

CHANGING OF THE GUARD AT AYALA CORP.

Weekly Business Newsmagazine

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BizNews Asia

April 10 - 24, 2006

Vol. 4 No. 13

P100

CASH FOR THE CITY



**JAZA IS THE NEW
CHAIR OF AYALA**



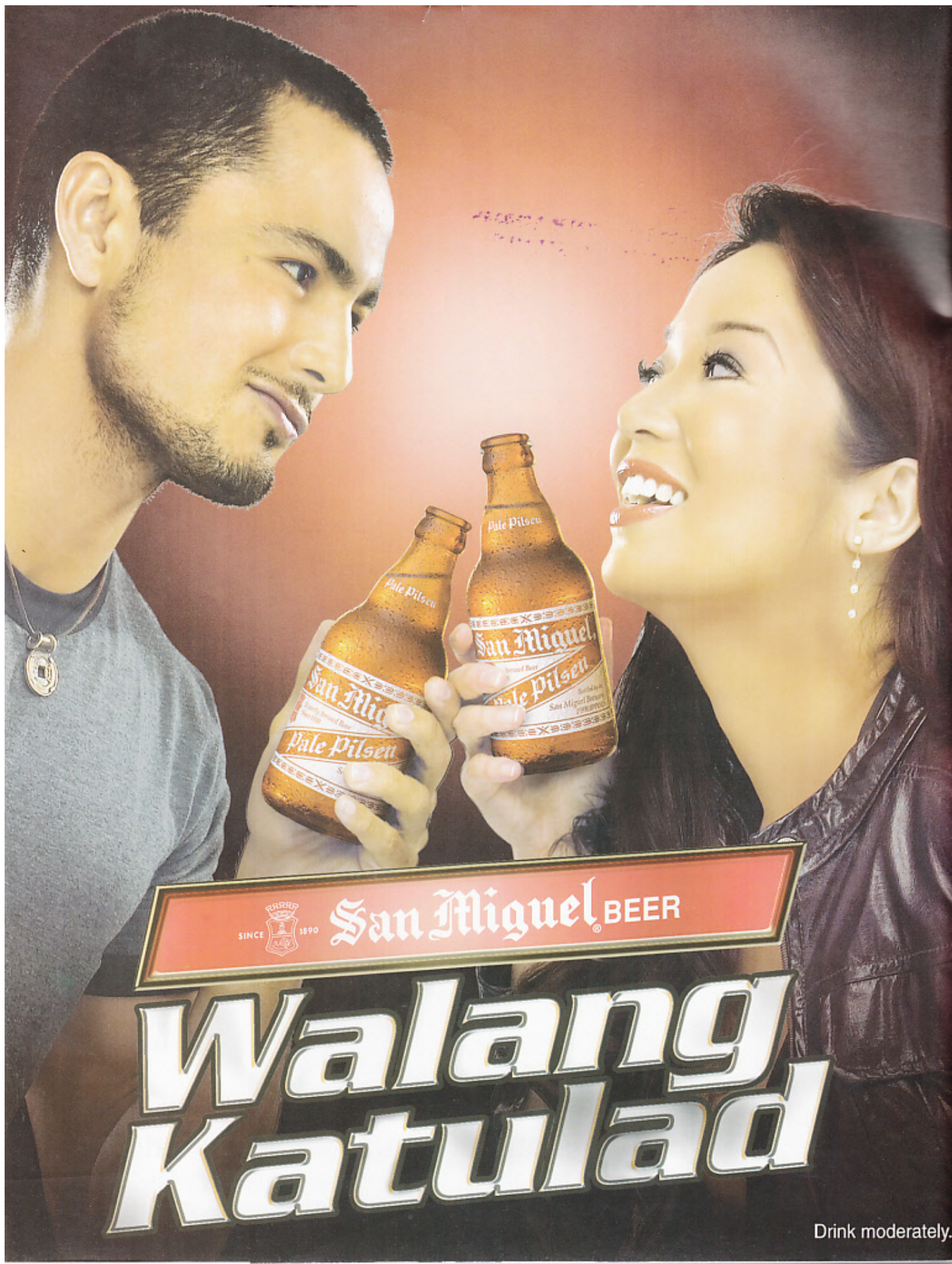
**MAYOR ILAGAN
MANAGES CAINTA**



Quezon City Treasurer **Dr. Victor B. Endriga** made the national capital the country's richest city thru vigorous tax measures, savvy financial management and business-friendly policies



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BizNews Asia

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Pressure mounts on GMA

After billionaire tycoon Thaksin Shinawatra announced April 4 he would resign as prime minister following the failure of his Thai Rat party to capture majority of the seats in the parliament, pressure has mounted for President Gloria Macapagal Arroyo to resign.

The United Opposition, thru its president, Makati Mayor Jejomar Binay, wrote Arroyo a letter asking her to cut short her term (good until 2010) and call a snap election and do a Thaksin.

In the Senate, five senators launched a campaign for Arroyo to resign and call a snap election. They are Senate President Franklin Drilon, Senate Minority Leader Aquilino Pimentel, Panfilo Lacson, Jinggoy Estrada, and Jamby Madrigal.

According to surveys, more than 60% of Filipinos want Arroyo as president. About 48% even believe removing her thru People Power or a popular uprising would be good for the country. This is according to the Social Weather Stations survey of March 8-14. Only 27% opposed People Power against the president.

More than half of Filipinos (53%) are dissatisfied with the president.

The dissatisfaction comes despite the fact that from 2001 to 2004, economic growth as measured by the Gross Domestic Product actually tripled in real terms, from 1.8% to 6.0% and cooled off a bit at 5.7% in 2005.

The peso is strongest in five years against the dollar and the stock market index is hitting its highest in seven years.

Malacañang, the presidential palace, naturally pooh-poohs the idea of a snap election and a shorter term for Arroyo.

The situation in the Philippines is different from that in Thailand, says the president's cabinet secretary for liaison with Congress, Gabriel Claudio. "Not only is there a difference in the form of government," Claudio explains, "there is no upheaval nor outrage against the government or President Arroyo."

Claudio accompanied the President in trip to her hometown of Lubao, Pampanga April 5 to celebrate her 59th birthday. Earlier in the day, she went to an orphanage. Mrs. Arroyo has been making extra effort to identify herself with the poor and the disadvantage in a bid to negate her unprecedented unpopularity.

In Thaksin's case, he was enormously popular among the rural Thais but the political and economic elite in Bangkok, the national capital, found him arrogant and rough.

Arroyo's unpopularity has its roots in the Jan. 20, 2001 People Power that ousted the popular Joseph Estrada and installed the second woman president.

After promising not to seek election in her own right as president, she ran in the



PRESIDENT ARROYO with her idol, disgraced Thai PM Thaksin Shinawatra. At right, the president celebrates her birthday with orphans April 5.

bitterly contested May 2004 presidential elections against another actor candidate, Fernando Poe Jr. She beat him by a minuscule 3.5% margin—the smallest margin by a winning presidential candidate.

Months after her victory, the so-called "Garcia" tapes surfaced, in which a voice that sounded like her was heard talking to a voice that sounded like that of Commission on Elections Commissioner Virgilio Garcillano. Mrs. Arroyo was wondering if her margin could be increased to at least 1.1 million votes. Garcillano promised to try his best.

As it turns out, Mrs. Arroyo won by a margin of 1.1 million votes. She went on nationwide television feeling sorry for what she called "lapse of judgment". "My intent was not to influence the outcome of the election and it did not," she insisted.

But it was enough for ten senior officials, led by six of her cabinet members, to resign on July 8, and ask her to quit.

The call for her to make the "supreme sacrifice" was echoed by former Vice President Teofisto Guingona, the Liberal Party of Senate President Drilon, the powerful Makati Business Club, and by former President Corazon Cojuangco Aquino.

However, before the end of July 8, Speaker Jose de Venecia and former President Fidel V. Ramos came to her side, as did most of the provincial governors and city and town mayors.

Subsequently, the House took a vote on impeaching Arroyo. The resolution was defeated by an overwhelming margin.

But the pressure for her to resign continued. On Feb. 24, key officers of the Philippine Marines, army Scout Rangers, and the police Special Action Force attempted a withdrawal of support. They failed.

The same day, the president declared a state of emergency. Her police and military subalterns and even her justice secretary threatened a crackdown on media outlets and mediamen said to be promoting sedition. The police raided the offices of the rabid anti-Arroyo newspaper, *Daily Tribune*.

By late March, before the Philippine Development Forum in Tagaytay, the president unabashedly endorsed charter change and the shift to the parliamentary system.

The supporters have gathered more than six million signatures to try to amend the Constitution thru the so-called popular initiative.

The signature of at least 12% of voters nationwide, with a minimum of 3% in each district, is needed to make amendments to the Constitution. Says Mrs. Arroyo: "The true power of the people is being felt with the signature campaign to change our form of government. The old time politicians will have to stand back because this train has left the station. It is time for politicians to step back or get run over." ■



POPC MALACANANG PHOTO

Whether or not in favor of changing the present presidential system into a parliamentary system of government

October 2005 and March 2006 / Philippines (Row Percent)

Are you in favor or not in favor of changing the present presidential system into a parliamentary system of government?

(Base: Total Respondents, 100%)

	LOCATION					CLASS		
	RP	NCR	BAL LUZ	VIS	MIN	ABC	D	E
IN FAVOR								
March 2006	33	33	38	27	28	31	32	36
October 2005	26	23	30	30	18	35	26	24
UNDECIDED								
March 2006	13	15	10	15	15	13	12	15
October 2005	13	10	6	17	25	9	12	17
NOT IN FAVOR								
March 2006	54	52	52	58	57	56	56	50
October 2005	60	67	63	52	57	56	62	58

Source: Pulse Asia

Licking poverty and creating national wealth

By **ROMULO L. NERI**

Secretary, Economic Planning
Director General, NEDA

(Speech before the Manila Overseas Press Club (MOPC) Investments Night, Hotel Intercontinental, Makati City, April 4, 2006)

I decided to look back and see how far we have gone with the plans set in the MTPDP and the advocacies we have tried to push in the process. So maybe what we can do is to review our framework in the Medium-Term Philippine Development Plan and see how far we have gone with that framework.

With your kind indulgence, I will show you what I call the spaghetti model—this is what the NEDA people call it, because it looks like strands of spaghetti all over the place. I call this the development agenda.

Let's start with the need to mobilize revenues and strengthen capital markets. You can see that for the first priority, we have now mobilized revenues with the VAT bill that is supposed to raise around P78 billion. It has solved a lot of problems, but we still have to strengthen capital markets—this is still lacking for the moment. When that happens, we will have a stable macroeconomy, a more stable fiscal position, and a more stable balance of payments. So far we are stabilizing the macroeconomy and the fiscal situation is now much more stable than before. The balance of payments is rather healthy now and we are in a surplus position.

That was intended to reduce the risks to the system. Our financial risks have gone down; our financial costs also reflect this lower risk. The spreads in our bonds have gone down from 400 basis points to around 200-250 basis points, quite a significant improvement and a major savings on the fiscal side.

Now, this was intended to raise private invest-

ment, greater investor confidence. We increase our competitiveness and make our enterprises more vigorous and improve our exports and improve our reserve foreign exchange position.

Our foreign exchange reserves are on an all-time high, at about \$20-plus billion, and after this we have another \$15 billion-\$20 billion worth of exceeding use. So when we add the two, our foreign exchange reserves position both in the hands of the private sector and the public sector through the Central Bank is around \$40 billion, which is quite substantial already.

Then as we mobilize these fiscal reserves, we should use this money for more efficient public spending, not just waste it away. In other words, invest it in infrastructure, power, and so forth. As a result, we would again have efficient public spending which will help stabilize our macroeconomy because this will generate more revenues as these investments pay us back and therefore stabilize our fiscal position.

Again, efficient public investments will produce more private investments and make our enterprises more vigorous and competitive as our infrastructure become more and more efficient.

Then we need to do microeconomic reforms. The fiscal reforms we have done are macroeconomic reforms.

Microeconomic reforms refer more to reforms in the power sector, airline, RORO, the transport sector, reforms in medicines. Medicines in India are one-tenth the cost of medicines in the Philippines—that is another microeconomic reform we are doing; others are shipping, ports and so forth. These are microeconomic reforms which we want to do to improve private investment and make industries more competitive.

One of the biggest problems we have is the high cost of power, which brings down the competitiveness of our industries and unfortunately, this high cost of power is centered in the most industrialized areas in the Philippines.



We need to mobilize and transfer knowledge for greater productivity especially for farmers, our poor people, and small entrepreneurs. Again, that will improve investment climate as our people become more productive, improve the competitiveness of our enterprises and make our enterprises more vigorous and competitive as they become more productive.

Then we have to reform our political economy. This is very important, that's why we need constitutional change, because in the Philippines, the dynamics between politics and economics are so adversarial. We need to make economics and politics work, synergize more, work together to move the country forward.

As we reform the political economy, through charter change and other reforms, we will have good and predictable policies and reduce corruption and red tape in the system.

Why are we poor?

P: Low productivity

C: High cost of doing business

R: High risk, multiple risks

G: Low growth potential/expectations

How do we minimize risks?

- Law and order
- Political stability
- Consistency of regulations and policies
- TROs, Supreme Court decisions
- Macroeconomic stability
- Institutional strengthening

How do we increase productivity and reduce costs?

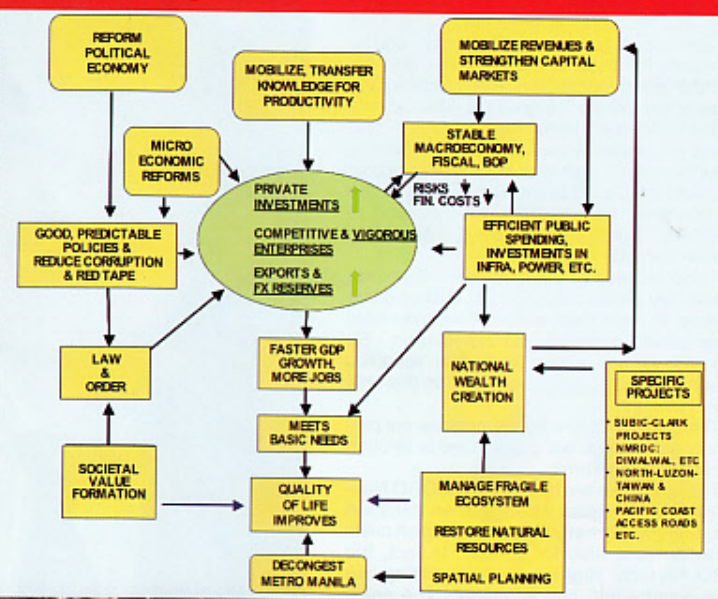
- Microeconomic reforms
- Support to SMEs, mining, tourism, IT
- Improve supply chain management
- Stimulate competition
- Knowledge diffusion thru ICT
- Reduced power cost

How do we increase growth potential?

- Right public and private investment choices
- Human resource development
- Improved knowledge diffusion



Development agenda



Again, microeconomic reforms also contribute to better and predictable policies and reducing corruption. These good, predictable policies will induce political reforms and will again induce greater private sector investment, improve the competitiveness and vigor of our enterprises.

Then, we need to improve our law and order situation, through better political policies and decisions, which will reform political economy. Societal value formation will improve law and order.

Better law and order will, in turn, will improve the kind of our private investments. Again, we have to gauge ourselves how we are doing in these areas. That's why the reforms are shifting from the macroeconomic reforms to microeconomic reforms to more of political economy reforms to stabilize our political situation.

If we do all that, we will have faster GDP growth and more jobs as a result with more in-

vestments. Therefore, our people will be able to meet their basic needs better and quality of life improves. Better societal value formation also improves quality of life of our people.

Efficient public investments will lead to national wealth creation. Efficient public investments, especially school buildings, in health and so forth, will enable our people to meet their basic needs better. National wealth creation will enable us to mobilize more revenues for our government.

But we need to manage our fragile ecosystems, restore our natural resources and do more spatial planning, which in turn will improve the quality of life of our people. And managing our ecosystems and restoring our natural resources through reforestation, for example, and mangrove planting and restoring our fishery resources will lead to national wealth creation.

Spatial planning will help us decongest Metro Manila, and again improve the quality of life of our people.

We go for some specific projects, like the Subic-Clark projects, the National Resources Mining projects, the North Luzon connection with Taiwan and China, among others, will lead to national wealth creation. Again, you can see the framework and we can see how we are doing. I will use this framework to assess how we are doing and what we need to do on the next years ahead.

Again, part of our advocacy is to create national wealth for the country. I use the financial formula.

The formula is basically a stock pricing model formula that I am applying to national wealth creation. Wealth, or W is equal to P minus C divided by R minus G. All stock investors know

Framework for national wealth creation

$$W = \frac{(P - C)}{(R - G)}$$

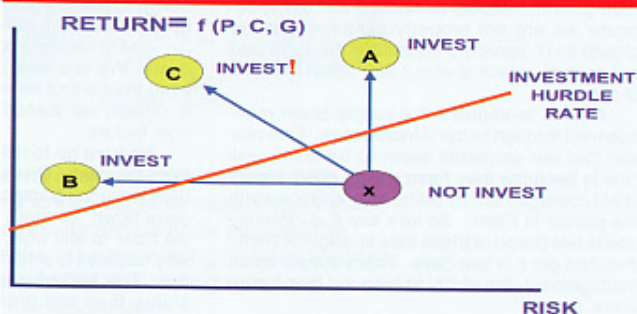
APPLIES TO:

- Total Economy
- Industry
- Firms
- Households

P = Productivity
G = Growth Potential/Expectations
R = Risk Factor
C = Cost of Production

Wealth, or W is equal to P minus C divided by R minus G. As you increase the productivity and costs goes down, as C goes down, P goes up, and as you reduce the risks of the company, and improve the growth potential or expectation of the company, the stock price goes up. The na-

Investment hurdle rate



tional wealth creation then becomes a function of productivity (P), growth potential or expectation (G), the risk factors (R), cost of doing business or cost of production (C). This formula applies to the total economy, to industries, to firms and to households.

this, when they value a stock by looking at productivity minus costs, risk minus growth potential by the company.

As you increase the productivity and costs goes down, as C goes down, P goes up, and as you reduce the risks of the company, and improve the growth potential or expectation of the company, the stock price goes up. The national wealth creation then becomes a function of productivity (P), growth potential or expectation (G), the risk factors (R), cost of doing business or cost of production (C). This formula applies to the total economy, to industries, to firms and to households. Again, this formula is a basic firm valuation formula.

It also explains why we are poor—P, no productivity, low productivity; C, high cost of doing business; R, high risks and multiple risks and; G, low growth potential and expectation. So that's why we are putting these four variables and again I'd like to continue hitting on this until we get this right.

The question is how do we increase our productivity and reduce our costs. One is through microeconomic reforms.

This is why we are hitting at the RORO Nautical Highway because it brings down transport costs, and it has greatly reduced transport costs for tourism and also for goods. In fact, the RORO Nautical Highway will be uniting our whole country into one economy. The seas, instead of being divisive elements in our society and country, or becoming barriers to trade would now be roads, or the seas would now become our highways. Also in the airlines is a microeconomic reform.

We have freed up more flights to Clark, the number of tourists in Clark has now just exceeded the number of tourists in Cebu. That's because we opened up airlines, more airline flights to Clark. We also did this for VoIP, now you can see the telecommunications are trying to reduce their costs, to reduce their rates now because of VoIP. We are also doing this in the case of power, and I hope this open access of Meralco, hopefully reduce the rates of later competition. We are also trying to do this in medicines.

Next is support to SMEs, mining, tourism and IT. We're quite successful now in the mining—we've opened it up to more and more investors. Tourism has gone by more than 20-25 percentage points, but I think we can grow much faster. Our problem now is the hotel rooms, and IT. We are very vigorous now with the call centers and BPO.

In fact our GDP growth has been understated by around 0.5-0.6% at least. So instead of 5.1% GDP growth, it should be about 5.7 or 5.8%, because we are not properly capturing yet the growth in IT services, especially the BPO and call centers, which is about \$20 billion in terms of exports.

Next is to improve the supply chain management through better infrastructure. One reason that our garments seem to be doing well now is because they have a very good supply chain management by being able to link up with the planes in Clark. So let's say if JC Penney needs two dozen of these tops or alligator shirts, they can get it in two days. That's supply chain management, the ability to respond to our suppliers' needs.

The markets now are becoming more and more niche markets and they are now becoming atomized markets. The markets are now becoming smaller and smaller, and that is the beauty of Subic and Clark being our logistics center now.



“I have been discouraging the Makati Business Club from meddling in politics, the same way we are discouraging politicians from messing up our business and economic situation.” — Romulo Neri

Being close to it, you can respond very quickly to small orders abroad.

Then stimulate competition. We still do not have a law on competition policy. We still have a lot of cartels, of monopolies and oligopolies.

Next is knowledge diffusion through ICT. Again, knowledge diffusion to our farmers would increase their productivity. There are many examples now. Los Baños is teaching their technology to farmers now, and their productivity have gone up five-fold, ten-fold.

And of course, very important, reduce power costs. We still have one of the highest power costs in Asia and we need to do something about it. These will summarize our productivity and cost factors.

Now we go to risk factors, how do we minimize the risks. One is the law and order risk. I think kidnapping and carjacking incidences have gone down, so that's good. Political stability—we have to still work very hard on this. That's why we need to also do charter change, to stabilize. The parliamentary system is much more stable than the presidential system. In the present presidential system, Congress and Senate do not feel accountable for the results—they can always blame the executive if anything happens. But in a parliamentary system, you can blame the political parties. They are much more

accountable. Politicians become much more accountable. There is less fighting between the executive and the legislative because they are all in one chamber. So I really feel that the Cha-Cha is important for greater political stability in the country.

