

Final Report

An Evaluation of the Accelerating Investment and Liberalization with Equity (AGILE) Project



SUBMITTED TO
USAID/Philippines

SUBMITTED BY
Nathan Associates

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PCE-I-809-98-00016-00

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Acronyms

ADB	Asian Development Bank
AGILE	Accelerating Growth, Investment, and Liberalization with Equity
ASDP	Agricultural Sector Development Program
ASEAN	Association of South-East Asian Nations
BIR	Bureau of Internal Revenue
BOC	Bureau of Customs
BOT	build, operate, transfer
BSP	Banko Sentral ng Pilipinas (Central Bank of the Philippines)
CIDA	Canadian International Development Agency
CMCC	Capital Markets Coordinating Council
CMDCI	Capital Markets Development Center, Inc.
COA	Commission on Audit
CoP	Chief of Party of AGILE
CSTF	Contractual Savings Task Force
CTO	Cognizant Technical Officer
DA	Department of Agriculture
DAI	Development Alternatives, Incorporated
DBM	Department of Budget and Management
DOF	Department of Finance
DOTC	Department of Transportation and Communications
DST	documentary stamp tax
DTI	Department of Trade and Industry
ECC	Economic Coordination Council of the Cabinet
EO	Executive Order
FSTRP	Financial Sector Tax Reform Package
GDP	gross domestic product
GNP	gross national product
GOP	Government of the Philippines
GRT	gross receipts tax
HUDCC	Housing and Urban Development Coordinating Council
HIID	Harvard Institution for International Development
IFI	international financial institutions
IMF	International Monetary Fund
IR	intermediate results
IRR	implementing rules and regulations
LDC	less developed country
NFA	National Food Authority

Acronyms (continued)

NEDA	National Economic Development Authority
NTC	National Telecommunications Commission
OPEC	Organization of Petroleum Exporting Countries
PERA	Personal Equity Retirement Account
PPA	Philippine Ports Authority
PSE	Philippine Stock Exchange
QR	quantitative restriction on an import category
SEC	Securities and Exchange Commission
SCCP	Securities Clearing Corporation of the Philippines
SO	strategic objective
SOW	scope of work
SRO	self-regulatory organization
SSS	social security system
TRP	tariff reduction program
USAID	United States Agency for International Development
WB	World Bank
WTO	World Trade Organization

Executive Summary

This is an evaluation of the USAID/Philippines project, “Accelerating Investment and Liberalization with Equity” (AGILE). It began June 11, 1998 and will end on September 30, 2001.

In 1997, the Mission embraced the strategic objective (SO2), “A More Stable and Competitive Economy,” with a commitment to achieving three intermediate results (IR): stabilizing and deepening financial institutions, making trade and investment policies more competitive and dynamic, and improving economic governance. Many of the elements within the IRs, especially those under “stabilizing and deepening financial institutions,” are supported simultaneously by a World Bank policy loan, an Asian Development Bank (ADB) policy loan, or an IMF Stand-By Arrangement. Determined to extend and broaden the reforms begun under President Ramos in these three IRs, the Mission designed AGILE to achieve broad objectives under the constraints of lower funding and a smaller staff than had been available to the Mission in earlier years.

The project designers, assuming that a substantial number of Government of the Philippines (GOP) officials shared their views on reform, gave AGILE’s contractors responsibility for finding GOP counterparts who shared the Mission’s strategic and intermediate objectives. The designers also gave the contractors great flexibility in choosing how to go about achieving the objectives of SO2 and in moving resources from one reform area to another in response to changes in GOP receptivity to reform.

That design anticipated that every task would be undertaken with an influential counterpart with the same reform objective as the Mission and that AGILE staff and counterparts would work together as equals in designing and implementing each reform task.

Development Alternatives, Inc. won the contract with three subcontractors—the Harvard Institute for International Development (HIID), Pricewaterhouse Coopers, and Cesar Virata and Associates. HIID was unable to provide the personnel it had promised and is no longer participating.

The contractors immediately began identifying counterparts. Although conceived as a project to be managed from one field office, the Mission, in late 1998, induced the contractors to create satellite offices in the counterparts’ agencies. The Cognizant Technical Officer (CTO) and the contractors agreed that the latter would appoint a senior Policy Adviser to run each satellite and a mid-level Task Manager as the lieutenant to each Policy Adviser, all on one-year renewable contracts.

Satellite offices were quickly set up in the Departments of Finance, Agriculture, Trade and Industry, Transportation and Communications, Budget and Management, the Central Bank, the National Economic Development Authority, the National Telecommunications Commission, and the Security and Exchange Commission. Each policy adviser has a specialty. The Chief of Party is a specialist in international trade; the four Filipino policy advisers are specialists in international trade, financial markets, investments, and policy advocacy; and the seven expatriates are specialists in banking, financial markets, insolvency law, macro-financial policy, securities regulation, and telecommunications policy. Filipino policy advisers, specializing in reengineering and infrastructure investments, began work in March 2000.

We have evaluated AGILE's performance by subjecting selected tasks to four criteria:

1. Does the task fit the client's priorities?
2. Is it an important priority for national economic policy?
3. Has implementation been effective in reaching specified objectives?
4. Has AGILE staff managed well?

With respect to the first criterion, the counterparts asserted that AGILE's assistance has consistently met their needs. This is a measure of both the extent of reform enthusiasm within the GOP and of the contractors' success in finding counterparts for most of the elements in the Mission's SA2.

On the second criterion, the Mission's guideline, to which AGILE conforms, is necessarily its SO2. It puts together what have turned out to be such high priority practical tasks as reforming SEC with items like improving aspects of the budget information system where progress is quite unpromising. Except for the effort to reform the NFA, SA2 underplays the possibility of pushing for reductions in the effective protection in industry and agriculture in a manner to best promote export-led growth as in other East Asian countries.

On effectiveness, AGILE scores high in organizational design, fielding of appropriate personnel, and outcomes achieved or projected. By February 2000, AGILE staff had addressed some 60 policy reform tasks. Two hundred people, out of a total of 290 hired to date, most as short-term consultants, were still employed. Policy advisers and task managers were extensively involved with technical assistance and advocacy efforts behind 24 separate legislative proposals, a unique characteristic of AGILE.

AGILE is helping to produce a lot of legislation and a much larger array of GOP Implementing Rules and Regulations (IRRs) in almost every one of the 27 areas specified in the Mission's SO2. Rapid progress is being made in the Bureau of the Census, in intellectual property rights, in telecommunications delivery and regulation, and in planning an agenda for the Millennium Round of trade negotiations. In capital markets, where USAID has been working for years, its agenda has become the conventional approach and is progressing swiftly, introducing bankruptcy regulations, and assuring rationalization of the regulatory systems for the Securities and Exchange Commission, stock exchange, and several varieties of savings institutions. Reform is accelerating in bank regulation, trade liberalization, and agriculture. In some of the more sensitive tasks—such as increasing competition in port management, aviation, and inter-island shipping or reforming the National Food Authority—AGILE and its counterparts have yet to overcome opposition from GOP agencies. AGILE has accomplished relatively little in other areas, either because of its own management problems, lack of cooperation from clients, or because, as in the Departments of Finance (DOF) and of Budget and Management (DBM), the policy advisers have just begun work.

By developing close working relationships, satellite offices have proved very effective. AGILE personnel have good credentials and experience and have earned praise from counterparts for their technical and advocacy skills.

Management skill is tested in the choice of tasks and response to difficult situations. AGILE's special features—bundling many tasks under one budget, facilitating resource reallocation, and satellite offices—has been effective in achieving the SO2 objectives. But the wide range of activities has placed a heavy burden on the CoP who also must function as a policy adviser. That arrangement

has placed an excessive burden on management time. As a result, where planned tasks have met delays, as in the DOF and DBM, management has been slow to provide alternative solutions.

Finally, USAID's management oversight also affects the project's outcome. The CTO, who must approve every SOW and person hired, is kept informed on implementation and spending. At midpoint in the project, the CTO has accepted a wide range of SOWs. AGILE has already spent \$9 million out of a \$15 million obligation against its staff's estimate of a potential total commitment of \$25 million. Recognizing the length of time required to produce enduring reform, especially where legislation is required from a genuinely democratic Congress, the Mission can be gratified that so many initiatives are already under way. But, even assuming that the additional money is made available, the project, whose rationale is flexibility, has little in its last half except by canceling or scaling back some existing tasks.

We summarize our conclusions as follows:

1. AGILE is satisfying USAID's policy agenda while addressing client priorities in a broad area of economic reforms.
2. Its organizational features of bundling activities and providing flexibility to contractors has proved very efficient.
3. Its system of satellite offices is very effective in facilitating the design and implementation of reforms.
4. AGILE staff have cooperated effectively with the World Bank, ADB, and CIDA in designing the technical assistance framework and, in some cases, using the satellite offices to manage their contributions.
5. It has implemented well-designed SOWs in a number of tasks in its first phase.
6. The very high percentage of Filipinos hired has contributed to the project's success.
7. It has successfully made public advocacy part of the technical assistance program and the ultimate success of parts of the project depends on the willingness of the Philippine Congress to accept its legislative program.
8. The project's drawback, which may result from its good client relationships and the wide-ranging, ambitious goals of SO2, is a rapid increase in tasks.
9. This situation has hindered management from acting as quickly as necessary to meet unexpected problems and delayed the redistribution of resources from tasks that are stalling to others that show more promise.

AGILE is an effective formula for delivering technical assistance but is suffering from management teething problems on its first experimental run. We, therefore, make the following recommendations:

1. The characteristics of the AGILE model—bundling many activities under one budget, simplifying resource reallocations, and the use of satellite offices—should be considered for use in other Philippine technical assistance projects.
2. The model may also be applicable, appropriately modified, for Missions in other countries (see Chapter 7 for cautions).
3. AGILE should intensify its review of tasks that have not begun, or that can be modified without serious damage, to determine whether reprogramming is possible and desirable in

order to allow more concentration on high priority tasks and to reduce the burden on management.

4. To prevent the multiplication of tasks in future projects, designers should consider the following alternate set of guidelines:
 - a. Limiting the total number of tasks
 - b. Annual tranching of budget allocations to the contractor
 - c. Rejecting tasks not related to important national economic objectives
 - d. Rejecting tasks where the implementing administration is weak and/or corrupt, or where vested interests are perceived to be too powerful to overcome.

1. Introduction

This is an evaluation of the USAID/Philippines project “Accelerating Investment and Liberalization with Equity” (AGILE). It began on June 11, 1998, and will end on September 30, 2001. The evaluation summarizes implementation through the end of February 2000, and assesses achievements to date and the success likely before the project ends. Its conclusions and recommendations apply to the management of the project during the rest of its life and possibly to other projects in the Philippines and other countries. The following paragraphs on past economic policy performance provide background on the problems addressed by AGILE.

PHILIPPINE ECONOMIC POLICY PERFORMANCE, 1952–1998

This section outlines policy tendencies in the Philippine’s post-independence development. We divide this period into four phases: 1952 to 1973, 1974 to 1986, 1986 to 1992, 1992 to 1998. The choice of the year 1952 is somewhat arbitrary but indicates approximately when postwar reconstruction was completed and when the GOP began to make use of its tariff autonomy from the United States to formulate its own policy of protection. Earlier, in 1949, the currency board relationship to the dollar was dropped, giving the government exchange rate autonomy. The country was then a fairly typical developing country: its exports were mainly agricultural and forestry products; its imports were industrial and there were major foreign (primarily U.S.) investments in key areas of the economy.

