PD-ABH-015

IMPLEMENTING POLICY CHANGE IN THE PHILIPPINES:

THE SUPPORT FOR DEVELOPMENT II PROGRAM

October 10, 1991

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1611-004-018

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Bibliography

LIST OF ACRONYMS

ADB	-	Asian Development Bank
AID	-	Agency for International Development
ASEAN	-	Association of Southeast Asian Nations
BAP	-	Bankers' Association of Philippines
BETP	-	Board of Export Trade Promotion
BIR	-	Bureau of Internal Revenue
BOC	-	Bureau of Customs
BOI	-	Board of Investment
CB	-	Central Bank
CICC	-	Customs Industry Consultative Council
COA	-	Commission on Audit
DOF	-	Department of Finance
DAP	-	Development Academy of Philippines
DOST	-	Department of Science and Technology
DTI	-	Department of Trade and Industry
GATT	-	General Agreement on Trade and Tariffs
GNP	-	Gross National Product
GOP	-	Government of the Philippines
HRD	-	Human Resource Development
IPC	-	Implementing Policy Change Project
IFG	-	International Finance Group, DOF
ITDI	-	Institute Technology Development
KUPEDES	-	
MARINA	-	Maritime Industry Authority
MIS	-	Management Information System
M&E	-	Monitoring and Evaluation
NEDA	-	National Economic and Development Authority
NIC	-	Newly Industrialized Country
NPCS	-	New Payment Control System
OBU	-	Offshore Bank Units
OPE	-	Office of the Program Economist, USAID/Manila
PCCI	-	Philippine Chamber of Commerce
PIDS	-	Philippine Institute of Development Studies
SDP	-	Support for Development Program
SFM	-	Standard Formulas of Manufacture
SHIPPERCON	-	Shippers' Council
SPAC	-	Shipping and Ports Advisory Council
TIN	-	Tax Identification Number
UP	-	University of Philippines
VAT	-	Value Added Tax

INTRODUCTION

In July 1991 at the request of USAID/Manila, the Implementing Policy Change Project (IPC) fielded a team of two of its core team, Harry Garnett, an economist and Alice Morton, a management specialist, to assist in the development of background analysis for the proposed second phase of USAID/Manila's Support for Development Program (SDPI). The team's scope of work is presented in Annex 1. The team was accompanied by Pat Isman, the ST/RD IPC Associate Project Manager, also a management specialist. The IPC team's visit was funded in part by a Mission buy-in and in part from IPC core funds.

During its three-week assignment in Manila, the team was to work closely with a locally-contracted team from Cesar Virata and Associates who were developing the performance indicators for the SDP II Policy Matrix, the set of policy objectives, actions and indicators that was to be negotiated with the Government of the Philippines (GOP) as the centerpiece of the SDP II agreement. It was estimated that SDP II would involve the cash transfer of $120,000,000 in balance of payments support to the GOP, in three tranches between September 1991 and December 1992. The anticipated life of the SDP II Project was 18 months.

Both contract teams were working under the supervision of USAID/Manila's Office of the Program Economist (OPE). While the Virata team were also working closely with the GOP, initially it was thought that the IPC team would work at one remove from the government, and approach GOP officials through the Virata team. As the assignment progressed, however, this approach was modified, and the IPC team also established direct contact with GOP officials, as well as with other stakeholders and concerned individuals in and outside the government.

During initial meetings, it was decided that the four key policy reform areas--liberalized foreign exchange, liberalized inter-island shipping, enhanced revenue generation (VAT and duty drawback), and improved pubic debt management--would be divided up among the members of the two teams. Thus, each area was assigned to a sub-team which included a member from the Virata team and from the IPC team, respectively. In addition, Ms. Isman worked with the Virata training specialist on training issues.

After some discussion, it was agreed that the IPC team members, as well as the Virata team members, would attend the weekly negotiation sessions with the GOP, as observers. In all, they attended two sessions (one was canceled). At the second meeting, at which the Support Component of studies, technical collaboration and training was a key topic, the IPC team made a brief presentation, based on work done with members of the Virata team, as well as on interviews with concerned actors within and outside the GOP. This presentation, which included the distribution of written materials, went well and began to form part of the negotiation process itself. Subsequently, the Support Component was streamlined, negotiated, and a dollar figure agreed.

While in Manila, the team and the ST/RD Project Manager met with as many potential training and other resource institutions as possible, to get a sense of their capacity for implementing elements of the Support Component, and as potential IPC collaborating institutions were there to be a subsequent buy-in by USAID/Manila to IPC in connection with SDP II implementation.

Before departing Manila, the team presented drafts of key sections of its report and, at the request of the Program Economist, a pre-proposal for potential IPC involvement in SDP II implementation. It was agreed that drafts of the remaining sections of the report would be faxed as they were written, so as to be of most timely use to OPE and the GOP. Drafts were also sent to the Virata team, as background to the preparation of their report, which was due later than the IPC report. OPE agreed to provide comments before a final version of the complete IPC report was prepared.

The report is divided into three chapters. Chapter One discusses the potential constraints to SDP II implementation. These are divided into constraints internal to the GOP, and those deriving from the broader socio-political environment. Chapter Two presents the proposed Support Component for SDP II--an interactive set of policy studies, technical collaboration and training--designed to ensure that policy reform performance under the program will be enhanced. Chapter Three presents a monitoring and evaluation agenda for the GOP and A.I.D. based on, but extending beyond, a logical framework. Additional materials are provided in annexes, including the team's scope of work, handouts given to the GOP/A.I.D. negotiating team concerning the Support Component, a list of persons contacted a brief discussion of potential training and resource institutions, and bibliography.

Chapter One

FEASIBILITY OF IMPLEMENTING THE SUPPORT FOR DEVELOPMENT PROGRAM (SDP) II POLICY REFORMS

Constraints to timely implementation of the actions in the SDP II Policy Matrix may be divided into those that are internal to the Government of the Philippines (GOP), and those that derive from the external social and political environment in which the GOP as a whole, and the concerned agencies in particular, operate. First we will discuss the internal constraints, and then the external socio-political factors that may also constrain implementation. Where we have observed facilitating factors, these will also be discussed. It should be noted that this is both a preliminary and a partial analysis--focussed on the actions and performance indicators included in the Matrix as of September 6, 1991.

I. GOP Constraints to Policy Implementation under SDP II

Earlier A.I.D. analysis has signaled that some constraints to efficient and effective implementation of the policy reform agenda lie in "government weaknesses as exemplified by weak enforcement capabilities of the responsible agencies, lack of qualified technical staff, inadequate budgetary resources to establish computerized monitoring and evaluation systems, intra-agency bickerings and stifling bureaucratic procedures . . . The feasibility of effective implementation according to schedule is oftentimes presumed. The GOP and the donor agencies devote little analysis in identifying the factors and issues that may pose a hindrance to smooth policy implementation. Likewise, there is lack of planning in how to deal with these problems."[1]

Our observations indicate that this is a good summary of some of the key implementation constraints faced by the GOP in general, and by the specific agencies that will be most centrally involved in implementation of SDP II policy reforms. We would add to this, however, the widespread perception among the stakeholders in these reforms that endemic corruption among some of the key implementing agencies (Bureau of Internal Revenue [BIR], Bureau of Customs [BOC]) and a tendency toward interventionism and over-management by others (Central Bank [CB], perhaps Department of Trade and Industry [DTI]) are further key impediments to smooth policy change implementation.

On the positive side, our meetings and interviews yielded a strong impression that there is a deep-seated interest in policy reform in general--and particularly in accomplishing some of the reforms represented in the SDP II Policy Matrix--on the part of some key GOP actors, as well as on the part of many of the private sector stakeholders who will be most affected. A key issue seems to be how much management of the economy is right and necessary. Reservations about liberalization are particularly strong, from what we have been able to observe, in the Central Bank, the institution that would bear most of the burden of any

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1 USAID/Manila: Implementing Policy Change (IPC) Scope of Work

SUPPORT FOR DEVELOPMENT PROGRAM II
Policy Implementation Matrix*

Overall Goal: Philippine Exports Competitive in World Markets

	PERFORMANCE INDICATORS	
Policy/Implementation Action	Tranche 2	Tranche 3
A. STRATEGY - Competitive Pricing for Exports and Their Inputs		
1. Market determined foreign exchange rate		
Liberalize foreign exchange market and holdings	Basis for determining the foreign exchange positions of commercial banks established and limits set on open positions that allow flexibility for efficient market functioning.	Retention limits for exporters of their foreign exchange earnings substantially expanded.
	Test run of off-floor trading among commercial banks and review of experience completed.	Participation in the foreign exchange market expanded to other banks and non-bank institutions.
	Proposal to abolish documentary stamp tax for interbank foreign exchange transactions submitted to Congress.	Revised accreditation system for foreign exchange brokers and dealers operating.
	Comprehensive study on foreign exchange rules and regulations completed.	Recommendations of the study agreed and acted upon.

*Version negotiated as of September 6, 1991.

	PERFORMANCE INDICATORS	
Policy Objective/Implementation Action	Tranche 2	Tranche 3
2. Access to inputs at world prices		
Streamline duty drawback and VAT tax credit.	One stop duty drawback center operating effectively.	Length of process time for 80 percent of completed applications reduced to 60 days or less for at least three-month period.
	Standard formula of manufacture updated and applied for 200 priority export items.	Standard formula of manufacture developed and applied for additional 300 priority export items.
	Procedures for automatic approval of 40 percent of VAT tax credit claims implemented.	Length of processing time for 80 percent of completed applications reduced to 60 days or less for at least three-month period.
B. STRATEGY - Supportive Environment for Exports		
1. Adequate provision of inter-island liner shipping services.		
Liberalize rate and route franchising regulations	Action plan adopted to liberalize liner cargo rates.	Action plan adopted for liberalization of route franchising, and initial implementation steps taken, including public release of information on routes requiring new, expanded, or improved services.
	Agricultural commodities reclassified.	
	Cargo fork tariffs widened significantly.	
		Schemes adopted to introduce passenger service schedule and rate flexibility.
2. Efficient Financial Resource Mobilization		
Constrain national budget deficit by strengthening Value Added Tax (VAT) administration.	"Operation Suyod" and installation of New Payment Control System (NPCS) for VAT completed nationwide.	Over a period of at least two consecutive quarters, a VAT/GNP ratio of 1.25 percent achieved.

	PERFORMANCE INDICATORS	
Policy Objectiv^e/Implementation Action	Tranche 2	Tranche 3
Lesson interest rate impact of public debt financing through improved management.	Action program for developing secondary market for long-term public debt instruments adopted.	Necessary support facilities for the secondary market, including possibly an emergency liquidity facility, established.
		Long-term public debt instruments promoted and available.
	Participation in the competitive bids for government securities widened and bidding rules improved.	Clearing and settlement system for government securities designed and tested.
	Action program for improving the access of small savers to government securities, including possible use of trust units and/or savings bonds, adopted.	Mechanism(s) for the access of small savers to government securities designed.

mistakes. There is also some reticence in some entities within the Department of Finance (DOF) about the potential probity of the private sector if allowed to deal more broadly in public debt instruments, for example.

The feeling that the economy must be managed is quite strong throughout the government, given the tenor of discussions we had with senior officials and some more junior ones. "Management" in this context has often been synonymous with protectionism. While it is said by some that the official position of the Department of Trade and Industry, formerly very protectionist in stance, has now changed, others indicate that this is still an entity where the nationalist/protectionist stance is most alive and well. The Board of Investment (BOI), also a former bastion of import substitution and capital intensive development, has also apparently come out in favor of export competitiveness and less intervention.

Despite a proliferation of intra- and inter-agency committees, taskforces, and working groups of various kinds, it appears that operational issues and implementation constraints, though recognized at higher levels, are not easily alleviated. Here, as elsewhere, inter-agency collaboration at the implementation level is more difficult to achieve than at the planning stage and the policy-making level. Some interviewees indicate that intra-agency collaboration and communication among units is also difficult to achieve.

The overall strictures on growth of the public sector establishment mean that almost all the agencies that will be involved with SDP II implementation are seriously understaffed. One National Economic and Development Authority (NEDA) planner indicated that BIR and BOC may be the two agencies most hard-pressed in staffing terms as compared to the urgency/significance of their revenue generating mandates. A recent Salary Standardization Act has attempted to introduce coherence into GOP salary grids. However, one result is said to be that government salaries are not sufficient to attract and maintain the best qualified personnel at the highest levels, while at lower levels, due to high overall educational attainment, a considerable proportion of staff are overqualified and undermotivated, as for example in the BIR.

In August 1991, a new regulation went into effect eliminating a number of assistant secretary and undersecretary positions. Although there is a Career Executive Service, equivalent to the U.S. Senior Executive Service, pay incentives are poor, and the career path does not seem as clear today as it was initially. One legacy of the Marcos-Aquino transition is that the vast majority of senior civil servants left government during that transition, whether voluntarily or involuntarily. No one seems to be able to predict with any certainty whether this will happen during the next transition or not. Meanwhile, in some agencies, senior positions go unfilled for months and even years, while in others, senior people are already talking of leaving, or positioning themselves to leave to participate in electioneering, or to avoid being asked to leave after the elections.

Some staff training opportunities exist, especially in NEDA and in the higher reaches of operating departments. However, it is unclear the extent to which training opportunities address training needs; we are unable at this point to assess whether trainees are able, on return to their parent organizations, to innovate and apply their new skills. While some in-house on-the-job training takes place in some of the line organizations that will be involved in SDP II implementation, it is also not clear what the quality of that training has been, and/or what relationship there may be between training and performance, and between evaluation of performance and promotion.

A. Competitive Pricing for Exports and their Inputs:

1. Need to Change Market Behavior

The policy reforms proposed in the Matrix will have to be supported by changes in the behavior of the key actors in the foreign exchange sector if the overall policy objective of competitive pricing for exports and their inputs is to be achieved. SDP II should include a component that will facilitate the transformation of the market from one that is tightly controlled by the CB through on-floor trading and "jaw-boning" into one in which the role of the CB is to ensure competitive behavior by dealers and to intervene only in emergencies.

Two major GOP constraints are the longstanding policy of the CB to protect the exchange rate from fluctuations and the nature of its relationship with the Bankers' Association of the Philippines (BAP). Even after the policy reforms proposed in the Matrix, such as off-floor trading, or any additional liberalization measures have been agreed upon, the overall policy objective will not be achieved if the CB continues to intervene in the market or jaw-bone to "protect" an overvalued rate and a small but influential group of commercial banks find it in their interests to succumb to this pressure.

The situation is now improving. The CB has agreed to the introduction of off-floor trading in the near future. New rules have been drafted and circulated to BAP. The delay in the introduction of off-floor trading has been caused by disagreements over what should be the allowable "open foreign exchange position." The CB rightly wants to make sure that the commercial banks do not hold excessive foreign exchange and do not over-extend their foreign liabilities. The rules that the CB originally proposed take into consideration foreign exchange assets and liabilities payable at some future time. The commercial bankers, through BAP, would prefer to be allowed to hold as much foreign exchange as required so long as their foreign exchange positions do not exceed a specified proportion of the bank's capitalization or net worth. It can be reasonably assumed that, with help from the proposed study to determine the limit of banks' forex holdings, discussions between the CB and BAP will resolve these issues and off-floor trading will begin, possibly very soon. A target date of September 30, 1991 has been mentioned by both of the main parties concerned.

In the meantime, the Governor of the Central Bank announced that the CB had reached an agreement with the BAP to adopt the "textbook approach" to the determination of the foreign exchange position of the banks (according to press reports on August 17). Under this approach the foreign exchange position of a bank is based on its "unimpaired capital." This approach is used in many other countries, including Singapore, Thailand and Malaysia. However the issue of defining the limits remains. Some problems may remain even after full agreement on the textbook approach. The market may be somewhat illiquid if the "25 per cent of capital" rule is applied. A study will be required of the so-called "open position" of the commercial banks before trading can begin. Some training of traders on operating procedures and rules and some trial runs will also be required.

The current situation is in some ways a good one for introducing policies that will lead to market-determined foreign exchange rates. Some risks are less than usual. The CB's international reserves are over 50 percent higher than a year ago. Overall foreign reserves are at record levels. The most immediate threat to a competitive exchange rate for exporters is the announced reduction of the import levy, which will increase the demand for imports and push the rate up.