Then we have to put a firewall between politics and economics. That's why I have been discouraging the Makati Business Club from meddling in politics, the same way we are discouraging politicians from messing up our business and economic situation. Put a firewall between the two, and the politicians can play all their games and the business can go on as usual. Consistency of regulation and policies, we are working very hard on this. This would reduce the risks in the system.

We've talked to the Supreme Court about the TROs. Now they are working hard at resolving these, and I think they deserve our complement for doing their jobs. There are a lot of improvements in this.

Then there is the macroeconomic side—think we are okay now. The peso has strengthened, our fiscal situation has also stabilized, our BOP have also become more stable, our foreign exchange reserves are much better than before. But we still need to do institutional strengthening. Our institutions are very adversarial, and they have a negative effect on our total system. That's why we need charter change.

Let's now go to the G factor, how do we increase growth potential. These can be done through making the right public and private investment choices, especially in infrastructure. The next thing we like to do is open up four million hectares of agribusiness especially the uplands.

These are good investment choices, and would increase agriculture potential by 40-50%. Human resource development is very important. Investing in education and improving knowledge diffusion especially with farmers and small entrepreneurs are very important, to increase our growth potential.

Finally, let me show you our last framework. Investors look at risks and return. In other words they would like to invest in countries where the returns are reasonably high and the risks are manageable or low enough.

Now returns (R) is a function of productivity the cost of doing business and growth expectations. As risks go up, you have to give the investors high expected returns for them to come in.

Before we did the MTPDP, we assessed that we were in region X—do not invest—because the risks were high and the returns relatively low, which discouraged investments. That is what we are working at—the productivity issue, the cost of doing business, the growth potential of the country, and the risk factors. So as we increase the potential returns, people will start to invest.

As productivity goes up, the cost of doing business goes down, growth expectation goes up, they will invest or as we reduce the risk, say we reduce the risk in Mindanao for example, as we deal with the MILF or MNLF, peace finally goes to Mindanao, I expect more investments in Mindanao because the risks would have gone down substantially.

The best, of course, is do all the four—increase productivity, reduce the costs, increase the growth potential, and reduce the risk, then people will definitely invest.

I guess this model is very timely, because this is Investments Night, and this is the way to bring in investors to the country. ■

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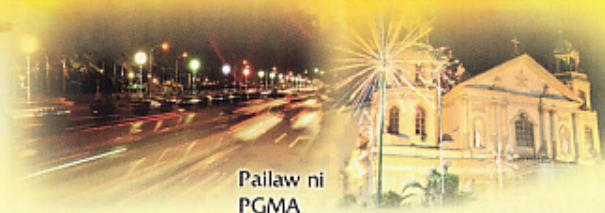
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Kapit-kamay nating tahakin ang landas tungo sa magandang bukas...
At sa pagharap sa mga hamon ng panahon...sa pagtugon sa
pangangailangan ng mga maralita...sa pagsusulong ng isang matatag
na Republika...narito ang PAGCOR, handang tumulong
sa lahat ng pagkakataon...

Tanglaw ng Sambayanan, Kaagapay sa Kaunlaran.



The good economic stories

By **PETER B. FAVILA**

Secretary, Dept. of Trade and Industry

(Speech before the Manila Overseas Press Club (MOPC) Investments Night, Hotel Intercontinental, Makati City, April 4, 2006)

There are plenty of good economic stories to tell about the Philippines. And we thank you for giving us this opportunity to share them. If you would just bear with us, I am confident you will find them worth repeating.

Consider these:

Our efforts to aggressively market, expand, diversify and develop niches for our export products have resulted in an export product mix that is less vulnerable to global market fluctuations, such as in the electronics sector.

The industry transformation that became inevitable with the end of the quota regime for the garments industry paid off with garments exports growing by 6.33%.

Adherence to international standards ensured entry of our food products in mainstream markets, and cultural market niches such as Asian communities in the US and Europe and Halal and Kosher foods contributed to the 4.81% growth in the sector. The aggressive regional strategies of several of our food and beverage companies such as San Miguel Corp., Universal Robina Corp., Zesto Corp., and Liwayway Foods have also boosted the image of Philippine food products overseas.

The automotive industry offered another bright spot, growing by 7.98% in 2005. The Philippines continues to be strong in automotive parts and components. Industrial complementation arrangements within Asean have enabled car companies like Ford/Mazda, Honda and Toyota to increase their exports from the region, benefiting from specialization and our respective competitive advantages.

Our SMEs are breathing new life into the coconut industry with export winners such as coco coir, geotextiles and virgin coconut oil finding their way not only within the region but as far as Europe.

Investments continue to pour in

Hanjin Heavy Industries and Construction, one of the world's top shipping companies, has started to hire workers for an initial 6,500 jobs for its \$1 billion shipbuilding facility located at the Subic Bay Freeport. The planned shipyard, which would occupy 269 hectares, is expected to generate approximately 20,000 jobs.

Construction of the Subic Bay shipyard will begin this month. The shipbuilding facility will start producing liquefied natural gas carriers and other large ships next year. The South Korean firm chose Subic because of its natural deep bay and excellent support facilities.

The call center boom continues this year with the recent inauguration of additional facilities by Dell Inc., Sutherland Inc., The Resources Group and eTelecare Global Solutions. These are companies that the president and I met with in New York in September of last year.

True to their commitment, they have now contributed to our ever-expanding outsourcing industry, which is projected to generate revenues



“Our economic performance in this globalized world will be determined by our ability to produce internationally competitive goods and services and attract the foreign investment needed to drive economic growth. Without the genuine reform we have begun to implement, the Philippines will simply fall behind the countries which are hungrier and more determined to secure their share of global trade and investment.” — Sec. Peter Favila

of \$3.8 billion this year and employment of 336,000 people.

With several other companies including Morgan Stanley and HSBC joining the fray, more employment opportunities would be available. The Philippines has indeed emerged as a location of choice for the offshore business processes and services of foreign companies.

Fedex, which rang alarm bells in the country with its decision to transfer its Asia-Pacific hub operations to Southern China, reiterated its continuing confidence in the Philippine business climate.

Citing the transfer of its hub as a purely business decision given the tremendous growth of high technology manufacturing in southern China, Fedex will nonetheless expand its express business in the country with the addition of a direct link to Cebu. In line with its Asia-Pacific growth strategy, the Philippines is prominently being positioned for its



outsourcing requirements, particularly for financial services and call centers.

Taking advantage of the Philippine government's energy efficiency program, Ford Motors recently expanded its operations in the country to manufacture flexible fuel engines for both the local and foreign markets. The new engines which can run on regular gasoline as well as blended ethanol will be launched this month via the Ford Focus. Through this new facility, Ford intends to make the Philippines its Asean center for excellence in flexible fuel technology.

We expect more of such projects to come on stream following the 10% growth in investment approvals from the BOI and PEZA in 2005.

Contributing to this are projects like the P15 billion Kepco power plant, Petron's P14 billion various investments in petrochemical-related projects, San Miguel Yamamura's P5 billion glass container project in Cebu, and Meridian Telecoms P2 billion broadband wireless access project.

These projects are certainly a testament to our resiliency and steadfastness to improve the investment climate. They also prove that investors recognize the country's sound macroeconomic fundamentals that have enabled the economy to withstand political uncertainties.

Building on the momentum

Yes, we are operating within a trying environment. The global market is very competitive and exporters have to deal with an appreciating currency. Yet even as some see China and India as threats, we see them as opportunities for business growth in investments and trade.

The infrastructure challenge is great and must be addressed now if we are to make businesses more efficient, and sustainable development real. Focused assistance must be intensified if SMEs are to become viable participants in our industries' supply chains. Our human resources must be fully harnessed if we are to keep our competitive advantage in the growing services sector.

Our economic reform agenda recognizes the role that government plays in creating the right conditions for companies to grasp the opportunities, which flow from today's global economy. Economic reforms are therefore geared towards boosting our international competitiveness and increasing our appeal as an investment destination.

We are moving faster towards the completion of

around us



BMA visits the Dell Call Center

PEPITO MALACRANG

major infrastructure projects and are very pleased with the interest we have generated from foreign and local investors to participate in these projects. While we can look forward to vat revenue to fund our infrastructure projects, clearly we also need to stimulate private sector participation to complement limited public resources.

In line with the focus on infrastructure development, the P8.33 billion rehabilitation and upgrading of the South Luzon Expressway (SLEX) was formally launched by the president last March 24, 2006. Aside from the SLEX project, the PIC and NDC have identified eight priority infrastructure projects where initial development plans are under way.

We have already put in place the IRR of the BOT law to shorten the processing period of infrastructure projects presented to the Investments Coordinating Council (ICC) technical board and cabinet committee levels, by foregoing the 1st/2nd/3rd pass approvals. At the same time, we are proposing amendments to the BOT law to make it more attractive and to encourage wider private sector participation.

In our effort to attract more investors into the country and make it a preferred investment destination in the region, we are continuously improving our services to investors and streamlining investment procedures to make it easy and friendly to do business in the country.

Most recently, we have shortened the processing time for BOI applications to merely one day. In addition, we have also put in 24/7 toll free numbers to serve inquiries initially from investors based in the US and Canada.

We are enhancing our investment "after care" service for a more focused effort to assist existing investors in the country. We are strengthening of the BOI One Stop Action Center (OSAC) to improve inter-agency referrals and resolution of investors' issues and concerns. We continue to strengthen our partnerships with the private sector through regular top level dialogues and consultations with chambers and associations at DTI, and investors' concerns meeting with the president. We will also continue to engage our development partners in addressing our development needs.

A clear example of how we address investors issues is the resolution of the Clark tax incentives issue through the recent presidential proclamation declaring Clark as a Special Economic Zone. This

Trade and Investment Agenda

Good News

- More products, more markets for RP exports
 - Balanced export mix
 - Garments industry transformation
 - Entry of food products in mainstream markets and cultural market niches
 - Brighter prospects for the automotive industry
 - SMEs breathing new life into the coconut industry
- Investments continue to pour in
 - Hanjin Heavy Industries and Construction - \$1B ship-building facility, initial 6,500 jobs expected to generate approximately 20,000 jobs
 - Dell Inc., Sutherland Inc., The Resources Group and eTelecare Global Solutions - \$3.8B revenues this year, employment of 336,000
 - With the addition of Morgan Stanley and HSBC, more job opportunities expected
 - FedEx - Philippines being positioned for its outsourcing requirements
 - Ford Motors - recently expanded its operations; intends to make the Philippines its ASEAN Center for Excellence in Flexible Fuel Technology
 - P15B KEPCO Power Plant
 - Petron's P14B Petrochemical-related Projects
 - San Miguel Yamamura's P5B Glass Container Project
 - Meridian Telecom's P2B Broadband Wireless Access Project

Challenges

- Appreciating Philippine peso
- China and India
- Infrastructure bottlenecks
- Making SMEs as viable participants in our industries' supply chains
- Fully harnessing human resources for the growing services sector

What We Are Doing

- Economic Reform Agenda
- Infrastructure development
 - Fast track completion of major infrastructure projects
 - P8.33B SLEX rehabilitation and upgrading launched on Mar. 24, 2006
 - 8 priority infrastructure projects identified by PIC and NDC where initial development plans are underway
 - Amendments to the BOT Law and its IRR to encourage wider private sector participation
- Improvements in investor servicing and streamlining of investment procedures
 - 1 day processing time for BOI applications
 - 24/7 toll-free numbers to serve inquiries from investors based in the U.S. and Canada
 - Enhanced "after care" service
 - Strengthening the BOI One-Stop Action Center
 - Strengthening partnerships with the private sector and development partners
- Devolvement of some of BOI's investment registration functions to DTI regional and provincial offices
- Strong commitment in addressing IPR issues
- Priming domestic complement to fully benefit from growing services sector
 - Competency-based and industry-specific HR programs
 - Active participation in defining rules of engagement in the services trade
- Great importance to the multilateral trading system; trade policies anchored on the rules and disciplines that the WTO stands for
 - Engagements driven by two (2) main objectives:
- Push for better market access
- Ensure that trade commitments remain fair to domestic constituents and responsive to our development needs
 - Institutionalized in DTI a more participative engagement with stakeholders
 - Move towards conclusion of the Doha Development Round (DDR) this year

will entitle Clark locators to incentives enjoyed by PEZA enterprises.

This year, the BOI is devolving some of its investment registration functions to our regional and provincial offices. This move is meant to encourage Microenterprises and SMEs to be part of the business mainstream. In priming SMEs to be viable participants in our industries' supply chains and contribute to expanding the export base, we hope to soon see development emanate from the grassroots rather than wait for it to trickle down.

Our recent success in being downgraded in the priority watchlist of the US for intellectual property rights violation was in recognition of the significant progress we have made to protect the intellectual capital of our investors. We are committed to fighting piracy and counterfeiting in any form. And we place IPR protection high on our trade agenda and consider it an important part of the competitive environment we offer investors.

As a parallel effort to inviting investments in the services sector, we are also priming our domestic complement to ensure that we are able benefit fully from a growing services sector.

For instance, we are engaging in focused interventions such as competency-based and industry-specific HR programs to improve the capability of our workers to meet the needs of industry. And as we undertake these initiatives, we also ensure that we actively participate in defining the rules of engagement in the services trade.

The Philippines attaches great importance to the multilateral trading system and our trade policies are anchored on the rules and disciplines that the WTO stands for. Our engagement, however, will continue

to be driven by two main objectives—to push for better market access and to ensure that trade commitments remain fair to our domestic constituents and responsive to our development needs.

It is for this reason that I have institutionalized in the DTI a more participative engagement with stakeholders starting with the WTO ministerial conference in Hong Kong last December.

This year, we can hopefully move towards the conclusion of the Doha Development Round. With close consultation and coordination among our various stakeholders, our negotiators in Geneva and our trade partners, we hope to see a progression of the gains we achieved during the Hong Kong Ministerial Conference and see the DDR fulfill its true development objectives.

Our economic performance in this globalized world will be determined by our ability to produce internationally competitive goods and services and attract the foreign investment needed to drive economic growth.

Without the genuine reform we have begun to implement, the Philippines will simply fall behind the countries which are hungrier and more determined to secure their share of global trade and investment.

These are just some of the stories told about the Philippine competitive advantage. Good and true stories that we must tell the people.

We need you in the media to be our partners as we move the country forward. Let us help our country take its place among the successful economies that rise to the challenges of the global economy and deliver sustainable growth at home.

Be our partners. Spread the word. Good things are happening in the Philippines, too. ■

COVER STORY

Maki

By ANTONIO S. LOPEZ

Victor Bermejo Endriga, 62, is not your typical taciturn, tough-talking tax collector.

He has genuine warmth and genial manners and is generous with his smile.

His office has a welcoming open door. "I entertain everybody in my office, rich or poor alike," he says.

He dresses nattily and is prim and proper of manners. He was twice a "Best Dressed Man" awardee.

His mind is like that of a computer, quick with facts and numbers, steeped in knowledge of vast financial and economic data.

His work ethic is awesome. His ethics is even more formidable. Those qualities are in his genes and training from early in childhood.

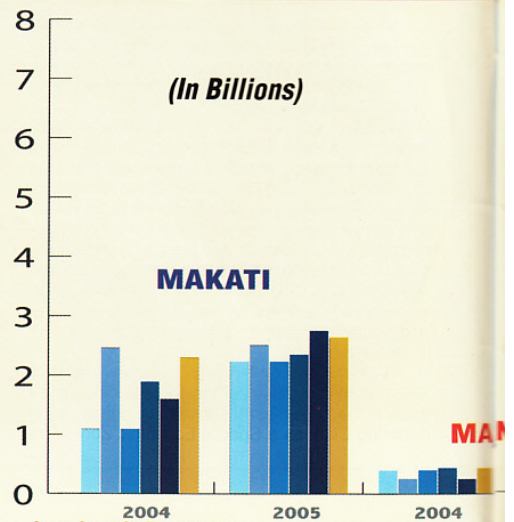
His father was the late Mamerto B. Endriga, an undersecretary of finance during the Diosdado Macapagal administration. He was a disciplinarian. His mother, Florencia Bermejo, also deceased, was a school teacher.

Dr. Endriga reports for work early, 7 or 7:30 in the morning. He goes home late, especially during tax payment deadlines, when he stays at City Hall until midnight.

His competence is unassailable: Elementary schooling at the Philippine Normal College, high school at Don Bosco, an engineering degree from Mapua, an accounting degree at Lyceum of the Philippines, a masters in public administration, a doctorate degree in fiscal studies. Special studies at Harvard. He is the only city or municipal treasurer with a PhD in fiscal studies.

These days, Quezon City towers above its peers like Makati and Manila in terms of income and stewardship of a highly urbanized metropolis.

Quezon City leads the major Metro



Source: Quezon City Treasurer's Office

ng the richest city

In other words, Endriga is the best of the breed of public servants. That makes him a *rara avis*. A rare bird.

Quezon City is blessed that Dr. Endriga is its city treasurer.

In these days of fiscal irresponsibility, his technocracy and financial expertise are a valued treasure.

But why would a guy like Endriga work in government?

Well, he is a self-made millionaire. He has deployed thousands of OFWs to Japan when that country had an open door policy for entertainers and workers to meet the after-hours needs of its highly paid executives.

One day, he met the then newly elected mayor, Feliciano "Sonny" Belmonte.

Both were attending an alumni homecoming at Lyceum and Endriga happened to be the guest speaker. The newspaper tycoon and former speaker offered him a job, as city treasurer, in 2001. He had heard about Endriga increasing Pasig's revenue from P154 million in 1992 to P2.1 billion in 2000.

Endriga accepted, thinking the job would be a picnic. Imagine his surprise to find a big city with big problems and even bigger financial deficits.

In July 2001, Quezon City was bleeding in red ink. It had a negative cash balance of P10 billion. Claims for payment totalled P1.4 billion. The metropolis owed the banks P1.25 billion. It couldn't remit GSIS premiums of its employees. The police force could not be paid their allowance.

Transactions were not being recorded in the city's books of accounts.

The city had 7,000 casual employees. The city budget was P4.7 billion, but revenue was short by P970 million in 2001.

Endriga's solution to the financial loophole: Collect taxes. To collect, one must have the proper machinery.

So he went about computerizing the city's records. It seems the city's assessors and examiners had been engaged in an entirely new profession—*dentista*. They pulled out taxpayers' tax records and made them a private file. They collected the taxes and the city government knew little about it.

Endriga removed the *dentistas*. And he stayed after office hours, well into midnight. His mission—retrieve the index card files kept in the drawers of examiners, photocopy them, and store them with safety locks. That was to ensure there would be no more *dentistas*.

A private computer firm encoded all real property tax payment records and over 440,000 tax declarations. Then all the index cards were burned. No more *dentistas*.

In the meantime, Mayor Belmonte let go of the 7,000 contractual workers. Endriga, for his part, put a stop to the overpricing of supplies which are now purchased on immediate-need basis. And he began paying the city's payables.

Having cleaned up house, Endriga went after his taxpayers, by adopting the following initiatives:

- A presumptive income approach to

make tax declarations more realistic;

- Random examinations of books of business firms;

- Door-to-door verification of unlicensed establishments;

- Reshuffling (thru raffle) of revenue examiners to avoid familiarization with taxpayers;

- Discounts to taxpayers paying in advance or on time;

- Dispatch of timely and regular demand letters to delinquent taxpayers;

- Realignment of tax rates. Quezon City has had the lowest tax rates among its peer cities in Metro Manila.

Endriga built a VIP lounge for taxpayers where they could sip coffee in airconditioned comfort while waiting for their turn to be assessed or to pay taxes.

Before that, recalls Dr. Endriga, City Hall was like a wet market. People were going around in circles, like walking thru a gauntlet and navigating a bureaucratic labyrinth.

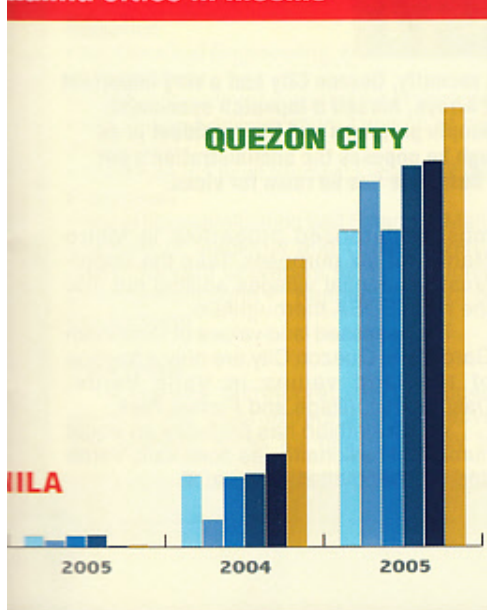
Endriga used the carrot-and-stick approach in dealing with his revenue examiners.

"Top performers are given free trips to say, Hong Kong," he relates, "with their original wife." And Top Ten are given commendations. "It's a morale booster," he chuckles.

For those who fail to make the grade, woe to them. "They are put in the freezer," Endriga points out. "They cannot get out of the office."

For more of Dr. Endriga's reforms, please see pages 18 to 25, "Roadmap to Financial Stability".

Manila cities in income



QUEZON CITY'S TAXPAYERS' LOUNGE IS LIKE A VIP ROOM: Air-conditioned, with free coffee, friendly tellers and insanely clean comfort rooms.



COVER STORY

Many of those reforms were commonsensical. But the results made a legend out of Quezon City. Almost overnight, it became the richest city in the Philippines.

In 2005, Quezon City chalked up total revenue of P6.94 billion, an increase of 13% from 2004's P6.095 billion.

The P6.94 billion is P921 million more than Manila's P6.095 billion revenue last year, and P1.17 billion more than the P5.768 billion income of Makati, supposedly the country's premier business district.

In 2004, Quezon City was also the richest city, with income of P6.05 billion, P1.09 billion more than Manila's P4.996 billion, P188.69 million more than Makati's P5.907 billion for the same year.

