# FISCAL RISKS STATEMENT

2015-2016

Development Budget Coordination Committee

## Improvements in the 2015-2016 Fiscal Risk Statement

The Philippines' practice of releasing an annual Fiscal Risk Statement has been cited as among the good practice in the field. It attempts to provide a comprehensive view of the country's exposure to fiscal risks emanating from fiscal projections and turnouts, public debt, and contingent liabilities associated with the financial sector, GOCCs, PPPs, local government units and natural disasters. The report also includes reforms and risk mitigation efforts.

**The highlights of the 2014 report are as follows:**

1. Philippine economic performance (previous year) was resilient despite the continuing uncertainty in the external environment and significant impact of natural calamities;
2. Fiscal turnouts are consistent with efforts to improve revenue generation and prudent management of expenditures although there is a downside risk from underspending;
3. Debt sustainability continues to improve as reflected in the size of outstanding obligations relative to GDP and in the underlying risk indicators for the portfolio;
4. Fiscal risks arising from the banking sector are deemed minimal, with limited Sovereign exposure to the banking system;
5. GOCCS, GFIs and SSIs turned in favourable financial positions owing to prepayment of concession fees (PSALM) and diversified portfolio investments;
6. P30 billion has been included in the 2015 GAA under the Unprogrammed Fund to cover contingent liabilities associated with PPP contracts being pursued by the government;
7. Low revenue generation and over reliance on Internal Revenue Allotments are a lingering concern for LGUs although indebtedness remains low and manageable; and
8. High vulnerability to natural disasters and calamities necessitates sufficient buffers and an effective disaster risk financing strategy.

For the 2015 FRS, the report builds upon the experience of the NG in monitoring and reporting fiscal risks as well as incorporates some key improvements as suggested by development partners and global best practice. Three innovations from the previous report are:

1. Inclusion of more forward looking discussions
   a. 2016 revenue and expenditure outlook, reform measures and risk mitigation initiatives;
   b. Extension of Debt Sustainability Analysis (DSA) to a 10-year forecast;
   c. 2016 financial outlook for GOCCs.

2. Improved quantification of risks
   a. Reporting projected fiscal turnouts as well as GOCC financial position (see above);
   b. Modelling the impact of various scenarios on NG debt dynamics;
   c. Estimation of contingent liabilities emanating from PPP contracts both entered and in the pipeline.

3. Better timing of the release of the report to inform the relevant authorities.

Taken together, these elements are meant to improve the Philippine practice with regards to the management of fiscal risks along with our adherence to best practice and accepted standards.

## List of Acronyms and Abbreviations

| | |
|---|---|
| ASEAN | Association of Southeast Asian Nations |
| BCDA | Bases Conversion and Development Authority |
| BESF | Budget of Expenditures and Sources of Financing |
| BIR | Bureau of Internal Revenue |
| BLGF | Bureau of Local Government Finance |
| BOC | Bureau of Customs |
| BSP | Bangko Sentral ng Pilipinas |
| BTr | Bureau of the Treasury |
| CMTA | Customs Modernization and Tariff Act |
| CO | Capital Outlays |
| COA | Commission on Audit |
| CPEIR | Climate Public Expenditure and Institutional Review |
| DBCC | Development Budget Coordination Committee |
| DBM | Department of Budget and Management |
| DBP | Development Bank of the Philippines |
| DIF | Deposit Insurance Fund |
| DOF | Department of Finance |
| DOTC | Department of Transportation and Communications |
| DPWH | Department of Public Works and Highways |
| FIU | Fiscal Intelligence Unit |
| FIR | Fiscal Incentives Reform |
| FSCC | Financial Stability Coordination Council |
| FX | Foreign Exchange |
| GAA | General Appropriations Act |
| GCG | Governance Commission for GOCCs |
| GDP | Gross Domestic Product |
| GFIs | Government Financial Institutions |
| GOCC | Government-Owned and/or Controlled Corporation |
| GSIS | Government Service Insurance System |
| HGC | Home Guaranty Corporation |

| | |
|---|---|
| ICRS | Integrated Corporate Reporting System |
| IIF | Institute for International Finance |
| IRA | Internal Revenue Allotment |
| JMC | Joint Memorandum Circular |
| LBP | Land Bank of the Philippines |
| LGU | Local Government Unit |
| LIBOR | London Inter-Bank Offer Rate |
| LRTA | Light Rail Transit Authority |
| LWUA | Local Water Utilities Administration |
| MIAA | Manila International Airport Authority |
| MNFGCs | Major Non-Financial Government Corporations |
| MOOE | Maintenance and Other Operating Expenditures |
| MWSS | Metropolitan Waterworks and Sewerage System |
| NDF | Non-Deliverable Forward |
| NDRRMF | National Disaster Risk Reduction Management Fund |
| NEA | National Electrification Administration |
| NEDA | National Economic and Development Authority |
| NFA | National Food Authority |
| NG | National Government |
| NHA | National Housing Authority |
| NHMFC | National Home Mortgage Finance Corporation |
| NIA | National Irrigation Administration |
| NLRC | North Luzon Railways Corporation |
| NOSCP | National Oil Spill Contingency Plan |
| NPA | Non-Performing Asset |
| NPC | National Power Corporation |
| NPL | Non-Performing Loan |
| NSCB | National Statistical Coordination Board |
| OF | Overseas Filipinos |
| PDAF | Philippine Development Assistance Fund |
| PDIC | Philippine Deposit Insurance Corporation |
| PEZA | Philippine Economic Zone Authority |

| | |
|---|---|
| PNOC | Philippine National Oil Company |
| PNR | Philippine National Railways |
| PPA | Philippine Ports Authority |
| PPP | Public-Private Partnership |
| PSALM | Power Sector Assets and Liabilities Management Corporation |
| PVS | Philippines Valuation Standards |
| QE | Quantitative Easing |
| QRF | Quick Response Fund |
| RPT | Real Property Tax |
| SBGFC | Small Business and Guarantee Finance Corporation |
| SMV | Schedule of Market Values |
| SSIs | Social Security Institutions |
| TIDCORP | Trade and Investment Development Corporation |
| TIEZA | Tourism Infrastructure and Enterprise Zone Authority |
| TransCo | National Transmission Corporation |
| U/KB | Universal and Commercial Bank |
| VRA | Valuation Reform Act |

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## I. INTRODUCTION

A. **While the global economy remains uneven, the country needs to continue taking action to confront external headwinds to put the economy on a sustained higher growth path.** The National Government (NG) continues to improve revenue collection via the vigorous implementation of tax laws with the aim of increasing tax effort to 16.5 percent by 2016. Prudent management of NG debt has contributed to fiscal sustainability as reflected by an improving debt-to-GDP ratio and declining impact of interest payments on the government budget. Meanwhile, the Bangko Sentral ng Pilipinas (BSP) has continued to ensure that monetary policy is supportive of non-inflationary growth consistent with its primary mandate of promoting price and financial stability.

B. **The risk of Government under spending is being addressed. A number of reforms and programs are being implemented to improve the efficiency and proper utilization of public funds.** This includes managing structural weakness in project preparation and implementation, which has been one of the main reasons for under spending in 2014.

C. **Risk mitigation measures are also being fortified for NG's Public Private Partnerships (PPPs) projects.** There has been continuous provisioning for potential claims against existing PPP projects. For 2015, P30 billion has been included in the Risk Management Program under the Unprogrammed Fund in order to answer to these potential calls. Hence, risk mitigation measures from origination to execution have been set in place.

D. **The country's vulnerability to natural disasters remains to be a major source of fiscal risk.** Financial resiliency initiatives have been organized to further mitigate risks from natural disasters and improve preparedness moving forward.

## II. MACROECONOMIC RISKS AND BUDGET SENSITIVITY

### A. MACROECONOMIC ASSUMPTIONS AND PERFORMANCE

1. **The country's economic growth fundamentals remain intact amid an uncertain global environment.** The domestic economy grew by 6.1 percent in 2014, supported on the supply side by the steady performance of the services and industrial sectors. On the demand side, economic activity was driven by the robust expansion in private consumption, sustained fixed capital investment, and a significant improvement of external trade.

2. **In the first quarter of 2015, real GDP growth decelerated to 5.2 percent, from 6.6 percent in the previous quarter and 5.6 percent in Q1 2014.** The economy drew its strength from domestic private sector demand. Growth of government consumption rose to 4.8 percent from the 1.9 percent increase in the same period a year ago, but slower relative to the Q4 2014 growth rate of 9.4 percent. It was, however, offset by the 24.6 percent contraction in public construction. External demand has also weakened during the period. Given the Q1 2015 economic performance, the domestic economy would have to grow by an average of 7.5 percent for the rest of 2015 to meet the low-end of the government's target range.

**Table 1. Philippines: Macroeconomic Performance for 2012-2014 and NG Budget Assumptions for 2015a/**
*(in percentage point, unless otherwise specified)*

| Particulars | 2012 | | 2013 | | 2014 | | 2015 | | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| | BESF | Actual | BESF | Actual | BESF | Actual | BESF | Year-To-Date | BESF |
| Real GDP growth | 5.5-6.5 | 6.7 | 6.0-7.0 | 7.1 | 6.5-7.5 | 6.1 | 7.0-8.0 | 5.2 (Jan-Mar) | 7.0-8.0 |
| Inflation target | 3.0-5.0 | 3.2 | 3.0-5.0 | 3.0 | 3.0-5.0 | 4.1 | 2.0-4.0 | 1.9 (Jan-July ) | 2.0-4.0 |
| 364-day T-bill rate [b/] | 3.0-5.0 | 2.0 | 3.0-5.0 | 0.7 | 2.0-4.0 | 1.8 | 2.0-4.0 | 2.2 (Jan-4 Aug) | 2.0-4.0 |
| Exchange rate*(PhP/USD1, period average)* | 42.00-45.00 | 42.23 | 42.00-45.00 | 42.45 | 41.00-43.00 | 44.40 | 42.00-45.00 | 44.78 (Jan-10 Aug) | 43.00-46.00 |
| LIBOR (6 months) | 0.5-1.5 | 0.7 | 0.5-1.5 | 0.4 | 0.5-1.5 | 0.3 | 1.0-2.0 | 0.4 (Jan – 10 Aug) | 1.0-2.0 |
| Dubai crude oil price *(USD/barrel)* | 90.00-110.00 | 109.08 | 90.00-110.00 | 105.52 | 90.00-110.00 | 96.61 | 90.00-110.00 | 55.78 (Jan-10 Aug) | 55.00-75.00 |
| Merchandise exports growth [c/] | 12.0 | 21.2[d/] | 12.0 | 4.0[d] | 14.0 | 7.3 | 8.0 | 2.5 (Jan-Mar). | 6.0 |
| Merchandise imports growth [c/] | 18.0 | 11.3 | 14.0 | 4.8[d] | 14.0 | 2.3 | 10.0 | -3.0 (Jan-Mar) | 12.0 |

a/ Macroeconomic assumptions adopted by the Development Budget Coordination Committee (DBCC), as published in the annual Budget of Expenditures and Sources of Financing (BESF) that the Executive branch submitted to the Congress together with the draft General Appropriations Act (GAA)
b/ Based on primary market rates
c/ Based on the Balance of Payments and International Investment Position Manual, 6th Edition (BPM6) concept, except for 2012, which is based on the Balance of Payments Manual, 5th Edition (BPM5) concept
d/ revised

3. **Inflation remained within target for the sixth consecutive year.** Inflation in 2014 averaged 4.1 percent, well within the government target range of 4.0 percent ± 1.0 percentage point (ppt) for the year. The uptick in the 2014 inflation level could largely be attributed to higher food inflation particularly rice, meat, fish, and vegetables. This is mainly due to weather-related production disruptions, delays in supply-side responses, and bottlenecks in the supply chain during the first three quarters of the year.

4. **In the first seven months of 2015, inflation decelerated to 1.9 percent, near the low-end of the 3.0 ± 1.0 ppt target range for the year.** The slower 2015 year-to-date (YTD) inflation was attributed mainly to adequate domestic supply of key food items and continued decline in oil prices. The BSP Monetary Board (MB) has maintained its key policy settings during the first five monetary policy meetings in 2015. The MB's decision is based on its assessment that prevailing price and output conditions support maintaining current monetary policy settings.

5. **Manageable inflation environment, ample liquidity, as well as the favorable NG fiscal balance contributed to keeping domestic interest rates low.** Primary market rates for the 364-day Treasury bill (T-bill) averaged 1.8 percent in 2014, slightly lower than the 2014 BESF assumption of 2.0-4.0 percent. Domestic interest rates rose slightly in 2015 reflecting expectations of higher interest rates as the US Federal Reserve may begin to normalize policy rates. The 364-day T-bill primary market rates averaged 2.2 percent in the first eight T-bill auctions for the year, within the 2.0-4.0 percent assumed rates in the 2015 BESF.

6. **The peso-dollar exchange rate depreciated in 2014 from its trading level in the previous year, influenced mainly by monetary policy developments in the US.** The

US Federal Reserve's gradual exit from its quantitative easing (QE) program and the prospects of an eventual lift-off on interest rates triggered portfolio rebalancing by investors towards USD-denominated assets. Meanwhile, the peso remained broadly stable thus far in 2015, despite depreciation pressures from a stronger US dollar. Nonetheless, the trend in the peso-dollar exchange rate is broadly consistent with exchange rate movements in the region and will continue to be supported by firm macroeconomic fundamentals of the country, steady foreign exchange inflows from remittances and business process outsourcing (BPO) earnings.

7. **Despite the imminent policy normalization in the US, foreign interest rates remained low.** With some advanced economies including Japan and the Euro area continuing to be accommodative in their monetary policies, the average 180-day LIBOR for 2014 settled near the low end of the 2014 BESF-assumed range. Foreign interest rates continued to be relatively low, albeit slightly higher, as of 10 August 2015. The 2015 YTD 180-day LIBOR averaged 0.4 percent, below the 1.0 – 2.0 percent assumed LIBOR in the 2015 BESF. Over the near-term, the trend in 180-day LIBOR will continue to be affected by the policy actions taken by major central banks.

8. **Dubai crude oil spot prices declined significantly in the second half of 2014, capping the year with a lower full-year average price compared to 2013, but still within the forecast range in the 2014 BESF.** Ample supply amid weak demand along with a stronger US dollar contributed to a sharp reduction in oil prices. On the one hand, abundant supply was attributed to increased production from non-OPEC suppliers, particularly US shale oil producers and OPEC's decision to maintain output levels amid lower oil price levels. On the other hand, gradual global recovery continued to drag global oil demand. In 2015, Dubai crude oil prices remained below its trading average in 2014. Furthermore, concerns on the slowdown of the Chinese economy, potential increase in oil supply from the re-entry of Iran in the oil market, and ample global inventories contributed to the low crude oil price levels.

9. **The trade deficit narrowed in 2014 as the growth in goods exports (7.3 percent) significantly outpaced the growth in imports (2.3 percent).** Higher shipments of electronics products, machinery and transport equipment, and garments supported the growth of exports. Considerable gains also registered in exports of mineral products, coconut products, fruits and vegetables, and other agri-based products. Meanwhile, growth in total goods imports was attributed to purchases of consumer goods covering both durable (such as passenger cars and miscellaneous manufactures) as well as non-durable goods (mostly food and live animals chiefly for food). In addition, recovery of raw materials and intermediate goods, particularly semi-processed raw materials and manufactured goods, also supported the import expansion.

10. **Based on the latest projection of the BSP, goods exports are seen to rise by 5.0 percent in 2015 on the back of improved outlook for electronics products**. In detail, exports of goods for 2015 may be bolstered by the improving economic environment in the United States, and partly by cheap oil prices. However, soft economic activities in PR China and Japan alongside the presence of continuing fragilities accompanying the Euro area's recovery may put a drag on overall export growth. Moreover, the possible impact of *El Niño*, and stronger and erratic typhoons on agri-based production is also deemed a significant downside risk to total exports.

    Similarly, goods imports are projected to increase but at a slower pace of 1.0 percent for the year. Low oil prices will likely weigh down import payments, although possibly higher imports of capital goods and consumer items may offset this.

**B. MACROECONOMIC RISKS**

11. **There are emerging risks to inflation.** On the one hand, upside risks could come from pending petitions for power rate adjustments and the impact of stronger-than-expected El Niño dry weather conditions on food prices and utility rates. On the other hand, slower global economic activity could pose downside risk to inflation.

    The current episode of mild *El Niño* in the country provides an upside risk to inflation should its adverse effects intensify. To mitigate this, the Department of Agriculture (DA) stands ready to help farmers shift to crops that are less dependent on water and at the same time resilient to high temperatures, such as corn, legumes, and nuts.[1]

    With the periodic effects of *El Niño*, the regular monitoring of drought and dry spell incidence in agricultural areas should be continued to ensure that appropriate policy actions can be implemented without delay. Timely importation of rice to augment domestic supply should also serve as a ready measure to guard against high rice prices witnessed in the third quarter of 2013 until 2014. At present, the country has already imported 500,000 tons of rice from Vietnam and Thailand to boost buffer stocks.[2] Moreover, the National Food Authority (NFA) announced its intention to purchase around 250,000 metric tons of rice for delivery in July and August 2015[3] to help ensure sufficient supply of the staple for the lean season. Policy reforms are also needed to allow the private sector to play a greater role in rice importation.

    On prices of meat products, particularly chicken, the government has been proactive in assessing market conditions so as to minimize adverse market distortions arising from government policies.

    Inflationary pressures arising from the adjustment of administered prices, such as minimum wages and transport fares, also needs to be examined carefully. For the longer-term, sustained investments in infrastructure, research and development (R&D), and extension, among others, should raise productivity in agriculture and help temper inflationary pressures.

12. **Global economic growth remains fragile with uneven prospects across regions**. While growth in the US is gaining traction and positive economic developments are seen in the Euro Area and Japan, growth in major emerging markets such as China and Russia appears to be moderating. These external developments pose downside risks to the domestic economy, with the effects transmitted through weaker-than-expected trade flows as well as lower demand for overseas Filipino workers and services-related activities (e.g., tourism).

13. **The slowdown of PR China may have direct and indirect impact on the Philippines considering its role as a production hub in the region.** Following PR China's below-target economic performance of 7.4 percent in 2014, the Chinese economy continued to lose momentum in the first quarter of 2015 as it posted 7.0- percent growth, the slowest

[1] *El Niño* is expected to last until early-2016 with chances of strengthening in the last quarter of the year http://www.pagasa.dost.gov.ph/index.php/climate/climate-advisories (PAGASA El Niño Advisory No. 6 as of 05 August 2015)

[2] http://oryza.com/22742/philippines-nfa-calls-tenders-250000-ton-rice-import-june-5-2015

[3] http://www.nfa.gov.ph/files/announcement/TOR_250KMT_2015.htm

in six years. However, it managed to sustain growth in the second quarter at the same speed as the preceding quarter. Thus far, Philippine exports to China declined by 32 percent during the first half of 2015, remittances by 61[4] percent and tourism receipts by 21[5] percent. While the Philippines' exports to China averaged merely 12 percent of total exports in 2010-2014 and represents only 1.0 percent of total Chinese imports, China's slowdown could affect other countries in the region, which at the same time, are also important trading partners for the Philippines.

14. **The pace of economic growth in Japan remains fragile and is also seen as a downside risk for Philippine exports.** After managing to pull out of recession in Q4 2014 with an annualized growth of 1.1 percent, the Japanese economy continued to grow by 2.4 percent (annualized) in the first quarter of 2015, driven by higher investments and inventories.[6] So far, Philippine exports to Japan have declined by 7.5 percent for the first semester of 2015, while remittances and tourist arrivals improved by 9.0 percent and 8.0 percent, respectively. While recent developments may suggest that Japan's economic recovery is gaining strength, expectations are high that the world's third largest economy would experience a slowdown in the following quarter amid concerns on Chinese and US growth.[7] Nevertheless, Japan is expected to expand by 1.0 and 1.2 percent in 2015 and 2016, respectively.[8]

15. **The domestic economy could be vulnerable to the developments in US monetary policy.** The uncertainty in the timing, magnitude, and pacing of US Fed funds rate lift-off could cause volatility in capital flows and financial markets. Like many EMs that have relatively higher yields, the Philippines could experience sharp fluctuations in capital flows adversely affecting the smooth functioning of financial markets and raising the cost of funding. With a stronger US economic recovery and the attendant policy normalization, EMs could experience capital flight as investors shift towards US assets, leading to exchange rate depreciation. In fact, Philippine net foreign portfolio flows dropped by 91 percent in 2013, before turning negative (-USD3 million) in 2014. This trend could be partly offset by ongoing QE programs in Japan and the Euro area. Sound macro-prudential regulation is important to mitigate the attendant risks.

16. **The marked decline in oil prices since the second half of 2014 has mixed implications.** For oil-exporting countries, the sharp decrease in oil prices leads to lower revenues that could temper growth prospects. Conversely, oil-importing economies like the Philippines can benefit from lower inflation, higher consumption and narrower current account and fiscal deficits.

    Low crude oil prices are expected to persist over the near term owing to sluggish global oil demand and abundant crude oil inventories. However, oil supply forecasts are highly uncertain and prices could rebound faster-than-expected. Volatilities could arise from the response of both OPEC and non-OPEC producers to lower oil prices. In particular, the fall in US crude oil rig count and the reduction in capital expenditures by major oil

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4 January-May 2015
5 January-May 2015
6 http://www.bloomberg.com/news/articles/2015-05-19/japan-s-economy-grows-more-than-forecast-as-business-spends-more
7 Ibid
8 http://www.imf.org/external/pubs/ft/weo/2015/01/index.htm

companies could contribute to a gradual recovery in international oil prices. Also, geopolitical tensions in oil-producing countries as well as the possible lifting of sanctions against Iran on crude oil exports add to uncertainty in crude oil price directions.

17. **Exports and remittances from oil-producing countries affected by plunging crude oil prices will have a minimal impact.** In terms of exports, the country's outbound shipments to oil-producing countries (OPEC and Russia) comprise only 1.0 percent, on average, of total exports receipts from 2010 up to present. Moreover, these countries also account for only 2 percent of the country's total tourist arrivals.

    Meanwhile, almost 16.6 percent or roughly USD3.6 billion (annually) of the country's remittance receipts come from major oil-producing countries of OPEC. These countries host 2.6 million overseas Filipinos or 25 percent of total OFs (as of 2012). Nonetheless, most of these remittances come from Saudi Arabia (and UAE), whose economy is unlikely to be seriously affected by low oil prices given large reserves (over USD700 billion) which can comfortably finance deficits of the government in general and of the state owned oil company (Saudi Aramco) in particular. In fact, Saudi Arabia's economy grew by 3.5 percent in 2014 while UAE grew by 3.6 percent.[9] Remittances from Saudi Arabia and UAE are up 8.6 percent and 2.7 percent, respectively, as of the first quarter of 2015.

18. **Lingering challenges to trade remain.** The improved economic outlook in advanced economies is seen to boost the country's merchandise exports. However, exports could be dampened by downside risks to growth in China and other emerging economies. Meanwhile, planned infrastructure projects, continued robust consumer spending, and the recovery of electronics exports will likely beef up capital and consumer goods, and raw materials imports.