Some significant underlying concerns will remain. As indicated above, the CB might still act to maintain an overvalued exchange rate. The first set of concerns are about the policy goals that now drive the CB; the second, the way in which the CB now operates and the way it will need to operate in a more open, competitive environment. Each will be discussed below.

2. Central Bank in an Open Foreign Exchange Market

Central Bank Goals

The CB has tended to act to maintain the peso/dollar rate and has resisted the downward pressure on the peso. Unfortunately, this has harmed exporters by overpricing their goods and, because interest rates have had to be held at relatively high levels to attract dollars to maintain the high exchange rate as well as to fund the Government deficit, by making capital expensive.

There are a number of reasons why the CB has followed this policy. First of all, there is a lack of confidence that any official rate can be maintained. This has lead to the holding of precautionary balances that are not related to the underlying volume of trade. When this happens the CB feels that the banks are keeping the peso/dollar rate lower than it should be. The CB therefore tries to create the impression that they will resist downward pressure on the rate and maintain particular rates for long periods.

There are other reasons why the CB tries to maintain an overvalued exchange rate. A devaluation would increase the CB's losses on debts it has been forced to assume by the National Government. Relatively high proportions of the CB's liabilities are in dollars and its assets in pesos. There are proposals to move these debts to the National Government. The CB is aware that a devaluation would probably result in increased unemployment, since prices will tend to rise and output fall, until the export industries have increased capacity sufficiently to respond to the new overseas prices for its products. It is not very appealing to say in the lead-up to an election that in the long run employment growth will depend most of all on improved export incentives. In the short run, the high interest rates that are necessary to protect the overvalued exchange rate and which do so much long-term damage to the economy, are much less painful than the few thousand jobs that will be lost to a devaluation. The experience of the mid-1980s was not a good one for the CB. At that time, the banks were allowed to hold on to foreign exchange. When there was a foreign exchange crisis, the CB had to buy the foreign exchange from them and subject future flows to tight controls.

The CB finds it difficult to agree to minimal intervention because it believes that the banks do not behave competitively. There is at least some evidence to support this view. Many banks still do not have the broad-based ownership that might make them act in a more competitive manner. They are able to maintain quite high spreads between deposit and lending rates, generally higher than any other ASEAN country in recent years. However, it should be noted that the CB did itself encourage the formation of BAP partly so that it could communicate its policies to the banks with minimal effort. The CB's own rules on capital requirements have restricted entry and, therefore, competition.

The CB does not like the way the banks compete in the foreign exchange market. They compete for other banks' customers, importers, and exporters when they need foreign exchange rather than buy and sell foreign exchange among themselves. The banks earn their money from the letters of credit and other commissions they earn from the newly "pirated" clients.

A recent and widely publicized case illustrates the problems with the existing situation, in particular the motivations of the banks and the CB, and their relationship. The reference rate towards the end of July was P27.58. One large bank purchased dollars through on-floor trading not at that rate but at P27.75. It was reported that this was to avoid paper losses on its forex holdings. They had to spend only $1 million to achieve this rate. But that became the reference rate for a day. The CB was not on the floor that day. The action resulted in a rebuke from the CB to the two banks and action by the CB the following day to move the peso rate down to P27.62. It is easy for the CB or the banks to move the rate in such a thin market. The on-floor trades represent only a few percent of all foreign exchange transactions and yet they determine the price for all official transactions.

If the banks continue to be motivated in this way, and can continue to operate in the market as in the above case, and the CB can continue to intervene through purchases or jaw-boning to maintain an overvalued rate, it will be difficult to achieve a market-determined rate. Changes in behavior are required by both the CB and the banks. Of course, if the rate were actually market determined some of the motivation for the banks to act as they do would be eliminated.

New Mission for the Central Bank

To prepare the CB to manage the exchange rate in a more open environment, there need to be two strong policy commitments by the CB:

1. To aim for a market-determined foreign exchange rate; and

2. To encourage new entrants into the foreign exchange markets.

Agreement with the first of these will be required to make sure that off-floor trading will result in more competitive exports. The second meets the CB's own concerns about oligopolistic behavior by the banks.

Promoting a More Competitive Market

The new entrants could be Offshore Banking Units (OBUs) and non-bank financial institutions--dealers and brokers. Adding more information to the system, brokers would act as intermediaries between dealers, reducing the transaction costs of the banks and other dealers and smoothing changes in the rate.

Regulatory changes would be required to permit the entry of OBUs. At present, their tax rates are lower than those of domestic banks. Another problem is that the inflow of foreign capital would tend to push the inflation rate up, making exports less competitive. The high capitalization requirement (P3 million) is a deterrent to many potential entrants. The CB fears irresponsible behavior by small new banks. In reality, the larger banks have caused the more serious problems.

There used to be a network of foreign exchange dealers in the Philippines. Their reintroduction would broaden the foreign exchange market. The introduction of brokers would also help. Brokers interact with buyers and sellers and by improving the flow of information bring about transactions that are close to the market rate. It might also be possible to allow the manufacturers themselves to deal in the market by selling to each other in off-floor trading. However, if care is not taken with licensing standards, and the CB's controls in support of those standards, destabilizing speculation may take place. Another possibility might be to develop a network of dealers who can trade with the banks but are not allowed to trade in the wholesale interbank market. The market would become even more active if trades could be made in cash dollars. It is not now possible to open an account in cash dollars; checks have to be used.

Monetary Board

To encourage the attainment of these new missions, there may have to be changes in the Monetary Board. A basic problem with promoting a goal of a market-determined exchange rate is that many members of the current Monetary Board have an incentive to keep the exchange rate overvalued. However, the National Government should gain from a devaluation in one way: it would bring down Treasury Bill rates. It is anticipated that the legislation being drafted to establish a more independent CB will also increase private sector representation on the Board, hopefully from bankers, other dealers and exporters.

Central Bank Monitoring and Other Operations

There will be many more transactions in the wholesale foreign exchange market once off-floor trading gets underway and the number of actors increases. The CB will have to be able to monitor these transactions on a continuous basis in order to make effective interventions at minimal cost when required to maintain stability and to ensure competitive behavior. Continuous monitoring does not necessarily mean continuous intervention. The team was told by CB staff that their objective should not be to intervene in order to fine tune the exchange rate but to respond to external and internal crises that might cause panic in foreign exchange markets. The CB should intervene less than it does now, but those interventions should be better informed.

One problem is that the CB does not yet have monitoring systems that can cope with large numbers of transactions. One banker told the team that the CB was at an "informational disadvantage." The installation of the CB's MIS has been held up by its inability to hire enough systems experts and programmers, mainly due to the low salaries that the CB can pay. Part of the monitoring responsibility lies with the Department of Economic Research. This department has some very highly qualified staff; some of the current staff have graduate degrees from the best Philippine and foreign universities. However, the CB has had difficulty keeping such high-quality staff.

Staffing is a serious problem at the CB as a whole. There is a need to attract and retain MBAs, economists, accountants, lawyers, bankers, computer specialists, and others who have been trained in the latest banking techniques and policies. This will only be possible if the rapid promotion of such highly-skilled and experienced people is facilitated. Entry from the outside to senior positions should also be possible. At the moment only the Governor himself is appointed. Legislation is now being prepared to establish a more independent CB under which it will be possible to appoint senior staff, rather than have to promote from below. The CB stressed the measurement side of training as being particularly important. For example, it takes two months to produce information on the deposit liabilities of the banks.

The CB has set up a bankwide reorganization committee to deal with some of these problems. The committee has decided, for example, to separate the statistics and economics sections of the Department of Economic Research. This will give each a stronger focus and improve the quality of monitoring and economic research. Some progress will be made with the salary issue by promoting some senior staff into vacant higher positions.

New Management Strategies for the Central Bank

Better-paid, better-qualified and better-equipped staff will not by themselves ensure the achievement of the CB's new foreign exchange goal. New management strategies will be required that are well understood, and therefore can be effectively implemented, by all the staff active in establishing and maintaining competitive foreign exchange rates.

Guided by the new goals suggested above, the CB should become more developmental. The CB should actively promote a competitively determined foreign exchange rate, through its own interventions (or lack of them), by acting against oligopolistic behavior, and through opening up the markets to new entrants. The staff will have to be motivated in terms of those missions rather than the conservative stabilization and control goals that have been dominant in the CB since it was first established.

Many public- and private-sector organizations in the Philippines have undertaken major "change management" activities. For example, several manufacturing groups have asked consultants to help their management to become much more export-oriented and ready to meet foreign competition. There have been precedents in the public financial sector for these kinds of strategic management reorientations. One consulting firm has run a number of strategy seminars for the Development Bank of the Philippines.

New Operations by the Foreign Exchange Dealers

The banks and the new entrants will not only have to work out a new set of relationships with the CB and each other, but they will have to learn and hone new skills. Some of the larger banks now have training programs for traders. The CB and the BAP should sponsor a training program for foreign exchange dealers as well. Part of the training would be to help the banks understand the CB's new rules and definitions. There should be study tours to countries that have more open foreign exchange markets. More will need to be learned about swaps, forwards, futures, hedges, and bid/sell trading. Rules will have to be agreed to on how to confirm deals, lot sizes and so on. As a higher proportion of the trade is in currencies other than the dollar, now about 60 percent, dealers will have learn how to monitor and respond to movements in many currencies. There should be peso/dollar service. The much higher level of transactions and players in the market will necessitate that everyone be on-line. Many of the banks already subscribe to a number of computerized information systems. Dealers will have to learn more about the techniques for pricing of foreign exchange--for example, those based on interest differentials.

B. Access to Inputs at World Prices

Streamline Duty Drawback System

This policy area is one of the most complex in terms of administrative and institutional actors and actions. On the surface, it would seem to be a simple matter to carry out the actions that constitute the performance indicators--to have the new "one-stop shop" for duty drawback operating effectively by May 1992, and to increase the number of standard formulas of manufacture (SFM's) that are used to determine duty drawback allowances and apply them to 500, out of a possible 6000, export items.

However, to do this involves the following organizations directly: The Department of Trade and Industry, including the Board of Export Trade Promotion (BETP), the Board of

Investment (BOI), the BOC, the BIR--although the latter has declined to cooperate in the one-stop shop--the Department of Science and Technology (DOST), including the ITDI, which establishes the formulas on the basis of actual investigation and analysis, the Commission on Audit (COA), which has to audit all transactions and drawbacks on a post-audit basis under the present system, and the Philippine Chamber of Commerce and Industry (PCCI), which has been trying to force the government's hand on this matter by paying for the systems study that is presently being carried out by the University of the Philippines (UP).

Basically, the duty drawback system is to be streamlined in two ways. First, the exporter client--through its broker--will be able to take all its documentation to one facility, where that documentation will be processed. It is in this sense that it is a "one-stop shop." There are SDP II performance targets to process applications within 30 days, once all the documentation has been presented, and the application is thus considered complete. This will be an improvement over the present situation in which it can take years to get the duty drawback credit--which should be distinguished from the tax credit refund--which is in the hands of the BIR, and is a separate matter and system.

There is an existing facility presently available at the port, but it is too small and is in poor shape. The new facility, to be located at the Department of Finance (DOF), will be better for the staff and is thought to be more conveniently located for the clients. It is being designed by the same UP Engineering Department that did the initial feasibility study, including a "methods engineering" approach to ensure that it can operate efficiently. World Bank funding is being provided for increased staffing, physical facilities and some systems improvements.

One important topic of discussion during the Policy Matrix negotiations was whether or not the duty drawback system reform should include decentralization. If the system works well in its new form at the new DOF location, then it can be replicated outside Metro Manila, including on the islands which produce the most exports. The BETP representative indicated during these discussions that this was certainly something that could be explored further.

The second streamlining effort concerns the formulas on the basis of which the drawback is calculated. These can be calculated on the basis of the **actual** content of the item to be exported--how much wool, leather, thread, dye, etc. was actually used in the manufacture of the item, and of that, how much was imported and thus subject to duty. Alternatively, this can be done on the basis of a **generic** formula, which is really an average for that sort of item. The policy reform actions included in the Matrix are supposed to be taken around generic formulas. At present, there are some 150 of these, which are determined by the ITDI, but are certified by the BOI--they are items that are manufactured by firms that come under the aegis of the BOI. There is a handbook of these standard formulas of manufacture (SFMs), which is supposed to be updated periodically. The last formal update appears to have been done in 1986, but other informants said that it was a continuous process.

A formula can be allocated either by item (that is, by tariff lines), or by firm. When the standard is allocated to the firm, it is done in terms of the bonded warehouse system. This is not part of the "one-stop" system being contemplated. One of the key technical issues is whether exporters will agree to have one generic formula, for example, for leather shoes, or will insist on having one for high heeled shoes, sandals, boots, etc. The same is true for garments--long-sleeved dresses, evening dresses, short-sleeved dresses, and so forth.

Whereas ideally, the ITDI could establish averages and then apply them uniformly, there are trade conventions, including those of the GATT, that will constrain how this is actually done. Subsidies are not allowed, so that an average that is too high can be considered a subsidy for some exporters, and might therefore become subject to countervailing duties in the importing country. Therefore, the DTI must ensure that the averages applied are at the lower end of the scale. This will still benefit the smaller and medium exporters who do not have the staff or the cash flow to wait to have their own individual actual SFMs determined. However, the larger firms will still use actual standards, since they have the staff and the funds to wait out the system to get the real duty drawback.

A major issue, in addition to the basis for calculation of the SFM, is the documentation required to submit a complete application. Typically, one of the main delays in dealing with the BOC in general, and with duty drawback in particular, is said by all concerned to be the risk that a key paper will be "lost" or "misplaced" until a bribe is paid to the official who is supposed to have received it. Alternatively, the broker returns from the port to the client and says that he can't file the application because there is yet another paper required, and the client, who doesn't know the rules, pays the broker more money and spends more time, to get the real or fictional paper so as to complete the application. These transaction costs are very high, especially for the smaller exporters.

This is why an aspect of the "One-Stop Shop" streamlining will be advices to the clients who file applications of exactly what documentation is required to file the application to begin with, and then a letter indicating what documents may still be missing once the application has been reviewed. This is supposed to take care of the problem of repeatedly "missing" or "misplaced" documents. A similar approach is being taken with information provided to taxpayers by the BIR and has apparently met with some success.

Still, as one highly-placed interviewee indicated, only when a system is very simple can corruption be controlled. Apparently, there was a World Bank-funded study that concluded that exemption would be the simplest and best system in the duty area for facilitating exports, but the BOC was opposed, believing that this would be too open to abuse. Even allowing for typical obstructionism of such agencies, and a possible desire to keep the corruption going, it is also apparently true that the bonded warehouse system was abused in the past, leading to a Senate investigation of the DTI. Thus, even those who would like to reform the system more radically are "gun-shy."

One of the most significant observations made by almost all of those we interviewed, both about duty drawback and VAT, is that the private sector is at least as much to blame for the level of collusion and corruption as the GOP staff who are supposed to be enforcing the revenue-generation statutes and codes--the staffs of BIR and BOC. Similar comments were made in the context of discussions on the banking sector. Apparently, for every improvement in the system, or each liberalizing step, there are at least some private sector "clients" that flagrantly abuse it. So, bureaucrats who are supposed to give at least the appearance of performing, and who are risk averse anyway, are unlikely to support liberalizing trends--honest ones because they know they will be abused, and dishonest ones because they will have less leverage.

Toward the end of our visit, corruption was being investigated by the Congress, and there was a rumor that there would be change in Customs Commissioners. However, as some of the Filipino social scientists we interviewed indicated, in the Philippines, a reforming agency head can only last for a limited time--until he becomes corrupt himself, or until those forces that have profited from previous corruption "intrigue" him out of office. Thus, while changes in leadership have short-term positive results, as is recorded in Klitgaard's case study of the BIR under Justice Plana, they are usually not completely successful and don't lead to sustained changes.

Even absent corruption and collusion in duty and tax evasion by the private sector, it may be seen from this brief discussion that actually getting the streamlined duty-drawback system going, and meeting the policy reform targets by the appropriate dates, will require the concerted and efficient efforts of a rather large number of organizations and agencies that have few incentives to collaborate quickly or effectively. Another key constraint is the fact that there is apparently no funding yet for the computer hardware required for the new system.

