THE REVISED AGILE LIFE OF CONTRACT WORK PLAN:

CONFRONTING POLICY REFORM CHALLENGES FOR THE 21st CENTURY

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AGILE

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ABBREVIATIONS AND ACRONYMS

AAMO	-	AGILE Activity Management Office
ADB	-	Asian Development Bank
AFTA	-	ASEAN Free Trade Agreement
AGILE	-	Accelerating Growth Investment and Liberalization with Equity
APEC	-	Asia Pacific Economic Cooperation
ASEAN	-	Association of Southeast Asian Nations
ASEAN-CEPT	-	ASEAN Common Effective Preferential Tariff
ASAP	-	Agribusiness System Assistance Program
BSP	-	Bangko Sentral ng Pilipinas
BOC	-	Bureau of Customs
BIR	-	Bureau of Internal Revenue
BOT	-	Built-Operate-Transfer
BIR	-	Bureau of Internal Revenue
CIBI	-	Credit Information Bureau, Inc.
CIBI	-	Credit Information Bureau, Inc.
CMDI	-	Capital Markets Development Center, Inc.
COP	-	Chief of Party
CPIP	-	Credit Policy Improvement Program
CTRP	-	Comprehensive Tax Reform Program
CVAI	-	Cesar Virata and Associates, Inc.
DAI	-	Development Alternatives, Inc.
DOF	-	Department of Finance
DTI	-	Department of Trade and Industry
EO	-	Executive Order
FIA	-	Foreign Investment Act
FIES	-	Family Income and Expenditure Survey
GATT	-	General Agreement on Tariffs and Trade
GDP	-	Gross Domestic Product
GDFK	-	Gross Domestic Capital Formation
GNP	-	Gross National Product
GOP	-	Government of the Philippines
GOCCs	-	Goverment's Owned and Controlled Corporations
HIID	-	Harvard Institute for International Development
IMF	-	International Monetary Fund
IRR	-	Implementing Rules and Regulations
LOC	-	Life-of-Contract
LEC	-	Local Exchange Center
MW	-	Megawattts
MERALCO	-	Manila Electric Company
MTPDP	-	Medium Term Philippine Development Plan
NAPOCOR	-	National Power Corporation
NGOs	-	National Government Organizations
NEDA	-	National Economic and Development Authority
NEA	-	National Electrification Administration
NFA	-	National Food Authority
NRMP	-	Natural Resources Management Program

OECD	-	Organization for Economic Cooperation and Development
OCWs	-	Overseas Contract Workers
PM	-	Person Month
PES	-	Philippine Economic Society
PHP	-	Philippine Pesos
Philfoodex	-	Philippine Food Exporters
PHP	-	Philippine Pesos
PPA	-	Philippine Ports Authority
RA	-	Republic Act
ROI	-	Return of Investment
SAF	-	Special Activities Fund
SEC	-	Securities and Exchange Commission
SRO	-	Self-Regulatory Organization
SONA	-	State-of-the-Nation Address
SO2	-	Strategic Objectives 2
SOWs	-	Scopes of Work
TAMIS	-	Technical and Administrative Management Information System
TMU	-	Task Management Unit
TRP	-	Tariff Reform Program
TO	-	Task Order
TOR	-	Terms of Reference
USAID	-	United States Agency for International Development
VAT	-	Value Added Tax
WB	-	World Bank
WTO	-	World Trade Organization

CHAPTER ONE

INTRODUCTION

The Philippines is at a critical juncture in its economic development. After growing at near-zero levels during the early 1990s, 1994 marked the country's turn-around when it posted a growth rate of 4.4 percent as a result of a strong recovery in both investments and exports. In the past two years, the government had proven that with political stability and the willingness to institute reforms, the Philippines could achieve strong and sustained economic growth. In 1996, the country's economic growth further accelerated, with GNP growing by 6.8 percent; prompting optimists to conclude that the cycle of boom and bust which has afflicted the Philippines for many years is finally over.

Such optimism, unfortunately, has been badly shaken by recent events—primarily the collapse of the Thai, South Korean, and Indonesian economies as well as the emergence of one of the worst recessions in Japan's economic history. Mainly as a result of these adverse external developments, the Philippines' GDP grew by only 1.7 percent during the first quarter of 1998. Moreover, the best scenario forecast for the entire economy has been trimmed down to 3 percent for the year.[1] Other analysts are less positive; estimating that the 1998 GDP growth rate will range from zero to one percent only. Skeptics are projecting worse—that the economy will contract as a consequence of the Asia regional crisis and other global developments such as those described as the Russian economic meltdown. Thus, the newly-installed Estrada government will be confronted by a multitude of challenges; as it attempts to steer the Philippine economy towards sustainable and more equitable growth in the 21st century[2], amidst the most severe economic crisis the Asian region has experienced in the post-World War II era. As the Estrada government moves to conquer these challenges posed by the Asian crisis, AGILE with its technical advisory resources is well-positioned to support and facilitate the conduct of studies, consultations, workshops, conferences and advocacy activities—paving the way to broader support and understanding of the key policy reforms deemed critical for the country's sustained economic growth.

AGILE is a four-year USAID-funded activity designed to support economic policy changes in the Philippines; causing sustainable economic growth and increasing the country's economic resiliency by augmenting the efforts of pro-competition partners and stakeholders. AGILE, as envisioned, has two broad objectives: to contribute to continuing policy liberalization in the

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[1] See for example Canlas, D. (1998) "Philippine Economic Prospects." Paper presented at the Philippine Economics Society (PES) meeting on February 27, 1998. Also see Pasadilla, G. (1998) "The Philippine Economy in 1997: Review and Prospects." Paper presented at the same 1998 PES meeting.

[2] President Estrada has announced in a number of public forums and through the budget he recently submitted to the Philippine Congress that his Administration will concentrate on measures and programs designed to promote equitable growth in the country. In addition, in his first State-of-The-Nation-Address he stressed that his government is committed to achieving sustainable development as this will make possible the meaningful upliftment of the poor and the underprivileged .

Philippines; and to assist in efforts geared towards increasing the degree of competition in the Philippine economy.

To implement AGILE, a consortium of international development consulting firms led by Development Alternatives, Inc. (DAI) has been selected by the Philippine Government (GOP) and the United States Agency for International Development (USAID). DAI's AGILE consortium members also include the Harvard Institute for International Development (HIID), Cesar Virata and Associates, Inc. (CVAI), and Price Waterhouse Coopers.

In accomplishing the AGILE objectives, the DAI Group will primarily undertake three major tasks. First, using well-tried and carefully evaluated strategies, the DAI AGILE Team will assist the GOP and other private sector stakeholders in conducting the relevant *policy analysis, formulation and advocacy*. Second, to facilitate the implementation of activities germane to an approved policy agenda, the DAI Group will manage a *Special Activities Fund (SAF)* with strategic guidance from the AGILE Steering Committee. Finally, DAI's AGILE Team will provide technical assistance to both the GOP and USAID in the area of *policy monitoring, assessment and reporting*.

This document which constitutes the proposed *AGILE Life-of-Contract Work* begins with a comprehensive discussion of a preliminary policy agenda which has been formulated in close consultations with the AGILE collaborating partners. A *Draft First Year Task Order Work Plan* follows—presenting in details the first batch of AGILE Core Team proposed activities which respond to requests for policy analysis and advocacy assistance from the various GOP agencies and private sector groups. Finally, a management framework that will ensure effective and efficient utilization of resources towards the achievement of the AGILE objectives is described. This document concludes that if the reforms it helps to enable and implement can sustain—and, if possible, accelerate the rate of per capita growth in the Philippines—then, AGILE would be able to contribute to providing decent opportunities for the country's poor through a more broad-based and sustained economic growth.

CHAPTER TWO

THE PRELIMINARY AGILE POLICY AGENDA

To serve as the solidifying foundation to all project activities over the life-of-the contract, a preliminary AGILE Policy Agenda that attempts to respond to the policy reform challenges confronting—not only the GOP but private sector pro-liberalization and pro-competition groups in the Philippines as well—has been formulated by the AGILE Core Team. In accordance with the need to involve the stakeholders as early as possible in the policy reform process to ensure appropriate ownership incentives, AGILE Chief of Party and Senior Resident Advisor **Dr. Ramon Clarete** with assistance from the rest of the core team and HIID's **Dr. Jay Rosengard,**[3] began conducting consultative meetings with various AGILE collaborating partners in June 1998. HIID's **Fernando Fernholz,** the other Senior Resident Advisor and AGILE Deputy Chief of Party, started participating in these meetings the week he arrived in Manila. Furthermore, **Dr. Clarete,** has been meeting with other ongoing USAID SO2 teams to better comprehend their policy agenda as well as accomplishments and enable AGILE to complement or continue their efforts. In addition to these meetings, the AGILE Core Team has undertaken a review of related literature—particularly the more recent policy papers issued by the GOP agencies and the newly-installed Estrada Administrations, economic papers presented in policy symposiums, donor publications, and research papers by local and international research organizations and universities.

COLLABORATING PARTNERS & INTERNATIONAL DONORS
MET BY THE AGILE CORE TEAM TO FORMULATE THE AGILE POLICY AGENDA

- Department of Finance
- National Economic Development Authority
- Bangko Sentral ng Pilipinas
- Department of Transport and Telecommunication
- National Telecommunication Commission
- Tariff Commission
- Department of Trade and Industry
- PhilExport
- Philippine Stock Exchange
- Department of Budget and Management
- Bureau of Internal Revenues
- World Bank
- Asian Development Bank
- Capital Markets Development Center, Inc.
- Credit Policy Improvement Project
- Telephone Operators of the Philippines
- Bureau of Customs
- Securities and Exchange Commission
- International Monetary Fund
- Monetary Board

In this chapter, the preliminary AGILE Policy Agenda that has been formulated by the AGILE Core Team is fully presented. The discussion below is organized into three major sections. First, DAI's integrating framework and approach for formulating the AGILE Policy Agenda is shown. An overview of the preliminary AGILE Policy Agenda is then presented in a summary matrix followed by a comprehensive discussion of each of the proposed agenda items. This chapter concludes with an analysis of the expected results that AGILE will contribute to in the coming years given its anticipated outputs and deliverables. Given the need for a strategic and innovative approach, it is expected that the preliminary agenda discussed in this chapter will be flexible—and

[3] Dr. Jay Rosengard is HIID's technical backstopper for AGILE. He is a senior economist with extensive experience in advising Asian governments. He was in Manila from June 25 to July 4 to assist the AGILE Core Team in formulating the AGILE Policy Agenda.

will be modified periodically to reflect changing GOP priorities, stakeholders' concerns, and policy reform opportunities.

THE DAI GROUP'S UNIFYING FRAMEWORK AND APPROACH FOR FORMULATING THE AGILE POLICY AGENDA

In meeting with the various AGILE partner-clients, it became apparent that a unifying framework and approach will have to be adopted in order to provide coherence as well as maximize the results from the project contributions. In this regard, aside from the actual meetings which took place with various GOP agencies, private sector groups, and representatives of the international donor community; several other factors were considered by the AGILE Core Team in order to arrive at a preliminary agenda:

- **Analyzing The Recent Economic Trends**

When President Joseph Estrada delivered his first State-of-the-Nation Address (SONA) to the newly-inaugurated 11th Congress, he described the Philippine economy bleakly—in sharp contrast to the optimism and confidence which was generally felt about the economy a year ago. Until the collapse of the Thai baht in June 1997 that triggered the foreign currency turmoil and the subsequent economic recession in East Asia, many analysts—both local and international—were beginning to hail the robustness of the Philippine economy and its reemergence as Asia's newest "*tiger cub.*"[4] After growing at near-zero levels during the early 1990s, 1994 marked the Philippines' economic turn-around when it posted a growth rate of 4.4 percent following a strong recovery in both investments and exports. In the past two years, the previous Ramos government had proven that with political stability and the willingness to institute reforms, the Philippines could achieve strong and sustained economic growth. In 1996, the country's economic growth further accelerated, with GNP growing by 6.8 percent; prompting optimists to conclude that the cycle of boom and bust which has afflicted the Philippines for many years was finally over.

Such optimism unfortunately has been badly shaken by recent events. In the first quarter of 1998, GDP grew by only 1.7% (annualized). In the second quarter, GDP stagnated (zero growth) due to a dramatic reduction of output in agriculture. The best

[4] These include the International Monetary Fund (IMF) that described the Philippines' macroeconomic situation as sound; the Organization for Economic Cooperation and Development (OECD) which invited the Philippines last February 1997 to participate regularly in the group's dialogue with dynamic non-member economies; the Asian Development Bank (ADB) which in its 1997 Development Outlook Report noted the Philippines' strong growth performance, concluding that the economy now possesses the potential to grow at rates similar to those of its Southeast Asian neighbors; leading investment firms that used to be downright pessimistic about the country like Solomon Brothers, J.P. Morgan, James Capel, Nomura Securities, and Bear Stearns; and top international credit rating agencies—Standard and Poor, Duff and Phelps, Japan Credit Rating Agency, and Moody's Investors Service—that had all upgraded the Philippines's rating to at least a double B.

scenario forecast for the whole year was only 3 percent.[5] Other analysts are less positive estimating GDP growth to range from zero to one percent[6]. The slowdown of the Philippine economy in 1998 brings to light a multitude of challenges for the newly installed government of President Estrada. If planned spending for 1998 materializes; the government expects a deficit of PHP80 to 100 billion for the entire year. The first quarter national government deficit was reported by the Bureau of Treasury to be about PHP12.4 billion, drastically up from only 0.7 billion pesos about a year ago. Aside from the fact that the economy has slowed down relative to what the government expected when the 1998 budget was prepared and approved, the interest rate has likewise increased, adversely affecting the cost of servicing the government's debt. Interest rates on 91-day government treasury bills ranged between 15 to 19.1 percent during the first quarter of 1998, compared to about 10 percent a year earlier.

Moreover, rising interest rates have started to reduce the loans outstanding of commercial banks and private sector investments in 1998. In the first quarter, total loans outstanding amounted to about 1.37 trillion pesos, down by 16.19 percent for the same period a year ago. By end of 1997, the total loans outstanding of banks have reached PHP1.41 trillion. Meanwhile, capital formation in real terms has contracted by 7.4 percent during the first quarter of 1998, compared to its level for the same period in 1997.

Not only has the level of credit been lower during the first quarter; there are also indications that the quality of these loans is deteriorating. In the first quarter of 1998, the percentage of non-performing loans to total loans outstanding rose to 8.3 percent, up from 3.9 percent for the same period in 1997. During the mid-1980s when the economy experienced its worst recession in decades, the non-performing loans were at about 20 percent of the total loans outstanding.

Exchange rates have recently stabilized at 42 to 44 pesos to a US dollar. Compared to a year ago, these rates represent a devaluation of the local currency by over 50%. The rapid loss of the value of the peso has contributed significantly to the erosion of the business sector's confidence on the future of the economy. Those which have been particularly hit are the import-dependent firms, but even export-oriented businesses are currently being burdened by their own share of adjustment costs.[7]

5 See for example: Canlas, D. (1998) "Philippine Economic Prospects". Paper presented at the Philippine Economics Society (PES) meeting on February 27, 1998. Also see Pasadilla, G. (1998) "The Philippine Economy in 1997: Review and Prospects". Paper presented to the PES meeting in 1998.

6 Dr. Felipe Medalla, Secretary of Socioeconomic Planning, "The Philippine Economy: First Quarter Account and Assessment of the Estrada Administration". PIDS, September 22, 1998.

7 The Philfoodex—an association of major food exporters—has noted that the country's food exports continue to remain relatively uncompetitive because of the fact that the rate of the peso devaluation is still relatively lower compared to the other Asian countries. In addition, garment exporters are likewise unable to access credit from banks; credit access is critical to their taking advantage of the export markets that other competing garment-exporting East Asian countries are unable to satisfy because of the regional financial crisis.

- **Recognizing The Worsening East Asia Economic Crisis**

The bulk of economic woes inherited by the Estrada Government stems from the first wave of economic problems currently confronting East Asia as a result of the collapse of the banking and financial system in many of these countries which has, in turn, triggered sharp currency devaluations, stock market contractions, and investment cutbacks. During this first wave, the Philippine peso—at one point—actually traded at the exchange rate of PHP 45 to a US dollar. Substantive and rapid withdrawals of short-term capital flows away from the region have caused severe financial problems for the private sector. The loss of value of East Asian currencies has been accompanied by a significant reduction in the value and volume of stocks traded in the region. Investors made nervous by the currency volatility have began to stay away from the capital markets in the region. Local investors, on the other hand, have become increasingly wary about the economic future.

Nonetheless, a second wave of economic problems in East Asia has just been ushered by the announcement that the Japanese economy is experiencing a recession and by the public confirmation that its banking system is in dire need of extensive overhaul and strengthening. The perceived lack of political will to tackle the financial crisis is compounding the uncertainties. These developments in Japan—the second largest economy in the world as well as the top export market in East Asia—have refueled the volatility of both the exchange and stock markets in the region, and have helped to solidify the potential recessionary trend in the region.

Moreover, as the AGILE Core Team consolidated its findings from the last two months to submit the AGILE LOC Work Plan, the growing uncertainties about the future of the various East Asian economies have begun to spark concerns about a much more negative global impact than earlier predicted. Primarily, the lingering inability of the Japanese government to stimulate its country's aggregate demand is seriously challenging the resolve of the Chinese government not to devalue its currency and to continue pegging the Hong Kong dollar to the US dollar. However, without a robust growth in its exports, China's policy and international commitment not to devalue its currency are fast becoming untenable. Analysts and experts on the region now claim that the devaluation of the renminbi will occur in just a matter of time. The devaluation of the Hongkong dollar and the Chinese renminbi will certainly add sustenance to the continuing economic uncertainties in the region. This, unfortunately, may spillover and cause the slowing down of western economies such as the US—possibly triggering a global economic recession.