Phase One: 1952–1973

In the first phase, which ends in 1973 and coincides approximately with the first OPEC oil price increases and the beginning of the Marcos dictatorship in 1972, the distinguishing characteristics of the economy were

- GOP promotion of import substitution industrialization by protecting domestic producers with tariffs and quantitative restrictions (QRs);
- Insufficient investment to keep agricultural exports competitive and prevent the exhaustion of forestry products;
- A gradual nationalization of foreign investment and restrictions on new foreign investment;
- A tendency to keep the exchange rate overvalued as an anti-inflationary device; and
- A modest level of taxation as a percent of gross domestic product (GDP) because the wealthy were able to avoid paying a fair share.

Phase Two: 1974–1986

In the next phase, which coincides with the disruption following the 1973 and 1979 oil price increases and ends with the overthrow of Marcos in 1986, the previous tendencies persisted and new ones were established, as follows:

- The creation of export processing zones to encourage electronics and garment exports;
- Increasing state intervention in the economy in the form of special favors for certain businessmen;
- A higher level of inflation and periodic bouts of exchange rate overvaluation;
- An even higher level of protection because of persistent balance of payments deficits somewhat offset by a partial liberalization in the early 1980s; and
- A big increase in external indebtedness.

Phase Three: 1986–1992

The next phase corresponds with the Aquino presidency, 1986–1992. The new administration was preoccupied in its first several years with reducing the rate of inflation and rescheduling external debt. Although it did not want to increase the state sector, confiscating the properties of Marcos' cronies had that effect. The run-down of the agricultural and forestry sector as a source of exports continued, as did the overvaluation of the exchange rate as a byproduct of price stabilization strategy. Some progress was made in liberalizing the rules on foreign investment. The role of the export processing zones was basically unchanged. The big shift in policy came with the sharp reduction of QRs and the reduction of tariffs, which led to a considerable reduction in the effective rate of protection. That tendency had run its course by 1990. The exchange rate, although nominally flexible, tended to appreciate in real terms. No significant progress was made in increasing the yield of taxation. Lack of investment in power facilities was a national scandal. The Philippines, with its complex licensing requirements and exchange controls, remained unattractive to most foreign investors. In spite of a massive increase in foreign aid compared to the Marcos era, gross national product (GNP) growth was sluggish.

Phase Four: 1993–1998

The last phase covers the Ramos administration, 1993–1998. His greatest achievement was to make liberalization—opening the economy to more competitive forces—an official policy and not an expedient to please the IMF and the World Bank. The most important measure was the elimination of most exchange controls. That action effectively dried up the black market. This had the beneficial effect of attracting a massive increase in official exchange reserves but the unfortunate effect of further appreciating the nearly free-floating exchange rate. Tourist spending and remittances from Filipinos overseas rose sharply. Gross exports also grew rapidly but in the most important sector, electronics, domestic value-added remained low, about 20 percent to 30 percent. That meant that three to four dollars of inputs had to be imported for every five export dollars earned. Foreign investment, both direct and in the form of securities' purchases, resumed in response to both the lifting of exchange controls and the end of the power shortage.

Ramos continued reducing the effective protection of industrial products and set a goal of a 5 percent tariff in 2004 for most imports outside the agricultural sector where some QRs remained in effect. Agricultural products, which had suffered negative protection earlier, now received positive effective protection.

Therefore, in 1998, when the AGILE program was being formulated, the Philippine economy remained a product of 45 years of restrictive inward looking policies offset only in part by the liberalization of the previous five years. Specifically,

- State intervention, either formally as in state enterprises or by informal persuasion, remained high;
- Tax yields, as a percentage of GDP, remained low, constraining education, health and infrastructure spending;
- Domestic industry remained fairly well protected and the goal of low tariffs was not required either by external treaty or internal law but depended on the Ramos regime's Executive Orders whose tariff cutting schedule would cease in 2000;
- Industrial exports were concentrated to an unhealthy degree in electronics which has few although slowly growing backward linkages to the domestic economy as its low domestic value-added indicated;
- Agricultural productivity was still low and its potential to supply both the domestic market and exports was still far from fully exploited;
- On the positive side, the tendency to open the economy to foreign investment continued in retail trade and banking, making the country more attractive to investors than it had been in its postwar history; and
- The exchange rate was more competitive than it had been for many years, a condition necessary to promote exports.

It is against this assessment of the economy's strengths and problems that an evaluation of AGILE and its clients' priorities should be judged.

2. Determining the Shape of AGILE

THE MISSION'S LONGSTANDING COMMITMENT TO ASSISTING ECONOMIC POLICY REFORM

In 1960, per capita income was \$1,130 in the Philippines, 25 percent greater than South Korea's \$900. Thus, Philippine poverty may have been less than South Korea's. Because both were very poor, their population growth rates were high, both countries averaging 2.8 percent from 1961 to 1963. During those same three years, Philippine output growth slightly exceeded South Korea's, with averages of 5.8 percent and 5.6 percent, respectively.

But during the early 1960s, South Korean leaders reoriented their economic policies to favor export-led growth while Philippine officials continued adopting import substitution policies. As a result, South Korea's output per capita grew 71 percent during the 1960s, and its population growth rate fell to 2.2 percent a year while the Philippines' output per capita grew only 19 percent, and its population growth rates rose to over 3 percent a year in 1970. Twenty-six years later, largely because of their different economic policies, South Korea's per capita output reached \$4,620 in 1986, three times Philippine output per capita which lagged far behind at \$1,535 in the same year (all per capita incomes in 1985 dollars at purchasing power parity with the United States). As everywhere in the world, rapid growth in per capita income reduced the annual growth rate of the South Korean population, which dropped to 0.9 percent in 1986, while the Philippines' market repression and low per capita income left its population's annual growth rate at 2.7 percent in 1986.

Recognizing that the economic policies of the Government of the Philippines (GOP) had played a part in repressing sustainable broadly based growth and recognizing that broadly applied policy reform was essential for accelerated growth, Mission staff had for many years been committed to assisting policy reform. In 1997, the Mission embraced the strategic objective (SO2), "A More Stable and Competitive Economy" with a commitment to achieving three intermediate results (IR): stabilizing and deepening financial institutions, making trade and investment policies more competitive and dynamic, and improving economic governance. Many of the elements within the IOs, especially those under "stabilizing and deepening financial institutions," were and are simultaneously being supported by a World Bank policy loan, an Asian Development Bank (ADB) policy loan, or an IMF Stand-By Arrangement. Determined to extend and broaden the reforms begun under President Ramos in these three IRs, the Mission designed AGILE to achieve broad objectives under the constraints of lower funding and a smaller staff than had been available to the Mission in earlier years.

Having established the areas of the three IRs as the Mission's reform priorities, AGILE's designers recognized that the roster of senior GOP officialdom would change after the Presidential and Congressional elections of 1998 and that officials' views of reform needs might also then change in the Congress and in particular agencies. The designers therefore gave AGILE's contractors great

flexibility in choosing how to go about achieving the objectives of SO2 and in moving resources from one reform area to another in response to changes in GOP receptivity to reform.

FITTING DESIGN TO NEW CIRCUMSTANCES

Perhaps the happiest circumstance of 1997 was that AGILE's designers could assume that a great many GOP officials, both political and technical, both incumbents and incoming, had come to share their views of the essential character and importance of policy reform. That assumption permitted them to make a virtue of the necessity of their own reduced numbers by assigning to the AGILE contractors more responsibility for finding Philippine counterparts who shared the Mission's strategic and intermediate objectives. That assignment anticipated that every task would be undertaken with an influential counterpart with the same reform objective as the Mission and that AGILE staff and counterparts would work together as equals in designing and implementing each reform task.

THE CONTRACTORS: FINDING THEIR WAY TO APPROPRIATE RESPONSIVENESS

Development Alternatives, Inc., (DAI) won the contract, effective June 1, 1998, with three subcontractors, the Harvard Institute for International Development (HIID), Pricewaterhouse Coopers, and Cesar Virata and Associates. Apparently, they won in part because together they offered a great many staff well experienced with GOP policies and with previous reform efforts and because they identified reform needs that corresponded with the Mission staff's general view of priorities.

HIID provided a macroeconomic policy adviser, but was unable to replace him after he left in the fall of 1998. The Mission then decided that AGILE needed a managing director; so DAI replaced the HIID adviser with a full-time managing director to work in the core office. HIID was also unable to provide the macroeconomic and financial advisers that the Chief of Party (CoP), DAI, and Mission staff had expected. These shortfalls caused delays in recruiting other personnel and in implementing some of the early scopes of work (SOW).

In June 1998, based on ongoing conversations with Philippine officials begun before contract award, the contractors' staff prepared a task order whose individual parts identified tasks to be started in calendar year 1998. The Mission had specified that the contractors' staff would prepare a comprehensive task order for each of the four calendar years of the contract's duration. As the contractors' staff prepared the task order for 1999, to be presented in December 1998, the Mission proposed to them and they embraced the creation of "satellite offices" in the "counterpart institutions" that were requesting policy reform assistance. The Mission asked the CoP to recruit a senior policy adviser to run each satellite and a task manager to serve as the policy adviser's lieutenant in each satellite.

In December 1998, the contractors quickly created nine separate satellite offices, first, in the Department of Agriculture (DOA) and then eight others in the Departments of Budget and Management (DBM), Finance (DOF), Transportation and Communications (DOTC), and Trade and Industry (DTI), the Bangko Sentral ng Pilipinas (BSP, the central bank), the Securities and Exchange Commission (SEC), the National Economic Development Authority (NEDA), and the National Telecommunications Commission (NTC).

The policy advisers have doctoral degrees, and each brings extensive professional experience to his leadership position. The CoP is the International Trade and the Agricultural Policy Adviser. AGILE employs nine other policy advisers. Three are Filipinos, specialists, respectively, in financial markets, investments, and policy advocacy. Six are expatriates, experts in banking, financial markets, insolvency law, macro-financial policy, securities regulation, and two in telecommunications policy. All of the policy advisers are working under one-year contracts. Two additional advisers, both Filipinos, will begin work in March, one as Adviser on Presidential Flagship Projects and the other as Reengineering Adviser in the DBM.

The Task Managers have masters' degrees, most in economics, and every one has many years of experience within the GOP or in private business or banking. Because many of them had begun in other AGILE positions in the summer of 1998, many of the task managers assumed their positions and displayed strong leadership skills before their policy advisers could be found. All of the policy advisers and task managers work under renewable one-year contracts.

By March of 1999, the project had evolved from a single field office to decentralized management with the satellite offices playing, as they have ever since, a crucial role in specifying and delivering assistance to reform. Further, the Chief of Party and all of the task managers were and remain Filipino. Initially, policy advisers and task managers concentrated on negotiating with GOP officials who wanted reforms consistent with the elements of the Mission's SO2. That job continues. In addition, they write appropriate SOWs, recruit short-term local consultants and advisers, and refer requests for foreign consultants and advisers to the DAI Project Associate (who monitors the project from Maryland). Their most time-consuming task is overseeing implementation of the SOWs, including nannying the progress of reform bills through the House and Senate.