According to our colleagues from Virata and Associates, one of the most constraining of the institutional actors involved in the duty-drawback scheme is the COA, mandated by the Constitution to have a completely separate identity from the rest of the GOP. Like the BOC, the COA maintains a strong control and regulatory posture given its nature and mandate. It only believes in post-audit, is largely unautomated, and like most regulatory and collection bodies of its type, is relatively comfortable with delivery horizons that extend to years rather than months, as for duty-drawback for example. One representative from the COA who was interviewed by the team seemed willing to try to be more forthcoming in support of the new system, but as might be expected, emphasized all the most usual bureaucratic requirements for documentation and stressed staffing and computer system obstacles to much more rapid action.

One informant who has been very closely involved with duty-drawback reform from the private sector side indicated that there is a great deal of pressure to open the new "Shop," and there are a number of senior officials competing to get the credit for promulgating the regulations that will govern its operation. However, the private-sector groups involved are trying to delay its inauguration until the study by UP has been completed, and the regulations carefully formulated. This is in the hope that short-term political gains will not be placed above long-term systems success, which otherwise would be likely, especially in this election year.

C. Adequate Provision of Inter-Island Liner Shipping Services

Although the proposed policy reforms will meet resistance from some shipping industry groups, it should be possible to implement them reasonably quickly since they have been developed over a considerable period of time in close collaboration with MARINA and the Shippers' Council (SHIPPERCON). There is substantial GOP ownership of the reforms since they had their origin in the Government's own Presidential Task Force.

In common with other parts of SDP II, the objective is to increase competition by liberalizing prices and entry. The implementation strategy is to use one set of reforms as a carrot to induce the industry to accept the other set. The widening of the tariff forks, which will in effect allow rates to rise on routes where rates are so low that shipping lines have little incentive to offer services, will encourage the industry to accept the route liberalization, the objective of which is to make services more competitive. The rates for many agricultural commodities in particular are so low that in some instances no shipping services at all are offered and some produce actually has to be sent by air. This transportation constraint is limiting agricultural production in some locations. On other routes there is a need to encourage more competition because monopolistic and oligopolistic practices have resulted in rates that may be too high for some commodities.

Some of the existing problems with the sector, which are potential sources of implementation problems for these policy reforms, lie in the non-competitive behavior of some of the key shipping lines. Three shipping lines are much larger than any others; there is a second tier of four that are much larger than those below them. Full rate and route entry liberalization has not been recommended because it is feared that the larger shipping lines may enter new routes and drive out existing smaller companies with aggressive pricing. It is a sellers' market at the moment. Full, immediate liberalization would simply drive up the rates.

An important role for the public sector will be in maintaining high levels of competition on the routes with the denser traffic flows by encouraging new entrants from among the smaller shipping lines. MARINA will also have to make sure that low-volume routes continue to be served by licensing shipping lines to operate on the more profitable routes only if they undertake to serve some minor ports.

The consultant's Interisland Liner Shipping Rate Rationalization Study Draft Final Report (Nathan Associates Inc., 1991) recommends that a number of studies be carried out to prepare for the implementation of the policy reforms. The most critical ones are the Liner Shipping Route Study, which would help with the liberalization of the route network, and the MARINA/SHIPPERCON Study, which would examine the two agencies' institutional development needs. Studies are also recommended on container transport, the transport of agricultural products, passenger accommodation, training and safety.

The report recognizes that both organizations will have to change to meet the challenges of the reforms that will liberalize the sector. MARINA is now essentially a regulatory organization. As the route and rate structures are liberalized, the importance of the regulatory role will diminish. The consultants suggest that MARINA become more development oriented. In the future MARINA should monitor the performance of the industry, identify problems and lobby for their correction. According to the consultants, there are some problems that can already be identified as candidates for MARINA's attention: open pilotage, integrated clearance offices in the ports, cargo handling and cargo clearance.

The consultants recommend that SHIPPERCON become a much more effective protector of the shippers, who now suffer so much from the existing rate and route structure. The consultants conclude that the organization is not as effective as it might be at lobbying for better services and standards. Since SHIPPERCON has few offices, it is not as accessible to shippers as it might be.

The proposed institutional study will address many of these issues. It is important that the study be carried out in a very collaborative and participatory manner (as the Interisland Study was). Both organizations will need to redefine their missions and explore fully what those new missions mean for their operations, interrelationships and staffing. Management and staff should collaborate closely with the consultants in defining the reorientation of their organizations so that when the agreed recommendations have to be implemented there is a broad-based understanding within the organization of their implications. This will ease the transition.

In order to facilitate the implementation of the rate and route liberalization itself, MARINA will have to work closely with the shipping industry to explain the need for the changes and demonstrate that in the long run the changes will be for the benefit of the industry as a whole. MARINA has said that it anticipates considerable opposition to the reforms. Many of the liberalization measures are not now in the interests of the larger shipping lines that dominate the industry. They will gain nothing from encouraging new competitors for their services. In the short run, the package of higher tariffs (or the possibility of higher tariffs) and freer entry into all or most routes will be seen as beneficial to most. In the longer run, the freer entry will tend to bring down rates, as monopolistic profits are competed away. Although the Government can carry out the critical policy reforms without legislation, those feeling that they might suffer from the reforms will exert their influence through the Congress. MARINA's best hope for heading off that opposition is first of all to convince major shipowners that they will gain in the long run and secondly to mobilize support from the shippers and the smaller shipowners. In the long run, all should benefit because the reforms should themselves generate trade and enlarge the markets for inter-island shipping services. MARINA does believe, however, that in some cases legal action may be required to implement the route liberalization.

Care will have to be taken in phasing in the policy reforms. It might be best to announce that the changes in rate and route liberalization will begin in, say, six months and allow the industry to prepare itself through new investment, which would respond to the anticipated tariff flexibility.

The proposed Liner Route Shipping Study will help to articulate some of these implementation issues. It should also lay out some options on how to mobilize a critical mass of support for the reforms. The key will probably be to help the smaller shipowners, the shippers and the political leadership from some of the regions that need better services to make their case in the political arena.

MARINA will need a good management information system (MIS) to be able to monitor the performance of the system. The Administrator admitted that the current system is very weak. He believes that he has the kind of staff he will need to meet the agency's new mission but that many will require substantial training. He did not think that MARINA needed many additional staff or staff with different basic qualifications. For example, the economic staff members have MAs, which is the right basic qualification.

A further institutional change may be required. The consultants believe that the Shipping and Ports Advisory Council (SPAC) is not as effective as it might be. SPAC was set up by the Presidential Task Force, but could become more representative. The private sector members are members by name rather than by organization, for example. The Secretary of Transportation can in practice choose to be advised by SPAC, or not. Its meetings are characterized by what were said to be "endless debates." The consultants recommended that it be given clearer objectives and by-laws and that its advice be taken more seriously by the executive.

D. Efficient Financial Resource Mobilization

1. Constrain National Budget Deficit by Strengthening Value Added Tax (VAT) Administration

The Bureau of Internal Revenue, which as a revenue-generating bureaucracy is always under the gun to perform, seems to be making progress--at least in the VAT division--in moving toward increased collection efforts. Senior decision-makers indicate at the policy level that they support measures to increase export competitiveness--e.g., by facilitating the faster processing of tax credits for components of exports.

BIR has been the recipient of considerable donor assistance in the past, and has been reorganized several times. Earlier plans to endow BIR with a new and presumably more highly-motivated cadre of VAT personnel have apparently been scrapped. This plan would have filled vacancies with "clean" outsiders. Instead, through force of circumstance, these vacancies have been filled from within, by persons whose effectiveness is said to be open to question. The assumption is that even if they are not dishonest, they are not motivated to do much in the collections area, since they are over-qualified and are given few incentives.

In an environment and in specific sectors where corruption and payoffs have been the rule in the past, significant and enduring difficulties are created for the efficiency of the agency as a whole, and for individual performance. As one interviewee outside BIR quipped, it is sometimes doubtful whether the BIR actually wants to increase its capability, since then it would have less of an excuse not to collect taxes.

The VAT target under SDP I was the only one with which there was substantial difficulty, and release of funds from the last tranche was delayed as a result. In part, this seems to have derived from a genuine misunderstanding of the wording of the target. Other evidence would, however, suggest that the BIR was over-reporting progress and under-reporting problems in meeting the target.

Under the SDP II Policy Matrix, the target is now being expressed as a ratio of VAT collections to GNP, so as to get the sense of the reform across with a reasonably measurable target, but one about which there can be some negotiation or change if it appears unlikely to be met.

In our interviews with VAT personnel, a number of problems were raised and discussed, in a spirit of considerable candor. Many of these related to staffing; others related to the need for more supervisory time for existing supervisors, to better tools for VAT agents, to the matter of computerization, and access to computers, computer training, and appropriate software by VAT agents. The operational head of the Division has a very good appreciation of the limitations of the present system, and has some concerns about whether the new "Operation Suyod," which implies expanding the VAT taxpayer base, can really be effectively implemented nationwide with the present staff and at a realistic cost given the likely benefit. (This view was then over-ruled by a senior official at the SDP II negotiations.)

A two-pronged approach to the problem of corruption and collusion in assessment and collections is being taken--a PR and information campaign for the taxpayers, and the elimination of room for maneuver for the VAT agents, through the development and dissemination of a new manual that will cover every possible case and issue. There is also the possibility that a "large VAT payers" unit will virtually be established, since it is a very few companies that pay the majority of VAT (38 are the biggest payers).

Regarding the New Payment Control System (NPCS), which is being piloted in six areas, things seem more positive, and expansion to all 97 districts seems less problematic. But here, the need expressed was for better training for VAT and bank staff in system implementation after the pilot experience was assessed.

This is a liberalizing system which is based on self-reporting. BIR is also using self-reporting in its tax credit scheme for exporters--50% of the credit is given when the application is received, and the rest (adjusted) is given after the return has been reviewed. This is what is being suggested by some for the duty-drawback system, but so far, the BOC and COA have not agreed to follow this model.

The BIR's senior management are in close touch with the PCCI as representatives of their clientele, and are also trying to work with the Development Academy of the Philippines (DAP) on a series of five "change management projects," some of which will affect VAT. ADB is funding the implementation of the Information Systems Plan, the formulation of which was a performance indicator under SDP I. This is intended to have immediate benefits for VAT in that it will--in conjunction with the new Tax Identification Number (TIN) system-

-allow the development of a clean database of VAT payers. This will then provide a secure baseline for the VAT division to work from in trying to achieve its targets.

Key constraints for the VAT targets being achieved are the broader question of political will on the part of the GOP to develop and enforce anti-corruption measures, and on the part of large private-sector VAT payers to pay their real taxes, and creative measures within BIR to motivate staff to do a better job. The latter matter should be addressed positively, in terms of increased incentives, and also in terms of increased sanctions against poor and corrupt performance. Some steps in these directions have already been taken. As the Klitgaard case study and other observations show, the taxpayer is at least as guilty of deal-making with the BIR agent as the agent is guilty of extortion. Even if the taxpayer pays a substantial payoff to have his assessment reduced, he is still substantially ahead as against paying the full tax assessment.

2. Lower Interest Rates to Promote Exports

This is the least firm part of the policy matrix. The very lack of clarity and consensus may be indicative of implementation problems, at least on the basis of present information. For some, if not most, of the actions proposed under this heading there is too much uncertainty to expect more than studies and preparatory activities during SDP II.

The overall policy objective is to create a supportive environment for exports by improving the efficiency of financial resource mobilization. As we have seen above, the first implementation action is to augment the revenue flow to the GOP by strengthening the VAT administration. The purpose of the second set of implementation actions is to lessen the interest rate impact of public debt financing through improved public debt management. To do this, the preparation of an action program for developing a secondary market for long-term public debt instruments and a more open market for government securities is proposed. There are also proposals for the design and implementation of small saver schemes that would channel savings into government securities. In the first year or so of SDP II, various studies and preparatory activities would be carried out. Initial steps in implementing long-term debt instruments, a clearing and settlement system, and savings schemes would be taken prior to release of Tranche 3.

The net effect of all of these measures would be to lower interest rates and reduce the overall public sector deficit. That would in turn mean that more investment funds would be available for exporters and other potential investors since there would be less "crowding out" by the public sector, and the rates at which the exporters borrow would be lower.

Since there is shortly to be a study on Public Sector Debt Management, the IPC team focused on the savings aspects of the implementation actions.

Central Bank and Competition

However, some comments can be made on the implementation constraints for this whole set of activities. Discussions with bankers, the Central Bank, exporters, and academic experts did shed light on some of the problems caused by the relationship between the Central Bank, on the basis of its current mission, and the larger banks. As with foreign exchange, whichever instruments and mechanisms are introduced, the fact remains that the parties concerned do not have as strong incentives as they should to bring interest rates down. The high interest rates required to maintain the overvalued exchange rate actually tend to reinforce the relationship between the CB and the banks. Higher interest rates mean higher earnings for the banks since past experience has shown that lending rates can more easily be moved upwards than deposit rates to attract funds. Most of those who do save with banks are apparently not as interested as they might be in real, positive interest rates since the deposit rates are often less than the rate of inflation. It might be that they have no option but to accept negative rates since competition among the banks with the larger branch networks is so weak. During interviews conducted by the team, frequent reference was made to the oligopolistic practices of the banks keeping down deposit rates.

This situation will only change if entry rules are liberalized. Many experts think that the capital requirements for entry into the banking sector are too high. There is also a very limited number of government security dealers allowed to trade in government securities. The Central Bank still feels that entry should be limited since it worries about its own capacity to control the market and about the risks of financial institutions failing. Again, as with foreign exchange trading, the key to overcoming these concerns is for the Central Bank to have far more effective monitoring systems and for the Central Bank's managers to feel confident that some of their fears of uncompetitive behavior on the part of the banks will be overcome if new entrants are permitted.

Savings Mobilization

The savings proposals have two purposes: to give real, positive interest rates to small savers and therefore increase savings in the formal sector, which would in turn improve financial intermediation; and, by channeling those savings into government securities, add to the supply of savings and thus reduce the interest rates. That would help exporters who wish to invest. It would also, of course, be helpful if more savings were mobilized, for public or privates uses. Financial intermediation measured by M3/GNP at around 20 percent is exceptionally low; the proportion for Thailand is almost 60 percent.

New savings schemes have not proven easy to implement. The "Premyo Savings Bond," which was introduced in 1974, was not a great success. Although it was sold in low denominations, most of the buyers were the commercial banks, and most of the purchases were made in Manila. There were few sales in the secondary market. As soon as the Premyo ceased to have reserve eligibility, the banks unloaded their holdings, which amounted to about 70 percent of the total issue. The Monetary Board decided to redeem all outstanding bonds in 1987.

Although the experience of the Premyo Bond was not good, it might still be worth considering a similar instrument now to offer positive interest rates to small savers and to mobilize more funds for the government at relatively low cost. The pool of savings is now higher than when the Premyo bond was launched. A much higher proportion of total bank deposits are now in the form of savings accounts than was the case five years ago. Bankers told the team that banks that do not now have branch networks would find a savings bond a good way to win new customers; those same banks are now having to buy funds at high rates of interest. From the Government's point of view, and in the long run the banks', it is worth incurring some higher than normal transaction costs to encourage the savings habit. The savings rate in the Philippines is a very low 13 percent, well below the average for lower middle income countries.

One important implementation constraint with the savings bond is the lack of effective retail outlets. Some experts feel that the existing commercial banks that do have extensive branch networks will not promote the bond aggressively since it would tend to compete with their own deposit mobilization programs. And of course they do not want competition to push up deposit rates. In some countries, such as Sri Lanka, postal savings banks might be considered as an outlet. But the team was told that in the Philippines that is not a feasible option since the postal savings bank's financial operations have long since declined to ineffectiveness. Customers could be reached directly by whichever GOP agency is given responsibility for the scheme, but that would add to the public-sector bureaucracy.

Unit trusts or mutual funds specializing in government securities have also been proposed for consideration as part of the policy matrix. It has been suggested that the GOP encourage its own banks to activate their trust departments and that the Central Bank authorize the thrifts and eventually the rural banks to perform trust operations. There are many good models for unit trusts specializing in government securities. Most of the Continental European-based unit trusts do in fact specialize in government securities (in contrast to Britain's, which tend to specialize in equities). These unit trusts have performed very well in recent years.