19. **Despite the positive prospects, the government must remain vigilant against domestic and external challenges that the economy is facing.** The government must closely monitor the spending of implementing agencies to ensure that government spending contributes to boosting and catalyzing domestic demand, particularly in the face of weak external demand. Second, *El Niño*, which may linger and strengthen until early 2016, continues to pose risk to the agriculture and fishery production. Finally, external risks have to be carefully monitored especially those that could derail the country's growth momentum. To boost the country's productive capacity, investments are needed to address the gaps in the country's infrastructure requirements. The implementation of the government infrastructure program under the Public-Private Partnership (PPP) together with careful consideration of the country's energy requirements will contribute significantly to attaining a more sustainable and inclusive growth.

20. **To improve government spending, especially on infrastructure projects, the President signed Administrative Order No. 46 on March 2015 to address the capacity weaknesses of implementing agencies.** This measure requires government agencies to comply with the following: the timely submission of Annual Procurement Plans (APP) in compliance with Republic Act 9184 (The Government Procurement Reform Act); the assignment of full-time support staff to their respective Bids and Awards Committee (BAC) Secretariats, if necessary; and the creation of Full-Time Delivery Units,

[9] Preliminary estimate. IMF WEO April 2015. Accessed 17June 2015

headed by an Undersecretary and with full-time support staff to ensure the execution and delivery of targeted services, and outputs, according to their program of implementation.[10] Lagging agencies will need to establish action plans to catch up on their performance and will be closely monitored by oversight agencies.

21. **The government also continues to push for structural reforms crucial to sustain the country's economic growth and development.** Significant progress have already been made in the following areas: enactment of a competition law, amendment to the cabotage law, liberalized entry of foreign banks, "pocket" open skies, sin tax law, performance-based budgeting and incentives, ISO 9001-certified quality management systems in agencies, as well as various judicial reforms (e.g. introducing electronic court and subpoena systems, increasing efforts to decongest jails and reduce case backlog, and continuous trial). Aside from these developments, the government continues to support the passage of priority legislative measures such as Fiscal Incentives Rationalization, Customs and Tariff Modernization Act (CMTA), Tax Incentives Management and Transparency Act, Private Public Partnership Act, and rationalized investment restrictions in the Foreign Investment Negative List, among others. Two legislative measures have been passed recently namely the Competition Law and Amendments to the Cabotage Law.

    Overall, it is important to help Philippine industries and businesses take greater advantage of existing preferential trade agreements and create new domestic markets to mitigate global risks.

## C. FISCAL PERFORMANCE

22. **The NG recorded a P73.1-billion budget deficit for 2014, 55.4 percent lower than the budget shortfall in 2013.** The deficit dipped to 0.6 percent of GDP, lower than both the 2 percent program and the 1.4 percent recorded in 2013. Total revenue collections stood at P1, 908.5 billion for the full-year, which demonstrated a noteworthy increase of 11.2 percent over comparable collections in 2013 with a 0.25 percentage point improvement in the revenue effort. Expenditures amounted to P1, 981.6 billion for the year to reflect a 5.4 percent year-on-year expansion. Unlike the previous years, disbursements constituted only 86.7 percent of the program, compared to 93 percent in 2013 and 96 percent in 2012.

23. **The accuracy of underlying macroeconomic assumptions used in projecting the annual budget affects fiscal outturns.** Variations from macroeconomic parameters feedback to revenues, expenditures and the fiscal balance through several channels. Table 2 reflects the sensitivity of fiscal accounts to various macroeconomic variables.

[10] http://www.gov.ph/2015/04/30/dbm-brisk-robust-spending-seen-in-2015/

**Table 2. Philippines: Fiscal Sensitivity to Key Macroeconomic Variables, 2015 and 2016**
*(in billion Pesos per annum)*

| Particulars | Revenues | | Disbursements | | Budget Balance | |
|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 |
| 1 percentage point increase in Real GDP growth | 24.3 | 21.6 | | | 24.3 | 21.6 |
| 1 percentage point increase in inflation rate | 23.5 | 20.8 | | | 23.5 | 20.8 |
| 1 percentage point increase in merchandise Imports | 6.3 | 4.3 | | | 6.3 | 4.3 |
| 1 percentage point increase in interest rates | 0.6 | 0.6 | 3.3 | 3.2 | (2.70) | -2.6 |
| 1 percentage point increase in LIBOR (180-Day) | | | 3.1 | 4.2 | (3.10) | -4.2 |
| 1 Peso depreciation in foreign exchange rate | 8.7 | 10.5 | 2.2 | 2.1 | 6.5 | 8.4 |

## IMPROVING REVENUE PERFORMANCE

24. **From January to December 2014, total revenue reached P1,908.5 billion reflecting an 11.2 percent year-on-year growth.** Of the total, 90.1 percent were from taxes while non-tax revenues and privatization contributed the remaining 9.9 percent. Actual collections met 94.6 percent of the target, which compares with 96.4 percent in 2013 and 97.9 percent in 2012.

25. **Tax revenues amounted to P1,719.0 billion or 11.9 percent higher, year-on year.** Collections from the Bureau of Internal Revenue (BIR) improved by 9.7 percent to P1,334.8 billion, while the Bureau of Customs (BOC) raised P369.3 billion, reaching a significant double-digit growth of 21.1 percent from the previous year.

26. **Meanwhile, income from Treasury Operations amounted to P53.39 billion, exceeding 2013 by 12.5 percent, mainly due to a more pro-active stance in cash and investment management.** At the same time, NG income remitted to the Bureau of the Treasury also rose to P40.05 billion, up by 19.4 percent from 2013, behind higher dividends from NG shares of stocks.

    Lastly, revenues from Other Government Offices also reached P60.1 billion, representing a growth of 13.9 percent. This includes proceeds from the Malampaya natural gas project collected by the Department of Energy (P22.4 billion), as well as those raised by the Department of Foreign Affairs from consular services (P6.01 billion).

**Table 3. Philippines: Revenue Program, 2013-2016**

| (In Billion Pesos) | 2013 Jan-Dec | 2014 Jan-Dec | | % Growth | 2015 | 2016 |
|---|---|---|---|---|---|---|
| | Actual | Program | Actual | | Program | Program |
| **Total Revenues** | **1,716.1** | **2,018.1** | **1,908.5** | **11.2** | **2,275.2** | **2,696.8** |
| **Tax Revenues** | **1,535.7** | **1,879.9** | **1,719** | **11.9** | **2,127.7** | **2,543.3** |
| BIR | 1,216.7 | 1,456.3 | 1,334.8 | 9.7 | 1,673.9 | 2,025.7 |
| BOC | 304.9 | 408.1 | 369.3 | 21.1 | 436.6 | 498.7 |
| Other Offices | 14.1 | 15.5 | 14.9 | 5.9 | 17.1 | 19.0 |
| **Non-Tax Revenues** | **177.5** | **136.1** | **187.6** | **5.7** | **145.6** | **151.4** |
| Fees and Charges | 30.5 | 36.9 | 32.8 | 7.3 | 36.4 | 40.0 |
| Bureau of Treasury | 81.0 | 56.2 | 93.4 | 15.3 | 60.7 | 58.3 |
| Other Existing Non-Tax | 65.6 | 43.0 | 61.2 | -6.8 | 48.6 | 53.2 |
| Grants | 0.3 | 0.0 | 0.2 | -27.4 | 0.0 | 0.0 |
| **Privatization** | **2.9** | **2.0** | **1.9** | **-33.7** | **2.0** | **2.0** |
| **Expenditures** | **1,880.2** | **2,284.3** | **1,981.6** | **5.4** | **2,558.9** | **3,005.5** |
| **Surplus/(Deficit)** | **-164.1** | **-266.2** | **-73.1** | **-55.4** | **-283.7** | **-308.7** |

*Source: BTr, Medium Term Revenue Program*

27. **A number of pending revenue measures and expenditure bills in both Houses of Congress would have a negative impact on the revenues and budget of the National Government.**[11] Without compensating revenue measures, the estimated revenue losses and budgetary requirements of P369.38 billion to P488.11 billion is equivalent to 2.40 to 3.17 percent of GDP, posing a risk to the present economic momentum and fiscal stability.

**Table 4. Philippines: Foregone Revenues from Different Tax Measures and Practices***

| | | |
|---|---|---|
| **Total Estimated Revenue Foregone** | **P23.66 Billion – P37.36 Billion** | **0.15- 0.24 percent of 2016 GDP (BESF)** |
| **Total Estimated Additional Budgetary Requirement** | **P345.72 Billion – P450.75 Billion** | **2.25 - 2.93 percent of 2016 GDP (BESF)** |
| **TOTAL** | **P369.38 Billion to P488.11 Billion** | **2.40- 3.17 percent of 2016 GDP (BESF)** |

*Source: Research and Information Office, Domestic Finance Group, DOF*

** A. Impact/requirement of groups of proposals with similar intent but varying provisions are reflected by putting at the low column the impact/requirement of proposals with the most minimal revenue eroding provisions/ budgetary requirement while putting at the high column the impact of those with the most revenue eroding provisions or those that require largest budgetary sut.*

*B.Total estimated additional budgetary requirement includesP150 billion capital infusion to BSP under the bill proposing the amendment of BSP Charter.*

*C.The 2016 GDP figure is based on the macroeconomic assumptions of the DBCC as of April 7, 2015.*

[11] Filed bills under 16th Congress with signed DOF position/comments as of September 18, 2015

28. **The Philippine Tax System should be reviewed in a holistic and comprehensive manner to ensure that the country has sufficient resources to finance the much-needed physical and social infrastructures.** For this purpose, the tax effort is targeted to reach 16.5 percent by 2016 alongside infrastructure spending equivalent to 5 percent of GDP and continued increase in social expenditures. This would also bring it closer to the ASEAN average tax effort of 15 percent. As it stands, the country's tax collections relative to GDP is 13.3 percent in 2013.

## REFORMS ON REVENUE COLLECTION

29. **The NG is committed to increase the tax effort of the revenue generating agencies of the government to 16.5 percent by 2016 through a combination of continued vigorous implementation of reforms in tax administration and the enactment of reforms in tax structure including RA 10351 or the Sin Tax Law.** In addition, it created strategic units in the DOF to protect revenue integrity, uproot corruption, and eliminate tax evasion and smuggling. One of these entities, the Fiscal Intelligence Unit (FIU) has the authority to investigate and assess transaction records of importers and brokers. Moreover, to detect and investigate accusations of corruption within agencies, the Revenue Integrity Protection Service (RIPS) was strengthened.

    To date, RIPS has filed cases against two hundred and fifty one (251) respondents since 2003. Of these, eighty nine (89) personalities were charged before the Office of the Ombudsman during the current administration, while forty four (44) personalities were charged before the Civil Service Commission and five (5) personalities were referred to the concerned agency for filing of formal charges.

30. **To achieve higher tax effort, the BIR is focused on improving voluntary tax payments from self-employed professionals and businesses.** The BIR is exploring tie-ups with other government agencies to improve the collection of estate taxes. In addition, the BIR together with the DOF continues to identify and take legal action against tax evaders, as well as conduct campaigns to discourage tax evasion through its Run After Tax Evaders (RATE) Program. To date, the BIR has filed three hundred and ninety seven (397) RATE cases under the current administration.

    However, various temporary restraining orders (TROs) issued by the Supreme Court (SC) prevent the BIR from implementing various issuances and transparency measures restraining the government from properly assessing tax payments of professionals and employers.

    For example, the SC has ruled in favor of lawyers, doctors, and accountants by issuing TROs on April 22, 2014, June 3, 2014, and June 25, 2014, respectively, against the implementation of Revenue Regulation (RR) 4-2014 or the "Guidelines and Policies for Monitoring of Services Fees of Professionals." RR No. 4-2014 requires all self-employed professionals to submit an "affidavit indicating the rates, manner of billings, and the factors they consider in determining their service fees upon registration and every year thereafter on or before January 31."

    Likewise, the SC also stopped the implementation of RR No. 01-2014 and Revenue Memorandum Circular No. 5-2014 upon the issuance of a TRO last September 9, 2014. The said directives require agents to submit the alpha list of payees on income payments subject to creditable and final withholding taxes and prohibit the lumping into single amount and accounts.

31. **The DOF and BOC has implemented measures to improve collection efficiency and plug leakages in the administration of customs laws.** The DOF created two specialized units-the Office of Revenue Agency Modernization and the Customs Policy Research Office-to formulate necessary enhancements in systems and procedures. Also, institutional strengthening in the BOC is on-going which intends to improve the efficiency and performance of the organization. Furthermore, the Run After the Smugglers (RATS) Program carries out continuous monitoring and action against smuggling. To date, there are two hundred and ten (210) RATS cases filed under the current administration.

**Box 1. DOF Legislative Agenda**

**Fiscal Incentives Rationalization (FIR)**

1. The proposed Fiscal Incentives Reform (FIR) bill seeks to institute a strategic approach in the grant of tax incentives that promotes competitiveness while ensuring cost-efficiency and fiscal sustainability. FIR aims for a fiscal incentives system that is time-bound and well-targeted to the most responsive sector; thus, maximizing investments and their beneficial spillovers while minimizing redundancies or unnecessary costs to the government.

**Tax Incentive Management and Transparency Act (TIMTA)**

2. The proposed Tax Incentives Management and Transparency Act seeks to promote transparency, accountability, and rationalized responsibilities in tax incentives administration.

   The bill provides for a monitoring mechanism through the submission of a report by the DOF to the DBM on the tax incentives claimed, which shall be annually published in the budget document, specifically in the Budget of Expenditures and Sources of Financing (BESF). The bill mandates the DOF to maintain a single database of tax incentives granted to business entities, private individuals, and corporations, and the NEDA to conduct a cost-benefit study on the investment incentives to determine the policy's impact on the Philippine economy. It is expected to be enacted before the year ends.[12]

**Customs Modernization and Tariff Act (CMTA)**

3. The CMTA includes omnibus amendments to the Tariff and Customs Code of the Philippines by aligning its provisions with the International Convention on the Simplification and Harmonization of Customs Procedures, otherwise known as the Revised Kyoto Convention. The Philippines supports this initiative as one of the member-countries of the World Customs Organization. The CMTA aims to promote and secure international trade, protect government revenue and modernize customs and tariff administration by adopting customs policies, rules and procedures which are clear, transparent and consistent with international agreements and best practices.

**Valuation Reform Act (VRA)**

4. The VRA seeks to institutionalize reforms in land and real property valuation which will translate into improved real property and related taxes through the following:

   a. The development and adoption of internationally benchmarked Philippine Valuation Standards to be used by the government and private sector;

[12] Both Senate and House of Representatives approved the Bilateral Conference Committee Report last October 7, 2015.

b. Harmonization and adoption of a single valuation base for real property taxation by improving and adopting the Schedule of Market Values (SMVs) of the Local Government Units (LGUs) to reflect the true market values of properties;

c. Depoliticization of the approval of SMVs from the concerned Sanggunian (government unit) to the Secretary of Finance;

d. Supporting the development and professionalization of the valuation practice in the country pursuant to Republic Act No. 9646 or the Real Estate Service Act of the Philippines; and

e. Development and adoption of the Real Property Transactions Database System to facilitate appraisal.

**LGU Income Reclassification**

5. The proposal seeks to establish updated, rationalized and transparent processes for the income re-classification of provinces, cities and municipalities by amending EO 249, issued on July 25, 1987.

   In the interest of administrative efficiency and in line with the mandate of the Secretary of Finance to supervise the revenue operations of the LGUs, the DOF proposes to Congress the following reforms:

   a. Grant clear authority to the Secretary of Finance to set income targets and undertake the periodic income reclassification of LGUs;
   b. Conduct the reclassification by DOF every three (3) years to synchronize with the term of local elective officials; and
   **c.** The use of the DOF-BLGFs Statement of Receipts and Expenditures for setting the income ranges for the purpose of LGU income reclassification.

**Fiscal Regime for Mining Industry**

6. The Mining Industry Coordinating Council, which the DOF co-chairs has submitted to the President a proposal to amend the mining fiscal regime and revenue sharing arrangement. The plan is to adopt a single fiscal regime and a simple formula in determining the sharing arrangement and for government to get a just share.

**Lifting of Bank Secrecy Laws for Tax Administration Purposes**

7. The Philippines is one of only three countries in the world, the only ASEAN country, and the only country in Asia (other than Lebanon) that does not allow tax administrators access to bank transactions. Bank secrecy is not a problem and is recognized even under the international standards. The key is to have clear conditions under which the secrecy can be lifted without any serious impediments in the case of domestically and foreign-related criminal investigations.

**Making Tax Evasion as a Predicate Crime to Money Laundering**

8. The Philippines is one of only two countries in the world, the only ASEAN country, and the only country in Asia (other than Lebanon) that do not consider tax evasion as a predicate crime to money laundering.

**32.** The government will continue to pursue its commitment to implement the Extractive Industries Transparency Initiative (EITI). EITI is a set of international standards for transparency and accountability in the extractive industries which makes the payment and collection of all mining-related fees and taxes paid by mining companies to national and local government units more transparent through standardized disclosures.

33. In 2012, the Philippine government made its commitment to participate in the EITI, and in 2013, the President instituted the Philippine EITI, which would be implemented through a multi-stakeholder group (MSG) and a decision-making body (PH-EITI-MSG) chaired by the Secretary of the Department of Finance. In 2014 the government published it first EITI country report which reflects the challenging task of formulating policies for reforming governance in the extractive sector and enhancing government systems to promote transparency and enhance implementation of the EITI.

**Expenditure Performance**

34. **Actual National Government spending for 2014 amounted to P1,981.6 billion, equivalent to 86.7 percent of the P2,284.3 billion disbursement program in the 2014 Budget of Expenditures and Sources of Financing (BESF).** In comparison, utilization rates in 2013 and 2012 were at 93.0 percent and 95.9 percent, respectively. Spending for both Maintenance and Other Operating Expenditures and Capital Outlays were lower than program by P70.7 billion or 18.6 percent and P171.4 billion, respectively. The programs contributing the most to under spending were those of the Departments of Public Works and Highways (P36.1 billion), Education (P26.3 billion), Social Welfare (P24.3 billion), Interior and Local Government (P21.2 billion), and Agriculture (P20.9 billion).

    The weak capacity of agencies in planning and program implementation accounted for the bulk of the shortfall in budget utilization. Other factors contributing to the slowdown included the refocusing of efforts to the post-disaster needs of communities affected by Super typhoon *Yolanda*; the adoption of additional measures required by the 2014 General Appropriations Act (GAA) to promote transparency and accountability; the introduction of additional restrictions on the declaration and use of savings in the aftermath of the SC decision on the Disbursement Acceleration Program; and new or modified procurement and disbursement procedures which led to the unexpected slowdown in the processing of payments in many agencies.

35. **Interest payments remain to be a source of savings.** For 2014, interest payments are P31.5 billion lower than the projected levels due to the lower budget deficit, lower volume of domestic borrowings, and lower domestic interest rates. As a result, interest payments constituted a smaller 16.2 percent of total disbursements compared to the 17.2-percent share it had in 2013. Net lending was also lower than expected as well as past years' as a result of policy initiatives undertaken by GOCCs that were directed towards fiscal discipline and prudent cash management. Still, these are favorable sources of fiscal savings.

**Table 5. Philippines: Difference between**
**National Government Expenditure Targets and Outturns, 2012-2014**
*(as percent of budget, unless otherwise specified)* [1/]

| Particulars | 2012 | 2013 | 2014 |
|---|---|---|---|
| **Total expenditure** | -4.14 | -6.97 | -13.25 |
| **Current Expenditures** | -3.91 | -4.15 | -6.90 |
| **Capital Outlays**[/2] | -6.56 | -15.93 | -32.78 |
| **Net lending** | 19.22 | -37.26 | -46.31 |

*Source: DBM*
*1/ Positive values indicate that actual figures are higher than budgeted and vice versa*
*2/ Include Capital Transfers to LGUs and CARP-Land Acquisition and Credit*

## EXPENDITURE OUTLOOK AND REFORMS

36. **For 2015, Congress approved an expenditure program of P2,606.0 billion which is 15.1 percent higher than the 2014 adjusted program.** This budget program represents the government's continued commitment to boost economic growth and welfare through public spending. Some P952.7 billion or the largest 36.6 percent share of the budget is allocated for social services, the bulk of which is for basic education, universal health and for social welfare services, particularly through the *Pantawid Pamilyang Pilipino Program* (4Ps). Infrastructure outlays program (which includes infrastructure subsidy to GOCCs and transfers to LGUs) is provided some P595.8 billion or 4.3 percent of GDP, which represents a 34.7 percent increase from its level in 2014. The infrastructure program will mainly support the construction and rehabilitation of various transport, educational, health, defense, and irrigation infrastructure needed by both national agencies and LGUs. To spur economic growth, the budget sets aside some P707 billion or 27.1 percent for economic services, 19.2 percent more than 2014. Debt service is allocated 15.3 percent of total expenditures, compared to 16.7 percent in 2014.

37. **For 2016, the proposed budget is P3,002.0 billion, 15.2 percent higher than for 2015.** The 2016 proposed budget sustains the focus on boosting the delivery of social and economic services from 63.4 percent of the budget in 2014 to 64.4 percent in 2016.This is supported by the 10.3 percent increase in MOOE primarily for the basic education program of the DepED and the routine maintenance of the Department of Public Works and Highways (DPWH), among others. NG infrastructure and other capital outlays are also slated to grow by 25.6 percent to cover the increased classrooms and capital requirements for the K to 12 program of the DepED, the Health Facilities Enhancement Program of the DOH, and for roads and bridges, which will account for nearly half of the total infrastructure program. To induce sustained and inclusive growth, infrastructure outlays program is being increased by 28.7 percent to reach 5.0 percent of GDP compared to 4.3 percent in 2015. Personal Services will however, still represent the largest share at 27.0 percent. This amount provides for the requirements of the creation of new positions particularly for teachers, the proposed salary increase to adjust government salary rates to be on a par with market levels, and the Performance-Based Incentive System, among others.

38. **The Performance Informed Budget structure is as an integral part of the budget in both the National Expenditure Program (NEP) and the GAA to reflect performance indicators of each department or agency.** Performance information is used in assessing the need for future funding allocation for the different programs and/or projects the departments/agencies are pursuing.

39. **Over the near term, reforms in the public finance system are being rolled out to transform the way government delivers services.** The Unified Account Code Structure (UACS) is being implemented to unify all account and transaction codes used for budgeting, cash management, and accounting throughout the government. This not only strengthens budget integrity but also promotes faster budget implementation with the full disaggregation of agency programs and projects.

    The Bureau of the Treasury (BTr) is also completing the Treasury Single Account (TSA) in order to put in place a banking arrangement where all monies collected, received, or paid by national agencies are transacted in a unified bank account through a set of linked bank accounts. This helps the national government get a consolidated view of its cash position on at least, a daily basis. Through better cash management, the TSA is estimated to save the government at least P1.0 billion in interest savings. A National

Payroll System is also being developed to be part of both the TSA and the roll-out of cashless and checkless disbursement systems.