Indeed, Quezon City has been the country's richest for four consecutive years, earning for Belmonte and Endriga the grand slam.

As of April 6, Quezon City had a whopping P6.5 billion cash in the bank. Compare that with a P10 million negative cash balance when Belmonte began in July 2001.

To be sure, Endriga didn't achieve such financial health for the city singlehandedly.

It helped that Endriga had Belmonte for a boss. Belmonte, a lawyer, is an accomplished finance expert in his own right. He turned around Philippine Airlines in the early Cory Aquino years. He ran the GSIS pension fund like a tight ship. And his family's *Philippine Star* is one of the most profitable daily newspapers in the country.

And for second opinions, Belmonte had access to other experts like former Ramos finance secretary Salvador Enriquez and former budget secretary Manuel Alba.

In other words, Quezon City is in extremely competent and reform-minded financial hands.

This may explain why Dr. Endriga has time going around the country proselytizing on the virtues of good tax collection and local government financial management.

He is the president of the PHALTRA, the Philippine Association of Local Treasurers and Assessors. He is also the president of the Provincial and City Treasurers Association of the Philippines (PACTAP).

Dr. Endriga believes Quezon City's template for good fiscal management can be replicated nationwide, in 79 provinces, 117 cities, and more than 1,500 towns.

He has already a clone, in the person of Ed Villanueva, a former subaltern and now the municipal treasurer of Cainta town east of Manila. Ed has shown dramatic results, using the Quezon City model. (See separate stories, pages 26-27).

One lesson Endriga learned from dealing with taxpayers—don't declare a tax amnesty.

"Amnesty encourages the taxpayer not to pay on time," he concludes. In Quezon City before his time, he recalls, "they conducted a tax amnesty year after year. It was not effective." The city just kept on incurring deficits.

One effective way to deal with taxpayers,



PATRICK CASALLO/PCPO

PRESIDENTIAL VISIT. For three consecutive days recently, Quezon City had a very important visitor, no less than President Gloria Macapagal Arroyo, herself a topnotch economist. Belmonte is a staunch supporter of Arroyo's pro-people programs and the president is an admirer of the mayor's enlightened policies though he opposes the administration's pet project, small town lottery. A devout Christian, Belmonte has no room for vices.

Endriga suggests, is auction their properties.

It is an extreme measure but it is very effective in scaring the daylighters out of taxpayers. For delinquencies of modest amounts, they risk losing their properties worth millions of pesos.

Endriga personally conducts the periodic auctions. And they are well-attended, an indication of the attractiveness of Quezon City's land values.

Indeed, Quezon City has among the

most underpriced properties in Metro Manila for tax purposes. Take the upper-crust residential villages spilling out into the main EDSA thoroughfare.

The assessed land values of Corinthian Gardens in Quezon City are only a fraction of the land values in Valle Verde, Dasmariñas Village and Forbes Park.

Yet, Corinthian has probably an equal number of millionaires as does Valle Verde and for that matter, Dasma. ■



VICTOR BERMEJO ENDRIGA, PhD

Treasurer, Quezon City
President, Philippine Association of Local Treasurers and Assessors (PHALTRA)

Born Aug. 17, 1943

Education

- BS Electrical Engineering, Mapua Institute of Technology
- BSBA, Accounting, Lyceum of the Philippines
- MA Public Administration, Lyceum of the Philippines
- Doctorate in Fiscal Studies, Lyceum of the Philippines
- Fiscal Decentralization and Financial Management of Regional and Local Government, Harvard University for International Development/John F. Kennedy School of Government

Track record

A toprate technocrat, he produced some of the most extraordinary, creative and inspiring ideas for raising money to

sustain Quezon City's development and economic expansion.

He is hailed as the "Economic Miracle Man" for transforming the once back-of-beyond municipality of Pasig into the fourth most economically-robust city in the country today.

His main legacy is converting Quezon City from being the "Sick Man of Greater Manila" into the "Richest City in the Philippines" for four unprecedented straight years—from 2002 to 2005—to become the first grand-slam winner of this much-coveted prize.

As PHALTRA top honcho, on the other hand, he has made sure that the more than 6,000 local revenue generators/grassroot fiscal managers under his stewardship secure their frontier to galvanize the economic viability and political stability of the communities they serve.

Roadmap to financial stability

How Quezon City became cash-rich

By VICTOR B. ENDRIGA, PhD

Quezon City is the most populous in Metro Manila. It has 2.17 million people, 22% of the national capital's total. It is also the biggest in land area (16,122.22 hectares), about a fourth of Metro Manila. Quezon City is five times bigger than Manila.

Quezon City, understandably, has bigger financial requirements and far more formidable problems than the 16 other cities and municipalities of Metro Manila.

It is at the center of Metro Manila, (bounded on the north by Caloocan and San Jose del Monte, on the south by Pasig, Mandaluyong and San Juan, on the west by Manila, Caloocan and Valenzuela, and on the east by Rodriguez, San Mateo and Marikina).

Thus, Quezon City shares a greater burden than its neighbors in terms of traffic, peace and order and other problems common to urban communities.

Yet, Quezon City's income could hardly meet its budget. This was the situation when Mayor Feliciano R. Belmonte, Jr. took over in July, 2001.

The city had a negative cash balance of P10.35 million. Claims for payment amounted to P1.4 billion and the city owed the banks over P1.25 billion.

There were overdue payments to some contractors of infrastructure projects.

The Government Service Insurance System (GSIS) suspended the borrowing privileges of city employees for failure of the city government to remit their contributions.

Withholding taxes due to the Bureau of Internal Revenue (BIR) have not been remitted as far back as 1995.

Quezon City accumulated an electricity bill of about P60 million. Garbage haulers and equipment rental companies had claims amounting to over P560 million. For 4 months, the P1,000 allowance of members of the police force have not been paid.

The new city administration also received claims for payments of obligations for projects and purchases not included in the city budget. There were transactions which were not recorded in the city's books of accounts.

There were even money claims for projects which were never accomplished and for purchases never delivered.

The most immediate and pressing problem the new city administration had to con-

tend with was the expected deficit of P970 million to meet the P4.7 billion 2001 budget.

A review of the financial transactions of the past years showed that the deficit was not only due to inadequate income but also to corruption and fiscal mismanagement.

A syndicate with powerful connections have been robbing the city government of millions of tax payments through the issuance of fake receipts and under-the-table settlements of overdue tax payments.

One classic case was that of a teller who issued a fake receipt for a manager's check amounting to over P2 million as payment for tax on real estate.

She pocketed the equivalent amount of cash from payments of other taxpayers for which she issued official receipts. The taxpayer was surprised when she received a delinquency notice. She was flabbergasted when told that the receipt she received was fake. A case has since been filed against the teller who is issued the spurious receipt.

Garbage hauling contractors were paid on the basis of truck deliveries. It was widely known that checkers padded the number of deliveries. Quezon City was spending close to P1 billion a year for the collection and disposal of about 1,000 tons daily output of garbage.

There was also rampant overpricing in the purchase of almost all categories of goods and services. After Mayor Belmonte ordered a new bidding, the city government was able to cut down the cost of supplies by an average of 22%. The acquisition cost of almost all office supplies drastically decreased. Some items cost 81% less than what was paid for them in previous years.

The biggest financial burden of the city government was in personnel services. There were over 7,000 contractual employees or casuals. Many of the appointments were political accommodations. The city government was paying good money for people who had very little to do around City Hall.

Appropriations for salaries, wages and allowances constitute about 45% of the budget.

A cross-checking with the records of the Registry of Deeds on transfer tax payments showed that more than 58% of those registered by that office were not registered at the City Treasurer's Office. Obviously, most of the receipts presented before the Register of Deeds were spurious or fake.

Graft and corruption at City Hall was rampant and pervasive, particularly in the regulatory agencies and offices. Influence



peddling was widely practiced.

Some business establishments willingly greased the hands of City Hall agents to minimize payments for fees and taxes.

Some of the most expensive night clubs and entertainment places in Quezon City did not bother to pay their tax obligation to the city government. They preferred to give regular protection money to some agents and officials of the City's regulatory offices and some officers of the Central Police District.

The City Hall complex was a bedlam of confusion and disorder whenever crunch time for payment of taxes arrives. Processing and approval of applications for permits and clearances took weeks, if not months, and usually after paying "facilitation fee" to fixers and their partners among city employees.

A private computer firm, hired by the city administration to conduct a review of all past tax assessments and payments for



the last ten years, reported that over P10 billion in taxes were never collected by the city government.

Mayor Belmonte, drawing on his experience as head of the Philippine Airlines and the Government Service and Insurance System during the Aquino administration, bravely confronted the fiscal problems of Quezon City and instituted drastic and draconian measures to put the city's finances in order. PAL and GSIS attained the highest profits during his stewardship.

How Mayor Feliciano R. Belmonte, Jr. turned around the finances of Quezon City is the subject of this study.

This is the roadmap he charted to attain financial stability. This is the experience of Quezon City.

Belmonte's mantra for fiscal discipline Mayor Sonny Belmonte achievements in just three years of his first term as chief ex-

Quezon City became the richest and one of the best managed cities in the Philippines, thanks to the leadership of Mayor Feliciano "Sonny" Belmonte and the innovative tax and financial management policies of his city treasurer, a technocrat, Dr. Victor Endriga.

ecutive of Quezon City are truly outstanding. This was validated by his having been chosen as the Most Outstanding City Mayor of the Philippines in 2003.

How he plucked Quezon City from bankruptcy to become the richest city in the country in barely two years in office has aroused the interest of other local government executives as well as students of public finance and management.

His reputation as an able and honest

executive preceded him at Quezon City. The Philippine Airlines, Manila Hotel and the GSIS posted the highest profits during his term as president and general manager during the Cory Aquino regime.

Mayor Belmonte was prepared to confront the challenges when he assume office.

His most immediate and pressing concern was where to get the money to finance the operations of the city government.

COVER STORY

Compounding his problem was the expected shortfall of P970 million in tax collection to meet the P4.7 billion 2001 budget.

Belt tightening measures

Exercising a strong political will, Mayor Belmonte did not renew the contract of over 7,000 casual employees. He was aware of the heavy political cost his decision entailed.

He validated and prioritized all claims for payments and systematized the program of expenditures.

No renovations or improvements in the offices of the city government were made, particularly in the office of the mayor.

Office supplies were purchased on an immediate-need basis and paid promptly.

In less than a year, the city government was able to reduce the P970 million budget deficit to less than P100 million. It was able to pay P900 million of the inherited accounts payable, even as it paid on time its current obligations.

From Day One, Mayor Belmonte exercised utmost prudence in the city government's expenditures.

He then called upon the officials and employees of the city government to serve the people with courtesy, efficiency, and sincerity. Top career officials were retained. He brought in only a few trusted consultants with proven expertise and experience in various aspects of governance.

Among his consultants were former budget secretary Salvador Enriquez, and Dr. Manuel Alba, the city administrator during Mayor Mathay's term.

Mayor Belmonte initiated innovative measures and reforms.

Some of the measures were designed to effectively check abuses and minimize opportunities for collusion and corruption. Others were refinements of effective collection systems.

He streamlined the bureaucracy and computerized the operations of the most sensitive offices, particularly the assessment and collection agencies.

Among the most innovative and effective measures undertaken to enhance tax collection efficiency were:

1. Adopted the "presumptive income level approach (implementing a schedule of minimum gross) to make gross tax declaration more realistic and current.

2. Conducted random examination of Books of Accounts of business firms.

3. Instructed agents of regulatory offices to conduct door-to-door, street by street, inspection and verification of all unlicensed establishments.

4. Employed the raffle system in the assignment of revenue examiners to avoid familiarization between agents and taxpayers.

5. Offered substantial discounts to real property taxpayers paying their taxes promptly and allowed staggered payment of delinquencies upon a minimum payment of 30%.

6. Sent timely and regular demand letters to delinquent taxpayers.



Victor Endriga and Quezon City Mayor Sonny Belmonte

7. Realigned the business tax rates with those of other Metro Manila cities.

To minimize opportunities for tax evasion discourage City Hall employees from committing abuses and indiscretions, the Belmonte administration adopted the following measures:

1. Required taxpayers with gross receipts of over P500,000 to submit BIR stamped 2002 financial statements with records of monthly payments of VAT and Non-VAT for the year 2003; for comparison against declared gross receipts for 2003 before renewal of their Mayor's permit for 2004;

2. Required contractors to pay business taxes prior to release of the building, excavation and occupancy permits;

3. Required dealers, sellers, and developers of real estate such as land, building, condominium units and the like, especially corporations and other juridical entities, to present their Mayor's Permit and proof of payment of business taxes before processing the transfer tax;

4. Instructed the city accountant to deduct from the voucher the amount representing payment of business tax for contractors and suppliers doing business with the city government;

5. The reexamination and verification of the books of accounts of establishments whose gross receipts have decreased compared to prior years;

6. Used colored coding (ink) in signing the tax bills and other documents during renewal period;

7. Grounded revenue examiners with low collection records;

8. Created a special team to verify treasury records of transfer tax with that of the Land Registration Authority. (Transfer Tax Records in 2001 revealed that 58% of those recorded in the LRA were fake receipts.

9. Updated local business tax ordinances by 10%.

10. Issued new official receipts with security features.

11. Filed anti-graft cases with the Office of the Ombudsman against employees who committed anomalies, such as the issuance of fake receipts.

12. Instructed the building official to forward to the city assessor the building/occupancy permit, stating the total value of the construction cost for purposes of issuing a new tax declaration.

Mayor Belmonte authorized the sale at public auction of properties of delinquent real estate owners.

The city government recognized and gave citations to the top taxpayers of Quezon City. Special citations were given to business tycoons who have huge investments in the city. Among those honored were Henry Sy and John Gokongwei in 2002 and 2003, respectively.

The city government jointly with the Quezon City Chamber of Commerce and Industry honor yearly the top ten taxpayers of the city.

Top grossing revenue examiners have been rewarded with free trips to Hong Kong and given incentives.

COVER STORY

Special Task Forces were created to crack down on tax delinquency and tax evasion cases. One of the task forces reviewed the books of accounts of real estate property owners. In barely one year of examination, it collected P107 million in back business taxes. In the preceding years, the unit in charge of this job collected a pittance of P6 million.

A four-man team conducted surprise calibration of the pumps of gasoline stations in Quezon City and found out that some of the them have been gypping motorists with their defective pumps. Fines collected from these errant gasoline outlets amounted to over P350,000 in just a few weeks. The lone agent previously assigned to do this job turned in only P20,000 during this assignment.

Immediate punitive measures are taken against tax evaders and delinquent taxpayers. Utmost courtesies and considerations are accorded to those who willingly and promptly settle their tax obligations.

With the assessment, billing and payment systems now fully computerized, taxpayers now spend little time at City Hall while paying their tax obligations. Air-conditioned lounges, supplying free coffee and ice tea, have been installed at the assessment and payment sections.

After one year, Mayor Belmonte called a new bidding for all supplies to the city government. He found out that many items have been paid twice more than what they cost in the market. The disparities in the price reference list are glaring.

Keeping in step with advances in information technology and digital systems, Quezon City is now implementing a Geographic Information System (GIS) for future tax mapping of real estate property.

Mayor Belmonte vowed to institute more effective measures to encourage business and industry to locate in Quezon City. The beautification and improvements of business growth centers all over the city has been going on.

The paved pedestrian lanes and sidewalks of Morato Avenue are now a tourist attraction. Similar projects are being undertaken at Amoranto Avenue to make La Loma district the *lechon* capital of the country. Novaliches is now a booming business district following the construction of massive infrastructure projects.

Eastwood City in Libis is now the playground of the rich and yuppies (young professionals).

Methodical in approaching problems and situations, applying common sense in analyzing them, tapping the scholarships of experts in designing solutions, and focused and purposeful in implementation, Mayor Belmonte deserves real credit for Quezon City's financial success.

But it is in observing rigid fiscal discipline where Mayor Belmonte excels.

His mantra or guiding policy is value for every peso spent. He insists that every commodity purchased or every service rendered is worth the amount the city government is paying for.

He scrutinizes minutely the cost of every project, every purchase for supplies, and

Statements of income and expenditures 2005

Particular	Quezon City	Manila	Makati
Income	7,376,391,780.00	7,119,823,858.00	6,320,342,864.75
Local sources	5,828,214,960.00	5,103,606,479.00	5,810,054,849.16
Tax revenue	5,240,530,690.00	4,438,344,332.00	5,264,943,985.16
Real property	2,299,519,760.00	1,889,166,686.00	2,462,986,843.28
Business taxes	2,635,229,130.00	2,351,070,156.00	2,513,988,823.49
Other taxes	305,781,800.00	198,107,490.00	287,968,318.39
Non-Taxes revenue	587,684,270.00	665,262,147.00	545,110,864.00
Regulatory fees	304,124,060.00	269,796,183.00	187,575,606.84
Service/user charges	122,166,900.00	166,311,490.00	66,601,993.32
Receipts from Eco. Ent.	30,658,620.00	185,458,341.00	105,744,778.21
Toll fees	0.00	9,913.00	0.00
Other receipts	130,734,690.00	43,686,220.00	185,188,485.63
Shares from national tax collections	1,548,176,820.00	1,156,140,434.00	431,979,800.00
Extraordinary receipts/grants/aids	0.00	500,000.00	26,608,118.85
Loans and borrowings	0.00	0.00	51,700,096.74
Inter-local transfer	0.00	859,576,945.00	0.00
Expenditures	4,796,002,210.00	5,902,084,336.00	4,416,865,605.91
General public services	2,764,148,010.00	801,830,405.00	1,636,072,067.29
Edu., cult., & prop. control	832,113,490.00	754,146,733.00	881,115,126.08
Health, nutrition & pop. control	275,109,320.00	747,184,078.00	353,789,575.37
Labor & employment	1,624,500.00	0.00	0.00
Housing & community dev't.	13,097,220.00	809,548,846.00	0.00
Soc security/Soc service & welfare	71,418,140.00	120,279,629.00	18,076,862.34
Economic services	128,907,610.00	780,166,232.00	516,149,711.01
Debt servicing	0.00	122,322,825.00	788,799,714.27
Other purposes	709,583,920.00	1,776,605,588.00	222,862,549.55
Excess (deficit) of income over expenditures	2,580,389,570.00	1,217,739,522.00	1,903,477,258.84

Source: SIE Databank—Bureau of Local Government Finance

every contract for services. For major infrastructure projects, open and public biddings are conducted in his presence. The same procedure is observed for programs which entail substantial expenses.

The mayor personally adheres to this mantra. He deserves every peso he gets in salary or allowances from the city government. No one works harder than the Mayor who is a confirmed workaholic.

One of the most trying chores Mayor Belmonte has to undertake is receiving callers during People's Day, held every Monday.

Hundreds troop to his office, mostly delegations of citizens with specific problems or requests.

The mayor attends to his callers from nine in the morning until every visitor has been entertained, taking a brief respite to take his lunch, usually at already 2:00 in the afternoon.

He does not merely gloss over the issues or problems brought to his attention. He immediately acts on them, calling to his office the heads of offices directly concerned. Mayor Belmonte spends quality time with all of his callers.

Throughout the last three years of his first term, the indefatigable Mayor Belmonte has not been absent, not even once, from his People's Day every Monday.

His schedule for the rest of the week are as hectic as his tiring hours during People's Day.

While talking with callers, officials of the city government, or receiving incessant phone calls, Mayor Belmonte signs papers. He reads every letter, memo, note, or document at his desk. He misses nothing. His brief marginal notes spell out his decision, comments and directives.

Papers not acted during the day are brought to his residence and returned to his office the following morning already with his notes at the margins.

Sources of revenues

City Hall employees and officials are now always on their feet. They have to be diligent and dedicated. They feel they must somehow strive to approximate the Mayor's exemplary work ethic.

The taxing powers of local governments under the local government code, local government units, starting from provinces, cities, municipalities and barangays were given greater autonomy in certain areas of governance, the most important and far-reaching of which was the power to impose and collect taxes.

There are three main sources of revenues for local governments: 1) Local sources derived from real property taxes, business taxes and non-tax revenues; 2) External sources coming from its share of Internal Revenue Allotment or IRA, aids from the national government and national wealth and 3) Borrowings from banks and credit institutions.

COVER STORY



ENDRIGA greets President Arroyo while Finance Secretary Gary Teves looks on.

Taxable real properties consist of lands, buildings and machinery. For assessment purposes, real property taxes are classified as residential, agricultural, commercial, industrial, mineral and timberland.

Under Rule XXX, Article 218, of the Local Government Code, each LGU has the power to create its own sources of revenue and to levy taxes, fees or charges subject to the provisions of this Rule. Such charges accrue exclusively to the local government unit concerned.

Provinces are allowed to collect taxes, fees and charges derived from tax on transfer of real property ownership, franchise tax, tax on sand, gravel and other resources, tax on business of printing and publication, professional tax, amusement tax and annual fixed tax for every delivery truck, or van, manufacturer or producer, wholesaler, dealer, retailer of certain products.

Municipalities may collect taxes, fees and charges not otherwise levied by provinces. They can collect manufacturers tax, wholesalers tax, tax on exporter and essential commodities, retainers tax, contractors tax, tax on banks and other financial institution, peddlers tax and tax on any other business not otherwise specified above.

Cities may levy taxes, fees and charges which the provinces or municipalities may impose and may exceed the maximum rates

allowed for provinces or municipalities by not more than 50% except the rates for professional and amusement taxes.

Quezon City enacted Ordinance No. SP-91, SP-93 on June 3, 1993 which is now officially known as The Quezon City Revenue Code of 1993.

The City, however, recently realigned its business tax rates with existing rates of neighboring cities. Under the local government code, the city is allowed to raise the rates of business taxes in excess of the maximum rates allowed for provinces and municipalities but not by more than 50%, except the rates of professional and amusement taxes.

