Revenues	1,123.2	1,021.7	1,104.8	1,294.4	1,410.0	8.9%
<i>% of GDP</i>	14.6%			15.6%	15.6%	
Tax Revenues	<u>981.6</u>	<u>893.8</u>	998.5	<u>1,153.2</u>	<u>1,273.0</u>	10.4%
<i>% of GDP</i>	12.8%			13.9%	14.1%	
BIR	750.3	681.9	753.3	860.4	940.0	9.2%
BOC	220.3	201.4	233.5	280.7	320.0	14.0%
Other Offices	11.0	10.5	11.7	12.1	13.0	7.4%
Non-Tax Revenues	<u>141.6</u>	<u>127.8</u>	106.3	<u>141.2</u>	<u>137.0</u>	-3.0%
<i>% of GDP</i>	1.8%			1.7%	1.5%	
BTr Income	69.9	60.5	52.4	60.1	50.0	-16.8%
Fees and Charges	70.1	66.2	52.9	79.1	81.0	2.4%
Privatization	1.4	1.1	0.6	2.0	6.0	200.0%
Grants	0.2	0.1	0.4	0.0	0.0	0.0%
Expenditure	1,421.7	1,294.2	1,374.6	1,619.4	1,700.0	
<i>% of GDP</i>	18.5%			19.5%	18.8%	5.0%
Surplus / (Deficit)	(298.5)	(227.5)	(269.8)	(325.0)	(290.0)	-10.8%
<i>% of GDP</i>	-3.9%			-3.9%	-3.2%	