- **Institutional Policy Reform Challenges for Sustained Economic Growth**

Recent events in East Asia underscore the importance of bolstering the confidence of the private sector about the future of the economy, strengthening the capacity of institutions to facilitate exchange including financial intermediation, and improving the quality of public sector governance. Even episodes of oscillatory growth pattern in the past can be traced to the lack of confidence of the private sector on the institutions managing economic growth.

In the 1990s, analysts have begun to focus their attention on a range of institutional challenges for sustained economic growth. One category of such challenges covers the institutional preconditions for initiating and sustaining growth such as the provision of basic security and political stability; promotion of a stable currency; and the reduction to socially tolerable levels the corruption in government, reforming the oppressive tax regimes, reducing policy uncertainties, as well as the expropriation of the property rights of economically successful citizens.[8] One of the key aspects of economic efficiency is the level of trust in the administration of commercial law. Enforcement of contracts, between the public an private sectors as well as between two agents in the private sector, helps reduce the cost of uncertainty, lower provisions for losses, reduce unnecessary inventories and working capital requirements, thus reducing the cost of doing business in the economy. Institutional and incentive reform is key to promote a more competitive economy, with higher investment and trade, resulting in higher growth, broader income and welfare.

A second category has to do with good governance of the public sector. A number of necessary economic policy reforms in the Philippines deal with this category of constraints for sustained growth—including distortionary taxes, unsustainable fiscal deficits, high inflation, high interest rates, inadequate investments in public goods, absence of well defined property rights, lack of enforcement of contracts and existing laws, long adjudication of disputes, lack of transparency in administrative procedures, inefficient civil service, poorly designed regulations and high cost for compliance with existing rules, and other related problems. At the national level, lack of a clear consensus on policy reform, creates the perception of policy reversals, affecting the decisions of investors. Without good public sector governance, resources will continue to be allocated to the wrong economic activities, promoting wasteful utilization and gross economic inefficiencies. The Philippine economy has to move further in eliminating the unnecessary high cost of doing business in some key sectors. This represents a major challenge for decision-makers.

A third category underlines competition policy. The objective of ensuring the opportunity to promote competition, in addition to efficiency and fairness which is complex, subjective and difficult to operationalize, is increasingly being integrated into the development equation (McMullen, 1998). Ensuring opportunity for all, that is, promoting ease of entry and exit into any economic activity, results in lower prices and better quality outputs. A policy regime that guarantees market contestability will eventually lead to more efficient activities in the economy—this is one of the fundamental objectives of competition policy[9].

[8] See Olson (1996 and 1997). Also, McMullen (1998) has defined six categories of such institutional challenges. Root (1996) likewise explains the development attainment of East Asia in terms of institutional reforms.

[9] See Graham and Richardson (1997).

A fourth category of institutional challenges emphasizes private sector governance. Under this category, issues of general corporate governance such as transparency, disclosure, accounting standards, incentive systems, responsibilities of corporate directors and executives, and shareholders' rights are included. In the context of the East Asia crisis, private sector governance mandates the careful examination of the efficiency aspects of how financial intermediation firms manage the resources they have mobilized from the savers in the economy. As such, the financial problems East Asia can be traced to a weak or collapsed in private sector governance. This is where governments will need to play a critical role. East Asian governments—to strengthen the credibility of financial intermediation firms in their respective economies—must ensure that financial transactions adhere to internationally accepted prudential norms as well as objective, transparent and market-determined criteria.[10]

Arriving At The Key Elements of the Preliminary AGILE Policy Agenda

Given the foregoing, it is evident that a principal challenge for the Philippines during the next five years is to sustain its growth in a regional environment that is undergoing its worst economic crisis in years, and in global environment that is inexorably moving toward economic interdependence. To succeed, the AGILE Core Team believes that the Estrada Administration will need an integrated approach to identifying and pursuing essential economic policy reforms (Figure 1). Furthermore, amidst the East Asia regional crisis, the institutional constraints that must be confronted, and the demands of globalization, the AGILE Core Team based on its meetings with the AGILE partner-clients has concluded that the appropriate government policy interventions for the Estrada Administration must focus on the following agenda items:

- strengthening the financial system;
- promoting macroeconomic stability;
- improving the tax and public expenditure systems;
- liberalizing and facilitating trade; and
- liberalizing and facilitating investments.

These areas of appropriate government policy interventions constitute the pillars of the preliminary AGILE Policy Agenda. It is believed that the policy reforms achieved in these areas should lead to the attainment of the country's economic goals—increased trade and investment, sustainable growth, and growth with equity. AGILE discussions with several partner-clients confirm their shared agreement of the following—that a more competitive international trading environment will demand both domestic efficiency and international resiliency. Talks with the Department of Trade and Industry and the Department of Agriculture indicate that commitments under the World Trade Organization (WTO), the ASEAN Free Trade Agreement (AFTA), and the Asia Pacific Economic Cooperation (APEC) will require the Philippines to lower or eliminate its tariff and nontariff barriers on tradeable goods and services. This is a challenge that has already

[10] Two other categories of institutional challenges are also mentioned by McMullen, namely the development of social capital at all levels of economic activity and establishment of enduring democracy.

underscored to policymakers and the concerned stakeholders the need for competitiveness-enhancing programs and measures. Meetings with representatives from NEDA, the Monetary Board, and the financial sector suggest that strong private domestic investment, which propelled the country's growth in 1996, will continue only with the appropriate incentives and climate, including those that will raise the rate of domestic savings in the country to levels comparable with other Asian countries. This will be necessary to rendering overall investment less dependent on foreign borrowing. Certainly, political and macroeconomic stability, improvements in infrastructure, reduction in administrative costs of doing business and further deregulation of the critical sectors such as transport and telecommunications will be crucial if increased private domestic investments, higher productivity, and sustainable economic growth are to be achieved.

Figure 2 depicts the process used by the AGILE Core Team to formulate the preliminary AGILE Policy Agenda. The policy constraints review, the sectoral analysis and assessments, the analysis of external commitments and developments, the assessment of GOP and private sector policy priorities—all these were undertaken mainly through meetings and discussions with the various AGILE collaborating partners. These were supplemented by discussions with other ongoing USAID-funded activities and a desk review of the relevant policy-related literature. Thus, a highly-consultative approach has been used by the consultants, primarily to provide the partner-clients with the incentives to own and support the AGILE Policy Agenda being proposed in this *LOC Work Plan.*

FIGURE 1
AN INTEGRATING APPROACH TO FORMULATING AGILE POLICY AGENDA

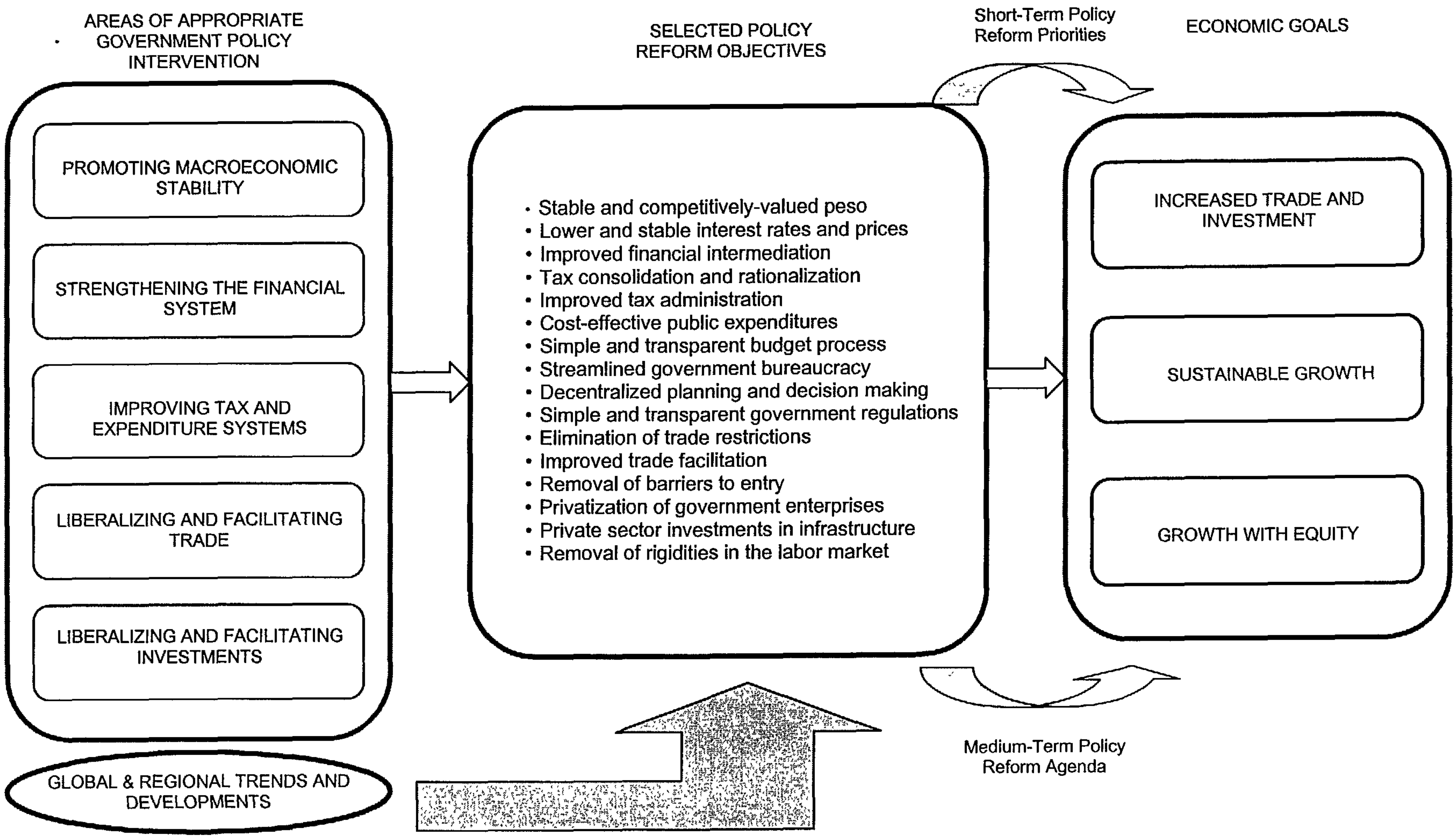
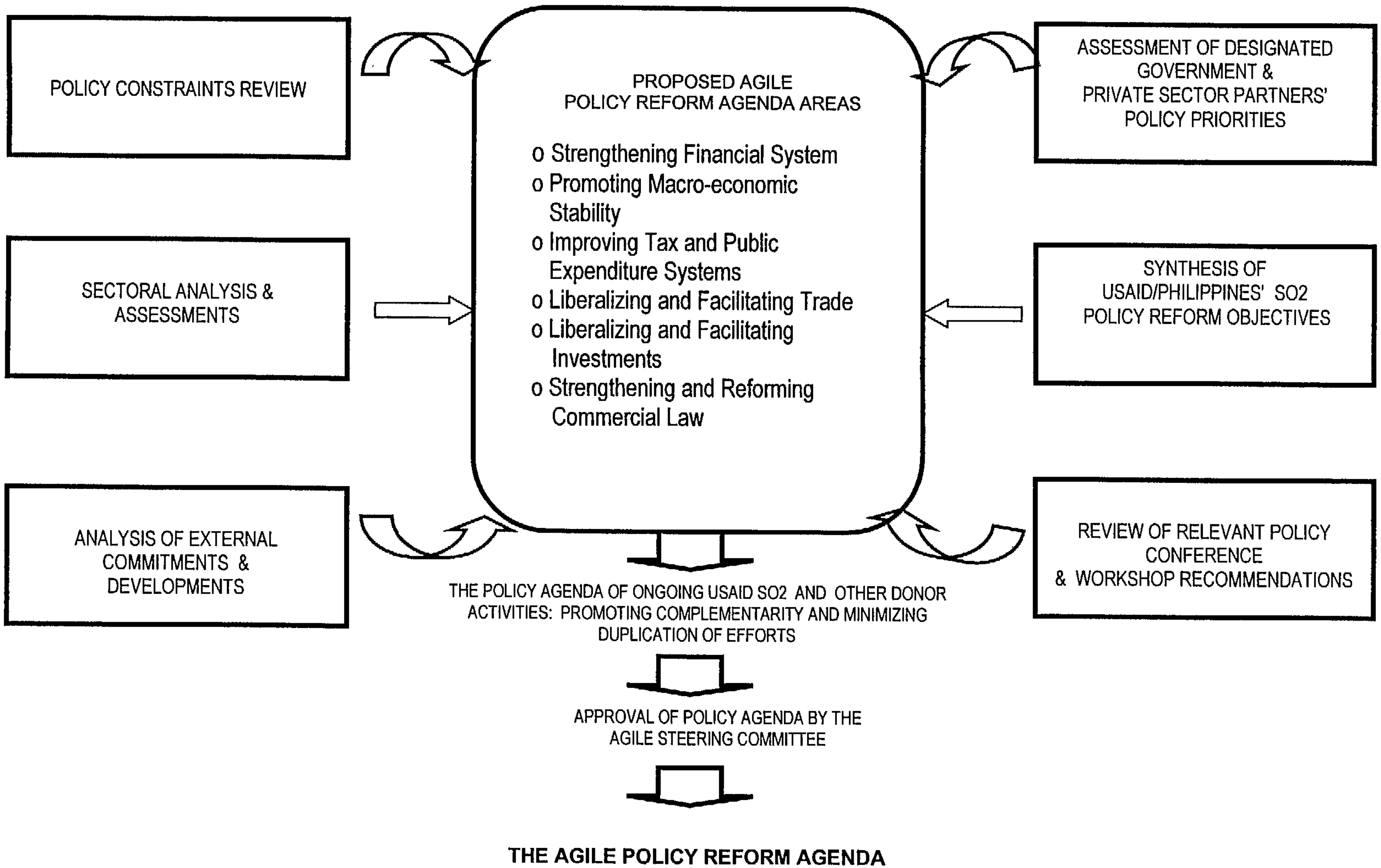


FIGURE 2
DEFINING THE LIFE-OF-THE-CONTRACT AGILE POLICY ACTION AGENDA



THE PROPOSED AGILE POLICY AGENDA

Given the process described above, Table 1 presents a summary matrix of the preliminary AGILE Policy Agenda that has been formulated by the AGILE Core Team. It is anticipated that this proposed agenda will be flexible and revised periodically to reflect GOP priorities, policy reform opportunities, as well as the concern of other relevant stakeholders. In the following pages, each proposed policy agenda is more fully discussed.

AGILE POLICY AGENDA NO. 1: STRENGTHENING THE FINANCIAL SYSTEM

- *Recent Trends and Developments In The Financial Sector*

Over the past ten years, the Philippines has made great strides in pushing for reforms in the financial system. Among the more significant reforms that have been implemented include the relaxation of the rules on the entry of foreign banks, the deregulation of the foreign exchange market, unification of the two stock exchanges, the full automation of securities trading, and the establishment of central depository and clearing and settlement corporations. These structural reforms in the financial system immediately produced the expected results. For instance, over the past five years, the total resources of the financial system and the number of commercial banks grew by an average of 23% and 10% per annum, respectively. Moreover, the size of the domestic equities market has grown tremendously in terms of market capitalization (both in absolute terms and as a per cent of GDP), number of listed companies and value turnover over the said period.

However, despite efforts to liberalize the financial sector, the Philippines continues to lag behind its Southeast East Asian neighbors in terms of degree of monetization of the economy. As of September 1997, the credit-to-GDP ratio—a measure of financial deepening—for the Philippines stood at a low 70.9%. In contrast, Singapore, Thailand, and Malaysia registered ratios of 121%, 114%, and 128%, respectively in 1996. Generally, however, developments in the financial sector have mirrored the performance of the economy. Financial repression characterized the early to mid-1980s, while progress in the financial sector was quite dramatic during the early to mid-1990s.

The performance trend of the Philippine capital markets has been no different. The Philippine stock market still pales in comparison to its Southeast Asian neighbors, in terms of size and availability of financial instruments. Moreover, the local capital market is largely dominated by equities. The local debt market represents a mere 32% of GDP and is comprised mostly of short-term government securities. The absence of the necessary facilitating infrastructure, such as a credible credit rating agency and a yield curve, prevents any meaningful progress in the debt market. In addition, there are a number of taxes on financial services that hamper the development of an active secondary market for debt instruments. Thus, with largely underdeveloped domestic capital markets, bank loans have remained as the largest source of capital for corporations. On the average, bank loans account for some 80% of total capital financing. Equity issues and bonds, meanwhile, comprise about 15% and 5% of the total, respectively.