The 2016 budget also enables the direct downloading of funds to local government units (LGUs). This does not only enhance operational efficiency in budget execution but also builds on the earlier reforms done to improve the LGUs' delivery capacity.

40. **Likewise, the government is continuing with the implementation of "early procurement, short of award" policy, especially for infrastructure projects, to facilitate the start of their implementation right on the first month of the year once the proposed budget is enacted.** Similar to the 2014 Budget, the 2015 Budget was implemented under the GAA-as-Release Document (GAARD) regime. Under this regime, the government has done away with the duplicative process of requesting, processing, and releasing budgetary allotments. Hence, by the end of the first quarter of 2015, 81.6 percent of the budget had been released compared to 71.0 percent during the same period in 2014.

41. **As part of the efforts to improve operational efficiency and better enforce agency accountability, the government has continued to disaggregate lump sum funds and flesh out program and project details**. For 2016, only three lump sum funds remain: the Contingent Fund, the Calamity or the National Disaster Risk Reduction and Management Fund, and the Allocations to LGUs –as it is not possible to foresee the specific utilization of these funds prior to agency requests.

42. **Aside from budget execution measures, the government also continues to develop ways to improve budget preparation.** For 2016, the government introduced the two-tier budgeting approach (2TBA). Through the 2TBA, there were separate discussions and deliberations for ongoing or existing programs and projects and for entirely new spending proposals. This process aims to streamline the budget preparation process by providing a clearer framework for determining the allocation for existing policies and focusing more on the evaluation of new spending proposals in terms of impact and the capacity of agencies to implement them. This approach also enhances the accountability of departments or agencies for the budget programming and execution of their ongoing programs and projects through greater involvement in the determination of multi-year spending plans of the future costs of ongoing programs and projects given the prevailing macroeconomic environment. Lastly, through this approach, the President and the Cabinet are engaged in setting the strategic direction and distribution of the unallocated fiscal space.

## ***Sources of Fiscal Risks***

### *Department/Agency Underspending*

43. **The Supreme Court (SC) Decision on the Disbursements Acceleration Program (DAP) and the Priority Development Assistance Fund (PDAF) has had a "chilling effect" on disbursements.**

    a. The DAP was implemented from 2011 to 2013 by the Executive branch to minimize underspending being by government agencies and thereby accelerate economic activity. Through the DAP, the government funded quick-disbursing priority programs by: 1.) using additional revenues pooled from dividends from Government-Owned and/or-Controlled Corporations (GOCCs) and other "windfall" or unprogrammed revenue collections, and 2.) the discontinuation or reprioritization of slow-moving expenditures.

b. In August 2013, the Commission on Audit's (COA) Special Audits Office (SAO) released a report on the PDAF. Generally, the SAO report disclosed that the PDAF and the Various Infrastructures including Local Projects (VILP) were not properly released and not appropriately, efficiently, and effectively utilized by the implementing agencies (IAs). In November 2013, the SC declared the 2013 PDAF unconstitutional on the grounds that it violated the separation of powers among the branches of the government, and that it gave undue delegation of legislative functions.

c. The SC decision[13] declaring the PDAF and some components of the DAP unconstitutional led to the discontinuation of programs and projects funded through the PDAF and DAP. Congruently, the ambiguity of the definition of savings and realignment as a result of the SC decision caused implementing agencies to be risk averse and over cautious with their spending decisions.

d. To facilitate the implementation of the discontinued programs and projects as a consequence of the SC decision, Republic Act (RA) 10652 or the 2014 Supplemental Budget was enacted on December 23, 2014. Under this Supplemental Budget, P22.5 billion was made available to fund programs and projects which cannot be funded by savings or through the Unprogrammed Fund and are not funded by the GAA. The specific spending items are detailed in Annex A.

e. Aside from the enactment of the 2014 Supplemental Budget, briefings with National Government Agencies (NGAs) and Government-Owned and/or Controlled Corporations (GOCCs) have been conducted to clarify any concerns or uncertainties the SC ruling may have caused on the understanding of savings and realignment. The Department of Budget and Management (DBM) has also worked closely with Congress to come up with a clearer definition of, and more specific conditions for augmentation, realignment, and the use of savings and the Unprogrammed Fund. However, it is worth noting that in the meetings conducted with NGAs and GOCCs, the termination of DAP only amounts to about 1.0 percent of the total underspending in 2014.

**44. Based on consultations/meetings with various departments/agencies, it was found out that about 46.0 percent of the underspending incurred in 2014 can be**

[13] In July 1, 2014, the SC declared parts of the DAP unconstitutional. In February 3, 2015, the SC issued a modified decision removing from the list of unconstitutional acts the "funding of the projects, activities and programs that were not covered by any appropriations in the GAA. However, the following acts were still deemed unconstitutional under the modified SC ruling: 1) The withdrawal of unobligated allotments from the implementing agencies, and the declaration of the withdrawn unobligated allotments and unreleased appropriations as savings prior to the end of the fiscal year and without complying with the statutory definition of savings contained in the GAA; 2) The cross-border transfers of the savings of the Executive; 3) the use of unprogrammed funds despite the absence of a certification by the National Treasurer that the revenue collections exceeded the revenue targets for noncompliance with conditions provided in the relevant GAA.

**attributed to structural weaknesses in project preparation and implementation**. More specifically, challenges in the following areas were mentioned:

a. Poor planning and program or project design, including delays in complying with preconditions for release (e.g., network plans);
b. Procurement difficulties, including frequent bidding failures, delays in finalizing specifications, and weak procurement capacity of staff;
c. Bottlenecks in program or project implementation, which include difficulties in securing clearances or permits, coordination problems, right-of-way and other legal issues, delays in billing and approval of suppliers' claims, weak LGU implementation capability, among others.

***Natural Disasters***

**45. As a result of the damages brought about by typhoon *Yolanda* (international name Haiyan) to Regions VI, VII and VIII, the Office of the Presidential Assistant for Rehabilitation and Recovery (OPARR) put together a *Yolanda* Comprehensive Rehabilitation and Recovery Plan (CRRP) requiring some P167.9 billion in funds.** On August 1, 2014, the *Yolanda* CRRP was submitted to the President for approval. For 2014, actual releases for typhoon *Yolanda* amounted to P61.7 billion. This amount included some P6.3 billion from the P14.6-billion Supplemental Appropriations for 2013, while another P6.3 billion was sourced from the P20.0 billion Rehabilitation and Reconstruction Program from the 2014 budget. A large portion of the P61.7 billion releases bankrolled the various programs implemented by the DSWD, such as general food distribution and supplemental feeding, and livelihood and emergency shelter assistance, to name a few. A substantial amount also went to the National Housing Authority (NHA) to implement the 2013 Emergency Housing Assistance for Calamity Victims, and the construction of additional permanent housing for *Yolanda* victims in Regions IV-B, V, VI, VII, and VIII.

**46.** On April 22, 2015, the President through Memorandum Order (MO) No. 79 established the institutional mechanism to unify the rehabilitation and recovery programs and projects of the government in Yolanda affected areas. In the said memorandum, the NEDA was tasked to assume the coordination, monitoring, and evaluation of all disaster-related programs, projects and activities that used to be under the OPARR. The mechanism established through MO 79 is being institutionalized not only for the purpose of typhoon Yolanda, but also for future disaster-related programs, projects and activities to ensure more efficient evaluation and reporting.

**47. As of end-June 2015, some P89.0 billion has already been released for Yolanda requirements.** Of the total, P30.7 billion went to the DSWD for general food distribution, livelihood assistance, and the adoption of Community-Driven Development (CDD) as a national strategy for fast recovery, among others. P22.7 billion went to the NHA for the assistance to families in "no-build" zones and the construction of housing units, among others. The DepED also got P5.7 billion for the repair and rehabilitation of classrooms and the construction and/or renovation of Library hubs, among others.

**48. For 2016, some P18.9 billion is being proposed to support the *Yolanda* CRRP.** This amount will cover the cost of assistance for crop production and support for insurance premium subsidy, as well as the rehabilitation/reconstruction of farm-to-market and farm-to-mill roads, irrigation dams, airports and airport facilities, among others.

**49. On top of the 2016 proposed allocation for the *Yolanda* CRRP, some P27.3 billion, will be provided for the construction and rehabilitation activities to be carried out by the GOCCs.** P25.6 billion or about 93.8 percent will be allocated for the implementation of the Housing Assistance Program for Calamity Victims of the NHA. In order to complement the construction of these permanent housing units, some P991.5 million will be provided under the budget of the Local Water Utilities Administration (LWUA) for the construction of the units' water supply system, and another P659.6 million under the National Electrification Administration (NEA) budget for the electrification of these housing units.

50. **Given the vulnerability of the Philippines to disasters and the gravity of the damages that can result from these natural calamities, it is important for the NG to have budget buffers that can cover these costs.** For 2015, the National Disaster Risk Reduction and Management Fund (NDRRMF) has been provided P13.0 billion for aid, relief and rehabilitation services to communities/areas affected by calamities. The said amount can also be used for the repair and reconstruction of permanent structures including capital expenditures for pre-disaster operations, rehabilitation and other related activities.

    On the other hand, P6.7 billion has been allocated for the Quick Response Fund (QRF), which is lodged under the budgets of key departments and agencies, increasing by 39.6 percent from the P4.8 billion provided a year ago. The departments and agencies that have QRFs are the departments of Agriculture, Education, Health, National Defense, Public Works and Highways, Social Welfare and Development, and Transportation and Communications, as well as the National Irrigation Authority (NIA).For 2016, the proposed QRF budget of P6.67 billion is almost the same as that of 2015.

**Table 6. Quick Response Fund, 2014-2016**
(in million pesos)

| PARTICULARS | 2014 GAA | 2015 GAA | 2016 NEP |
|---|---|---|---|
| Department of Agriculture | 500 | 500 | 500 |
| Office of the Secretary | 500 | 500 | 500 |
| Department of Education | 655 | 1,000 | 1,000 |
| Department of Health | 500 | 500 | 510 |
| Department of National Defense | 883 | 883 | 530 |
| Office of the Secretary | 353 | 353 | - |
| Office of Civil Defense | 530 | 530 | 530 |
| Department of Public Works and Highways | 650 | 1,000 | 1,300 |
| Department of Social Welfare and Development | 663 | 1,325 | 1,325 |
| Department of Transportation and Communications | 1,000 | 1,000 | 1,000 |
| Other Executive Offices | - | 500 | 500 |
| National Irrigation Administration | - | 500 | 500 |
| TOTAL | 4,850 | 6,708 | 6,665 |

An amount of P1.0 billion has also been allotted for the People's Survival Fund (PSF), which shall be used to support adaptation projects and activities of LGUs and community organizations. The same level is being proposed for 2016.

***Resolution of Armed Conflict in Mindanao***

51. **From 1970 to 2001, estimated damages (including damages to properties and livelihood) in the ARMM due to armed conflicts amount to P20.0 billion per year.** The Zamboanga Siege in 2013 which lasted for 19 days cost the government some P3.9 billion to cover relief operations alongside assistance for shelter and livelihood programs.

In 2014, after 17 years of negotiations, the peace process between the government and Muslim Mindanao showed significant progress with the signing of the Comprehensive Agreement on the Bangsamoro (CAB). The CAB consolidates the understanding and commitments made between the Government of the Philippines and the Moro Islamic Liberation Front (MILF). The CAB contains the Annex on Normalization, which details the processes and activities needed in order for the communities under the Bangsamoro to live their desired quality of life. Some of the activities under the Socio-Economic Development Program discussed in the said Annex include the following:

| Department/Agency | Particulars | Amount 2015 | 2016 |
|---|---|---|---|
| **Office of the Presidential Adviser for the Peace Process (OPAPP)** | 1. Development efforts for rehabilitation, reconstruction and development of the Bangsamoro, institute programs to address the needs of the Bangsamoro Islamic Armed Forces (BIAF) members, internally displaced persons, poverty-stricken communities;<br>2. Needs and skills assessment of BIAF members for decommissioning;<br>3. Special socio-economic programs for decommissioned women auxiliary;<br>4. Community-based socio-economic programs; and<br>5. Establishment of a trust fund through which urgent support can be channeled. | P228 M | P383 M |

This is expected to entail a sizeable amount of financial costs. Even pending the enactment of the Bangsamoro Basic Law (BBL), the government has already started putting funds that will help the transition of conflict torn areas in Mindanao. In the FY 2015 GAA, P228.4 million pesos was lodged under the OPAPP budget. On top of this, a total of about P2.5 billion support for the normalization process was also provided in the individual budgets of other line agencies as follows:

| Department/Agency | Particulars | Amount |
|---|---|---|
| **DSWD** | Immediate Assistance<br>Auxiliary Social Services for PWD Combatants<br>Sustainable Livelihood Program<br>Cash for Work and Cash for Training | P950 M |
| **DA** | Agri-Enterprise Support Program | P 880 M |
| **TESDA** | Technical Vocational Training | P 335 M |
| **DepED** | Literacy Program (Alternative Learning System) | P 231 M |
| **PHIC** | PhilHealth Insurance Cards | P 50 M |
| **CHED** | Transformation of MILF Camps: CHED Scholarship Program | P 16 M |
| | | |

Given the expected passage of the BBL in 2016, the requirements for socio-economic activities will be lodged in the various Departments/Agencies that will be created under the Bangsamoro. For 2016, some P28.9 B will be provided for the ARMM for the continued delivery of public services. The said amount will be transferred to the Bangsamoro upon the passage of the BBL. On top of these amounts, the budget allocation for ARMM built in the proposed NG agency budgets are as follows:

| Department/Agency | Particulars | 2016 |
|---|---|---|
| DAR | DARPO-CO | P222.1 M |
| DA | Inclusive of FMRs and AgriPnoy | P620.6 M |
| DA - BFAR | Banner Programs | P100.1 M |
| DepED | CMF and BEF | P2,991.0 M |
| DOH | Drugs and Medicines | P80.5 M |
| DILG | Salintubig | P220.4 M |
| DOLE - TESDA | TWSP/PESPA | P49.6 M |
| DPWH | National Roads | P10,000 M |
| DSWD | Inclusive of CCT | P6,887 M |
| **GOCC** | | |
| NEA | Electrification of 139 sitios | P125.1 M |
| NHA | Resettlement Program | P70.0 M |
| NIA | Line Programs/Extensions | P186.6 M |
| PhilHealth | NHIP beneficiaries | P3,200 M |

***Declaration of the Coco Levy Funds as Public Funds***

*The creation of a Trust Fund for coconut farmers/coconut industry, its management and utilization*

52. **The recent SC ruling pertaining to the Coco Levy Funds surfaced some issues and likewise opportunities on how to manage the Coco Levy Funds.** In light of the SC ruling, Executive Order (EO) No. 180 entitled “Providing the Administrative Guidelines for the Reconveyance and Utilization of Coco Levy Assets for the Benefit of the Coconut

Farmers and the Development of the Coconut Industry, and for Other Purposes" was signed by President Benigno Aquino III on March 18, 2015.

The EO mandates concerned agencies to reconvey and transfer title to the Republic of the Philippines over the Coco Levy Assets and deposit monies and funds constituting the Coco Levy or accruing from the Coco Levy Assets, into a Special Account in the General Fund. In terms of the utilization of the Fund, the EO mandates that the Philippine Coconut Authority (PCA) should develop an Integrated Coconut Industry Roadmap and the Coconut Roadmap for Coco Levy which will serve as the basis forth use the funds. However, in June 2015, the Supreme Court issued a temporary restraining order on the effectivity and implementation of the EO. Given this latest development, the utilization and management of the P73 billion Coco Levy Fund is now on hold and will be dependent on the legislation Congress will pass.

Currently there is a pending bill in the Senate entitled the "Coconut Farmers and Industry Development Act of 2015", which proposes that the Coco Levy Assets should be deposited in a trust fund outside the general fund. To determine the exact value of the Coco Levy Fund, the bill proposes that an audit and inventory of the Coco Levy assets be undertaken by COA in coordination with the PCA and the PCGG. The proposed bill also requires the crafting of a Coconut Farmers and Industry Development Plan. This plan will help in facilitating the rehabilitation and development of the coconut industry.

***Ballooning uniformed personnel pension cost***

53. **The pension costs of all uniformed services are rapidly increasing every year.** The problem is mainly attributable to the features present in all existing retirement laws of the uniformed services—a) pension entitlement of a retiree is automatically adjusted based on the prevailing scale of base pay for similarly ranked active personnel; b) pension is non-contributory in nature hence budget comes from the annual general appropriations of the government; and c) early entitlement to pension benefits even before attaining the compulsory retirement age of fifty-six.

    In 2016, the pension budget amounts to P71.0 billion which is projected to reach more than double in eight years at P187.9 billion. In view of the foregoing, a reform must be effected for a more sustainable pension system.

    The Technical Working Group composed of DND, DBM, DOF, DILG and GSIS recommended the creation of a seed fund necessary for the purpose of generating sufficient interest income to fund the annual pension requirements of all uniformed services. According to the latest actuarial study conducted by GSIS, if no reforms are introduced to the existing pension system, the seed fund shall require an amount equivalent to P5.57178 trillion. However, if reforms are implemented, specifically the deletion of the automatic indexation feature, the formulation of a mandatory contribution and the designation of a minimum pensionable age—then the amount required for the seed fund is significantly lowered to P2.03588 trillion.

## RISK MITIGATION MEASURES

***Underspending in Departments and Agencies***

54. **On March 30, 2015, Administrative Order (AO) No. 46 was issued to direct all departments and agencies to facilitate better budget execution for 2015.** The measures laid out in the AO can be grouped into three broad categories: 1) Prompt

Budget Execution Measures; 2) Procurement Measures; and 3) Establishment of a Full-time Delivery Unit.

To prompt faster budget execution, agencies were required to disaggregate lump sum funds into specific programs and projects, and submit documentary requirements—such as network plans, geo-tagged photos, implementation guidelines, among others—at the soonest possible time, if not on or before April 30, 2015.

The AO also required agencies to submit to DBM, furnishing a copy to the Office of the Cabinet Secretary (OCS), implementation plans for their programs and projects under the 2015 GAA, detailing the quarterly financial and physical plans and targets.

In order to help address issues in program and project implementation, Section 4 of AO 46 mandates each agency to create a full-time delivery unit to be led by an Undersecretary and with supporting personnel who will monitor the status of programs and projects under their respective agencies. This delivery unit shall ensure the execution and delivery of services according to their agency's implementation plan; and by the end of the first quarter, identify programs and projects with historical trends of low disbursement rates, or those with anticipated delays.

The AO also covers measures to address procurement-related delays and other issues. It is worthy to note that under the 2015 GAA, the DBM has created more positions for procurement personnel and authorized the creation of more Bids and Awards Committees (BACs) in key departments, such as Department of Transportation and Communications (DOTC), DPWH, DepED, DOH, and Department of Social Welfare and Development (DSWD). The AO supports this by instructing agencies to assign full-time support staff for BACs and to coordinate with the DBM to ensure that the requirements for the creation of more positions and BACs are immediately provided.

Other strategies outside of AO 46 are also being pursued in order to further efforts in improving budget utilization. These measures are as follows:

a. Issuance of guidelines on savings/ augmentation/ realignment; For this purpose, National Budget Circular (NBC) 559 was issued on June 26, 2015;
b. Capacity building on agency planning, procurement, project management, and monitoring and evaluation;
c. Streamlining of procurement procedures and formulation of agency improvement plans to resolve procurement issues/ problems;
d. Capacity building of LGUs on financial management; and
e. Direct release of funds to LGUs to implement some region- specific projects.

***Climate Change***

55. **In line with the recommendations made in the Climate Public Expenditure Institutional Review (CPEIR), the government continues to use public finance to build climate resiliency in institutions and communities.** Climate Change Adaptation and Disaster Risk Reduction was one of the priorities identified in the Budget Priorities Framework (BPF) for both the 2015 and 2016 budgets. The BPF serves as a guide for NGAs to align their programs and projects with the Administration's goal of a more climate-resilient country.

56. **In addition to the BPF, the DBM together with the CCC has established the Climate Change Expenditure Tagging (CCET) system that will allow the identification, monitoring and evaluation of climate-related expenditures.** Through the issuance of

the joint memorandum circular (JMC) between the DBM and Climate Change Commission, the government provided guidelines on how to better identify, track and monitor climate-related expenditures through the use of other budgeting reforms such as the UACS. Moreover, the JMC clarifies the roles and responsibilities of the different NGAs relative to the climate change expenditure tagging at the various stages of the budgeting process.

57. **The national government also continues to use the budget as a tool to increase the country's resiliency to climate risks.** This is done through the strengthening of the country's natural ecosystems and the adaptive capacity of government institutions and communities.

For 2015, the DPWH has been provided P46.2 billion for the construction and repair of flood control and drainage structures to help mitigate flooding in the 18 major and principal river basins, areas below sea level, and other critical areas. For 2016, about P60.6 billion is being proposed for the same.

Meanwhile, the National Greening Program (NGP) of the Department of Environment and Natural Resources (DENR) is allocated P8.0 billion in 2015 to buffer the effects of air pollution, reduce downstream flooding, and prevent soil erosion. For 2016, a budget of P10.2 billion is being proposed for the NGP to allow it to complete its six-year target of planting 1.5 billion seedlings to increase the country's forest cover.

To mitigate the impact of geologic hazards, P397 million (or more than a fourfold increase from the 2015 budget of P89 million) is being proposed for 2016 for the National Geohazard Assessment Program of the Mines and Geosciences Bureau (MGB) of the DENR to conduct vulnerability and risk assessment in disaster-prone areas, disseminate information and educational materials, and produce hazard maps.

To ensure a healthier environment, the 2016 budget will provide P280 million (or four times its budget of P70 million in 2015) to the Environmental Management Bureau (EMB) of the DENR to install 28 additional air quality monitoring stations in major urban cities.

## III. PUBLIC DEBT

58. **The sustainability of NG debt has advanced further with falling debt level and improved dynamics.** The debt-to-GDP ratio maintained a downward trajectory, narrowing considerably to 45.4 percent in 2014 from 49.2 percent in the prior year, due to strong economic growth and lower deficit spending. At the same time, the foreign currency component of the debt stock receded to 33.4 percent from 34.3 percent - despite significant peso depreciation - as bias for domestic borrowing continued. This rebalancing of the debt portfolio towards local currency denomination lessens the potential impact of adverse exchange rate movements on debt valuation and servicing.