Almost from the beginning AGILE staff prepared a list of three possible candidates for every hiring position, recommended one of the three, but allowed the counterpart agency's representative to choose the winner. In about half of the cases, the counterpart initially rejected the AGILE recommendation, leading to talks in which the recommended candidate was eventually chosen in about half of the disputes.

By February 2000, AGILE had employed some 290 people—including a large number of short-term consultants—in research, consulting, advising, training, legal advising, and management roles. About 90 had completed their work and left the project. That February total appears to be about 90 percent of what will be the life-of-project total employment.

SETTING THE SCHEDULE FOR AGILE'S MULTIPLE TASKS

In May 1999, the AGILE staff prepared a work plan (combining, extending, and replacing the previous two annual task orders) that has guided program participants ever since. The AGILE staff will publish a second work plan in March 2000. It will be composed largely of undertakings to continue and/or complete the tasks described in the first plan. This prospect recognizes the long periods needed to complete the individual tasks undertaken in 1998 and 1999, especially those requiring new legislation.

By February 2000, AGILE staff had addressed or begun to address some 60 tasks assisting policy reform design and implementation. Their work had produced or was recommending several executive orders and many changes in implementing rules and regulations (IRRs). AGILE staff had

trained, over short terms, many dozens of GOP staff responsible for implementing reforms. Perhaps more surprising, compared with USAID policy reform initiatives elsewhere, AGILE staff were participating extensively in the design and advocacy efforts behind 24 separate legislative proposals, (17 before the Congress in February 2000, two of which have received Presidential signature, and five not yet introduced in either House). Most surprising, given nationalistic sensitivities here as elsewhere in developing nations, none of this legislative involvement appears to have stirred nationalistic fears or criticisms of intrusion by the United States. That kind of success seems to be attributable to the fact that most of the AGILE staff advising Congress have been Filipinos or, in a few cases, expatriates identified merely as technicians working for an AGILE seen as an independent entity.

With two exceptions, all AGILE counterparts are GOP officials. The two exceptions involved grants to the private Foundation for Economic Freedom and to the private Asian Foundation to provide public support, respectively, for increasing competition in retail trade and in the management of the nation's largest domestic port.

Although AGILE's staff have been establishing and designing work programs, recruiting expertise, and implementing commitments, USAID Mission staff have exercised close oversight and veto power over SOWs and, at least since early 1999, over all hiring decisions. Thus, task selection and implementation have been held to the terms of the Mission's SO2.

The CoP and USAID's CTO have consulted almost every day during the project's life, and the CoP and AGILE's Managing Director report to every meeting (now biweekly, formerly weekly) of the SO2 team. Individual policy advisers and task managers have also consulted frequently with the Mission staff; and from the latter's point of view, have done so sufficiently.

USAID's design gave DAI authority to expand or contract individual subactivities with little contractual or budgetary formality. This has permitted the CoP, policy advisers, and task managers to respond quickly to new Congressional initiatives and to changes, for better or for worse, in senior GOP officials and their reform priorities. Such changes have come on the Telecommunications Commission, and in the DOTC, the Central Bank, and the Housing and Urban Development Coordinating Council, the HIDCC. Such changes within the GOP have sometimes led AGILE staff to undertake new tasks and have sometimes led them to stop or cut back AGILE work. This responsiveness to changes in the GOP justifies the simplifying provisions the AGILE contract gives its contractors to allow resources to be shifted from tasks where progress is obstructed to tasks where progress becomes easier.

3. Performance and Evaluation—Reforming The Financial Sector

The definition of the financial sector employed here corresponds to IR 1 (financial institutions stabilized and deepened) plus four topics from IR 2 (trade and investment) and IR 3 (governance and democracy), that is, contingent liabilities, and reform of the bankruptcy law and procedure, government procurement code, and local government finance. This configuration has been chosen because the additional tasks are being carried out by the same institutions that are responsible for IR1. Like other parts of the AGILE project, the program works with several different institutions, both public and private, and has many subprojects, each with its own SOW. In addition to support provided by DAI's central operation, the project is served by five satellite offices located in the Department of Finance (DOF), the senior institution; the Central Bank (BSP); the Department of Budget and Management (DBM); the Securities and Exchange Commission (SEC); and the Philippine Stock Exchange (PSE).

Although it is not easy to fit every task into a cubbyhole, activities fall into the following categories:

- Modernizing, improving, and making more effective regulatory authority—SEC legislation, rules and training including bankruptcy proceedings, PSE regulations and training, modernizing bank examinations, updating legislation covering commercial banks and the Central Bank.
- Rationalizing tax policies to encourage increased and more efficiently distributed private sector activity—financial institutions taxation, fiscal regime governing investment, road user charges.
- Encouraging saving by improving the safeguards governing various instruments—pensions, pre-need, mutual funds.
- Establishing new debt instruments—securitization.
- Improving the management of public sector spending—better budgeting, procurement code, local government revenue sharing, reengineering, contingent liabilities control.
- Increasing the yield of taxation—BIR reform.

And most tasks pass through the following stages:

- Do research, develop options, and propose policies
- Draft legislation or regulations where necessary
- Use advocacy vis-à-vis government departments, the Congress, or the public to ensure approval of the necessary legal changes
- Train personnel to implement changes required by the new policies or improve the functioning of existing institutions.

Not all these steps apply to every activity. At this point in mid-project, the offices are established, the task managers have all been on the job for at least several months, and the long term advisers are in place or about to arrive. Output is at various stages—from products that have passed through all four stages to those that have not begun or have been suspended because of the lack of counterpart cooperation.

Selected tasks are evaluated here according to the following criteria:

- How well do they fit the client’s priorities?
- Do they represent an important priority for national economic policy making?
- Has AGILE intervention in the various stages outlined above been effective in carrying out the objectives?
- Has AGILE managed the staff and resources well?
- Has USAID managed well?

THE PROGRAM

The theme running through these activities is improving the functioning of the private capital markets and the banking system to channel more savings, both domestic and foreign, into increased investment that will also raise growth and productivity. The secondary one is improving the management of government spending.

Modernizing, Improving, and Making More Effective Regulatory Authority

Strengthening and enlarging the SEC is the most important activity according to the government agencies involved in this area and according to AGILE management. The SEC in the Philippines, unlike the United States, is also responsible for corporation registration and for bankruptcy settlements. In spite of institutional reform since 1985 and a notable expansion of activity, the development of financial markets lags well behind the much better established commercial banking sector. The satellite office at the SEC is the largest in the AGILE network and has the biggest investment in expatriate talent—there are three senior policy advisers. Its state of organization and scale of activities indicate a project that has reached “cruising speed.” There is also a satellite office at the Stock Exchange. The long-term policy advisers for securities law, stock exchange operations, and bankruptcy procedures are in place and several short-term ones were working there when we visited. The office is headed by a task manager who is also a de facto financial market adviser.

The centerpiece of the SEC program is the passage of the Securities Act of 1999, which has been proceeding slowly through both houses of Congress over the past two years. AGILE has been active in offering technical advice and drafts and advocacy before the relevant committees, Congressmen, and Senators. Although rules and procedures have already been substantially improved, particularly for bankruptcy hearings, the effort to remake the SEC and modernize securities regulation would be seriously compromised if it is not approved. The act provides for

- Changes in the system of securities regulation from one of recommendation (merit) to full disclosure along the American model;
- Better enforcement, higher penalties, increased civil liability, better definitions of insider trading, and more responsibility on the part of directors of a corporation issuing a security;

- Market participants operating as self-regulating organizations (SROs) provided they meet certain criteria, leaving the SEC to enforce the criteria, rather than the behavior of SRO members;
- Updated definitions of securities and types of trading; and
- Strengthening the SEC as a body in its rule making capacity and through enforcement by giving it more flexibility to reorganize and recruit and pay more highly qualified personnel.

Even before the act is passed, AGILE advisers have been improving the functioning of various departments of the Commission. The rules of bankruptcy procedure have been revised by the Policy Adviser and approved by the Commission. AGILE's experts have been working on revised security disclosure requirements and better enforcement procedures to combat fraud. Training programs for Commission staff have started or are being planned by AGILE staff in each of these areas.

A parallel effort by AGILE is underway at the Stock Exchange, as an SRO, under the general supervision of the SEC. Some of the objectives are to achieve greater transparency, more liquidity in trading, surer and more rapid settlement procedures, and the creation of a special board for Small and Medium Enterprises (SME).

In the commercial banking system—until now the major source of current and investment finance—the objective is to have the Central Bank (BSP), the regulatory authority, manage risk more effectively and to react more vigorously if another financial crisis should strike the country. The AGILE adviser, who runs the satellite office, has several tasks, as follows:

- Develop models that can predict systematic and specific institution risk and derive criteria from them that can be applied to bank examination and surveillance
- Train bank examiners to use the new approach on their regular inspections of all banks
- Increase examiners' skills for application to larger, more sophisticated banks
- Advise on other matters such as foreign exchange risk, criteria for mergers, banking legislation, etc.

This approach is designed to transform the existing bank examination system from its traditional audit form to an early warning indicator of problems that can lead to bank failure. The AGILE Policy Adviser has been arranging for successive groups of examiners to be trained in methods that employ more effective criteria against which to judge a bank's performance as well as to use improved technology to gather information more quickly. It is also working with the section that draws up guidelines for examinations and plans for responses to systemic problems. AGILE is also training Central Bank staff in offsite surveillance and improvements in the methodology of auditing (mark-to-market) for trading portfolios. Much of this program is being funded not only by USAID but by European Union funds, ASEM, managed by the World Bank, and the Canadian International Development Administration.

The Policy Adviser is also in a position to give advice on matters such as foreign exchange risk, merger criteria, and banking legislation and, as the only resident representative of a foreign aid agency, to give advice on the management of other donor contributions.

Rationalizing Tax Policies

The second category of activity—rationalizing tax policies relating to the capital markets and other facets of investment—consists of four tax reform proposals, three of which are at different stages of Congressional action, while the fourth is awaiting further study. The legislation that relates to the capital markets is the financial sector tax reform program (FSTRP). The bill on this subject was introduced by Senator Enrile but does not yet have a sponsor in the House. This bill is supported in general by DOF. Unfortunately, they do not yet have a tax Policy Adviser to back up their recently appointed person to undertake advocacy in the Congress. The issue is that the current taxation of financial transactions by a gross receipts tax (GRT) and a documentary stamp tax (DST) has been inhibiting the market growth, particularly for debt instruments. There is now agreement that the objective is to impose a financial institutions tax (FIT) on the institution rather than taxing transactions and to limit the DST to the original issuer. These taxes would also be in lieu of extending the value-added tax (VAT) to financial transactions. The expectation is that increased activity in this sector would offset, at least partially, a loss of revenue from these cutbacks in the GRT and DST.

From DOF's point of view, there has been no progress yet on the review of fiscal incentives for investment and the formulation of a new position. Two consultants have been named—one to work on accelerated depreciation and the other to evaluate the effectiveness of the present system of fiscal incentives. DOF has not yet taken a position on a bill already introduced, the Omnibus Investments Act. Legislative action of any kind is unlikely before the fall of 2000.