TABLE 1. SUMMARY MATRIX OF THE PRELIMINARY AGILE POLICY AGENDA

POLICY OBJECTIVES	TARGET POLICY REFORM RESULTS	EXPECTED IMPACTS	PARTNER-CLIENTS
AGILE Agenda No. 1: Strengthening The Financial System			
• To strengthen the equities market • To revitalize and expand the mutual funds industry • To strengthen the contractual savings industry • To develop a viable long term debt market and promote secondary debt market transactions • To improve governance of financial intermediation institutions	▪ Enactment of the Securities Act of 1998 ▪ Enactment of the Revised Investment Company Act ▪ Enactment of the Revised General Banking Act ▪ Enactment of the Pre-Need Securities Code ▪ Enactment of revenue-neutral tax policy reforms in the financial sector ▪ Enactment of amendments to the Central Bank Act ▪ Enactment of pension fund reforms for improving portfolio management, increasing compliance rates, and streamlining industry regulations ▪ Establishment of a viable options and futures exchanges for equities and other financial instruments ▪ SMEs enabled sustained access to equities market ▪ Robust yield curve to serve as a stable benchmark for securities pricing adopted ▪ A credible and effective credit rating system established ▪ Restructured GOP credit programs and improved policies for providing financial services to lower income groups ▪ GOP accession to WTO Financial Services Agreement completed ▪ Capability of financial institutions strengthened for compliance with internationally accepted business practices and prudential regulations	<u>Financial System Policy Reforms</u>: • Improved efficiency and productivity of capital • Enhanced breadth and depth of the financial markets leading to increased domestic savings and higher volume of investments being supported by the system <u>Policy Reforms on Regulations and Private Sector Governance:</u> • Restored confidence among savers and investors in the financial system <u>Proposed Securities Act and Pre-Need Code:</u> • Strengthened regulations for the distribution and issuance of securities <u>Proposed Investment Company Act:</u> • Development of mutual funds industry <u>Proposed Revised General Bank Act:</u> • Appropriate and effective monitoring and regulations to ensure prudential and productive behavior of the banks <u>Proposed Amendments To Central Bank Law:</u> • Increase capitalization for the Central Bank <u>Rationalization of Taxation on Financial Services</u>: • Distortions in the financial system eliminated and the secondary debt market further developed	*Securities and Exchange Commission* Contact Person: • Ms. Fe Gloria, Commissioner *Capital Markets Development Corporation, Inc. (CMCDI)* Contact Person: • Ms. Mercedes Suleik, Executive Director *Financial Executives Institute of the Philippines (FINEX)* Contact Person: • Mr. Edwin Villanueva, Capital Markets Division Head *Philippine Stock Exchange* Contact Persons: • Mr. Jose Luis Yulo, Jr., President • Mr. Jose Alcantara, Vice-President

TABLE 1. SUMMARY MATRIX OF THE PRELIMINARY AGILE POLICY AGENDA

POLICY OBJECTIVES	TARGET POLICY REFORM RESULTS	EXPECTED IMPACTS	PARTNER-CLIENTS
AGILE Agenda No. 2: Promoting Macroeconomic Stability			
• To reduce incidence of sharp volatility in macroeconomic variables including the general price level, interest rate and value of local currency • To increase the investors' confidence level in the GOP's ability to create a friendly and stable business environment • To make GOP processes more transparent, efficient and predictable, thus contributing to a stable policy regime	▮ Strengthened GOP capability in forecasting macroeconomic variables and in evaluating the impact of external shocks to the economy ▮ Adoption of appropriate policies for reducing macroeconomic volatility and promoting sustained growth ▮ Adoption of appropriate policies for coping with adverse impacts of external shocks including fluctuations in net-short in net short-term capital inflows ▮ Increased investors' confidence level in the GOP's ability to create a friendly and stable environment ▮ The Charter of the National Food Authority is amended to enable the GOP to stabilize rice prices at the least cost possible. ▮ More transparent, efficient and predictable GOP policies	<u>Macro Policy-Related Policy Reforms:</u> • Enhanced GOP capacity to manage external shocks avoiding losses in real income • More market-friendly and stable business environment • A policy regime that is more conducive to broad-based and sustained economic growth <u>NFA Reorganization-Related Policy Reforms:</u> • More efficient public sector savings through savings generated from the appropriate rice price stabilization policies enacted through a revised NFA charter	*National Economic Development Authority* Contact Persons: • Dr. Felipe Medalla, Director-General • Dr. Ruperto Alonzo,Deputy Director General • Ms. Ofelia Templo, Assistant Director General *Department of Finance* Contact Person: • Mr. Joel Bañares, Undersecretary for International Finance Group *Bangko Sentral ng Pilipinas* Contact Person: • Mr. Amado Tetangco, Director *Department of Agriculture* Contact Person: • Dr. William Dar, Secretary
AGILE Agenda No. 3: Improving Tax and Expenditure Systems			
• To strengthen GOP capacity for improved tax administration • To facilitate the adoption of more efficient and simple tax policy systems • To make budget planning and implementation systems more transparent, simple and effective • To improve investment programming for public expenditures	▮ Formulation of appropriate rules and regulations to effectively implement the comprehensive tax policy reform program ▮ Streamlined fiscal incentives for promoting investments ▮ Elimination of tax expenditure subsidies to government corporations ▮ Enactment of administratively feasible tax measures that promote specific development objectives such as road user charges for motor	<u>Tax Administration Policy Reforms:</u> • Reduced efficiencies and administrative costs of taxes, allowing the GOP to obtain higher value for its expenditures, and reduce the fiscal deficit. • Increased resources for consumption and investment, generating more jobs and income. <u>Fiscal Decentralization Reforms:</u> • Increased LGU capacity for improving the pace and quality of local	*Department of Finance* Contact Persons: • Ms. Milwida Guevarra, Undersecretary for Domestic Finance Group • Mr. Gil Beltran, Assistant Secretary *Department of Budget and Management* Contact Person: • Dr. Ben Diokno, Secretary *National Economic Development Authority* Contact Persons:

TABLE 1. SUMMARY MATRIX OF THE PRELIMINARY AGILE POLICY AGENDA

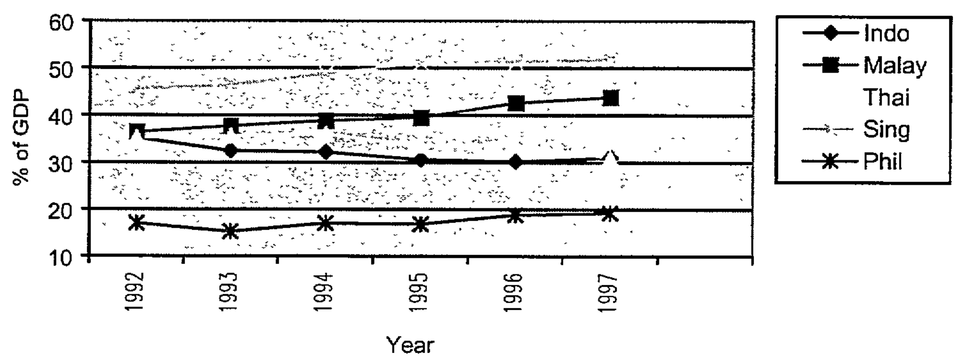
POLICY OBJECTIVES	TARGET POLICY REFORM RESULTS	EXPECTED IMPACTS	PARTNER-CLIENTS
	vehicles, agricultural land conversion tax, idle land tax, and pollution tax in urban areas ▪ Adoption of appropriate strategies for improved tax administration ▪ Adoption of midterm budgeting framework ▪ Enactment of a law assigning more fiscal responsibility to LGUs ▪ Decentralization of budgetary expenditures using appropriate central to LGU budgetary transfers, reforms in internal revenue allotments, and/or expanded taxing authority for LGUs	development planning and implementation	• Dr. Felipe Medalla, Director General • Dr. Ruperto Alonzo, Deputy Director General • Ms. Ofelia Templo, Assistant Director General *Bureau of Internal Revenues* Contact Person: • Mr. Beethoven Rualo, Commissioner *Bureau of Customs* Contact Person: • Mr. Titus Villanueva, Deputy Commissioner
AGILE Agenda No. 4: Liberalizing and Facilitating Trade			
• To transform the Philippines into an internationally competitive economy • To reduce the administrative cost of trade-related processes • To enhance the technical efficiency of existing capital through the appropriate technology transfers	▪ Adoption of a uniform tariff rate of 5% on all imports, except sensitive agricultural products, by the year 2004 ▪ Effective and prompt GOP compliance with its WTO trade-related commitments including: tariff bindings; intellectual property rights; shift in import valuation from home consumption value to transactions value; IPR protection for plant varieties; measures against import surges and unfair trade; sanitary and phyto-sanitary regulations; agricultural tariff rate quotas; tariffication of rice QR in 2005; BOP-related trade restrictions; and services ▪ Implementation of commitments under the International Telecommunications Agreement ▪ Implementation of the zero-duty importation of agricultural inputs for five years under the 1997	<u>Trade Policy and Related Reforms:</u> • Increased international competitiveness of the Philippine economy, particularly of the agriculture and food sector; through stimulated investments; reduction of the inefficiencies and administrative cost of trade-related measures; and acceleration of production technologies upgrading • More export-led Philippine economic recovery, resulting in diversity of economic activities and sustained growth	*Department of Trade and Industry* Contact Person: • Mr. Edsel Custodio, Assistant Secretary *Department of Agriculture* Contact Persons: • Dr. William Dar, Secretary • Dr. Segfredo Serrano, Assistant Secretary for Policy *National Economic Development Authority* Contact Persons: • Dr. Felipe Medalla, Director General • Dr. Ruperto Alonzo, Deputy Director General • Ms.Margarita Songco, Director *PhilExport* Contact Person: • Mr. Sergio Ortiz-Luis, Jr., President

TABLE 1. SUMMARY MATRIX OF THE PRELIMINARY AGILE POLICY AGENDA

POLICY OBJECTIVES	TARGET POLICY REFORM RESULTS	EXPECTED IMPACTS	PARTNER-CLIENTS
	Agriculture and Fisheries Modernization Act. ▮ Accelerated reduction of tariffs on sensitive agricultural products ▮ Effective and prompt GOP compliance with ASEAN Free Trade Area (AFTA) commitments ▮ Formulation and adoption of appropriate measures to reduce the cost of business enterprises' compliance with trade regulations		
AGILE Agenda No. 5: Liberalizing and Facilitating Investments			
• To increase the degree of competition and technical efficiency of the Philippine economy, particularly in public utilities sector • To increase investments in infrastructure facilities • To reduce the administrative burden of licensing, registration, permits and resolution of legal processes of investments in the country	▮ Effective implementation of the telecommunication interconnection and universal service policies ▮ Formulation and implementation of appropriate policies supportive of information technologies ▮ Enactment of amendments to the 1954 Retail Trade Law ▮ Enactment of the Power Sector Reform Law ▮ Enactment of the Electric Power Sector Law ▮ Enactment of prompt acquisition of right-of-way for infrastructure projects ▮ Enactment of appropriate regulations private sector investments in infrastructure projects such as the establishment of a water regulatory commission in the case of water districts. ▮ Formulate and effectively implement policies making overland, inter-island shipping, and air transport services more competitive.	<u>Investment Policy and Related Reforms:</u> • Internationally competitive cost of services and public utilities • Increased investments in the public utilities sector • Lower user charges for public utilities services • Increased private sector investments in infrastructure, making businesses more competitive and the general public better off	*Department of Trade and Industry* Contact Person: • Mr. Edsel Custodio, Assistant Secretary *Department of Transportation and Communication* Contact Persons: • Ms. Josefina Lichauco, Undersecretary • Ms. Amy Rubio, Director *National Economic Development Authority* Contact Persons: • Dr. Felipe Medalla, Director General • Atty. Raphael Lotilla, Deputy Director General *National Telecommunication Commission* Contact Persons: • Mr. Ponciano Cruz, Commissioner • Mr. Roberto Duque, Deputy Commissioner *Philippine Retailers Association* Contact Person: • Ms. Evelyn Salire

Without a well-functioning debt market, a number of corporations have resorted to tapping the international markets for their financing needs. Further exacerbating the inability of the debt market to mobilize capital funds is the country's poor savings performance. The low savings rate of the Philippine economy has often been cited as its weakest link. Despite significant achievements in this area in the past five years, the country's savings rate still compares poorly with those of its Association of Southeast Asian Nations (ASEAN) neighbors. By the end of 1997, the savings rate of the Philippines (as a per cent of GDP) was still reported at a paltry 19% while the rest of the Southeast Asian region averaged 35% (Figure 3). Hence, it is hardly surprising that the Philippines continues to rely on foreign savings to finance a relatively significant part of its investment requirements.

FIGURE 3
GROSS DOMESTIC SAVINGS IN SOUTHEAST ASIA

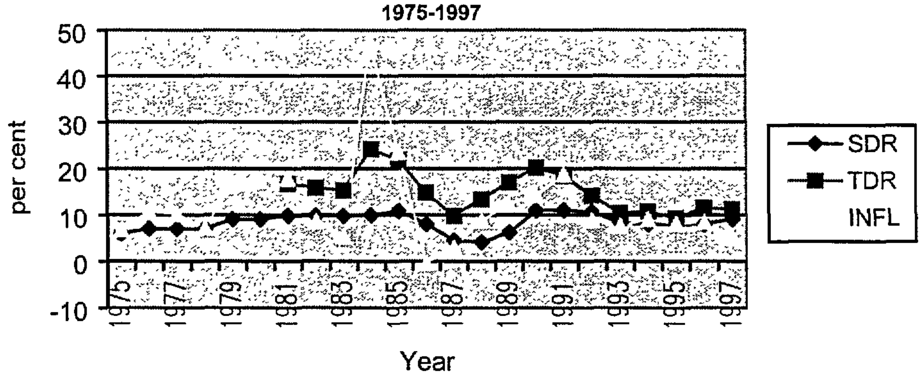


➧ *Factors Affecting Savings Rate*

The low savings rate of the Philippines can mainly be attributed to four factors. First, per capita income in the country has yet to reach the peak it posted in 1982. By late 1997, real GDP per capita stood at PHP 12,213 compared to PHP 12,869 in 1982. If the average GDP growth of 4.4% per annum over the past five years had been sustained, the 1982 per capita income level would have peaked this year. However, with the adverse effects of the regional currency turmoil on the Philippine economy, per capita growth is expected to decelerate or even stagnate in the next two years.

Secondly, the savings deposit rates in the country continue to be low and oftentimes, negative in real terms (Figure 4). The disincentives caused by this banking practice are especially acute for individuals with relatively smaller saving deposits. The absence of alternative savings instruments—such as mutual funds and debt securities—allows banks to monopolize savings and peg the deposit rates at artificially low levels. Consequently, the latest figures from the Bangko Sentral ng Pilipinas (BSP) show that commercial banks account for close to 85% of the resources of the entire Philippine financial system.

FIGURE 4
DEPOSIT RATES AND INFLATION IN THE PHILIPPINES: 1975-1997



Moreover, the Philippines has a relatively young population with a median age of 20.4 years old. This indicates that a large portion of the population is just starting to accumulate savings to meet their needs. Experiences of other countries have shown that the highest income levels are reached between the ages of 46 and 60 years old. Hence, savings as a per cent of GDP are highest when a significant portion of the population reach the 46-60 year old age bracket.

Finally, poverty remains an acute problem in the Philippines. Despite the economy's growth by a compounded average rate of 3.7% over the past 10 years, improvements in the poverty situation have been relatively slow. By the end of 1997, close to 40% of the Philippine population is still living below the poverty. Considering the economic dislocations caused by the regional currency crisis, significant gains in the fight against poverty will require strong and extraordinary efforts, as well as political will for the next five years.

Prior to the regional currency turmoil, the Philippines—as well as the rest of the Southeast Asian region—was able to attract massive amounts of capital to cover its investment-savings gap. When the crisis erupted last July 1997, the bulk of these capital inflows, particularly the portfolio investments, were immediately withdrawn from the country by international asset management groups. These developments have caused the hefty depreciation of the Philippine peso against the US dollar and the sharp drop in equity prices.

A year after the regional crisis hit the country, the Philippines has yet to fully recover its bearing. The domestic economy is still reeling from the adverse effects of the considerable peso depreciation being experienced. Meanwhile, the East Asian policymakers are all busily engaged with the *hows* of making their economies less susceptible to such massive reversals in capital flows.

- *Policy Constraints and Thrusts*

The currency crisis that hit the Southeast Asia region last July 1997 has revealed several inherent weaknesses in the Philippine financial system. The liberalization of the country's capital accounts has triggered a massive inflow of funds. Monetary and tax policies also encouraged the banks and private sector to increase foreign finance: no reserve requirement for foreign currency deposits, a lower tax rate for onshore income generated with foreign exchange loans, no withholding tax on foreign currency deposits, growth in base money below the requirements of the financial program triggered the higher interest in pesos and additional capital inflow from abroad.[11] Since most of these capital inflows were private in character, the BSP encountered difficulties in closely monitor them. Considering the potentially adverse effects of these capital inflows on export competitiveness, careful macroeconomic management is required.

Moreover, the huge differential between domestic and international interest rates coupled with the previous stability in the domestic currency resulted in a large demand for dollar-denominated loans and other debt instruments. The fact that most of these loans were unhedged and invested in speculative and/or non-dollar generating activities made the corporate sector extremely vulnerable to a depreciation in the domestic currency. Thus, when the peso was allowed by the BSP to float freely last 11 July 1997, the act set-off a vicious cycle which left corporations with little choice but to contend with higher debt servicing costs and weaker balance sheets. Further compounding their woes were the high interest rate regime— in an effort to defend the peso— and the sharp reduction in bank credit that both ensued in reaction to the massive peso depreciation.

In order for the Philippine financial system to be less susceptible to the type of external shocks that are currently being felt in the region, policy reforms must focus on three areas. First, there is a need to **continue sound regulatory and supervisory systems**.[12] The expansion and diversification of banking activities over the past ten years in the country compels the strengthening of the regulatory infrastructure. This would entail the imposition of prudential regulations such as increasing the minimum risk adjusted capitalization of banks[13], and adopting BIS capital adequacy requirements as well as other measurements of risk and financial stability.[14] Moreover, capacity building for bank professionals and regulators, particularly the bank examiners and supervisors, will have to be provided. Currently, the GOP is seeking a $300-M Banking Sector Enhancement Loan from the World Bank (WB) to partially address the inherent weaknesses of the Philippine banking system.

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11 Promotion of Broad-Based Economic Growth in the Philippines, HIID and NEDA. 1997.

12 These policy concerns were raised Monetary Board Member Cayetano Paderangga and BSP Director Amando Tetangco in the meeting with the AGILE Core Team last 29 June 1998.

13 See Recommendations of the Basle Committee on Banking Supervision.

14 "Building an Efficient Domestic Financial Sector: Lessons and Experiences," A paper prepared by the Asian Development Bank for the Fourth APEC Finance Ministers Working Group Meeting held in Subic, Philippines on 10-13 February 1997.