Still, the business tax rate in Quezon City is lower than most of the other cities in the national capital region.

This is true with respect to some of the other specific taxes.

For instance, for banks and other financial institutions, Manila imposes a 20% of 1% tax while Quezon City collects 15% of 1%.

Caterer's tax imposed on eating places such as restaurants, cafes, catterias, refreshment parlors, fast food centers and snack centers, the tax rates are based on gross receipts or sales of the preceding calendar year. Pasig City collects 2.8% of gross receipts while Quezon City gets only 1.2% of gross sales in excess of P67,000 on top of a regular annual

fee of P2,010. Manila collects 1% on gross sale of food, softdrinks and 3% on sales of beer, wines, liquor, and other alcoholic products, including cigarettes and tobacco products.

On hotels, Manila collects 3% of the gross receipts while Quezon City gets only 1% of gross receipts. Makati, however, collects only 50% of 1% and Pasig, 70% of 1%.

From other lines of business, Quezon City has the lowest rate: 1% of gross receipts compared to Pasig with 2.8%, Makati with 3% and Manila also 3%.

It is significant that even with lower tax rates on many revenue sources, Quezon City's income has increased significantly, exceeding its budget. This clearly indicates that in Quezon City, a more effective and efficient collection system is in place.

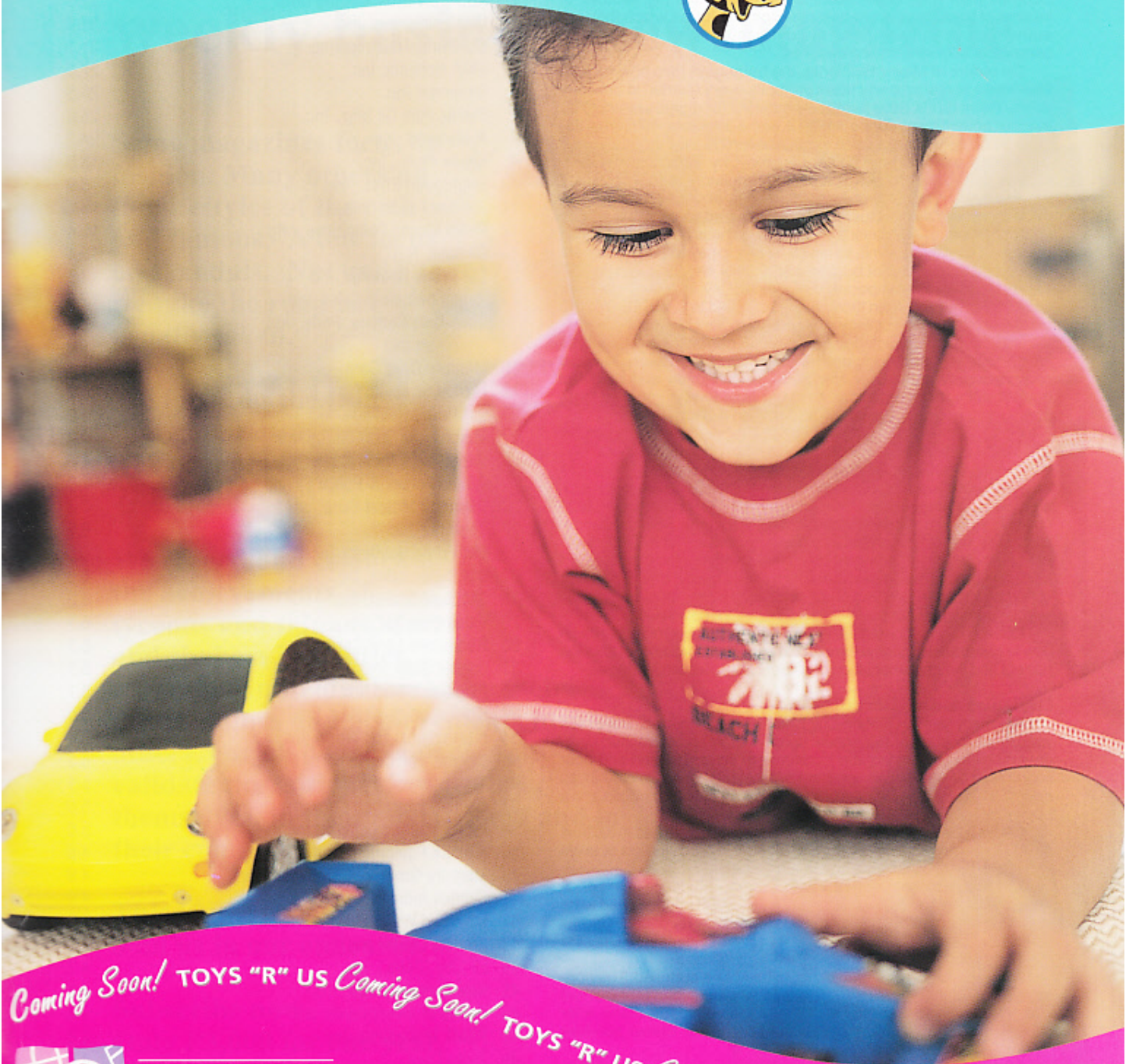
Another sizable income of Quezon City comes from its over two million citizens and corporate or juridical entities. This is what is called the Community Tax or what was previously known as residence tax.

The standard amount is P5 from every individual plus an additional P1 for every P1,000 income regardless of sources but in no case to exceed P5,000. Juridical persons have to pay P500 each and an additional tax which, in no case, shall exceed P10,000.

In sum, Quezon City's biggest income comes from business taxes which consti-

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COVER STORY

tutes 40% of total revenues. Real property taxes add up 30% to the city treasury.

Quezon City's income from the Internal Revenue Allotment, which is the main source of revenue for most local government units, contributes only 20% to its coffers.

The increasing solvency of Quezon City has filtered down to its 142 barangays some of whom have populations bigger than first class municipalities in the provinces. Some of them have bigger incomes than rural government units. One of the big sources of income of barangays is precisely the community tax which they are authorized to collect. 50% of community taxes collected by barangays accrue to their treasuries.

On orders of Mayor Belmonte, the barangays also now receive their share of real property taxes promptly every quarter. In previous years, these funds were purposely retained for months or years by the city government during which it earns interests from time deposit placements or are used to cover overdue payments.

Aside from business taxes, Quezon City derives substantial income from business permit fees and regulatory fees.

Any person, natural or juridical, who is engaged in business, trade or activity within Quezon City is required to submit a written application to the City Mayor through the business permit and license office for a business permit, for which he has to pay a specific amount depending on the kind of business or activity engaged in.

Again, the rates imposed by Quezon City in most classifications, are much less than those being collected in Pasig and Manila but the same as those collected by Makati, except in a few instances.

The city also collects fees for special permits as well as fees for certain services such as the collection of garbage. Yet, the city practically subsidizes the garbage collection and disposal budget since its income from garbage fees is nil compared to its annual expenditure of about P600 million a year.

Other incomes derived by Quezon City come from inspection and health certificate fees, building and other construction fees, sign permit fees, electrical and installation permit and inspection fees, fees for sealing and licensing of weights and measures, market fees, cemetery fees, storage of flammable, combustible or explosive substances, excavation permits fees, civil registry fees, fees on slaughterhouses, mayor's or secretary's certification fees, fees for numbering of residential, commercial and other buildings, license fees for signs, signboards and advertisement, special permit fees for cockpit operations, license fees for gun clubs, special permit for lumber yards, special permit fees for pay parking areas, and fire inspection fees.

Quezon City is showing the way for other local government units on how to maximize its income through the effective exercise of its taxation powers and the implementation of efficient tax collection strategies.

Strategies and measures

For many years, Quezon City was always on the red. Revenues were woefully short of the annual budget. Graft and corruption dissipated the already inadequate income from taxes. The sad and poor financial health of the city government in 2001 was reflected in an empty treasury with a negative cash balance of over P10 million and a budget deficit of over P970 million.

Clearly, upon assumption of office, Mayor Belmonte had to institute effective measures to maximize and fast-track the collection of taxes and check the dissipation of revenue generation.

The first order of business was to exercise prudence in expenditures. Fiscal restraint was paramount. A system of priorities had to be drawn up in spending the initial and inadequate revenues. Careful validation of all claims for payments had to be undertaken. Only the most immediately needed supplies were purchased.

Allowances and overtime benefits had to be curtailed. The non-renewal of contracts for over 7,000 casual employees represented over P126 million in immediate savings for three months alone. After a few months, 30% were rehired but only those whose services were needed.

In six months, effects of the belt-tightening measures were felt. The city government was able to pay P900 million of inherited claims for payments. The budget deficit was narrowed down to less than P100 million.

Top 50 Quezon City's taxpayers

Company Name	Total Amount (P Millions)
1 Manila Electric Co.	132.7
2 ABS-CBN Broadcasting Corp.	51.5
3 IBM Philippines, Inc.	39.2
4 SM Prime Holdings, Inc.	31.1
5 GMA Network, Inc.	27.8
6 Shoemart Inc.	26.5
7 Pacific Pain Oil Mfg., Inc.	25.8
8 Ayala Land, Inc.	24.2
9 Nestle Phils., Inc.	18.8
10 Brightpoint Phils., Inc.	16.9
11 Jollibee Foods Corp.	16.1
12 Philip Morris Philippines, Mfg.	15.4
13 Citibank, N.A.	15.1
14 SM Prime Holdings, Inc.	13.6
15 Regan Industrial Sales, Inc.	12.8
16 Coca-Cola Bottlers, Phils., Inc.	12.2
17 Shoemart Inc.	11.0
18 Mercury Drug Corp.	10.4
19 Market Strategic Firm, Inc.	10.2
20 SM Prime Holdings, Inc.	10.0
21 Merchantile Store Group, Inc.	9.7
22 Supervalve, Inc.	8.6
23 Armed Forces & Police Savings & Loans	7.5
24 Diamond Motors Corp.	7.4
25 Chemrez, Inc.	6.8
26 SM Prime Holdings, Inc.	6.5
27 SM Supermaket, Inc.	6.3
28 SM Supermaket, Inc.	6.3
29 Value Plus, Inc.	6.1
30 Robinsons Land Corp.	6.1
31 Capitol Steel, Inc.	6.1
32 Pilipinas Makro, Inc.	5.7
33 IDS Logistics (Phils.), Inc.	5.5
34 International Toy World, Inc.	5.4
35 Oriental Tiin Can & Metal Sheet, Inc.	5.3
36 Television and Production Exponent	5.1
37 Diliman Education Corp.	5.0
38 IBM Solutions Delivery, Inc.	5.0
39 Monark Equipment Corp.	4.9
40 Mercury Group of Companies, Inc.	4.9
41 Cygnus Industries, Inc.	4.9
42 Maynilad Water Services, Inc.	4.8
43 Araneta Center, Inc.	4.5
44 Eli Lilly (Phils.), Inc.	4.3
45 New Farmers Plaza, Inc.	4.3
46 House of Investments, Inc.	4.3
47 PSMT Philippines, Inc.	4.0
48 Zesto Corp.	4.0
49 EEI Corp.	3.9
50 Gen. Metal Container Corp. of the Phils.	3.9

Source: Quezon City Hall Treasurer Office

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COVER STORY

In less than one year, the financial woes of Quezon City was over. It has been in the black ever since.

There was no doubt that the measures instituted to maximize tax collection and prevent dissipation of revenues from corruptive practices were effective.

But it was first necessary to find out why there had been low revenue generation over the years.

The city government hired an independent and private encoding firm to encode all payments for real property taxes and the tax declaration of taxpayers. The computerized review of the RPT tax payments was conducted with utmost secrecy and took several weeks to complete.

The review uncovered over P10.7 billion in tax delinquencies.

Delinquency letters demanding immediate payments were sent to the tax evaders. The syndicate behind the fixing of tax assessments and issuance of fake receipt were driven out of business. Their clients who paid their services in order to evade or minimize tax payments finally realized that the new city administration meant business.

The complete computerization of the assessment and collection systems was immediately undertaken. Processing of tax payments no longer proved taxing and infuriating to taxpayers.

Air-conditioned and well-appointed lounges for taxpayers were installed at the second floor of City Hall and at the ground floor of the annex building for the convenience and comfort of the taxpayers.

Taxpayers were attended to on a first come, first served basis by courteous tellers who come up with tax records and encode tax assessments in a matter of seconds or minutes.

The most telling message sent by the city government to delinquent taxpayers was that their properties will be sold at auction for failure to pay their taxes in accordance with legal processes.

Granting tax amnesties was discouraged as the system tends to encourage delayed or late payment of taxes. Instead, the city government offered substantial discounts to those who pay taxes promptly, or early.

Hundreds of delinquent taxpayers sought compromise agreements upon receiving notices that their properties will be sold at auction for failure to settle their obligations to the city government. The City Treasurer accepted down payments of at least 30% of a tax delinquency with the balance payable in six months or less.

To ensure immediate and prompt payment of taxes, the city government required building officials to forward to the City Assessor the building and occupancy permit, stating the total value of the construction cost, for issuance of a new tax declaration.

This was aimed specifically at contractors who nonchalantly avoid paying taxes to the city government. The best example was the construction firm which built the Quezon Avenue underpass. He ignored the demand payment of the City Treasurer. Mayor Belmonte wrote the Secretary of the Department of Public Works and Communications requesting that the contractor should not be paid for the project unless he first pays his tax obligations to Quezon City. The contractor promptly paid P5 million in contractors' fees.

Some manufacturing firms were also found delinquent in tax payments. The city government instructed the city engineer to forward to the city assessor all application for mechanical permits before issuance of a new tax declaration on machineries.

Verification of the total value of machinery as appearing in the tax declaration issued by the assessor's office and counter-checked with that appearing in the financial statements is now also being undertaken to determine the correct taxes for machineries.

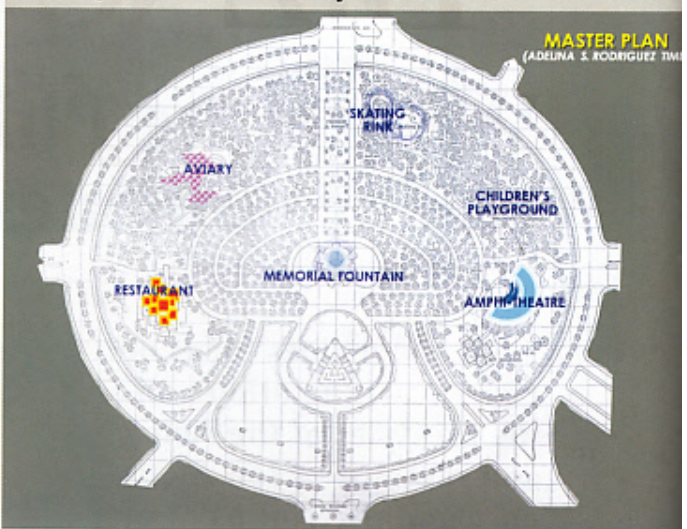
Random examination of the books of accounts of business establishments prompted business firms to pay correct taxes. Unlicensed establishments are being regularly checked.

Dealers, sellers, and developers of real estate, such as land, building, condominium units and the like are now required to present their Mayor's permit and receipts for payment of business taxes before processing of the transfer tax is made.

The presumptive income level approach is now employed to determine if gross tax declarations are current and realistic.

In Quezon City, it is now extremely difficult to avoid or delay payment of taxes. The City Accountant now deducts immediately

Masterplans for Quezon City Circle



PROPOSED RE... LOCATION

- At the heart of six major thoroughfares converge (North Luzon Expressway, Kalayaan, Commonwealth Avenue, Visayas Avenue, etc.)

PROJECT COVERAGE

- Quezon Memorial Circle (25 has.)

Promotion of garden city

- Core of the city's Open Space
- Historical site (museum)

from the voucher due a contractor for a project with the city government the business tax payment as well as the tax payable to the national government. Three checks are prepared and issued covering these payments: One to the contractor, another to the city treasury and the other one to the Bureau of Internal Revenue.

The city also now requires taxpayers with gross receipts of over P500,000 to submit BIR-stamped financial statements and records of monthly payments of VAT and Non-VAT for the preceding year for comparison against declared receipts for the current year before they can be issued the Mayor's permit.

Mayor Belmonte went out of his way to establish goodwill with the leaders of the business community. He considered the city's big-

A bustling business center

With 2.17 million people and 65,000 establishments, Quezon City is a veritable bustling business city.

So City Treasurer Victor Endriga proceeded to make policies business-friendly.

Airconditioned lounges have been put up at the ground floor of Quezon City Hall. Tellers are organized like those in a bank -- with transparent windows, numbered consecutively, like one to 24, and a machine that dishes out queue numbers.

While waiting for their turn, taxpayers are served coffee.

Endriga and his boss, Mayor Sonny Belmonte go out of their way to establish rapport with the city's top taxpayers and make them feel they are getting their taxpayers' money's worth.

Thus, the country's leading taipans and tycoons are on first-name basis with the mayor—John Gokongwei Jr., Henry Sy, Lucio Tan, Geny Lopez, Henry Gozon, Andrew Tan, to name some.

The 60,000 business firms in QC range from from giant malls, manufacturing firms, professional and service firms, manufacturing firms, professional and service firms, transport and communications companies, food chains and restaurants, entertainment centers, equipment and machine dealers, to small sari-sari stores and beauty and health care facilities.

The sheer volume of business that a market of over two million people will generate should guarantee a revenue income more than sufficient for the city government's needs, says Endriga in his book, *"The Roadmap to Financial Stability"*, now the bible of many a city or municipal treasurer on how to raise revenues by really trying.

In collecting taxes from businesses, Endriga points out, premises, however, should be first established: The taxpayers are willing, perhaps even eager, to pay all their tax obligations to the government if the city administration can be trusted to spend the tax revenues for the welfare of its citizens.

Endriga elaborates:

An honest administration readily draws the support and cooperation of the prime movers of business and industry and the entire citizenry.

This is what Mayor Belmonte has worked for and accomplished.

Mr. Henry Sy with his chain of giant malls and other business enterprises is the big-

gest Quezon City taxpayer.

Another taipan, Mr. John Gokongwei, also contributes handsome amounts to the city government in terms of business and real estate taxes. A portion of Robinsons Galleria at Ortigas Avenue rest on land still within the jurisdiction of Quezon City.

For their major role in shaping the economy of Quezon City, both Mr. Sy and Mr. Gokongwei have been singularly honored and given special citations by the city government.

The top television and radio networks in the country are based in Quezon City. Both are also among the highest taxpayers in the city. ABS-CBN and GMA 7 have made Quezon City the entertainment capital of the country.

The biggest number of branches of the giant food chains like Jollibee, McDonalds, Shakeys, Kentucky, and Starbucks can be found in Quezon City.

Dr. Lucio Tan, one of the richest taipans in the country, aside from owning valuable real estate properties, have business establishments, including branches of Allied Bank, in Quezon City. He is certainly one of the biggest taxpayers in Quezon City.

The Aranetas, pioneers, in the establishment of business centers in the city, lord it over the business establishments in Cubao where all the first class shopping centers are located.

The 7/11 chain of convenience stores have numerous outlets in Quezon City.

Andrew Tan spearheaded the rise of Eastwood City, the newest business growth center in Quezon City. The high-end condominiums, entertainment establishments, restaurants, and top-class stores can be found at this strip of land around Libis which had become a favorite playground of the yuppies.

The entire length of Banawe Street is the trade center of supplies of automotive spare parts and equipment. Similar establishments are sprouting along Aurora Boulevard and in some busy streets in Novaliches.

Novaliches, the biggest district in the city, is now a fast developing economic growth center. Banks and commercial establishments are cropping up along the broad and long corridors of Commonwealth Avenue.

The best restaurants in the country are lined up along the tiled sidewalks of Morato Avenue.

All these varied classes of business enterprises and the legendary entrepreneurs who pioneered them represent the composite profile of Quezon city's taxpayers.

The Quezon City Chamber of Commerce and Industry has put up a databank which will encode and document the nature and market of the various business establishments in Quezon City.

Collectively, Quezon City's residents and businessmen constitute the main engine for the progressive economic ascendancy of the metropolis named after Quezon. ■



MON ILAGAN



EDGAR VILLANUEVA

Mayor Ilagan: Building a city

In May 2004, broadcaster Ramon "Mon" Ilagan ended the 58-year reign of one of the most enduring political dynasties in the metropolis by running on a platform of good government.

However, being a giant-killer is easier than managing a bustling town like Cainta.

"I want Cainta to become a city," dreams the mayor.

To be a city, the town must have the amenities of a decent city. Cainta has none.

It did not have a hospital. Ilagan put up one—a 15-bed facility and his first major accomplishment as mayor.

Cainta doesn't have a public cemetery. The mayor is looking for land to have one.

To build or provide for such basic facilities, the town needs to raise money.

When he reported for work in July 2004, Mayor Ilagan found a municipal hall bereft of records—taxpayers', contracts, revenue papers. He thus needed to have a competent municipal treasurer. That guy, Edgar Villanueva, came in handy, courtesy of Dr. Victor Endriga, the legendary Quezon City treasurer.

Next, he had to establish rapport with the town's taxpayers and potential investors. His background as a respected journalist helped him a lot, especially in meeting all kinds of people and dealing with all kinds of circumstances.

Having made his name as a journalist, politics or public service, Ilagan says, "is the

next challenge of my life. My heart lies in public service."

Cainta's biggest problem is unemployment, as high as 40%. The town has a population of 400,000 but doesn't have enough industries to employ its burgeoning work force. Its main product is native delicacies, *bibingka*.

There are, of course, a number of big industries like Sta. Lucia Mall, GSK, Mitsubishi, a large garment and steel factory but that's about it.

Ilagan has resorted to what seems like a magic formula—open up call centers, demand for which rising exponentially. The town has plenty of land—2,400 hectares and is only 3 kms from the Ortigas business center.