The Road Users' Charges bill, on the other hand, is close to final approval, having passed both houses. It is the financial element of a larger roads sector effort supported by the World Bank. AGILE played an important role in relating the taxation of users to damage done to the roads instead of to engine displacement, and creating a fund into which the proceeds would be deposited and from which expenditures would be made by the Department of Public Works. AGILE staff had initially to develop a unified executive branch by persuading the DOF to drop its opposition to a public works trust fund. It then lobbied interested parties, i.e., associations of truckers, jeepney drivers and shippers, for support and worked with Congressmen and Senators for passage.

A bill has been introduced into the Congress to establish a PERA, Personal Equity Retirement Account, the Philippine equivalent of the individual retirement account (IRA). DOF has not yet taken a position because work on other forms of savings has not been completed and the impact on tax revenue is not clear.

Encouraging Savings by Improving Safeguards

The third category of activity consists of an ambitious program to study various forms of voluntary contractual savings to insure that investors are protected from fraud and inadequate provisioning by the operators. It is part of a larger effort to examine the adequacy of mandatory pension schemes. The agenda was originally set by the Capital Markets Development Center, Inc. (CMDCI), an institution founded with USAID assistance some years ago. It is the private sector arm of the Capital Markets Coordinating Council (CMCC) that includes all the financial industry associations and the DOF and BSP. The timing of work in this sector was the consequence of two executive orders issued in April 1999. One set up a contractual savings task force (CSTF) in the DOF and the other a Presidential

retirement income commission (RIC) concerned with mandatory pension schemes such as social security and government employee pensions. In October 1999, a bill was also introduced in the Senate to regulate the “pre-need” sector.

DOF has asked AGILE for assistance for both the task force and the commission and for studies of the pre-need industry (contractual savings in anticipation of an event—college tuition, death etc.) and of mutual funds. The CSTF, which reported its findings at the end of last year, came to the following conclusions:

- The private sector is the driving force in this area, with government concentrating on the regulatory environment.
- Adequate funding of benefit liabilities should be mandated to ensure the proper functioning of private pensions.
- Institutions other than banks and investment banks should be allowed to participate when properly regulated.
- Regulation and supervision should be strengthening.
- Tax treatment should be rationalized, i.e., make it more uniform across institutions and less obstructive (i.e., the same issues noted for financial institutions).

With regard to this third category of activity, AGILE has provided resources for the deliberations of the CSTF and has helped the Commission find an executive director, a former DOF official whose salary will be paid by the World Bank. It has also commissioned and produced two reports on the pre-need industry and on mutual funds. AGILE staff in DOF has produced a draft work plan which it will submit for approval to the RIC. Once the plan is approved, a working group will be formed to study the liquidity problems and investment policies of the social security and government pension systems.

Establishing New Debt Instruments—Securitization

The fourth category of activity is securitization. AGILE has sponsored some workshops but very little has been done in practice—three mortgage-backed securities have been issued but their legal and regulatory regime is not very clear. In Philippine law they could be regarded as a deposit substitute and therefore be subject to reserve requirements. AGILE has been asked to do a preliminary study and to consider a “test case” concerning the use of an income stream from a gas field that has not yet come on line as collateral. Nothing has been done yet because the focus would be mortgage-backed securities; and the HUDCC, which issues government guarantees for bank mortgage loans, is in disarray in the absence of a director. Legislation may be necessary to provide a firm legal status for an asset-backed security. This activity will have to be jointly regulated by the SEC and the Central Bank because the potential issuers will almost all be banks. One aspect, which has a bearing on the quality of the underlying assets, that is, the current ability of a mortgagee who has defaulted to redeem the mortgage within one year, would be reduced to three months in the amendments to the General Banking Act which is now before the Congress.

Improving the Management of Government Spending

Programs for improving the management of government spending can be divided into those concerned with

- The budgeting process,
- Economizing spending by making certain aspects of government more efficient,
- Forecasting future liabilities for expenditure, and
- Revenue sharing.

The Philippine agency responsible for improving the management of government spending is the Department of Budget and Management (DBM). The DOF is responsible for forecasting future liabilities for expenditure.

For the budgeting process there is a “budget dialogue group,” covering the private sector as well as government departments. This group has met only a few times with few results so far. Computerization of medium term budgeting has not yet been adopted although the initial technical work has been done.

Some progress has been made in economizing spending. A report diagnosing the procurement system and proposing a comprehensive reform has been written for AGILE. This work goes far beyond the efforts of the World Bank and ADB, which are concerned only with limited aspects of procurement. The conclusions have been turned into a procurement code that is ready to be introduced as a bill. It is being circulated among interested departments, including the Department of Public Works and Highways (DPWH), NEDA, and the Commission on Audit (COA) for their comments and support. Putting together an executive branch position will not be easy, given the apparently sweeping nature of the reforms proposed, and may be even more difficult to put through the Congress.

Specifically, it may depend on the timing and ambition of the President’s “reengineering the bureaucracy initiative” which is yet to start. The AGILE Policy Adviser will begin work shortly. He is Filipino, hired from the World Bank’s staff, knowledgeable about the government, and with long experience in international development institutions. The first targets will be the Bureau of Customs (BOC) and the Bureau of Internal Revenue (BIR).

As for forecasting future liabilities for expenditure, the government has accumulated a number of contingent liabilities, particularly in connection with the Build-Operate-Transfer (BOT) program employed for many infrastructure projects. The task would be to inventory them and seek to develop a realistic estimate of what future liabilities might be. That effort has not yet begun but a study of the contingent liabilities of the power sector was recently completed.

Revenue sharing refers to the initiative of both Senate and House to amend the local government code (LGC) in light of the seven years of experience with its operation. The law originally authorized the transfer of up to 40 percent of internal revenue to local government entities—provinces, cities, and the like—in return for accepting responsibility for health and agricultural expenses in their jurisdictions. Some members would like to increase the revenue sharing ceiling. DOF’s and DBM’s interest is to avoid that result but concentrate on improving the formula for distribution between governmental units from population and area to an index that would take into account economic factors. The ability to borrow would also be slightly enhanced. It is likely, given the political pressures, that a bill will be sent to the President this year.

Increasing the Yield of Taxation

This category of activity concerns the Bureau of Internal Revenue (BIR). A low level of taxation as a percentage of GDP has been a perennial concern of Philippine officials and donors. Various technical assistance programs from USAID and other donors have nibbled away at the problem but have not fundamentally lifted tax collection to another level. As with a number of official Philippine organizations, BIR seems to be facing a leadership problem. The proposals advanced for technical assistance by AGILE—such as assistance in improving collection and audit procedures and improving the quality of management information through better computerization for both BIR and DOF—are steps in the right direction. But it is not clear whether the political commitment is adequate to make them effective. The BIR is also a target of the "reengineering program" of DBM.

EVALUATION

We shall apply three of the criteria noted above—client priorities, AGILE effectiveness in reaching objectives, and AGILE management—to selected activities in four institutions in the financial sector: the SEC, the BSP, the DOF and the DBM. The others—national as against client priorities and USAID management—will be analyzed in connection with the project as a whole.

Responsiveness to Client Priorities

Responsiveness to client priorities is, in fact, one of AGILE's rationales. By removing the constraints of traditional technical assistance contracts, the project can accept a range of proposals and also redirect resources if some of them do not prove feasible. It is clear from discussions with AGILE clients that the program summarized above largely represents client priorities. But in this sector, where USAID has labored for many years, the agenda is largely common to both parties and is shared, to an extent, with the World Bank, the IMF, and the ADB.

The capital markets program, strengthening of the SEC, modernizing the stock exchange, new legal frameworks with safeguards and regulation for the pre-need industry are all part of an agenda originally established by the CMCC, whose membership includes the responsible government agencies and all the industry associations of the financial sector, as developed by its research arm, the CMDCI. Some of these ideas originated in USAID's 1995 Capital Markets Study. They are, in any case, now priorities of the SEC and its parent agency, the DOF.

The objective of reorganizing the bank examination system to better understand the risks to the banks and avoid the negative effects of another crisis like the one that struck East and Southeast Asia in 1997 became a BSP priority only when the current governor was appointed in 1999. Once the satellite office was established and an adviser appointed, he was given progressively more functions than in its original mandate. For example, he is now being asked to advise on foreign exchange risks and their potential impact on the banking system in addition to credit risk issues.

The DOF program has a mixture of origins. The financial tax reform comes out of the capital markets agenda. The review of fiscal incentives is derived from the traditional concern with the revenue base as is tax administration reform in the BIR. The purview of the CSTF overlaps with the capital market agenda but was specifically commissioned by an executive order as was the pension reform and other concerns of the RIC. The budget management, procurement code, and

reengineering initiatives are in response to the Secretary of DBM's requests with reengineering and are also a Presidential priority.

In summary, the AGILE financial sector program responds to client priorities, and its elements conform to the elements of SO2.

AGILE's Effectiveness

AGILE's effectiveness can be measured by the following criteria:

- Organizational design
- Fielding the right personnel
- Quality of work output.

Organizational Design

The use of satellite offices has turned out to be, in the opinion of the clients, a very effective method of delivering technical assistance. It has also largely solved the problem of the provision of counterpart resources by allowing the receiving agencies to supply office space and some related services. We have frequently heard that the physical proximity of the advisers has made it much easier and faster to translate recommendations into practice because the advisers were available to train and guide the process. This was contrasted with other technical assistance that often came in the form of a "theoretical" report that was left behind. The advisers can also be requested to do things not in the original scope, which may be more of an advantage to the client than to AGILE and USAID. They are, of course, free to refuse if the task is substantial.

Fielding the Right Personnel

Since this project is essentially the supply of qualified people, recruiting the right ones quickly is an important measure of effectiveness. Here the record is mixed. Initial project organization seemed to have taken six to eight months. Senior advisers did not appear until the first half of 1999 and some are not in place yet. The SEC complex started earlier than the others and is now fully staffed. Initiation of the BSP program was delayed somewhat by the then Governor's attitude but took off quickly after the Bank's leadership changed. It, like the capital markets staff, has reached "cruising speed."

The experience of DOF and DBM is not as good. In the DOF, the current macro-financial Policy Adviser, who is in charge of all assistance in this area, has been in place only a month because two earlier candidates either did not perform or left for personal reasons. As a result, policy advisers for tax policy, administration, and pensions have not been in place. Fortunately, the task manager assigned to DBM was able to fill in on the Road Users' Charges bill. The experts for the fiscal incentives study have just been appointed. It would seem that work in this sector is about six months behind SEC and BSP.

The DBM program seems to have a fairly loose relation between the priority it assigns to its tasks and their start-up. Reengineering, we are told, is a Presidential initiative but no serious work has yet begun. Work is much further advanced on procurement but the necessary work to put together an executive position has just begun. The much more difficult effort of convincing the Congress has not

even been considered. The relatively weak budget dialogue and computerization tasks have lower priorities but were started earlier and are now stagnating.

The conclusion is that AGILE has been quite effective in the SEC and BSP in staffing the various tasks and, until recently, much less so in DOF and DBM.

Quality of Work Output

The quality of personnel can be assessed by their technical output, by their ability to train and convince their counterparts, and by skill in advocacy in the many cases where Congressional authorizations are necessary. Since we have neither the time, nor in some cases, the technical background to appreciate much of the output, or have an independent view of the impact of their advocacy, we have relied on client reports to make our judgments. The SEC has been favorably impressed by the technical input, citing as examples the new rules for bankruptcy proceedings and the technical analyses of the securities act that have been provided as backup to the advocacy efforts of other AGILE personnel. They believe that the advocates are energetic and effective in keeping Congressmen and Senators informed and persuaded in a highly technical area.