**Table 7. Philippines: National Government Debt Indicators, 2011-April 2015**
*(in percentage points, unless otherwise specified)*

| Particulars | 2011 | 2012 | 2013 | 2014 | 1Q 2015 |
|---|---|---|---|---|---|
| National Government Debt | | | | | |
| % of GDP | 51.0 | 51.5 | 49.2 | 45.4 | 45.2 |
| % Share | | | | | |
| Domestic | 58.0 | 63.8 | 65.7 | 66.6 | 66.6 |
| External | 42.0 | 36.2 | 34.3 | 33.4 | 33.4 |
| Interest Payments | | | | | |
| % of revenues | 20.5 | 20.4 | 18.8 | 16.8 | 17.7 |
| % of expenditures | 17.9 | 17.6 | 17.2 | 16.2 | 16.1 |

*Source: BTr*

59. **Refinancing risk is minimal and mitigated by institutional safety nets.** At the end of 2014, only 8.5 percent of the total debt stock requires rollover within the next 12 months. This derives from a very comfortable average residual maturity of 9.99 years, which resulted from the preference to borrow in long tenors, as well as active engagement in bond exchange transactions that lengthen and smoothen redemption schedules. Moreover, the Bond Sinking Fund (BSF), which provides for the repayment of domestic bonds, has sufficient assets to cover its requirement for the next three years.

60. **Exposure to interest rate shocks is likewise limited.** The portion of debt subject to interest resetting through rollover is minimal while those that pay interest on floating rate basis only comprise 6.83 percent of the total portfolio. Furthermore, the majority of bonds to be refinanced in 2015 and 2016 are those with high coupons that average 6.26 percent for domestic securities and 7.84 percent for global bonds. Hence, the escalation in interest payments that may arise from a sudden and sharp increase in borrowing costs will most likely be constrained within manageable levels.

**Table 8. Philippines: Sensitivity of Debt Service Flows to Market Shocks**

| Particulars | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|
| | in Mn PHP | increase in IP Budget (%) | in Mn PHP | increase in IP Budget (%) | in Mn PHP | increase in IP Budget (%) | in Mn PHP | increase in IP Budget (%) |
| **Interest Rate Sensitivity of Interest Payments (1.0 ppt increase)** | | | | | | | | |
| **Domestic Interest Payment /1** | | | | | | | | |
| Floating interest rate /2 | 1,128.67 | 0.31% | 1,128.67 | 0.29% | 1,128.67 | 0.28% | 1,128.67 | 0.27% |
| Roll-over fixed rate | 1,288.27 | 0.36% | 3,677.43 | 0.94% | 2,329.94 | 0.57% | 2,127.18 | 0.50% |
| **Foreign Interest Payment** | | | | | | | | |
| Floating interest rate | 3,378.09 | 0.93% | 3,378.09 | 0.86% | 3,378.09 | 0.83% | 3,378.09 | 0.79% |
| Roll-over fixed rate | 221.07 | 0.06% | 712.87 | 0.18% | 288.50 | 0.07% | 17.79 | 0.00% |
| **Foreign Exchange Sensitivity of Interest Payments (10.0 ppt depreciation)** | | | | | | | | |
| **Domestic Interest Payment /1** | | | | | | | | |
| Against the US$ | 116.45 | 0.03% | 116.45 | 0.03% | 116.45 | 0.03% | 116.45 | 0.03% |
| Against the JPY | - | - | - | - | - | - | - | - |
| Against the EUR | 1.68 | 0.00% | 1.68 | 0.00% | 1.68 | 0.00% | 1.68 | 0.00% |
| **Foreign Interest Payment** | | | | | | | | |
| Against the US$ | 7,933.50 | 2.19% | 7,831.84 | 1.99% | 7,886.29 | 1.93% | 8,058.67 | 1.90% |
| Against the JPY | 523.27 | 0.14% | 523.17 | 0.13% | 522.55 | 0.13% | 523.35 | 0.12% |
| Against the EUR | 261.56 | 0.07% | 177.96 | 0.05% | 261.54 | 0.06% | 261.60 | 0.06% |
| **Combined 1.0 ppt interest rate hike and 10.0 ppt depreciation against USD** | | | | | | | | |
| **Domestic Interest Payment /1** | 2,539.36 | 0.70% | 4,928.52 | 1.25% | 3,581.03 | 0.88% | 3,378.27 | 0.79% |
| **Foreign Interest Payment** | 11,618.91 | 3.21% | 11,517.26 | 2.93% | 11,571.71 | 2.83% | 11,744.09 | 2.76% |
| **Foreign Exchange Sensitivity of Principal Amortization (10.0 ppt depreciation) /3** | | | | | | | | |
| Against the US$ | 7,870.54 | | 12,028.35 | | 7,791.12 | | 5,030.72 | |
| Against the JPY | 2,174.91 | | 2,052.33 | | 2,024.14 | | 1,889.22 | |
| Against the EUR | 265.54 | | 2,977.90 | | 245.30 | | 246.42 | |

Notes:
Based on Outstanding debt as of end December 2014. Assumes roll-over in the same currency and interest rate structure for debt maturing within the projection period.
/1 Excludes CBoL securities
/2 Includes roll-over of T-bills
/3 Includes domestic and foreign

*Source: BTr*

61. **Also, foreign investors only hold 6.2 percent of total outstanding government securities, indicating low susceptibility to capital flight.** The imposition of 20 percent withholding tax on interest income, alongside the need to go through third party custodians which entail substantial frictional costs such as administrative and custodian fees, encumber foreign investors from participating in the local bonds market. The small number of foreign players, however, reduces the scope for sudden outflow of financial investments in the country, which typically results in a sharp depreciation of the local currency and upward adjustments in domestic interest rates.

62. **The improvements in the structure of NG debt are resonated by the sustained decline in debt service burden.** The government has taken a proactive stance in managing its debt profile, taking advantage of a period of ultra-low borrowing costs to accelerate the repayment of its outstanding expensive debt through buy back transactions. The strengthening of debt metrics also helped advance the country's credit ratings by several notches, further narrowing its borrowing costs. As a result, interest payments both as a portion of expenditures and revenues continue to decline, implying more fiscal space are being channelled to productive spending.

63. **A debt sustainability analysis (DSA) is regularly conducted to assess the possible and probable paths of selected debt metrics.** The baseline projection is generated using DBCC approved assumptions where the creation of incremental debt is not affected by any shocks to macroeconomic and market variables. This is simply the future path of debt when no adjustments to fiscal policy is needed.

64. **The DSA also incorporates scenario analysis such as the occurrence of large natural disasters, a specific risk to which fiscal and debt metrics are exposed to.** For instance, typhoons make land fall in the country at an average of 8.9 times per year, which is approximately 45 percent of the actual number of typhoons that enter the Philippine Area of Responsibility. The DSA attempts to capture the exposure of the debt metrics to typhoons by approximating its impact on GDP (typically in agriculture, household consumption, and government spending), revenue collections, and additional spending for recovery and reconstruction. Typhoon likelihood was modelled as a Poisson random variable while its effect on GDP and the borrowing strategy was modelled as a lognormal random variable.

65. **Debt-to-GDP is expected to continue on a downward trend even with the occurrence of large disasters.** Baseline projections put debt-to-GDP at a little over 30 percent after ten years. However, a large disaster will raise this projection to a mean value of around 36.4 percent after ten years. Nonetheless, there is a 50 percent confidence that this will remain between 34 percent and 38 percent, and a 95 percent likelihood that this will remain below 43 percent.

***Figure 1. Sustainability Analysis of Debt to GDP***

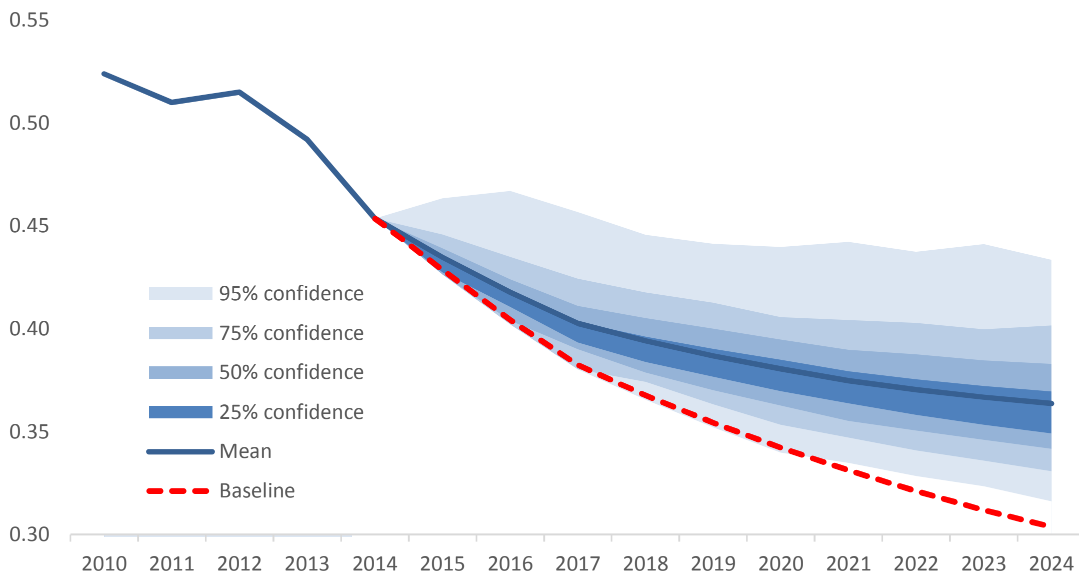
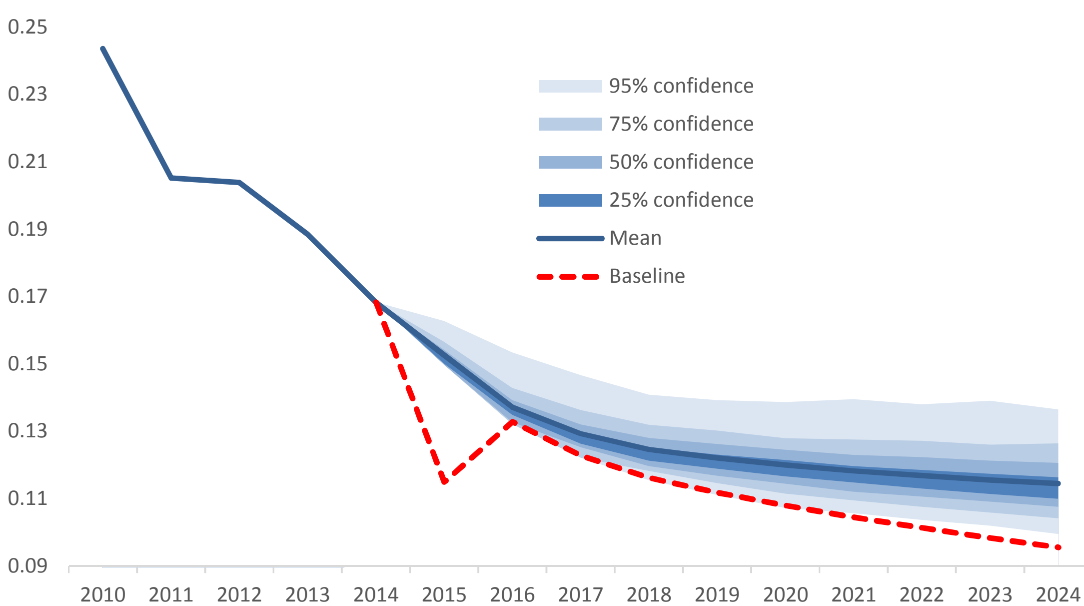



***Figure 2: Sustainability Analysis of Interest Payments to Revenue***




**66. Interest payments to revenue are likewise expected to decrease and taper off.** The baseline tests produce a ratio of 9.6 percent after ten years, although a series of disasters over a ten year period can raise this ratio to a mean value of 11.4 percent. While disasters are expected to shock the ratio upward, there is very little volatility due to the current low interest rates and a heavy reliance on fixed rate debt.

**67. The evolution of the NG debt over the past decade highlights impressive declines across various risk metrics and debt ratios.** Nonetheless, there is a necessity to monitor the risk inherent in the debt portfolio. An overview of the analysis as given above illustrates fiscal sustainability, with debt risk indicators at record low levels. Despite these, the Republic should be prepared for different contingencies, by which adverse effects might manifest.

## IV. CONTINGENT CENTRAL GOVERNMENT OBLIGATIONS

## A. FINANCIAL SECTOR

***Current position of the banking system[14]***

68. **The BSP's well-calibrated and deep financial sector reforms enabled the Philippine banking system to evolve as a strong, sound, and responsive banking system.** This is evidenced by the remarkable performance, positive funding and liquidity profile, improved asset quality, and stronger capitalization in 2014. The reforms are broadly aligned with international standards and best practices and are geared towards strengthened corporate governance and risk management, all while promoting financial inclusion, consumer protection, and capital market development. The Philippine banking system is the only one out of the 69 rated banking systems in the world that has consecutively received a positive outlook from Moody's since 2013.

69. **The Philippine banking system exhibited a growing portfolio of good quality assets.** As of end-December 2014, the total resources of the banking system expanded by 11.9 percent to P10,069.6 billion, primarily funded by deposits and capital at 76.3 percent and 12.1 percent, respectively. Deposits are mostly peso-denominated (81.9 percent) and sourced from residents (98.9 percent). The total loan portfolio of P5,117.9 billion grew by 20.2 percent year-on-year, driven mainly by a 20.0 percent expansion in core lending[15] at P4,546.0 billion. Concurrent with the robust expansion in banking system assets, banks continued to enhance their credit governance, credit underwriting, and administration practices, which led to further declines in non-performing assets ratio (at 1.8 percent of gross assets) and gross non-performing loan (NPL) ratio (at 1.8 percent of total loan portfolio) of banks as of end-2014. Gross NPL ratio was 2.2 percent lower than the pre-1997 Asian Financial Crisis level of around 4 percent. At the same time, it demonstrated a significant turnaround from the peak of 16 percent during the 2001 oil crisis.

70. **Banks remained profitable although net profits were trimmed down to P 121.7 billion[16] due to the decline (69 percent) in both foreign exchange (FX) profit and gains from sale, redemption, or derecognition of non-trading financial assets and liabilities.** Banks also registered higher cost-to-income ratio (61.2 percent) due to the expansion in their branch network to widen financial access points on the delivery of banking services, especially in the countryside. Return on assets (ROA) and return-on-

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[14] Unless otherwise indicated, the term "banking system" refers to universal and commercial banks (U/KBs), which accounts for 90.2 percent of the resources of the Philippine Banking System as of end-December 2014. This is based on A Status Report on the Philippine Financial System as of the Second Semester 2014. The Philippine financial system is primarily bank-based, with total assets of the banking system accounting for 80.8 percent of the total assets of the financial system and 88.3 percent of economic output (GDP).

[15] Core lending refers to total loan portfolio exclusive of interbank loans and reverse repurchase (RRP) transactions with BSP and other banks.

[16] This is 8.2 percent lower than net profits of P= 132.5 billion reported by universal and commercial banks in December 2013.

equity (ROE) ratios declined to 1.3 percent and 11.0 percent, respectively, on account of lower profits.[17]

71. **There was ample liquidity in the system to support credit**. Liquid assets-to-total assets ratio of banks stood at 43.5 percent as of end-2014.

72. **Banks' lending was mostly channelled to productive activities**. Among the industries that received a bigger portion of bank lending were those engaged in manufacturing (16.1 percent), real estate (15.4 percent), and wholesale and retail trade (13.6 percent).

73. **Banks were well capitalized.** Risk-based capital adequacy ratio (CAR) of U/KBs stood at 15.2 percent and 16.2 percent respectively on a solo and consolidated basis as of end-December 2014. This indicates that banks have maintained sufficient buffer against unexpected losses that may arise from periods of stress. The Philippine banking system is considered by international credit watchers and market analysts as one of the strongest in the region as its CAR is Basel III compliant and third highest in ASEAN-5.[18]

***Risks from the banking sector***

74. **National Government exposure to the banking system, both direct and contingent, is considered marginal.** The Philippine Government's exposure to the banking system is mostly in the form of deposit liabilities amounting to P 967.3 billion, representing 12.6 percent of the P7,680.6 billion total deposit liabilities of the banking system. This is widely expected to decline upon the full operationalization of the Treasury Single Account by the Bureau of the Treasury.[19] The maintenance by banks of a 50 percent liquidity floor also serves as a liquidity buffer to service withdrawals and payments on deposits of, borrowings from, and all other liabilities that banks may owe the Government. The NG's capital contribution in banks as of end-December 2013 is estimated at P 25.5 billion.[20]

75. **Foreign currency-denominated borrowings of government banks from multilateral agencies, which are intended for re-lending to specific sectors, are backed by guarantees extended by the National Government**. The notional amount of the FX cover on such borrowings is estimated at USD1.3 billion (or P57.3 billion).

76. **The banking system's deposits are insured through the Philippine Deposit Insurance Corporation (PDIC), a government instrumentality attached to the Department of Finance.** As of first quarter of 2015, total deposits in the banking sector managed to grow to P8.48 trillion, slightly lower compared to the P8.51 trillion recorded as of the end-2014. Of the total deposits as of first quarter of 2015, 22.4 percent or P1.9

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[17] ROA and ROE ratios of U/KBs as of end-December 2013 were at 1.6 percent and 13.3 percent, respectively.

[18] As of end-December 2014, Indonesia's CAR is at 18.7 percent, Singapore at 15.9 percent, and Malaysia at 15.4 percent. Thailand is at 16.9 percent as of end-September 2014.

[19] In accordance with Executive Order No. 55 s. 2011, the Bureau of Treasury shall operate a Treasury Single Account (TSA) to receive remittance of collections of internal revenue taxes or customs duties from BIR or BOC authorized agent banks as well as other national collections of National Government Agencies from authorized government depository banks. The TSA, which shall be maintained at the BSP, will align the government policy of greater financial management and control of its cash resources and allow the unification of the structure of government bank accounts to enable consolidation and optimum utilization of government cash resources. The Government Integrated Financial Management Information System central database is envisioned to provide consistent data for budget release, cash programming, and financial reporting by October 2015.

[20] 2013 audited financial statements and general information sheet of government banks.

trillion are estimated insured deposits involving 48.23 million accounts. This represents a marginal growth from the 22.2 percent registered in 2014.[21]

A total of 15 banks were taken over by the PDIC in 2014 with estimated insured deposits (EID) amounting to P1.47 billion. Meanwhile, the PDIC has paid a total of P63.22 billion in deposit insurance claims for 2.36 million accounts, inclusive of the P1.33 billion paid to the depositors of the 15 newly-closed banks. Reported liabilities for unpaid but validated insured deposit claims in closed banks amounted to P574.3 million.

For the first quarter of 2015, the PDIC took over two rural banks with an aggregate EID of P258.15 million. Similarly, as of 31 March 2015, the PDIC has paid a total of P63.56 billion in deposit insurance claims of 2.37 million accounts which includes the P225.8 million paid to the depositors of the two newly-closed banks. Reported liabilities for unpaid but validated insured deposit claims in closed banks amounted to P489.92 million.

**77. The PDIC's deposit insurance fund (DIF) stood at P104.69 billion, up by 4.6 percent from end-2014 level of P100.10 billion due to less bank closures and judicious use of resources.** The ratio of DIF to EID as of Q1 2015 registered at 5.5 percent, slightly higher compared to the 5.4 percent in 2014 (based on a 12-month average).[22]

**78.** To contribute to the timely intervention and resolution of small banks, PDIC continued to promote a stronger banking system via the Strengthening Program for Rural Banks (SPRB) Plus[23], a partnership with the BSP; and the Strengthening for Cooperative Banks (SPCB) Plus[24] in collaboration with the BSP and the Land Bank of the Philippines. As of end-2014, 12 applications under the SPRB/SPRB Plus have been approved. Out of the 12 applications, financial assistance for one (1) approved application has been released in December 2014. Under the SPCB/SPCB Plus, three (3) applications have been approved. As of end-2014, three (3) applications are under review (i.e., 2 for SPRB Plus and 1 for SPCB Plus) growing to six (6) as of March 2015 (i.e., 5 for SPRB Plus and 1 for SPCB Plus). [25]

### *Risks mitigation measures*

**79. Broad-based reforms underpin the BSP supervisory framework.** Consistent with the broader objective of financial stability and international reforms, the BSP builds on its supervisory framework through broad-based reforms in supervisory policy, banking supervision, and financial system surveillance to promote prudent risk-taking of financial institutions while continuing to nurture creativity and responsiveness in the delivery of

[21] PDIC's Bank Statistics Department's Reports on Estimated PDIC Risk Exposure at P500,000 maximum Deposit Insurance Cover (MDIC) per depositor as of 31 December 2014 and as of 31 March 2015.
[22] PDIC Financial Statements as of 31 December 2014 and 31 March 2015.
[23] SPRB Plus aims to strengthen rural banks and thrift banks serving the countryside and low income sector, through the grant of financial assistance (FA) by the PDIC, and the grant of regulatory reliefs and other incentives by the BSP to the extent allowed under existing laws. The original SPRB was launched in August 2010 and was amended in 2013 and May 2015. The program will expire on December 31, 2015.
[24] SPCB Plus aims to encourage mergers, consolidations and acquisitions of cooperative banks to strengthen the cooperative banking sector, via the grant of financial assistance (FA) from PDIC and LBP, and regulatory relief/s, branching and other incentives from the BSP. The original SPCB was launched in November 2011 and was amended in 2013 and 2014. The program will expire on September 17, 2015.
[25] PDIC Report on Strengthening Program for All Banks

financial services. The framework aims to promote the smooth functioning, soundness, and strength of the banking system, which are key to promoting sustainable, equitable, and inclusive economic growth.

80. **The BSP safeguards the stability of the financial system against shocks by continuously monitoring and enhancing surveillance of financial market developments.** Strong financial market surveillance is intended to provide broad directions on the identification and assessment of key challenges and emerging risks and proactively put in place measures to manage those risks. These initiatives are complemented by infrastructure and capacity building for bank supervisors

***Prudential reforms***

81. **The BSP continues to align its regulatory framework with the international Basel III regulatory standards to strengthen the resiliency of the banking system.** Aside from adopting higher quality capital adequacy standards and capital conservation buffer under Basel III starting 1 January 2014, the BSP raised the level of required minimum capital across bank categories and implemented the Domestic Systemically Important Banks (DSIBs) framework and the revised capital framework for foreign banks in the Philippines. Other facets of Basel III reforms include ground rules on leverage, liquidity, market risks and trading books, and counterparty risks.

