



**USAID**  
FROM THE AMERICAN PEOPLE

# FACILITATING PUBLIC INVESTMENT (FPI)

QUARTERLY REPORT: AUGUST- DECEMBER 2013

**JANUARY 2014**

This publication was produced for review by the United States Agency for International Development. It was prepared by DAI.



# FACILITATING PUBLIC INVESTMENT (FPI)

**QUARTERLY REPORT: AUGUST- DECEMBER 2013**

<b>Program Title:</b>	<b>Facilitating Public Investment</b>
<b>Sponsoring USAID Office:</b>	<b>USAID/Philippines</b>
<b>Contract Number:</b>	<b>AID-492-C-13-00014</b>
<b>Contractor:</b>	<b>DAI</b>
<b>Date of Publication:</b>	<b>January 30, 2014</b>
<b>Author:</b>	<b>FPI Resident Project Team</b>

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



**CONTENTS**

**ACRONYMS..... 1**

**EXECUTIVE SUMMARY .....3**

**BACKGROUND.....5**

**PROJECT ACTIVITIES .....7**

**PROGRESS TO DATE BASED ON RESULTS INDICATORS ..... 13**

**FINANCIAL SUMMARY ..... 15**



# ACRONYMS

AEB	Appraisal and Evaluation Bureau
BIR	Bureau of Internal Revenues
CBA	cost-benefit analysis
CCN	Cooperating Country National (i.e., Filipino)
CEPR	Center for Economy Policy Research
CGE	Computable General Equilibrium
CIT	corporate income tax
COMPETE	Advancing Philippine Competitiveness (USAID project)
COP	Chief of Party
COR	Contracting Officer's Representative
CPAR	Contractor Performance Assessment Report
CSO	civil society organization
DBM	Department of Budget and Management
DCOP	Deputy Chief of Party
DOF	Department of Finance
DQA	Data Quality Audit
EGAT	Bureau for Economic Growth, Agriculture, and Trade, USAID
EITI	Extractive Industries Transparency Initiative
EMERGE	Economic Modernization through Efficient Reforms and Governance Enhancement (USAID project)
eTIS	electronic Taxpayer Information System
FEF	Foundation for Economic Freedom (DAI FPI consortium member)
FIU	Fiscal Intelligence Unit
GCG	Governance Commission for GOCCs
GDP	gross domestic product
GGAC	Good Governance and Anti-Corruption Cluster
GIFMIS	Government Integrated Financial Management Information System
GIFT	Global Initiative for Fiscal Transparency
GOCC	government-owned and -controlled corporation
GPH	Government of the Philippines
GSU	Georgia State University
HR	Human Resources
HRD	Human Resource Development
i <sup>3</sup>	Integrity Investments Initiative (USAID project)
ICT	Information and Communication Technology
IT	Information Technology
JCA	Jacobs, Cordova & Associates (DAI FPI consortium member)
JUSTICE	Judicial Strengthening for Court Effectiveness (USAID project)
KPI	Key Performance Indicator
LGU	local government unit
LOE	Level of Effort

LTTA	Long-term Technical Assistance
M&E	Monitoring and Evaluation
MOU	Memorandum of Understanding
MTDS	Medium Term Debt Strategy
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MTDS	Medium-Term Debt Strategy
NCR	National Capital Region
NEDA	National Economic and Development Authority
OGP	Open Government Partnership
OPIF	Organizational Performance Indicator Framework
PCCI	Philippine Chamber of Commerce and Industry
PEA	Political Economy Analysis
PEM	Public Expenditure Management
PER	Public Expenditure Review (World Bank)
PFG	Partnership for Growth
PFM	Public Financial Management
PIDS	Philippine Institute for Development Studies
PIT	Personal Income Tax
PMP	Performance Management Plan
PPP	Public-Private Partnership
RFP	Request for Proposals
RIU	Reforms and Innovations Unit
SMART	Specific, Measurable, Achievable, Relevant, Time-bound
SOW	Scope of Work
STTA	Short-term Technical Assistance (Advisor) (International)
TAMIS	Technical and Administrative Management Information System
TCN	Third Country National
TOT	Training of Trainers
TRADE	Trade-Related Assistance for Development (USAID project)
USAID	United States Agency for International Development
VAT	Value-added Tax