In the BSP, the counterparts were appreciative of the way the Policy Adviser tackled and solved problems and the new techniques he brought to bear on issues. Advocacy was not, in this case, an important part of the job. In the DOF/DBM sector there are only two outputs well enough along to judge: the procurement code and the Road Users Charges bill. The first took a considerable technical effort but no advocacy as yet. The second involved both technical back up and advocacy, but the latter was probably more important within the executive branch and vis-à-vis the Congress by mobilizing user's associations. In DOF proper very little seems to have happened in the first twenty months except the report of the CSTF. The Financial Sector Tax Reform Package, we were told, remains a Congressional initiative, as does the PERA bill. That evidence argues that the staff turnover in this sector has resulted in serious delays in project implementation.

In summary, AGILE staff, who have been in place for a reasonable period, have been highly effective in most cases.

AGILE Management

Project management is judged on the choice of tasks and the way their implementation is monitored. The choice of tasks in the financial sector, as for SO2, was based in part on the past technical assistance relationships that USAID has established in certain sectors prior to the AGILE project with some concern for the priorities of the International Financial Institutions (IFI). Examples are the BIR and capital market reform, particularly the stock exchanges. But the agenda, in its current form, is much wider and, in a sense, deeper. Many more activities have been targeted and, for capital markets and commercial bank surveillance, the objectives are quite ambitious compared to the past. There are roughly twenty separate tasks which involve, currently, seven separate pieces of legislation to which will be added a few more when particular activities are further advanced.

The best example is in the capital markets where USAID was active before but which has now been expanded to almost every product, not sold by a bank, and, in addition, to a thorough overhaul of the stock exchange and the regulatory agencies. Commercial bank examination and surveillance is new because the BSP did not want such assistance in the past. The BIR is a perennial favorite of

technical assistance with usually only limited results. Pension reform and a review of fiscal incentives for investment as well as reengineering and procurement are subjects that have never been touched before.

One can view this dispersion of effort as either

- A good opportunity to enter important areas even if the initial attempts may only be partially successful, or
- A waste of resources that could be better concentrated in fewer areas.

From the point of view of hindsight, both views are relevant. Entering the Central Bank with a policy adviser working directly and indirectly on banking system credit and foreign exchange risk is an important accomplishment. Second, it concerns an organization that has one of the stronger administrative apparatuses in the government. On the other hand, given the weak enforcement authority of even a strengthened SEC, is it feasible to think that it could accomplish much in the regulation of mutual funds and the pre-need industry as well as its main task of regulating equities? Similarly, should AGILE be involved in efforts by the executive branch to defend itself from Congressional initiatives like the amendment of the local government code or the PERA bill? Butting heads with the BIR and its network of vested interests after all of USAID's experience in this area may be the ultimate waste of time. Conversely, pension reform should have some priority because the objectives conflict less with vested interests; and the DOF had the will and competence to provide leadership.

We would conclude, therefore, that the Mission's efforts to coordinate the design of its SO2 with the IFIs' reform priorities has led it into areas where, to be effective, institution building will take more years of help than AGILE can provide. Those resource commitments may prevent AGILE from doing as much as it otherwise might when opportunities such as the BSP opening appear.

The same issue of dispersion of effort is relevant to management control. Can the CoP and his deputy effectively oversee twenty different activities in the finance sector alone, recognizing that they have task managers and advisers in intermediate roles? Would efforts in the DOF and DBM sectors have lagged for so long if management had had more time to work on the problems? While one cannot give a definitive answer, the CoP and the CTO should consider these issues very carefully for the remaining life of the project.

4. Performance Evaluation—Reforming the Trade and Investment Sectors

We define trade and investment sector reform tasks as all those within the elements in the Mission's IR 2, "making trade and investment policies more competitive and dynamic," except the one titled, "strengthening contingent liabilities policy." We also include all tasks within the two elements of IR 3, "improving economic governance," titled "competition policy established" and "corporation law reformed." To achieve these particular intermediate results, AGILE's staff have undertaken some two dozen reform tasks, each described initially in a SOW. The staff use satellite offices in the DOA, DTI, DOTC, NEDA, and NTC. They also work with the Bureau of Customs, the National Library, the Department of Tourism, and two private organizations, the Asia Foundation and the Foundation for Economic Freedom.

The Mission shows its second IR category as operating through some 15 elements. We view the AGILE reform program as more readily comprehensible when the tasks are categorized as those intended to

- Support the GOP's trade expansion program including its tariff reduction commitments;
- Revise policies, law, and regulations to increase investment in agriculture;
- Revise policies, law, and regulations to increase competition and efficiency in the use of public and private investment; and
- Strengthen NEDA's macroeconomic and investment planning capacity.

As when implementing financial sector reform, AGILE staff have been working through four stages in identifying, designing, and implementing reforms in trade and investment. They

- Do research, develop options, and propose policy changes;
- Draft legislation and implementing rules and regulations;
- Use advocacy vis-à-vis administrative departments, the Office of the President, the Congress, and/or the public to facilitate approval of the necessary legal changes; and
- Train people to implement changes required by the new policies or to improve the functioning of existing institutions.

Again, as in financial sector reform, some of the task managers, policy advisers, and other technical staff working on these areas are in more advanced stages than others. Only a few of the tasks have been completed, some are in abeyance; so evaluations must be based on different stages of formulation and implementation. We will base our evaluation on selected tasks using the following criteria:

- How well does a task fit the client's wishes?
- Is it an important priority for national economic welfare?

- Has AGILE intervention in the four stages cited above been effective in achieving the objectives?
- Has AGILE Mission staff managed well when choosing and implementing tasks?
- Has USAID managed well?

We will also apply these criteria more generally to the tasks on which we do not elaborate.

THE PROGRAM

Two themes run through the tasks undertaken in the trade and investment sectors: first, reduce barriers to the growth of imports and exports determined by comparative advantage and consistent with WTO obligations and, second, increase the amount and the productivity of domestic investment, public and private.

Supporting the GOP Trade Expansion and Tariff Reduction Programs

AGILE staff have undertaken tasks in a number of areas to support the GOP's trade expansion and tariff reduction programs. We find it convenient to group them in three sub-categories:

- Changing policies and practices to satisfy commitments to the WTO,
- Assisting implementation of GOP tariff-reduction and trade expansion commitments beyond those made to the WTO, and
- Preparing the Philippine positions for the Millennium Round.

Changing Policies and Practices to Satisfy Commitments to the WTO

By 1998, the GOP had fully satisfied all of its WTO obligations to reduce tariffs and, excepting rice, to replace quotas with tariffs. AGILE staff have provided extensive help directed at achieving WTO compliance in four areas: substituting a tariff for the quantity restriction on rice imports; changing the valuation system of the Bureau of Customs from pre-inspection to transaction value; protecting intellectual property with copyrights and growers' rights legislation; and attempting to assure WTO compliance in "anti-dumping," "countervailing duties," and "safeguards" legislation. United States Government policy strongly supports these reform initiatives.

AGILE staff have looked at possibilities for assisting in reorganizing the plant and animal quarantine system to meet international standards and protecting topical designs of integrated circuits. They may assist later.

Rice tariffs. AGILE staff are assisting the DA staff in drafting a bill that will replace the rice QR with tariffs, perhaps 100 percent initially on the quantity allowed under the present QR and a higher percent on additional quantities. AGILE staff will support the DA and the bill's authors in advocating passage.

Changing the BOC's valuation method. To help change the BOC's valuation system from pre-inspection to transactions value, AGILE staff arranged for seven BOC officials to travel to the United States in December 1998 to observe how the U.S. Customs Bureau applies the transactions value method to establish the taxable value of imports. AGILE also provided a six-person project

management team of technicians to help the BOC staff design appropriate legislation, IRRs, Bureau organization, and training to establish the use of transactions value as the basis for calculating tariffs.

The team has played a central role in each of these areas. Team members provided an information primer, advocacy, and other advice to House members leading to passage of a largely satisfactory House bill. Team members are now providing similar support for an even more satisfactory version of the bill in the Senate.

The team has trained over 800 assessment staff and is soon to train fraud investigators. Team staff have helped prepare IRRs that will implement the use of transactions valuation and have helped on a version that will work until the new legislation is passed. Team members have been helping prepare flow charts, write training manuals, assure computer operation adequacy, teach risk analysis to anticipate violation likelihood, and prepare BOC staff to carry out post-entry audits. The team is also assisting with the design and implementation of reorganization of the BOC as needed for the new system.

Protecting intellectual property. An AGILE consultant helped to design IRRs, consistent with WTO provisions, for copyright registration by and deposit in the National Library. They are implementing a public information plan to explain the new procedures.

The WTO requires members to protect invention or ownership of biological products by patent and/or by the *sui generis* (also called “growers’ rights”) system. AGILE staff arranged for officials from the legislature, the DOA, and the Philippine Seed Industry Association to tour the U.S. and Argentina, comparing experiences with patent protection and establishing growers’ rights, and hearing evidence that the enactment of plant variety protection would increase investment in plant breeding and in the number of high yielding varieties available to farm families.

The Chair of the House Agriculture Committee returned to argue that Filipinos need plant variety protection less to satisfy the WTO than to protect the scientific community and benefit farmers and the public. AGILE and DA staff helped draft the committee report on the Plant Variety Protection bill. AGILE staff are helping with advocacy and technical advice for both the House and Senate versions, and passage appears likely for a bill protecting growers’ rights and consistent with the requirements of the international Union for the Protection of New Plant Varieties.

Making trade remedies WTO-compliant. Because of commitments to generate Congressional support for WTO membership in 1994, the GOP obligated itself to provide

- Duties to be applied if producers “dump” products in the Philippines at abnormally low prices;
- Countervailing duties to protect domestic producers from subsidized imports; and
- Special safeguards of domestic producers against surges in imports of particular products.

AGILE staff undertook tasks attempting to ensure that each of the Filipino laws would meet its intended objectives without violating WTO specifics about what provisions are permissible in each of these kinds of legislation. Of the law authorizing antidumping actions, AGILE and DA staff succeeded in removing objectionable provisions in both House and Senate bills. But the bicameral reconciliation committee inserted several provisions violating WTO rules, one of which makes importers criminally liable for importing “dumped” goods; and the President recently signed that version.

AGILE and DA staff successfully intervened with language proposals which were accepted when the Senate bill authorizing countervailing duties would otherwise have violated WTO provisions. The President recently signed a WTO-consistent bill.

Of the proposed law to authorize safeguard actions, the House proposal violates WTO requirements and invites litigation and trade disruption. AGILE staff are advocating changes to satisfy WTO provisions.

AGILE staff have drafted IRRs for both the antidumping and countervailing duty laws. They are to draft IRRs for the safeguard legislation as soon as its character becomes clear.

In one other area with international rules, AGILE staff are to draw on U.S. and Australian experience to help DA staff reorganize their health inspection and regulation systems in order to expedite rather than delay trade. AGILE staff may help with legislation and IRRs to harmonize local sanitary and phytosanitary regulatory practices with international standards.