82. **The BSP fosters a regulatory environment that promotes prudent risk taking of financial institutions while continuing to nurture creativity and responsiveness in the delivery of financial services.** To this end, the BSP's reform agenda encompass areas of governance, capital, risk management, financial consumer protection, and financial inclusion.

    a. **Heightened corporate governance and intensified risk management.** The BSP's record of reforms upholds, among others, the exercise of good corporate governance, which is the basic foundation of a safe and sound banking system, and the institution of appropriate risk management systems commensurate to the size and complexities of the banking system. In line with these initiatives, the BSP communicated its expectations for an effective external audit function and revised the guidelines to raise the standards on internal control and audit for BSP-supervised financial institutions to promote the shared accountability of the board and all personnel in the control process.

    b. **Enhanced regulations on credit risk management framework.** These regulations provided banks with greater flexibility in managing credit risks and highlighted the board and management's responsibility to promote a prudent and sound credit environment, including regulations on salary loans to ensure that these loans are well-managed and conform to fair and sound credit practices.

    c. **Proactive macro-prudential measures and enhanced financial surveillance.** The BSP continued to expand its existing macro-prudential toolkit[26] by requiring

[26] This include setting up macroprudential limits (i.e., 20 percent and 100 percent of unimpaired capital for domestic banks and foreign bank branches, respectively) on non-deliverable forward (NDF) transactions involving the Philippine Peso, assigning higher risk weight assigned on banks' net open position for NDFs, and expanding the reporting framework for measuring banks' real estate exposures.

banks to implement real estate stress test limits as a pre-emptive measure to ensure the banking system's healthy exposure to real estate development. Likewise, new reporting requirements[27] were also introduced to strengthen the BSP's financial surveillance through the disclosure of, among others, the banks' cross-border financial position to provide a comprehensive view of potential risks as well as transmission channels that emanate from foreign counterparties of Philippine banks.

d. **Comprehensive consumer protection framework.** The BSP instituted a financial consumer protection framework[28] based on the fundamental tenets of consumer empowerment, market conduct, and collective responsibility to promote greater confidence in the financial system and to empower consumers to make informed decisions. The framework sets out minimum consumer protection standards in five key areas, namely: disclosure and transparency, protection of client information, fair treatment, effective resolution, and financial education.

e. **Greater financial inclusion.** The banking system strives to be more responsive to the needs of its stakeholders.[29] Significant milestones have been achieved in terms of improving the delivery of financial products and services to all Filipinos[30] and facilitating for the continuous expansion of the menu of available products and services fine-tuned to the changing needs of the market.[31]

   The BSP's financial inclusion initiatives are focused on five areas: policy, regulation and supervision; financial education and consumer protection; data and measurement; advocacy programs; and strategic international linkages. An Inter-Agency working group spearheaded by the BSP was constituted in December 2014 to formulate a National Strategy for Financial Inclusion (NSFI). The NSFI aims to provide a framework to enable the government and the private sector to take a coordinated and systematic approach in building an inclusive financial system. After a series of regional consultations, the NSFI was launched on 1 July

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[27] The following new reporting requirements were introduced to strengthen the conduct of financial market surveillance: (1) movement and ageing of NPLs, (2) quantitative information on credit card operations and complaints, (3) salary loans, and (4) bank deposit interest rates.

[28] The BSP's financial consumer protection framework was cited as impressive by the World Bank in its "Republic of the Philippines: Diagnostic Review of Consumer Protection in the Banking Sector" as BSP's approach to consumer protection compares well with 114 other economies.

[29] The BSP is the first central bank in the world to establish a unit dedicated to financial inclusion – the Inclusive Finance Advocacy Staff. Since 2009, the Philippines is consistently ranked by the Economic Intelligence Unit as one of the world's best for its enabling regulatory environment for microfinance. The Philippines was also ranked 3rd globally across a range of indicators on financial inclusion and is cited as the top country in East and South Asia with the most conducive environment for financial inclusion.

[30] As of end-September 2014, there were 652 banks with 9,555 branches. Of these banks, 106 offer e-banking services like ATM facilities, mobile and internet banking, electronic wallet and phone banking to provide convenience and access to financial consumers.

[31] The BSP widened the scope of allowable activities and services (e.g., servicing of other types of loans to microfinance clients) of micro-banking offices and waived the processing fees for banking offices that will be established in unbanked municipalities as part of its commitment to sustain its leadership in global financial inclusion initiatives. As of end-June 2014, there are 183 banks (from 119 banks in 2002) with microfinance operations serving more than 1.1 million clients with loans outstanding amounting to P= 9.3 billion. There are also 508 MBOs (from 251 in 2011) operating in 322 municipalities, of which 61 municipalities are financially served only by MBOs. As of end-September 2014, there are over 1 million MSMEs with outstanding loans from banks amounting to P= 394 billion. 97.9 percent of SMEs have a deposit account at a formal financial institution.

2015. The thirteen agencies that collaborated in the formulation of the NSFI signed a Memorandum of Understanding (MOU) as a formal commitment to NSFI objectives, principles, and tactical plans.[32] Moreover, these agencies will lead the implementation of the NSFI. In addition, the BSP completed the Nationwide Baseline Survey on Financial Inclusion (NBSFI) which is the first nationally representative survey of Filipino adults dedicated to measure financial inclusion (access, usage, quality, welfare) from the perspective of actual and potential users of financial services (i.e., demand-side). Results of the NBSFI were published in the BSP website on 1 July 2015. The BSP also continues to work on an efficient and inclusive payment system through the creation of a National Retail Payment System that is suitable to the Philippine context.[33]

83. **The BSP has standby liquidity support.** In addition to adopting a similar set of measures[34] implemented during the global financial crisis to avert a liquidity crunch, the BSP can provide US dollar liquidity through its US dollar repurchase and hedging facilities[35] to thwart sharp drop in yields. If warranted, the BSP can also tap available facilities under multilateral and bilateral arrangements with regional counterparts to augment its foreign exchange reserves such as those under the Chiang Mai Initiative Multilateralization, ASEAN Swap arrangements and bilateral swap arrangement with Japan. The BSP and Bank of Japan have recently agreed to establish a cross-border liquidity arrangement to further enhance financial stability in the Philippines.

84. **The BSP continues to engage in the development of the local capital market.** To strengthen the domestic capital market and prepare market participants in the forthcoming regional economic integration, the BSP continues to engage with other financial regulators and recognized industry associations in establishing financial market infrastructures and instituting reforms[36] such as those relating to the **"Single Price Convention"** for trading of government securities, enhancement of the **Overnight Index Swap (OIS) structure**, and institutionalization of standards for financial benchmarks that are aligned with the developments in the international capital markets.

85. **The BSP's move to liberalize the Philippine banking system and pursue policy reforms is seen to boost the competitiveness of domestic banks in preparation for the forthcoming ASEAN banking integration.** The enactment of Republic Act

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[32] The thirteen agencies which signed the MOU are the following: Department of Finance (DOF), Department of Education (Dep-Ed), Department of Trade and Industry (DTI), Department of Social Welfare and Development (DSWD), Department of Budget and Management (DBM), National Economic and Development Authority (NEDA), Insurance Commission (IC), Commission on Filipinos Overseas (CFO), Securities and Exchange Commission (SEC), Philippine Statistics Authority (PSA), Philippine Deposit Insurance Corporation (PDIC), Cooperative Development Authority (CDA), and Bangko Sentral ng Pilipinas (BSP).

[33] Source: BSP's Financial Inclusion Initiatives 2014.

[34] These include liberalized access to the BSP's peso repurchase and rediscounting facilities and increase in the BSP's peso rediscounting budget.

[35] These include the currency rate risk protection program and engaging in more foreign currency swap transactions.

[36] The reforms instituted by the BSP to further develop the local capital market include: (1) Issuance of accreditation guidelines for Personal Equity Retirement Act (PERA) market participants, (2) Allowing cross-selling of collective investment schemes, (3) Creation of the multi-class unit investment trust fund product to promote operational efficiency and improve economies of scale, and (4) Allowing an independent and SEC-authorized Central Securities Depository to act as securities custodian for investors. The BSP's capital market reforms are geared towards promotion of fair market access and level playing field, expansion of available products and markets, fostering investor confidence and enhancing transparency, disclosures and good governance.

(RA) No. 10641 ‘An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending For this Purpose R.A. No. 7721’ and the approval by the Monetary Board of its Implementing Rules and Regulations, fully liberalized the Philippine banking system as it opens up the modes of entry for foreign banks, liberalizes branching opportunities, and increases the ownership ceiling of foreign banks to 100 percent of the voting stock of an existing domestic bank or new banking subsidiary in the Philippines. This move encourages cooperation with foreign banks that is also expected to result in an improved financial infrastructure, aided by technological transfers and innovations.

***Ensuring financial stability***

86. **The BSP continues to engage relevant stakeholders.** To ensure responsiveness of its reform agenda with industry operations and financial market developments, the BSP coordinates with industry associations, other regulators and government agencies, and its regional and global partners.

87. **The BSP coordinates with other financial regulators through the Financial Sector Forum (FSF) and Financial Stability Coordinating Council (FSCC).**[37] The FSF and FSCC provide the fora to discuss issues in macro prudential and financial stability and take necessary actions to address the build-up of system-wide risks. The BSP’s active participation in regional and international fora[38] allows it to pursue its goal of strengthening cooperation towards financial stability in the region.

88. **There has been an increase in requests for Monetary Board (MB) opinion by the Local Government Units’ (LGUs) on domestic borrowings.** A total of 192 requests for MB opinion on planned domestic borrowings of LGUs in the 2nd Semester of 2014 were received by the BSP, with an aggregate loan amount of P23.7 billion. This is significantly higher than the 104 requests processed in the previous semester. Most of the LGU loans were intended for infrastructure projects.

## B. GOVERNMENT-OWNED AND/OR-CONTROLLED CORPORATIONS (GOCCs)

89. The DOF continues its various fiscal reforms to enhance financial discipline and better resource management among Government -Owned or -Controlled Corporations (GOCCs).

90. **The fourteen major non-financial government corporations (14 MNFGCs) maintained its surplus in 2014 but 65 percent less than previous year’s financial performance.** The surplus was mainly contributed by the power corporations mainly arising from the proceeds from privatization of Angat Hydropower Plant of USD440.88 Million. NHA also posted surplus from support for the housing programs for calamity stricken areas.

[37] The Financial Stability Coordination Council (FSCC) was created in October 2011 by the Financial Sector Forum (FSF). Its creation as a voluntary interagency council was formalized through a Memorandum of Agreement dated 29 January 2014 jointly executed by the the BSP, Department of Finance, Insurance Commission, Philippine Deposit Insurance Corporation and the Securities and Exchange Commission. The council chiefly aims to identify, manage and mitigate the buildup of systemic risk consistent with the overall prudential objective of financial stability.

[38] Includes the Financial Stability Board-Regional Consultative Group for Asia (FSB-RCGA) and the Executives’ Meeting of East Asia Pacific Central Bank (EMEAP).

Compared to the surplus of P60.9 billion in 2013, the decrease in the surplus was primarily due to the impact to PSALM/ Transco of the P57 billion prepayment of concession fees made by NGCP in 2013.

**Table 9. Philippines: Consolidated Public Sector Financial Position 2012 -2014**

(As percent of GDP, unless otherwise specified)

| Particulars | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| | | Actual | | Program | Program |
| Consolidated public sector financial position | -1.5 | 0.4 | 0.7 | -1.1 | -0.8` |
| Non-financial public sector financial position | -1.4 | -0.1 | 0.1 | -1.6 | -1.4 |
| Financing position of 14 major MNFGCs | -0.05 | 0.53 | 0.17 | -0.17 | -0.08 |
| *in billion pesos* | -4.95 | 60.87 | 21.15 | -23.00 | -12.16 |
| Financing position of GFIs | 0.09 | 0.13 | 0.10 | 0.10 | 0.09 |
| *in billion pesos* | 9.89 | 15.32 | 12.23 | 13.60 | 13.64 |
| Financing position of SSIs | 0.69 | 0.54 | 0.54 | 0.43 | 0.41 |
| *in billion pesos* | 72.73 | 62.49 | 68.77 | 59.82 | 63.60 |

Other GOCCs that also contributed to the financing surplus were the Philippine National Oil Corporation (PNOC), Metropolitan Waterworks and Sewerage System (MWSS), and Philippine Ports Authority (PPA). The combined surpluses of these GOCCS more than offset the deficit position of the National Irrigation Administration (NIA) and National Food Authority (NFA).

For the years 2015 and 2016 the financial outlook of the 14 MNFGCs would be a reversal of the surplus it attained in 2014, mainly attributed to lesser privatization proceeds from power generating plants and the expected acceleration of capital expenditures on housing, line transit and water projects.

91. **SSIs[39] and GFIs continued to post positive cash flows, mainly due to earnings derived from their diversified portfolio investments**. Taken together, SSIs and GFIs posted an average cash surplus of P81 billion for the years 2012-2014 and contributed to the improvement of the overall public sector financial position.

92. **SSIs are in the bracket of large government corporations in terms of assets and revenue size.** Given the magnitude of funds they manage, they have been operating at positive returns. Part of their strategic objectives include: to maintain their financial viability, achieve funds perpetuity and be able to promote the welfare of their members.

    In 2014, SSIs surplus improved by 10 percent from the previous year's P62.5 billion, mainly due to higher member's contribution and increased subsidy to PhilHealth.

    SSIs will continue to be in surplus in 2015-2016. However, the projected surplus in 2015 will decline mainly due to: higher benefit pay-outs (mainly due to the health care provisions of PhilHealth), moderate income from investments and higher provision for operating expenses to expand their operations locally and overseas. In 2016, surplus

[39] These are the Government Service Insurance System (GSIS), Social Security System (SSS) and Philippine Health Insurance Corporation (PhilHealth)

will improve again despite PhilHealth bearing another substantial expenditure for the delivery of health care services to its members.

**Box 2. 2011 SSS Actuarial Valuation**

Based on the 2011 SSS Actuarial Valuation, there is an improvement on the Social Security Fund's (SSF) life for another four years compared to its 2007 valuation arriving at year 2039. While the 2014 Actuarial Assessment on GSIS' Social Insurance Fund (SIF) reflects an extension of its life by one year until 2048 compared to the previous year's assessment.

SSIs' identified that the increasing life expectancy and declining mortality rates raised benefit payouts and are major reasons behind the SSF/SIFs' contraction. In view of this, SSIs immediately implement reforms, both parametric and structural, in order to assure the financial sustainability of the Funds.

The SSIs have outline their proposed reforms as follows:

1) periodically increase the contribution rate;
2) reduce benefits, or;
3) increase/explore alternative revenue sources while correspondingly increasing the benefit rates;
4) increase the minimum monthly salary credit;
5) increase the maximum monthly salary credit with a modified pension formula;
6) improve contribution collection and employer compliance;
7) increase qualifications for eligibility for monthly pensions;
8) raise the retirement age; and
9) prudently maximize investment income.

93. **GFIs[40] perform their unique functions aligned with the economic roadmap of the government.** GFIs surplus in 2014 amounted to P12.2 billion but lower than P15.3 billion in 2013. The GFIs' major revenue drivers are their managed loans and investment portfolio. They provide financing/credit facilities which can be accessed readily by the priority sectors of the government at concessional terms.

The GFIs projected moderate surplus growth over the next two years. The two government owned banks: Land Bank of the Philippines and Development Bank of the Philippines seek additional capital infusion from the National Government in 2016 in order to strengthen their core capital to comply with the Bangko Sentral ng Pilipnas threshold on capital adequacy requirement for Domestic Systemically Important Banks (DSIBs).

**Box 3. Department of Finance Issues Revised Guidelines on Authorized Government Depository Banks**

As part of the strategic direction to strengthen the overall fiscal position of the country, the DOF issued Circular No. 001.2015 on 1 June 2015 and 003.2015 on 24 August 2015 providing for revised guidelines on authorized government depository banks. For agencies specifically allowed by law, rules, and regulations to retain income and/or for operations and/or working balances, the deposit of government funds by National Government Agencies, GOCCs and LGUs is limited only to government financial institutions with a universal bank license and a CAMELS rating of at least "3."

The continuing reforms being accomplished on the public finance front of governance, government deposits should be placed in the strongest government financial institutions to ensure that taxpayer money is safeguarded to the fullest extent.

[40] GFIs include the Development Bank of the Philippines (DBP), Land Bank of the Philippines (LBP), and the Trade and Investment Development Corporation of the Philippines (TIDCORP, formerly Philippine Export and Foreign Loan Guarantee Corporation).

**Box 4. Activities Undertaken and Progress Achieved in Pursuit of GCG Mandates**

The "GOCC Governance Act of 2011 (R.A. No. 10149) has refocused national attention on GOCCs as enterprises that enhance the growth of the private sector through strategic market development, and provision of cost-efficient vital services in areas that are natural monopolies. In the third year of its operation, the Governance Commission for GOCCs (GCG) has already accomplished the following in pursuit of its mandate:

1. Implemented the President's order of abolishing various GOCCs and recommended the abolition/privatization of six (6) more to the Office of the President. Furthermore, the continuous rationalization of the sector has decreased the number of GOCCs from 157 in 2011, to 104 in 2014.

2. Enhanced GOCCs' institutional focus on Corporate Governance with all GOCCs now having Corporate Governance Manuals that have been vetted and approved by the General Commission.

3.Institutionalized the establishment of Performance Evaluation Systems (using Balanced Scorecard) and Quality Management Systems (ISO 9001:2008) in all GOCCs to inculcate innovation, efficiency and evidence-based governance through linking regular strategy and operations review to social impact, stakeholders' feedback and other financial and operational indicators.

4.Entered into a memorandum of Agreement (MOA) with other agencies (BSP, SEC, IC) to improve standards for GFIs together with private banks as to data collection and dissemination (Special Data Dissemination standard Plus), a project of BSP with the International Monetary Fund.

5. Began database build-up of the Integrated Corporate Reporting System (ICRS) for roll-out in the 2nd quarter of 2015, which will serve as an electronic reporting system and an online central repository for all information on GOCCs open to the general public.

6. Improved the framework for investing in the professional development of the workforce in the GOCCs through enforcing the adoption of competency frameworks/models.

7. Professionalized the nomination and selection process for Board members in GOCCs through the

**B. Moving Forward in Pursuit of GCG Mandates**

Cognizant of the role of GOCCs as significant tools for economic growth and development, the GCG intends to fulfil the following:

1. Synchronize budget review and approval (currently with DBM) with performance target setting
2. Rationalize the mandates of GOCCs that perform both regulatory and commercial functions through "decoupling."
3. Establish Sovereign Wealth Fund to strengthen the capacity for strategic investments into social infrastructure and other development projects/programs.
4. Strengthen Human Capital Management in GOCCs through the revitalization of the Compensation and Position Classification System (CPCS) to enable GOCCs to compete with the private sector in recruiting and retaining the right talent.
5. Intensify institutional capacity in searching for strong candidates for directorship in GOCCs and maintain a formidable network/talent pool of professional directors and sustain continuous improvement in Board Governance.

94. **Total liabilities of the government corporate sector in 2013 amounted to P3.598 trillion based on the 2013 COA audited reports** (Table 10). The liabilities of the 14 MNFGCs accounted for 44 percent of the total liabilities or equivalent to 13.9 percent of GDP.

**Table 10. Philippines: Liabilities of the Government Corporate Sector and 14 Major Non-Financial Government Corporations (MNFGCs), 2013**
(in billion pesos, unless otherwise specified)

| Particulars | Total Liabilities | % of GDP |
|---|---|---|
| **TOTAL GOCCs**[41] | **3,598.1** | **31.2%** |
| *Share of 14 MNFGCs (%)* | 43.04% | |
| **TOTAL 14 MNFGCs** | **1,599.9** | **13.9%** |
| | | |
| NPC/PSALM/TransCo [42] | 1,120.92 | |
| NPC | *54.6* | 0.47% |
| PSALM | *921.3* | 7.98% |
| TransCo | *145.1* | 1.26% |
| NFA | 165.8 | 1.44% |
| LRTA | 65.9 | 0.57% |
| NIA | 103.3 | 0.89% |
| HGC | 25.7 | 0.22% |
| PNR | 23.3 | 0.20% |
| MWSS | 17.1 | 0.15% |
| PPA | 11.78 | 0.10% |
| NEA | 22.6 | 0.20% |
| LWUA | 9.2 | 0.08% |
| NHA | 11.3 | 0.10% |
| NDC | 8.5 | 0.07% |
| PNOC and Subsidiaries | 9.8 | 0.09% |
| PEZA | 1.7 | 0.01% |

Source: 2013 COA Audited Reports, comprising 125 GOCCs

95. **The borrowings of the GOCCs were mostly covered by National Government guarantee through the respective charter of the GOCCs or RA 4860, as amended (Foreign Borrowing Act)** (Table 11). The Government had extended guarantees to GOCCs' obligations in order to support the bankability of their investment, or to comply with the requirement of the lending institutions: bilateral or multilateral institutions. The outstanding guaranteed debt declined to 5.6 percent of GDP in 2013 compared to 6.3 percent in 2012.

[41] Excluding the Bangko Sentral ng Pilipinas
[42] NPC, PSALM and Transco are counted as one

**Table 11. Philippines: Outstanding Government Guaranteed Debt to GOCCs, 2013**

| | Amount in Billion Pesos | % of GDP |
|---|---|---|
| **MNFGCs** | | |
| PSALM | 299.35 | 2.6% |
| NFA | 134.82 | 1.3% |
| HGC | 4.19 | 0% |
| LRTA | 6.79 | 0.1% |
| MWSS | 11.28 | 0.1% |
| PPA | 6.61 | 0.1% |
| LWUA | 3.56 | 0.0% |
| NDC | 3.50 | 0% |
| PNR | 1.98 | 0% |
| NPC | 0.90 | 0% |
| NHA | 0.34 | 0% |
| PEZA | 0.15 | 0% |
| NEA | 0.05 | 0% |
| | | |
| **GFIs/SSIs** | | |
| DBP | 61.82 | 0.6% |
| LBP | 22.92 | 0.2% |
| TIDCORP | 1.35 | 0% |
| SBGFC | 1.55 | 0% |
| | | |
| **Others** | | |
| BCDA | 22.62 | 0.2% |
| SBMA | 6.45 | 0.1% |
| MIAA | 4.21 | 0% |
| NLRC (NORTHRAIL) | 2.77 | 0% |
| Partido | 0.27 | 0% |
| TIEZA | 0.33 | 0% |
| **TOTAL** | **597.81** | 5.17% |

*Source: DoF*

**96.** In addition to guarantee on GOCCs' borrowings, the National Government had provided performance undertakings for GOCCs' obligations under Built-Operate-Transfer (BOT) schemes. These were the case of the various power projects of the National Power Corporation/Power Sector Assets and Liabilities Management Corporation and the Casecnan Multi-Purpose Project of the National Irrigation Administration. The total guarantees for these contractual obligations were estimated at P326 billion as of 2013. In the case of PSALM's BOT projects, the contracts entered by PSALM to Independent Power Producer Administration (IPPA) to privatize the underlying BOT agreements, the IPPAs owe PSALM about P380.6 billion as of 2013, and payments on these obligations can be used by PSALM to pay the underlying obligations to the BOT contract counterparties. These underlying obligations remain on PSALM's books until the expiration of the original BOT contracts.

**97. The National Government has a net lending program for GOCCs which extends advances for the debt servicing of the guaranteed GOCCs' obligations to avoid defaulting on guaranteed commitments** (Table 12). The National Government will advance only the repayment of guaranteed obligations or relent loans of a GOCC if there is clear indication of GOCC's insufficient funds to pay the maturing obligations after due evaluation. Policy initiatives were undertaken through more prudent fiscal management reducing the yearly advances to GOCCs. Further reduction of outstanding and future advances are foreseen through implementation of reforms and identification of other sources of repayment from the GOCCs other than cash. Further assessment of provisions in the contract agreements to identify the most cost efficient to the government.