# EXECUTIVE SUMMARY

The signing of the contract for the Facilitating Public Investment project was completed on August 22, 2013. Start-up activities began quickly thereafter, with the DC-based Project leadership (including Steve Rozner and Dr. Mark Gallagher) arriving in early September and resident Tax Expert Alex Kitain on October 1. At the request of Secretary Purisima, the candidacy of the proposed Chief of Party was withdrawn prior to the inception of Project activities. A search was immediately launched for a replacement candidate with significant international tax experience in line with the needs of the Government of the Philippines. Mr. William Gardner was selected for the post, and arrived in-country on November 2, 2013.

In parallel with efforts to design and begin implementation of a work plan and a performance management plan, the Project established a permanent central office location as well as a presence in the Ministry of Finance, the Bureau of Internal Revenue and the Bureau of Management and Budget. Key local professional positions were filled, and substantive progress has been made in initiating operations in concert with counterparts and partner organizations.

- **Performance Requirement 1: Tax Effort Strengthened.** During the reporting period the project repeatedly engaged counterparts in a series of discussions concerning both Ministry of Finance and Bureau of Inland Revenue objectives for the Project and crafted the draft workplan to reflect those priorities. A major focus of the initial activities in this area was on developing the background information needed to prioritize our work so that the Project can produce short term outputs of maximum value to the Ministry while also targeting longer term capacity development efforts. Executing this strategy was facilitated by discussions with MoF Secretary Purisima, BIR Commissioner Henares and a number of additional key senior leaders in both organizations. Input from these meetings and from discussions with other stakeholders from both the Governmental and private sectors was a critical input in the development of the workplan.

One of Secretary Purisima's primary short-term objectives is to improve the effectiveness of the Fiscal Intelligence Office of the Ministry of Finance. The FPI team met repeatedly throughout the period with FIU leadership, and directly supported the operations of the FIU by initiating training activities designed to side the FIU to create an improved capacity to monitor the performance of regional tax and customs offices.

- **Performance Requirement 2: Public Expenditure Management Improved.** During the reporting period the project focused on both acquiring the knowledge base needed to assist the DMB in meeting two major objectives – improving DMB's ability to measure the impact of budget outcomes and increasing the transparency of the budget process.



# BACKGROUND

## PROJECT GOALS AND OBJECTIVES

The U.S. Agency for International Development has contracted with Development Alternatives, Inc. to implement the Facilitating Public Investment (FPI) project in the Republic of the Philippines as part of the Partnership for Growth (PFG) initiative. The FPI project is intended to support the Philippines' expansion of public investment through higher tax revenue and public expenditure reforms. Through FPI, USAID will support efforts that facilitate gains in fiscal space and public investment that, in turn, spur increasing private domestic and foreign investment in the Philippines.

### PARTNERSHIP FOR GROWTH (PFG)

With a dynamic reform-minded leader in President Aquino and the joint commitment of the U.S. and Philippine Governments to transformational change embodied in the Partnership for Growth (PFG), the Philippines now has a rare opportunity to overcome the political obstacles that have long prevented it from attaining rapid, inclusive growth. Indeed, these forces are already beginning to produce results. Fueled by a surge in public investment, the Philippines growth rate in the third quarter of 2012 outpaced that of all its regional neighbors (excluding China), signaling a promising but still uncertain trajectory.

USAID's FPI Project capitalizes on this momentum to address the weak revenue collection, excessive fiscal incentives, outdated budgeting approaches, and overall economic governance challenges that have prevented the Government of the Philippines (GPH) from making the kind of public investments that encourage more sustained, inclusive economic growth. Yet, serious political economy challenges await these efforts both within and outside government, and realizing these goals requires an acute political and social awareness and an ability to bring various segments of society to accord on a groundbreaking reform agenda.