Source: Department of Finance

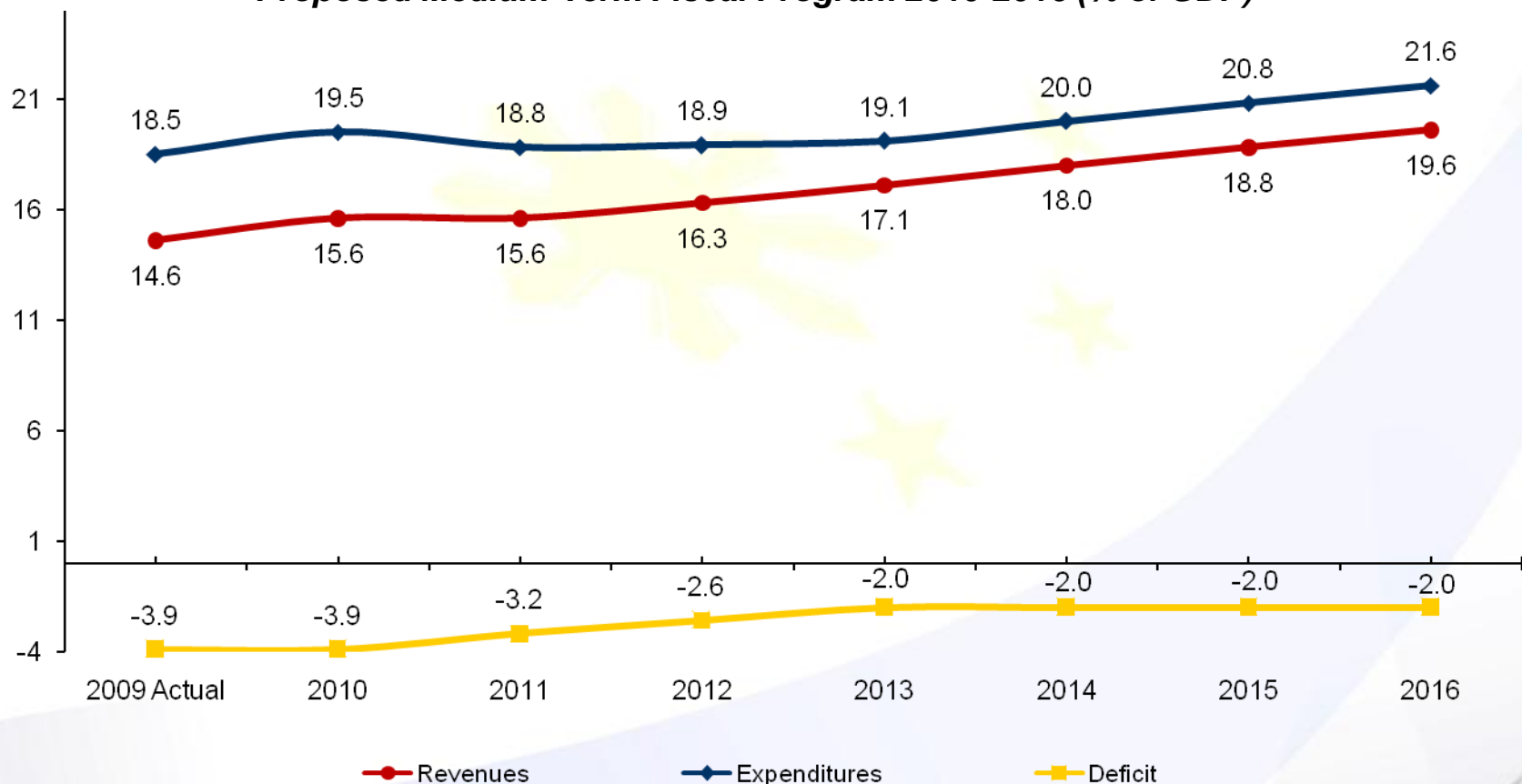


Fiscal Sustainability: An Integral Part of the Effective Governance Agenda

Keeping the deficit within manageable levels is a fundamental goal for the new administration

Closing the gap between revenues and expenditures and controlling the fiscal deficit

Proposed Medium-Term Fiscal Program 2010-2016 (% of GDP)