One problem is that any new savings scheme takes considerable time to research, develop and implement, typically longer than the duration of SDP II. The first step is to explore the interest of the existing institutions. Since financial institutions tend to be conservative and reluctant to move in new directions, few will exhibit much enthusiasm and many will have difficulty in understanding how they might benefit from the scheme. A close working relationship will have to be established with a few of these institutions simply to learn enough about what might work to move on to the next step, market research.

Market research into new savings schemes can only meaningfully be carried out if some practical options can be presented to potential customers. Great care will have to be taken in designing the survey instruments since potential clients tend to react positively to offers of new products. Questions have to be framed so that the cost and benefits of options can be assessed. In this case, reference has to be made to alternative uses of household earnings. Further, it has to be clear whether or not the savings would be incremental, not just reallocated from another savings scheme.

Once there is clear information on which scheme, or which form of which scheme, might be most marketable, some banks have to be persuaded to pilot the scheme. It is probable that it will be found that the transaction costs will be very high for any scheme that is aimed at small savers. The banks may well lobby for government subsidies to cover some of the transaction costs. It may, however, be possible to persuade the banks that it is in their long-term interest to accept some losses in the early years to establish a long-term market position.

There are some useful models that might provide guidance on how to use existing institutions to improve financial intermediation without having to resort to subsidies. One of the more successful small saver schemes in an ASEAN country that does not require subsidies is the KUPEDES scheme in Indonesia. KUPEDES operates through the Peoples' Bank, which has about 300 branches and 3,000 village units. It has extended its scope and mobilized more savings by the natural process of beginning in the most populous and higher income areas and gradually spreading outward. The scheme is profitable, operates with market interest rates, requires no subsidies and is growing more rapidly that any other banking scheme in the region that is targeted towards lower-income households and entrepreneurs. It has had a much greater impact on rural Indonesia in terms of rate of growth of savings and investment than has the highly subsidized, and publicized, Grameen Bank in Bangladesh.

It would probably be wise to limit SDP II activities under this heading to collaborative studies with the Central Bank, the commercial banks and other financial institutions, market research, and the introduction of pilot schemes. It might be that, based upon these preparatory activities, a major theme of SDP III could be savings mobilization.

II. Socio-Political Analysis for Present Policy Matrix

At the beginning of August, the socio-political situation as seen from Metro Manila, was in something of a pre-election campaign lull. Attention appeared to be focusing primarily on the negotiation over U.S. bases, and whether or not the Senate would ratify an agreement, as well as on the aftermath of the Mt. Pinatubo eruption, and the ensuing social and economic displacement. Meanwhile, there were a number of issues pending in Congress or recently dealt with by Congress that have direct bearing on the content and macroeconomic environment of the proposed SDP II policy reform matrix. Some of these will have a direct impact on SDP II policy reform implementation, and some are therefore included in the Matrix itself.

By the third week in August, when negotiations on the content of the policy reform matrix for SDP II were considerably more advanced, the bases agreement had still not been ratified, and pre-electoral campaigns were beginning to heat up. "Presidentiables" were beginning to be put forward by their potential backers, or to announce their candidacies themselves, and the print and television media were very much taken up with their respective stances and resignations from the Liberal Party and other parties. Statements about foreign debt, domestic deficits, and other key issues relevant to the context of policy reform, including the rates for shipping on certain routes, were very prominent in the news as the budget was announced, and candidates and "proto-candidates" began to select issues. Corruption was another key issue being addressed in Congressional hearings, and there were rumors that changes would be made at Customs.

There is thus an apparently generalized concern with macroeconomic stability, and a growing awareness of the relative weakness of the Philippine economic performance vis a vis that of other countries in the ASEAN region. There is a considerable amount of important national symbolism involved in the base negotiations. But there are also important economic issues underlying the bases agreement and the results of the negotiations--and whether the Treaty is ratified or not--will impact not so much on the security situation of the Philippines as on its foreign exchange and international and domestic debt positions, employment, and growth.[2]

A significant number of those whom we have met indicate that there is increasing support in government, in Congress and in the private sector, for more liberal economic policies that would support the SDP II goal of increasing export competitiveness. Even some of those in Congress and in the private sector who were in the past most nationalistic and most in favor of a protectionist approach are, apparently, embracing a more open-market approach generally, and especially a liberalization of foreign exchange management. Some of these appear to be doing so out of enlightened self-interest, while some others have the benefit of better economic analysis at their disposal.

Despite this description of increased openness to reforms, there is also concern expressed daily in the press, and apparently in the Congress, that the government is going too far in

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[2] This section was written before the Senate failed to ratify the Bases Agreement, and before the SDP II funding level and time frame had to be modified as a result.

terms of its support for open economic approaches. According to some, this will be to the detriment of local industry and even to local exporters, and protectionism is still necessary and proper. Recent legislation has been passed, for example (the Foreign Investment Code), that liberalizes foreign investment potential in export-oriented industries. A Congressman is asking that the Supreme Court overturn this legislation, arguing that it is harmful to export promotion, as well as to the economy as a whole. Offshore banking operations in the Philippines are also being liberalized, but there is considerable reaction against this as well, partly on nationalistic grounds, but partly, presumably, because this will tend to increase competitiveness in what has been a banking sector dominated by a few strong family-run banks that have profited significantly from a relative lack of competition.

Lobbying efforts appear to be strong on both sides of these issues. In terms of liberalizing capital markets, and specifically, trying to get the SEC to be more responsive to the needs of the private sector, there is a private sector lobbying group called **FINEX**, which has been created with impetus from the DOF. This group might be of some assistance in developing the plan for the secondary government securities market. It is worth noting that the IPC team has the strong impression that among economists, there has been a strong commitment to liberalization for years.

The **Bankers Association of the Philippines (BAP)** is also apparently quite an active participant in dialogue with the Central Bank and the DOF about exchange rate policy, issues such as off-floor trading, interest rate and public debt instruments. To what extent they are ipso facto a force for liberalization is not clear, and they are said to be wary of the CB in its regulatory hat, especially as regards the limited number of forward trades they are presently doing, since this may have a questionable impact on the way they and their clients are reporting income and foreign exchange holdings. Our understanding is that some of the bankers are interested in maintaining the status quo, but at the same time are frustrated by the regulating environment. Thus, they probably want liberalization, and associated changes, but only on their own terms.

The **Philippine Chamber of Commerce and Industry (PCCI)** is officially on record as strongly supporting increased foreign exchange liberalization and other reforms that would support increased export competitiveness. Apparently, even some of its key members who, in past, have been in favor of--and profited heavily from--protected industry approaches, are espousing an export-led oriented growth policy, again in part because they themselves are increasingly involved in the export side of the equation.

Various other business-related associations have similarly announced their support for more liberalized economic and fiscal policies, and at least some of these organizations are making proactive suggestions to government.

The Commissioner of the Customs, for example, has set up a body through which he can interact better with his clients--the **Customs Industry Consultative Council (CICC)**. This is the venue for the private sector to propose ideas and identify problems. They submit their plans to the committee, which provides them a way to "thrash them out." This would be the appropriate venue for trying to solve the duty-drawback implementation problem with the exporters, for example. The Philippines is also involved in the **Customs Cooperation Council**--one for ASEAN and one worldwide, which gives them the opportunity to see other models.

There are monthly workshops facilitated by the PCCI with the Bureau of Internal Revenue (BIR) to discuss tax policy and tax administration. These appear to be more successful at actually influencing BIR policy and behavior than are the CICC meetings, according to some commentators. Customs seems to be regarded as the most intractable agency likely to be involved in SDP II policy reform implementation, with the exception of the COA.

It has been impossible for the IPC team to get any impression of the views of organized labor, smaller and medium-sized exporters, energy suppliers, and representatives of the transport sector other than those involved in inter-island shipping, about the policy reform areas under discussion for SDP II. What a hypothetical "man in the street" in Metro Manila, let alone in a provincial capital or in the countryside would think about protectionism versus market-orientation, isolationism versus regionalism, is simply not within our ken.

As Mr. Virata, former Secretary of Finance and Prime Minister, among others, has indicated, there are other issues--especially the energy sector, labor, productivity, and improved product design and market development--which impinge strongly on the supportive environment for export competitiveness that SDP II seeks to foster. These, however, are either being addressed under other A.I.D. programs and projects, or by other donor organizations, or both.

The main constraining factor in the socio-political environment that will affect implementation of reforms under SDP II is the election and its aftermath. Most informants indicated that the shift of attention away from daily business and toward positioning for the election and the transition to follow it was already beginning. According to one observer, this process will last for 400 of the 545 days of the proposed SDP II LOP. Even those who remain in place who have been involved in the negotiations of the Policy Matrix may be responding to new "political masters" when implementation is underway; many of them may have left by the time the second tranche is to be released.

This is one reason why the Mission and some of the GOP actors concerned had hoped to "front-load" the Matrix, pushing key reform actions to the first or second tranche periods. However, as negotiations continued, it became apparent that for some key policy areas, such as public debt management, and even foreign exchange liberalization, not enough was yet known about how to carry out the spirit of the reforms quickly. Both parties to the negotiation are aware that moving too quickly on the basis of imperfect knowledge is more dangerous than not moving until after the elections. Some observers predicted, however, that such key moves as increasing VAT collections, or designing new instruments for small savers, were really unlikely to take place before the elections.

Realism thus dictates a system for monitoring and evaluation that will allow for reasonable and well-founded mid-course corrections to the targets in the Matrix, so long as there is a demonstrable trend toward accomplishing the agreed reforms under what will clearly be somewhat turbulent political conditions.

Chapter Two

RECOMMENDATIONS FOR THE SDP II SUPPORT COMPONENT

From the outset of the SDP II design process, it was anticipated by both negotiating parties that a portion of the SDP II cash transfer in dollars should be set aside as a "support component" consisting of policy studies, technical assistance and training, that would "provide technical support to GOP implementation of the policy reform indicators under SDP II". However, the dollar amount as a proportion of the cash grant total, the magnitude of the various elements, and the way in which the component was to be managed and implemented, had not been agreed.

In requesting IPC assistance in the development and "marketing" of this component, the Mission hoped that IPC consultants would build ownership for the scope and purpose of both the concept and content of the support component. Further, the Mission was interested in taking a "strategic management" approach to the elements of this component, and it was noted that support elements might range from improving internal management systems to establishing working relationships with private sector groups that might provide political support for the proposed policy reform actions.

During the IPC team's visit to Manila, interviews were carried out with most of the intended institutional participants in, and beneficiaries of, the proposed SDP II support component. Toward the end of the visit, at a joint negotiating session between the GOP and USAID/Manila, the proposed elements of the support component developed on the basis of those interviews were presented in summary form (see Annex 2).

This section of the report summarizes those elements, which harmonized through a strategic management approach envisioned by the IPC team should meet the following objective: by the end of the program period, the GOP will be better placed to assess, propose and implement additional policy reforms.

Defining and Managing the Support Component

Members of the USAID staff told the IPC team that under predecessor assistance programs, they essentially reserved funds for their own use, and contracted for a variety of studies that would tell them enough about various elements of the policy matrices in question to be able to monitor GOP performance. On the whole, from what they said, these study efforts were somewhat ad hoc, and study teams were not particularly collaborative with the GOP policy implementors. Management of the funds was typically not shared with the GOP, either because of poor past performance in managing host country contracts or because it was felt that independence of study results was more likely if studies were managed by A.I.D. unilaterally. The Program Economist indicated that he would like something different this time, and hoped that the IPC team would be able to define that difference. He also indicated that if the team believed that there was the management capacity and interest on the part of the GOP to do so, management of some activities under the support component could be shared with appropriate GOP agencies.

Based on our discussions with GOP decision-makers, the main response of the IPC team is that the elements of the SDP II support component--studies, technical assistance and training--should this time be designed, implemented and evaluated as parts of a harmonized system to assist the GOP to improve its strategic planning and management capacity in support of the policy reform process. Experience elsewhere, as well as in the Philippines, indicates that this is likely to enhance the GOP's ability to take the actions required under the Policy Matrix and at the same time, facilitate sustaining gains achieved as a result of these policy reforms. Taking this approach implies that these gains will include increased organizational competence to continue to make and implement difficult policy choices in the future, beyond the SDP II project.

There are two possibilities for GOP participation in the management of this process. These should be kept distinct for the purposes of this discussion. The first, most critical one, is that the GOP must continue to take ownership of the change process implied by the SDP II policy reforms, and the implementation steps necessary to carry them out effectively. In some instances, this is likely to require substantial changes in the way key implementing agencies of the GOP perceive their respective missions, and in the way that they carry them out. In other instances, where the present understanding of the role and functions of a particular agency or entity conform well to the stated policy change objective, and little additional internal change needs to take place, there is still a need for ownership of a process of task definition and allocation, as well as monitoring and evaluation of implementation results.

To this extent, it is mandatory that--through ownership of the process--the GOP be intimately involved in the management of the support component activities, as well as in the monitoring and evaluation of results.

The second potential aspect of management by the GOP concerns routine management of support component funds and related studies. The Mission has had bad experiences in this area in the past, especially with delays. The matter of "independence" of studies and study results was raised at considerable length during negotiating sessions regarding the content of the Matrix itself, which includes some obligatory studies. Ideally, some significant portion of the funds for the support component would be included in the cash transfer, but earmarked for the agreed support component activities. In interviewing key actors responsible for monitoring and evaluating program performance in the GOP (both in NEDA and in the DOF), the IPC team was given the strong impression that this level of effort was really not possible for these groups, even though they liked the idea of such collaboration. NEDA acts by influencing other agencies. The International Finance Group in DOF plays a coordinating role, but does not have authority over the other agencies involved either. In both cases, senior staff time is at a premium.

The IPC team's recommendation, therefore, is that funds management should be reserved by A.I.D., which can continue direct contracting for support component activities. However, there should be mechanisms in place throughout the SDP II period for the joint discussion and monitoring of component activities, and GOP actors should be involved in the preparation of scopes of work for key policy studies, as well as in the selection of technical collaborators and trainees. Given the staffing constraints characteristic of OPE, it is likely that this kind of collaboration will be fostered if the Mission contracts out the overall "management" of the support component.

In what follows, we will discuss the support elements recommended under each of the policy areas defined in the Matrix, rather than discussing each type of activity separately. This conforms to our proposal that the three types of activity be linked through use of a strategic management approach, so as to achieve some level of "value added" beyond the results of the discrete interventions themselves.

The main vehicle for this coordination or harmonization will be the technical collaboration element, which will be used to help the GOP carry out policy studies and management-related assessments, using both traditional "academic" and more innovative "process" approaches. Those participating in the technical collaboration effort will be Philippine-based with some expatriate consultants, working with GOP managers and representatives of private-sector organizations who, in turn, represent groups affected by, and likely to affect, the implementation success of the proposed policy reforms. In some instances, there will be additional studies, managed and contracted for by A.I.D., which will provide additional data for monitoring and evaluation, and which will be carried out separately from GOP organizations to maintain the independence and objectivity of findings (see section V. below). In advance of program implementation, A.I.D. is contracting for a study of the political economy of the policy reform process, which should help to provide background about the implementation constraints and facilitating factors that the GOP and its private-sector collaborators will encounter in addressing the policy reform objectives contained in the Matrix, and carrying out the agreed actions.

For each policy reform objective, a set of studies and assessments, consultancies and training--including observation visits--will be undertaken. The mix of these elements in support of any policy reform action set will depend on the history and complexity of the action to be taken, the relative strength or weakness of organizational actors concerned, and the nature of actions to be undertaken.

Market-Determined Exchange Rate

As may be seen in Policy Matrix, the Logical Framework, there is one primary implementation action but at least five "performance indicators" involved in meeting this objective. Foreign exchange liberalization is an overarching policy theme, involving the Central Bank, but also other GOP and private sector actors. Because of the breadth of scope of the issues involved, a full combination of available support elements is recommended. The CB is already working on an internal reorganization plan. There are some highly qualified staff members, but additional staff is needed so that the bank can meet its present mandate effectively. Further, reorientation of its mission concept may be appropriate in connection with its reorganization efforts so that it can fully benefit from the change process already being put in motion. Here, strategic planning, organization development, long- and short-term training, and observation visits should complement more formal policy studies already suggested by the GOP, so as to maximize the CB's ability to sustain its policy reform agenda. Details of the support elements proposed are as follows:

Studies Preceding Actions

Early in the second tranche period, or prior to disbursement of the first tranche:

1. Determine and establish administrative, operational and other support mechanisms for the smooth functioning of off-floor trading. (This might involve training and trial runs for the support mechanisms.)