**Table 12. Philippines: Outstanding NG Advances to GOCCs, 2012 – 2014**
*(in billion pesos)*

| Particulars | 2012 | 2013 | 2014 |
|---|---|---|---|
| **Of the 14 MNFGCs** | | | |
| NIA[2/] | 48.06 | 51.56 | 55.12 |
| LRTA | 26.43 | 29.12 | 31.72 |
| PNR | 21.89 | 22.38 | 22.73 |
| NEA | 20.03 | 20.07 | 20.14 |
| NPC/PSALM[3/] | 27.02 | 17.39 | 19.79 |
| NFA | 16.47 | 19.34 | 19.60 |
| NDC | 4.08 | 4.20 | 7.36 |
| HGC | 0 | 12.01 | 11.60 |
| **Other GOCCs** | **20.09** | **25.35** | **28.71** |
| **TOTAL** | **184.07** | **201.42** | **216.77[1/]** |

Source: BTr. Includes interest on NG advances; excludes CB BOL.
1/ Includes P41.54 B interest on NG advances
2/ Represents Casecnan-related accounts
3/ Includes Casecnan-related accounts

98. **The budgetary supports to GOCCs are extended to the priority programs of the government such as health insurance, irrigation and rehabilitation and restoration of calamity-affected areas.** (Table 13). The budgetary flows to the GOCCs are offset by the revenues remitted to the national treasury in the form of dividend, other fees and other form of shares in GOCC revenue. GOCCs contribute significantly in the revenue generation effort of the government as its total remittances represent 23.6 percent of total non-tax revenues in 2014.

**Table 13. Philippines: Net Budgetary Flows to GOCCs, 2012- 2014**
(as percent of GDP, unless otherwise specified)

| Particulars | 2012 | 2013 | 2014 |
|---|---|---|---|
| **I. NG Flows from GOCCs** | **0.4** | **0.3** | **0.3** |
| **(in billion pesos)** | **43.3** | **37.1** | **44.5** |
| Dividend | 0.2 | 0.1 | 0.2 |
| Interest on NG Advances | 0.1 | 0.0 | 0.0 |
| Guarantee Fees Collected | 0.0 | 0.0 | 0.0 |
| Forex Risk Cover Fee | 0.0 | 0.0 | 0.0 |
| NG Share on Net Income | 0.1 | 0.1 | 0.1 |
| Airport Terminal Fee | 0.0 | 0.0 | 0.0 |
| **II. NG Flows to GOCCs** | 0.9 | 0.8 | 0.8 |
| **(in billion pesos)** | **90.9** | **94.4** | **95.6** |
| Subsidy[a/] | 0.4 | 0.6 | 0.6 |
| Equity | 0.2 | 0.1 | 0.0 |
| Net Lending | 0.3 | 0.1 | 0.1 |
| NET NG FLOWS (I-II) | -0.5 | -0.5 | -0.4 |
| In billion pesos | -47.6 | -57.3 | -51.1 |

Source:BTr
a/ excludes tax subsidy – because of its neutral effect since it is considered as both revenue and expenditure of the government

**99.** The NAPOCOR has a contingent liability amounting to P62.0 billion, as demanded by the Ex Officio Sheriffs of the Regional Trial Court of Quezon City, arising from the case of NPC Drivers and Mechanics Association (NPC DAMA) et al. vs. The National Power Corporation, National Power Board of Directors (NPB), et al. The case is under appeal.

## C. PUBLIC PRIVATE PARTNERSHIPS

**100.** **Government initiatives through Public-Private Partnerships (PPP) have been steadily growing over the years.** As of end-July 2015, ten (10) projects (See Table 14) with total project cost of P189.02 billion (USD 4, 200.44 million) are in the implementation stage of the PPP Program launched under the Pres. Benigno Aquino III's watch. Several more projects are expected to be awarded until end-2016.

**Table 14. List of PPP Projects in the Implementation Stage**

| Project | NEDA Board Approved Project Cost (in Billion Pesos) | NEDA Board Approved Project Cost (in USD million)[43] | Implementing Agency |
|---|---|---|---|
| **Daang Hari-SLEX Link Road** | 2.01[44] | 44.67 | DPWH |
| **PPP for School Infrastructure Project Phase I** | 16.43[45] | 365.11 | DepEd |
| **NAIA Expressway Phase II Project** | 15.86 | 352.49 | DPWH |
| **PPP for School Infrastructure Project Phase II** | 3.86[46] | 85.82 | DepEd |
| **Modernization of the Philippine Orthopedic Center** | 8.69[47] | 193.11 | DOH |
| **Automated Fare Collection System** | 1.72 | 38.22 | DOTC |
| **Mactan-Cebu International Airport New Passenger Terminal Building** | 17.52 | 389.33 | DOTC |
| **LRT Line 1 Cavite Extension and O&M** | 64.90 | 1,442.22 | DOTC |
| **Southwest Integrated Transport System** | 2.50[48] | 55.56 | DOTC |
| **Cavite Laguna Expressway Project** | 55.53[49] | 1,233.89 | DPWH |

[43] USD 1 = PHP 45.0
[44] Original project cost as approved by NEDA Board on 8 July 2011 was P1.956 billion. The cost increased to P2.01 billion due to the contingent cost amounting to P50 million as approved by ICC-CC on 29 November 2011
[45] Approved Budget Ceiling (ABC) of the Build-Lease-Transfer (BLT) contract which includes P9.891 billion construction cost approved by the NEDA Board
[46] Original project cost approved by the NEDA Board on 29 November 2012 was P8.8 billion using the Build-Transfer Mode. However, only 2 out of the 5 contract packages were successfully procured amounting to a total of only P3.862 billion
[47] Project cost approved by the NEDA Board on 18 September 2012 was P5.691 billion. This cost does not include the five-year O&M Cash Support amounting to a total of P3.0 billion
[48] Project cost approved by the NEDA Board on 21 November 2013 was P2.5 billion for the Southwest ITS Project only. This cost does not include the 33-year Annual Grantor Payment (assuming 33 years of operation after project completion) amounting to a total of P3.6 billion.
[49] Project cost includes the minimum concession payment of P20.105 billion.

A total of 69[50] PPP projects, estimated at USD 19,512.56 million, have been contracted before this administration (See Annex 1.0). Of these, 29[51] national PPP projects estimated at USD 16,502.66 million and four (4)[52] local PPP projects estimated at USD 43.70 million are either operational or under concession. These projects are related to power, transport, water, and information technology sectors.

While the growing number of projects implemented through the PPP scheme can be seen as a welcome relief from the country's infrastructure backlog, these projects may pose significant fiscal risks.

Contingent Liability (CL) stock[53] arising from PPPs for 2016 is estimated to be at 5.82 percent of the GDP, from 5.34 percent of GDP in 2015. At the same time, potential budgetary outflow is estimated at around 0.14 percent of the GDP.

**101.** Informed of the fiscal risks arising from these contractual arrangements, risk mitigation measures from origination to monitoring have been set in place. These include:

a. **The Generic Preferred Risk Allocation Matrix (GPRAM).** In order to properly allocate risks to those who can best manage them, the GPRM has been adopted. This not only ensures consistency on risk allocation across different projects, but also minimizes potential fiscal exposure.

b. **Creation of Development Budget Coordination Committee (DBCC) Technical Working Group (TWG) on CLs.** Through a DBCC Resolution, the government has created a TWG that will continuously monitor and recommend policies concerning CLs in PPPs. At the same time, this group will be in charge of developing valuation methodologies that aim to guide policy actions.

c. **BOT Law Amendments that provide for the CL Fund**. To ensure that potential calls are well funded, the proposed amendments to the BOT Law will allow the creation of the CL Fund, which will provide a reliable pool from which disbursements on government obligations on liabilities that have materialized can be drawn.

**102. The government has continuously provisioned for potential claims made against existing PPP projects.** For 2015, P30 billion has been included in the Risk Management Program under the Unprogrammed Fund in order to answer to these potential calls.

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[50] 56 of which are national projects (USD 19,450.16 million); while 13 are local government projects (USD 62.40 million).

[51] This does not include four (4) other projects with no available data on the start and end of concession period as of this reporting period.

[52] This does not include seven (7) other projects with no available data on the start and end of concession period as of this reporting period.

[53] The CL stock is given by the maximum exposure of all projects. In the case of legacy projects, the total project cost is used as proxy for the maximum exposure. Note, however, that this approach has the possibility of overstating risks due to the lack of adjustments in estimated termination cost, if government defaults on the project given that the project has already earned and recovered some, if not all of its investments in the project.

103. **Several GOCCs/Implementing Agencies as well as the NG are involved in a number of disputes with operators of joint ventures or PPP projects.** These cases are at various stages of litigation and cover a diverse set of claims and possible resolutions. Among others, these include:

a) **Philippine International Air Terminals Co. Inc.** The Supreme Court ordered the government to pay USD510.3 million to the PIATCO as just compensation for the expropriation of the International Passenger Terminal 3 of the Ninoy Aquino International Airport (NAIA). The amount is under appeal.

b) **Maynilad Water Services, Inc**. Maynilad Water is seeking P3.44 billion in compensation for revenue losses from the non-implementation of tariff increases for the period January 2013 to February 2015. Additionally, Maynilad Water is seeking P208 million for every month of delayed implementation.

c) **Manila Water Company, Inc.** Manila Water is seeking compensation for revenue losses stemming from alleged changes in the implementation of the water concession agreement. Manila Water is seeking compensation of P572 million for 2015 and P79 billion for the period 2016 to the end of the concession period.

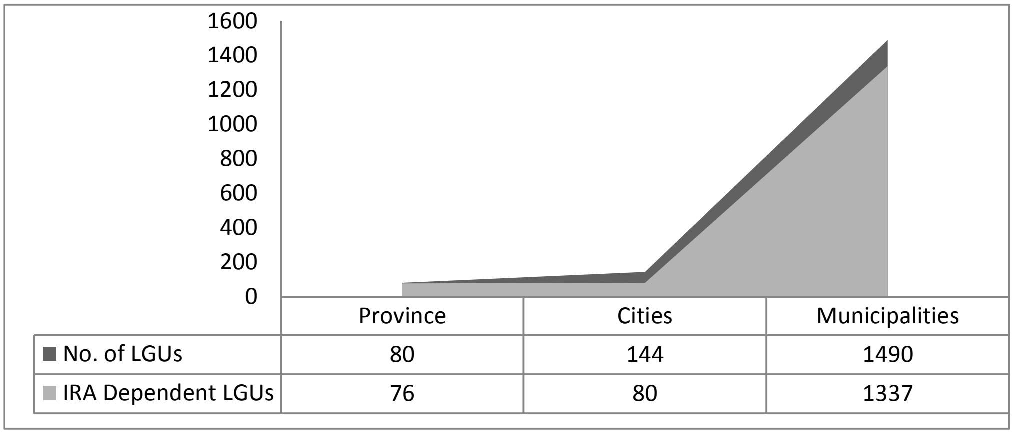
d) **Manila North Tollway Corporation**. Manila North Tollway Corporation sent a Notice of Dispute for non-implementation of the toll rate increases claiming revenue losses of P2.44 billion.

e) **Cavitex Infrastructure Corporation**. Cavitex Infrastructure Corporation sent a Notice of Dispute for non-implementation of the toll rate increases claiming revenue losses of P719 million.

## D. LOCAL GOVERNMENT UNITS (LGUs)/SUBNATIONAL GOVERNMENT

104. **The local government units (LGUs) continued to be largely dependent on central government transfers particularly the Internal Revenue Allotment (IRA).** The IRA remains to be the major source of revenue for LGUs, comprising about 87 percent of their total revenues. Dependence on IRA and other grants at all levels of LGUs remained high as of 2014 – 95 percent for both provinces, and 89.7 percent for municipalities and 55.6 percent for cities, which indicates a need to continuously intensify revenue collection efforts particularly from delinquent taxpayers from provinces and municipalities.

**Local Government Units: IRA Dependency for 2014**




105. **LGU revenue effort has been declining as a percentage to Gross Domestic Product (GDP).** Locally owned-source revenues (OSR) to GDP decreased from 1.21 percent in 2009 to 1.19 percent in 2014. This indicates that the contribution of the LGU's collection from tax and non-tax revenues relative to the country's GDP has been declining through the years, thus showing weak revenue generating capacity.

**Local Government Units: Percentage of OSR to GDP**

| **Year** | **Ratio of Locally Owned-Sourced Revenues to GDP** |
|---|---|
| **2009** | 1.21% |
| **2010** | 1.19% |
| **2011** | 1.21% |
| **2012** | 1.25% |
| **2013** | 1.17% |
| **2014** | 1.19% |

106. **Non-compliance with the regular revision of the Schedule of Market Values resulted to low yield on real property taxes (RPT).** The underperformance of LGUs in revenue collection could be attributed to the outdated and undervalued valuations in real properties, thereby lowering the real property tax base. RPT collection accounts for 30.1 percent of the aggregate locally-sourced revenues of LGUs. Under the Local Government Code (LGC), the RPT should be based on a Schedule of Market Values (SMV) that is fair, current and updated. Provinces and cities are required to update the SMV and conduct a general revision of property assessments and classification once every three years to determine the real value of properties and impose additional Ad Valorem Tax on idle lands as mandated by the LGC. However, several provinces and cities fail to comply with this provision. Records show that 62 out of 80 provinces and 4 in every 5 cities use outdated bases for collecting real property tax. To date, roughly 33 out of 1,715 LGUs or only 2 percent have updated their SMVs and 8 out of these 33 (24 percent) plan to conduct general revision this year. It is estimated that provinces and cities have foregone up

to P9.4 billion and P20.3 billion, respectively in RPT due to outdated SMV and low collection efficiency.

**107. Issuance of Executive Order (EO) 173 series of 2014 can lessen the real property tax base of selected LGUs.** EO 173 provides that all liabilities for RPTs imposed on property, machinery and equipment (including any special levies accruing to the Special Education Fund) actually and directly used by IPPs to produce electricity under Build-Operate-Transfer contracts (whether denominated Power Purchase Agreements, Energy Conversion Agreements or other contractual agreements) with GOCCs, assessed by LGUs and other entities authorized to impose RPT, for all years up to 2014, are hereby reduced to an amount equivalent to the tax due if computed based on an assessment level of 15 percent of the fair market value of the said property, machinery and equipment depreciated at the rate of 2 percent per annum, less any amounts already paid by the IPPs. All fines, penalties and interests on such deficiency RPT liabilities are also condoned as a result and the concerned IPPs are relieved from the said payment thereof. Therefore, the provision will result to an estimated revenue loss of P7.3 billion.

**108. Aggregate local government debt level is low relative to GDP and LGUs do not borrow much for capital investment.** In 2014, the LGUs spent less than one percent of GDP amounting to P16 billion for debt service payments. Based on the proposals submitted to the Bureau of Local Government Finance, most LGUs appear to borrow either for carrying out relatively small projects or meeting occasional cash flow needs. One factor that may explain this phenomenon is the limited functions assigned to LGUs that require infrastructure spending. As of end-December 2014, the total outstanding LGU loans reached at P69.4 billion (based on BSP data).

**109. Revenue eroding measures may adversely affect LGUs through lower IRA.** For instance, Republic Act (RA) 10653 which provides for an increase in the present individual tax exemption cap for 13th month pay and other benefits to P82, 000 from P30, 000, could lower the collection of national internal revenue taxes for the BIR from which LGUs have a 40 percent share under Section 284 of RA 7160. Hence, this decrease, which will start affecting the IRA on the third fiscal year after the implementation of the said law will result to lower IRA of LGUs and to a great extend will negatively affect the delivery of basic public services that LGUs fund through the IRA.

Moreover, the proposed bills on income tax reform will seek to reduce the individual income tax rates, which in the long run shall likewise reduce both the revenue of National Government and the IRA of LGUs

**110. Man-made and natural disasters that struck the country in the last two years have eroded the local revenue situation of severely affected LGUs.** The disasters that have occurred in the country have had a severe economic impact and financial implications on the affected LGUs. The short-term impact would entail budgetary pressure while the long-term impact on the LGUs' finances would be on rehabilitation and recovery.

The consequences of Typhoon Yolanda, the Bohol Earthquake, and the Zamboanga Siege, and other similar conflicts and disasters remain felt by LGUs adversely affected by these events, resulting in a fall in economic activity and fiscal performance.

The destruction wrought by Typhoon Glenda (international name Rammasun) in 2014 to the affected LGUs triggered the release of funds to typhoon-stricken communities resulting in a massive outflow of funds for relief and rehabilitation. As further rehabilitation of affected communities is of utmost importance, the fiscal cost entails for rebuilding efforts is quite critical.

***Risk Mitigation Measures***

**111.** The following are activities in the pipeline to improve fiscal and financial management in the local governments under the LGU Reforms Agenda of the BLGF and in general to promote the spirit of good governance and nation building:

**Professional Development for Local Assessors and Treasurers**

**a. Institutionalization of Continuing Professionalization Education (CPE) and Capacity Building for Local Assessors.** The BLGF as a Continuing Professional Development (CPD) Institutional Service Provider facilitated the formulation and accreditation of three (3) courses on Valuation namely:

a.1 Philippine Valuation Standards (PVS)

a.2 Basic Course on Mass Appraisal (BCMA)

a.3 Skills Development in SMV Updating and Conduct of General Revision

The continuing conduct of the CPE aims to help LGUs improve their valuation and assessment operations and support local assessors and appraisers in the renewal of their Real Estate Service Act (RESA) licenses.

**b. Local Treasury Examination is a two-track approach to further professionalize the local treasury service.** The first track entails the conduct of a one-time diagnostic examination to gauge competencies, knowledge and operational skills of the local treasurers. The other track consists of a special examination intended as additional criteria in the selection screening process for the appointment of treasurers. The terms of reference for the engagement of Non Key Experts to develop the examination have been drafted.

**Continuous Reinvention of the Local Treasury and Assessment Office through Innovative Capacity Building and Development/ Implementation of Standards**

**c. The implementation of Performance Standards shall be adopted to formulate the criteria and system on the regular performance appraisal of local treasurers and assistant treasurers.** The Performance Standards comprise of a set of Operational Performance Goals (OPG) that measures the technical knowledge and skills of treasurers.

A clear-cut set of goals will build and sustain a results-oriented performance, and forster a more competitive culture among local treasurers and assistant treasurers. In itself, this will form the basis of appointment and other personnel action, such as endorsement, renewal of designation, extension of service, accountability assessment, awards and recognition, capacity building interventions, pursuant to existing rules and regulation. The BLGF shall undertake regular monitoring and performance evaluation in a transparent, impartial, open and synchronized process.

**d. The institutionalization of LGUs Fiscal Sustainability Scorecard (FSS) shall be applied to all LGUs to measure the quality of fiscal and financial management, level of efficiency, innovativeness in resource mobilization and expenditure management.** The FSS can aid in promoting good governance at all levels by rigorously assessing the fiscal performance of provinces, cities and municipalities based on set fiscal indicators such as using the Statement of Receipts and Expenditures (SRE) and other official reports regularly submitted by local treasurers and assessors. Areas for evaluation include the LGUs' capacity to generate revenues, grow the local collection growth, manage expenditures, and comply with reports. With this, all LGUs are enjoined to improve their revenue collection efforts and maximize their income generation mandates.

Through the "Iskor ng 'yong Bayan" website, the results from the LGU FSS will be published together with the various BLGF's various publications under the LGU Tax Watch Campaign. The campaign will serve as a challenge LGUs to undertake a renewed commitment for better performance with the set benchmarks and the performance of model LGUs, all while advocating greater transparency by making their fiscal information accessible to local constituents.

**e. Fine-tuning requirements for LGUs' eligibility for borrowing through creditworthiness rating.** In order to ensure the continued health of LGUs that access the financial market, the BLGF strongly considers a creditworthiness rating assessment as a means to screen LGUs and regulate borrowings.

The major areas to be assessed in this system are the following:

e.1 Revenue Generation Capacity, which will evaluate the ability of the LGU to improve its revenue base, nature, reliability, predictability, as well as keep the stability of income sources and efficiently mobilize revenues;
e.2 The Rigidity of Expenditure, which will measure the LGUs' capability to be flexible on expenses relatively on personal and debt services;
e.3 Financial Management Capacity, which will assess the LGUs capability to manage available financial resources;
e.4 Investment and Debt Capacity, which determine the LGUs' capability to service outstanding obligations and foster economic growth under their jurisdiction; and
e.5 Repayment Experience, which will measure the LGUs ability to pay their debt on time.

**Policy Development and Operational Effectiveness**

a. The BLGF supports the proposed Valuation Reform Act, which when passed will implement international benchmarks standards, policies and guidelines on the real property valuation; and ascertain the conformity of LGUs to the regular revision of SMV and to the valuation standards. These initiatives will strengthen the capacity of the LGUs to generate more revenues from RPT, thereby reducing their dependency on central transfers. Moreover, this will stimulate the market for real property, improving its contribution to local revenue.

b. The continuous monitoring of LGU compliance to Joint Memorandum Circular (JMC) No. 2010-01 for the regular revision of the SMV and property assessments and classification, and JMC No. 2010-02 for the reinforcement on the imposition of "additional ad valorem tax on idle lands" promotes productive and responsive land ownership. These initiatives empower LGUs not only in mitigating potential risks but also in managing their resources and strengthening their fiscal position, hence to making them less dependent on their IRA.

c. Through the issuance of Local Finance Circular No. 01-014, the BLGF has reduced the documentary requirements of Yolanda -affected LGUs, providing them an easier access to credit for the augmentation of funds for rehabilitation and reconstruction works and allowing them to extend the validity of their certification. With this circular, concerned LGUs have an easier access to credit financing.

d. The BLGF continues to lobby for the urgent passage of the LGU Income Classification Bill. This measure will allow greater benchmarking of revenue capacities of LGUs in relation to the assistance need for LGUs on a slower development track.

## E. NATURAL DISASTERS

***Impact of Disasters on the Philippine Economy***

112. **Total damages to infrastructure and agriculture, and indirect economic losses wrought by the three major typhoons in 2014 amounted to P53,420.14 million, or about 0.432 percent of GDP.** This is estimated to have reduced the country's real GDP growth by 0.283 percentage point. Typhoon Glenda, which hit the country in July 2014, inflicted the biggest damage particularly in Regions I, III, IV-A, IVB, V, VIII and NCR. Recorded damages and losses from Glenda were estimated at P45.7 billion, excluding indirect economic costs. On the other hand, Tropical Typhoon Luis and Tropical Storm Mario inflicted losses in Regions I, II, III, IV-A, IV-B, V, VII, CAR and NCR in September 2014. The combined damages and losses are pegged at P7.7 billion (see Table 15 below).