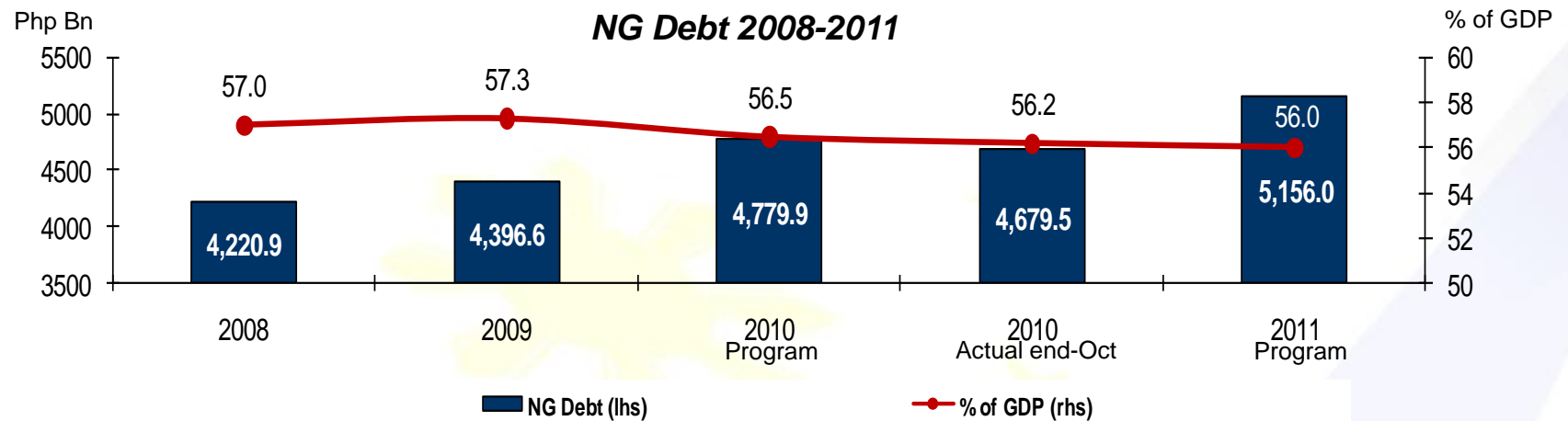




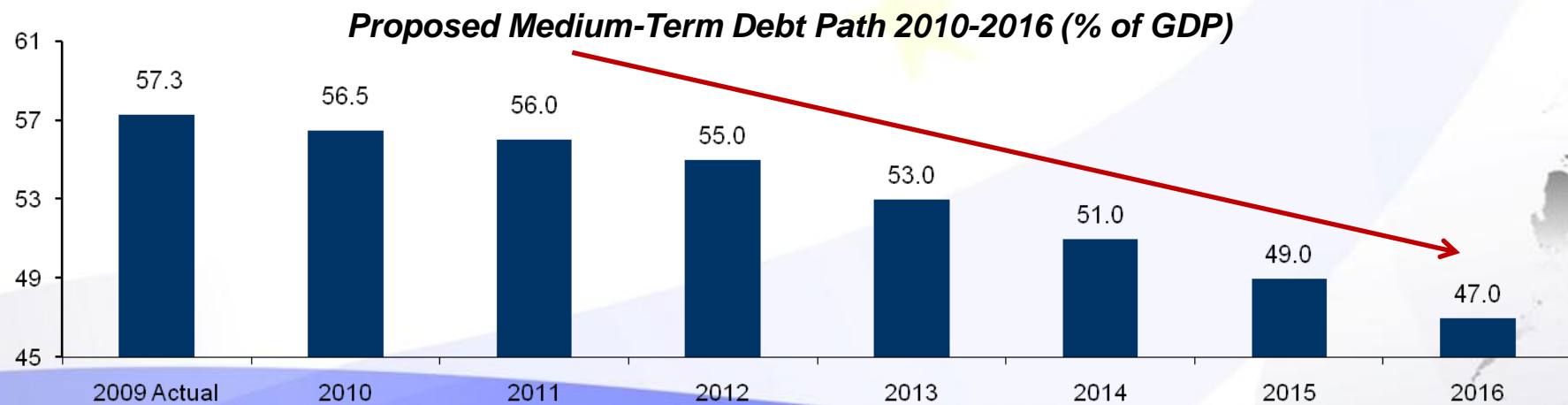
Fiscal Sustainability: An Integral Part of the Effective Governance Agenda