Assisting implementation of GOP trade-reduction and trade expansion commitments beyond those made to the WTO

The previous Presidential administration committed itself to reaching tariff ceilings of 5 percent on industrial and nonsensitive agricultural goods by 2005. This Administration has asserted its acceptance of that target and has accelerated its Asian Free Trade Area tariff-reduction goals from 2005 to 2004 and, in some cases, to 2003. AGILE's counterparts in DTI and NEDA want also to remove barriers to increased exports in services and to expanding e-commerce.

As AGILE began, opposition to further tariff cuts was growing in many industry associations. Given the wishes of the DTI, NEDA, and DA counterparts to implement the GOP's Tariff Reduction Program (TRP), AGILE staff took on, simultaneously, defense of recent trade liberalization measures and support for further reductions in trade restrictions. AGILE staff have prepared a series of analytical papers designed to help the staff of the NETA and DTI in drafting the EO that may be issued this year with a tariff reduction schedule that will proceed in steps through 2002 and 2003, to the uniform 5 percent by 2005.

AGILE has produced several papers examining the generally favorable effects of tariff reductions and of WTO membership. AGILE staff have been collecting information on tariff setting in other countries, and they are providing technical analysis to NEDA and DTI to support further rationalization of the tariff system.

The counterparts have asked AGILE staff to gather information on barriers to the expansion of e-commerce and trade in services and on means to lessen those barriers. But a dispute over the allowable salary for the preferred technical expert has held up start of the task.

Preparing the Philippine Positions for the Millennium Round

AGILE staff have pursued tasks helping their counterparts to prepare positions for the Seattle WTO meetings and for the Millennium Round of trade negotiations. The AGILE team managed the DTI's National Consultations for the Next Round of WTO Negotiations in Agriculture held in each of five regions in preparation for the Seattle meetings.

AGILE staff will provide advice on dealing with changes in labor standards and what to do to prepare for the end of the Multifiber Agreement. The forthcoming AGILE examination of the size of

current trade in services and of barriers to its growth should be directly applicable to these preparations for the future.

The AGILE CoP testified at hearings of the Senate Committee on Agriculture on Millennium Round preparations. The GOP took the remarkable step of appointing the AGILE CoP to its delegation to the Seattle talks intended to open the Millennium Round. During the Seattle meetings, GOP officials drew directly from AGILE papers in their presentations. The CoP remains involved in GOP design of its positions for this round.

Revising Policies, Laws, and Regulations to Increase Investment in Agriculture

AGILE staff have been extensively involved in designing alternatives for restructuring the National Food Authority (NFA) and in initiatives to commercialize the use of genetically modified organisms. The staff is preparing SOWs to assess the impact of the Comprehensive Agrarian Reform Program, and to design a targeted food assistance program that does not depress price incentives.

Preliminary to possible privatization of the NFA, AGILE financed an assessment of the market value of the NFA's fixed assets. AGILE staff have helped identify means to separate the NFA's regulatory and food-security commercial functions. Separation and privatization are conditions precedent to an ADB loan titled "Grain Sector Development Program" (GSDP).

AGILE staff are assisting with advocacy for, and the technical content of, legislation that would decouple the two NFA functions.

The delegation that AGILE helped send to the U.S. and Argentina in December 1998 to study protection of plant variety, looked also at U.S. and Argentinean experience with transgenic plants. AGILE staff are supporting a public information campaign, using a South African technical expert, to reduce fears and opposition to the planting, use, and importation of transgenic agricultural seeds and products. This effort will try to prevent the passage of restrictive legislation. AGILE staff are also assisting the DA in writing guidelines for the use and marketing of biotechnology products.

Last year, a Senator introduced a bill to outlaw transgenic seeds and plants. AGILE staff persuaded him to drop his support for the bill. But the Senate Committee on Natural Resources and the Environment has been holding hearings on the banning proposal. AGILE's CoP testified in strong opposition and offered in justification the recent statement of the Nobel laureates and several hundred scientists that transgenic foods are as safe as the foods humans have eaten for millennia.

AGILE is to provide a team led by an agricultural economist with extensive experience in land reform to assess, in 2000, the effects of the Comprehensive Agrarian Reform Program (CARP) on productivity, investment, farm incomes, and land values. The hypothesis is that, at a minimum, CARP has depressed investment on farms that might be subject to division.

The NFA has been subsidizing food sales in a way that AGILE staff research has indicated leaks largely away from the poor while raising rice prices generally to consumers even as it reduces prices received by farm families and so discourages them from investing. AGILE staff are to study the design possibilities for a program that would target food subsidies to the poor directly or through a food-for-work program with the total cost to the GOP below 50 million pesos. Work has been delayed because the DA has pressed for a consultant who costs too much for DAI to approve.

Revising Policies, Laws, and Regulations to Increase Competition and Investment in the Use of Public and Private Investment

AGILE will soon provide a Presidential Adviser on Flagship Projects who will assist in evaluating, deciding approvals, and monitoring implementation of GOP infrastructure projects. The adviser is also to advise NEDA and the DBM on means to improve public investment projects and GOP procurement.

AGILE staff are providing technical assistance to the National Telecommunications Commission and to the DOTC on policy and regulations. AGILE's initiatives in these areas followed appointment of all new members of the NTC in December 1998. The new members committed themselves to reform and invited AGILE to provide the technical expertise required. While these reforms were on the IR 2 agenda, nothing could be done until these new members took office.

In support of the DOTC policy seeking "universal access" to telephones for all Filipinos, AGILE staff have collected data indicating the availability, reliability, and affordability of telecommunications service in 1998. The DOTC wants AGILE's help in devising means to move toward universal access. AGILE staff are assisting in the drafting and advocacy for legislation supporting convergence among companies in the equipment they use.

Respecting regulation, AGILE advisers have provided a standard chart of accounts that the NTC will require all telecommunications to use so NTC decisions will be based on comparable accounting data from the companies. The AGILE team has also assisted the NTC staff in writing IRRs intended to compel complete interconnection among telecommunications suppliers.

Lastly, the AGILE advisers are overseeing implementation of the interconnection IRRs and will help establish the new accounting regime, a new wholesale pricing regime, and a new retail pricing regime.

With the Department of Tourism as counterpart, AGILE staff supported creation and growth of the Freedom to Fly Coalition to the end of expanding or at least preventing reduction in competition among airlines flying international routes to and from Manila. Nevertheless, competition on flights between Manila and Taipei has been reduced and has not increased anywhere else.

AGILE technicians are now assessing means to facilitate the privatization and restructuring of the National Power Corporation.

AGILE made a grant to the Asia Foundation to marshal public opposition to a Philippine Port Authority (PPA) plan to award to a single company without bidding a contract to manage North Harbor. AGILE commissioned a study that concluded that the port's traffic justified two companies competing in its management. The PPA commissioned a study that concluded that the port's traffic is insufficient to support two management companies without wasteful duplication. The PPA has in the past acted to protect management from competition rather than to protect the public from monopoly power raising prices and eroding quality of service. The outcome is moot. But AGILE and Foundation activities may contribute to an outcome in which a second company is permitted to bid with both bidders' offering terms made public, and the Port Authority may now be compelled to use bidding procedures consistent with those of the BOT program.

AGILE granted funds to the private Foundation for Economic Freedom, and AGILE worked with the Foundation to marshal support for legislation to open retail trade to competition from firms owned by foreigners. The bill now awaits Presidential signature. It will allow a wholly foreign owned

company to enter retail trade only with a capitalization of over \$7.5 million U.S. but will require it to sell at least 20 percent of its shares on the PSE within seven years (meaning, presumably, incorporation of a separate affiliate in the Philippines). The law also requires that Philippine products should constitute 20 percent of the inventories of such firms. When the law is passed, AGILE staff will work with the Foundation to draft IRRs.

Strengthening NEDA's Macroeconomic and Investment Planning Capacity

AGILE has provided technical consultants who are helping NEDA to update and elaborate their econometric model to “more accurately incorporate structural changes taking place in the Philippine economy” and to be able to assess the effects of particular policy changes on income distribution as well as on all other areas of the economy. The consultants are also training NEDA staff to operate the expanded model. In response to requests from NEDA, AGILE consultants have also been providing technical and legal memoranda on particular macroeconomic, sector, and legislative issues.

EVALUATION

As in our evaluation of financial markets, we shall apply four of our five criteria—client priorities, national economic priorities, AGILE effectiveness in reaching objectives, and AGILE management—to selected activities in each of the four categories under trade and investment.

Responsiveness to Client Priorities

Again, as in the financial sector, AGILE's activities have been undertaken in nearly every one of the areas specified under the relevant IRs of SO2 while responding in every case to GOP or private counterparts committed to achieving the Mission's objectives. But many counterparts, when interviewed, expressed regret that AGILE's CoP and/or CTO had been unwilling to undertake other tasks. We conclude that AGILE could be doing more, within the terms of SO2, if USAID would devote more resources to it.

The tasks under “satisfying commitments to the WTO” were sought by both GOP and U.S. high-level policy. A caveat is that the three “trade remedy laws” are not themselves WTO requirements; but once begun, the designers are supposed to comply with relevant WTO restrictions.

All the other trade tasks respond to GOP policy initiatives. Acknowledging the push from the ADB, the tasks undertaken to increase investment and competition in agriculture respond to GOP officials' needs. The Flagships and telecommunications tasks also respond to GOP officials' wishes.

The tasks directed at increasing competition in airline travel, port management, and retailing were intended to induce GOP officials to change their behavior. But these tasks were welcomed by the public groups that received AGILE money and/or with which AGILE worked; and they represented the Mission staff's perceptions of the wishes of the majority of the interested Filipino public. The airline competition initiative was unusual in that it placed the Department of Tourism, on behalf of the public, in opposition to the Civil Air Administration and the President.

Although AGILE's CoP and/or CTO turned down a number of requests from NEDA's management, the help they have received respecting their model, staff training, and analysis seems to have been just what they have requested.

National Economic Priorities

AGILE has conformed to the Mission's perception of national priorities as defined in its SO2. An omission from the agendas of AGILE and the Mission (except through NFA reform) is the GOP attachment to corn and sugar tariff levels that burden the fruit and vegetable processing industry and pork and poultry farmers. If these tariff levels are invulnerable, the GOP might do more to provide supportive infrastructure and services. The absence of AGILE from these areas may indicate the absence of supportive GOP counterparts. But given the potential benefits to the consumers of sugar, of all the products processed with sugar, and of pork and poultry, AGILE might have found private groups comparable to those found for retailing, port management, and airlines initiatives to organize public pressure in support of increased investment in agricultural infrastructure.

AGILE's Effectiveness

As in our evaluation of financial tasks, we measure effectiveness by the following criteria:

- Organizational design
- Fielding the right personnel
- Quality of outcomes.

Organizational Design

In the Request for Proposals (RFP) for AGILE, its designers authorized contractor work anywhere in a nearly exhaustive list of economic policy areas. In addition to the guidance of the Mission's SO2, the RFP specifically instructed the contractor to help remove barriers to telecommunications competition, to help implement GOP commitments to the WTO, and to look for tasks in capital market development and where indicated by Mission priorities and PhilExport and NEDA staff suggestions, and to consider other barriers to competition and means to increase private investment in infrastructure. Mostly involving trade and investment, these injunctions left the contractors responsible for finding counterparts who would commit to the many IOs of SO2 and for designing and implementing appropriate SOWs.