A large call center has been opened at the Sta. Lucia Mall, with potential for 2,500 jobs and operated by the third largest company in the business. About 70% of the workers will be sourced from Cainta.

One problem is perennial flooding, the town being below sea level. Another is traffic, also a perennial problem, because Cainta is a crossroad.

To attract business, Ilagan is trying to improve the peace and order situation and of course, the traffic. Fortunately, the mayor gushes, "we don't big-city crimes like rape or massacres."

"People want to see change, reform, projects," says the mayor. Getting those things requires money. The 15-bed hospital

alone eats up P85 million a year. "Health is a service closest to the heart of the people," explains the mayor.

Ed Villanueva as treasurer is a blessing. He has adopted some of his mentor Endriga's best practices like treating taxpayers like VIPs and using the presumptive income approach to determining taxable income.

Construction of an air-conditioned taxpayers' lounge equipped with cable television and a dispenser for free hot coffee was a big hit in the town.

"The taxpayers are our reason for existence and they should be treated like the VIP's they really are," explains Villanueva.

As a journalist, Ilagan has heard about Endriga. He talked to him and asked for the detail of a good revenue officer.

Villanueva wasn't surprised why Cainta's tax revenue was low. "The municipal treasurer just waited for taxpayers to walk in to pay taxes. He didn't actively seek them out," he recalls. And the taxpayer declared what he wanted to declare and paid the amount he wanted to pay.

The municipal hall people didn't bother to audit the claims of taxpayers. Also, most of the town hall's employees are relatives of the mayor and taxation was a sensitive issue to the people.

But change had to come. And Mayor Ilagan is determined to enforce it. He needs it to make Cainta a city on its own. ■

The Samurai municipal treasurer

The financial rehabilitation of Cainta town, east of Manila began in earnest on the day former broadcaster Ramon "Mon" Ilagan took over as mayor of the town on July 1, 2004.

Ilagan found a municipal hall literally in shambles. Records, contracts, important papers were missing, particularly those involving tax and revenue collection.

To put things in order, Ilagan recruited suburban Quezon City's hotshot revenue officer, a young, clean-shaven technocrat in the person of Edgar Torres Villanueva as Cainta's municipal treasurer.

Villanueva holds the distinction of bagging the single biggest tax collection in one day, a whopping P29 million back taxes paid by a giant telecommunications company. The corporate behemoth insisted it didn't need to pay the tax since it was already paying a franchise tax and it was in lieu of all other taxes.

Villanueva insisted the company should pay and thru his dogged patience and insistence, the company relented and parted away with its money.

At Quezon City, Villanueva honed his skills for 17 years, beginning as a contractual special tax examiner in 1987 to Revenue Examiner of the Century awardee for bagging that P29 million in a day's work.

In between, Villanueva managed to finish law (FEU, 1990), and became a supervising revenue examiner. He was preparing for the bar examinations when new challenges beckoned, as treasurer of Cainta town.

He credits his mentor, Dr. Victor Endriga for what he has become today. Ramon Ilagan's colleague and friend, fellow ABS-CBN broadcaster Jake Maderazo advised the newly minted mayor that for him to succeed, he had to have a good municipal treasurer. Maderazo asked Ilagan to contact Endriga who happily recommended Villanueva.

Happily too, Villanueva adopted his mentor's tricks of the trade. He computerized Cainta's tax collection machinery, updated taxpayers' records (and duplicating them to make sure they won't

be missing or lost), double-checked municipal records with those filed by taxpayers with the Bureau of Internal Revenue and the Securities and Exchange Commission, and sent letters of authority to erring taxpayers.

If there was no way to determine how much income a taxpayer was making, Villanueva applied the presumptive income approach based on the track record of taxpayers in similar profession or business. The same principle was used in determining gross sales.

Policies like the transfer of Municipal Business Tax Assessment from the Business Permit License Office to the Treasury Dept. produced new metrics that helped the Ilagan Administration attain full network connectivity with its constituents.

The result has been a dramatic increase in revenue.

Thus, from a modest P336,173,631.64 in 2004, Cainta's revenue collection for year-end 2005 more than doubled to P684,242,134.80. Amazing, indeed. ■

PHALTRA: Bringing stability and viability to LGUs nationwide

By the dint of the power of money raised by treasurers and assessors, local elective officials are able to provide clean air and potable water to residents of the community, build safe streets and bridges, construct schools that truly educate, hire more and better employees to serve the tax-paying public, improve living conditions and the quality of life index, provide livelihood opportunities to level the economic field, purchase land for the landless, enhance protective services, preserve and conserve the ecology, etc.

The treasurers and assessors have a grouping called the Philippine Association of Local Treasurers and Assessors (PHALTRA): Effective vehicle for growth and development

PHALTRA represents 79 provinces, 214 cities and 1400 municipalities in 17 regions nationwide.

It is currently headed by its National President, Quezon City Treasurer Dr. Victor B. Endriga—the only local treasurer with a doctorate degree in fiscal studies.

He took further studies at the Harvard University/John F. Kennedy School of Government. He specializes in fiscal decentralization and financial management of regional and local governments.

Under Endriga, PHALTRA members had shaped up to meet the "challenge and response scenario".

This calls for local economic leadership to complement the political leadership to bring about a favorable condition where both leadership may rise greatly because of the concentrated skills.

The local treasurers and assessors are both fiscal agents and economic managers.

They determine the financial resources and service capability of local governments to cope with such complex problems as land use policy and urban growth, disposal of solid wastes and pollution, transportation, water and energy supply, irrigation and food production and supply, education, crime, poverty, and health.

Carrying out development plans does not just depend on political will or raw courage or steady nerves. It depends on how strong local reserves are and how fast the local leadership can mobilize them.

Local governments cannot make any dramatic advances unless the "revenue generators" take on the apparatus of a co-equal branch of government to tackle extreme problems that would integrate the well-thought out policy of the administration and the legislature and convert them into something empirical, pragmatic, practical and practicable.

Without economic viability, there is no political stability. That's basic in local governance. The power of government to make people happy and miserable depends on the money raised by both treasurers and assessors. It's a way by which elective officials are able to genuinely reflect and represent their constituents and respond to their needs to once more count for something in the public life of the community. —Ramon Roces Arevalo, PhD

What they say about Dr. Endriga

Feliciano Belmonte QC Mayor

The impact of Dr. Endriga's tax collection efficiency on the social, political, environmental landscapes, including the peace and order and security of the city can never be quantified. Indeed, he has created a congenial climate for sustainable growth for raising the revenues needed to address the people's needs.



Vic Reyes Chief Real Estate Division, QC

He had worked with Dr. Endriga for more than two decades.

Treasurer Vic is more than just a boss; he is a leader and, quite significantly, a friend. He taught me the ropes that I had become good at what I do. But more than the technical aspect of work ethics is that he taught me honesty and integrity in public service. I will work with the man and follow him wherever destiny takes us.



Gemiliano C. Lopez Jr. Former Manila Mayor

Dr. Endriga helped me design the financial platform to better respond to and be responsible for the people's vital needs. His expert advises on the handling of public funds made my administration a dynamic tool for public service. Our partnership enabled the city to enjoy a surplus fund to the tune of P2 billion which, in the '80s had been unprecedented and a remarkable feat.

Herbert M. Bautista Vice Mayor, Quezon City

A pundit and goal-oriented public official whose impeccable record in financial management as well as efficient tax collection strategy that made QC the Richest City in the Philippines had been adopted by LGU's nationwide brings pride and honor to the city and her people. the latter's Manila assignment.



Marilyn del Rosario Utility person, QC City Hall

Despite being the best treasurer in QC has ever had, Treasurer Endriga remains humble. We love and respect him not only for his exemplary abilities but because of his kindness. He is loyal to his job and loyal to his fellowmen that I will serve him with full dedication and fidelity.

Sotero Laurel Former Senator, Chairman, Board Lycee of the Philippines University

I salute Dr. Endriga for his exemplary and worthy accomplishments as public servant in positions of leadership and responsibility. He continues to serve with unequivocal dedication, integrity, competence and high ethical standards.

For his manifest expertise in the field of local government finance, he remains a top-ranking member of the Faculty of the College of Business Administration and College of Foreign Service and the Graduate School of the Lyceum of the Philippines University earning credit, honor and prestige for himself and his alma mater.



Nathan Zulueta QC Chamber of Commerce and Industry

As active partner of Mayor Belmonte, he was the prime mover and architect of the economic recovery of Quezon City, making it the richest city.

VIVA AYALA

Jaime Zobel de Ayala congratulates Jaime Augusto Zobel de Ayala after relinquishing the post of Ayala Corp. chairman to his son. As chairman, Don Jaime capped 23 years of innovative and enlightened management that made the diversified property, banking and industrial conglomerate the largest and most profitable and one of the country's biggest investors. JAZA and his brother, Fernando say building trust, stability and predictability are the hallmarks of Ayala, virtues they must uphold in the years to come.



The golden years

By JAIME ZOBEL DE AYALA

(Letter to Ayala Corp. stockholders on the occasion of Don Jaime's retirement as chairman after 23 years at the helm)

With this letter, this year, I take my formal leave as chairman of the board of Ayala Corp. As plain and as final as that may sound, I say it with the most complex mixture of pride, joy, and relief on the one hand, and some sadness on the other.

The first reaction comes from the assurance that I will be leaving behind a company in good health—one with a noble tradition of leadership and success behind it and even brighter prospects on its horizon. The second is, understandably, a personal albeit passing sense of regret—not over yielding my responsibilities to others, but because retirement will mean missing familiar faces and the kinds of routines that we take for granted the moment and yet, taken all together, make up productive and satisfying lives.

My life in and out of the company has certainly been a productive and satisfying one—indeed blessed in so many ways. But it took my nearly 50 years with Ayala to give my life a purpose beyond self-fulfillment. It will be no exaggeration to say that, from the day I entered the company as an executive assistant in 1958 with a salary of P400 a month, Ayala molded my character as much as I helped mold it many years later.

And this was because, unlike some other enterprises, Ayala has always seen business as a means to serve the people and the nation, as a privilege and a power to wield with vision and responsibility. If we have not only endured but flourished despite the most difficult of times, it is because we have always been forward-looking, locating ourselves in a larger context even as we have stood our ground—our principled ground—in the strongest political and economic winds.

Today, once again, our nation is at a crossroads, its peace and well-being threatened by a crisis of faith in our political institutions. I feel saddened and at the same time challenged by these developments, which will one again take the measure of our corporate as well as our individual citizenship.

While I have no doubt that Ayala—and our people—will weather this storm, we are reminded of the continuing need to create a climate of genuine and far-reaching reform, which is still our best guarantee of prosperity and progress for the many, and not just for the few. We at Ayala have never shirked that responsibility to the greater good. If we have remained in business for over 150 years, it has been because we have cast our lot with that of the

people we serve, instead of just taking them as clients and customers.

As an international newsmagazine once observed of our company: "In more than a century and a half it has survived two revolutions, a world war, three colonial regimes and one post-war dictatorship." On a day like this, I myself feel like I have gone through all these events, and more, considering the many changes and challenges I saw Ayala face over the past five decades.

But it can only be with a tremendous amount of pride that I now look back on those five decades and what we have achieved in that time—less than a mere third of our corporate life, when you come to think of it, but what a third it has been. They were, in a word, our golden years.

In those fifty years, Ayala grew from a company rooted in history and in the products we associate with tradition to a 21st century conglomerate, one vigorously engaged in micro-processors, universal banking and finance, insurance, telecommunications, property development, public utilities, and automotive assembly and distribution. In other words, Ayala has not only kept pace with development; it has led development, staking out key areas of national growth and enriching and enlarging those areas.

Over that period, we can look back to many milestones in our growth.

We spun off Ayala Land Inc. (ALI) in 1988 and listed it in the Stock Exchange in 1991, opening up a company to large institutional investors and the investing community at large. Since then it has grown to become the Philippines' largest and most diversified, and most experienced real estate developer. The Ayala name—historically linked to the transformation of Makati from a backwater to the country's premier business district—has not come to be identified with such high-end developments, not only in Metro Manila but in Laguna, Cavite, Cebu, Bacolod, and an ever-growing number of other cities throughout the country. In 2003, ALI acquired a controlling interest in Fort Bonifacio Global City, a major integrated property development that becomes a logical extension of the community it had built in Makati.

In Bank of the Philippine Islands (BPI), we enjoyed an excellent, productive working relationship with our major investor-partners, the Roman Catholic Archdiocese of Manila, JP Morgan (for over 25 years from the mid-1970s), and subsequently with the Development Bank of Singapore. Their support has helped BPI to grow to become the country's largest bank in terms of market capitalization and second largest in terms of asset size. Over the last two decades, BPI embarked on a vigorous expansion program through a series of mergers and acquisitions that



included the acquisition of Family Bank and Trust Co. (1985), Citytrust Banking Corp. (1996), Ayala Insurance Holdings Corp. (2000), Far East Bank and Trust Co. (2000), DBS Bank Philippines (2002), and Prudential Bank (2005). In 2000, BPI became the first bancassurance firm in the Philippines. It was in that same year that BPI introduced internet banking to the country. Today, BPI has over 700 branches and 1,100 ATMs nationwide—the largest network—serving about three million depositors.

Globe Telecom has changed the terrain of cellular telephony and digital technology in the Philippines. This is a distinctly different company from its predecessors Globe Mackay Cable and Radio Corp., which I chaired for many years from 1979 to early 1990s. With a market share of about 40% of all digital wireless subscribers, it is a leader in its field. It was in the 1990s that Globe as we know it today to shape, fortified by Ayala's partnership with Singapore Telecom International in 1993 and its subsequent purchase of Isla Communications Co. Today, the Globe name is synonymous in the Philippines and in the region with quality digital cellular service.

Following the privatization of the Metropoli-

BUSINESS



THE AYALA TROIKA: Jaime Augusto Zobel de Ayala, Ayala Corp. chairman and CEO; Don Jaime Zobel de Ayala, chairman emeritus; and Fernando Zobel de Ayala, vice chairman

tan Waterworks and Sewerage System in 1997, Ayala, in partnership with United Utilities PLC from the U.K., the Bechtel Group Inc. from the US, and Mitsubishi Corp. from Japan, won the bid for the concession covering Metro Manila's East Zone, and today the Manila Water Co. is bringing clean, dependable, and affordable water to over five million people. Management reforms and fiscal discipline have resulted in great benefits for both the public and the company, with 24-hour water availability rising from 26% in 1997 to 89% by the end of 2004, and 100% compliance with water quality standards.

Ayala has made significant investments in electronics and information technology, particularly through Integrated Microelectronics Inc. (IMI) and Azalea Technology Investments Inc. IMI, partnership of Ayala with Resins Inc., started out as an assembler of microchips way back in 1980, but it grew along with the technology to become a one-stop electronics manufacturing service (EMS) company. In 1998, IMI established EAZIX in partnership with SIX Corp. of Japan to offer design and engineering services including hardware and software design, prototyping, and product development.

In 2005, it acquired the assets of Saturn Electronics, giving it a design services presence in the US and a manufacturing presence in Cebu. In the same year, through its acquisition of Speedy-Tech, a Singapore-based company, IMI now has operations in Singapore and China.

Through our Singapore-based Ayala International Pte Ltd. We have been able to acquire choice properties in Australia, Hong Kong, and Singapore, and to make investments in Singapore, Hong Kong, Japan and the United States.

Through the Ayala Automotive Holdings Corp., Ayala has also been strongly identified with the development of the Philippine automotive industry, in which it is represented by two leading companies: Honda Cars Makati Inc. and Isuzu Automotive Dealership Inc. both of which are market leaders.

A market trait of our success is the high level of trust and productive cooperation that has been built up over the years with our strategic partners and institutional investors, for whose continuing support and confidence we are deeply grateful.

But business is not all we are concerned with. Lest we imagine that business is all we

have taken care of all these years, let me say how proud I am for the Ayala name to be associated with another cause dear to my heart: The preservation, promotion, and celebration of the best of Philippine culture and history. We have championed this cause through the many and varied activities of the Ayala Foundation and the Ayala Museum, both of which have done a wonderful job of presenting the spirit of the Filipino to the world at large—a spirit of industry, creativity, resourcefulness, and irrepressible hope. In 1999, we instituted the annual Ayala Young Leaders Congress.

Through this Congress, we have been able to tap into and support the idealism of our brightest youth and contribute, in this manner, to the development of enlightened and highly motivated leaders for the future. Many other outreach programs have brought Filipinos from all walks of life onto the same platform of change and growth for the betterment of the Filipino future.

We at Ayala are ever mindful of our responsibility to that future. We constantly strive through our product and services, to enhance the quality of Filipino life. ■



From JZA to JAZA, little wil

Jaime Augusto Zobel de Ayala became chairman and CEO of the Ayala Corp. on April 7, ending his father, Don Jaime Zobel de Ayala's 23-year reign at the Philippines' oldest, most diversified and profitable conglomerate. JAZA's brother, Fernando, becomes the president and chief operating officer.

There will be little change, if any.

One reason is that Ayala Corp. is now firmly in the hands of the family of Don Jaime.

The death last year of the family matriarch Doña Mercedes McMicking (Mermac) has led to the division of her 58.1% ownership of Ayala Corp. into nine parts—representing the seven children of Don Jaime and the two children of the late Enrique Zobel, Don Jaime's cousin.

That means 45.18% (valued at more than \$1.1 billion) of Ayala Corp. will now be directly owned by Don Jaime's children, with only 12.9% owned by Enzo's two children, Iñigo and Mercedes. The latter two were conspicuously absent from Friday's annual stockholders' meeting.

The other reason is that the former ambassador to the Court of St. James reigned for so long—23 years as chair and worked with Ayala for 49 years, that any lingering influence by the stewardship of the late Don Enrique has all but been obliterated.

"We do not foresee any significant changes in the management of the group and in our pursuit of our strategic objectives. Our track record has shown our ability to ensure continuity of vision, values and strategic goals through seven generations of leadership succession. My brother and I

have always addressed broad strategic initiatives in unison and have carried these out across key industry lines," says new President Fernando.

Asked what his father's legacy has been at Ayala, JAZA replied: "He made sure that trust remains with the products and services of Ayala across a variety of fronts." "It is important to him that trust remains," he added, saying that anything they do or sell, reflects a desire to build trust for the broader community.

The other legacy, adds Fernando, "is stability and predictability."

"We tend to be conservative as a group and that comes from the history of the company and the fact that there is a legacy we have to pass to the next generation," says Fernando.

Stability is seen in the succession, Fernando explains, "it's well prepared, there are no surprises. It's the stability we bring in our partnerships, and in how we choose them."

Despite the new titles, JAZA says "we have been working together now for many years, the portfolio is quite divided between us. At the holding company level, we divide up work between ourselves. We tend to act in unison, we divide responsibilities only because covering different industries is a lot of time and effort."

JAZA adds: "Both operating and strategic issues, as well as broader industry-related issues, are quite clear now. I don't see those changes at this point." "What you've seen up to now is fundamentally what you will see (in the future)."

Since Jaime Zobel de Ayala, now 72, took over the helm as president of the com-

Outlook

- **Not much operating and strategic shift in management direction despite Jaime Augusto Zobel de Ayala taking over as chair and CEO and Fernando as president/ COO**

- **Ayala Group looking at three areas: privatization, particularly of power plants, services (like call center office buildings), and fund management in the Philippines and abroad**

- **China and India are possible expansion areas**

- **Capex of P40 B this year on top of P40.1B in 2005 and P35B in '04**

pany in 1984, consolidated assets have grown from P4.2 billion to P173 billion and consolidated net income from P349 million to over P8 billion today. Over the same period, the company's market capitalization has also increased from P1.4 billion to over P120 billion.

Ayala Corp. had a record year in 2005 with P8.2 billion profit, up 12% due to the strong performance of key operating subsidiaries, capital gains resulting from portfolio management initiatives, and the strengthening of the company's balance sheet.

BUSINESS



AT THE APRIL 7 STOCKHOLDERS' meeting, from left: Ramon Opulencia, treasurer; Ariston Estrada, independent director Meneleo Carlos, Jaime Augusto Zobel de Ayala, Don Jaime Zobel de Ayala, Merceditas Nolleto, Fernando Zobel de Ayala, Masakazu Okabayashi, and Delfin Lazaro.

change at Ayala Corp.

Ayala Corp. 2005 revenue and income (In peso million)

Revenues	2,005	2,004	% Change
Sales and services	35,312	30,638	15%
Equity in net earnings of associates and joint ventures	8,202	7,622	8%
Interest, rental and other investment income	6,647	5,105	30%
Others	1,068	1,033	3%
Cost and expenses			
Cost of sales and services	26,888	22,455	20%
General and administrative	5,863	5,238	12%
Interest and other charges	7,490	6,659	12%
Net Income	8,198	7,353	12%

Source: Annual Report

Most subsidiaries and affiliates posted strong earnings growth year-on-year (P million)

Net income of subsidiaries and affiliates	2005	2004	% Change
ALI	3,617	2,986	21%
BPI	8,383	6,733	24%
Globe	10,314	11,396	9%
Ac Capital			
MWC	2,012	1,332	51%
IMI	1,445	1,230	18%
Auto	222	183	22%
AIPL	265	400	34%

Source: Annual Report

Ayala Land Inc. (ALI) has big projects lined up for both the retail and the business process outsourcing (BPO) sector this year.

It has P16 billion for capex this year, of which P4 billion is for building several new shopping malls.

Among these new shopping malls are Greenbelt 5 in Ayala Center Makati City, Tri Noma, Piazza Serendra, and the Promenade in Fort Bonifacio. ALI is also planning an expansion project in Ayala Center Cebu.

ALI President Jaime I. Ayala says the Philippine real estate industry is picking up. ALI is poised to take advantage of the trend.

"We are well-positioned to take advantage of these developments," he says.