2. Determine the formula for limits of banks' forex holdings.

3. Study exporters' retention needs.

Before release of the second tranche:

4. Study feasibility and need to increase competition by establishing a network of foreign exchange dealers and brokers, including rules for their accreditation.

Broader-based Options Studies

1. Analyze the impact on the export sector and the economy as a whole in moving toward a market-determined foreign exchange rate.

2. Determine the steps necessary to move toward further liberalization of foreign exchange rates. This would provide more implementation detail on the policy actions now in the Matrix and review alternatives and additional supporting actions beyond the life of SDP II.

3. Research on the impact of foreign exchange rates in country export competitiveness, taking into account a number of indicators on foreign exchange. Conduct simulation exercises with "what if" analyses on exchange rate depreciation/devaluation.

Technical Collaboration

1. Work with the CB and the BAP to explore the usefulness of a strategic management activity. This activity could facilitate the effective operation of a more liberal foreign exchange market and reorient the institutions concerned accordingly. The initial collaboration might lead to longer-term strategic management activities within and among the institutions concerned, based upon the agreed objectives identified in the initial activity.

2. Study the MIS needs of the Central Bank, banks and other dealers when off-floor trading begins. This would include development of appropriate monitoring software and systems and improved reporting to and from the Central Bank.

3. Develop practical applications of macro-econometric modeling, specifically in the quantitative evaluation of foreign exchange policy changes and in forecasting forex rates.

Training

1. The Central Bank and BAP should sponsor training for foreign exchange market staff in foreign exchange trading, including the use of simulation exercises.

2. Training for CB staff in use of the software and MIS developed.

3. Observation tours for various participants to forex markets of NICs.

4. Long-term training in econometrics and development economics (possibly leading to M.S. or Ph.D. degrees) to enhance analytical expertise in the Central Bank.

Access to Inputs at World Prices

Here again, there is one primary implementation action in the Matrix, but six performance targets that will require significant work by a number of GOP agencies to meet the targets in the time allowed. This is in a sense the most administratively complex of the policy reform implementation actions included in the Matrix although it may superficially appear to be fairly straight-forward. Not only are a number of agencies involved, but a number of steps are still being determined to ensure what is necessary to make the new system operate effectively. There is other donor support for equipment and other infrastructure improvement, and funds are available for increased staffing in the short term. What is lacking is support for training, information dissemination and systems adaptation capacity. There are also difficulties anticipated by BETP in getting support for required hardware for the BOC. Public relations efforts will also be necessary to inform exporters of requirements and advantages of the new system. Thus, more emphasis is likely to be placed here on in-house training, systems modification, information dissemination and implementation performance assessment. Technical collaboration has already been sought from the private sector and from the University of the Philippines by DTI and BOC. Additional technical collaboration is also likely to be requested, and may be more on the management development side than on the purely technical side, where SFMs are to be developed or adapted by the DOST.

Studies

1. Study the relative efficiency of the BIR's tax credit "one-stop" system, and the BOC customs duty-drawback "One-Stop Shop" when the latter has been in full operation for at least six months.

2. Study the possibility of adopting the BIR system of self-assessment in BOC transactions for duty drawback.

3. Conduct broad formal review of the operation of the One-Stop Duty-Drawback Shop after it has been in full operation for nine months, including emphasis on exploring possibilities for improving interagency cooperation and further reducing transaction costs to client exporters.

Technical Collaboration

1. Assess the systems design and software proposed by the UP study, and implications for BOC, BOI, DOST and others involved in the new one-stop duty-drawback shop system. This would include assessment of the constraints posed by the absence of key hardware, if this remains a problem.

2. Review the World Bank-sponsored system for the generation and promulgation of SFMs, to see whether it is appropriate given the actual organizational capacity of the involved agencies, and make recommendations for modifications, as required.

3. Assist with development of criteria and proposals for further computerization, including wide-area networking, of the other aspects of duty drawback transactions.

4. Facilitate decentralization of the new duty drawback system, i.e., delegation of certifying authority to regional offices, to support exporters outside the Metro Manila area and minimize their transaction costs.

5. Contract with a PR firm to develop the materials that clients will receive describing the new system, and to create public service advertisements about the system for multi-media dissemination.

Training

1. Prepare and carry out computer-assisted document processing, initially for database applications, for the "One-Stop Shop."

2. Observation visit to examine other duty-drawback systems for BOC operations management staff, in addition to those sponsored by the World Bank.

3. Training for "One-Stop Shop" staff in client relations and implementation of the new system. This should include user feedback, staff feedback, and a series of workshops to determine what corrections are appropriate, and how they should be introduced.

Adequate Provision of Inter-Island Liner Shipping Services

Once again, there is one main (two-part) implementation action, but five performance indicators (targets) to be met, which involve a number of private-sector actors, MARINA and, potentially, the Congress. As has been noted, the proposed policy reforms will meet resistance from some shipping industry groups. However, they should be possible to implement reasonably quickly, since they have been developed over a considerable period of time in close collaboration with MARINA and the Shippers' Council. There is substantial GOP ownership of the reforms since they had their origin in the Government's own Presidential Task Force. There has also been considerable technical assistance provided, including studies, with A.I.D. funding under SDP I.

Studies

1. Study of liner shipping routes to develop a service regulation liberalization action.

2. Study and development of action plan for improvement of inter-island shipping of agricultural commodities.

3. Study of organizational characteristics and potential institutional development of MARINA/SHIPPERCON and prepare action plans for MARINA and SHIPPERCON development.

Technical Collaboration

Some of the studies enumerated above will be carried out with technical assistance from Robert Nathan Associates. It is probable that as a result of the institutional study, further technical collaboration will be required to assist the two organizations in carrying out the action plans proposed, using a strategic management approach, so as to ensure that agreed recommendations are broadly understood within the organizations, including their various action and staffing implications. This will help to ease the transition and achieve the policy reform objectives.

Training

1. Some training may be required for SHIPPERCON representatives if the organization expands to new locations, so as to be more accessible to clients.

2. Observation visits for SHIPPERCON staff may be designed to help them see how other similar organizations elsewhere lobby to make the interests of their clients known, and to protect those interests.

Efficient Financial Resource Mobilization

For this policy objective, there are two implementation actions in the Matrix, and eleven performance indicators. The first implementation action area, improved VAT collection, was also included under SDP I, is well understood, and involves only one GOP agency, the BIR. However, it also involves the commercial banking system, and there is very strong resistance to paying VAT, and some collusion with BIR agents in tax evasion by private sector actors. The new systems included in the Matrix are already designed, and one is being piloted. Meanwhile, BIR is embarking on a broader change management process in which it is seeking both technical and managerial support from outside consultants. To date, it has not found the funding required for this effort. In this case, SDP support emphasis is likely to go to assessments rather than more academic studies, to workshops to enhance performance of managers and agents, development of primers and manuals to enhance system performance and client relations, and to training of those implementing the system.

The second action area, improving public debt management so as to lessen the interest rate impact of public debt financing, is a new one, where much less is known, where there are more actors, and potentially a range of beneficiaries. Legislation may be required and vested interests, particularly in the CB and the banking community are strong, which may constrain implementation of new systems and instruments. Support for this area, then, includes more formal studies, followed by some technical collaboration and training. For ease of presentation, we separate support elements by the two action areas in what follows:

1. VAT

Studies

1. Evaluate the New Payment Control System (NPCS) pilot program and make necessary adjustments for replication nationwide. (This should provide the basis for training of trainers to train bank and VAT personnel in the NPCS to serve all 97 districts.)

2. Assess the success of NPCS implementation in terms of speed of filing and increase in rates and total amounts of collections to determine if further modifications are required.

3. Develop an HRD plan showing how 100 percent staffing for VAT can be achieved over the SDP II period.

4. Review by BIR and PCCI of the current tax credit drawback system. (Should be related carefully to the comparative study included under duty drawback above.)

5. Assess the start-up phase of ISP implementation at BIR as it has affected and will affect VAT collections and the "cleaning" of the VAT database, using the new TIN system. This would include attention to developing (with the VAT unit, DAP and

Crown Agents TA) of a better feel for VAT staff user needs for computers, and software, and for computer-related training.

6. Design a process for developing and field testing the new VAT agents' manual, as well as related primers for taxpayers. A subsidiary activity would be further exploration of special simplified reporting and bookkeeping requirements for smaller, new VAT payers.

7. Assess viability and VAT collection implications of the shift from TAN to TIN system.

8. Assess the impact of Congressional action that constrains or expands the tax administration system.

Technical Collaboration

1. The above studies would be supported by and interact with already-proposed "change management" technical collaboration between DAP and the BIR in the context of a strategic management approach. This would support SDP II objectives as well as others.

2. Change management assistance programs, including orientation seminars, development of change management plans, process consultancies, and diagnostic and monitoring procedure development with the objective of more effective and sustained implementation of the VAT collection system.

3. Preparation, testing and modification of manuals for VAT implementation.

4. Advisory services for the development of a coordinated public relations and information program.

Training

1. Observation visit to Taiwan to explore reasons for success of Taiwanese VAT system, by middle- and top-level VAT division staff.

2. Required ISP-related training for VAT staff if not covered in ADB-supported project.

3. Training of Trainers for organization development, monitoring and evaluation of new systems.

2. Public Debt Management

A.I.D. is already planning to separately fund a background study of public debt management in the Philippines. This study should yield some results by the time the first tranche is released.

Studies

1. Study the need to develop a secondary market for long-term government securities, with a review of implementation options, including debt instruments and liquidity facilities.

2. Study the establishment of an efficient clearing and settlement system for dealers in government securities (including bidding, and other aspects).

3. Conduct a household-level savings survey which, as well as collecting information on the forms of household savings, will test the appeal of proposed savings instruments.

4. Review options for mobilizing savings to be channeled into government securities, and include surveys of bankers and others in the financial sector and a sample of the target households (both urban and rural).

5. Conduct a study, followed by a workshop, with banks and other financial institutions on alternative new savings instruments that would give positive interest to small savers.

Technical Collaboration

These studies should be designed in collaboration with the intended implementing and beneficiary institutions. In most cases, however, outside assistance will be required to carry out the studies. The experiences of other countries in instituting programs for small savers should be taken into account.

Training

1. Observation visits to secondary markets in NICs.

Monitoring and Evaluation

One of the key benefits of the support component, especially if a strategic management approach is taken, is that monitoring and evaluation will be more proactive than has been the case under SDP I, and mid-course adjustments should thus be more feasible. Monitoring and evaluation will be built in, including formative evaluation approaches which can be highly participatory, enhancing learning by the GOP as well as by A.I.D. A final, summative evaluation before the end of the program, would still be desirable.

1. Design and implement a system to monitor the economic impact of the policy measures. This would be in addition to NEDA's and the implementing agencies' current monitoring systems which have been designed to monitor policy reform adherence rather than policy impact. This system would, as much as possible, use existing econometric models, possibly with some additional variables, and be able to assess the impact of changes in the internal and external economic environment on policy reforms and their indicators. The system would also assist in evaluating the achievement of the indicators and help with mid-course corrections.

3. Conduct workshops and other in-house activities to review progress on policy implementation: foreign exchange, duty drawback, VAT, shipping, debt management, to support IFG and NEDA's monitoring responsibilities. This would focus on the effectiveness of the implementation itself and the impact of the implementation.

4. Central monitoring agencies, NEDA and DOF, need sufficient staff with requisite analytical skills to understand and track the activities and interrelationships of the implementing agencies and their impact on broad policy change.

All of the above would be facilitated and strengthened by technical collaboration between consultants and the staff of implementing agencies. The emphasis would be on obtaining these complementary technical skills from Philippine counterparts.

<u>Training</u>

1. Medium-term to long-term courses in macroeconomic policy formation.

Monitoring and evaluation are discussed in more detail in the following chapter.

Chapter Three

MONITORING AND EVALUATION

Background:

Part of the IPC team's assignment was to outline a monitoring and evaluation (M&E) agenda for SDP II that would be forward-looking and that would thus be able to help implementors in the GOP and in A.I.D. to anticipate implementation problems and design ways of dealing with them early. A secondary request was to develop performance indicators for SDP II that could fit well within the broader A.I.D. system of program performance indicators for the entire USAID/Manila program, which is under design.

In this chapter of the report, we will discuss the outline of a monitoring and evaluation agenda for SDP II that will serve the needs of the three primary stakeholders in the SDP program--the coordinating agencies of the GOP (NEDA, DOF/IFG), the GOP implementing agencies, and USAID/Manila.

There are several key assumptions that underlie this agenda. These are based on discussions with the stakeholders and with other informed individuals during our stay in Manila, as well as on experience elsewhere.

1. NEDA and DOF/IFG, while interested in more proactive monitoring for SDP II, have few human or financial resources to allocate to a more elaborate monitoring system than the one which they operate at present.

2. DOF/IFG, more than NEDA, is interested in a monitoring system which is somewhat more collaborative and elaborate than what is being used at present, but is easy to use, and will help to avoid confusion about compliance and duplication of effort.

3. USAID/Manila has little additional direct-hire staff time to devote to monitoring and evaluation, and will therefore be likely to contract out the monitoring process if it is more complicated than what they have done in the past, and to contract out special evaluation studies.

4. Using a strategic management approach toward implementation, as recommended by IPC, will mean that monitoring and evaluation are intrinsic to the implementation process at the implementing agency level.

5. Development and use of a management information system (MIS) that includes economic data and analysis as well as management information and analysis--based on activities at the implementing agency level--should greatly assist both the GOP and USAID/Manila in monitoring policy reform performance and adjusting performance targets as necessary in advance of tranche release dates. Such a system will allow attention to unanticipated or unplanned effects of policy actions and/or exogenous variables in the broader economy.

6. The GOP and USAID/Manila will both be best served if they establish a mechanism for periodic review of progress, so that they can use the information generated by monitoring in a timely fashion to resolve misunderstandings about targets or movement toward achieving targets, make necessary adjustment to targets, and assess the impact of performance on policy objectives. It is suggested that this mechanism be quarterly meetings of a joint USAID/GOP committee, which would include--at a minimum--representatives from OPE, and from NEDA and DOF/IFG.

The SDP II Logical Framework:

The logical framework proposed by the IPC team for the SDP II program is presented below. At the goal and purpose level, the statements included in the negotiated Policy Matrix have been retained. Indicators of goal and purpose achievement have been developed which do not appear in the Policy Matrix. Rather, as will be seen, the "policy actions" from the negotiated Policy Matrix have been included at the outputs level of the logframe, and the Matrix "performance indicators" have been included at the appropriate points in the objectively verifiable indicators column for the outputs level, with the relevant tranche periods indicated.

As is usual, means of verification have been proposed for each set of indicators, at each level of the logframe. Most of these are fairly obvious, and are easy to obtain without additional data gathering or expense. Where additional data are likely to be needed, they will in most cases be provided by the results of special studies that are called for under the Support Component. In some cases, special surveys or polls will need to be carried out, as is discussed further below.

A series of critical assumptions has been delineated for each level of the logframe. These assumptions are largely outside the manageable interest of A.I.D. and to some extent, are also outside the manageable interest of the GOP, or at least the implementing agencies that will be involved in SDP II. As will be discussed further below, these assumptions will be monitored through econometric modeling and other forms of observation which, together, will form the elements of a management information system (MIS).

Performance Monitoring:

One of the key features of program assistance based on a policy matrix approach is that it is based on the measurement of policy reform performance. A.I.D. and the host government monitor performance, and on the basis of their joint assessment of that performance, additional funds are released in tranches. If there is no performance, or if performance is deemed to have been insufficient, then the release of funds is delayed or canceled. In cash transfer assistance programs such as SDP II, there is no local currency generation, so there are no local currencies to track as an additional indicator of performance. Rather, it is the achievement of the agreed policy changes alone that constitutes the measure of performance.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 1991 to FY 1993
Total U.S. Funding $120,000,000
Date Prepared: ________

Project Title & Number: Support for Development II - USAID/Manila

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1) Philippine Exports are Competitive in world markets.	***Measures of Goal Achievement: (A-2)*** 1. RP share of the market for ____ traditional exports and ____ non-traditional exports increases over LOP. 2. Off-shore investment in RP exporting concerns increases.	***(A-3)*** 1. GOP - BETP & BOC statistics. 2. DTI - BETP statistics. 3. DTI-BETP, CB, PCCI statistics. 4. Applications for export retention of forex at CB increase.	***Assumptions for achieving goal targets: (A-4)*** 1. GOP and Philippine economy able to adapt to changes in regional and world economy.