One of the first and most important decisions was to hire as CoP a Filipino with a priority Policy Adviser specialty, with a very solid local reputation among GOP officials, and with extraordinary commitment to finding ways to effect policy change. Another important contractors' decision was to put satellite offices and AGILE policy advisers and task managers and technicians in buildings with their counterparts. This arrangement allows counterparts to propose tasks orally or on two pages and to have the task manager supply written elaboration within a few days and to have "yes" or "no" decisions by the CoP and CTO in a few days or, at worst, a few weeks. Many counterparts to trade and investment tasks emphasized their surprise and appreciation that AGILE staff responded so much more quickly than could previous USAID programs, other bilateral donors, the United Nations, or the international financial institutions.

This scheme should be considered for imitation when this Mission considers other policy reform initiatives. Other USAID Missions should consider the possibility of adopting this scheme for policy reform initiatives in their countries.

Fielding the Right Personnel

We must judge the contractors' performance fielding personnel on three criteria: promptness, counterparts' opinions, and task outcomes. But with outcomes, the character of barriers must be recognized when shortfalls occur.

As to promptness, AGILE's design predicated prompt staffing responses to counterpart requests. For the most part, the contractors have been prompt in responding to personnel requests on trade and investment tasks. As Trade and Agricultural Adviser, the CoP has been on hand from the contract's first day; and most other requests have been met quickly because so many of the relevant technicians have been Filipino technicians living here.

AGILE's system of offering three candidates for each position and inviting counterpart selection has contributed to the high level of satisfaction expressed by all the trade and investment counterparts regarding AGILE personnel. Staffing delays that have caused counterpart complaints were due to DAI or CTO objection to proposed salaries. That problem we judge inherent in the process and, while sometimes aggravating to the counterparts, not excessive.

As in the financial sector, we have had to rely on client reports on the technical capacity, ability to train, and skill in advocacy of AGILE personnel. AGILE's counterparts in the trade and investment sectors were fully satisfied with the technical capabilities, training, and advocacy skills of AGILE's staff. Praise was especially strong for the CoP and for all the policy advisers and task managers. In at least one area, writing the IRRs for copyright enforcement, the counterpart appreciated help from the U.S. Embassy staff that assured compliance with U.S. and international standards for copyright protection.

All the counterparts expressed unreserved satisfaction with the ongoing training programs in the BOC, the NTC, and NEDA.

The clients all reported favorably on the advocacy skills of AGILE staff dealing with legislation involving the BOC, protection for intellectual property, the three varieties of trade remedies, NFA changes, transgenic commercialization, telecommunications, and retailing—among which AGILE's advocates have enjoyed differing degrees of success so far. Of special note, most of the work of legislative (and supporting public) advocacy lies ahead. So judgments on advocacy skills are only partially in.

Quality of Outcomes

In most tasks, AGILE staff and counterpart staff work through a sequence of assessment to decide what is to be done, draft EOs or legislation including amendments, advocate passage, draft IRRs, and train staff to implement them. So the process is usually lengthy and outcomes are reached in a series.

AGILE staff are committed to helping draft the legislation that will convert the QR on rice imports into a tariff. Because of GOP commitments, eventual passage seems certain. The AGILE technical team placed in the BOC to assist transition to transaction-based valuation was "absolutely essential" according to the BOC counterpart. Some years ago, the BOC committed itself to changing to transaction-based valuation and contracted with the Societe Generale de Surveillance to initiate the change, but nothing much happened. Now, the AGILE team's participation appears to have provided an outcome that is well designed, well understood, and well operated.

Although GOP departments and bureaus can go directly to the Congress with legislative proposals, they often fail to follow up with the technical and advocacy efforts that get legislation passed in the form the GOP agency wants. The AGILE staff is in many cases, and the BOC case is one of them, filling this gap. AGILE staff are providing, day by day, the kind of technical and advocacy support essential if legislative outcomes are to be satisfactory.

An AGILE consultant helped draft an initial version of the IRRs for copyright protection. This draft then provided the basis and the opportunity for the U.S. Embassy representative to assist in ways that produced IRRs fully satisfactory to GOP counterparts and to U.S. interests.

AGILE arrangement of the U.S. and Argentina tour by GOP and AGILE staff assistance with legislative design and advocacy seem to have been and to be very helpful in moving the legislature to establish *sui generis* growers' rights that meet WTO requirements. AGILE staff assistance seems to have kept countervailing duty legislation from violating WTO provisions and to have reduced the violations in the antidumping law. AGILE staff efforts may yet produce safeguards legislation consistent with WTO rules. We want to avoid *post hoc ergo propter hoc* interpretations of the role of the AGILE staff in influencing legislation, but have received many emphatic reports from the counterparts that the AGILE staff have been responsible for initial legislative language, for preventing undesirable amendments, and for moving legislation forward.

Among the larger ASEAN nations, the GOP is now a leader in trade liberalization, especially in reducing tariffs on agricultural inputs. The GOP has committed itself to further reductions in trade barriers. But protected industries also appear strong enough to be able to obtain exceptions from, and/or delays in, tariff reductions. AGILE papers have marshaled evidence that WTO membership and 1990s trade liberalization have, net, benefited Filipinos, and these can help GOP officials to move farther than they would otherwise. AGILE staff appear to be doing all they can to move trade liberalization forward, but actual outcomes may fall short of Mission hopes.

On the other hand, though politics will influence GOP decisions about its agenda for the Millennium Round, the technical complexities of the subjects of that round have made senior GOP officials so appreciative of the CoP's expertise and style that they appointed him to the GOP delegation to the Seattle talks. GOP use of AGILE management to arrange the five pre-Seattle regional public "National Consultations" brought other AGILE technicians deeper into policy decision making.

AGILE staff initiatives to facilitate the growth of the service trade and electronic commerce may play a central role in building support in the Philippines for policies that will eventually reduce barriers to international trade in services. But it is too early to tell about this task.

Respecting revision of policies, laws, and regulations to increase investment in agriculture, AGILE's deep involvement is with restructuring and privatizing the NFA and removing and forestalling barriers to and providing rules for researching, importing, marketing, and using transgenic plants. The ADB has pushed restructuring and privatizing the NFA and has offered technical assistance (TA)—but only *after* signature of its proffered GSDP loan. Since NFA reform initiatives are preconditions to loan signature, AGILE's valuation of assets and examination of how to restructure are critical in keeping this reform on track.

A Presidential comment opposing NFA privatization caused last-hour cancellation of planned authorization of the ASDP loan by the ADB Board. But the ADB staff are confident that that barrier will be removed in order for the GOP to receive the \$150 million loan the ADB offers. Absent

AGILE, the GOP might muddle through. But AGILE alone provided the technical assistance needed to qualify for the ADB loan, and AGILE's advocacy and technical support seem likely to make a difference in getting legislative authorization for NFA reforms.

In their efforts to commercialize transgenic seeds and plants, AGILE staff are up against a host of organizations dedicated to inspiring fear and loathing of these innovations. The fear-mongers are active in the Philippines and are sure to increase their efforts to prevent the reforms AGILE seeks. Since this issue is likely to be fought, to a significant degree, in the press as well as in the legislature, we see the two-pronged AGILE effort in the legislature and in public education as appropriate. It seems to us to be well staffed.

Respecting revisions of policies, laws, and regulations to increase competition and investment in the use of public and private investment, AGILE is doing most seeking reforms in telecommunications, international airline competition, port management, and retail trade. The AGILE technical team directing telecommunications reform, blessed by strong support from the NTC and the DOTC's Undersecretary for Communications, appears to be extremely successful so far and with the prospect of further success in effecting the changes in policies, accounting, laws and IRRs that they have sought.

They have been helped by changes in ownership of the competing companies and by the companies' interest in getting access to a range of telecommunications areas. These developments have reduced opposition (not entirely) to proposed legal and regulatory changes and will help with support for enforcement.

In contrast to the relatively benign role of the vested interests in telecommunications reform, the vested interests of port management, international air carriers, and retailing have given AGILE's efforts in these areas a futile quality. In all three areas, AGILE leaders have been innovative and successful in marshalling public support for reform. These activities may in the long run lead to more successful initiatives from the general public to achieve reforms in the public interest. But so far, AGILE's efforts have not achieved much beyond preventing retrogression in policy and practice.

Finally, to strengthen NEDA's macroeconomic and investment-planning capacity, we reach the one area where no legislation is required and no special interest groups must be overcome. So evaluation pertains only to quality. The technical experts, all Filipino, AGILE has provided seem to be of high quality and entirely successful in elaborating the NEDA econometric model to satisfy the requests of NEDA officials. Staff responses to the variety of technical requests have satisfied NEDA's officers. The latter have complained only that a number of their requests for AGILE assistance, more than in any other agency, have been turned down.

Project Management of Resources

We observed no waste or duplication in the use of AGILE resources. In several cases, prospects are not good for achieving task objectives. The value of AGILE's initiatives on port management and air travel remains to be seen. The retail trade law seems small incentive for change, but perhaps AGILE help with the IRRs can improve those incentives. Time will tell if the European firms that had expressed interest in market entry if GOP conditions were reduced will now enter the market. In the end, the best that may result from these efforts will be that they will have prevented or at least reduced policy backsliding. The Mission's resource management is taken up in the next chapter

5. Conclusions

A COMPARISON OF AGILE'S ORGANIZATION WITH TRADITIONAL TECHNICAL ASSISTANCE PROJECTS

The unique characteristic of AGILE's organization, compared with the technical assistance format that USAID normally uses, is its ability to bundle many different, if related, tasks under the same contract and contractors. By obligating a block of funds with a general sectoral mandate, this technique offers the following advantages:

- Each specific task does not have to be spelled out before the contract is signed.
- Planning and recruiting can be expedited without revisiting the contract process each time.
- Money can be transferred from tasks that turn out not to be promising to those that offer better returns.
- USAID's managerial duties are reduced.
- USAID's political profile may be reduced by raising that of the contractor.

The disadvantage of this technique is the flip side of the same coin: because the budgetary restraint is loose in the early stages of the project, the criteria for choosing tasks may be a little too loose. This leads to proliferation that dilutes resources and makes overall management by the contractor and by USAID more difficult. Thus, in reviewing AGILE's performance in the next section the issue is how to preserve the flexibility of this organizational approach without losing focus.

EVALUATING OVERALL AGILE PERFORMANCE

The evaluation criteria listed in Chapters 3 and 4 were as follows:

- How well does a task fit the client's wishes?
- Is it an important priority for national economic welfare?
- Has AGILE intervention been effective in achieving objectives?
- Has AGILE staff managed staff and resources?
- Has USAID managed well?

The fifth criterion—USAID's management of AGILE—is discussed in the following section.

It is clear from the discussion in Chapters 3 and 4 that this project meets, in general, client priorities, while, at the same time, reflecting USAID's reform agenda. The tasks are part of an agenda that USAID and the Philippine authorities have held in common since the Aquino presidency or they are new proposals that one Philippine agency or another has put forward. But given that origin, there is no central theme or inner connection that binds the activities together except that they are supposed to represent some aspect of economic reform. Being a client priority is obviously an advantage because it ensures a commitment on his part to work with AGILE towards a common goal. But, in a

few cases, the priority may be that of top management, not of subordinate institutions or of members of the requesting body. Obvious examples are the BIR's very reluctant acceptance of DOF's commitment to reform or the resistance many stockbrokers are waging to prevent the reform of the SEC and PSE.