The new malls will increase the gross leasable area of the Ayala portfolio by 400,000 square meters (sqm.) over the next five years, Jaime Ayala says.

Greenbelt 5, the latest addition to the Greenbelt chain of malls in Ayala Center, Makati City, is set to extend from the Ayala Museum, down Legaspi street, to Greenbelt 1. According to Miriam Katigbak, officer-in-charge of the Ayala Malls group, one whole section of the mall will be set as a "Filipino zone", devoted to displaying a range of luxury brands created by Filipino designers. Greenbelt 5 is expected to open by the end of 2008.

Tri Noma, short for the Triangle North of Makati, will be the first mall venture of the Ayala Group into Quezon City. It is a project of the North Triangle Depot Commercial Corp, and is set to rise on a 200,000 sqm. property near SM North Edsa. It is targeted for completion by 2007.

Piazza Serendra, the retail portion at Serendra in Makati, is a 6,400-sqm. property set to be a Greenbelt type commercial area containing upscale shops, boutiques and restaurants for the residents of Serendra.

The Promenade in Fort Bonifacio Global City is set to be an "interactive park", with spaces for a variety of retailing stalls or outlets in Fort Bonifacio Global City, near the Market! Market! Mall area.

ALI will expand Ayala Center Cebu, adding 13,500 sqm. to the existing mall.

Jaime Ayala says ALI is studying the prospect of expanding into the provinces.

ALI will spend P1.2 billion for BPO offices.

BUSINESS

Among the projects completed in 2005 were the PeopleSupport and Convergys buildings in Makati, where around 700 million was spent, and the InfoNXX building in Sta. Rosa, Laguna, where around P70 million was spent. The three build-to-suit office buildings combined a leasable office space of 36,000 sqms.

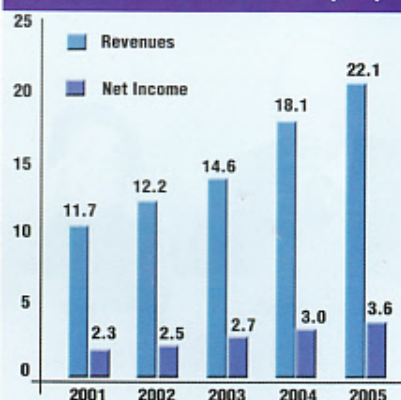
ALI will build what they call "BPO heaven", which will house all the amenities that create a lifestyle for the "new breed of workers", amenities such as laundry areas, groceries, transportation facilities and cinemas that open as early as 7am. There are also plans for a "BPO campus" with facilities for training call center agents, incorporated into the UP North Science and technology Park, a 37.5 hectare BPO campus within the University of the Philippines in Quezon City.



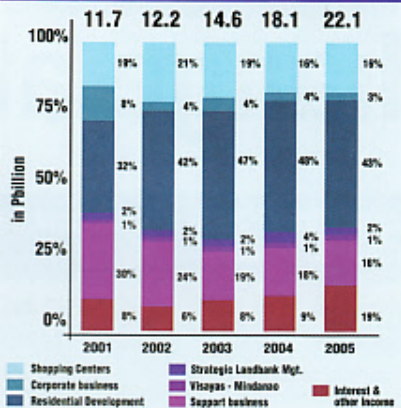
JAIME AYALA



Ayala Land consolidated revenues and net income (P b)



Ayala Land revenue breakdown



Source: Annual Report

Bank of PI

Bank of PI sees a 4% increase in banking industry lending, using technology to integrate Prudential Bank into its operations, and bringing down its non-performing loans.

High interest earnings drove Bank of the Philippine Islands' net profit 24% to P8.4 billion in 2005 from P6.7 billion in 2004, but the continuing appreciation of the peso will lower interest margins this year. So BPI is looking for other revenue sources.

BPI President Aurelio R. Montionla III says what's good for the economy may not necessarily be good for banking because, as the economy improves, margins may compress.

"We can work with the new realities of possibly lower margins this year," he relates. "We have to find other ways of making money, and that's why we're concentrating



BANK OF THE PHILIPPINE ISLANDS

2005 Highlights

- Record net income of P8.2B, up 12% but slower than the 130% jump in 2004 over 2003
- AC Capital contributed a significant 26% to Ayala's equity in net earnings
- Issued two peso fixed-rate notes—a five-year P3B and a seven-year P4.2B note—which helped improved debt mix to 61% peso and 39% US dollar

Strategic initiatives

- Chairman Don Jaime Zobel bows out
- This year will focus on three things: Get into companies being privatized, get into services, and get into fund management to cash in on growth in Asian countries and broaden markets
- Maintain focus on core business and continue to nurture AC Capital portfolio
- Continue exploring new investment opportunities with strong potential for value creation
- Further strengthen balance sheet

2005 Highlights

- Net income of P3.6B, up 21%
- Launched first leisure community project, Anvaya Cove
- New projects such as The Residences at Greenbelt-San Lorenzo Tower, The Columns at Legazpi Village, Celadon Residences and Avida Towers
- New rental properties: Market! Market!'s second phase, start of construction of Tri Noma, and start of operations at PeopleSupport Center, Convergys and InfoNXX Building

Strategic initiatives

- Renew focus on the fundamentals of each business line through expansion into new and geographic areas and markets; sharper customer focus and accountability; and profit margins and asset efficiency
- Increased asset productivity from disposal of non-core assets and receivables, strategic landbank management and increased dividend yield

2005 Highlights

- Net income up 24% to P8.4B, ROE of 14.7%
- Acquired and merged with Prudential Bank
- Sold P2.4B of NPLs to Avenue Capital Group
- Launched BPI Express Credit Gold Mastercard with Paysafe System, the country's first EMV (Europay, MasterCard, Visa) compliant chip card
- Issue Manager/lead underwriter Manila Water
- Fund manager for the Philippine bond Index Fund of the Asian Bond Fund of the Executive's Meeting of East Asia and Pacific Central Banks

Strategic initiatives

- Be the relationship bank of choice
- Migrate Prudential Bank branches to the BPI platform and systems
- Grow middle corporate and small/medium enterprise market
- Tap new market segments for consumer loans
- Credit card base and gross billings up
- Continue to dispose non-performing assets
- Cross sell to overseas Filipinos

BUSINESS

on items like trying to sell as much of our non-performing assets (NPAs) as we can, looking for other income, maybe in our unit investment trust products."

Net interest income surged by 22% to P3.4 billion as average asset base grew by P58 billion and net interest margin widened by 27 basis points. Thus, total revenues grew by P5.4 billion or 24% to P30.54 billion from P25.009 billion.

Other income increased by 28% to or P2 billion to P9.25 billion from P7.22 billion, due primarily to the sale of bank assets and the strong performance of BPI's insurance subsidiaries and asset management and trust business.

BPI's non-performing assets (NPAs) went down to around P15 billion. "Our mandate is clear, bring down NPAs," confides Montinola.

BPI is also looking at continuing loan expansion to grow profits. In 2005, total loans expanded by 11% to P228.9 billion from P206.97 billion.

"This quarter (January-March 2006) versus 2005 we're up a total of 16%, but 8% of that is because of Prudential (Bank)," Montinola reveals. "So, effectively, we're doing 8% on our own. But we're considering that that's okay because that means it was carried into the first quarter; because I think at the board we reported that December to December, it was in fact a 10% increase, and the 10% did not include Prudential."

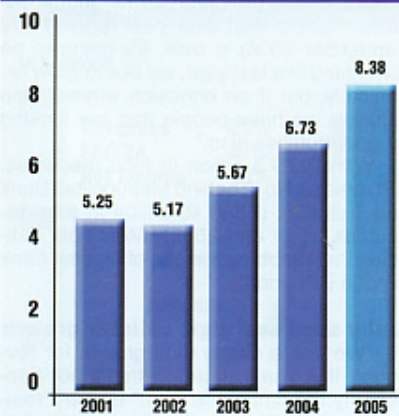
For the entire year (2006), Montinola says "we expect the industry loan growth to be in the 4% range."

BPI acquired Prudential Bank in 2005 and completed the integration of its head offices by the end of the year. "We're working now to upgrade our branches, putting

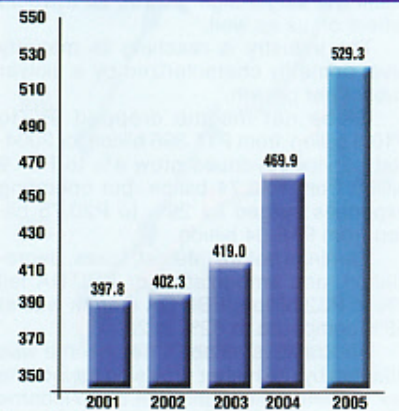


AURELIO MONTINOLA

BPI Net income (in P billion)



BPI Total assets (in P billion)



Source: Annual Report



2005 Highlights

- Net income of P10.3B, down 9%
- Total revenues of P58.7B, up 6%
- 12.4 M subscriber base
- Strong liquidity with free cash flow at P19.4 B, up 60% year-on-year
- G-cash celebrated its 1st year anniversary with over 1.2 M registered users
- 1,423 new cell sites in 2005 increasing geographic and population coverage to 93% and 97%, respectively, with 5,159 cell sites
- First to conduct live demonstration of 3G video call;
- P40 per common share dividend, up 11%

Strategic initiatives

- Continue to improve long-term competitiveness and capitalize on new revenue streams
- Pro-act on emerging technologies such as 3G, VoIP, and WiFi
- Continue with cost management initiatives



2005 Highlights

- P2.0B net up 51%; ROE of 27%
- IPO in March
- 8 percentage-point reduction in system losses
- P3.9B capital expenditure program
- US\$64M World Bank loan for sewerage I
- Launched its first Sustainable Development Report
- Asiamoney Best Managed small cap company

Strategic initiatives

- Continue to improve and expand water service to satisfy demand within in the East Zone
- Improve operating efficiency and outperform regulatory targets to yield better service for customers and maximize future returns
- Expand beyond Metro Manila into key cities in the country and in the Asian Region.
- Involvement in environment projects protecting watersheds and water sources and apply environment-friendly systems for wastewater treatment



2005 Highlights

- Revenue growth of 68% on its 25th year
- Acquired EMS and ODM assets of Saturn Electronics and Engineering Inc., enabling IMI to access its design and engineering center and low volume manufacturing facility in Tustin, California, U.S.A. and high volume manufacturing plant in Cebu, Philippines
- Merged with Speedy-Tech Electronics, which has 3 factories, in China, Singapore, and Cavite,
- Expanded customer base
- Shipped EAZIX-developed golf ball finder of Radar Golf – a complete product realization project of IMI

Strategic initiatives

- Expand business through upstream and downstream value integration; pursue opportunities in fast growing market segments
- Expand customer base by leveraging enhanced solutions and diverse manufacturing locations
- Increase value-add through advanced technology development and engineering services

BUSINESS

technology, changing the signs, training the people in BPI procedures," Montinola relates. "Once that one-year period (by September 2006) is over, it's going to be something like last year, we like to grow organically, but if an occasion arises, then naturally we have people that are looking for opportunities also."

With P529.3 billion in total resources, BPI remains No. 2 behind Metropolitan Bank and Trust Co. (P586.49 billion in total resources as of end-2005). Montinola indicates that grabbing the title of biggest bank is not a BPI priority.

Globe sees one digit cellular growth

"We see a single digit growth for revenues this year, although that's not necessarily the case in profits," Globe President and CEO Gerardo Ablaza said during the company's annual stockholders' meeting. "The industry as a whole is expecting a single-digit growth, so it would reflect on us as well."

The industry is reaching its maturity level primarily characterized by a slower subscriber growth."

Globe net income dropped 9% to P10.3 billion from P11.396 billion for 2004. Net service revenues grew 4% to P54.9 billion from P52.74 billion, but operating expenses surged by 29% to P20.75 billion from P16.04 billion.

Earnings before interest, taxes, depreciation, and amortization or EBITDA fell 3% to P32 billion. EBITDA margin was at 58% compared to 62% in 2004.

Ablaza says Globe's net income was affected by the higher provision for income tax following the expiration of its income tax holiday incentive in March 2005.

Challenges for 2006 include the entry of new players and the availability of new technologies, the continued pressure on price and margins, the deregulation of voice over Internet protocol (VoIP), and the challenging macro-economic environment.

"The past few years have been characterized by galloping subscriber growth. Now, we are beginning to mature and revenue growth will be more on a tempered basis," he explained.

He said pressure to keep prices at an affordable level for the lower-income bracket of the market would continue to pose a major challenge for the company. The company plans to aggressively exploit the low-end market to sustain growth.

"On the other hand, the healthy inflow of overseas remittances has given the mass market added purchasing power. So there's also an upside to this," he notes.

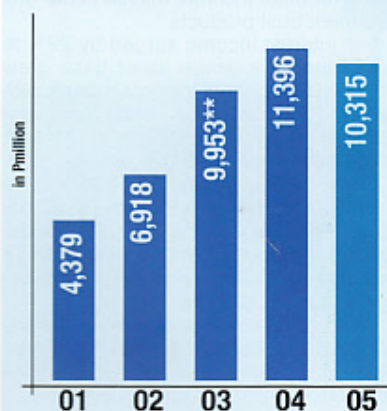
Manila Water

Manila Water had a historic high net income of P2 billion, 51% higher on the bank of a 34% increase in revenues to P5.76 billion. Customers numbered 5 million. Return on equity was a high 27%.

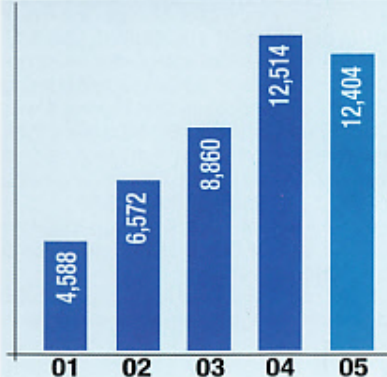


GERALDO ABLAZA

Globe net income



Globe wireless subscribers (in 000s)



Azalea



Honda Cars Makati, Inc.
MAKATI • PASIG • ALABANG • SMAY

A member of the Ayala group of companies



ISUZU AUTOMOTIVE DEALERSHIP, INC.
ALABANG • CAVITE • CEBU • MANDAUJE • PAS

A member of the Ayala group of companies

2005 Highlights

- ASTI commenced development of the Government Electronic Procurement System of the Department of Budget Management, helped develop the wholesale electricity spot market system and made investments in a start-up BPO operation specializing in the US healthcare sector
- Bayantrade became profitable and established a procurement outsourcing business for a major multinational's operations in Asia and Europe
- Game development group launched mobile applications in Europe and the US and completed technical tests for a voice SMS service
- myAyala began its in-house florist operations and began providing services for contact centers

Strategic initiatives

- Continue to identify good opportunities in technology driven business
- ASTI to expand its geographic market to the US and extend its service offering to include BPO
- Bayantrade to expand its BPO services

2005 Highlights

- P207M profit, slightly above 2004 earnings
- HCPI and IPC ranked 3rd and 4th, respectively in the automotive industry with combined market share of 20%
- HCMI cornered 54% of total Honda network sales while IADI captured 27% of total Isuzu sales
- HCMI awarded gold in non-production category of Productivity Improvement Quality Circles National Convention; IADI awarded silver in the production category of the Regional Convention

Strategic initiatives

- Market leadership through service excellence
- Enhance speed and service quality
- Reconfigure outlets for expanded coverage and better access to customers
- Venture into new allied businesses to complement traditional products and services
- Work in partnership with HCPI and IPC in the delivery of high quality products and services

BUSINESS

Integrated Microelectronics

IMI's revenues grew 63% to P10 billion on increased volume orders from key Japanese customers, the conversion of some customers from consignment to turnkey arrangements, and the acquisition of new customers.

Net income increased 18% to P1.4 billion. Return on equity was a hefty 31%.

In 2005, IMI acquired Saturn Electronics in California, the Philippines and Singapore and merged with Speedy Tech Electronics in Singapore.

"These acquisitions provide IMI access to the China market, a stronger presence in Asia, Europe and North America, enhanced design and value added capabilities, a more diversified product and customer base," says JAZA.

IMI hopes to become a Tier2 electronic manufacturing services (EMS) company with revenues of at least \$500 million.

Auto group Honda and Isuzu

Meanwhile, Ayala's Auto Group revenue P222 million in profits, slightly higher, on account of better product mix.

Auto industry sales were up 10% last year, underpinned by new models by the major players, aggressive financing promos, and intensive advertising.

Ayala International

Ayala International is going well, more international.

Its investment commitment has reached \$30 million in the US. It is looking at China and India as long-term markets.

Ayala International profits went down 34% as 2004 net income was bloated by the sale of Grosvenor Place in Hongkong. ■

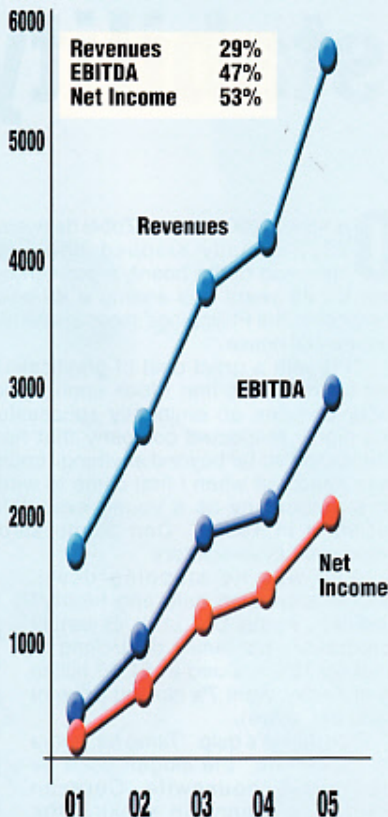


ANTONIO AQUINO



Manila Water compounded annual growth rate

In P million



2005 Highlights

- Net income of US\$4.8 M
- Underutilize debt capacity
- Strong performance of investment in an emerging market fund
- Bangkok venture's residential condominium project 98% sold. Two additional properties acquired for residential condominium development
- US operations, in joint venture with partner, acquired a student-targeted apartment and two properties for retail development
- Monetized interests in two U.S. investments
- Two U.S. projects started construction

Strategic initiatives

- Expand property segment coverage in the United States, widen involvement in Thailand and pursue new initiatives in China and India
- Maintain focus on building a track record that can ultimately be leveraged into a principal-sponsored club investing and fund management model

2005 Highlights

- Launched Gearing up Internet Literacy and Access for Students (GILAS) to connect all of the country's 5,443 public high schools to the Internet
- Education and Livelihood Skills Alliance (ELSA) in ARMM, other conflict areas
- Tie-up with College of the Holy Spirit, Manila for bright elementary school grads to get into high school
- First online book *Meine Lieben: Swiss Letters from the Philippines 1919-1927*

Strategic initiatives

- Scale up programs to achieve impact and reach
- Identify cutting-edge technologies to improve quality of education for underprivileged children and youth
- Pursue nationwide multisectoral partnerships to sustain the delivery of quality education
- Mainstream environmental programs for end-to-end solutions museum programs, facilities, and policies
- Expand the reach of cultural and literacy programs

Lower debt and improved debt mix reduce Ayala Corp. interest expense by 17%

	Dec-05	Dec-04	Change %
Total debt			
Consolidated	P60.48	P74.3B	-19%
Parent	P44.9B	P60.6B	-26%
Net debt			
Consolidated	P35.8B	P39.3B	-9%
Parent	P29.9B	36.2B	-17%
Debt mix (parent)			
Peso	61%	42%	
USD	39%	58%	
Net debt to equity			
Consolidated	0.59	0.74	
Parent	0.49	0.68	

Don Jaime's legacy: Trust, stability and predictability

On April 7, 2006, Jaime Zobel de Ayala, 72, formally stepped down as chairman of the board, a position he held for 23 years and ending a 49-year presence at the Philippines' most venerable commercial house.

"It is with a great deal of gratification and shared pride that I look upon Ayala today and see an eminently successful and highly respected company that has progressed so far beyond anything I could have imagined when I first came to work for the company as a young executive assistant in 1957," Don Jaime said, beginning his valedictory.

Why was he stepping down, despite appearing hale and hearty? Besides, Ayala Corp. is his family corporation, his family controlling at least 45.18% (valued at \$1.06 billion as of Friday, April 7's closing price of P350 per share).

Don Jaime's quip: "*Tama na, sobra na, palitan na*," the slogan used by then plain housewife Corazon Cojuangco Aquino in seeking the ouster of strongman Ferdinand Marcos. Cory was backed by Don Jaime in her presidential bid.

Don Jaime added, quoting his late uncle, the legendary builder of Makati, Col. Joseph McMicking, "One wonders why so many people think they are immune to old age. I have never found anyone indispensable so why not exit smiling when Ayala's brightest net income is great and go when hopefully one is still wanted?"

Don Jaime joined the then Ayala y Cia partnership as a lanky 24-year-old lad, fresh with an architecture degree from Harvard.

Ayala was then very much a private company, low in profile, modest in ambitions, and with just 1,000 hectares of property.

McMicking proceeded to carve what is now the Makati Business District, working on the core 600 hectares.

In 1968, Ayala was incorporated. In 1976, its shares were listed. Raising virtually free money from the public, the family went on to list other subsidiaries -- Ayala Land (valued at P121.6 billion today), Bank of PI, Cebu Holdings, Globe Telecom, and Manila Water.

"Ayala is always a good bet," says

stockbroker-analyst Astro del Castillo, "you can invest your retirement and tuition money in them and feel confident you will get good returns."

Indeed, the Ayala companies are usually overpriced, compared with their peer group rivals.

At Friday's annual meeting, Ayala Corp., Don Jaime assured the stockholders, "will continue being dynamic and ever faithful to its traditional values and principles, ever conscious of its role in economic development, and its obligation to contribute to the betterment

"One wonders why so many people think they are immune to old age. I have never found anyone indispensable so why not exit smiling when Ayala's brightest net income is great and go when hopefully one is still wanted?"

of the quality of life for the Filipino."