Second, **the momentum for capital market policy reforms has to be sustained and accelerated** in order to improve the depth and breadth of the financial system. Although major gains have been achieved in the past, the domestic capital markets remain largely underdeveloped relative to those in other Southeast countries. For instance, despite the flotation of government issues with maturities of longer than one year, the local debt market is still essentially a 30- to 60-day market.[15] In addition, liquidity is very thin given the limited number of issues on and tax disincentives to trading in the secondary market.

Not unlike the banking industry, reforms in the domestic capital markets should delve on the establishment of the much needed infrastructure support. The primary objective of these reform measures would be to improve the efficiency of existing capital and to build the capacity to satisfy unmet and new demand for funds. The country's low savings rate and heavy reliance on foreign funds for its investment requirements make these reforms imperative. If the Philippine has the capacity to source more of its capital needs from domestic savings, it would be less vulnerable to external capital shocks.

In the equities market, most of the necessary reforms have already been implemented. The remaining reforms in the stock market would concentrate on facilitating the establishment of the options and futures exchanges in order to complete the product mix of the local bourse. Feasibility studies would be needed to determine the viability and the financial requirements of these two exchanges. There are also plans to establish a fourth board in the stock exchange, which would cater exclusively to small- and medium-scale enterprises.

The next round of reforms in the domestic capital markets would have to underscore the **development of a viable long-term debt market**. In this regard, the Asian Development Bank at the request of the GOP is moving forward on the design and implementation of Capital Market Development Program II, whose policy reform agenda would focus on the debt market. The first activity under this program on the debt market is projected to start, once the Philippine Stock Exchange complies with the remaining conditions for its grant of the self-regulatory organization (SRO) status by the Securities and Exchange Commission (SEC).[16]

Additionally, the **rationalization of the taxation of financial services** must be a priority policy reform agenda.[17] The current tax disincentives have resulted in a shallow debt market with a relatively sluggish secondary market. Presently, secondary market transactions are levied a

[15] Mapa, Placido L. Jr. (1996). "The Challenges for the Development of a Viable Long-Term Debt Market," A paper presented during the Euromoney Conference on Philippine Capital Market Development held in Shangri-La, Makati City on 23-24 September 1996.

[16] The ADB's Capital Market Development Program I focused on strengthening the country's equity markets. To date, one of the remaining policy conditionalities under this Program that needs full compliance relates to the SEC's granting of the SRO status to the Philippine Stock Exchange. SEC had granted the SRO status to PSE, subject to its complying with the agency's conditions.

[17] The taxation of financial services was left out of the CTRP. In the 03 July 1998 meeting of the AGILE Core Team, Finance Undersecretary Milwida Guevarra cited the taxation of financial services as one of the priorities of the DOF.

documentary stamp tax of 0.15%.[18] This is on top of the annual 20% tax on interest income. Aside from the documentary stamp tax, financial institutions are also clamoring for the removal of the gross receipts tax. Unfortunately, given the fact that these two tax measures generated close to PHP20 billion in 1995, their abolition would be difficult to carry out.[19]

Likewise needed is a **robust yield curve that will serve as the benchmark** for the pricing of corporate bonds and other debt instruments. In the absence of a viable alternative, financial institutions presently use the 91-day Treasury bill (T-bill) rate as benchmark for bond prices. Because of the tendency of the yield of the 91-day t-bill to fluctuate widely every week, it really cannot be used as the benchmark for pricing long-term debt instruments. Without a pricing benchmark, corporations are reluctant to issue domestic long-term bonds. Thus, a number of corporations have opted to issue short-term commercial papers and/or tap the international capital markets for their funding requirements.

In addition, a **credible credit rating agency** will be essential to addressing the information needs of the investing public. With a rating agency, investors would be in a better position to evaluate the price and counterpart risks of various debt instruments. Presently, the Credit Information Bureau, Inc. (CIBI) is unable to fully provide the information requirements of investors. The CIBI mainly provides credit intelligence and rates commercial papers but lacks the necessary staffing and institutional capability required for rating bond issues.[20] In this regard, it is noteworthy that several international credit rating agencies, e.g., Duff & Phelps and Thomson Bankwatch, have expressed interest in establishing operations in the country.

Once the options and futures exchanges for equities are well-functioning, their operations must be expanded to include commodities, interest rates, and foreign currencies.[21] These derivative mechanisms would allow market players to hedge various forms of risk. It is essential to cite that the dearth of these hedging instruments has prevented corporations from covering their currency risks and made the currency crisis much more catastrophic. Thus, the strengthening of the regulatory infrastructure must come hand-in-hand with the introduction of more derivative products in the local financial system. Certainly, the BSP does not want a repeat of the Barings fiasco or the Orange County debacle. All these reforms would set the stage for the flotation of a wider variety of debt instruments which would suit the different investment horizons and risk/return profiles of investors.

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18 Emil M. Singley, Jiming Ha, John Isaac, and Tim C. Morris. (1997). "Philippines: The Taxation of the Financial Sector." International Monetary Fund.

19 See Sunley, et al. (1997), "Philippines: Taxation on Financial Sector". A report for the Fiscal Affairs Department, IMF. In a recent meeting, Director Amando Tetangco of the BSP estimated the revenue for 1997 at PHP 30 billion.

20 Mapa. "Challenges for the Development of a Viable Long-Term Debt Market."

21 In the meeting of the AGILE Core Team with SEC Commissioner Fe Eloisa Gloria last 27 August 1998, she stated that the new rules on the futures exchange are currently being drafted. She likewise proposed that a study evaluating the performance of the old Manila International Futures Exchange be conducted.

Third, there must be a focus on **capacity building of financial institutions** to improve the intermediation process and to contribute to capital markets development. Two sectors immediately come to mind; these are the mutual funds industry and the contractual savings institutions.[22] The contractual savings sector would include pension funds, insurance companies, as well as the pre-need companies.

In more developed countries, mutual funds play a vital role in mobilizing funds from small savers and in shifting from short-term to long-term savings. Mutual funds, moreover, represent an alternative vehicle to bank deposits for savers. These funds cover a broad range of investment styles—such as growth, value, small-cap, and emerging market— which suit the risk and return profiles of different investors. The mutual fund industry is largely an underdeveloped sector in the Philippines. As of the end of 1997, the mutual funds industry accounted for a mere 0.1% of the stock market capitalization, as against 45% for a developed financial market like the US.[23]

The local mutual funds industry is beset with two problems. The first problem is it is largely underdeveloped by Asian standards in terms of asset size, number of companies, and portfolio management skills. The second problem has to do with public perception on mutual funds. Back in the 1960s, not a handful of investors got burned because these funds were poorly managed. This bad experience has lingered at the back of the minds of a large number of investors. There remains some level of skepticism about the mechanism of the mutual funds in the Philippines. The Revised Investment Company Act, which will be resubmitted to the newly-convened Philippines 11th Congress is expected to put in place the facilitating framework of the mutual funds industry.

Some progress, though, has been realized in the taxation of mutual funds. The Comprehensive Tax Reform Program (CTRP) was able to eliminate the double taxation of income from mutual funds. Prior to the CTRP, mutual funds had to contend with a ¾ of 1% stock transaction tax, plus a capital gains tax upon redemption.[24] These tax disincentives consumed a significant portion of the return on investments (ROI) on mutual funds. Under the CTRP, mutual funds are now exempted from capital gains tax.

The contractual savings sector is potentially a huge source of funds which can be channelled to the domestic capital markets. For instance, by the end of 1997 total assets of the pension fund industry amount to at least PHP 300 billion. These funds will be particularly useful in financing long-gestating ventures such as infrastructure projects. Moreover, the bulk of these funds can be invested in long-term financial instruments, considering the long-term characteristics of their liabilities. The pension fund industry is presently plagued by poor portfolio management

22 The importance of these two financial institutions in improving domestic resource mobilization were emphasized in the AGILE Core Team meeting with the CMDCI last 31 July 1998.

23 Azanza, Roman A. (1997). "Recent Issues, Concerns, and Developments in the Philippine Capital Markets," A paper presented in the Strategic Planning Conference for Chief Financial Officers held in the University of Asia and the Pacific on 23 June 1997.

24 IMF. "Philippines: The Taxation of the Financial Sector."

—as evidenced by their low rates of return—low compliance rates, and weak regulatory structures.

Pension fund reforms similar to those of Chile and Argentina have to be introduced in the Philippines. The experiences of these two countries have shown that properly implemented reforms would result in improved returns on investments, vibrant capital markets, and higher savings rate. These reforms need to be analysed to determine their applicability to the Philippine environment. Among the reform measures presently being examined are the privatization of the management of the assets of SSS and GSIS, the merger of GSIS and SSS, and the creation of a national pension fund system.[25] In this regard, the World Bank has proposed a technical assistance to the government to introduce reforms in the contractual savings sector.

Another segment of the contractual savings sector that requires restructuring is the insurance industry. Like most financial services, insurance companies are heavily regulated and subject to a number of tax disincentives. Insurance companies, both life and non-life, are regulated by the Insurance Commission, which in turn falls under the supervision of the Department of Finance. Presently, life insurance is subject to a one-time documentary stamp tax charge of 0.25% of the amount insurance and a 5% tax on premiums. On the other hand, non-life insurance is subject to a documentary stamp tax charge of 12.5% of annual premiums. Like other financial services, **taxation of insurance has to be streamlined** by examining the trade-offs between efficiency and revenue generation. Particular attention must be given to the premium tax since the Philippines is one of the few countries in the Southeast Asian region that imposes such tax on life insurance.[26]

Unlike the insurance industry, pre-need companies are largely unregulated and subjected to limited taxes. Considering their hybrid characteristic, pre-need companies are presently regulated by the SEC and not by the Insurance Commission. The latter, however, insists that pre-need companies should be under their jurisdiction. The pre-need companies are presently exempted from value-added tax and gross receipts tax but are subject to a tax on their contributions less payments to insurance companies—which insure the contingent liability of the contracts. In order to address these critical issues, efforts to legislate a Pre-Need Securities Code are underway. In this regard, a bill was submitted to the Committee on Banks and Financial Markets of the Philippine 10th Congress. However, with the advent of election, the proposed bill was not scheduled for second reading. The Pre-Need Securities Code has to be resubmitted to the 11th Congress, whose sessions started last 27 July.

In general, the primary goal of the policy reforms in the financial system must be to improve the efficiency and productivity of capital. Achievement of this goal would require increasing savings and enhancing the breadth and depth of the financial markets. The role of the government would be to provide adequate institutional and technical support. Considering the adverse effects of the regional currency crisis, particular attention should be given to the

25 World Bank. (1995). "Philippines: An Agenda for the Reform of the Social Security Institutions."

26 IMF. "Philippines: The Taxation of the Financial Sector."

monitoring and regulation of markets together with the enforcement of sanctions. On the other hand, the main responsibility of the private corporate sector is to improve governance and enhance transparency and accountability.

- *Illustrative AGILE Activities and Indicators of Change*

Providing support to capital market legislation through the Capital Markets Development Center, Inc. (CMDCI) will be AGILE's main priority in Year 1. Six bills are being pushed by CMDCI for enactment into law. These bills include the:

- the Securities Act of 1998;
- the Revised Investment Company Act;
- the Comprehensive Financial Sector Tax Reform Bill;
- the Pre-Need Securities Code;
- the Revised General Banking Act; and
- amendments to the Central Bank Act.

CMDCI's policy and advocacy activities that will be funded by AGILE include technical briefings to legislators, liaison work with the congressional aides, workshops, policy dialogues, executive briefings, and press conferences.

In Year 1, the enactment of two bills will receive priority support from AGILE—the Securities Act and the Revised Investment Company Act. The drafts of these two bills have been completed and will be resubmitted to the 11th Congress. In particular, the Securities Act has been included in the list of the Estrada Administration priority bills.

AGILE POLICY AGENDA NO. 2: PROMOTING MACROECONOMIC STABILITY

- *Recent Trends and Developments Affecting The Macroeconomy*

As described earlier, East Asia including the Philippine is currently going through its most severe economic crisis in the last decades. At this point, it is generally believed that that the crisis originated from the financial sector.[27] Relatively stable exchange rates and deregulated capital markets tremendously increased the flow of capital into the region, excessively straining its

[27] See for example Stiglitz (1998) "Sound Finance and Sustainable Development In Asia." Keynote address to the Asia Development Forum (Manila, Philippines).

management and regulatory capacities. While some of these capital flows were directly invested, others went to comparatively high-risk and low-yielding investments such as real estate development. There were speculators as well, whose decisions and behavior were primarily motivated by the spread between domestic and international lending rates.

The onset of the crisis has compounded the problems of relatively high deficits in the current and trade accounts of the Philippines. Furthermore, the ability of the Philippines to manage and respond to the various impacts of the crisis is now under renewed pressure. The country's external balances, export performance, reserves and exchange rate can be adversely affected by the economic crisis in Japan, the potential devaluation of the Chinese renminbi, the volatility of world stock markets, and the potential slowing down of the US and other OECD economies as a result of all these external shocks.

Under these circumstances, the importance of quickly containing the potential incremental volatility induced by the worsening regional crisis—in order to arrest a further drop in investments and, hence, growth in the Philippines—cannot be overemphasized. Monetary and fiscal policies need to be carefully formulated and combined to achieve macroeconomic stability. Moreover, increasingly globalized financial markets make macroeconomic policies more open to scrutiny not only from domestic residents, but also from outside investors and lenders as well.

The DAI Group believes that AGILE can assist in strengthening the GOP's capacity to achieve and maintain stability through a systematic program of improving analytical capacities in macro policy formulation and implementation. Towards this end, some issues to consider might include:

- the effects and tradeoffs of macroeconomic policies on key variables that affect investment and growth;
- the effects of external changes in international conditions; and
- factors and processes affecting macro planning and implementation decisions in the country.

Increasing the stability of the macroeconomic variables associated with a more open, transparent business environment will result in higher domestic savings and investments—both public and private—which, in turn, will dampen the extreme fluctuations and volatility of the foreign exchange markets. Higher levels of investment and growth will generate additional income tax receipts, increasing the ability of the government to generate savings, increase reserves, and stimulate confidence in the stability of the economy.

Preliminary Summary of Macro Policy Concerns

- Seeming Lack of Policy Consensus

Media reports indicate that there is currently a lack of consensus among the country's economic managers and decision makers—a situation which can have serious detrimental effects to the Philippines' macroeconomic stability.[28] Diverging forces tend to result in higher spending or increased level of credit to certain sectors of the economy or even successful resistance to gradual improvements in tax compliance. Groups with vested interests will lobby for their respective agenda, regardless of the impact of such agenda on the overall economy. For example, although recent policy pronouncements have expressed the need for austerity and fiscal discipline, the results of compromise decisions might just be the opposite. The GOP has to weigh the costs of tight fiscal policies in view of the external shocks in order to avoid further deceleration of output and rein social sector spending at acceptable levels. In the long-run, higher public savings will be key to improving overall domestic savings and higher per capita growth in the country.

- Inadequate Disclosure of Relevant Macroeconomic Information

One important lesson learned from East Asia's financial turmoil stresses the need for adequate information disclosure. [29] There are still some areas of statistical reporting that need improvement—such as balance of payments, reserve positions including off-balance sheet items such as loan guarantees, external exposure of banks and corporations and the performance of loan portfolios.[30] The risks of pressures on the exchange rate cannot properly be assessed by public and private sector participants in the market without disclosure of adequate information. For example, official statistics tend to under-report the extent of stress in the Southeast Asian banking systems, including the Philippines. [31] Timely and accurate financial and fiscal information are not provided as well, thus, increasing the degree of speculation and risk premiums to cover for additional real or perceived contingencies.[32]

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[28] In the meeting of the AGILE Core Team with NEDA Director-General Felipe Medalla, he emphasized the importance the economic gains of the policy reforms and continuing the liberalization measures. Secretary Medalla likewise discussed the economic theme of the Estrada administration which is to free the markets, while at the same time addressing the needs of the poor.

[29] *"Globalization, Lessons from the Asian Remarks,"* by Alassane Quattara, Deputy Managing Director, IMF. Meeting of the Central Bank Governors of the Franco-phone Countries. Ottawa, June 23, 1998.

[30] The same policy concerns were raised by NEDA Assistant Director-General Ofelia Templo in the 09 July 1998 meeting with the AGILE Core Team.

[31] For example, private sources indicate that the ratio of non-performing loans to GDP is 7% for the Philippines and 40 % for Thailand. The official statistics only report 3.4 % for the Philippines and 18 % for Thailand. Source: Asian Development Outlook, 1998. Page 33. ADB. Oxford University Press.

[32] Backtracking from major macroeconomic policy pronouncements also raises instability in the macroeconomy. Earlier President Estrada had announced that the Philippines will no longer resort to foreign borrowing. After his advisors persuaded him that this policy would cause more problems to the economy, he reversed himself.

Uncertainty is very costly for the economy. First, it tends to increase the interest rates required by the suppliers of credit in the market. Unless the underlying causes of uncertainty are removed, there is little scope for the government to influence real interest rates. Uncertainty in the foreign exchange market creates additional sources of instability in domestic prices and interest rates. Fiscal and monetary policies can be effectively used to lower interest rates by reducing fiscal deficits and, hence, the demand for financial resources. Lowering fiscal deficits can free up resources for private sector investment and working capital needs, accelerating growth. Monetary policies can support the stabilization objectives by maintaining money supply levels consistent with lower price increases and lower interest rates. Finally, a very important source of uncertainty is the volatility of the policy regime. Private sector investors will react immediately, if the fiscal and monetary regime is subjected to sudden changes. Uncertainty can delay the implementation of profitable projects. The wait-and-see attitude of investors can result in quite a significant reduction of potential output and growth.