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(8/91)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose: (B-1) Competitive Pricing for Exports and their Inputs Occurs in a Supportive Environment for Exports	*Conditions that will indicate purpose has been achieved: End-of-Project status. (B-2)* 1. Attendance by foreign buyers at RP trade shows increases. 2. Proportion of imported items in exports decreases. 3. Variety of items exported increases. 4. Small and medium exporters enter market or subcontract to larger exporters. 5. Inputs for exports are more widely and readily available. 6. Tax credits and duty drawbacks are more quickly available to exporters.	*(B-3)* 1. BOC, PCCI, DTI statistics. 2. BOC, PCCI, DTI statistics. 3. PCCI, BETP studies. 4. PCCI, BETP studies; independent studies. 5. Exporter association studies and interviews (PCCI). 6. Exporter interviews, BIR and BOC statistics.	*Assumptions for achieving purpose: (B-4)* 1. GOP remains on track with IMF standby conditions and IMF standby is extended or renewed. 2. Other AID and other donor program assistance conditionalities are met, providing missing links to other "slices" of GOP policy reform program. 3. Congress does not introduce or enact legislation that substantially constrains GOP reduction of interest rates, the deficit, or requires intervening unnecessarily in financial markets. 4. Models of Philippine economy used to forecast and track economic performance are enhanced to permit tracking of SDP II policy reform impacts. 5. That the SDP II program outputs, together with conditionality of other programs and other aspects of GOP economic and fiscal policy, will provide a supportive environment for competitive RP exports.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Outputs: (C-1)	*Magnitude of outputs: (C-2)*		*Assumptions for achieving Outputs: (C-4)*
	Tranche		
1. Movement toward market-determined exchange rate by liberalizing foreign exchange management and holdings.	1.1. Basis for determining forex positions of commercial banks established and limits on open positions set that allow flexibility for efficient market functioning. (5/92)	1.1. CB, DOF reports, BAP reports/studies.	1. That GOP and Philippine private sector have political will to see these outputs achieved in a reasonable timeframe, approximately that of the next 19 months.
2. Improved access to inputs at world prices by streamlining duty drawback system.	1.2. Test run of off-floor trading among commercial banks operating and review of experience completed. (5/92)	1.2. SDP-funded review, record of trades.	2. That GOP and AID are able, together, to assess performance so as to make corrections in the partial model on which these outputs are based, so as to modify them if necessary.
3. Increased adequacy of inter-island liner shipping services by liberalizing rate and route franchising regulations.	1.3. Proposal to abolish documentary stamp tax for interbank forex transactions submitted to Congress. (5/92)	1.3. Doc. stamp tax bill submission date.	3. That no major political events constrain implementation of these policy reforms given election schedule.
4. Increased efficiency of financial resource mobilization by strengthening VAT administration and lowering interest rates impact of public debt financing through improved management.	1.4 Comprehensive study on foreign exchange rules and regulations completed. (5/92)	1.4 Study findings/report.	4. That Congress will enact facilitating legislation regarding these particular outputs where necessary.
5. Needed technical support provided for achievement of outputs 1-4.	1.5. Retention limits of forex earnings by exporters substantially expanded.	1.5. Records, CB, poll of exporters thru' PCCI.	
	1.6 Participation in the foreign exchange market expanded to other banks and non-bank institutions.	1.6. Poll of exchange traders and BAP; press announcements.	5. That levels of inefficiency and corruption in private and public sectors will decrease sufficient to allow achievement of these outputs.
	1.7 Revised accreditation system for foreign exchange brokers and dealers operating.	1.7. CB records, accreditation rules; application processing records.	6. That GOP will have sufficient analytic and human resources to define and carry out the tasks necessary to execute the implementation actions and associated steps.
	Tranche Three		
	2.1. One-stop duty drawback center operating effectively. (5/92)	2.1. SDP-funded review, World Bank and GOP/BETP reports	7. That elements of the support component are harmonized so as to yield greater combined impact and substantially facilitate GOP ability to execute these actions, in part by modifying the extra-governmental environment in which they must be achieved.
	2.2. Standard formulae of manufacturing (SFM) updated and applied for 200 priority export items. (5/92)	2.2. DOST, BETP, exporter (PCCI) reports.	
	2.3 Procedures for automatic approval of 40 percent of VAT tax credit claims implemented. (3/92)	2.3. BIR processing records. Poll of VAT registrants thru' PCCI.	8. That the quality of services provided under the support component is sufficiently good that this facilitative function is performed.
	2.4. Length of processing time for 80% of completed applications at duty drawback center reduced to 60 days or less for at least a 3 month period.	2.4. Duty drawback shop records, COA records, reports by exporters to PCCI.	
	2.5. SFMs developed and applied for additional 300 priority export items.	2.5. DOST, BETP records.	9. ADB assistance in computerization of BIR goes forward on schedule and yields clean, secure VAT registrants master list.

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	Tranche 2.6 Length of processing time for 80 percent of completed applications reduced to 60 days or less for at least three month period. 3.1 Action plan adopted to liberalize liner cargo rates. (5/92) 3.2 Agricultural commodities reclassified. (5/92) 3.3 Cargo fork tariffs widened significantly. (5/92)	2.6. BIR records, poll of exporters thru' PCCI. 3.1. Action plan from MARINA. 3.2. GOP-BOC reports; DOA data. 3.3. MARINA reports, press reports.	

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Inputs: (D-1)	*Implementation Target (Type and Quantity) (D-2)*	*(D-3)*	
	Tranche Three		
	3.4 Action plan adopted for route franchising liberalization and initial implementation steps taken, including public release of information on routes requiring new, expanded or improved services.	3.4 Action plans, press releases, rate and route advertisements.	
	3.5 Schemes adopted to introduce passenger service schedule and rate flexibility.	3.5 MARINA and SHIPPERCON records.	
	Tranche Two		
	4.1 Operation Suyod and installation of New Payment Control System (NPCS) completed nationwide.	4.1. BIR reports, BIR Master list of registrants VAT.	
	4.2 Action program for developing secondary market for long term public debt instruments adopted.	4.2 Action program documents, CB records, public announcements.	
	4.3 Participation in the competitive bids for government securities widened and bidding rules improved.	4.3 CB documents; BAP interviews; trading records.	
	4.4 Action program for improving the access of small savers to government securities, including possible use of unit trusts, and/or savings bonds, adopted.	4.4 Action program documents; study reports.	
	Tranche Three		
	4.5 Over a period of at least two consecutive quarters, a VAT/ANP ratio of 1.25% achieved.	4.5 BIR statistics.	
	4.6 Necessary support facilities for the secondary market, including possibly an emergency liquidity facility, established.	4.6 CB, BAP records, study results.	
	4.7 Long-term public debt instruments promoted and available.	4.7 CB records, press releases, BAP member records.	
	4.8 Clearing and settlement system for government securities designed and tested.	4.8 System design documents; records assessing test.	
	4.9 Mechanism(s) for the access of small savers to government securities designed.	4.9 GOP, BAP and independent study reports.	

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	4.10 Access of small savers to government securities promoted thru unit trusts. 4.11 Decision taken on any further development of other appropriate mechanisms for small savers. 5.1 Studies, TC, and training support for component services carried out and positively viewed by GOP and A.I.D. (11/91) 5.2 GOP will have developed the skills necessary--and acquired some technologies required--to continue to define and implement similar policy reforms successfully.	4.10. CB, DOF, BAP reports, SEC reviews. 4.11. DOF reports. 5.1. Records of GOP/AID negotiation sessions, USAID contracts.	
Activities and Types of Resources 1. Transfer cash in three tranches. 2. Carry out studies, technical collaboration and training to support outputs 1-4.	***Level of Effort/Expenditure for each Activity.*** Tranche 1 - $_____ million ___/91 Tranche 2 - $_____ million 5/92 Tranche 3 - $_____ million 12/92 $4 million for support component.	1. USAID budgets. 2. USAID budgets	<u>Pre-conditions</u> 1. PAAD approved. 2. ProAg signed. 3. Appropriate TC identified.

However, there are many things that can--or cannot--happen to influence whether or not the desired and planned performance will be achieved by the time it is scheduled in a policy matrix such as that negotiated for SDP II. Among these are the events, actions or other phenomena included in the critical assumptions in the proposed SDP II logframe. There are still other endogenous and exogenous variables which should also be taken into consideration.

There are a number of reasons why a more sensitive and extensive monitoring system is probably required for SDP II than under previous policy reforms programs in the Philippines. First of all, there are many implementation actions, indicators, and support activities. Some of the support activities are essential before implementation actions can begin. Examples include the study of the open forex position which has to precede open market trading, and the need to study savings options before a new unit trust or bond scheme is launched. The Support Component, even in its more condensed form as of September 1991, includes combinations of studies, technical collaboration and training. These are designed to be harmonized, or interactive, so that the maximum benefit can be achieved from each element, leading to enhanced institutional capacity on the part of concerned GOP agencies. This is in part a result of the complexity of the reform actions, and in part due to the fact that is clear that considerable institutional development is actually required if the reforms are to be fully effective.

For example, even after off-floor trading has been implemented, the desired market-determined foreign exchange rate will only be achieved if the Central Bank and the commercial banks pursue policies that will allow such a rate to prevail. Progress with strategic management activities in key institutions will have to be monitored along with simple compliance with the agreed actions. And it is partly because the policies and even the missions of the institutions will have to change that it becomes important to monitor the final impacts of the policy reforms. For example, as discussed further below, not only does off-floor trading have to take place, but the Central Bank has to restrain itself from trading in such a way that the exchange rate continues to be overvalued. The monitoring system has to be able to pick up the impact on exporters of the use made of off-floor trading by the Central Bank and the commercial banks.

Who Does the Monitoring?

It is important that the GOP establish a team, probably a joint DOF/NEDA team, that will manage the implementation of the policy reforms on the basis of information provided by the monitoring system, as is proposed in the key assumptions section above. The GOP would be responsible for management and for monitoring, but as has been suggested, A.I.D. could participate in monitoring.

It should be remembered that actual implementation monitoring in the Philippines takes place primarily at the implementing agency level, and the results are then reported to NEDA and, apparently, to the DOF's IFG, at least in the case of agencies that form part of the DOF, such as BIR and BOC. Both of these entities have a responsibility for coordination and management of the SDP II tracking or monitoring system. In discussion, officials from each entity stressed that they exert their influence on the implementing agencies through "well informed advice"; they do not have the power of positive or negative sanctions, nor do they wish to have such power, and would not have the human and other resources to implement it were it given to them.

This approach--management through influence--appears to work well. However, it would be useful to add an element to the present tracking-by-reporting system. What we are proposing is the development of a management information system which would include economic and political-economic and management information, the latter derived primarily from the implementing agencies as before, the former primarily from a revised PIDS/NEDA model, supplemented by special studies funded under the SDP II Support Component, or by A.I.D. separately.

At the present time, and under SDP I and predecessor programs, NEDA and the GOP implementing agencies have primarily tracked performance in terms of compliance with agreed actions. We were told by NEDA officials that this form of monitoring means that a month to two weeks before a tranche is due to be disbursed, NEDA contacts the agency responsible for the implementation actions concerned, and asks for a report on progress. If there has been a problem which may mean that a target has not been achieved, NEDA and the implementing agency will together try to find out why, and suggest ways to resolve the problem.

In the past, there have occasionally been disputes over whether or not compliance has actually been achieved. This seems, in part, to have occurred because A.I.D. was not in close touch with the GOP agencies actually involved in implementation or, perhaps, with NEDA either. Under Budget Support I and II, prior to SDP I, A.I.D. was allowed to meet directly with the implementing agencies to discuss progress before tranches were due to be disbursed. It was indicated to us both by A.I.D. and by NEDA that a return to this approach might be desirable.

At a minimum, as we have suggested above, the GOP and A.I.D. should constitute a joint M&E committee which would consist, at a minimum, of representatives from USAID/OPE, DOF/IFG and NEDA. Representatives from each of the implementing agencies involved under SDP II could be ex officio members of the committee. It is suggested that the committee meet quarterly to review progress, discuss emerging information about impact, and surface performance problems that may require changes in targets and expectations, or in the elements of the Support Component. These quarterly meetings could then benefit from the results of the quarterly runs of the PIDS/NEDA model.

Elements of the MIS:

One approach to the development of the MIS is to make use of the work already done on the Policy Matrix itself and on the logical framework. In this instance, this would mean tracking the objectively verifiable indicators, to see if the program is achieving the objectives it ought to be, as well as monitoring the critical assumptions. This means that those things that are outside the control of the program itself, but which make an important difference, will also be monitored. Part of this would be accomplished with the PIDS/NEDA model, and part with qualitative observation and other activities included in the strategic management approach.

In logframe terms, we would add two columns to the logframe, objectively verifiable indicators for the critical assumptions, and means of verification to go with those indicators. This is one way of beginning to take into account both planned and unplanned effects.

Thus, the monitoring system--through the MIS--would be built around the agreed indicators, although some work is required to operationalize many of them. For example, "participation in the foreign exchange market expanded to accredited foreign exchange brokers/dealers" is a fairly vague statement. But it is all that can said until studies have been carried out concerning the standards to apply for accreditation, and a number of other practical matters. The findings from these studies will lead to the definition of further indicators, which would then be incorporated into the monitoring system by the DOF/NEDA team.

Similarly, additional indicators based on results of strategic management interventions and other "independent studies" funded by A.I.D. and other donor agencies, can be built into the monitoring system. These interventions will take place at the implementing agency level, and will themselves include the development of monitoring and evaluation activities and processes.

The DOF/NEDA team, or NEDA alone, would take responsibility for monitoring the deeper economic, social and political impacts, with a focus on the impacts on exporters and exports. In economic terms, the impacts can be assessed, and even anticipated, by running the NEDA/PIDS econometric model. The model would have to be redesigned and recalibrated with at least quarterly data, and some new equations may have to be added. Of course, it may prove necessary to reduce the scope of the model because there may not be sufficient quarterly data to calibrate some of the equations.

Model runs should probably be supplemented by small but systematic surveys of exporters to ask them about the impacts of the policy reforms, and about their expectations, which will determine their willingness to invest. Non-exporters should be included in these surveys. These are already called for in the logical framework, as may be seen in the discussion above. It may be noted again here that the team found evidence that some major import-substitution industrialists are now looking to exports for expansion. Thus, we anticipate that monitoring the attitudes of the "marginal" exporters will be particularly fruitful.

The Market-Determined Exchange Rate Example and M&E

To clarify what we mean, we will take as an example what is possibly the most critical policy objective under SDP II, a market-determined exchange rate. In Chapter One, it was already pointed out that unless the Central Bank wants to allow the exchange rate to depreciate, it can act even in off-floor trading to maintain a particular exchange rate. Central banks around the world do just that. Almost no central bank permits a completely floating exchange rate; they will at least intervene during economic and political crises to prevent speculative runs on their currencies, or to deter capital flight. So, it will be important under SDP II to monitor carefully what happens to the real exchange rate and to the competitiveness of Philippine exports. If the strategic objective of competitive pricing is not achieved, then those responsible for the management of the policy reform program should try to investigate why. The answers will lie in the behavior of the participants in the foreign exchange markets, the relationships among those participants, and the constituencies to which they are responding. It may also be possible that there are technical problems, such as poor supervisory or monitoring systems. These potential institutional problems have been referred to earlier in this report; many are the subject of the proposed Support Component for SDP II.

But the need for a good management information system goes beyond this. Certain key components of economic policy are very closely linked and some of the impacts of one on the other under a new policy regime cannot be predicted with certainty. For example, there is a relationship between the rate of inflation and the exchange rate policy. Many countries have used overvalued exchange rates as a means to discipline monetary policy. Overvalued rates are usually associated with low rates of inflation. A devaluation is often feared by central banks because it may unleash a rapid increase in prices. In the Philippine case, more pesos would have to be paid for the same volume of imports after a devaluation, and it is common for the volume of imports to be maintained following a devaluation while the volume of exports creeps up only slowly.