**Table 15. Philippines: Impact of Disasters on the Economy, 2014[54]**

| Disaster/Event (Dates of Occurrence) | Affected Regions | Direct Damage and Losses (Php, Mln) | Indirect Losses (Php, Mln) | Total Damage and Losses (Php, Mln) | Total Direct Damage and Losses as % to GDP | Total Indirect Losses as % of GDP | Total Damage and Losses as % to GDP | Impact to GDP |
|---|---|---|---|---|---|---|---|---|
| **ALL TYPHOONS** | | 42,960.54 | 10,459.59 | 53,420.14 | 0.348 | 0.085 | 0.432 | **-0.283** |
| **Typhoon Glenda (23-17 July 2014)** | Regions I, III, IV-A, IV-B,V, VIII and NCR | 38,675.11 | 7,055.13 | 45,730.25 | 0.313 | 0.057 | 0.370 | **-0.248** |
| **Typhoon Luis (12-15 September 2014) and Typhoon Mario (17-22 September 2014)** | Regions I, II, III, IV-A,IV-B, V, VII, CAR and NCR | 4,285.43 | 3,404.46 | 7,689.89 | 0.035 | 0.028 | 0.062 | **-0.035** |

*Source: National Disaster Risk Reduction and Management Council (NDRRMC) Situation Report; NEDA Regional Development Staff (RDS) estimate*

### Risk Mitigating and Disaster Preparedness Measures

**113.** As gleaned from experiences in past disasters that struck the country and the importance of investing in risk reduction, the NDRRMC has institutionalized the Pre-Disaster Risk Assessment - Actions, Protocols and Programs (PDRA-APP), a tool that provides "hazard specific and area focused" assessments prior to the onslaught of an event, to guide concerned national government agencies and LGUs in preparing for and responding to potential hazards and threats.

As part of disaster risk mitigation, the government has embarked on science-based hazard and risk assessments for both geologic and hydrometeorologic hazards. Maps produced by agencies such as DOST, PAGASA, Phivolcs, and DENR-MGB are used by LGUs in preparing or updating their Comprehensive Land Use Plans (CLUPs) and other activities to prepare for disasters.

The NEDA has assisted provinces in crafting their DRR-enhanced Provincial Development and Physical Framework Plans (PDPFPs), where 75 out of the 81 provinces were able to completed their plans. These DRR/CCA-enhanced PDPFPs will guide local officials and other stakeholders on how to address disaster risk and climate change vulnerability concerns.

**114. The Philippines' vulnerability to natural disasters have been highlighted by the string of increasingly devastating typhoons over the last few years.** Typhoon Yolanda (Haiyan) in 2013 is considered to be the deadliest in Philippine history claiming 6,340 lives and costing the economy an estimated P571 billion in damages and losses.

Given this, the Department of Finance in 2014 organized its initiatives in financial resiliency around a three-level approach: (i) National, (ii) Local Government, and (iii) Individual level. Broadly, the initiatives under these levels are as follows:

[54] Based on NDRRMC's Final Report on Typhoon Glenda, Situation Report No. 12 (as of 19 September 2014) on Typhoon Luis, and Situation Report No. 17 (as of 30 September 2014) on Tropical Storm Mario.

**National Level:** Improve the financing of post-disaster emergency response, recovery, and reconstruction needs.

i. Quantifying and clarifying the contingent liabilities faced by the government;
ii. Acquiring contingent credit lines to protect against moderate disasters; and
iii. Using risk transfer to access international private reinsurance and capital markets.

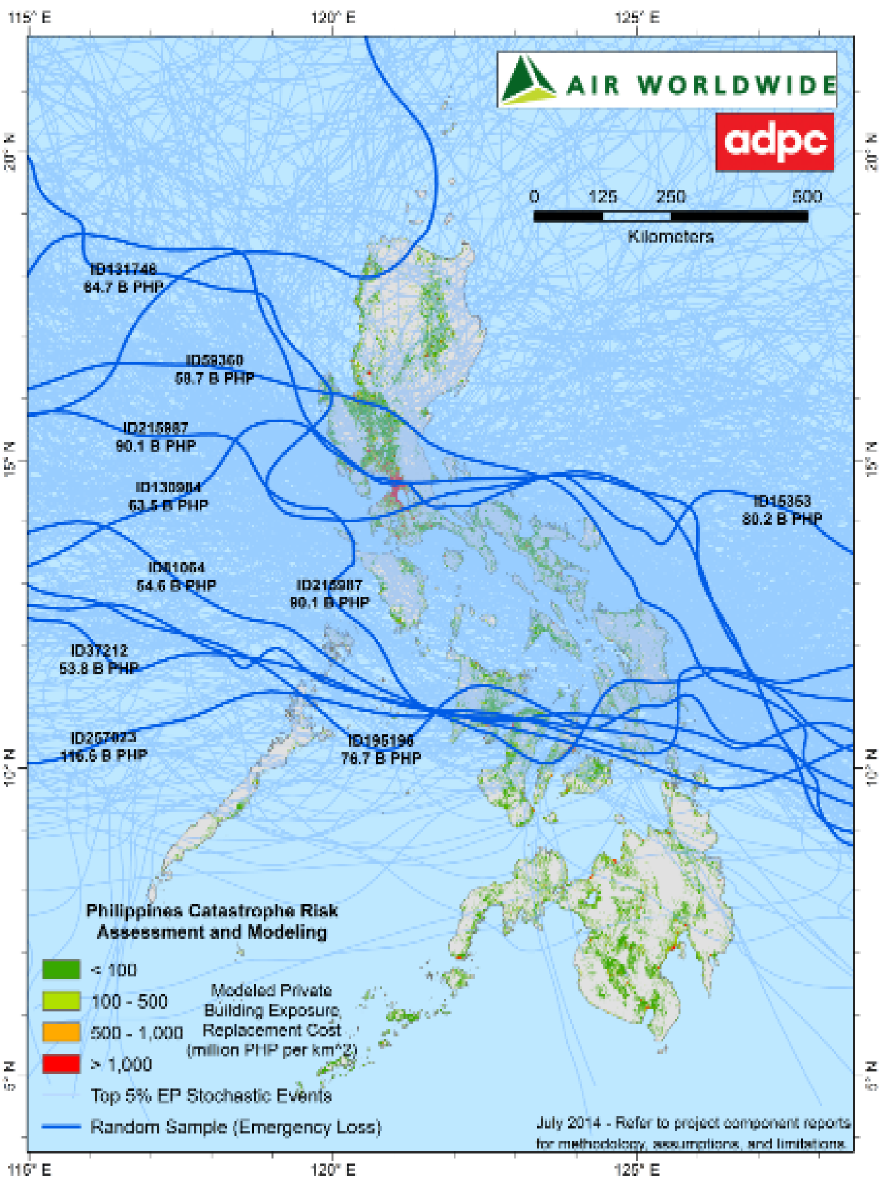
**Local Level:** Provide local governments with funds for post disaster recovery and reconstruction efforts.

i. Developing a catastrophe risk insurance facility for local government units;
ii. Pooling local governments' calamity funds; and
iii. Improving insurance of public assets.

**Individual Level:** Empower poor and vulnerable households and small and medium-sized enterprises to quickly restore their livelihoods after a disaster.

i. Broadening the coverage of private property catastrophe risk insurance and micro-insurance; and
ii. Linking disaster risk financing and social protection.

**Figure 3. Philippines Catastrophe Risk Assessment and Modelling**




**115. Common among these initiatives is the need to provide quick disbursing risk-transfer solutions.** For the national and local government level this was made possible by the completion of a catastrophe risk model for the country completed in May 2014. The model generates potential disaster scenarios and corresponding damage estimates, including the necessary relief expenditures to adequately handle the emergency needs of the affected population after suffering losses similar to Haiyan (see figure 3). These results are absolutely necessary in structuring parametric risk transfer products which can disburse funds much quicker than the traditional indemnity insurance.

**116.** In 2010, it was estimated by the Climate Vulnerable Forum's DARA Report that climate change claims that lives of 400,000 people a year, 90% of whom come from developing countries, many of which comprise the Vulnerable 20 (V20) Group of

Nations. [55] A 2014 UN report counts that climate change displaced 22 million people, 19 million of whom come from Asia, 1.4 million of whom was displaced by Typhoon Haiayn alone. [56] The figures on economic losses are likewise astounding—the World Bank said that in the last four decades, weather-related disasters were reported to have increased nearly five-fold, with economic losses increasing from about USD150 billion in the 1970s to USD850 billion in the last decade. [57]

The V20Group of Ministers of Finance was born out of the Climate Vulnerable Forum, specifically the Costa Rica Action Plan, which emphasised Finance as a main tool to combat Climate Change. The V20 was created to promote climate finance mobilization; to share and exchange best practices on economic and financial aspects of climate action; to develop and implement improved and innovative approaches; and to engage in advocacy and other joint actions.

On 8 October 2015, during its Inaugural Meeting in Lima, Peru, the V20 Group of Finance Ministers decided to develop and apply innovative fiscal measures. They voiced support for an international financial transaction tax to aid the mobilization of additional resources for the fight against climate change. They also called for improved access to international climate change finance for adaptation and mitigation action, the fulfilment of the USD100 billion commitment to the Green Climate Fund, and acceleration towards a 50:50 balance in resources mobilized given prevailing shortfalls for initiatives to adapt to climate change.

A Working group of the V20 commenced immediate follow-up to begin implementation of the first Action Plan, progress on which will be presented at the UN Climate Change Conference at Paris (COP21) later this year. The V20 statement said COP21 must deliver "an agreement entirely consistent with the non-negotiable survival of our kind," while highlighting the significance of a strengthened below 1.5C temperature goal.

Afghanistan, Bangladesh, Barbados, Bhutan, Costa Rica, Ethiopia, Ghana, Kenya, Kiribati, Madagascar, Maldives, Nepal, Philippines, Rwanda, Saint Lucia, Tanzania, Timor-Leste, Tuvalu, Vanuatu and Vietnam are the member nations of the V20.

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[55] Climate Vulnerable Forum-backed Climate Vulnerability Monitor: A Guide to the Cold Calculus of a Hot Planet, conducted by the DARA Institute: http://www.daraint.org/wp-content/uploads/2012/09/CVM2ndEd-FrontMatter.pdf

[56] UN-backed Global Estimates 2014: People Displaced by Disasters report, conducted by the Norweigian Refugee Council's Internal Displacement Monitoring Centre (IDMC): http://reliefweb.int/sites/reliefweb.int/files/resources/201409-global-estimates.pdf

[57] http://www.worldbank.org/content/dam/Worldbank/document/Full_Report_Vol_2_Turn_Down_The_Heat_%20Climate_Extremes_Regional_Impacts_Case_for_Reselience_Print%20version_FINAL.pdf

## 2014 Supplemental Budget

| PARTICULARS | PROGRAM/PROJECT | AMOUNT |
|---|---|---|
| COP-HoR | | 320.2 |
| | Completion of the Legislative Library and Archives Building/Congressional E-Library | 250.0 |
| | Expenses of the Ad-Hoc Committee on Bangsamoro Basic Law and Printing of the 2015 GAB | 70.2 |
| DENR | | 189.2 |
| Osec | Payment for the Actual Services Rendered by the 294 Hired Bantay Gubat | 11.2 |
| EMB | Remediation of the San Mateo Sanitary Landfill | 178.0 |
| DOF | | 936.0 |
| Osec | Phase 2 of the Renovation of DOF-Osec Property | 32.2 |
| BTr | Additional CO and MOOE for the Implementation of the TSA | 803.4 |
| | Budgetary Shortfall for Transaction Fees and Charges as a Result of the Implementation of the TSA | 100.4 |
| DILG | | 3,032.4 |
| BFP | Transition Investment Support Plan - ARMM Procurement of 33 Firetrucks | 199.2 |
| PNP | Operational Transformation Plan for the PNP | 2,833.3 |
| DOJ-Osec | Transfer of Quezon City Prosecutors and Public Attorney's Offices, Including the Provision for Electrical Connection, Water Connection, PABX Telephone Rack Installation and Structured Cabling | 10.5 |
| DOST-ICTO | Acquisition of 15,000 Units of Personal Computers | 300.0 |
| DPWH-Osec | | 2,702.7 |
| | Obligations Arising from Implemented Infrastructure Projects | 1,902.7 |
| | Completion of Development Assistance to the Province of Quezon | 240.0 |
| | Construction of New Bohol Provincial Capitol to Replace Condemned Building | 350.0 |
| | Retrofitting of the PMS Office Building | 210.0 |
| DSWD-Osec | | 4,027.0 |
| | Updating of the NHTS-PR | 1,942.5 |

| | | |
|---|---|---|
| | Emergency Shelter Assistance for Victims of Typhoon Yolanda | 2,084.5 |
| DOTC-Osec | MRT3 Rehabilitation and Capacity Extension, Including Total Replacement of the Existing Signaling System and Rehabilitation of Escalators and Elevators | 1,207.2 |
| LRTA | Rehabilitation of LRT Lines I and 2 | 727.7 |
| MCIAA | Construction of Mactan-Cebu International Airport Presidential and Dignitaries (PAD) Lounge Building | 118.6 |
| NEA | Installation of 10-Megavolt Amperes Substation in Sto. Domingo, Albay | 32.6 |
| NHA | | 8,286.7 |
| | Construction of 27,313 Units of Permanent Housing for Victims of Typhoon Yolanda | 8,000.0 |
| | Implementation of the North Triangle Relocation Project | 286.7 |
| PCA | Coconut Scale Insect Emergency Action Plan | 340.3 |
| PFDA | Construction of Fishport, Lighthouses and Seawalls | 196.4 |
| PIDS | Provision for Rent of Office Space During Pendency of Construction of PIDS' New Building | 40.2 |
| TOTAL | | 22,467.6 |

**MASTERLIST OF BOT PROJECTS**

National Projects*

## ANNEX B

| No. | Project Title | Brief Description | Implementing Agency/LGU | Private Proponent | Estimated Cost (in US$ M) | Procurement Mode | PPP Scheme | Sector | Site/Location | Duration | | | | Project Status |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | Years | Start of Concession Period | End of Concession Period | Start of Commercial Operation | |
| 1 | Civil Registry System | The project involves the computerization of the Civil Registry Operation of the National Statistics Office that is designed to collect, store and manage civil registry documents, and specimen signatures of all city and municipal registrars, including all authorized signatories, using imaging technology. | NSO | Unisys (PHL) | 65.00 | Solicited | BTO | Information Technology | Nationwide | | | * | | Operational; Establishment of Serbilis Centers had been reduced from the contract provision (Section 3.5 and Annex 1.) NSO and Unysis made the agreement without the ICC information or approval. (As of May 2009) |
| 2 | Database Infrastructure and Information Technology System | The project involves the design, installation, adaptation, customization, completion, testing and commissioning, operation and maintenance of the entire information system that is constructed and installed in accordance with the BOO Agreement and is capable of operating in accordance with the Operating Parameters. | LTO | STRADEC/CONFAC Corp/NCR (PHL) | 75.00 | Solicited | BOO | Information Technology | Nationwide | | March 2003 | March 2013 | | Operational (as of May 2009) |
| 3 | Alien Certificate of Registration(ACR) Smart Card Project | The project involves the automation of the registration and issuance of various documentations to aliens, and endorsement of various reports to BI officials that will provide an accurate and tamper resistant identification system (smart card and biometrics). | BI | J. Serrano Trading Corporation (PHL) | 2.8 | Unsolicited | BOT | Information Technology | Metro Manila (NCR) | | March 2004 | January 2026 | | Operational (as of May 2009) |
| 4 | Land Titling Computerization Project | The project involves the design, development, construction of the computerized land titling system and all interfacing sub-systems, and provision of IT services such as business process re-engineering and project management and financing | LRA | STRADEC/Unisys/ F.F. Cruz/ COMFAC (PHL) | 82.00 | Solicited | BOO | Information Technology | Nationwide | | July 2009 | July 2020 | | Operational (as of June 2015) |
| 5 | PhilPost ICT/E-Commerce Project | The project includes applications development, supply of necessary hardware and software, and connectivity among PhilPost offices. The Systems to be installed in designated PhilPost offices nationwide will be linked to the database and application servers housed at the Head Office. New services such as hybrid mail, card issuance and Voice-over-Internet Protocol (VoIP) will be introduced to augment revenue from traditional mails. | Philippine Postal Corp. | ROA Sysytems, Inc. | 64.00 | Unsolicited | BLT | Information Technology | Nationwide | | August 2003 | August 2012 | | Notice to Proceed was issued on 1 September 2006; Proponent is still negotiating with JBIC for financial closure. (as of May 2009) |
| 6 | Benguet Province Mini Hydro Power Plants | The project involves the generation and sale of electric power to the National Power Corporation (NPC) at the point of delivery in the Ampohaw Mini-Hydro Power Plant. | NPC | Hydro Electric Dev't. Corp. (PHL) | 22.00 | Solicited | BOO | Power | Benguet (CAR) | 25 | January 1993 | Januray 2018 | | Operational |
| 7 | Pagbilao Coal-Fired Power Plant | The project involves the design, supply, delivery, installation/erection, and operation, including civil works, testing and commissioning, of a 700 MW Coal-Fired Thermal Power Station consisting of 2 X 350 MW generating units. | NPC | MIRANT (PHL) | 888.00 | Solicited | BOT | Power | Quezon (R4A) | 29 | June 1996 | August 2025 | I - June 1996<br>II - March 1996 | Operational |
| 8 | Mindanao I Geothermal Plant | The project involves the financing, design, manufacturing, supply, delivery, installation/erection, operation and maintenance, including civil works, testing and commissioning of an approximately 47 MW net Geothermal Power Plant in Mt. Apo. | PNOC-EDC | Oxbow/ Marubeni (USA/Japan) | 79.57 | Solicited | BOT | Power | Kidapawan City (R12) | 25 | February 1997 | February 2022 | | Operational |
| 9 | Mindanao II Geothermal Plant | The project involves the financing, design, supply, construction, testing, commissioning, operation, maintenance and repair of an approximately 48.25 MW net Geothermal Power Plant in Mt. Apo. | PNOC-EDC | Oxbow/ Marubeni (USA/Japan) | 72.31 | Solicited | BOT | Power | Kidapawan City (R12) | 25 | June 1999 | June 2024 | June 1999 | Operational (as of May 2009) |
| 10 | Leyte-Cebu Geothermal Power Plant | The project involves the financing, design, supply, construction, testing and operation of an approximately 200 MW gross geothermal Power Plant, to be installed on the Site, whose net generation shall be delivered to NPC on behalf of PNOC-EDC during the Cooperation period. | PNOC-EDC | California Energy (USA) | 305.53 | Solicited | BOT | Power | Northern Leyte (R8) | 25 | July 1996 | July 2021 | | Operational; Ownership transferred September 2007 from CalEnergy to PNOC-EDC (as of May 2009) |
| 11 | Zamboanga Diesel Power Plant | The project involves the financing, design, construction, erection, testing, commissioning, operation and maintenance of a bunker-C fired diesel generating power station and the Transmission Line Facilities. | NPC | ALSONS/ Tomen (PHL/Japan) | 110.00 | Solicited | BOO | Power | Zamboanga (R9) | 18 | December 1997 | December 2015 | December 1997 | Operational (as of May 2009) |
| 12 | General Santos Diesel Power Plant | The project involves the financing, design, construction, erection, testing, commissioning, operation and maintenance of a bunker-C fired diesel generating power station with Black Start Capability and the Transmission Line Facilities. | NPC | ALSONS/ Tomen (PHL/Japan) | 60.00 | Solicited | BOO | Power | Sarangani (R11) | | April 1998 | April 2016 | | Operational (as of May 2009) |
| 13 | Leyte-Luzon Geothermal Power Plant (Malitbog-Mahanagdong) | The project involves the financing, design, supply, construction, testing and operation of 200 MW power plants which utilize geothermal in the Greater Tongonan area of Leyte, comprising the Upper Mahiao and Malitbog sectors. | PNOC-EDC | California Energy (USA) | 630.45 | Solicited | BOT | Power | Leyte (R8) | 25 | July 1997 | July 2022 | | Operational; Ownership transferred last September 2007 from CalEnergy to PNOC-EDC (as of May 2009) |
| 14 | Sual Coal-Fired Thermal Power Plant | Installed with Flue Gas Desulfurization (FGD) technology, the station is capable of removing sulfur dioxide from the flue gas stream. An Electrostatic Precipitator also cleans the flue gas stream of particulate matter of up to submicrometer size. Improved combustion also minimizes NO emissions. Leachate control technology is also being utilized for the coal yard and ash disposal site. These technologies help minimize the environmental impact of the Sual Power Station. In addition, Southern Energy conducts environmental, socio-economic and public health survey/monitoring in compliance with the ECC issued by EMB. | NPC | MIRANT (PHL) | 1200.00 | Solicited | BOT | Power | Pangasinan (R1) | 25 | May 1994 | May 2019 | October 1999 | Operational |
| 15 | Bakun A/B and C Hydro Power Plant | The Bakun Hydroelectric Power Project is a 70 MW run-of-river development located in the southern part of the Central Cordillera Mountains along the major tributary of Amburayan River. | NPC | Luzon Hydro Corporation (PHL) | 83.00 | Solicited | BOT | Power | Benguet (CAR) /Ilocos Sur (R1) | 25 | February 2001 | February 2026 | | Operational |