Debt has stabilized and should come down further

Manageable deficits will translate to a sustainable path for the government debt



Debt is on a clear path of stabilization



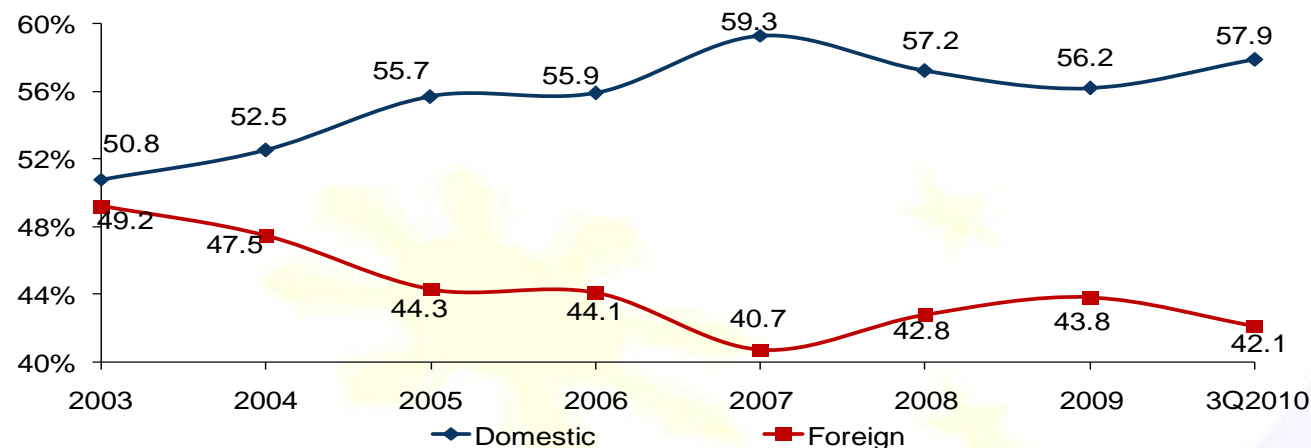


Maintaining Long-Term Financial Health

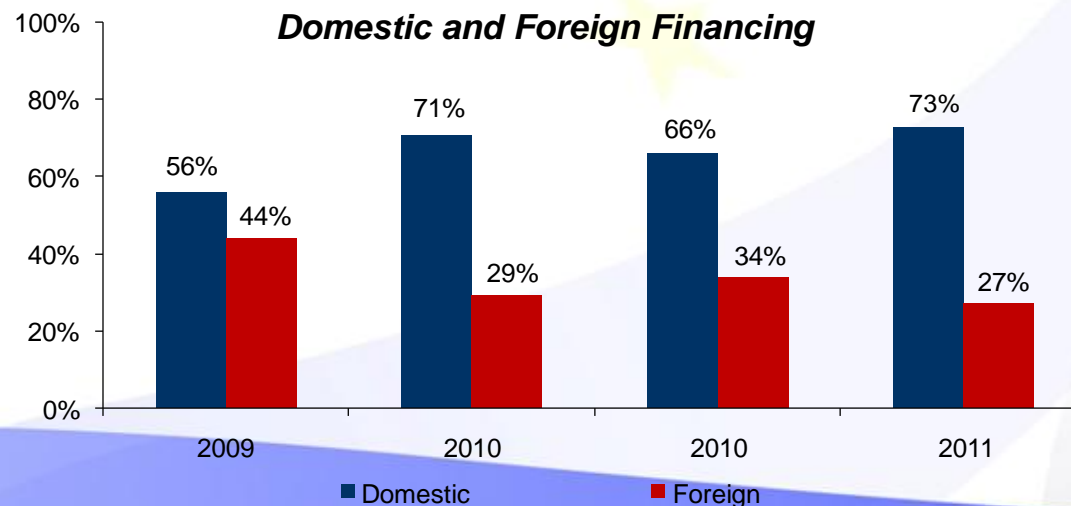
Proactively managing the liability profile

The Philippines takes advantage of sufficient domestic liquidity and gradually veers towards domestic financing

Share of Domestic and Foreign Debt by Creditor (as % of Total National Government Debt)



Prudent financing strategies minimize foreign exchange risk and increase funding' self-sufficiency