However, it is not clear exactly what will happen in a particular country at a particular time. Some countries have fairly freely floating exchange rates, yet low inflation; some do indeed have quite fixed rates and low inflation. Indonesia has had some quite la:ge devaluations and yet has maintained low inflation rates. Many Asian countries have in fact managed to maintain already low rates of inflation along with the introduction of flexible exchange rates. In contrast, Mexico's depreciations were quickly eroded by high inflation. Nigeria's fixed nominal rate failed to prevent inflation, but led to import restrictions. Turkey has also had accelerating inflation with a fixed exchange rate policy. Given this experiences, it is not surprising that there is more expert controversy than consensus on these matters.

Given this variety of experience, it is very important to watch what happens very carefully. It will be possible to relate some of the outcomes to the nature of the economic relationships, those that could be modelled econometrically. Some of the outcomes will, however, be matters of political economy; they will occur because of the sensitivity of the managers of, and actors in, the economy to certain political forces. A complete MIS should be able to track both types of causes of the outcomes, the economic and the institutional/political. And the system should be able to pick up what is happening at an early stage, as we have already indicated, thus allowing for mid-course corrections.

Evaluation:

To a considerable extent, we have not made a hard and fast distinction between monitoring and feedback and evaluation. The approach to monitoring and evaluation that we are advocating is one in which participatory approaches are stressed, in which M&E is an intrinsic part of strategically managing the policy implementation process, and is thus formative rather than summative, and in which external, "independent" evaluations are infrequent and the exception.

Nevertheless, we are aware that the A.I.D. evaluation system, although it is now changing toward program performance monitoring and the use of performance indicators, still requires independent, summative final evaluations. Such an evaluation is programmed for SDP II. It would be contracted for by A.I.D. and carried out by an independent contracting team from an "outside" institution. However, it is our hope that the implementation of the type of monitoring system we are advocating would make the conduct of such a final evaluation much easier, and its results much more meaningful than is often the case. Since such an evaluation might also be used as the basis for design of a follow-on policy project, the feedback aspect of the proposed M&E system would be all the more important.

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SCOPE OF WORK

Analysis for Implementation of SDP II
[IPC Project]

I. Background

The Aquino administration is presently implementing an economic reform program to revive the Philippine economy and pave the way for sustainable growth in the future. With barely a year before the next Philippine elections, the present GOP reform actions are regarded as the last opportunity of the Aquino government to arrest the country's declining economic performance which last year amounted to a 3.5 percent growth after posting 6.4 percent in 1988 and 6 percent in 1989.

The economic reform program to be implemented in 1991-92 consists mainly of stabilization measures complemented by structural reform measures. GOP has applied and obtained IMF Board approval last February for a stand-by loan facility amounting to roughly $700 million to support the implementation of its economic stabilization program. Under the IMF program, the GOP is expected to comply with pre-agreed quarterly targets of 6 performance criteria (public sector borrowing requirement, oil price stabilization fund balance, base money ceiling, Central Bank's net international reserves, short-term external debt and external nonconcessional borrowing) in order to obtain release of the loan disbursements.

IMF endorsement of the GOP's stabilization program ushered in additional support from other multilateral and bilateral lending agencies especially those supporting the Multilateral Aid Initiative/Philippine Assistance Program (MAI/PAP) agenda for ongoing or planned structural adjustment measures that would complement the present stabilization program. In the MAI/PAP pledging session held in Hong Kong soon after the approval by the IMF Board, the donor agencies encouraged the Philippine stabilization program, reaffirmed support for the implementation of stalled structural adjustment measures committed under past MAI/PAP pledging sessions and the new ones under the present reform program and pledged $3.3 billion of official development credits.

While the macroeconomic reform activities snared the lion's share of attention, complementary sectoral reform actions are also needed to address specific sectoral issues and constraints. The country's recurring foreign exchange difficulties highlight the urgency of policy reforms that address sectoral issues affecting export competitiveness. Under the Support for Development Program (SDP) II program, a $120 million BOP assistance package with a policy reform component, currently under design,
USAID will support macroeconomic and sectoral policies that will enhance export competitiveness. Other bilateral donor agencies are expected to provide support to other sectoral policy reform issues including project interventions.

Just recently, GOP has claimed modest success in its implementation of the stabilization measures. In the first quarter of the year, GOP reports a surplus in its fiscal operations amounting to Pesos 3-4 billion. As a consequence, average yields on treasury bills have declined considerably to 20-22 percent in May from over 35 percent at the start of the year. The exchange markets have stabilized compared to the latter half of 1990 when the oil price increases triggered speculation in the CB's capacity to ensure adequate foreign exchange in the system. Currently, the CB's foreign exchange reserves exceed $3 billion plus, the highest reserve level recorded in 11 years. While inflation has been kept in check at 18 percent, economy activity is still relatively weak compared to a year-ago.

While prevailing macroeconomic trends are encouraging, the political will to stick to these stabilization and reform measures as planned is uncertain since the GOP is encountering political and social opposition to these reforms. Militant labor, student and consumer groups have closed ranks with nationalist businessmen including politicians seeking re-election in 1992 in pressuring the government to scale back some of their major commitments under the IMF stand-by loan facility. Prominent among their demands are the reduction, if not the rollback to the December 1989 levels, of present domestic prices of petroleum products despite a hefty deficit still remaining in the Oil Price Stabilization Fund (OPSF) (Pesos 10.4 billion as of May 1991) and the reduction of the 9% import levy.

Big local business groups are also lobbying for Congress to determine the negative list under the recently legislated foreign investment law which may emasculate the legislation. Litigation procedures, vested interests of

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individual groups and previous owners and suspicion of expanded foreign business influence have delayed the privatization of parastataals and government corporations. A revised version of the EO 413, the tariff reduction program of the GOP that was approved by the cabinet late 1990 but implementation was held up because of opposition by local business groups, is expected soon but may not have the same impact as the original version. These are but a few prominent examples of the social and political constraints felt by the GOP in implementing structural reforms.

Other constraints to an efficient and effective implementation of the policy reform agenda lie in government weaknesses as exemplified by weak enforcement capabilities of the responsible agencies, lack of qualified technical staff, inadequate budgetary resources to establish computerized monitoring and evaluation system, intra-agency bickerings and stifling bureaucratic procedures.

While the appropriate elements and targets of the policy reform package may have been identified and determined, the feasibility of effective implementation according to schedule is oftentimes presumed. The GOP and the donor agencies devote little analysis in identifying the factors and issues that may pose a hindrance to smooth policy implementation. Likewise, there is lack of planning in how to deal with these problems.

Mission staff realizes that there are pitfalls in policy reform implementation and that these difficulties should be assessed and addressed early in the process to ensure smooth implementation of the program's policy elements. SDP II, currently under design, will contain program elements that would support the effective implementation of its policy reform agenda.

II. <u>Objectives</u>

The basic objective of the services to be provided in this buy-in is the assessment of the feasibility of implementing the SDP II's policy reform agenda and the recommendations for the smooth implementation of the SDP II policy reform matrix. The recommendations will assist in the reformulation or refining of the SDP performance indicators and in the design of the support components of SDP II with the view towards effective implementation of the policy matrix. The support components will consist of policy studies, technical support, training if critical, and monitoring and evaluation.

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III. Approach

For implementation to succeed, host country officials must be a pat of the assessment and planning process. Therefore, all activities in this scope of work will be approached in a collaborative fashion (i.e., the contractor and the host country personnel working together). IPC contractors will conduct individual and group consultation to build ownership for the scope, purpose and approach of the undertaking. Strategic management is seen as a rolling process. Strategies devised will change over time as the situation changes and managers learn from experience. The learning process, feedback and replanning steps are integral to successful strategic management.

IV. Scope of Work

Following is the Scope of Work (SOW) for the analysis.

A. Feasibility of the Implementation of the SDP II Policy Reforms:

A.1 Assessment of the GOP's Capacity to Implement the SDP II Performance Indicators:

The contractor shall identify and discuss the appropriate GOP agencies responsible for the implementation of each SDP II performance indicator. There must be clear matching of the GOP agency with the responsibility for the policy reform implementation under SDP II rationalized according to the GOP agency's mandate and scope of authority. If more than one agency is involved in the implementation, the contractor should clarify the lines of responsibilities among these agencies in the implementation of the policy reform.

Having identified these government institutions, the contractor shall evaluate their capacity to implement the policy (or comply with the performance indicator). The capacity evaluation would include, but not necessarily be limited to, the following:

a.1.1 Assessment of the institution's technical manpower and other resource requirements needed in policy implementation and monitoring.

a.1.2 Evaluation of the institution's management systems and organization as a possible source of weakness in policy implementation.

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a.1.3 Evaluation of the present budgetary limit and its impact on the institution's capacity to implement policy change.

a.1.4 Discussion of other requirements necessary for the implementation of the policy indicator especially those where compliance with these requirements may be beyond the scope and authority of identified institution (e.g. need for legislation or cabinet approval). An estimate of the timetable to comply with these requirements would also be necessary.

a.1.5 Recommendation of measures, preferably implementable in the short-term, that may address the issues raised in the capacity evaluation. Recommendations for training in policy analysis will also be welcomed albeit this would tackled in greater detail in the suceeding sections.

A.2 <u>Potential Political and Social Constraints:</u>

In this section, the contractor is expected to evaluate and discuss major difficulties likely to hinder the implementation of the policy reforms and compliance with the performance indicator. The assessment would include but need not be limited to the following:

a.2.1 Identification of groups in the bureaucracy, private sector and the political community opposed to the policy reform action. Evaluate their political influence on the present government. Identify which among these groups would pose the greatest challenge to the policy reform.

a.2.2 Evaluation of whether the reform action supported by SDP II will clash with existing social and cultural traditions.

a.2.3 Recommendation of courses of action dealing with these issues, preferably implementable in the short term. The recommendations may touch on organizational and management changes within the institution conditional to its mandate and scope of authority. These may refer to the development of new concepts of the institution's role, setting of new objectives and building of new work structures and working relationships with other organizations. Advocacy activities may also be suggested as well as those that may attempt to exploit present structures within the private and public sector that may facilitate the implementation of the policy;

A.3 Recommendations on the Performance Indicators:

Based on the results of the analyses under A.1 and A.2 and the selected policy reform actions and performance indicators to be supported by SDP II, the contractor shall evaluate the feasibility of implementing these performance indicators within the program's timetable. Recommendations on the form of each indicator as well as its substance with the idea towards effective implementation shall be balanced by need to accomplish the SDP II goals and objectives. Following elements of the analysis are recommended but the contractor need not be limited by them:

a.3.1 Articulate a methodology for determining the probability of a successful implementation and apply it to each reform and performance indicator under SDP II.

a.3.2 Identify the factors that may obstruct the effective implementation of each reform action and compliance with the performance indicator. Provide sufficient explanation why these factors pose a threat to effective implementation of the policy reform action to be supported by SDP II.

a.3.3 If needed, the contractor shall recommend changes to the performance indicator without compromising the SDP II goals and objectives. The recommendation shall also incorporate inputs from the local contractors who are providing assistance in the development of the SDP II policy matrix.

B. Recommendations for the Support Elements:

B.1 Policy Studies:

This program support component is expected to address issues governing the policy areas and the selection of SDP II policy performance indicators as well as those that may have an impact in compliance with the performance indicators. While the focus of the policy studies would be policy issues related directly to SDP II that may facilitate compliance by the GOP, other policy matters urgent to the entire reform process requiring immediate review and study may also be funded under this support component. Generally, the duration of these studies will be 3-4 months. Specific activities in the design of the policy studies component are, but need not be limited to the following:

b.1.1 Provide a list of potential policy issues that may be eligible under policy studies based on preceding evaluation of policy strengths and weaknesses among GOP staff in the context of SDP II.

b.1.2 Design a criteria of selection for prioritizing these policy issues in the context of SDP II.

b.1.3 Recommend priorities for policy studies.

B.2 Technical Support for Implementation:

The contractor shall recommend measures and activities that provide technical support to GOP implementation of the policy reform indicators under SDP II. These measures may range from improving internal management systems to establishing working relationships with private sector groups that may provide political support for the proposed policy reform conditionalities. The recommendations should be consistent with the results of the analyses in section A. Specific activities may comprise the analysis but need not be limited to the following:

b.2.1 Devise strategies for the effective implementation of each policy reform indicator under SDP II given existing resources of the relevant GOP institution, its mandate and scope of authority. The proposed strategies shall be consistent with the results of the analyses in section A and include identified needed technical assistance.

b.2.2 The strategies to be proposed shall have a private sector element. These strategies should complement or reinforce private sector activities with similar reform objectives.

b.2.3 Assess the present internal management and organizational system of the relevant GOP institutions and recommend improvements that will facilitate the implementation of policy change under SDP II. Improvements may be linked to upgrading of strategic management skills (to be evaluated more fully in the succeeding analysis on training) of present department heads/managers as well as recommendations on other types of development management training requirements that may address potential implementational constraints.

b.2.4 Recommend technical assistance activities for effective implementation. Also identify where more in depth institutional analyses are needed and describe collaborative means for self-assessment.

B.3 <u>Training Issues:</u>

The training component of SDP II has two aims:

1) Address the short-term training needs of GOP institutions responsible for implementing policy change under SDP II especially those deficient in qualified technical staff for planning, monitoring and evaluating policy change;

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2) Lay the groundwork for in-depth policy analysis in GOP institutions that would complement and reinforce the policy change initiated and sustain the benefits under SDP II.

The training module to be designed by the contractor shall be based on the preceding aims and the results of the evaluation of the GOP's capacity for implementing policy change under SDP II. The module should account for but not necessarily be limited to the following:

b.3.1 Identification of the weaknesses of the relevant institutions in policy analysis, particularly monitoring and evaluation. Discuss the institution's particular technical weaknesses and assess whether training is needed in relation to compliance with the SDP II performance indicator.

b.3.2 Assessment of staff capability to assume new and additional roles and responsibilities called for under the implementation of policy change. Would additional training be required?

b.3.3 Recommend types of short-term and/or, as appropriate, long term training addressing these technical weaknesses as well as introduce new skills that may be needed given a wider role or scope of responsibility for the GOP agency under the policy change. This includes observation trips/study tours.

b.3.4 Formulate criteria in selecting who or what level of personnel among the technical staff would be ideal candidates under these training activities.

C. <u>Recommendations for Monitoring and Evaluation Activities:</u>

C.1 <u>Policy Monitoring:</u>

SDP II is a performance-based, BOP support to the GOP in the budget years 1991 and 1992 amounting to $120 million. Funds are to be released in three tranches and each tranche release is conditional, among other requirements, on GOP

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satisfaction of selected performance indicators comprising the SDP II policy matrix. The GOP will provide U.S.A.I.D. reports or documentation on the status of compliance with the performance indicators. These information will serve as inputs to the GOP and U.S.A.I.D. consultations regarding the status and the factors affecting implementation of the performance indicators.

Compliance with each reform performance indicator under each performance-based tranche means implementation of a change in policy. Effective implementation requires overcoming most of the opposition to the policy reforms including constraints within the bureaucracy that may obstruct a speedy implementation. Monitoring of policy compliance under SDP II should take into account not just GOP satisfaction of the performance indicator but also factors and developments likely to impede effective policy implementation under each tranche.

The contractor shall make recommendations for a policy monitoring system that tracks compliance under each policy-based tranche as well as possible developments that may hinder satisfaction of the selected performance indicators. The system shall focus on identifying and accounting for internal and external policy implementation difficulties and constraints encountered by each GOP agency involved in the reform actions supported by SDP II. The following may comprise the monitoring system but the other elements may also be incorporated:

c.1.1 A system of accounting for the internal and external constraints to effective policy change implementation in the Philippine context as well as measuring progress in policy compliance.