- Low Domestic Savings Rate

The Philippines economy reports a relatively low rate of 19% for gross domestic savings compared to about 35 % in Malaysia, Thailand and Indonesia. Unfortunately, domestic savings generation is crucial to lessening the vulnerability of the economy from external sources. While it is desirable to attract high levels of foreign direct investments into the country, especially for long-term direct investment, the composition of growth in overall savings has to favor a higher proportion of domestic savings. In this regard, capital market development assistance will be pivotal to deepening the Philippine financial markets. The availability of more institutions and instruments should help reverse the low saving performance of the Philippines financial system. In addition, the formulation and implementation of incentive schemes for savings, particularly for the poor will need to be reviewed and addressed appropriately. Local government finances, including the review and gradual implementation of the property tax code should help boost the financing of local services, without compromising the overall taxation objectives—i.e., efficiency, simplicity and fairness. Higher Government savings can also directly complement private sector savings to increase the economy wide savings rate.

- Vulnerability of External Balances

Trade deficits of more than 10 % and balance of payments deficits exceeding 5 % of GDP, respectively, expose the external balances to the unsettling impacts of shifts in foreign capital flows. In 1997, the Philippines had a trade deficit equal to 10 % of GDP (Figure 5). While services exports by Filipino overseas contract workers (OCWs) have managed to reduce the country's current account deficit, such exports tend to be highly susceptible to changes in the overall political and economic situation of the service importing countries. Moreover, the excessive concentration of commodity exports in electronics compounds puts the country's external balance in a more precarious position. Thus, what needs to be done, and at the soonest possible time, is to diversify merchandise exports and services.

Furthermore, net capital outflows can induce major volatilities in the macroeconomy, particularly when the remaining current account deficit is offset with short- term capital inflows in the overall balance of payments. Such reversals can be the product of diminishing confidence in the medium-term prospects of the economy, and the associated fears of major regional disturbances—which affect the profitability of companies integrated with the affected markets. For instance, the regional and world disturbances originating from the economic crisis in Japan could exacerbate the volatility of external balances and depreciate sharply the exchange rate. The ratio of foreign exchange short term debt to foreign exchange reserves, should be used to assess the vulnerability of the economy to short term flows.

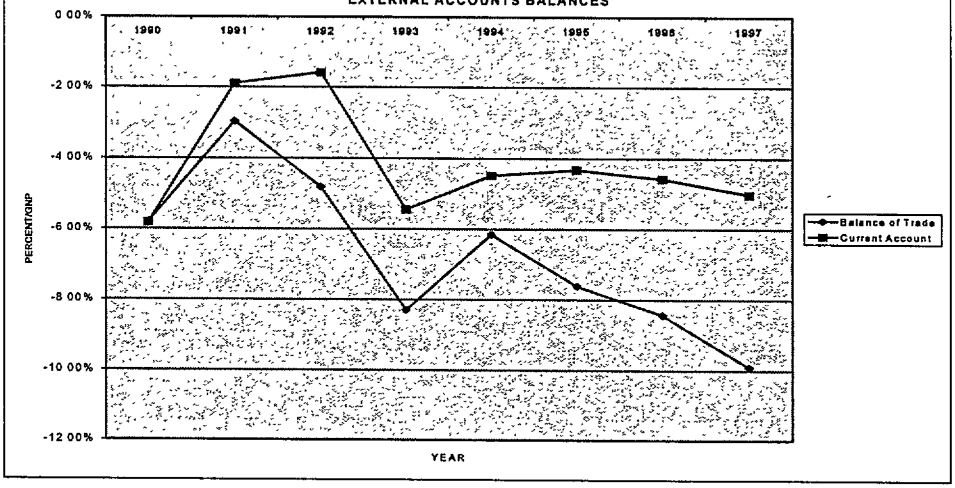


FIGURE 5
EXTERNAL ACCOUNTS BALANCES

♦ Potential Sharp Increases In Food or Oil Prices

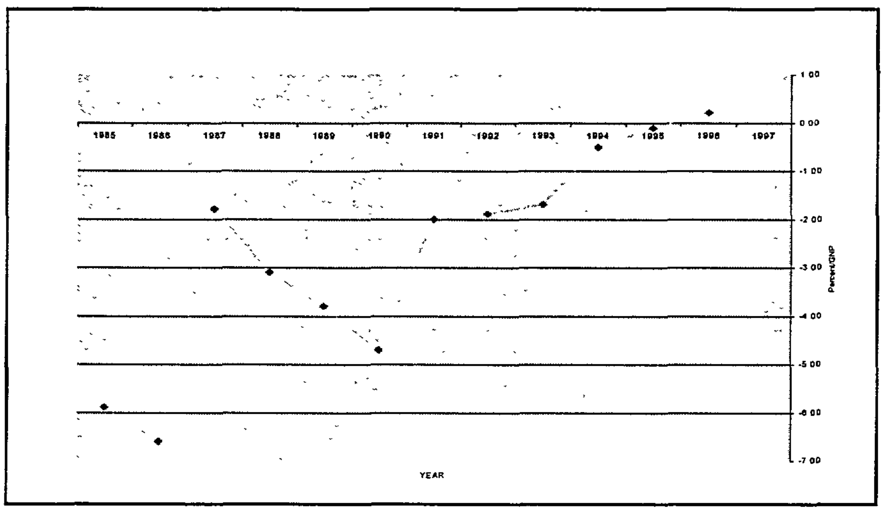
As long as the food security situation in the country remains fragile, a poor rice harvest combined with overly restrictive rice import policies and inadequate reserve arrangements will generate additional pressures on inflation. Rice prices depend on the underlying supply and reserves position of the economy. Although in 1995, supply was not out of line with expected demand during the year, the weak grains reserve position— coupled with the reduced sale price and late importation of additional rice on the part of the Department of Agriculture—exacerbated the volatility of prices, triggering the worst rice crisis in the Philippines for years and creating another source of instability. Similarly, rising domestic oil prices either because of world price increases or the continued depreciation of the peso will tend to exert upward pressures on inflation. Price increases for rice or oil can induce legislated wage adjustments as workers try to compensate for the loss of their purchasing power and real income due to the higher cost of food or public transport services. The government in an effort to keep nominal wages stable and avoid legislating wage adjustments may opt to subsidize the consumption of rice or oil, measures that will lead to an increase in the fiscal deficit. Either way—higher nominal wages or larger fiscal deficit— will tend to induce sharp increases in food or oil prices, a fundamental macroeconomic issue.

- Inordinate Reliance on Trade Taxes

Trade taxes in the country still account for a large portion of the tax revenues—at about 5 % of GDP and about 25 % of total revenues—but will likely diminish as tariffs are furthered lowered mainly due to the Philippines' international commitments under the WTO and the ASEAN-CEPT. This gradual shift in the tax burden imposes an even higher urgency to implement effective tax collection efforts sooner.

The Philippine tax performance has been below the expected levels. For medium-income countries, tax revenues typically exceed 20% of GDP. The country's consistently below par tax revenue performance, at 16.2%, will continue to be a source of instability in the fiscal accounts (Figure 6). This may potentially result in lower than expected growth in the economy when deficits in the fiscal account negatively affect the behavior of interest rates.

FIGURE 6
PHILIPPINES CONSOLIDATED PUBLIC SECTOR SURPLUS (+)/DEFICIT(-)



- *Macro Policy Reform Thrusts of the GOP*

It is evident from the DAI Group's review of relevant reports and documents, as well as the consultative meetings held with government agencies, particularly the DOF and NEDA, that the GOP is committed to macroeconomic stabilization. In fact, the Estrada Administration is beginning to show in practical terms that it is committed to reducing deficits and minimizing the reliance on domestic finance, consequently lowering the market interest rates for government instruments which serve as the benchmark for bank lending rates. Specifically, the GOP is aiming to:

- systematically reduce the government deficit;

- prioritize and select government expenditures based on higher positive economic impact;
- implementation the Comprehensive Tax Reform Package (CTRP);
- develop systems to efficiently allocate the contribution of revenues and expenditures between the central administration and local governments;
- rationalize the taxation of financial instruments as it relates domestic denominated instruments to foreign denominated ones;
- continue and enhance strict bank supervision;
- continue the formulation and implementation of prudent monetary policies to reduce pressures on domestic prices;
- manage foreign exchange reserves and requirements to reduce fluctuations while maintaining the competitiveness of the export sector;
- improve the development of updated systems of revenue and expenditure forecasting; and
- adopt and implement the timely and accurate distribution of fiscal and financial information to the public.

♦ *Illustrative AGILE Activities and Indicators of Change*

The DAI Group believes that AGILE can effectively assist the GOP in identifying and analyzing alternative policy options for balancing the budget through time, as the pressures to deliver social services and invest in high yielding economic infrastructure mounts. The correlation between public and private sector investment can be enhanced by further streamlining the selection, administration and management of public sector projects through application of a medium-term framework more widely and efficiently through time. AGILE can likewise assist in evaluating the tradeoffs between domestic and external finance to support budget deficits. This will entail a combination of capacity building exercises and technical studies. Overall, AGILE can provide advisory services to the Estrada Administration in achieving a higher degree of consensus on economic policies which will be needed to maintain stability, increase the policy regime credibility, and broaden the support for the government's macroeconomic and sector policies.

In particular, AGILE can be instrumental in the accomplishment of the following GOP objectives:

- ♦ *Exchange Rate Determination.* AGILE could assist in developing a methodology to ensure that exchange rates are determined by the market forces, competitive, but with managed float to smoothen the short-term fluctuations. This should lead to more predictable and attractive profitability for private sector businesses, both for exports as well as import competing activities—thus, further strengthening the balance of payments position of the economy;

- *Reserves Management.* AGILE will provide advisory services to manage prudent monetary and fiscal policies with the objective that both the BSP and GOP could enjoy accumulated reserves. These could be managed to generate additional income and provide a better hedging mechanism against sudden external shocks—financial or real. In this manner, the ratio of short-term obligations over the reserve level could decrease systematically.

- *External Debt Management.* AGILE will assist in avoiding the accumulation of external debts that are beyond the fiscal repayment capacity of the government;

- *Capital Flows Management.* AGILE will provide technical assistance in establishing efficient systems for dampening the effects of sudden capital flow reversals in the Philippine economy, such as the precautionary reserve requirements for short-term capital inflows. This will help increase the credibility of the monetary authority to manage economic crisis more effectively, helping to avoid sharp fluctuations in the peso foreign exchange rate;

- *Savings Mobilization.* AGILE will support efforts to increase the ratio of domestic saving to GDP, including the contribution of fiscal saving;

- *Managing The Inflation and Interest Rates.* AGILE will help ensure that as a result of higher surpluses in the fiscal accounts and the accommodating monetary policies, inflation and interest rates will be kept to single digit numbers; and

- *Ensuring Greater Availability And Transparency Of Information Regarding Economic Data And Policies.* AGILE will assist in the implementation of a regular reporting system, using electronic media, to distribute economic data and policy decisions to the public for increased transparency. Monthly reports on fiscal and financial and monetary information, covering the operations of the public sector, will be made available with shorter lags with AGILE support. AGILE will likewise assist in the implementation of the Code of Good Practices on Fiscal Transparency as agreed with the Interim Committee of the IMF in April 1998. AGILE will also support similar efforts as they relate to financial and monetary policies.

AGILE POLICY AGENDA NO. 3: IMPROVING TAX AND EXPENDITURE SYSTEMS

Recent Fiscal Trends and Developments

In the 1990s, the Philippines achieved significant progress in balancing the budget. Beginning in 1994, the government budget has been generating surpluses. In 1996, the Consolidated Public Sector registered a small surplus—reported at 0.2 % of GDP. While demonstrating marked improvements during the early 1990s, the growth in the level of tax effort, i.e., tax revenues as ratio to GDP, has again slowed down. The GOP, for its part, has made commitments to the IMF, the World Bank, and the ADB to increase its tax efforts and rationalize its expenditures. On the expenditure side, more efforts are needed to ensure the budgetary allocation of resources to expenditures with higher economic returns. Some of these decisions will trigger a private sector response in terms of higher investments and demand for labor, as well as additional sources of tax revenues for the government.

Nonetheless, while the Philippines is experiencing both external and internal uncertainties in its economic situation, caution will have to be exercised in the attainment of fiscal balance in a very narrow sense. In the medium-run, however, increasing the growth of revenues and improving the system of expenditures will lead to public sector savings which could foster long-term stability in the fiscal accounts, leading to an increase in the overall saving rate of the economy. This efficacious cycle would then result in lower costs of capital, potentially higher investments in high yielding sectors, and the gradual reduction in the dependency on foreign savings.

Tax Policy Constraints and Thrusts

The enactment of the Comprehensive Tax Reform Program (CTRP) legislation in 1997 is a landmark policy accomplishment that paves the way for significant improvements in the country's tax collection efforts. In the last three years, the Philippines' tax collection efforts have been sluggish. For a middle-income country, the average total tax revenues is typically higher than 20 % of the total GDP—however, the Philippines' reported total tax revenues for 1997 is only 16.2 % of GDP. A more vigorous implementation campaign for tax collection, the authorities' capacity to comply with revenue plans and the issue of corruption will need to be addressed if the tax collection efforts in the country are to dramatically improve.

Currently, a high proportion—estimated at approximately 20% in 1997—of the country's tax revenues is derived from trade taxes (Table 3). This particular source of revenues will continue to diminish as tariff rates are systematically lowered due to GOP commitments, specifically those that have been agreed with the region (i.e., APEC, ASEAN) and the global community (e.g., WTO). Another important source of government revenues is income tax. However, as the world economy becomes more integrated, it becomes increasingly difficult to assess real corporate income due to varying transfer pricing techniques and different accounting standards. Thus, it is likely that in proportion, this type of tax revenue will likewise decrease through time although during the last decade, the contribution from this tax source increased from 25 % to 34 % of total tax revenues. In the medium-run the problem then becomes one of finding the most efficient means for raising the much needed revenues to fund government expenditures at adequate levels. The tax systems of the world are gradually and ideally becoming more efficient, equitable and simple. Meanwhile, the potential for expansion in the value added tax is significant. Property taxes to generate sources for local government financing is also an area that merits careful examination.

TABLE 3
TOTAL REVENUE AS PERCENTAGE OF GNP

	Year	
	1997	**1997 (BLN Pesos)**
Total Revenue	18.61%	471.8
Tax Revenue	16.21%	409.5
Income and Profits	6.50%	164.2
Corporate	3.24%	81.9
Individual	2.16%	54.5
Other	1.10%	27.7
Excise	2.50%	63.0
Sales/VAT	2.68%	67.7
Import Duties	3.75%	94.8
Other Domestic Taxes	0.78%	19.8
Non Tax Revenue	2.36%	59.7
Fees and Charges	0.52%	13.2
Grants	0.07%	1.7
Sales of Assets	0.37%	9.4
BTR Revenue	1.40%	35.4
Other Offices (Motor Vehicle, etc.)	0.11%	2.7
GNP		**2,526.9**

Source: Department of Finance

Over the past three years, the GOP has made substantive progress in the area of tax policy and administration reforms. Congress has enacted the reforms, now codified as amendments to the country's Internal Revenue Code, in several phases. In an earlier phase of the reforms, the base of the value-added tax has been broadened. The 1995 VAT law extended the coverage of the 1988 VAT law to the services sector. Another set of reforms plugged the leakages in the country's excise tax system on beers and cigarettes. Specific instead of ad-valorem taxes were used and features to ensure uniform tax treatment on similarly priced beers or cigarettes were introduced. A third batch of tax policy reforms has improved the personal and corporate income tax structures. The base of, as well as the category of tax rates on, personal income have been changed to ensure a more uniform tax schedule. Furthermore, the new income tax law reduced the corporate tax rates from 35 to 30 % and taxed FCDUs at the rate of 7.5 %. A fourth group of reforms are now underway to improve tax administration. In 1997, Congress authorized the computerization of the operations of the tax collection bureaus to help improve tax policy enforcement.

The above reforms were introduced to strengthen the government's tax policy system. A good tax policy system provides for tax measures that are relatively easy to administer, socially fair, and impose the least deadweight loss to the economy. The broadening of the value-added tax, for example, sought to provide a uniform taxation on value addition across the economy. Including the services sector under the coverage of the VAT —through an extended VAT, i.e., the EVAT—was intended to arrest the bias for services under the existing VAT law. With the EVAT, investment decisions are now less vulnerable to the distortions that resulted from the incentives provided under the VAT law of 1988. Similarly, the income tax reforms of 1997 are expected to generate net revenues of 5.44 billion pesos according to the Senate Tax Research Office (Table 4).

TABLE 4
PROJECTED REVENUE GAINS AND LOSSES FROM INCOME TAX REFORMS OF 1997

Revenue Gainers (in bln PHP)	
1. Tax on dividends	1.84
2. Tax on FCDU deposits of residents	1.74
3. Minimum corporate income tax	1.22
4. Fringe benefits tax	2.40
5. Disallowance of tax arbitrage	3.61
6. Income tax on government corporations	2.38
7. Tax on reverse repurchase of BSP	1.58
8. Increase in capital gains tax	0.84
9. Controls on deduction	1.71
Total	**17.32**
Revenue Losses (in bln PHP)	
1. Restructuring of the individual income tax	7.58
2. Tax on Phil. Source income of non residents	0.30
3. Reduction of the tax rates on IPO	0.24
4. Reduction of the capital gains tax on unlisted shares	0.68
5. Reduction of the corporate income tax	2.08
6. Net operating loss carry-over	0.71
7. Reduction of estate tax	0.01
8. Reduction of donor's tax	0.04
Total	**11.63**
Net Revenue	**5.44**

- *Illustrative AGILE Activities and Indicators of Change in Tax Policy Reforms*

  - Formulation of Implementing Rules and Regulations

The Implementing rules and regulations (IRRs) of recently enacted laws are integral components to completing the tax policy reform process. At present, many of these IRRs are still in the process of being formulated. AGILE has the capacity to provide technical inputs to the

DOF in the preparation of these IRRs. For instance, a portion of the IRR for the VAT-related phase of the tax reforms is yet to be issued by the DOF. AGILE can help accelerate the process of formulating the IRRs for the package of reforms under the CTRP. To increase the efficiency of implementation, the IRRs will be refined in an iterative process, where once the initial formulation is implemented, some feedback from the field can help refine the IRR, then tried again.