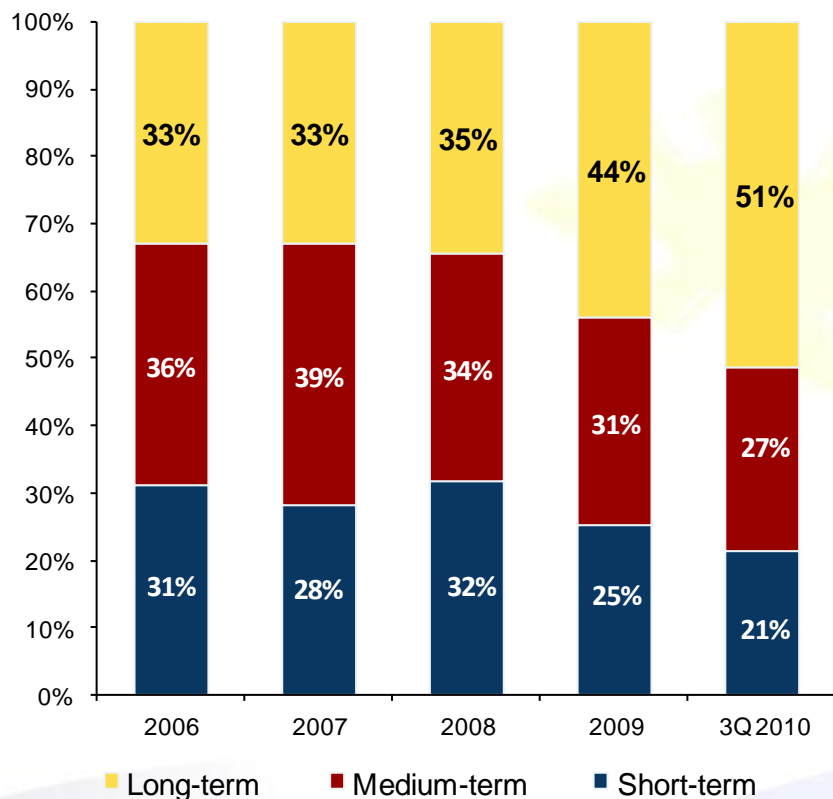




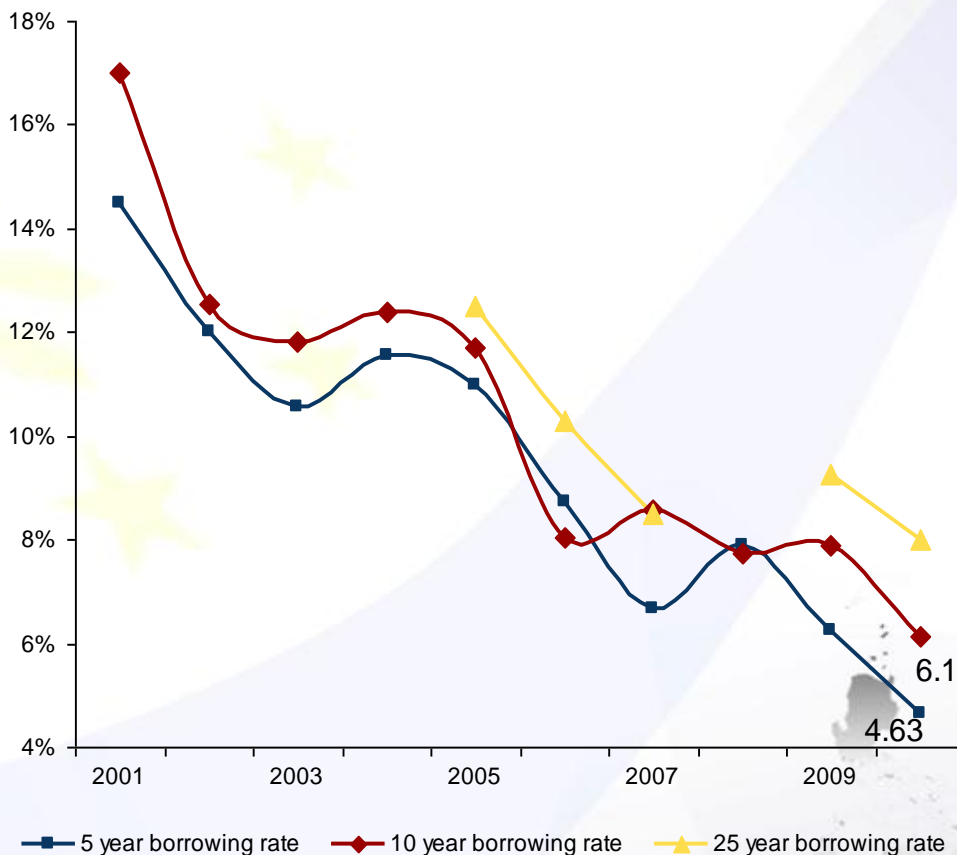
Improving Domestic Debt Profile

Increased depth and liquidity of the domestic government securities market have provided for longer maturities and reduced local interest rates

Lengthening domestic debt maturities



Declining local borrowing rates



Source: Bureau of the Treasury

Note: Weighted average annual yields of Philippine government securities

Source: Bureau of the Treasury



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Improving Competitiveness: Attracting More Investments

Strengthening institutions and leveling the playing field to achieve rapid, investment-led growth



Growth-Oriented

- Deregulated key industries and services
- Allows 100% foreign-equity participation
- Stands on a platform of good governance

Strategic Business Location

- Reachable within 3-4 hours by plane from key Asian cities

Greatest Asset: Our People

- Manpower pool of 35.92 M workers
- Highly educated
 - 400,000 college graduates per year (IT/Computer Sciences/ Engineering, Commerce/Business-related, Medical and Allied/Natural Sciences)
- Highly trainable, fast learners
- Strong customer service orientation
- High level of commitment and loyalty
- Adaptable to various cultures



Ensuring Enabling Business Environment Reforms

Empowering the private sector to drive growth and investments

Continued Efforts to Improve the Business Environment

- Make the business environment ever more predictable, reliable and efficient
 - Upgrade the Business Name Registration System (BNRS) to simplify business registration requirements and procedures
 - Streamline Business Permits and Licensing System (BPLS) to simplify the minimum standards for LGUs implementation
 - Implement the Philippine Business Registry to provide single window online transaction system
 - Strengthen the National Economic Research and Business Assistance Center (NERBAC) to reduce processing time for business licensing and registration
- Increase merchandise exports
 - Organize massive information campaign on the benefits of trade agreements
 - Pursue productive collaboration with PCCI and other non-governmental organizations supportive of DTIs' international trade agenda
 - Implement sector specific focused interventions; more inbound less outbound missions; selective trade fair participation



Ensuring Enabling Business Environment Reforms

Empowering the private sector drive growth and investments

**Continued
Efforts to
Improve the
Business
Environment**

- **Protect consumer rights**
 - Increase enforcement activities
 - Stricter implementation of product testing and compliance standards; database sharing with BOC and Bureau of Product Standards to ensure monitoring of incoming shipments that require an Import Commodity Clearance
 - Enhance consumer education and advocacy
 - Pursue enactment of consumer-related laws