Working with and through existing government and donor initiatives is central to the FPI approach. President Aquino's Social Contract sets the principles for GPH reform. The PFG agreement between the Philippine and U.S. Governments provides both the foundation for USAID's ongoing engagement with the GPH, and represents an explicit GPH commitment to improve fiscal management through improved spending efficiencies and increased tax effort. FPI will evoke these initiatives to help garner broad-based support for the difficult reforms that are needed. The FPI team will connect with, and build our work programs in conjunction with, a wide array of ongoing and planned initiatives. Table 1 presents an illustrative list of partners and areas of mutual interest and activity. These will be finalized during work-planning, in consultation with USAID.

### COUNTERPARTS

Under the technical direction of the COR, the FPI team will work with the GPH counterparts and stakeholders relevant to each performance requirement and deliverable to achieve the desired results. The FPI team is expected to interface with a diverse group of public sector and civil society organizations. The primary GP counterparts for the program will include:

- Department of Finance (DOF)

- Bureau of Internal Revenue (BIR)
- Department of Budget & Management (DBM)
- Department of Treasury
- Bureau of Customs (BOC)
- Department of Public Works and Highways (DPWH)
- Department of Agriculture (DA)
- Department of Transportation and Communications (DOTC); and
- Other relevant agencies.

# PROJECT ACTIVITIES

## Performance Requirement 1: Tax Effort Strengthened:

Key activities undertaken during this period were as follows:

- The Ministry and other partners requested Project support in several short-term initiatives. Among these are:
  - the taxation of income derived from mining of mineral resources,
  - the taxation of financial instruments; and
  - tax related barriers to the development of a deeper market for Government debt.
- Throughout the period, the FPI team has operated in close coordination with representatives of other donor organizations, specifically meeting on a regular basis with representations of activities supported by the World Bank, IMF, ADB and MCC. Formal coordination meetings are planned to occur on a monthly basis going forward.
- Coordination with other donors as well as the MoF and BIR is important in the tax area, where significant investments have been made over the years in designing projects for which the success of many are quite interdependent of each other. This is even true in the tax policy area, despite the fact that much prior donor assistance has previously been focused on tax administration. FPI's approach to developing new revenue sources is planned to take place through the execution of a logical process that first evaluates the potential revenue that should be generated by the existing tax system then compares that to actual collections. The difference – generally referred to as the 'tax gap' - should next be further decomposed into revenues that are not being collected for three sets of reasons – revenues not collected due to preferences in the tax laws or regulations, deficiencies in tax administration practices or the tax administration environment, and 'all other' factors.
  - The World Bank is supporting an analysis of some tax expenditures, but the program remains incomplete and lacks depth of analysis as well as a formal mechanism to incorporate it more directly into the budget process. FPI will work with the MoF, BIR and WB to achieve these goals.
  - The IMF has conducted a limited number of tax gap studies in the past, and has plans to repeat some of them. FPI will work to consolidate prior studies from all studies, filling in the gaps where necessary, in order to fill out this key element of the policy space.
  - The results of a more comprehensive decomposition of the tax gap into legal, administrative and 'other' factors should provide an improved basis for maximizing the effectiveness of all donor activities in the tax area.
- Donor coordination is highly important on the tax administration side as well. FPI has already initiated support for risk analysis activities currently being performed by the FIU, and will expand the range of activities going forward. Specific activities performed in conjunction with the FIU include:

- Assisted FIU in the preparation and launch of dashboards for transparency initiatives on Customs ng Bayan Microsite and Open Data Summit.
- Participated in the Coordination Meeting of DoF-FIU, OPS-OPSPD, BoC, and WB on publication requirements for OpenData microsite.
- Advised the FIU on the extent of publishable trade information for importers and provided inputs on the possible course of action for the data release.
- Provided continuing feedback on the microsite design, information content, and communication delivery.
- Assessed and recommended immediate data analytics set-up of FIU
  - Compiled historical data analyzed from BoC, BIR, and third party sources being used by FIU.
  - Articulated for FIU and DoF-MIS the systems requirements (staff competency, hardware requirement, and unit linkages) for the sustainable data analytics system of FIU.
  - Provided feedback on the IT Vendor's presentation for the BoC and FIU.
  - Shared data management concepts using STATA to the FIU data processing/analytic staff.
- Initiated other capacity building tasks required for FIU:
  - Brainstormed with FIU on the existing 1-2 page transparency publications for BIR Regions, Port Districts, and LGUs.
  - Profiled the FIU's organizational mandate, duties, and no. of expected personnel.
  - Attended meeting/ brainstorming with TRADE Project on their collaboration with FIU function in post-entry audit.
- Began the process of procuring the data that will be needed from government agencies to support the work of the FIU by performing the following activities:
  - Researched data sources, specific units, and point persons for the planned Risk Analysis Study.
  - Prepared request letters for the data (from the Philippine Business Registry of the Department of Trade and Industry) on government contractors under the PhilGEPS of Department of Budget and Management, followed-up and updated the request, and took custody of the electronic copy of said datasets.
  - Coordinated meeting with the BIR MSITG DCIR Guillermo on the protocols for data requisition from the BIR.
  - Met with Dir. Cabreros on electronic filing.
  - Finalized summary data requirement for BIR on Benchmarking Study

**Performance Requirement 2: Public Expenditure Management Improved:**

During the reporting period the project focused on both developing a detailed workplan for Project activities in the DBM and acquiring the knowledge base needed to provide the assistance mandated under that workplan. A significant number of meetings were held with both USAID and DBM representatives to ensure that the Project, DMB and other donor-funded activities are properly

aligned and mutually supportive. The requested materials essentially cover all of the design and technical specification documentation for existing systems and planned extensions as well as those produced thus far in planning for TAMP, plus documentation detailing SRC business operation procedures.

- Technical discussions were held with senior officials and staff of the DBM on budget process innovations that the Government plans to introduce in 2014, and how FPI technical assistance for program evaluation can be designed to support the implementation of these innovations.
- As part of its assistance to the Good Governance and Anti-Corruption Council (GGAC) Secretariat for communications planning and networking, FPI helped in the promotion of the Good Governance Summit of 2014 through contacts with media organizations to disseminate information about the upcoming Summit.
- The FPI team developed an Initial estimate of the TA needs for the DBM and the GGAC Secretariat under the proposed workplan., including resources for:
  - the enhancement of the GGAC website, and
  - conducting capacity building activities for the DBM Operations Bureaus on program evaluation and budget review.
- FPI representatives began the process of facilitating participation in international training programs for senior DBM officials. During the reporting period, the FPI completed arrangements for DBM Assistant Secretary Amelita D. Castillo and Undersecretary Luz Cantor to attend separate courses at Harvard University's Kennedy School.
- The CPO, Deputy COP and other team members held a lunch meeting with Cong. Nograles, member of the appropriations committee of the House of Representatives. The meeting was designed to provide the Congressman with an overview of the FPI Project and to discuss possible avenues for future collaboration on upcoming legislative reform initiatives.
- FPI advisors met with Ms. Marissa Camacho, COP of Enhancing the USAID Capacity of the Civil Society Organizations Project, to explore on the possibility of working with them in engaging CSOs and to ensure that there will be no duplication of activities of the two projects.
- The FPI team supported planning for the DBM/World Bank sponsored Open Budget Partnership event organized by Rappler (one of GGAC's partners) in conjunction with DBM. While in attendance, the FPI team interacted with several members of the media and CSOs who are actively participating in the activities of the Good Governance Cluster.
- FPI team members held a series of discussions held with DBM counterparts for the activities to be included in the work plan, communication plans and summit preparations.

### **Project Management**

- A 4-person Startup team from the Home Office (HO) including Acting COP Steve Rozner, Strategic Advisor Mark Gallagher, Project Start-up Specialist Phil Greiner and Project Associate Jessica Mirabella was fielded on September 11, 2013 to commence start up activities and begin programmatic planning; DCOP Alexander Kitain joined the team on October 1, 2013. Temporary offices were secured and the team moved into a permanent office on December 2, 2013.