- Rationalization of Fiscal Incentives

There are two items in the GOP's tax policy reform agenda where AGILE can significantly contribute. The first deals with fiscal incentives reform. At the moment, tax incentives are provided to exporters and investors. These fiscal incentives are a drain in the government's revenues—representing unappropriated government expenditures that represent significant forgone revenues. Worse, ambiguity remains on the issue of whether in fact these fiscal incentives have generated net benefits to the economy.[33]

A GOP Task Force, led by the DOF, has examined the various options for dealing with these fiscal incentives, which have come to be generally regarded as contributing meagerly to improvements in investments or exports. The Task Force recommendations called for a more focused and simpler fiscal incentive structure to benefit only the exports and so-called catalytic industries. Another Task Force was convened under the auspices of the Department of Trade and Industry (DTI) to look into the same policy issue. The latter recommended an incentive structure that was broader than that recommended by the DOF-led Task Force

These differing sets of policy recommendations on fiscal incentives will have to be reconciled to proceed with the drafting and submission of a relevant bill to Congress. Towards this end, AGILE can certainly provide the necessary technical inputs—thus, facilitating the issuance and/or legislation of a clearer set of fiscal incentives reforms that could generate undisputed economic benefits in the future.

- Imposition Of The VAT on Financial Services

A remaining weakness of the country's VAT system lies in the difficulty of defining the value-added by the financial services sector. While the 1995 VAT law as amended provides for the inclusion of the financial services in the VAT system, implementation of this provision has been deferred for two years due to the conceptual problem estimating such value-added. Currently a 5 % gross receipt tax is levied on the receipts of firms engaged in financial services. Within the next two years, the DOF would have to arrive at the concept of value-added for the financial services and an appropriate mechanism for implementing the VAT on such services. At present, the mechanism involves the determination of input and output taxes—involving questions such as what are the input taxes of the financial services provider and what would be its intermediate inputs. It would seem that such intermediate inputs are relatively small in proportion to the total value of financial services. If this is the case, then the firms in the sector would be unable to recoup most of the 10 % VAT on their receipts. The bottom-line is that applying the VAT law on

33 See Clarete (1996) for a general equilibrium assessment of fiscal incentives in the Philippines.

financial services effectively increases indirect taxation from the present 5 % gross receipt tax. This increase, in turn, would have to be passed on by the banks to their borrowers through higher interest rates, possibly creating adverse consequences to the country's overall economic growth.

AGILE could provide the DOF with the technical inputs required to arrive at realistic options for applying the VAT or retaining the gross receipts tax (GRT) on financial services.

- Tax Compliance Improvements

While the above tax policy reforms addresses—among other issues—the legal loopholes in the current tax policy system which are used by the taxpayers to avoid a portion of their tax liability, these reforms need to be complemented with improved tax enforcement capacity to prevent tax evasion and increase tax compliance.[34]

Data is lacking on the extent of tax evasion in the country. The few available information would seem to suggest that tax compliance is fairly low. According to HIID in its final report to the NEDA, *"the collection of revenue in the Philippines has been and continues to be highly inefficient. Tax evasion is widespread and is abetted by the poorly managed system of tax administration"*[35]. One estimate places income tax collections at a paltry 11 % of potential revenues—a fairly low rate of tax compliance. In the case of the 1988 VAT law, an earlier study placed VAT compliance at 30 %. This may be reasonable considering that the assessment was done in the 1990s, a few years after the 1988 VAT law was implemented. However in the case of customs duties, a study placed tax compliance at less than 75 %. Manasan (1998) estimates the rates of tax of evasion in the country to range from 30 to 70 %, depending on the type of tax.[36]

Comparing actual tax collections with potential collections is rudimentary and needs to be improved. However, the DAI Group believes that current comparative estimates could be flawed because of inaccuracy in the estimation of potential revenues. In this regard, it is expected that the DOF will be able to establish a better system for monitoring compliance. One possible idea is the micro-mapping of the database on income tax returns and family and income survey results. Matching the characteristics of actual taxpayers and the FIES survey respondents could provide DOF with a clearer idea of the extent of revenues evaded. Moreover, the same study can summarize the characteristics of good taxpayers, moderately complying tax payers, and the consistent tax evaders.

Strengthening the capacity of the BIR and the BOC to enforce the country's tax laws is a critical factor to enhancing tax compliance. Computerization of the operations of the two tax

[34] In the meeting of the AGILE Core Team with BIR Commissioner Beethoven Rualo last 27 July 1998, he request for requested for technical assistance in three areas, namely: (1) operationalization of a tax arbitration court; (2) additional training programs for BIR personnel; and (3) acceleration of the BIR computerization program.

[35] Promotion of Broad-Based Economic Growth in the Philippines. Final Report, December 1997. Harvard Institute for International Development (HIID) for NEDA.

[36] Fiscal Adjustment in the Context of Growth and Equity, 1986-1996. Rosario G. Manasan. Discussion Paper Series No. 98-11. Philippine Institute for Development Studies. May 1998.

collecting bureaus under the DOF is only the first step. There are anecdotal reports that investments in training and systems development may be required to complement computerization. System development is an important challenge that needs to be given serious attention. A well thoughtout system for collecting taxes and monitoring tax compliance, in addition to well-trained personnel have a great potential for reducing the cost of tax administration, thus improving the efficiency of tax compliance efforts. The tax system should also strive to create taxpayer identification numbers, which may contain national identification features, in order to monitor and increase the level of compliance and to be able to forecast revenues more accurately.

AGILE can assist with the conduct of such required studies for improving the government's tax administration capacity. In this regard, USAID is funding an ongoing activity which addresses some of the concerns. AGILE intends to dovetail with the ongoing efforts in this area and carry on the work beyond the activity's completion date.

- Establishment Of An Incentive System For Improved Revenue Performance

AGILE can provide assistance in carefully evaluating and establishing a system of incentives for achieving a higher tax effort. Incentives must be understood as encompassing not only monetary rewards but also recognition, career development possibilities, and a sense of belonging to a team dedicated to such efforts. On the revenue side, this effort will include the review of the operations, human resource deployment and incentives for revenue collectors and the agency. Another important area of analysis can be the positive and negative incentives for compliance on the part of taxpayers. For example, to broaden the tax base for value added tax, lotteries on tax compliance for individual taxpayers who file their returns on time could be designed. The individual tax returns could include taxes paid on inputs, as well as on goods for production and consumption. The objective would be to generate a database for a broader set of taxpayers through the individual and corporate tax returns. The identification of taxpayers should be linked to national registration certificates at individual or legal entity levels.

This process can be efficiently supported by the computerization projects in both BIR and BOC. Computerization can also assist in the more accurate estimation of compliance and effectiveness. Incentive systems have been successfully implemented in many countries around the world. They will require careful attention for adoption to local conditions in terms of implementation, but some of the basic ideas will be invaluable to this particular area of taxation concern.

The formulation of incentives should also include the design (or re-design) of tax courts to make the system more stable and to minimize problems arising from abuses on the revenue authorities' or taxpayers' side. Tax courts would provide all the parties involved with the venue for a more efficient recourse to solving disputes.

♦ Capacity Building In Tax Revenue Estimation

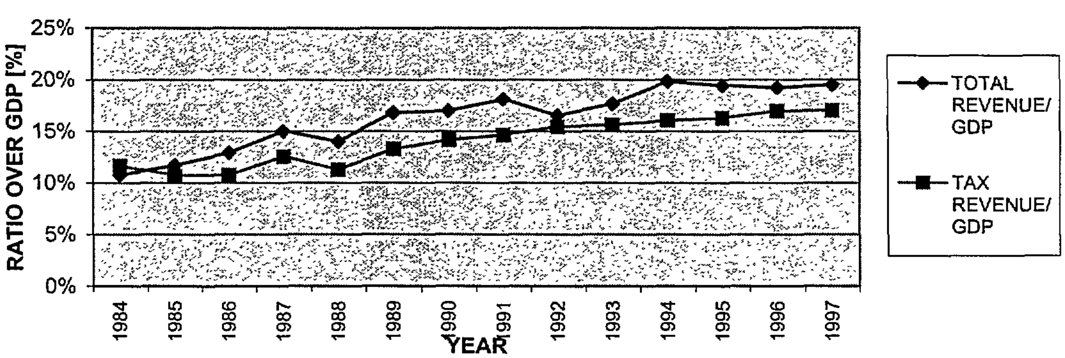
Keeping fiscal deficit down to sustainable levels is one of the most fundamental objectives of good fiscal management in order to attain overall macroeconomic stability. A large fiscal deficit would have to be financed either through borrowings from the domestic financial system or through external borrowings. The former option, however, tends to increase interest rates and crowd-out private sector investments. Assuming that such investments could have increased the productive capacity of the economy, then the fiscal deficit has contributed a deadweight loss to the economy in terms of foregone outputs that could have been generated from said private sector investments.

One of the basic steps to avoiding huge fiscal deficits is to estimate fairly accurately the government's tax revenues for the incoming fiscal year. A quantitative analysis of the correlation between the tax revenues of the government for the period 1974 to 1991 and the level of the gross domestic product for the same period shows that for every 1 % growth in GDP, there is a corresponding .96 % growth in the government tax revenues (Figure 7). A reliable projection of tax revenues would, consequently depend on a credible projection of the country's economic growth for the incoming fiscal year. Errors committed in earlier projections can actually cause a higher fiscal deficit for the coming year. These errors perhaps can offer a significant explanation for the fiscal deficit generated by the government in 1997.

While the statistics would confirm that the government had a fiscal surplus of over a billion pesos, this situation was actually the offshoot of several cash infusions from government's owned and controlled corporations (GOCCs). The government had borrowed from these corporations. In truth, the economy's growth rate slowed down during the second half of 1997 relative to the projected growth rate. Projected expenditures were, therefore, higher than the actual revenues because of the lower taxes collected during the second half of 1997.

AGILE will support the capacity building efforts of the DOF to refine tax revenue projections, in coordination with other USAID-funded activities that are currently underway.

FIGURE 7
TAX EFFORT



Illustrative AGILE Activities and Indicators of Change in Expenditure Policy Reforms

- Strengthening Discipline in Fiscal Expenditures

Turning to the other equally important side of the equation, there are areas for improving expenditure policy in the country, as well.[37] AGILE can certainly provide important contributions to responding to requirements in these policy reform areas. Table 5 compares the budgeted and actual expenditures of the GOP from 1990 to 1998. It is interesting to note that in most years, the government spent more than the amounts authorized by Congress.

TABLE 5
BUDGETED VS. ACTUAL EXPENDITURE OF THE PHILIPPINE GOVERNMENT

	Expenditures (billions PHP)		
	Budgeted	**Actual**	**Diff.**
1990	156.6	218.1	61.5
1991	166.2	247.1	80.9
1992	194.8	258.7	63.9
1993	309.4	282.3	-27.1
1994	322.7	319.9	-2.8
1995	387.4	350.1	-37.3
1996	394.9	404.2	9.3
1997	433.8	465.9	32.1
1998	546.7	?	

Source: GAA and DBM

Exceeding the authorized annual limits of Congress can happen because there are automatic appropriations within the expenditure policy system of the government. An important area that receives automatic appropriation is debt servicing. Another area would be with respect to tax-subsidy schemes. It is important to make an inventory of these automatic appropriation features in existing laws and assess their implications on the overall task of maintaining fiscal discipline. AGILE can help to undertake this inventory and analyze the impact of such flexibility on the expenditure policy system.

- Reducing The Size of the Expected 1998 Fiscal Deficit

The private sector is currently speculating on the size of the government's fiscal deficit in 1998 because of several factors most of which stem from the sharp devaluation of the Philippine peso. The government has an approved budget of PHP 546.7 billion in 1998. Given the trend, one would expect that actual expenditures would again exceed the approved budgeted amount.

[37] In the meeting of the AGILE Core Team with Budget Secretary Benjamin Diokno last 13 July 1998, he discussed the importance of addressing the fiscal gap and the priorities of the DBM policy agenda. The priority reform measures are: (1) the formulation of the a medium-term fiscal framework; (2) the implementation of the Fiscal Responsibility Act; and (3) the reorganization of the bureaucracy.

Several factors ought to be considered in arriving at realistic revenue targets for 1998. One factor is that the debt servicing will be increasing. The country's external debt will simply have to increase because of the devaluation. Domestic debt would likewise increase since the T-bill rates had gone up from 10 to nearly 20 %. Interest costs are also estimated to increase by at least 50 %. About PHP 38.5 billion in outstanding T-bonds are due to mature in 1998. With automatic appropriations, expenditures would have to increase. The confluence of factors affecting the government precarious financial situation in 1998 are likely to encourage domestic creditors to extract better terms, resulting in another year of high interest rates.

Given the above, a priority AGILE concern would be to assist in validating all the GOP revenue and expenditure projections in order to provide timely technical advice to the DOF—thus, helping to reduce the size of the projected fiscal deficit currently estimated to range from PHP 20 to 80 billion.

- Expenditure Allocation, Fiscal Deficit and Sustainability

There have been very important trends in major categories of expenditures since the mid-1970s. Interest expenditures have increased dramatically from 1.5 % of GNP during the 1975-85 period, to 5.7% in 1986-1991, and then decreased to 4.3 % in 1992-1992. Total expenditures, net of interest payments, have been stable at around 14 % of GNP. The net of interest expense level of 14.4 % of GNP in 1996 was lower than the peak level of 16.4 % in 1975. The increase in interest expenditure translated to higher current operating expenditures. Within the current operating expenditures, wages and salaries rose while other costs such as maintenance decreased. Capital outlays decreased from 4.6 % of GNP in 1975-85, to 2.9 % in 1986-91, and dropping further to 2.7 % in 1992-96[38]. Although the national government capital expenditures declined from 2.6 % in 1975-86 to 2.3 % for 1986-91, they have crept back to 2.7 % in 1992-1996[39].

An analysis of the consolidated sector and government deficits shows that they were sustainable from 1987 onwards— if sustainability is defined as the ability of government to maintain its debt-to-revenue ratio through time.[40] But as earlier seen, given the size of the public debt, both internal and external, it was imperative to reduce the interest outlays as they were increasing relative to the total current operating expenditures of the government. Other categories of expenditures, such as social sector outlays have also been increasing since the early 1990s. But many demands on the social sector, which have the potential for very high payoffs in social and economic terms, continue to be unmet.

AGILE can support GOP studies designed to analyze expenditure allocation on a sector-by-sector basis, with the corresponding evaluation of the economic and social impact of said expenditures on each sector. Moreover, sector allocations will need to be assess for the purpose of

38 Fiscal Adjustment in the Context of Growth and Equity, 1986-1996. Rosario G. Manasan. Discussion Paper Series No. 98-11. Philippine Institute for Development Studies. May 1998.

39 Manasan (1998).

40 See 3, Page 45.

identifying areas for potential improvement of the allocation system. For example, this effort should help resolve the issue of the countrywide development fund (CDF) and congressional initiatives. AGILE can also assist in the design and implementation of a comprehensive benefit monitoring system for government expenditures.

AGILE POLICY AGENDA NOS. 4 &5: LIBERALIZING AND FACILITATING TRADE AND INVESTMENTS

Recent Trends and Developments in Trade and Investments

Over the past 20 years there has been a rapid increase in the integration of developing countries with the global economy.[41] This pattern of economic development has two critical implications on the Philippines. For one, "firms are taking advantage of falling trade and investment policy barriers— as well as declining transport and communication costs—to disaggregate production processes, especially manufacturing. As a result, production processes are being organized on a global basis with multinational corporations (MNCs) increasingly oriented to worldwide export markets."

Secondly, industries which provide production inputs to the MNCs have to be exposed to greater competition to force them to be more efficient. The ability of the Philippine economy to realize the full benefits of its comparative advantages would depend on the costs and availability of inputs in the production chain.[42] The relatively high cost of infrastructure services, particularly for power and transportation, may prevent the country from obtaining the gains from global integration. Higher costs and delays in government administrative services for the private sector translates also in higher costs of doing business in the economy, reducing its competitiveness.

Thus, efforts of the government to enhance the degree of competition in the Philippine economy should have a two-fold objective. The first objective is trade liberalization and facilitation through the removal of trade and other non-trade barriers. The second objective is investment liberalization and facilitation through the elimination or lowering of the barriers to entry to domestic ventures. These reform measures are expected to result in increased trade and foreign direct investments, which are crucial prerequisites in the attainment of sustained and broad-based economic growth.

According to "The Global Competitiveness Report 1998" of the World Economic Forum, the Philippines ranks 33 out of 53 countries included in the sample. The position in the overall rankings has improved by one point from the 1997 rankings. The report includes evidence that

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[41] This section draws from "Philippines: Managing Global Integration," Volume II: Background Papers. World Bank. 17 November 1997.

[42] Ibid.

there is indeed a good correlation between the Competitiveness Index and the rate of economic growth per capita[43]. New results emerge from the report, which are important for policy makers concerned with accelerating the rate of per capita income growth: for middle income countries like the Philippines, the traditional measures of capital accumulation (physical and human) are not statistically as important as stock market access, venture capital availability, the extent of locally based competition, information access, intensity of rivalry and improvement in factor quality.[44] Moving to high-income countries, the report finds a strong correlation between per capita growth and the intensity of local rivalry and minimal administrative regulatory burden.

The level of GDP per capita is associated with the following factors that form the national business environmental variables (in order of explanatory power): quality of logistical infrastructure, personal security, business information availability, stock market access, public investment in civilian R&D, university-industry research collaboration, buyer sophistication, domestic supplier quality and intellectual property protection.

For high income countries, the presented research suggest a high correlation of per capita income with advanced infrastructure of all types, risk equity, buyer sophistication, cluster quality and maintaining the intensity of local rivalry. At company level, innovative capacity throughout the value chain is the key.