- **Develop SMEs**
 - Capacitate SMES by rewarding performers; make available training courses
 - Formulate of the National SME Development Plan 2011-2016
 - Implement Rural Micro-Enterprise Promotion Program



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The PPP Program: Focus on Infrastructure

Public-private partnership program to help provide the foundations for growth

Executive Order No. 8: *“Reorganizing and Renaming the Build-Operate and Transfer (BOT) Center to the Public-Private Partnership (PPP) Center of the Philippines and Transferring its Attachment from the Department of Trade and Industry to the National Economic and Development Authority and for other Purposes” (9 September 2010)*

PPP Development Strategies

- Focus on infrastructure to support facilities for tourism, agriculture, social services, and growth centers
- Provide incentives to stimulate private resources
- Ensure competition, fairness and transparency
- Provide assistance in preparation of business cases, pre-FS, full FS, detailed engineering, tender document, etc
- Fast-track project approval process
- Protect public interest
- Create the PPP Center



The PPP Program: Focus on Infrastructure

Public-private partnership program to help provide the foundations for growth

Priority PPP Projects (2010 Prices in PhP Million)	
MRT/LRT Expansion Program: Privatization of LRT 1 Operation and Maintenance (DOTC/LRTA)	7,700.0
MRT/LRT Expansion Program: Privatization of MRT 3 Operation and Maintenance (DOTC/LRTA)	6,300.0
MRT/LRT Expansion Program: LRT 1 South Extension Project (DOTC/LRTA)	70,000.0
New Bohol Airport Development (DOTC/MIAA/CAAP)	7,600.0
Puerto Princesa Airport Development (DOTC/MIAA/CAAP)	7,600.0
New Legaspi (DARAGA) Airport Development (DOTC/CAAP)	3,200.0
Privatization of Laguindingan Airport Operation and Maintenance (DOTC/MIAA/CAAP)	1,500.0
NAIA Expressway (Phase 2)(DPWH)	10,590.0
CALA Expressway-Cavite side section (27.5 km) (DPWH)	11,790.0
Daang Hari/SLEX Road Project (4 km) (DPWH)	325.8

Source: Public-Private Partnerships (PPP) Brochure, November 2010 Edition, Daang Hari from DPWH



The PPP Program: Focus on Infrastructure

Mainstream access to reliable energy services and fuel and achieve greater energy supply security

Luzon grid needs a total additional capacity of 11,900 MW onwards to 2030

Visayas grid needs a total additional capacity of 2,150 MW onwards to 2030

Mindanao grid needs a total additional capacity of 2,500 MW onwards to 2030

Investment Requirements (2010-2030)		
Sector	Total	
	in Billion Php	in Billion US \$
Fossil Fuel Resources	543.93	12.09
Renewable Energy Resources	902.48	20.05
Alternative Transport Fuels	41.37	0.92
Power and Transmission Development	342.54	7.61
Downstream	59.61	1.32
Sub-Total	1,889.93	41.99
Cost of power plant construction included in the Investment Cost of Renewable Energy Projects	62.74	1.39
Total	1,827.19	40.60



The PPP Program: Focus on Infrastructure

Mainstream access to reliable energy services and fuel and achieve greater energy supply security

Investment Opportunities

Power Sector

- Infrastructures in power generation, Greenfield generation projects, possible JVs with proponents of indicative projects, NPC plants and NPC-IPP contracts for privatization, Competitive power market, Electricity trading in the WESM, transition from a government-supervised Market Operator to an Independent Market Operator, Supply/aggregation business, Metering service provider, Missionary electrification, New Power Providers

Oil and Gas

- Twelve (12) petroleum contract areas in shallow to deep waters with total hectarage of 7,920,000, possible JVs with existing service contractors

Coal

- Three (3) available contract areas for exploration and development, possible JVs with existing service contractors



The PPP Program: Focus on Infrastructure

Mainstream access to reliable energy services and fuel and achieve greater energy supply security

Investment Opportunities

Renewable Energy

- Possible JVs with existing Geothermal Service Contractors for exploration, Hydro frontier areas available for pre-development phase, possible JVs with the existing service contractors for hydro

Alternative Fuels

- Bio-ethanol production capacities for transport

Natural Gas

- Strategic infrastructure in Luzon, LNG terminals in Southern Mindanao

Energy Efficiency & Conservation

- Promotion and utilization of EE & C Technologies



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