He turned emotional:

"As I look back on all these years, I reminisce about the decisions I had to make at crucial times. No doubt, I have had my share of triumphs and disappointments - but on balance, the overall experience has been gratifying and rewarding. It has been an immensely fulfilling professional life."

McMicking took a fondness for his two nephews, the irrepressible Enrique and the patrician artist, Jaime.

Until, 1983, Jaime had taken a backseat in favor of Enrique, president from the 1970s to the early 1980s. But the latter sold the family's 20% holdings in San Miguel Corp. to tycoon Eduardo Cojuangco Jr.

The family held a council and fired Enrique. As a compromise, Enrique bought Ayala Corp.'s international operations under the name Ayala International.

So Ayala, the corporation, going back to international, with the Ayala International corporate name, is only very recent.

Recalls Jaime of his early years at the

family enterprise:

"I took advantage of the things that were given to me and I managed them, thankfully, properly. At that time, I think it was a trend to make everybody a generalist. They kept shifting people from one position to another because they wanted them to be well-rounded. I changed that completely, dramatically. I said no, each one is going to be responsible for their jobs. I have always been a consensus builder. I like to talk to people, even in my heart I like to reach out. I trusted the people I appointed and although I was closely following what they were doing, they were very talented and we started off to a new era so everybody was kind of gung-ho. It was the new dawn."

The family's involvement in politics is very low-key and nuanced. During the Spanish times, the original Ayalas were even producing gunpowder for use by the insurrectionists against the colonizers.

Indeed, in 172 years from 1834, Ayala has survived two revolutions, two world wars, foreign occupation by Spain, the United States and Japan, a post-war dictatorship, a political assassination, two People Power revolts, a dozen coup attempts, local and economic crises.

The 1983 assassination of opposition leader Benigno "Ninoy" Aquino Jr. touched Don Jaime. The killing fortified the family's belief that they must take a stand during times of crisis.

That is why the yellow confetti revolution erupted in Makati to bring down a dictatorship.

To be sure, Marcos didn't touch the Ayalas. That was because Ayala Corp. had enough foresight to tie up early with Mitsubishi of Japan. They sold 20% of the company to Mitsubishi as a kind of insurance against a possible Marcos takeover.

Explains Don Jaime of their political involvement in 1983 thru 1986:

"Ayala has always been apolitical but this was a time that you knew that you had to be political, there was no other way. Filipinos were united and they were working for a cause and Corazon Aquino was our symbol. And therefore in that kind

BUSINESS

of environment, it's good to work. It was a new leaf, everybody was noble. It was a beautiful period. There was a golden period in the Philippine environment and I so happened to be there."

Adds JAZA, 47: "We're believers in empowering people, getting the very best executives, giving them ownership in companies as well as in aligning their interests as well to the owners and so we act in unison as a team... as a team of peers."

JAZA joined Ayala Corp. as a director in 1987, when he was 28.

Recalls Jaime of his two sons:

"They came from Harvard, very well-read and very well-trained, but they had to prove their worth. It was a challenge because they were all up against the ante. They didn't want to work in Ayala. I kept telling my wife, I gave them too much independence and I felt I was losing them. And so I called them back and said, 'Let me ask for one thing. Come back for a year, choose your field and find out what Ayala is all about—not as leaders but as line people—and if you find it exciting and you think you want to spend your time here, you're more than welcome because I'm alone here.' And they never left."

Understandably, Don Jaime is proud of his two boys, the eldest of a brood of seven. "They had to be recognized and accepted by their superiors," he said.

JAZA and Fernando, Jaime notes, have brought their own styles to Ayala Corp.. He hardly interferes. As chairman, he was there more to offer guidelines.

Trust is an indispensable and remarkable Don Jaime quality. Fernando says trust is easy to break, that is why it is important this value permeates the entire corporate structure -- the behavior of the company, the managers, the way it handles partners, employees, and stockholders.

"He knew who to trust and then listened very carefully to them," Fernando says of his father.

"He'll say 'What is your idea? How do you want to implement it?' You say this and that, and then he says, 'Okay, I trust you,'" adds JAZA.

Equally important is Don Jaime's legacy of stability and predictability, Fernando points out.

"It is the stability and predictability that will be his legacy. We tend to be conservative as a group. There is this legacy we have to ensure that we pass on the company to the next generation in a stronger way," Fernando explains. After all, the group is into a lot of critical industries where trust is crucial—land, banking, cellular phones, to name a few.

Jaime Augusto thinks of his father as a Renaissance man. "I like his humaneness," says Globe Telecom CEO Gerry Ablaza. ■



Embracing the power of SHIFT

By ELIZABETH H. LEE

SVP for Marketing, Universal Motors Corp.

(Speech at the second Manila International Auto Show opening April 6 where Universal Motors Corp. and Nissan Motor Philippines, Inc. demonstrated their one "Nissan-ness")

Five years ago, global Nissan faced extreme challenges. Discipline was the key. Nissan had to clearly define where its priorities were which at that time was the United States of America and Japan, the largest markets that had the promise of large volumes thereby creating the highest global impact.

Those markets had the opportunity for Nissan to rebuild its financial and capital base as the foundation so that global Nissan can start growing in other markets.

When Nissan introduced 40 new models globally in the past years, only few reached our shores.

But time has come to shift. In Nissan, everything we touch we shift. Every we shift, we try to make better and uniquely Nissan. The five year plan today going forward is more robust—very much optimistic than five years ago.

SHIFT is more than a tagline or a slogan—it is an attitude, a state of heart, and active philosophy, and a powerful exuberant strategy. It speaks of who we are and how we work. It is a challenge, and an invitation to see and experience the world through a fresh perspective. The challenge is to powerfully define it and bring SHIFT to life in major markets around the world—across different languages and media.

SHIFT increases power and possibilities of the word "AND".

- Style AND functionality
- High quality AND affordability
- Thoughtful planning AND bold execution

SHIFT is a challenge to realize the uncommon yet greater goals. 28 new models will be launched globally under Nissan Value Up, including all new and minor change models. New and additional model line-ups for the benefit of the Philippine market will be introduced as part of Nissan's Leading Competitive Countries (LCC) strategy. Nissan also plans to adopt a more efficient sourcing strategy in ASEAN and globally to maximize growth opportunities and minimize costs as the Nissan business activities grow.

SHIFT is a change in perspective. Undeniably it is not the size of the market that

determines whether an idea is good or not. It's how good the idea is.

In the Philippines, we have one brand, two makers.

For Universal Motors Corp. it has been a challenging 52 years. Years of sustained growth interrupted time and again by various periods of decline that, for many in the industry, proved too great a hurdle to overcome.

But we are both proud and humbled that Universal Motors remained. Thanks to the visionary leadership of our founders, the commitment of the Lee Family, the support of our employees, dealers, business partners, and loyal customers.

UMC and global Nissan are continually SHIFTing for the better—for our customers, our partners and for the Filipinos. SHIFT for UMC is ever moving—this means speed, acceleration, stretching out to greater opportunities.

Much like global Nissan, UMC is hardly ever in neutral never idling, always burning rubber. UMC SHIFT in the Philippines will bring you eight new models from 2006 to 2010.

Three replacement models and five entirely new product lines which includes a good mix of full SUV, MPV/Crossover, vans/mini van and pick-up trucks. Here's a sneak preview. How if that does not excite you, I don't know what will!

We also practice SHIFT by heart. UMC's recently launched "UrVan UrBusiness" program is a radical SHIFT in thinking. It is a SHIFT to a more lucrative, exciting future for the Filipino customer with an entrepreneurial spirit—a bold helping program for Filipinos to achieve more than what they previously believed they can do.

Given the hard times,—"UrVan UrBusiness" battle cry "Umasenso sa Urvan" is a call for a SHIFT in behavior. It is an encouragement for the Filipinos to explore ways and means to earn an extra source of income to support their family, to become better citizens of the republic, and to be recognized in our own little way as "true patriots."

To date the program has been generating more than 600 inquiries since its launch two weeks ago. We see the project elevating even further with its introduction in the OFW market and the possible partnership with DTI's *Sulong Pinoy* project.

SHIFT means a promise of extraordinary things yet to come both for UMC and NMPI. This means a stronger brand, a stronger partnership between global Nissan, Universal Motors Corp., and Nissan Motors Philippines.

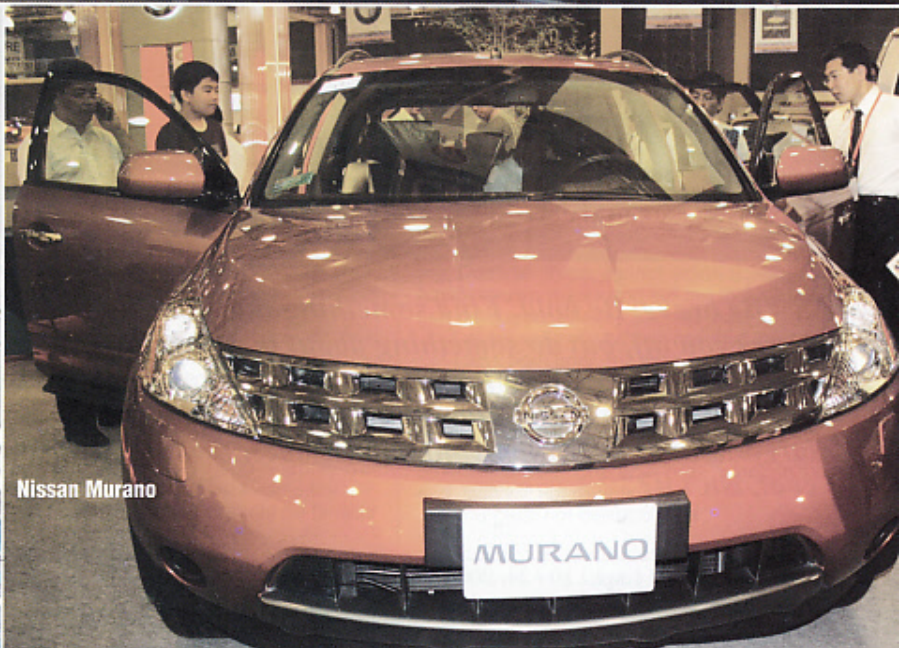
Embrace the power of SHIFT. ■



UNITED NISSAN: Universal Motors Corp. will introduce eight new models over the next four years in the Philippines as part of Nissan Japan's expansion in the country and the rest of Asia. Nissan Motor Philippines, which is owned by a Taiwanese group, will also introduce its own line of new vehicles based on a car platform, beginning with the new Murano (below, right). It is expected that UMC will come out with a new SUV, a new crossover SUV, and replacements or enhancements to its best-selling Frontier and big SUV Patrol lineup (below, left). Nissan officials show unity in this picture, UMC President Richard L. Lee (left), UMC Senior Vice President Elizabeth H. Lee (third from left), NMPI President Lemman Lee (fourth from left; no relation to the Lees of UMC), Toshimitsu Nose of NML/Nissan Asia Pacific Thailand and Minoru Itayagoshi of NML/Nissan Asia Pacific Singapore.



Nissan Patrol Safari Series





MANUEL V. PANGILINAN

“Be brave. Be bold. Find something that moves you or pisses you off, but do something about it. You have a voice, speak up. Take a stand for what’s right. Make a change. You may not always be popular, but you’ll be part of something larger and greater than yourself. Besides, making history is cool, isn’t it?”

A journey to

By **MANUEL V. PANGILINAN**
Chairman, PLDT

(2006 commencement address, School of Management and School of Science and Engineering, Ateneo de Manila University, March 24, 2006, Loyola Heights, Quezon City)

This day of academic ceremony must be a day of touching, personal memories. It is also a day to pause, and give honor and praise to your parents, and to the good Lord, for the grace to be at this place, at this time. Whilst all of us may be seated, we’re actually standing on their shoulders—proud and thankful.

Your years in college were a journey of discovery and preparation—a discovery of yourself and the gifts bestowed upon you. You’re now about to commence a new journey—of becoming an adult, of finding your place in society, of starting a future.

Today, I’d like to share with you my own journey—as I travelled from being a student, to being a professional manager and an OFW—and now, an entrepreneur and corporate activist.

First part of the journey—a student

The first part of my journey begins with my family.

My *lolo* started as a public school teacher in Pampanga and Tarlac, rising through the ranks to become superintendent of public schools and, eventually, secretary of education. My dad began his career as a messenger at Philippine National Bank, and retired as president of Traders Royal Bank, one of the larger banks in the 80’s.

During my elementary years, I had 10 centavos to buy a bottle of coke, 5 centavos for crackers, another 10 centavos to take the bus home from San Beda in Mendiola—which I made sure I wouldn’t lose, otherwise I would have walked home. In college, my weekly allowance at the Ateneo was P10, and that included my jeepney fares.

Marami sa mga kaklase ko’y nakakotse, at yung iba may driver pa. Ang swerte nila, sabi ko. Balang araw, magiging ganun din ako. And mga scholarships ko sa San Beda at Ateneo ay ang tangi kong kaswertehan.

In late 1965, as my own graduation was approaching, I had come home from the Ateneo one saturday afternoon, and spoke with my dad about taking an MBA in the States. I was met with silence—which meant there wasn’t enough money for an education abroad, that if I really wanted it, I had find a way myself. Fortunately, Procter and Gamble was offering a rare scholarship to the University of Pennsylvania’s Wharton School. It was a national competition. I entered—and won.

For three generations of my family, life meant coping with challenges despite modest means, relying on god-given talent, hard work and a passionate determination to succeed.

entrepreneurship and activism

Second part of the journey— A professional manager

Let me now turn to the second part of this journey.

After two years in Philadelphia, I returned home, hopeful about landing a managerial position in a large company. I struck out at first bat. My benefactor—Procter and Gamble—turned down my application. So I ended up taking the first job I was offered—as executive assistant to the president at PHINMA for P1,000 a month.

Without any job experience, we can't be choosers, right? Grab the first decent job that comes your way, immerse yourself in work, and soon, you'll find the right job, or it will find you.

After six years with PHINMA, I decided to work abroad. There were the usual reasons—the glamour of being an expat in Hong Kong, the—stifling—staleness of my local career but, more importantly, I needed to find myself, to prove that I can stand on my own and succeed.

The warmth of family ties, the comfort of an extended family system so embedded in our society, were indeed beguiling—but I wanted to assert my independence.

I was recruited by BanCom International, a Philippine investment bank based in Hong Kong. It was a stimulating experience. I learned the dynamics of international finance from my Chinese colleagues—not from the Filipino executives.

Thereafter, I was seconded to a joint venture investment bank with American Express. I had expected to be appointed CEO of that new bank, but wasn't. Whilst disappointed and even depressed, I soldiered on and, sure enough, this venture failed inside of two years.

A huge dilemma confronted a young man of 30 years—return to Manila or stay with AmEx? I decided to remain a soldier of fortune in Hong Kong.

Why? Because after this setback, I wanted to prove something to myself. I felt I had to prove to AmEx, the Filipino can. Indeed, after four years with AmEx, I received a phone call from my boss in London. He said, "you've outgrown Hong Kong and are now ready for London, and to fast track your career."

After reflection, I politely said, no. I've proven the point to myself and to AmEx, and that had been enough. Besides, I felt Asia is my home and—so it shall be.

Third part—an entrepreneur and corporate activist

The third, and final part, starts with First Pacific.

Whilst working in the region, I met some clients—foremost being Anthoni Salim—who were willing to support my idea of a regional banking and trading business. With their help, I founded First Pacific in Hong Kong in 1981.

I started out with only six people, on 50 square meters of office space, and little capital. Now, the companies that constitute First

Pacific have sales of \$5 billion, with more than 60,000 employees across the region.

But I won't tell you about our successes at First Pacific. Instead, I'll describe our failures—some of which indeed became total failures, but some of which we turned around and made a success.

In 1989, we were negotiating to acquire Hanimax, maker of middle-to low-end cameras based in Sydney, Australia. I took the overnight flight to Sydney from Hong Kong, confident that when I arrived the following morning, a letter from an international bank approving our financing would await me. But lo and behold, it was a letter of disapproval.

So there I was in Sydney, committed to purchase Hanimax, but without enough money to complete it. Providentially, there was a competing bidder who sought to take us out of the race, by offering a sum of money. That practice is called "greenmail." Our gambit won \$7 million that day, when we had no cards to play.

But there's sequel to this. Buoyed by confidence—perhaps overconfidence, even hubris—we were off to the races again, and decided quickly to buy another company.

This was Tech Pacific—Australia's largest distributor of computer products. It was indeed a large company with sales in excess of a billion dollars!

Well, it was a disaster. It took us three years, and enormous pain and effort to turn its fortunes around. I fell sick from stress and anxiety and, on several occasions, contemplated resigning. But we stood to our tackle and, after those three years, Tech Pacific is now Asia's largest distributor of computer products.

In 1998, I came home, after 22 years abroad—after what Father Ferriols often calls "the days of wasted youth."

When we invested in PLDT seven years ago, we faced the massive task of repair and renewal. Critics told us that we couldn't change the culture of monopoly, that misdemeanors in PLDT couldn't be eradicated, that our fixed line business had no future.

But we made the tough and unpopular decisions at PLDT. Like reducing the number of employees from 14,000 to 9,000.

Like changing dubious practices and encouraging honesty and transparency. Like converting the mindset of bureaucrats to that of innovators and entrepreneurs.

Decisions about people are always difficult for us because First Pacific is an Asian company with Asian values. But headcount reduction was critical for PLDT to survive.

Now that PLDT has recovered, and is now the most profitable company in the country, my confidence in the Filipino's ability to succeed has been absolutely affirmed.

In fact, despite the downsizing I mentioned earlier, we now have more people under our wings—about 19,000—simply because PLDT is now a different company.

And to most of you who might be familiar

with Piltel or Talk N' Text—it was a company in extremis.

I've had to tell creditor banks that Piltel could not pay its debts—the first time I've done that in my life. *Sabi ng mga ka-upisina ko, isara na ang Piltel. Hindi ako pumayag.* I believed that the cellular frequency it owns, as well as its brand, are potentially valuable, as they have become today.

Also, I did not want to imperil the financial health of local banks to which Piltel owed much. After five years of rehab, Piltel's return to profitability has been close to supernatural. It is now the country's third most profitable company—after PLDT and Smart.

Finally, some of you have raised with me the question—is business bad?

Let me respond by saying, business is not all bad. It is people—some people at least—that may make business bad. No business can prosper in the long-term without the right values. The best performing companies are those that manage their businesses which meet ethical standards.

Transparency, accountability, integrity, discipline—all these good governance principles must permeate every policy, every process, of the company, as they do at First Pacific and PLDT.

Before I close, I'd like to make a personal request.

I'd like to ask each of you a favor. Give me bragging rights. Do something great. Sometime in the future, I want to hear some incredible thing you've done. And I'd like to brag that I spoke at your graduation.

In return, I offer you a few more pieces of advice. Keep it real. Stay true to what's best in yourself, to the best of your experience here at the Ateneo. Trust your instincts. Believe in yourself. Engage in sports, you'll need it as you age. Make art, or at least, value it.

Be brave. Be bold. Find something that moves you or pisses you off, but do something about it. You have a voice, speak up. Take a stand for what's right. Make a change. You may not always be popular, but you'll be part of something larger and greater than yourself. Besides, making history is cool, isn't it?

But I also want to offer a warning: You will meet people who'll entice you to compromise your principles. They'll try to seduce you and distract you with money, power, security and perhaps, most dangerously, a sense of belonging. Don't let them; it's not worth it. You can have genuine values and still get that job. You can have a conscience and still make money.

Let me send you off with one final thought.

I was born poor, but poor was not born in me. And it shouldn't be born in you either. You can make it. Whatever you may wish to do with your future, you can make it. It gets dark sometimes, but morning comes always. Suffering breeds character. Character breeds faith. In the end, faith will not disappoint.

You must not disappoint. ■



Bohol: Gem of the seas

By **LYNDA B. VALENCIA**

It has been two years since Bohol was named by Kaalabay Awards as the "Tourism Destination of the Year," but the island province remains a sparkling gem among the many treasure islands of the archipelago.

Bohol is the country's 10th largest island located 803 kilometers south of Manila. Its land area, totaling 411,746 hectares, is characterized by hilly and rolling terrain, with 167 mountains and 73 islets.

Bohol is known as the heritage province. It was the site of two revolts against the Spanish colonial government – the Tamblot Rebellion in 1621 and the Dagohoy Revolt in 1744.

Bohol is also the site of the First Blood Compact (March 15, 1565) between Rajah Sikatuna and Miguel Lopez de Legazpi. The historical event is celebrated every year during the Sandugo festival in the third week of July, which also features an agro-industrial fair, sports events, beauty pageants and street dancing, culminating in the re-enactment of the blood compact.

Boholanos are said to be the descendants of the last group of inhabitants called "pintados," or the tattooed people.

Bohol is most famous for Chocolate Hills, which number 1,168. These almost perfectly coned hills, which abound in various heights and sizes, are scattered throughout the towns of Carner, Batuan and Baclayon.

The hills are believed to have been formed two million years ago by the uplift of coral deposits and the action of rainwater and erosion. During the dry season, the grass that covers the hills turn brown, thus the name "Chocolate Hills."

Two of the 1,268 mounds have been

developed into a resort. On top of the first hill are two youth hostels with a conference room, cozy cottages, a swimming pool and a tennis court. On the second is an observation deck with 215 concrete steps. At the top, one can view an exquisite panorama as far as the eyes can see.

Other attractions include the Kaingit Beach in Tagbilaran City, Banati Hill, Negros and Siquijor provinces and the Straits of Panglao Island, the 100-meter Elly Hill with a formation similar to Chocolate Hills, Rajah Sikatuna National Park, Hinagdanan Cave and its underground bathing spring lit by a pair of natural skylights, Punta Cruz watchtower, an ancient stone structure built to repel Moro pirates during the Spanish times and Baclayon Church.