Another interesting result presented in the report is the question of changes in income of the poor versus increasing or decreasing income inequality. It is important to remember that in fast growing developing countries, the real income of poor people is closely tied to the overall growth rate, more than if the distribution is shifting in their favor. The Philippines falls under the category of countries perceived to have rising incomes for the poor associated with rising inequality of income.

Many of the major economic reforms in the Philippine since 1986 have generated favorable results for the Philippine economy. Two of the early and arguably famous reforms were the liberalization of wheat importation and the dismantling of the sugar trading monopoly in the agricultural sector. The former resulted in lower prices for bread and other wheat-using products and the rise of a wheat milling/processing industry composed of many firms that continue to thrive even today. Similarly, the latter resuscitated what many considered a sunset industry. Deregulation in transport and communications sector has led to clear benefits for the Filipino people. Furthermore, trade liberalization explains why inflation has been relatively low despite the large devaluation of the peso since last year.[45]

A higher degree of competition in the Philippine economy explains the linkage between the economic reforms and a better way of life for the Filipino people. Deregulation and economic

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43 See page 26, Figure 2 of The Global Competitiveness Report 1998.

44 Measuring The Micro-Economic Foundations of Economic Development, by Michael Porter, Professor of Business Administration, Harvard Business School. The Global Competitiveness Report 1998. Page 56.

45 See Fabella, R. (1998), "Crisis and Opportunity". Unpublished paper.

liberalization—the focus of the reform process since 1986—tend to induce more competition in the economy and "force economic agents to perform at their respective efficiency frontiers" [46]. Consequently, prices of products go down and their qualities improve. In addition, deregulation removes market distortions and help to allocate resources more efficiently.

Where competition policy is difficult to design and apply in natural monopoly situations, policy has shifted to approximate a competitive outcome and maximize the welfare of consumers. The traditional policy handles cover three broad options: an antitrust policy; public regulation; and the third is public ownership and operation. "Like monopoly, none of these is ideal," writes Stigler.[47] Although the first option is more in tune with the overall policy thrust for less government and more private sector participation, clear and enforceable antitrust legislation will still need to be enacted. Moreover, Stigler further notes that even in the case of the U.S. antitrust policy enforcement is expensive and takes years to get any decision from the judicial system. Public ownership and operation of such public utilities have proven drained public finances and in recent years governments have generally retreated from such an option. This is why in a number of cases, public regulation has become the most preferred measure. But even then inappropriate regulations can become an obstacle to private investments in public utilities.[48]

Technological breakthroughs in recent years, however, particularly in the telecommunications sector[49] have effectively shaken this conventional wisdom and traditional policy approaches and have ushered more competition in such public utilities. These technological changes together with the regulatory innovations have made possible the introduction of market forces and competition in the provision of infrastructure services. For instance, because of rapid advances in technology, economies of scale in telecommunications and power generation have diminished dramatically. In addition, regulatory innovations have made possible the unbundling of activities—the separating of activities in which economies of scale are no longer as important. Unbundling promotes competition by detaching activities that were earlier performed by monolithic organizations and opening them to various forms of competitive provisions. The power generation is the classic case for the Philippines.[50]

Given the need to preserve the gains from liberalization and deregulation, it is important to sustain the momentum for more competition in the Philippine economy. To this end, this policy

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[46] Tan, Jose Antonio R. (1998), "Policy Gaps and Economic Reform: Prescriptions for Sustained Growth." Unpublished paper.

[47] Stigler, George J. (1993). "Monopoly". In The Fortune Encyclopedia of Economics. Henderson, D.R. ed. New York: Warner Books. pp. 399-403.

[48] The Energy Regulatory Board in 1997 cited Meralco for overpricing its electricity distribution services and ordered it to refund billions of pesos to consumers. The company was following an earlier decision of the Board that allowed it to recoup some revenues through tax deductions and maintain an approved rate of return to capital investments. Tax policies through the years in the meantime changed and prevented the company from legally obtaining tax deductions. Private sector firms were quick to point out that such policy decisions by the Board will effectively deter private investments in regulated public utilities.

[49] The concept of mobile telephone lines rendered the argument of duplicating infrastructure invalid.

[50] This section draws from the 1994 World Development Report entitled "Infrastructure for Development" produced by the World Bank.

area shall cover efforts at sustaining trade liberalization reforms and compliance to trade-related international commitments; and policy reforms in the infrastructure sector particularly power, transport, and telecommunications. In addition, the administration of justice as it relates to commercial contracts, needs to be streamlined and reformed.

- *Policy Constraints and Thrusts*

Liberalizing and Facilitating Trade. Possible reversals of external sector liberalization policy reforms are emerging to be a serious threat to the economic gains from previous policy reform programs. Given the East Asian crisis, the large fiscal deficit, and economic recession here at home, liberalization policies are popularly but mistakenly blamed for the current economic problems.[51] A few officials of the Estrada Administration may have succumbed to this temptation. Early pronouncements from Malacanang called for a halt to the trade liberalization process especially in agriculture. Press statements reportedly from the Department of Trade and Industry called for a review of the country's trade liberalization commitments in the World Trade Organization (WTO) as well as the Tariff Reform Program (TRP).

Likewise several industry groups are clamoring for the freezing of tariffs at current levels until 2003, when a single tariff system will be implemented. This is a disturbing development considering the country's commitments to the various multilateral trade organizations. Moreover, this would entail sharp cuts in the tariff rates by 2003, which may have serious consequences on the domestic economy. Hence, by then the government will be in vulnerable position to implement the tariff reduction program.

Other government departments, however, continue to uphold the importance of liberalizing trade policies and pursuing integration of the Philippine economy with and as the rest of the world. The National Economic and Development Authority (NEDA) has taken the position of continuing the liberalization efforts of the last administration. The Department of Foreign Affairs rejected calls for reviewing the country's commitments in international treaties.

The divisiveness of the trade liberalization issue especially with respect to government will taint actions towards the fulfillment of even current commitments and obligations to the WTO. Among these are: (1) the shift from the home consumption value to the transactions value method in valuing imports by the year 2000; (2) the enactment of a intellectual property rights act for plant variety protection by the year 2000; and (3) the implementation and enforcement of the intellectual property rights act for industrial products.

Private sector advocates for higher trade protection have shifted to using anti-dumping and countervailing duties as well as safeguards measures of the WTO. In the deliberations of the 9th and 10th Congresses on the bills enabling these import surges relief measures and fair trade measures, advocates have called for stricter measures relative to those legally allowed under the

[51] In an alternative ASEAN Ministers forum, Walden Bello has blamed the capital deregulation measures and globalization for the current financial problems of the Philippine economy. Bello in 1994 opposed the ratification of the Philippine membership to the WTO.

WTO. If such bills are enacted in a way that is inconsistent with the WTO rules, the country will have difficulties using such laws, if and when they are needed.

Agricultural tariff protection remains high. When the 10th Congress tariffied agricultural quantitative restrictions in 1996, it set agricultural tariffs to the highest level allowed under the WTO. The high tariff protection rates for these tariffied sensitive agricultural products will keep food prices up, deter investments in agricultural processing where the potential for employment is relatively higher, and keep the sector from being internationally competitive. Rice imports remain in the hands of the National Food Authority alone and are subject to a quantitative import restriction.

Furthermore, the built-in agenda for continuing the negotiations for agricultural policy reforms under the WTO is scheduled to begin in 2000. The apparent lack of consensus in government on the importance of trade liberalization issue may prevent the country from being able to extract important benefits for the country from its trading partners in the negotiations.

Given the concerns and constraints, the major thrust of trade policy should be to ensure that the gains over the last ten years are preserved. This means that the direction taken under the TRP towards a uniform tariff for industrial goods and non-sensitive agricultural products of 5% by the year 2000. Further reductions in the tariffs of sensitive agricultural products are committed in the next round of tariff reductions. Moreover, the country should be able to come-up with well-rationalized and policy-consistent *Most Favored Nation* tariff offerings in the next round of WTO negotiations. Lastly, it is important to legally enable the country's international trade commitments under the WTO.

Liberalizing and Facilitating Investments. The past two administrations had made significant inroads in dismantling most of the Philippines investment policy barriers. During the tenure of Corazon Aquino, Republic Act (RA) No. 7042 otherwise known as the Foreign Investment Act (FIA) of 1991 was enacted into law. This paved the way for 100% foreign ownership in domestic ventures except in those industries which are prohibited under the Philippine Constitution and other existing law, and those which fall under the negative list.

Complementary measures to the FIA were also implemented by the Aquino Administration to further attract the much needed foreign investments. These measures included, among others, allowing net operating loss carryover and accelerated depreciation deduction for tax purposes.[52] In addition, there was the existing Omnibus Investment Code, which allowed enterprises to avail of fiscal incentives (i.e., duty-free importation, tax holidays) if these firms export at least 70% of their output. These measures coupled with the establishment of the special economc zones paved the way for inflow of foreign investments in light manufacturing industries such as garments and electronic products

52 SGV Consulting. (1992). "Barriers to Entry Study." U.S. Agency for International Development.

The Ramos Administration further enhanced the initiatives of Mrs. Aquino by openning up strategic industries to greater competition. President Ramos took full advantage of tremendous support he enjoyed from Congress by pushing for enactment of laws which were in accordance with his economic reform agenda.[53] Most of the reforms centered on liberalizing the public utilities sector. These included, among others: (1) the relaxation of rules on the entry of new shipping operators; (2) the deregulation of shipping rates; (3) the demonopolization of government ports; (4) the relaxation of the rules on the new air transport operators; (5) the deregulation of the telecommunications industry; and (6) the deregulation of the downstream oil industry. These reforms complemented the recently enacted amendments to the build-operate-transfer (BOT) law - which eased the rules on private sector participation in the provision of infrastructure services.

In the state of its infrastructure, the Philippines has long been inferior to its Southeast Asian neighbors. These infrastructure bottlenecks have, in one way or another, put a ceiling on the real gross domestic product (GDP) growth that could have been attained by the Philippines. Moreover, the inadequate infrastructure facilities (or the absence of thereof) have adversely affected export competitiveness and have resulted in a number of foreign investors turning their back on the Philippines.

Deficiencies in the much needed infrastructure facilities are particularly apparent in power, telecommunications, and road network. As of 1993, for instance, per capita electricity consumption for the Philippines was a mere 327 kilowatt-hour (kwh) as compared to 970 kwh for Thailand and 1,466 for Malaysia. The same can be said for telecommunications services. Even though telephone density has increased from a paltry 1.2 in 1992 to a projected 9.8 by 1998, the Philippines is still way below the penetration rates of other countries in the Southeast Asian region. Only Indonesia is in worst shape relative to the Philippines. With regards to road infrastructure, the country's road density stands at 0.54 kilometer (km) per square kilometer (sq. km). In order to reach the ideal ratio of 1.0 km per sq. km, some 140,000 kms of roads have to be constructed at a cost of more than ₱500 billion (B).

The poor state of the country's infrastructure is largely an offshoot of the severe fiscal constraints since 1983. Thus, this necessitated sharp cuts in the country's public infrastructure investment program. Although public infrastructure expenditures have increased over the past 10 years in nominal terms, spending as a percentage of GNP remains low and the ratio has been hardly growing. On the average, capital outlays account for only 3.6% of GNP, while maintenance and operating expenditures account for a mere 2.2% of GNP. Moreover, Philippine public capital spending (as a % of GDP) pale in comparison with those of other Asean countries: Philippines, 2.9%, Malaysia, 5.9%; Thailand, 4.8%; and Indonesia, 6.6%.

Due to these constraints in financing, the government has allowed the private sector to participate in the provision of infrastructure services. Private sector participation in the financing, construction, operation, and maintenance of infrastructure projects started in earnest in the power generation sector. Given the acute power shortage in 1993, the Ramos Administration decided to

53 Free Trade Asia Consulting. (1996). "Setting the Agenda for Competition Policy in the Philippines." FT Asian Consulting, Inc.

invite a host of domestic and foreign investors to construct fast-track and baseload power plants. Sensing the opportunities that could be derived, investors from Asia, Europe, and North America competed for these projects. An additional 2,700 megawatts (MW) in capacity will be installed in the medium-term with total project cost of more than $4B. These developments have transformed the Philippines into the leader in the implementation of projects under the build-operate-transfer (BOT) and its variants in the power sector.

The government has made important gains in reforming the power sector of the country. The passage of the Oil Deregulation Act is a landmark move at deregulating the industry and paved the way for the entry of new players at the retail level. Even with the rescinding of the original version, a new, Supreme Court-approved version was quickly enacted that brought back the deregulated environment after a short hiatus.[54] In electricity the government is seriously looking into the privatization of the National Power Corporation. This policy thrust seems to be carried over into the new administration primarily but more aimed at reducing the government's fiscal burden.

Following the deregulation in the oil industry, oil prices became more predictable and fluctuated within a narrow band subject to world seasonal demand. Furthermore, the major oil producers were forced to compete through promotions and advertising while in some areas gasoline stations reduced pump prices. Oil sector analysts also note that fuel prices are now lower that if the old cost-plus method of pricing approved by the Energy Regulatory Board was still being instituted. There have also been indications of new entrants in the retail end of the petroleum products market. New retailers such as Unioil and Flying Horse have emerged retailing petroleum products either imported from ASEAN or purchased from the major petroleum producers. Recently, British Petroleum and the French conglomerate ELF have expressed interest in entering the Philippine market.

Concerns have been raised that the Estrada Administration owing to its stress in keeping public transport services prices down may not be able to resist the idea at re-regulating oil prices. In an effort to prevent oil price increases from becoming a major wage adjustment issue, the government may regulate, explicitly or by persuasion, oil prices again as the peso may further depreciate (in the wake of the expected devaluation of the Chinese yuan) and world oil prices start their seasonal increase in the last quarter of this year. Unclear signals from the government on the implementation of the Oil Deregulation Act will weaken new investments in the oil sector and mitigate the spirit of competition already being exhibited by the three major players.

The way the Philippine electricity industry is organized defies in a way conventional economic wisdom that would expect electricity generation market to be highly contestable and electricity distribution to be a natural monopoly. The opposite, in fact, is true for the country. The authority to generate and/or transmit power is vested by law in the government owned and operated corporation, the National Power Corporation. On the other hand, the electricity power distribution is franchised out to groups such as the Manila Electric Company (MERALCO) or

[54] Towards the close of the Ramos Administration, Congress enacted a new version of the Oil Deregulation Act after the Supreme Court found an earlier version unconstitutional.

electric cooperatives outside in the provinces by the National Electrification Administration (NEA). Normally, the latter would have produced natural monopolies since identified market services areas such as provinces would only support one electric cooperative. Although this is true, on a national basis no single entity controls electricity distribution. On the other hand, government has perpetuated a monopoly with respect to electricity generation. Even if private sector is allowed to produce electricity, it is required by law to sell the electricity to NAPOCOR who in turn will sell/transmit the power to distributors.

As mentioned earlier, another policy issue emerging in the power sector is the interpretation of the law regarding the amount of profit an electricity distributor is allowed to make. The recent call for MERALCO to refund a portion of its profits to consumers will dampen investors' interest in electricity distribution that generally requires a large capital investment and has a long cost recovery horizon.

In its early years, the Ramos Administration inherited a power crisis after the Aquino Administration decided not to operate the country's nuclear power plant. Without incremental sources of electrical power, the country suffered prolonged power outages resulting in declines in productivity particularly in the economy. In order to quickly solve the problem, the government then entered into high-cost electrical power generating contracts. These incremental costs are now bundled into the prices that users pay for electrical power. This inadvertent "tax " on electricity use helps to further erode the competitiveness of the countries industries and keep household expenditures on electricity high.

With the success of the BOT scheme in the power sector, the Ramos Administration decided to replicate the process in other sectors. Under the infrastructure privatization program of the government, projects that will be bid out include non-power sectors such as transportation, tourism, information technology, and land transportation management. Presently, there are 80 projects under the Philippine BOT program with an estimated cost of $23.3B. As of end-October 1997, a total of 28 projects have been completed at a cost of $4.4B, while another 24 projects with an estimated cost of $9.0B are under construction, under contract negotiation or public bidding. Some 65% of the total BOT projects still fall under the energy sector, with the remainder comprised of transportation, water and waste management projects.

Complementing the BOT program are the flagship projects identified by the Ramos Administration. Among the projects which have certified as urgent by the previous government are: (1) expressways and tollways in Metro Manila; (2) seaports and airports, as well as tourism projects in Luzon; (3) petrochemical project in Bataan; (4) integrated steel mill in Misamis Oriental; and (5) Manila-Clark rapid railway system. Prior to the regional currency turmoil, total cost of the flagship projects is placed at ₱481.7B. Funding will come from three sources: ₱229B (or 47.5%) from private enterprise in the form of loans and exports credits, ₱157B (or 32.6%) from BOT and similar schemes, and ₱65B (or 19.9%) from government appropriations and official development assistance. The status of the flagship projects as of end-1996 are: 36 projects worth ₱52B have been completed; and 44 projects worth ₱303B are under construction.

The success in increasing competition in infrastructure services and public utilities is not limited to the power sector. Gains have likewise been achieved in the telecommunications and transport industries.

In 1993, the Government of the Philippines liberalized the telecommunications sector in an effort to ensure the access of the Filipino population to telecommunication services at affordable rates. This was enabled through two executive orders. Executive Order (EO) No. 59 mandated all carriers to interconnect with each other and EO No. 109 required new entrants into the industry to install fixed lines in designated areas under the government's service area scheme.