- At the request of Secretary Purisima, the candidacy of the proposed Chief of Party was withdrawn prior to the inception of Project activities. A search was immediately launched for a replacement candidate with significant international tax experience in line with the needs of the Government of the Philippines. Mr. William Gardner was selected for the post, and arrived in-country on November 2, 2013.
- The initial workplan was submitted on October 5, 2013.
- As of this writing, the project has eight (8) staff, of whom two (the COP and DCOP) are expatriate long-term resident advisors, and six are local-hire Philippine nationals. The project may take on additional experts and interns as program requirements develop. All technical staff are on board and hiring for operational staff continues due to changes in intended staff's availability and unfortunate, unavoidable circumstances. DAI is ensuring support from the home office and other resources in the field and expects the project to be fully staffed early in the next quarter. In the meantime, the project's Field Operations Manual, including HR policies, has been developed.
- Issues, Risks and Mitigation Activities. Despite delays arising from the change in COP and access limitations ensuing from Typhoon Yolanda, full engagement with counterparts has fully recovered at this point. As gaining formal approval of the workplan and ensuring its execution depends on continued access, the Project has moved to increase the future level of engagement in the following ways:
  - A satellite office has been established in space provided by each counterpart Agency.
  - Regular check-in's are held with lead counterparts from each agency.

### **Next Steps**

During the next reporting quarter the Project will undertake the following:

- Conduct formal training in Excel and Stata.
- Assist the FIU in the design, development and analysis of a Customs database.
  - Assist the DoF in identifying the largest importers and most important imported items.
- Provide training in Customs valuation.
- Begin an initial tax administration benchmarking analysis.
- Continue discussions with the DBM on requirements for the website and reporting system for GGAC.
- Initiate discussions with the BIR on the M&E indicators (Elcid sent a separate email yesterday)
- Continue technical discussions with senior officials and staff of the DBM on budget process innovations that government wants to introduce in 2014, and how FPI technical assistance for program evaluation can best support them.
- As part of FPI's assistance to the Good Governance and Anti-Corruption Council (GGAC) Secretariat for communications planning and networking, help promote the Good Governance Summit of 2014.
- Undertake an initial assessment of technical assistance requirements to:

- Enhance the GGAC website,
  - Develop increased capacity among DBM Operations Bureaus for program evaluation and budget review.
- Finalize and submit the revised “Profile Briefer” pages for Revenue Regions, Port Districts and LGUs to FIU; coordinate their continued development and use with FIU.
- Assist the development of increased capacity among the post-entry audit teams recently assigned to FIU by:
  - Creating templates for summary profiles of commodities
  - Conducting further training on MS-Excel applications for data processing and summary analysis for Import Commodity Profiling.
  - Preparing and presenting the initial findings on a Customs Valuation Database.



## **PROGRESS TO DATE BASED ON RESULTS INDICATORS**

The project's Performance Monitoring and Evaluation Plan (PMEP) is under development and will be finalized next quarter. By necessity, the PMEP cannot be finalized until after the workplan designed to guide project implementation has itself been finalized.

As results become available, this section will provide more detailed information on each Specific Objective of the project. It will report on the status of each of the selected individual Result Indicators. Each indicator will be compared against established targets. Progress made towards specific objectives will also be highlighted.

More specifically, the objective of each SO is first stated. The report will then move on to list special focus areas (activities) for the quarter under each SO – highlighting what was done and progress made towards achievement of the overall objective. These are all presented in a very clear manner using tabular formats (matrices). The report uses a fair balance of quantitative and qualitative information and thus provides a fuller picture of where they are in terms of results and progress toward targeted impacts. Moreover, it clearly identifies the sources of information/data used and how it was collected and is used as performance indicators. Challenges faced in implementing stated activities during the quarter are also stated.



# FINANCIAL SUMMARY

As of the end of the current reporting period, spending toward each result is less than anticipated. This is due to three primary factors. First, a change in the COP contributed to delays in technical activities getting underway as originally envisioned. With the new COP in place, it is expected that his technical leadership will increase the pace of activity planning and implementation. Second, the project faced delays in staffing all the positions required to support project activities. Active recruitment efforts are wrapping up for the remaining positions and those will be filled within the next quarter of the project. Finally, two of the three planned subcontracts are still under negotiation with the partner organizations.