C.2 <u>Evaluation:</u>

The evaluation of program assistance normally consists of a review of program design and implementation towards attainment of the program objectives; determination of impacts of and benefits from the program; and recommendation for improvements for future program assistance. Difficulties encountered in implementation are often treated as part of the historical or backward looking analysis. These surface in the discussion only when compliance with the indicator is less than full. Resolution of the compliance issue that oftentimes

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may refer to additional policy performance from the GOP is given more attention in the discussion rather than the measures to deal with these implementational problems in relation to policy reform implementation in the future. For those performance indicators in which GOP compliance is full, the discussion centers on the description and measurement of the net economic benefits from the policy change and very little on the obstacles that were hurdled to implement the reforms.

The contractor shall propose an evaluation agenda for program assistance that incorporates assessment of implementational issues under policy reform compliance and recommendations on how these can be resolved while taking into account the traditional concerns of program evaluation. To the extent possible, the agenda should be flexible enough to cover compliance with each performance indicator and the unique circumstances governing the implementation of each policy change. Below are suggested elements of the agenda but the contractor need not be limited by the following:

c.2.1 Framework for the classification of the implementational issues (e.g. internal or external constraints, political vs. economic) relevant to program assistance, particularly SDP II.

c.2.2 Questions to be investigated, timing and procedures for the evaluation for examining past implementation, present input and potential future reforms.

V. <u>Report Requirements</u>

The consultant will prepare a report using the outline suggested below.

a) Executive Summary

b) SDP II Description

c) Feasibility of Implementing SDP II Policy Reforms

c.1) Assessment of GOP Constraints in Policy Reform Implementation Under SDP II c.2) Evaluation of Potential Political, Social and other External Constraints to Reform Implementation under SDP II

c.3) Recommendations on Performance Indicators

d) Recommendations for SDP II Support Elements

d.1) Policy Studies

d.2) Technical Support

d.3) Training Component

e) Recommendations for Monitoring and Evaluation

e.1) Policy Monitoring

e.2) Evaluation

f) Conclusions

A full draft report will be due in three weeks time after initiation of work. Draft sections shuld be shared for initial comments as written. Final is due 7 days after receipt of Mission comments on the draft report.

VI. Personnel Requirements

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ANNEX 2

I. SDP II Support Component Summary Table

Policy Obje... e:	Main GOP Actor	Studies	Assesments	Technical	Collaboration	Training	Observation	New/Continuing
1. Market Determined Exchange Rate	CB/DOF	4	3	Tech	Mgt	ST/LT	Y	N
2. Inputs at World Prices	DTI/BOC	2	2	Tech	Mgt	ST	Y	N
3. Adequate Inter-Island Shipping Services	MARINA	3	-	Tech	Mgt	ST	Y	C
4. Efficient Fin. Res. Mobilization	BIR/CB /DOF	5	5	Tech	Mgt	ST	Y	C
Monitoring & Evaluation	NEDA/DOF/IFG	?	?	Tech	Mgt	ST	Y	N

Notes:

The primary assumption underlying the recommendations for the support component is that at the end of the SDP period, GOP and related private sector actors will be able to sustain the policy reform process themselves, with less need of technical support than they have expressed at present.

Studies are defined as developing new information, and include modeling, whereas **Assessments** are more applied, and involve primarily the review of existing information, systems and the like.

Technical Collaboration is a combination of managerial and technical consultancy services to be carried out in most instance in close collaboration with staff and experts inside the primary GOP agencies concerned with implementing actions included in the Matrix. In some instances, consultants may be asked to carry out "turn key" studies or systems development.

Short-term training may be tailor-made for an individual institution or unit, or may consist of attendance at existing short-courses at outside institutions, whereas **long-term training** is likely to be residential, may be off-shore or not, and may or may not lead to an advanced degree.

Observation visits are primarily designed to increase familiarity with alternative ways of doing something related to an action item in the Matrix.

Talking Points - SDP Support Component Briefing

August 20, 1991

Purpose of the IPC Visit: To assist USAID and the GOP to determine the substance and approach which should be incorporated into the proposed support component of SDP II.

Methods of the IPC Team: Documentary review and interviews with key GOP actors in concerned operational units and at policy-making level in Departments, CB, and Commissions and Bureaux, as well as with representatives of private sector organizations and entities, academic institutes and private and non-profit sector consultants.

Objectives of the Support Component: 1) to ensure that at the end of the SDP II period (12/92), the GOP and related private sector actors will be able to sustain the policy reform identification and implementation process themselves, with less need of technical support than they have expressed to the team during the past two weeks; 2) to permit GOP and USAID to track performance in a more prospective and proactive manner, so as to be able to anticipate the need for mid-course corrections, using a strategic, change management approach.

Proposed Content of Support Component: Policy Studies and Management related Assessments, using traditional academic and "process" approaches; Technical Collaboration between Philippine-based and some expatriate consultants, and GOP and private sector actors to develop and improve systems that will help to implement the policy actions in support for the SDP II strategies, and training that will assist GOP--and some private sector--participants better to design, implement and evlaluate the policy reform process.

The major premise underlying the recommendations summarized in the table is that creating harmonization of the three support elements, within the context of change management and strategic approaches, will greatly assist the GOP and its private sector collaborators in strengthening policy reform implementation capacity. The relative weight of studies and assessments, consultancies and training--including observation visits--in support of any policy reform action set will depend on the history and complexity of the action to be taken, the relative strength or weakness organizational actors concerned, and the nature of the action to be undertaken.

For example, in new areas, such as the development of secondary markets for government securities, studies, assessments and observation visits are all necessary so as to design an appropriate system that, in turn, will lead to interest rate reduction in support of export competitiveness. The new system once designed, will have to be implemented, which will involve both technical collaboration and training of those who will operate and participate in it. Assessments of how the system is functioning will be necessary early on in the implementation process so that "glitches" in the system can be identified and eliminated. A new endeavor like this is an ideal candidate for a strategic planning and management approach, then, which involves all the support component elements.

Improved implementation of the VAT system is a different sort of example. Here, there is history with VAT, as well as with including VAT under SDP I. New systems have already been designed and are being piloted. Expansion of these systems is envisaged under the SDP II Matrix. Meanwhile, BIR is embarking on a broader change management process in which it is seeking both technical and managerial support from outside consultants. So, in this case, more emphasis under SDP II is likely to be given to assessments (and some more formal studies), workshops to enhance performance of managers and agents, development of primers and manuals to enhance performance of the existing and new systems, and training of users who will benefit from the new information management system being funded by the ADB.

The One-Stop Shop for Duty Drawback is yet another example. Here, a number of agencies are involved, and there are a number of steps are still being determined needed to make the new streamlined system operate effectively. Once again, there is other donor support, for equipment and other infrastructure improvement, and funds are available for increased staffing in the short-term. What is lacking is support for training, information dissemination and systems adaptation capacity. Public relations efforts will also be necessary to inform exports of requirements and advantages of the new system. Here, then, more emphasis is likely to be placed on in-house training, systems modification, information dissemination and implementation performance assessment. Technical collaboration has already been sought from the private sector and from UP by DTI and BOC. Additional technical collaboration is also likely to be requested, but may be more on the management development side than on the purely technical side.

Foreign Exchange Liberalization is an overarching policy theme, which involves most particularly the Central Bank, but also other GOP and private sector actors. Here again, because of the breadth of scope of the issues involved, the importance of the forex issues to export competitiveness and other aspects of economic performance, a full combination of available support elements under the support component might be accessed. The CB is already working on an internal reorganization plan; it has some very qualified staff, but also needs additional staff to implement its full mandate. Reorientation of its mission concept may be appropriate in connection with its reorganization efforts, so as to fully benefit from the change process being put in motion. Here, then, stragic planning, organization development, long and short-term training and observation visits should complement the more formal series of policy studies that have already been suggested by the GOP, so as to maximize the CB's ability to sustain its policy reform efforts.

Monitoring and evaluation may be suported by all of the support component elements, but we are also hopeful that the result may be more than the sum of its parts, in that NEDA and IFG--as well as A.I.D.--will benefit from some of the results of the studies and assessments in order to be better able to predict performance. It is recommended that their respective staffs be able to participate in some of these studies, as well as in training events and observation visits, so as to enhance the skills which they apply to monitoring and tracking performance in the policy areas included under the Matrix.

ANNEX 3

PERSONS CONTACTED

USAID

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Francisco G. Trinidad, Jr. (Jun)
Fely M. Juanillo, Office of Program Economist Secretary
Jay Nussbaum, Washington Program Officer in Philippines
Harold Dickherber, Chief, Decentralization and Local Development Division
Abdul Wahab, Chief, Natural Resources Division
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LOCAL CONSULTANT TEAM

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Ed Gonzales, Development Academy of the Philippines
Gwen Tecson, University of the Philippines, School of Economics
Cynthia (Pinky) Santos, Virata & Associates

GOVERNMENT OF THE PHILIPPINES

DEPARTMENT OF FINANCE
Diosdado Macapagal, Jr., Undersecretary, Domestic Resources
Ma. Cecilia G. Soriano, Ph.D., Assistant Secretary, International Finance Group

NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY
Ciel Habito, Deputy Director General
Ninn Rejante, Assistant Director General

MARITIME INDUSTRY AUTHORITY (MARINA)
Philip Tuazon, Administrator
Ricardo Romero, Director, Domestic Shipping Office

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BUREAU OF INTERNAL REVENUE, VAT REFORMS
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Lilia Guillermo, Asst. Revenue Service Chief, Office of Planning & Research and Chief of Management Division

CENTRAL BANK
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DEPARTMENT OF TRADE AND INDUSTRY
Lilia Bautista, Undersecretary, International Trade
Maria Lourdes Baua (Baby), Human Resources Development
M. Angelina V. Angeles, Philippine Trade Training Center

BUREAU OF CUSTOMS
Cicerio C. Evangelista, Assistant Commissioner
Nestor Peres, Duty Drawback
Elizabeth Guerrero, Director

CONCERNED ORGANIZATIONS

Asian Development Bank: Letitia K. Butler, Advisor to the U.S. Director; David Green, Philippine Projects
Bank of the Philippines: Teng Castillo
Citibank: Vaughn Montes
Philippine Chamber of Commerce and Industry: Florecita P. Flores
University of the Philippines: Segundo E. Ramero, P. Medellan
Council of Philippine Consulting Organizations: Ramon Carderas, President

RESOURCE INSTITUTIONS

Asian Institute of Management: Sonny Coloma
Center for Research and Communication: Dr. Antonio, Jr., Julius Caesar F. Parrenas
Central Bank Institute: Sebastian Palanca, Managing Director; Pablo Ronquillo, Associate Director, Eduardo Lejano, Officer-in-Charge

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Coverdale Philippines: Gabriel Ma. J. Lopez (Gabby), Norman Bramble
Development Academy of the Philippines: Emma Verzosa, Carmencita T. Abella, President
SGV Consulting: Gloria De Guzman, Managing Partner, Change Management; Antonio G. Lim, Principal, Mimi Abad

RESOURCE PEOPLE

James Dalton, ARD/Local Development Assistance Program
Donald Fritz, Nathan & Associates
Geoffrey T. Waite, Managing Associate, Dames & Moore

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ANNEX 4

RESOURCE INSTITUTIONS IN THE PHILIPPINES
August 1991

Following is a brief description of various resource institutions I was able to visit while in the Philippines. The objective in the visits was twofold: to discuss what resources and experience the organizations had which might be helpful in implementing the support component of SDP II and to determine what organizations in the Philippines were doing in the field of strategic management.

ASIAN INSTITUTE OF MANAGEMENT
(Contact: Sonny Coloma)

AIM's focus is managerial and practitioner oriented degree programs, training and consulting. Their approach is case studies and participant interaction. All faculty (around 40) spend about 30% time consulting. AIM has good ties to the community through faculty and consultancies. AIM has some experience in export promotion and in working with different government departments on strategic management issues. They recently conducted a multisector workshop for GOP which resulted in the formation of task forces on different issues important to the government. Task force recommendations are due December 1991. AIM offers a course on entrepreneurship and export management. (I'm waiting to receive their strategic management materials through the mail to review them.)

CENTER FOR RESEARCH AND COMMUNICATION
(Contact: Dr. Antonio)

CRC has four operating divisions: the Institute of Industrial Economics, the Business Economics School, Corporate Planning Services Division and the Communications Division. They provide degree and non-degree programs and research and consulting services. Their research has a policy orientation. They also do strategic planning with top management, human resources consulting and productivity measurement type consulting. Technical staff (@ 100) are mostly economists, followed by MBAs then political scientists. CRC has expertise in: macroeconomics, mathematical economics, agricultural policy and agribusiness, trade, infrastructure, urban and regional planning, public finance and public administration. All staff have research, teaching and administrative responsibilities; training is provided to upgrade faculty skills. Their philosophy is appealing: they combine philosophy and humanities training with "hard" sciences training and stress practical applications of theory.

CRC has an IQC with USAID for conducting policy reform tracking analysis and economic analysis support for projects and programs. They have relations with foreign firms and local consulting firms. They have conducted studies for NEDA. They described their strength as the ability to link up organizations to problem solve.

CENTRAL BANK INSTITUTE
(Contact: Sebastian Palanca)

This institute offers banking and management training to the Central Bank personnel, the community and to foreign participants. They do some on-the-job training. They have approximately 50 staff and offer 37 regular courses. They do some participatory training but stated they could use some training of trainers assistance. Their training programs for junior and senior executives are new.

COVERDALE PHILIPPINES
(Contact: Norman Bramble)

Coverdale Philippines offers training, consulting and research in management to the public and private sectors. They focus on strategic management, leadership, team building and negotiation skills. Their approach is participatory and process oriented. This firm has a small core staff but has relationships in the community with qualified resources in strategic management and technical areas to supplement the core. They have a history of collaboration with other consulting and strategic management organizations in the area. Logistics coordination might be problematic for this organization.

DEVELOPMENT ACADEMY OF THE PHILIPPINES

The academy is a government institution specifically mandated to sustain and guide the forces of development in the Philippines. It was founded as a bridge between academe and government. It offers a participatory and process approach to consulting. Its areas of concern include public policy analysis, empowerment, e.g., creating and strengthening community organizations, giving the people a voice, public ethics, and public management. Management services include organization problem diagnosis and training needs assessment, management information systems, communications, productivity enhancement technologies and more. The Department of Trade and Industry is currently discussing using their services for change management. Logistics coordination appears problematic for this organization. They are a large organization and staff appear to be stretched thin. Their focus is moving away from studies and policies; more into organization management and process concerns.

PHILIPPINE TRADE TRAINING CENTER, DEPARTMENT OF TRADE AND INDUSTRY
(Contact: Ma. Angelina V. Angeles)

This training center trains exporters and government, on an as requested basis, in market research, forecasting and business practices. Their current focus within the government is to help GOP personnel become facilitators vs. consultants, i.e., to screen inquiries and direct inquirers to the appropriate services. The center has limited staff: 8 in trade and business management, 3 in testing and inspection, 1 in trade exposition and 6 vacancies. They supplement their staff with consultants. The center is part of a regional project the objective of which is to strengthen training institutions in the foreign trade sector.

SGV CONSULTING (SYCIP, GORRES, VELAYO & Co.)
(Contact: Gloria De Guzman)

SGV has a department on change management as well as expertise in the areas of quantitative techniques, computer programming, statistical analyses, and surveys. Their approach to change management is well thought out, consistent among their staff, and flexible for adaptation to client-specific needs. Their experience is mostly with the private sector; they also work with the public sector. They are affiliated with the Arthur Andersen Worldwide Organization. They have drawn upon University of the Philippine technical expertise to enhance their training in the past. They currently have an IQC with USAID in tandem with Nathan Associates for policy research and economic analysis support which includes policy assessment, economic appraisal, quantitative modeling and computer assistance with policy tracking and institution building and training.

The SGV Foundation (as differentiated from SGV Consulting) is also of interest with the mandate of supporting management sciences with emphasis areas of accounting, computers, entrepreneurship and institutional development. The Foundation is currently has a relationship with the Department of Science and Technology. The work of the foundation serves as a research avenue for the corporation.

C. VIRATA & ASSOCIATES
(Contact: Cesar Virata)

Cesar Virata has an excellent reputation and accessibility to well qualified Filipino experts and decision makers in a variety of policy areas. His firm offers technical and management expertise. The firm has an IQC with USAID for policy research and economic analysis support. The small number of core staff could result in limited ability to mobilize and manage large teams. Communications can be difficult due to low office coverage.

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