Ringed Bohol are several smaller islands like Panglao, Pahjan, Paro and Poso, known for their beautiful diving sites. Panglao has two kilometers of white sand beach that stretches about 700 meters inland and five to six kilometers southward. One of the resorts here is Panglao Nature Resort, which is nestled in a natural terrain, adequately secluded and built to enhance the exotic beauty of the land, complimented by the tranquility of the sea.

One may choose to go swimming, snorkeling, kayaking or island hopping, fishing, scuba diving. Other popular dive sites are Arc Point, Alona Beach, Puntod Point, Pamalican Island, Cervera Shoal, Balicasag Island, Doljo Point, Momo Point, Gak-ang Point and Tagnan Point.

Dive enthusiasts are bound to be mesmerized by the underwater world. There is a dive center in Alona Beach Resort, named for popular actress Alona Alegre, who once had a scene in one of her movies where she was seen running naked along the beach.

Bohol is home to the tarsier, the world's

smallest primate and considered an endangered species. It has big round eyes, a tail longer than its body, measuring 232 mm. They live among the branches of the trees. When night falls, it's time for them to hunt insects for food.

Their excellent hunting skill can be attributed to their ability to turn their heads 360 degrees. Measuring only about three to four inches, the tarsier is also found in Samar, Leyte and some parts of Mindanao, as well as in Indonesia, Borneo, Sumatra and Madagascar.

Cruising the Loboc River from Loag Bridge to Busay Falls is a joyful experience one should not miss. Ride the big boat, which looks more like a floating restaurant made of bamboo, and get ready for your sail upstream. While you are enjoying the ride and relaxing in the scenery of tick forests that line the river banks, native delicacies and fresh seafood will be served.

It is also a romantic river cruise as the band on the boat serenades you. At the end of the river, near the Tontonan Falls, you can change into your swimwear and take a dip in the cool water.

The Parish Church of the Immaculate Church, more popularly known as the Baclayon Church, is the oldest church in Bohol and the oldest stone church in the Philippines. Would you believe that the church is made up of coral stones from the sea, which were cut into squares? To cement all these stones together, the egg whites from a million eggs were used.

How to get there

Philippine Airlines and Cebu Pacific fly to Tagbilaran thrice a day from Manila or Cebu City.

For more leisurely travel, get aboard the WGA ship at the Eva Macapagal International Terminal at the South Harbor in Manila. ■

For men but not only

By ISAGANI R. CRUZ

Finally, we can read something meant for men that is not about women. *Man Overboard: Essays By, For, and Of the Smart Filipino Male*, by Butch Dalisay (Quezon City: Milflores Publishing, 2005, 178 pages), is a delightful anthology of previously published essays on things men go overboard for, such as cars, clothes, gadgets, travel, gang mates, books, and well, women.

The essays talk about just about everything, and I mean everything. Here, for example, is a piece of advice about what to do when caught in heavy traffic: "Ever heard of the Portajingle bag? For P185, your wordless twisting and turning behind the wheel in heavy traffic or your mad dash down the highway for the nearest clump of cogon grass could be over."

Here, on the other hand, is the exact opposite in terms of sophistication: "Last week, my newest baby—a PowerBook G4 Titanium—arrived. Like a proud *papa*, my first thought was to give the newcomer a proper home, and I spent the next day trawling the malls and the online stores for the perfect TiBook bag."

Dalisay particularly loves contrasts. Here, for example, is his take on the generation gap: "Dads wouldn't be caught dead wearing the bellbottoms we thought went out with the last century; juniors wouldn't be caught dead wearing the 'de bastons they thought went out with the last century. Fifteen years ago, hanging out with my students was cool—at least, I thought so, and they probably thought so, too; today, by mutual agreement, it's a pain to have to listen to what the latest and greatest tracks on mp3 are while you're trying to figure out how to juggle your insurance and tax payments."

Dalisay wrote the essays at various times and in various places. In Bellagio in Italy, for instance, while he is supposed to be writing a novel that will solve all the world's problems in one fell swoop, he wonders where hangers disappear to when they are supposed to be in his closet.

In Bangkok, he writes about having no money for anything the city is noted for offering to lonely men in shirtsleeves. Poverty makes saints of us all, or at least of Dalisay, as he contents himself with televi-

sion, a couple of soft drinks and some junk food, and a gift for his loved ones waiting in Manila. No male who has been to Bangkok can miss the regret between the lines.

Dalisay has a great eye for detail and an even greater eye for incongruous details. Here is the way he remembers the seventies: "Like most wannabe Charles Atlases, I once owned a Bullworker—a fat tube of chromed metal about as high as your waist, on either side of which was attached a thick rubberized cable. The idea was to hold the thing by the cables, and then to pull the left cable in the general direction of Paris and the right cable toward Hawaii. This was supposed to turn 86-pound weaklings into—well, 86-pound Samsons, albeit Samsons with an hernia."

And, of course, the main thing that defines what it means to be male in the Philippines—the car. There is no better way to invite the reader to read the whole book than to quote at length what Dalisay says about a man and his car:

"Indeed we like driving our cars around—one reason why no traffic scheme that depends on ride-sharing or on leaving your car at home is ever likely to succeed. Need ketchup for the fried chicken? Why, then, drive down to the grocery around the street corner. Going to Sunday Mass? Nobody ever said that driving to church, two blocks away, was any kind of sin. Whenever we feel like using the car, we will.

"But I don't think we buy and use cars for sheer or mere transportation. In fact, the minute we realize how joyless that long and arduous drive is going to be, we pull the nylon covers and grab a cab, an FX, a bus, or a plane. I wouldn't drive to Makati if I could avoid it, except that taxis can be as

MAN OVERBOARD

Essays by, for, and of the smart Filipino male

BUTCH DALISAY



impossible to find at rush hour as parking space in the morning.

"No: it isn't so much *utile* as dulce, not so much utility as pleasure, that attracts us to cars. In other words, guys, we see cars as overgrown toys, the male equivalent of the Barbie doll, to be dressed up, accessorized, and pampered in more ways than a poet could count. We wash 'em, wax 'em, buff 'em, shampoo 'em, feed them with exotic additives, perfume them with rare scents, clothe them with extravagant furs and leathers.

"We have a fetish for newness: blessed with a new car (especially his first one), the

Pinoy will refuse to peel that godawful plastic away from the sidings until it comes off like a bad sunburn. We're more faithful to our cars than to our spouses: any proposal to pull 15-year-old cars off the road will result in the kind of revolution they only dream about at Utrecht. We like to announce to the world at large that (1) we have a car, and (2) anyone who comes within a three-meter radius of it is an unqualified thief: thus we arm our vehicles with batteries of alarms and sirens, each of them noisier than a New Year's Eve."

You don't have to be male to enjoy Dalisay's book, but needless to say, it helps.

The crucifixion of the Pinoy



It's Holy Week. Time to meditate, time to amend, and time to wake up. On the ninth of this month, the official period of the start of the passion of Christ was observed by the whole Christendom from all corners of the globe. According to the Holy Bible, it was on Palm Sunday when the crowd jubilantly accompanied Christ in His first official entry into the Holy City of Jerusalem.

It was also the time when the authorities decided to eliminate Him at all costs, a strong threat to their powers and positions. Of course,

everything is now part of Christian history as the jubilant entry into the Holy City was followed by His agony, His arrest, His mock trials, His journey to Golgotha and His crucifixion. Today, this is being meditated upon by Catholics worldwide as they pray the five mysteries of the Holy Rosary on Tuesdays and Fridays of the week.

Of course, we also know that the passion of Christ did not end with His crucifixion but with His resurrection from the dead three days after he was crucified and buried. Catholics all over the world do not just meditate on these mysteries for nothing. Every one of them believes that sufferings and sacrifices will be rewarded and their salvation will definitely come, no matter how long and no matter when.

Catholic Filipinos are no exception to the belief that at the end of their sufferings and sacrifices, the eternal reward will come. It is therefore no small wonder why the predominantly Catholic Philippines observes the Holy Week more intensely, more soberly and more devoutly than their counterparts in other countries, including the Vatican City, seat of power of the global church, and Spain, origin of the missionaries that converted Filipinos to Catholicism in the 16th century. In every nook and corner of the archipelago, every one pauses and prays that their salvation will come much sooner than soon.

And they never give up. Prayers, meditation and fasting are still the last recourse for them as they search for solutions to their everyday problems—no money, no job, no shelter and no food. From the most minuscule of problems to the most serious ones, their faith and belief in the powers of God has always been the only guiding light that pushes them to move on.

And for them, there is no such thing as failure. There is only success, and that success shall be provided by their immense faith in the goodness of Christ.

However, in this time and age, Christian Filipinos have become more innovative. Many have started to compare the present ills of the country to the ills of the authorities in Jerusalem during the time of Christ and their sufferings to the sufferings of Christ.

Joining a small group of progressive young professionals and students in a recent forum, I was stupefied to witness a group of young students presenting a mock crucifixion of the Filipino people. The equivalent of a

Palm Sunday was presented in the form of the Filipinos jubilantly rejoicing when EDSA I successfully installed Cory Aquino and normalcy was restored to our land, while the agony in the garden and the scourging at the pillars were the periods when Erap took over, until EDSA II and the first two years of the Arroyo administration. What we were then until what we are today was presented more meaningfully. Christ's carrying of the cross and the crowning of thorns, for example, were represented by the imposition of the 12% value added tax, higher increases of petroleum products, cooking gas, food and other household items (including those that the government said should not be affected by the increase in the VAT rate), robberies and kidnappings, killings of progressive group members and media personalities, joblessness, "Hello Garci," the widespread graft and corruption in government and the deepening economic crisis. Finally, the crucifixion of Christ was marked by the imposition of Presidential Proclamation 1017 and the move to change the Constitution.

At the end of the presentation, I asked, "What then would represent in our lives the Resurrection of Christ?" The spokesperson of the youth group simply replied: "Ang pagpapatalik kay Gloria!" This response was greeted with strong applause and the stomping of feet, which I felt was more of an

expression of pouring out their individual political emotions rather than a well-thought of plan on whether the resignation or "pagpapatalik kay" GMA would bring the Philippines the reward of eternal happiness of the country and the people.

While I agree that the country is really on the verge of economic and political collapse, and there seems to be no clear solution in sight for the stability of the country, both economically and politically, while our leaders seem to be

more preoccupied with their personal survival and personal interests, I am in doubt whether the resignation or removal of President Arroyo at this time would be beneficial to the country, to our people and our national interest while there is absent a "Christ" among us who would be willing to put his head on the chopping block and lead this country out of its present agonies and sufferings.

This is what is bothering me. I am sure it bothers a lot of other people, too. But where are the "Christs" in our midst? Can we see them in the present crop of leaders? How about among our would-be leaders? I do believe that our resurrection would be dependent on the how much we all can sacrifice for the country, how much we can give and not how much we can receive.

If there is one thing that we all should pray for and meditate this Holy Week, it is a prayer that each and everyone of us start looking at the four other fingers pointed at us, rather than the sole finger that is pointed at somebody else.

Finger pointing, or scapegoat hunting has never led to the discovery of solutions to problems, whether they be personal or national. The first step towards solving our problems is to identify that we have problems. The next step is to confront and define the problems. Finally, it is clear that the solution to all our problems is the realization that no one can deliver us from hell but ourselves. ■



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PLDT

ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2004	2005	Latest Update
I. OUTPUT									
							<i>1st-3rd quarter</i>		2005
A. Real GDP growth	3.7	4.8	2.3	4.2	5.1	6.2	6.5	5.4	5.7
B. Real GDP growth	3.4	4.4	1.8	4.4	4.5	6.0	6.3	4.6	5.1
C. Per Capita GNP (current prices: USD)	1044.9	1007.3	967.3	1019.9	1035.3	1104.2	792.3	881.6	
D. Per Capita GNP (constant prices: USD)	678.5	726.4	725.7	741.3	763.6	794.5	576.2	595.2	
E. Savings Rate	20.59	22.74	22.95	23.56	24.28	25.44			
II. PRICES (2000 = 100)									
A. CPI Philippine (all items, ave. % change)	5.9	4.0	6.8	3.0	3.5	6.0		7.6	6.6
of which: Food, Beverages & Tobacco	4.6	1.6	4.7	2.3	2.2	6.2		6.5	5.6
Non-food	7.6	6.4	8.8	3.8	4.6	5.8		8.7	7.7
B. Core Inflation (2000=100)	6.3	4.0	7.4	3.5	3.4	5.7		7.0	5.8
III. MONEY AND INTEREST RATES									
A. Money (End-of-Period)									
1. Domestic Liquidity (M3, P B)									
(% Change)	1365.1	1427.4	1525.0	1669.7	1725.0	1883.8	November		
	19.3	4.6	6.8	9.5	3.3	9.2	1797.4	1999.2	
							6.9	11.2	
2. Base Money (P B)									
(% Change)	357.4	391.7	431.0	458.6	487.3	570.9	526.0	597.8	
	13.0	9.6	10.0	6.4	6.1	17.2	15.5	13.7	
3. Net Credits fr the Mon. System (P B)									
(% change)	1923.3	2087.8	2106.4	2207.5	2313.7	2532.9	2455.7	2455.7	
of which: Private (Nominal, P B)	2.8	8.6	0.9	4.8	4.8	9.5	8.1	0.0	
% Change	1394.4	1506.8	1461.9	1480.1	1506.6	1576.7	1555.4	1582.6	
	-1.2	8.1	-3.0	1.2	1.8	4.7	4.7	1.7	
4. Total Loans Outstanding KBS (P B)									
% Change	1354.2	1451.5	1399.2	1432.7	1487.7	1525.9	1542.8	1574.6	
	0.4	7.2	-3.6	2.4	3.8	2.6	3.6	2.1	
5. Non-Performing Loans KBS (P B)									
As % of total loans	195.4	245.8	281.9	245.1	245.5	227.0	241.9	164.3	
	12.3	15.1	17.3	15.0	14.1	12.7	13.6	8.7	
B. Interest Rates (% p.a., average)									
1. T-bills 91 days									
	10.20	9.86	9.86	5.43	6.03	7.34		6.36	16 Jan '06 4.863
2. Time Deposits (all maturities)									
	9.51	8.51	9.53	5.32	6.41	6.43		5.26	
3. Bank Ave. Lending Rates (all maturities)									
	11.75	10.86	12.40	8.90	9.48	10.07		10.15	
IV. EXTERNAL SECTOR									
A. Current Account Balance (USD M)									
(as % of GDP)	7219	6258	1323	4383	1396	2080	January-September		
	9.5	8.2	1.9	5.7	1.8	2.4	584	1205	
							0.9	1.7	
B. Trade Balance (USD M)									
	4959	3814	-743	407	-5455	-6381	January-November		
							-4372	-3546	
C. Export (Goods; USD M)									
(% Change)	34211	37295	31243	34377	35342	38728	36403	37390	
	19.1	9.0	-16.2	10.0	2.8	9.6	10.1	2.7	
D. Imports (Goods; USD M)									
(% Change)	29252	33481	31986	33970	40797	45109	40775	40936	
	-0.9	n.c.	-4.5	6.2	n.c.	10.6	9.8	0.4	
E. Investments, Net (USD M)									
of which: Net Direct Investments	-2325	-4157	-1249	-1625	-1524	-1689	-394	2247	
Net Portfolio Investments	1754	1453	1149	1733	150	57	-39	756	
	6874	207	540	1122	-1305	-1434	-902	3178	
F. Overall Balance of Payments (USD M)									
	3591	-509	-202	810	115	-280		2407	
G. Total Foreign Assets BSP (USD M)									
(in months of imports of goods & services)	15064	15063	15692	16365	17063	16228		18495	
	4.5	4.2	4.6	4.7	4.2	3.7		3.8	
H. External Debt (USD M)									
	50997	51206	51900	53645	57395	54846	September		
							55610	55480	
							January-September		
							13.68	13.11	
I. External Debt Service Ratio (in %)									
	13.89	12.24	15.61	16.19	15.94	13.10			
J. Peso-Dollar Rate (P/US\$)									
Period Average	39.089	44.194	50.993	51.604	54.203	56.040		55.086	3-05 Jan '06
(% Appreciation/Depreciation)	4.6	-11.6	-13.3	-1.2	-4.8	-3.3		1.7	52.897
End-of-Period	40.313	49.998	51.404	53.096	55.569	56.267		53.067	35 Jan '06
(% Appreciation/Depreciation)	-3.1	-19.4	-2.7	-3.2	-4.5	-1.2		6.0	52.596

¹ National income figures are as of May 2004.

² Gross savings (net national savings plus depreciation) as percent of GNP in current prices; per NSCB.

³ Includes Land Bank of the Phil. (LBP) & DBP (Feb. 1996)

⁴ Peso and Foreign accounts excluding transactions of local banks' foreign office and interbank loans.

⁵ Averages on date of issue.

⁶ Beginning January 2000, the conceptual coverage of the Balance of Payments Manual 5th Edition (BPMS) was adopted. Corresponding 1999 figures were revised accordingly to allow comparability with 2000 figures.

⁷ BOP figures are computed based on the revised accounting methodology, computed as the change in BSP-NIR. Beginning January 2000, this corresponds to the change in the NIR that is purely due to economic transactions excluding the effects of revaluation of reserve assets and reserve-related liabilities, gold monetization and SDR allocation.

⁸ Includes Reserve Position in the Fund.

⁹ External Debt service burden as percent of current account receipts

¹⁰ Data based on Foreign Trade Statistics of NSO

¹¹ Adjusted NSO data to exclude aircraft procured under operational lease agreement amounting to \$45 million and \$136 million for 1997 and 1998, respectively. For 1997, of the \$1,110 million worth of aircraft imported under capital lease agreement, only \$644 million were accounted for in the NSO figures, thus \$466 million have to be added to imports.

¹² Represents official figures for end-December 1999 per books of Treasury Department.

¹³ Not comparable with 1999 data.

¹⁴ Preliminary

¹⁵ Revised to reflect data updates.

Source: BSP

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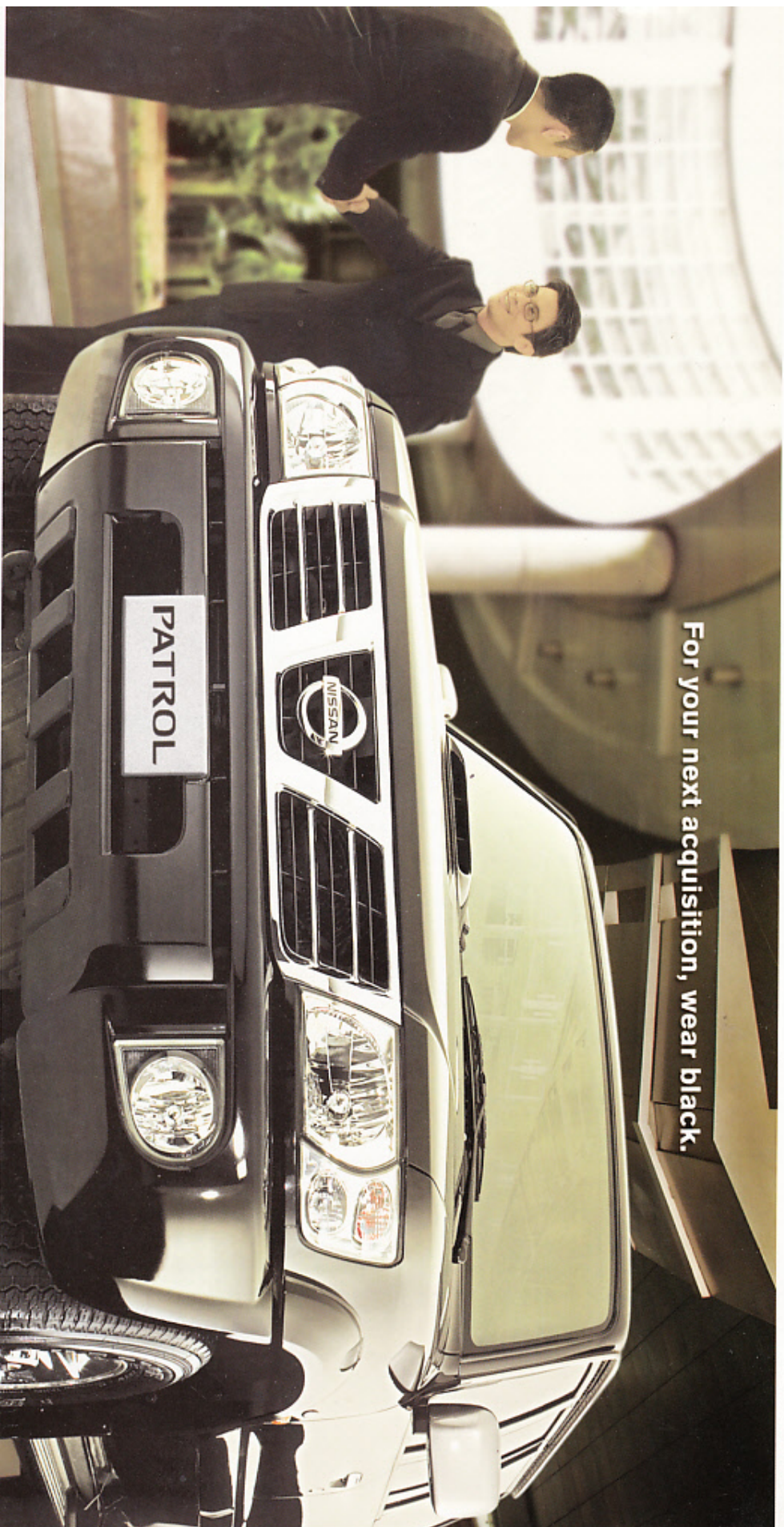
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