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| 16 | Ilijan Natural Gas Combined Cycle Power Plant | The 1200 MW Ilijan Natural Gas Combined Cycle Power Plant, is a flagship project of the Philippine Government that will utilize natural gas from the Camago-Malampaya fields in Palawan. It is intended to meet the evergrowing baseland power demands of the country.<br><br>The project involves the financing, design, permitting, site survey, development, and investigation, manufacture, transport, construction, installation/erection, completion, testing, commissioning, operation, & maintenance of a 1,200 MW natural gas fired combined cycle power plant located in Barangay Ilijan, Batangas City. To ensure that the Power Station can achieve the annual Guaranteed Net Contracted Net Capacity (GNCC) of 1,200MW over the 20 year cooperation period, the Power Station shall have a design life of 25 years, a Rated Capacity greater than 1,200MW to take care of the station service requirement, generation losses and anticipated capacity degradation. | NPC | KEPCO<br>(South Korea) | 960.00 | Solicited | BOT | Power | Batangas<br>(R4A) | 20 | June 2002 | June 2022 | June 2006 | Operational |
| 17 | San Roque Multi-purpose Hydroelectric Powerplant | San Roque Multipurpose Project (SRMP) is a publicly bid project with a 345 MW capacity. This primarily aims to utilize the water of Agno River for power generation and irrigation. This multipurpose project of NPC is in collaboration with a foreign consortium company comprised of Sithe Energies with 51% shareholding, Kansai Electric Co. with 7% and Marubeni with 42%. The power plant will generate 1,065 GWH of energy annually and will serve as peaking plant operating 8 hours a day for the system. Interconnection will be through the San Manuel Substation approximately 10 kms. from the plant through a 230 kV Transmission Line. | NPC | Marubeni/Kansai Electric Power Inc./Sithe Energies, Inc.<br>(Japan/USA) | 1141.00 | Solicited | BOT | Power | Pangasinan<br>(R1) | 25 | September 2006 | September 2031 | | Operational |
| 18 | Caliraya-Botocan-Kalayaan (CBK) Power Plant Project | | NPC | IMPSA<br>(Argentina) | 450.00 | Unsolicited | BROT | Power | Laguna<br>(R4A) | 25 | February 2001 | February 2026 | C - Februaru 2002<br>B - June 2002<br>KI - July 2004<br>KII - July 2004 | Operational |
| 19 | Mindanao Coal-Fired Thermal Power Plant | The project involves site survey and investigation, design and development, equipment supply, construction, completion, testing, commissioning of a 200MW Coal Fired Thermal Power Plant. It also includes the construction of access roads, the ash disposal sites, the pipelines and the transmission line. | NPC | Harbin/ State Investment<br>(China) | 310.00 | Solicited | BOT | Power | Misamis Oriental<br>(R10) | 25 | September 2006 | September 2031 | | Operational (as of May 2009)<br><br>Commercial in-service date: 8 January 2007 |
| 20 | Bataan EPZA Diesel Plant | | NPC | Edison Global<br>(Hong kong) | 31.00 | | BOO | Power | Bataan<br>(R3) | 10 | June 1994 | June 2004 | June 1994 | |
| 21 | Bauang La Union Diesel Power Plant | | NPC | First Private Power Corp.<br>(PHL) | 200.00 | Solicited | BOT | Power | La Union<br>(R1) | 15 | July 1995 | July 2010 | July 1995 | |
| 22 | Calaca, Batangas Diesel Power Barges | | NPC | Far East Levingston<br>(Singapore) | 78.00 | | BOO | Power | Batangas<br>(R4A) | 5 | January 1993 | January 1998 | September 1993 | |
| 23 | Cavite EPZA Diesel Plant | | NPC | Magellan Cogen Utilities<br>(PHL) | 22.0 | | BOT | Power | Cavite<br>(R4A) | 10 | December 1995 | December 2005 | December 1995 | |
| 24 | Clark Air Base Diesel Plant | | NPC | Electrobus<br>(PHL) | 4.50 | | ROM | Power | Pampanga<br>(R3) | 7 | July 1997 | July 1999 | July 1992 | |
| 25 | Engineering Island Power Barge | | NPC | Sabah Shipyard SDN.BHD<br>(Malaysia) | 30.00 | | BOO | Power | Metro Manila<br>(NCR) | 5 | October 1994 | October 1999 | October 1994 | |
| 26 | Iligan City Diesel Plant I | | NPC | ALSONS/ Tomen<br>(PHL/Japan) | 60.00 | | BOT | Power | Iligan City<br>(R12) | 10 | July 1993 | July 2003 | July 1993 | |
| 27 | Iligan City Diesel Plant II | | NPC | ALSONS/ Tomen<br>(PHL/Japan) | 40.00 | | BOT | Power | Iligan City<br>(R12) | 12 | December 1993 | December 2005 | December 1993 | |
| 28 | Leyte-Luzon Geothermal Power Plant<br>(Leyte Geothermal Power Optimization) | | PNOC-EDC | California Energy<br>(USA) | 46.00 | Solicited | BOT | Power | Leyte<br>(R8) | 25 | August 1994 | August 2022 | | |
| 29 | Limay, Bataan Combined Cycle Gas Turbine Power Plant Block A | | NPC | ABB/ Marubeni /Kawasaki<br>(Swiss/Japan) | 298.00 | | BTO | Power | Bataan (R3) | 15 | October 1994 | October 2009 | SC - October 1994<br>CC - April 1994 | |
| 30 | Limay, Bataan Combined Cycle Gas Turbine Power Plant Block B | | NPC | ABB/ Marubeni /Kawasaki<br>(Swiss/Japan) | 350.00 | | BTO-OMR | Power | Bataan (R3) | 15 | October 1994 | October 2009 | SC - December 1994<br>CC - November 1993 | |
| 31 | Makban Binary Geothermal Plant | | NPC | Ormat Inc.<br>(USA) | 33.00 | | BTO | Power | Laguna (R4A) | 10 | March 1994 | March 2004 | | |
| 32 | Malaya Thermal Power Plant | | NPC | KEPCO<br>(South Korea) | 250.00 | | ROMM | Power | Rizal (R4) | 15 | June 1995 | June 2010 | September 1995 | |
| 33 | Mindanao Diesel Power Barges | | NPC | Mitsui/BWSC<br>(Japan/Denmark) | 335.00 | | BTO-ESOM | Power | Davao (R11) & Agusan (R12) | 15 | April 1994 | April 2009 | I - March 1994<br>II - August 1994 | |
| 34 | Naga Thermal Plant Complex | | NPC | Salcon Consortium<br>(PHL) | 60.00 | | ROMM | Power | Cebu (R7) | 15 | March 1994 | March 2009 | CTTP 1 - June, 1997<br>CTTP 2 - January 1995<br>CDPP - December 1995<br>LBGT 1 - December 1994<br>LBGT 2 - November 1994 | |
| 35 | Navotas Diesel Power Barge 1 & 2 | | NPC | Van Der Horst Ltd. (Hong Kong)/Pioneer Power Projects, Inc.<br>(PHL) | 110.00 | | BOO | Power | Metro Manila<br>(NCR) | 5 | | | September 1994 | |
| 36 | Navotas Gas Turbine 1-3 | | NPC | Hopewell Holdings Ltd.<br>(Hong Kong) | 40.00 | Solicited | BOT | Power | Metro Manila<br>(NCR) | 10 | January 1993 | January 2003 | January 1991 | |
| 37 | Navotas Gas Turbine 4 | | NPC | Hopewell Energy Int'l Ltd.<br>(Hongkong) | 40.00 | Solicited | BOT | Power | Metro Manila<br>(NCR) | 12 | March 1993 | March 2005 | March 1993 | |
| 38 | North Harbor Diesel Power Barges | | NPC | Far East Levingston<br>(Singapore) | 78.00 | | BOO | Power | Metro Manila<br>(NCR) | 5 | July 1994 | July 1999 | July 1994 | |

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| 39 | Pinamuncan, Batangas Diesel Power Plant | | NPC | Enron Power Development Co. (USA) | 120.00 | | BOT | Power | Batangas (R4A) | | | | | |
| 40 | Subic, Zambales Diesel Power Plant I | | NPC | PRISMA Energy Phils. Corp. (PHL) | 4.00 | | ROM | Power | Zambales (R3) | 5 | January 1993 | July 1998 | January 2003 | |
| 41 | Subic, Zambales Diesel Power Plant II | | NPC | PRISMA Energy Phils. Corp. (PHL) | 120.00 | | BOT | Power | Zambales (R3) | 15 | March 1994 | March 2009 | February 1994 | |
| 42 | Toledo Cebu Coal Thermal Plant | | NPC | Atlas Cons. Mining & Dev't. Corp. (PHL) | 35.00 | Solicited | ECA | Power | Toledo City (R7) | 10 | February 1993 | February 2003 | February 1993 | |
| 43 | Samal Island Resort Estate Dev't. | One of the flagship programs of the Philippine Government, as embodied in the Tourism Master Plan. The resort estate has a total land area of not more than 6,000 hectares, composed of the Municipality of Kaputian and Talikud Island. The plan has 20 suitable sites for development wherein 13 sites are located in the southern portion of Kaputian and 7 sites in Talikud Island. The selected sites have the potential to develop 3,000 rooms for hotels, condominiums/apartments, villas and beach bungalow units. It also offers retail, craft, cultural, food and entertainment centers, a two 18-hole golf course and club recreation facilities. | DOT/PTA (TIEZA) | Ekran Berhad (Malaysia) | 15.00 | Solicited | JV | Property Developmet | Samal Island (R11) | | | December 2003 | | Investment promotion effort is continuosly being provided by the Department not only for the Samal Casino Resort but for the entire tourism estate.<br><br>Investment brochure for the Samal Island Tourism Estate Project was prepared and copy of which was forwarded to DOT Region XI for final printing and reproduction. |
| 44 | Pabahay sa Riles | Involve the construction of housing facilities along the PNR Metro Manila Right-of-Way and an elevated tollway utilizing the airspace over the said Right-of Way. | PNR/NHA/HUDCC | New San Jose Builders (PHL) | 400.00 | Solicited | JV | Property Developmet | Metro Manila (NCR) | | | | | Operational |
| 45 | Light Rail Transit Line No. 3 (MRT 3) | The project involves the design, development, construction of the computerized land titling system and all interfacing sub-systems, and provision of IT services such as business process re-engineering and project management and financing | DOTC | MRTC (PHL) | 655.00 | Solicited | BLT | Transportation | Metro Manila (NCR) | | July 2000 | July 2025 | | Operational |
| 46 | Metro Manila Skyway (Stage 1) | | PNCC/TRB | P. T. Citra/PNCC (Indonesia/PHL) | 419.00 | Solicited/Public Bidding | JV | Transportation | Metro Manila (NCR) | | February 1999 | February 2029 | | Stage 1 - Operational<br><br>Stage 2 (Bicutan to Alabang) - an elevated road with a distance of 6.88 kms. It is scheduled for completion in the early 2010. Advanced works on pier head construction of the 13 advance columns. 6 pier heads completed.Construction of 2 pier heads on going. Construction will be done in 26 months. The project is expected to be operational by the first quarter of 2010. |
| 47 | Manila- Cavite Toll Expressway (CAVITEX) | Involves the construction of the following segments:<br>(1) R-1 Expressway, which involves the upgrading of a 6.6 km two-lane dual carriageway to a three-lane dual expressway standard in a highly populated coastal area;<br>(2) The C-5 Link Expressway, consisting of the construction of a 6.0 km, three-lane dual carriageway in a highly populated urban area; and<br>(3) The R-1 Expressway Extension, which involves the construction of 11.4 kms of two-lane dual carriageway, 5.0 kms of which will be a viaduct. | PEA-TRB | Renong Bhd./PEA (Malaysia/PHL) | 131.00 | Solicited/Public Bidding | JV | Transportation | NCR & R4A | | May 1998 | July 2033 | | Phase 1 - Operational<br><br>Phase 2 - Construction work is currently on going from existing R-1 expressway at Longos, Bacoor, Cavite to the intersection of Gen. Trias highway and Binakayan Coastal road in Kawit, Cavite. Notice to Proceed (NTP) was issued on 22 March 2006, however due to work stoppage caused by Halaan growers which were directly affected by the project's alignment footprint, the effective start date was reset to January 2007. The update target completion date is January 2009. The on going construction works achieved a provisional cumulative accomplishment of 39.491 %. |
| 48 | Manila North Luzon Tollway (NLEX) | No available data | DPWH/TRB | Manila North Luzon Tollways Corp. (PHL) | 370.00 | Solicited/Public Bidding | JV | Transportation | NCR & R3 | | February 1995 | February 2035 | | Phase I - Operational; Commercial operation started on 10 February 2005. |
| 49 | Southern Tagalog Arterial Rd. (STAR) | The project involves the financing, design, construction, operation and maintenance of all the activities of the Southern Tagalog Arterial Road | DPWH | Stradec (PHL) | 53.00 | Solicited/Public Bidding | BTO | Transportation | Southern Tagalog (R4) | | January 2000 | December 2029 | | Stage 1 (Sto. Tomas to Lipa City) - Operational<br><br>Stage 2 (Lipa to Batangas) - Commercial Operation started on April 17, 2008; Malainen interchange was opened to traffic on 14 June 2008 |
| 50 | Tarlac-La Union Toll Expressway Project (Phase 1) - TPLEX | No available data | DPWH | Private Infrastructure Development Corp. (PIDC) | 35.00 | Solicited | BTO | Transportation | Tarlac/La Union (R3 and R1) | | March 1997 | June 2024 | | The project was awarded to Private Infrastructure Development Corporation in December 2007<br><br>The contract was executed on 20 February 2008 between DPWH and PIDC<br><br>Finalization of Toll Concession Agreement between the Toll Regulatory Board (TRB) following EO 686 ongoing |
| 51 | Redevelopment of the Port of Irene | The project includes the following components:<br>(1) The development of 25 hectares for administration building and other related facilities;<br>(2) The redevelopment of the existing pier into a marginal wharf to accommodate high loading and unloading capacity of 40 TEUs per hour; and<br>(3) The construction of a revetment along the shore for protection from wave action | CEZA | Asia Pacific International Inc. (PHL) | 84.00 | Unsolicited | BOT | Transportation | Cagayan (R2) | | August 1998 | August 2023 | | Rehabilitation works and completion of the 250-meter breakwater is on November 2008<br>EPC Contractor of Concessionaire (APIT) is awaiting Philexim guarantee to commence with the civil works and order of handling equipment. Fabrication of Cranes will take about 18 months. By that time, the berth area shall be completed and ready for the delivery of the cranes. A conveyor loading system is already operational to handle bulk cargoes such as sand and gravel exports to Taiwan. |

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| South Luzon Tollway Extension (SLEX) | The South Luzon Tollway Extension Project consist of the rehabilitation and expansion of the existing toll road from Alabang to Calamba (28.53 km.) and the construction of the extension of the SLEX to Sto. Tomas, Batangas (5.81 km.) with the associated spur to the Southern Tagalog Arterial Road (1.79 km.).<br><br>The project consists of three (3) phases:<br><br>Project Toll Road 1 - entail the repair and widening of the 1.2 kilometer Alabang Viaduct to improve the volume capacity, riding quality and structural integrity of the superstructure and to replace the bridgedeck from the current 6-lanes, to a new 8-lane bridgeway.<br><br>Project Toll Road 2 - consists of the rehabilitation and widening of the existing 15-kilometer expressway from Filinvest to Sta. Rosa in Laguna from the existing 4 lanes to an 8-lane expressway and the rehabilitation and widening of the existing 12 kilometer expressway from Sta. Rosa to Calamba from the existing 4 lanes to a 6-lane expressway.<br><br>Project Toll Road 3 - is a new 7.6 kilometer, 4-lane expressway from Calamba to Sto. Tomas in Batangas. TR3 will also link SLEX to the Southern Tagalog Arterial Road (STAR), which presently leads to Lipa City and is being extended to Batangas City. | DPWH/PNCC | Hopewell Crown Infrastructure (HCI) | 478.00 | Unsolicited | JV | Transportation | NCR and R4A | | | * | | TR1 and TR2 - Actual Cumulative Accomplishment is 65.13% and 37.06% respectively<br><br>TR3 - on going roadway excavation and embankment formation is in progress<br><br>Right-of-way acquisition on going |
| MWSS Privatization | The project involves the design, installation, adaptation, customization, completion, testing and commissioning, operation and maintenance of the entire information system that is constructed and installed in accordance with the BOO Agreement and is capable of operating in accordance with the Operating Parameters. | MWSS | Benpres Holdings/ Lyonnaise des Eaux & Ayala Corp/ Bechtel (PHL/France) | 7,000.00 | Solicited | CAOM | Water | Metro Manila (NCR) | | August 1997 | August 2022 | | Operational |
| Subic Water and Sewerage | The project has three components:<br>(1) The rehabilitation and renewal of water systems and new infrastructure;<br>(2) Rehabilitation and renewal of sewerage systems and new sewage systems; and<br>(3) Management and general supervision. | SBMA | BiWater/ DMCI (Britain/PHL) | 120.00 | Solicited | JV | Water | Zambales (R3) | | April 1997 | April 2022 | | Operational |
| Clark Water Supply & Sewerage | The project involves the grant of rights to the Company by the CDC of the following:<br>(1) Financing, design and construction of the new Facilities;<br>(2) Manage, exclusively possess, occupy, operates, repair, maintain, decommission and refurbish the Existing Facilities and manage, own, operate, repair, maintain, decommission and refurbish the new Facilities;<br>(3) Treat Raw Water and waste water in CSEZ;<br>(4) Provide and manage the service;<br>(5) Bill and collect payment from the customers for the services; and<br>(6) Extract raw water. | CDC | Vivendi Water Inc. (PHL) | 55.00 | Solicited | CA | Water | Angeles City (R3) | | | | | Operational |
| Casecnan Multi-Purpose Irrigation and Power Project | The Project involves the construction of 26 km. of 6.50-meter diameter transbasin tunnel with a capacity of 80 cms capable of diverting 800 MCM of water per year to Pantabangan Reservoir. It also includes the construction of about 78.3 km. access road connecting existing provincial and municipal road networks. | NIA | California Energy (USA) | 650.00 | Unsolicited | BOT | Water | Nueva Viscaya & Nueva Ecija (R2 & R3) | | April 2002 | April 2022 | | Operational |
| | | | | **19,450.16** | | | | | | | | | |

| No. | Project Title | Brief Description | Implementing Agency/LGU | Private Proponent | Estimated Cost (in US$ M) | Procurement Mode | PPP Scheme | Sector | Site/Location | Duration | | | | Project Status |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | Years | Start of Concession Period | End of Concession Period | Start of Commercial Operation | |
| 1 | Puerto Galera Sewage Treatment Facility Project | | Municipality of Puerto Galera | JL Business and Technology Consultancy | 2.22 | Solicited | BT | Environment | Puerto Galera (R4B) | | | | | The Municipality's BAC finalizing the tender documents for its solicitation of bids; Required endorsement/approvals from Sanggunian and RDC had been secured (as of May 2009)<br><br>LGU of Puerto Galera's request to transfer property to TIEZA for approval of the TIEZA board (as of June 2015) |
| 2 | Koronadal City IT Project | The project involves the financing, systems design and development, installation, testing, commissioning and operation, data input, creation of database, systems maintenance and upgrading, and training of concerned LGU personnel. | Koronadal City Gov't. | Geodata Systems, Inc. | 0.5 | Solicited | BOT | Information Technology | Koronadal (R11) | | | | | Customization of several applications on going (as of May 2009)<br><br>Operational; Ownership transferred to Municipality of Koronadal in 2012 (as of June 2015) |
| 3 | Pampanga Geographic Information System | The project will support and initiate major GIS related projects and activities in the province | Pampanga Provincial Government | Geodata Systems, Inc. | 0.96 | | BTO | Information Technology | Pampanga (R3) | | | | | |
| 4 | Malabon Digital Infrastructure Project | The project aims to enhance the regulatory and real property tax collection, it will also streamline the present operations | Malabon City Gov't | Geodata Systems, Inc. | 0.46 | | BTO | Information Technology | Malabon City (NCR) | | | | | |
| 5 | Bohol Provincial Electric System | | Bohol /Prov'l Gov't. | Salcon Consortium (PHL) | 5.00 | Unsolicited | JV | Power | Bohol (R7) | | February 1998 | February 2023 | | Operational (as of May 2009) |
| 6 | Mandaluyong Marketplace | The project involves developing, financing and constructing a public market, slaughterhouse, recreation, parking lots and commercial complex . | Mandaluyong City Gov't. | Macro-Funders, Inc. (PHL) | 23.00 | Solicited | DOT/BT | Property Developmet | Mandaluyong City (NCR) | | December 1994 | December 2034 | | Operational |
| 7 | Dapitan Public Market | The project involves the construction of a two-storey building which will provide an integrated private wet market and supermarket. | Quezon City Gov't. | Ithiel Corp. (PHL) | 1.30 | Unsolicited | BOT | Property Developmet | Quezon City (NCR) | | December 2004 | December 2054 | | Operational |
| 8 | Carmen Public Market | The project which comprise the construction of new public market (two-storey buildings) with parking facility and open spaces amounted to Php118 million. | Cagayan de Oro City Gov't. | UKC Builders, Inc. | 2.36 | Solicited | BOT | Property Developmet | Cagayan de Oro City (R10) | | | December 2004 | | Operational |
| 9 | Cogon Public Market | The project which comprised the construction of new public market (three-storey buildings) with parking facility and open spaces amounted to Php 250 million. | Cagayan de Oro City Gov't. | UKC Builders, Inc. | 4.00 | Solicited | BT / BOT | Property Developmet | Cagayan de Oro City (R10) | | | | | Operational |
| 10 | Cagayan de Oro Slaughter House | The project will have a new improve slaughter building consisting of basic facilities, wastewater treatment plant, improvements of perimeter fence and elevated water tank, concrete roads and parking spaces, poultry dressing plant, livestock auction market building and meat delivery vans as well as the furnishing and supply of stainless steel equipments for livestock animals and chickens. | Cagayan de Oro City Gov't. | Mega Integrated Agro-Livestock Farm Corporation | 3.00 | Solicited | BOT | Property Developmet | Cagayan de Oro City (R10) | | | July 2004 | | Operational |
| 11 | Bocaue Public Market | The Project involves the construction of a four-storey building complex consists of a public market with 500-600 stalls and commercial center with parking lots, open spaces and utility services in the town of Bocaue. | Bocaue, Bulacan/ Mun. Gov't. | Meditech, Inc. (PHL) | 1.20 | Solicited | BOT | Property Developmet | Bocaue,Bulacan (R3) | | | | | Operational |
| 12 | Talisay City Hall Building Project | | Talisay City Gov't. | Sigma Construction Supply/FL Jurtilla/PMGI (PHL) | 4.00 | | BT | Property Developmet | Talisay City, Negros Occidental (R6) | | | | | |
| 13 | Bohol Water Supply System | The project involves the financing, rehabilitation, ownership, operation, maintenance and management of the Bohol Provincial Waterworks Systems. | Bohol Prov'l. Gov't. | Salcon Consortium (PHL) | 14.40 | Unsolicited | JV | Water | Bohol(R7) | | January 2015 | December 2019 | | Operational |
| | | | | | 62.40 | | | | | | | | | |

**Legend:**

**EPSA -** Electric Power Supply Agreement
**ESOM -** Electricity Supply, Operations & Maintenance
**BLT -** Build - Lease & Transfer
**BOO -** Build - Operate & Own
**BOT -** Build-Operate & Transfer
**BGTOM -** Build - Gradual - Transfer - Operate & Maintain
**BROT -** Build- Rehabilitate - Operate & Transfer
**BT -** Build & Transfer
**BTO -** Build - Transfer & Operate
**CA** - Concession Agreement
**CAOM -** Contract - Add - Operate & Maintain
**ECA -** Energy Conversion Agreement
**ESOM -** Electricity Supply, Operations & Maintenance
**JV -** Joint Venture
**PPA -** Power Purchase Agreement
**OMR -** Operation, Maintenance & Repair
**ROL -** Rehabilitate - Operate & Lease
**ROM -** Rehabilitate - Operate & Maintain
**ROMM -** Rehabilitation, Operation, Maintenance & Management
**CAO -** Contract - Add & Operate
**PSP -** Private Sector Participation

**RA 7718** - Amended BOT Law
**RA 7156** - An Act Granting Incentives to Mini-Hydroelectric Power Developers and for Other Purposes
**EO 215** - Amending PD 40 and Allowing the Private Sector to Generate Electricity
**PD 334** - Creating the Philippine National Oil Company, Defining its Power and Functions, Providing Fund Therefor, and for Other Purposes
**RA 8041** - An Act to Address the National Water Crisis and for Other Purposes
**RA 6234** - An Act Creating the Metropolitan Waterworks and Sewerage System and Dissolving the National Waterworks and Sewerage Authority; and for Other Purposes
**RA 7160** - Local Government Code

***Prepared by the PPP Center based on available files turned over by the former BOT Center***

**Sources of Data:**
-BESF-DBM PPP Project Summary List for December 2015
-Status Implementation of Government Information And Communication (ICT) Projects Funded Under BOT/BOO/BTO Scheme
-Government Contracts with Independent Power Producers
-List of Legacy Projects
-Regulatory Policies and Reforms in the Power Downstream Oil Industries
-PPP Project List for 2016