A national priority for economic policymaking compares a client's request for a task with the long-term reform agenda that is the product of both Philippine and foreign donor study and experience. For example, in the trade sector, the most important issue is reducing effective protection. AGILE is spending most of its time helping fulfill the Philippine's commitment to WTO, which while important, will not, by itself, further reduce protection. The bound tariff levels have been either set above current levels and sensitive sectors have been exempted. In agriculture, where production has been hindered by excessive protection of high price corn and rice, the highest priority would appear to be to devise a plan to increase productivity while reducing protection. But in this department, the highest priority is reorganization of the National Food Authority, which, while a step in the right direction and shared as an objective by the ADB, may divert attention from the main goal. We conclude that national economic priorities may or may not be served by a demand-driven project. This suggests a need for more focused criteria in choosing tasks.

AGILE has proven highly effective in a number of areas but less so in others. Satellite offices in all of the principal agencies receiving assistance have been very efficient in delivering services. Physical proximity has improved working relationships and greatly improved the implementation of technical assistance objectives compared with the more traditional arms-length arrangement. Personnel in place not only have good credentials and experience, but have gone past the diagnostic function and implementation/training to an unusual feature—public advocacy. Their work with Congress—explaining rationales and doing back-up technical staff work—and, in some cases, with interested public associations—has been essential because so many tasks require new legislation. According to client testimony, personnel output has been timely and competent .

Management skill is tested by its choice of tasks and its response to difficult situations. As stated earlier, tasks have proliferated. In part, this proliferation may be a negative consequence of satellite offices and good working relationships. Second, progress in different parts of the AGILE project has been very uneven but there is little evidence that central management has stepped in to make adjustments. One example is the DOF, the senior agency for the project. The first senior policy adviser proved to be unsuitable and the second left unexpectedly. The present incumbent has been there for a month and seems to be doing well. But the fact remains that very little was done in this department for the first twenty months. No attempt was made to recruit locally for at least temporary replacements or to assign some tasks directly to local consultants while waiting for a permanent replacement. The managers of this project are good but overburdened.

USAID'S MANAGEMENT OF AGILE

Although the management of operations is left to the AGILE staff, the USAID project manager must approve every SOW and every person hired. In addition, he oversees activity through frequent staff meetings, informal contacts, and budget information. The interesting difference of AGILE from most USAID projects was the absence of a budgetary restraint in its first phase, which is now ending. Apparently, the contractor was urged to get organized and develop a good-sized portfolio of tasks as

quickly as possible. As we have seen, the contractor performed very well in that area. At this point, \$15 million has been obligated and about \$9 million has been spent. The project management estimates that, if every task is executed as planned and overhead expenses are added, an overall budget of \$25 million will be required, or \$10 million more than is currently obligated.

The point here is not that a financial crisis is looming—presumably USAID can come up with the appropriation—but rather that midway in the project’s life there is no programming flexibility left unless some planned but pending tasks are eliminated or cut back. This is an undesirable position because some tasks may require additional resources if the initial effort is to be carried successfully. To take resources away from other agencies causes ill will, unless cooperation with AGILE was already perfunctory or counterpart leadership has changed for the worse.

We summarize our conclusions as follows:

1. AGILE is satisfying USAID’s policy agenda while addressing client priorities in a broad area of economic reforms.
2. Its organizational features of bundling many activities and providing flexibility to the contractors has proven very efficient.
3. Its system of satellite offices is very effective in facilitating the design and implementation of reform.
4. AGILE staff have cooperated effectively with the World Bank, ADB, and CIDA in designing the technical assistance framework and, in some cases, using the satellite offices to manage their contribution.
5. It has implemented well-designed SOWs in a number of tasks in its first phase.
6. The large percentage of Filipinos among its hires has contributed to project success.
7. It has successfully made public advocacy part of the technical assistance program; the ultimate success of parts of the project depends on the Philippine Congress’s willingness to accept its legislative program.
8. The project’s drawback, which may come about as a result of its very good client relationships and the wide-ranging, ambitious goals of SO2, is its rapid increase in tasks.
9. This situation has hindered management from acting as quickly as necessary to meet unexpected problems and delayed the redistribution of resources from tasks that are stalling to others that show more promise.
10. The forty-month life of project, instead of three years renewable for five years, compelled early funding commitments and threatens termination before the many analysis-legislateion-IRRs-training-implementation process can be completed.

6. Recommendations

AGILE has developed an effective formula for delivering technical assistance but has suffered some management teething problems on its first experimental run. We, therefore, make the following recommendations:

1. The characteristics of the AGILE model—bundling many activities under one budget, simplifying resource reallocation, and using satellite offices—should be considered a model for other Philippine technical assistance projects.
2. The model may be applicable, appropriately modified, to other Missions in other countries (see Chapter 7 for cautions).
3. AGILE should review tasks that have not begun, or that can be modified without serious damage, to determine whether reprogramming is possible and desirable in order to allow concentration on high priority tasks and to reduce the burden on management.
4. To prevent the multiplication of tasks in future projects, designers should consider the following alternate set of guidelines:
 - a. Limiting the total number of tasks
 - b. Annual tranching of budget allocations to the contractor
 - c. Rejecting tasks that are not related to important national economic policy objectives
 - d. Rejecting tasks where the implementing administration is weak and/or corrupt, or where vested interests are perceived to be too powerful to overcome.
5. Other reform project designers should, if possible, plan for five year programs.

7. Applicability of the AGILE Formula to Other Projects

AGILE shows a range of success and potential success. USAID staff designing other policy reform projects in the Philippines or in other countries may benefit from considering the circumstances of this initiative in policy reform. The AGILE model may not fit or even adapt to some other countries' circumstances.

AGILE's distinctive characteristics are

- Flexibility of design, which gave contractors choice of tasks, ease in revising tasks, and ease in transferring funds and personnel from stymied reform tasks to more promising reforms;
- The decentralization that evolved during the first six months as policy advisers and task managers opened satellite offices next to counterparts;
- The selection of a Filipino CoP and of a very large portion of Filipinos among the other people hired, at all levels, to design and implement the projects' multiple reform tasks; and
- The deep involvement of AGILE staff in the legislative process and, less obviously, in designing EOs and IRRs.

The distinctive characteristics of Philippine democracy, government organization, and stage of development are as follows:

- Each GOP department, bureau, and commission operates its own mission as defined by law and most are able to go directly to the legislature without approval from the President's office.
- Each agency has a nucleus of trained people with whom AGILE staff have been able to establish collegial working relationships.
- The legislature is independent of the executive.
- Many GOP officials share USAID views on the essential character and importance of policy reforms.
- Filipinos have technical expertise and experience in many of the areas USAID would reform, and the contractors were allowed salary rates (though many hires required salary waivers) at which Filipino expertise could be hired.
- Philippine sensitivity to U.S. influence is low enough so that, even when AGILE task efforts have opposed powerful political and economic interests, no one, so far, has accused AGILE technicians and managers of being intrusive agents of the United States.

These six characteristics may apply to any policy reform project considered for the Philippines. Many will not apply in other countries.

The decentralization system is working because the policy advisers, task managers, and other AGILE hires have offices adjacent to their counterparts' offices. Working inside the agencies,

AGILE staff are perceived accurately, both inside and outside such agencies, as representing the wishes of the agencies' senior officials. AGILE staff acquire that image in large part because they sit near and work directly with that nucleus of trained counterparts so they can design and implement tasks to fit both the circumstances of that agency and the goals of the Mission's SA2. Without a number of trained people in the agencies or without office space, such satellite offices could not be established.

Absent a legislature with power, contractors would have to find other ways to determine where policy reform decisions would be made and how to influence them.

If contractors are unable to find and hire many local people with technical skills and experience, USAID policy reformers cannot hope to operate with a low profile and must do without the multiple personal connections that AGILE's Filipino staff have with their technical and managerial counterparts in the GOP. If sensitivity to U.S. influence is high, even the use of local nationals might encounter local objections, on principle, to accepting U.S. contractors' policy prescriptions.

Finally, absent many officials sympathetic to USAID concepts of reform and absent large sums of conditionable money, USAID is limited to education and advocacy, in which case funding graduate education abroad may be the only means to achieve, in the long run, genuine broad policy reform.

Appendix A

PERSONS INTERVIEWED

Abuel, Janet	Director, DBM (a special assistant to Secretary Diokno)
Alcantara, Jose F.	VP, Business. Development .and Information, PSE
Amerling, Carl	Senior project economist (agriculture) ADB
Anigan, Gerardo R.	Project manager, PHILEXPORT
Babb, Suzanne	Manager/administrator, AGILE
Bacungan-Rivera, Eleanor C.	AGILE financial markets task manager, SEC
Benedictos, Angelo	Asst. Chief, Multi. and Reg. Arrang. DTI
Breece. Terry A.	Counselor for Economic Affairs, U.S. Embassy
Buckles, Patricia K.	Director, USAID, Manila
Buencamino, Antonio	Act. Assist. Sec., Bureau of Inter.Trade Rel., DTI
Calabia, Teresina P.	AGILE task manager, DOA
Casiguran, Rosalinda	Associate Commissioner, SEC
Casino, Manuel P.	Legal consultant, AGILE, NTC
Cataylo de Dios, Loreli	Trade policy task manager, DTI
Clarete, Dr. Ramon L.	CoP, AGILE, Trade and agriculture policy adviser
Davenport, Robert	AGILE short term consultant, securities enforcement, SEC
Fabre, Raymund C.	AGILE macroeconomic policy task manager, NEDA
Faustino, Jaime M.	AGILE investment adviser
Fitzpatrick, Daniel J.	AGILE adviser, bankruptcy law and proceedings, SEC
Galema, Francisco	AGILE telecoms policy task manager, DOTC
Garchitorea, Gilbert	AGILE macrofinancial policy task manger, DOF
Garner, K.C.	AGILE telecom adviser, NTC
Gaticales, Alex	Vice chair, Tech. WG, Valuation Impl. Group, BOC
Gregorash, George	AGILE bank training and bank policy adviser, BSP
Kertzman, Debra J.	AGILE securities adviser, SEC
Lightle, Jack	AGILE telecoms adviser, NTC
Manasan, Dr. Rosario	AGILE public finance expert, (local government finance)
Manzo, Percy H.	Chief, Eco. Policy anal. Division, DOA
Marges, Hans	AGILE macrofinancial policy adviser, DOF
Mendoza, Adoracion B.	Director, National Library
Okolicsanji, Karoly	USAID financial markets policy adviser
Paul, Jeremias	Asst. Secretary, Inter. Finance Group, DOF
Ramos, Edmundo	AGILE telecoms regulations task associate, NTC
Rubio, Amy	Chief, telecoms policy division, DTC
Santiago, Joseph	Commissioner, NTC
Shenk, Joseph	Financial markets adviser, SEC and PSE
Taningco, Maria	AGILE fiscal policy task manager, DBM
Tardif-Douglin, David	AGILE's managing director
Templo, Ofelia	Asst. DG, projects, NEDA
Velayo, Carlos L.	Chief operating officer, SCCP
Yasay, Perfecto	Chairman, SEC
Yuviengco, Dolores	Director, bank examinations, BSP
Zingapan, Soccoro	Director, nat. plan. and pol. staff, NEDA

Appendix B

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