The reforms in the sector have resulted in substantial growth in the Philippine telecommunications industry. At the beginning of the Ramos Administration, the country's telephone density was about 1.17 telephones per one hundred people. After six years, the density rose to about 8.07 per one hundred people. Similarly, nationwide coverage expanded from 740,033 lines in 1992 to about 7,347,664 lines today. The sector is now composed of 73 private telephone operators, 11 international gateway facilities operators, 5 cellular mobile telephone suppliers and 15 paging firms. This makes the Philippines the country outside of the U.S. with the highest number of telecommunication players.[55]

However, five years after the mandatory interconnection policy, industry entrants have continuously claimed that their growth is stunted by the slow growth of investments in interconnection facilities that the dominant carrier needs to make. RA No. 7925 also known as the Public Telecommunications Policy Act of 1995 which established the guiding policies on interconnection appears to require effective implementing rules and regulations to ensure interconnection.

The interconnection problem itself needs a thorough diagnosis in order to arrive at the fundamental factors contributing to this problem. As it is right now, the perceptions need to be validated with verifiable data. The entrants perceive that the dominant carrier's rate of growth in investments to provide interconnection facilities is slower than what is required by a fast-growing industry, resulting in serious congestion problems and eventually customer dissatisfaction. The dominant carrier's view may have been that this congestion is not as serious as some carriers have painted.

The problem has ramifications in other interrelated issues. There is one issue with respect to the appropriate access charge that the dominant carrier bills entrants for the use of interconnection existing facilities. At present, entrant carriers are charge takers at levels set by the dominant carrier and higher than best practice charges in other parts of the world. These charges are higher because they bundle in the interconnection fee or access charge the opportunity cost of producing interconnection services with the development cost that the dominant carrier assumes by taking a proportionately higher share in the mandate of providing fixed line telephone services at regulated tariffs. But entrant carriers as well, under EO No. 109, have their share in such a development burden.

55 RCBC Business Research Department.

This raises the other issue of the appropriateness of the service area scheme. High cost local exchange centers (LEC) assigned to an entrant carrier under EO No. 109 are likely to receive less attention from the dominant carrier than other LECs operated by the same entrant that are more lucrative for as long as access charges are uniform throughout the country. If the one charge throughout the country policy needs to be maintained, how should the service area scheme be modified to ensure the government's objective of providing access of the population to telecommunication services?

On the other hand, greater competition in the transport sector was ushered in by the removal of the barriers to entry. For instance, the granting of congressional franchises to provide air transport services to new entrants dismantled the monopoly of Philippine Airlines in domestic air transport. In the area of maritime industry, EO No. 185 allowed the entry of new operators for routes presently serviced by one operator, while EO No. 213 provided for the deregulation of domestic shipping rates.

In 1992, USAID conducted a study on the Barriers to Entry.[56] The study recommended a set of measures to ensure competition in inter-island shipping that were later implemented by the Philippine government. A monitoring of the implementation done by the USAID-supported Agribusiness System Assistance Program at the Department of Agriculture reported mixed results. In the area of deregulating service handling services in ports, the presence of at least two operators did not necessarily yield any effective improvement in competition in port handling as both operators had interlocking directorates. Furthermore, the expected benefits from the reduction in the shipping cost of agricultural commodities did not materialize since even when some reduction was granted agricultural goods they were afforded a lower shipping priority vis-a-vis the higher priced consumer goods.

Towards the latter half of the Ramos Administration, the earlier decision to deregulate port handling was reversed on the grounds that the Public Utilities Act specifically required one operator for every sea port.

Another dimension of the maritime shipping problem was revealed in a study commissioned by NEDA and ADB and conducted by Halcrow-Fox. The Philippine Ports Authority operates port and regulates the tariffs charged by both public and private ports. Investment in port expansion by the private sector has been hampered by the low tariffs they are allowed to charge by the PPA. Due to low tariffs, valuable domestic berths are used as parking lots and for loading/unloading while the underlying requirement for extra berthage is unknown. Unless tariffs are allowed to rise so as to improve the financial viability of the investment, private investment will not invest. On the other hand, the PPA is in no financial pressure to change because it receives a large incomes from the private ports making PPA financially sound.

[56] The following section on the transport sector draws from the following study: Halcrow-Fox. (1996). Philippine Transport Strategy Study. National Economic and Development Authority/Asian Development Bank.

The provision of rail services in the Philippines has steadily declined and repeated investments have failed to deliver more and better rail transport service. Lines which should have been closed because they no longer viable have remained open due to political pressures. The NEDA study notes that the crux of the problem derives from an expectation that just cannot be delivered—that rail is the backbone and core of the Philippine transport system. Expecting this to be the case, rational planning of rail transport investments becomes hostage to this belief. Planning which should take account of the presence of high-density corridors is derailed in favor of making sure a railway system crosses every population area no matter how small. Unfortunately, rail investments are extremely large (e.g., six proposed rail project in 1996 would cost about US$ 1 billion). Ultimately, this coupled with internal mismanagement has resulted in the decline in the service of the Philippine National Railroad.

The Ramos Administration has made significant inroads in addressing the country's infrastructure deficiencies and deregulating the public utilities sector. This is particularly true for the power and the telecommunications sectors. However, despite these massive amounts of investments in infrastructure, the Philippines still lags behind its Asean neighbors. These bottlenecks are particularly prevalent in transport-related infrastructure such as roads, bridges, ports, airports, and transportation systems.

The country cannot afford to let up on its investments in infrastructure projects. The BOT schemes and the deregulation measures have provided the momentum for increased infrastructure spending. The Philippines needs to catch up with its Southeast Asian neighbors in terms of infrastructure facilities if it wants to improve its global competitiveness. According to the International Monetary Fund (IMF), the Philippines allots on the average 2.8% of capital expenditures, or about $268 of per capita income, to infrastructure. Thailand, in contrast, pours 3.9% of its total capital expenditures, or about $757 of per capita income, into beefing up its infrastructure facilities. IMF estimates show that, for the Philippines to sustain its economic growth, it has to invest more than $5B per annum in the next eight to 10 years.

In the process of attracting private sector participation in the infrastructure building process, several concerns came about. The first concern deals with the country's high electricity cost. In order to eradicate the power crisis as quickly as possible, the government pushed for fast-track power generation projects. Most of these projects involved the construction of diesel-powered gas turbines, which are more expensive to operate. Moreover, BOT projects in power generation resulted in higher tariffs because of the much shorter repayment terms for commercial loans and the higher rates of return required by the private project proponents. Due to these factors, the Philippines presently has the second highest power rates in Asia, next only to Japan.

The second and bigger concern is that the government, in an effort to attract private sector investments in infrastructure projects, provided proponents with risk guarantees. These included extensive guarantees against risks such as those of nonpayment by purchaser, cost overruns, or low demand. The net effect of these arrangements is to shift the wealth impact of risky outcomes away from the private investors and towards the government. Government guarantees, an integral feature of the country's BOT program, played a critical role in attracting private sector participation in the power generation sector.

However, the provision of these guarantees is not without cost to the government. The guarantees were not only for ordinary non-market risks such as the political *majeure* and foreign exchange convertibility but also for market risks. If not properly managed, the guarantees threaten to undermine the efficiency benefits of the privatization program and to confront future governments with large foreign liabilities.

In the case of the Philippines, the government guarantees took two forms—counter-guarantees for all bilaterally covered loans and 'performance guarantees' for revenues and prices. The lenders and sponsors of project companies received guarantees from bilateral sources including the US Export-Import Bank and the Overseas Private Investment Corporation. By end-1996, these counter-guarantees amounted to $1,456 million or 44% of all commercial loans to private infrastructure operators.[57]

The much bigger portion of the country's exposure in case of default are 'performance guarantees' to BOT projects, particularly in the power generation sector. Majority of these agreements stipulated specific payments for capacity and power in foreign currency. Since the revenue flows for these infrastructure projects are in pesos, the government not only bears the revenue risk but the foreign exchange risk as well. The contract period for these agreements range from 10 to 15 years. Assuming a 15% discount rate, the net present value of government guarantees up to 2020 amount to $15.5B. Some 75% of this total are attributed to the power sector, while the remaining 25% are guarantees to transport and other non-power projects.

The net present value estimates were based on a foreign exchange rate of between ₱25.50-to-$1 and ₱31.87-to-$1. Considering that the peso has lost more than 50% of its value, the depreciation translates into financial losses of more than $5B, unless tariff rates of the infrastructure projects are raised. Since further weakening of the peso vis-a-vis the dollar is expected in the near future, these contingent claims can become a substantial source of fiscal liability.

In 1995, the Philippine government adopted a program to scale-down provision of guarantees to proponents of infrastructure projects. The primary objectives of this program are: (1) to unbundle the risks to be able to sharply demarcate covered risks; (2) to reduce coverage by guaranteeing 75% to 80% of payment obligations; (3) to introduce the concept of guarantee 'fall-away'; and (4) to create administrative mechanisms for more careful guarantee review, pricing, and budgeting, including possibly retaining reserves against guarantee claims. These principles have already been adopted in the recent agreements entered into by the Philippine government.[58]

The principles on the provision of guarantees recently adopted by the government addresses future agreements with project proponents. However, there is still a need that each of the

[57] This and the next two paragraphs draw heavily from the "Promotion of Broad-Based Economic Growth in the Philippines" by the Harvard Institute for International Development for the National Economic Development Authority.

[58] Irwin, Timothy, Michael Kliene, Guillermo E. Perry, and Mateen Thobani. "Dealing with Public Risk in Private Infrastructure: An Overview" in *Dealing with Public Risk in Private Infrastructure.* Washington, D.C.: World Bank. 1997.

arrangements entered into by the Philippine government be analyzed on a case-to-case basis. The analysis would involve three primary tasks: (1) the identification and listing of guarantees; (2) the estimation of expected losses; and (3) the incorporation of expected losses in the government's accounts and budgets.

The first task would entail the determination of the guarantees the government has issued and how much it would lose if these guarantees were called or in the case of default. In the second task, the estimation process should not be limited to the maximum possible losses but should include the likelihood of losses. This would allow the government to approximate the expected losses that could be derived from the guarantees. Meanwhile, the third task could only be undertaken if the expected losses could be reliably determined. If so, the present value of the expected future costs could be recorded as an expense item in the government's accounts or budget. By budgeting for these expected losses, the government provides some sort of "reserves" in the event of default or if past guarantees are called.

Once these tasks have been undertaken, the government would formulate schemes to strip infrastructure projects of certain risk guarantees. This particularly holds for performance guarantees such as take-or-pay arrangements, which could be potentially costly to the government in the case they are called. Presently, the government is still in a quandary how to devise these schemes and would be its underlying principles.

The fact that these government guarantees gave rise to contingent liabilities make these schemes more difficult to formulate. A contingent liability implies that the payment of claims against the guarantee is conditional on some future event. A guarantee claim for payment will translate into a burden on the part of the government.[59] Thus, from the fiscal management point of view, the government must be adequately prepared to meet these contingent liabilities when they become due.

The third concern deals with the need to strengthen the legal and regulatory framework for the provision of infrastructure services. A resilient legal framework would assure private investors fair market access, while a sound regulatory framework would entail the formulation, application, and enforcement of pro-competitive policies. Likewise, regulation should work to approximate the benefits of full competition by establishing a rent-sharing system, which balances the investors' interests with those of the consumers.[60] The ability of the government to balance the concerns of these two groups would be put to test in the next three with the completion of major toll road projects. The disagreement over the toll rates for the Cavite expressway portends more disputes for the government to resolve.

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[59] Llanto, Gilbert M. and Ma. Cecilia G. Soriano. "Government Guarantees in Infrastructure Projects: A Second, Third Look at the Policy." PIDS Policy Notes, No. 97-11, October 1997. Makati: Philippine Institute for Development Studies.

[60] HIID, "Promotion of Broad-Based Economic Growth in the Philippines."

The fourth concern is the private sector would venture only into infrastructure projects which will provide them with attractive rates of return on their investments. Thus, infrastructure projects that resemble public goods (i.e., local feeder roads) will be undersupplied if markets are left alone to determine their provision. Moreover, market outcomes may allocate fewer infrastructure services to the poor than the society desires.[61] The government must formulate a set of policy initiatives which would address both its financial constraints and the limitations of the markets.

The four concerns previously discussed a more from a macro perspective. There are also industry specific reforms which the Estrada Administration has to address. Priority reforms should focus on the power, telecommunications, and transport services. These are vital support industries in the country's drive towards global competitiveness.

In the power sector, policy thrusts should be centered on ensuring that the current law continues to be implemented. The benefits of oil deregulation can only be preserved and enhanced if the private sector perceives that the policy signals are clear and unchangeable. Moreover, the government's policy to privatize the National Power Corporation should be supported along with actions to demonopolize the generation and transmission of electricity. Policies on electricity pricing should be consistent with a fair and attractive remuneration to the electricity distribution investor in order to attract more investors in the market and reduce the cost to the consumer. Lastly, the incremental cost from sub-optimal electricity generating projects in the early 1990s needs to be unbundled from the competitive cost of electricity.

Presently, the Asian Development Bank (ADB) has two technical assistance packages designed to restructure and streamline the Philippine power sector. The first technical assistance package seeks to assess the impact of the restructuring and privatization of the power sector on consumer classes (Project No. TPH 32447). This technical assistance is attached to the Power Sector Restructuring Loan. The second technical assistance package aims to study what should be the regulatory policy for the electricity sector in a competitive environment (Project No. TPH 30477). The study will also provide options of methodologies that can be considered for electricity rate making in a competitive area.

With regards to the transport sector, the policy thrusts should focus on revising the existing rules (i.e., implementing rules and regulations) that address the problems in shipping and port operations. This would include the implementation of non-legislative measures to promote the sector and enhance competition. The support policy measures that have to be prioritized are: (1) revise of the tariffs for port handling towards more competitive rates; (2) allow more private participation in the running of ports and the disengagement of the PPA from port operations; and (3) promote privatization of rail operations by allowing private sector to secure operating franchises for the running of train services while retaining the ownership, maintenance, and upgrading of the fixed infrastructure with the PPA.

61 World Bank. 1994."Infrastructure for Development." World Development Report 1994.

Lastly, as far as the telecommunications sector is concerned, the resolution of the interconnection problem is on top of the list of the government's policy thrusts. The rules and regulations for interconnection, which will fast-track interconnection but provides fair treatment to both entrants and the dominant carrier, have to formulated as soon as possible. These rules and regulations should include a clear identification the obligations of the contracting parties, an objective method and measure for settling disputes, and penalties for non-delivery of services. Moreover, the interconnection charges should reflect the best practices in other countries. For all these agreements to be effective, a monitoring system for the compliance must be institutionalized.

Illustrative AGILE Activities and Indicators of Change

In the area of enhancing the degree of competitiveness of the Philippine economy, the main thrust of AGILE is to ensure that the policy reforms gains made in the past ten years are preserved. With regards to the trade sector, this would entail the continued support for the implementation of WTO commitments and for measures beyond these commitments in line with the APEC initiatives. As far as investments are concerned, the activities would center on removing or lowering the barriers to entry in domestic industries. Particular attention should be given to the opening up to greater competition and contestability monopolies (i.e., public utilities and infrastructure services) in industrial and services sectors which are critical to economic development.

In particular, AGILE can be instrumental in the promoting the accomplishment of the following policy reform measures:

- New MFN tariff offerings for the WTO negotiations which are consistent with the trade liberalization thrusts;
- Executive Order providing for uniform tariff of 5% by the year 2000 for industrial goods and non-sensitive agricultural products;
- Operating procedures for the change from home consumption value to transaction value as the basis for import valuation;
- Republic Act and implementing rules and regulations providing for plant variety protection;
- Implementing rules and regulations for Intellectual Property Rights Protection Act;
- Improvements in the tariffs for port operations;
- Restructuring of Philippine Ports Authority and privatization of port operations;
- Restructuring of Philippine National Railways and franchising of rail services to private operators;

- Republic Act and implementing rules and regulations for the restructuring of the power sector;
- Restructuring and privatization of the National Power Corporation;
- Interconnection policy that ensures a competitive telecommunications market;
- Amendments to the 1954 Retail Trade Law;
- Risk management framework for government guarantees in infrastructure projects; and
- Republic Act and implementing rules and regulations for the prompt right-of-way acquisition for infrastructure projects.
- Improvement in the application of commercial law, especially the provisions on bankrupcy, contracts, time provisions for dispensation.
- Increase the level of understanding of the economic impact of law administration for key players in the economy: judiciary, congress, labor leaders and selected strategic agencies.
- Develop a new curriculum for regular courses in the Universisties, that incorporate the interaction of law and economics, directed at lawyers, engineers, accountants and other professions.

EXPECTED RESULTS AND PROPOSED TIMING

The Expected Results

Table 6 below enumerates the five results that AGILE expects can be produced within the life of the activity. These are stronger financial system; macroeconomic stability; improved tax and expenditure systems; trade liberalized and facilitated; and investments liberalized and facilitated. These objectives are essential to ensure the expansion of trade and investments and sustain economic growth in the country, as discussed fully in the preceding sections of this work plan. It is important to note, however, that given the fluidity of the economic environment it is difficult to make projections on the results indicators and progress markers. The prospects for the Philippine economy in the next two years are highly dependent on key developments in the global economy (i.e., devaluation of the Chinese yuan, recovery of the Japanese economy, reforms in the Russian economy, movements in US interest rates). These are critical factors which are beyond the control of the country's policymakers. Moreover, their actions largely depend on these global economic developments would be unraveled.

TABLE 6
AGILE PROVISIONAL EXPECTED RESULTS AND PROGRESS MARKERS: 1998-2001

AGILE Results	Indicator and Unit of Measurement	Benchmark and Progress Markers				
		Base Figures (1997)	1998	1999	2000	2001
Financial system strengthened	Ratio of currency in circulation and deposits to the GDP (%)	43.49	39	39	40	41
	Ratio of stock market capitalization to GDP (%)	56.80	40	40	45	50
	Ratio of gross domestic savings to GDP (%)	20.29*	18	19	20	22
	Ratio of non-performing loans to total loans outstanding (%)	4.57	10	11	10	8
Macro-Economic stability secured	Absolute value of deviation from a six month moving average of monthly 91day TBR (%)	4.68	<=25%	<=25%	<=20%	<=20%
	Absolute value of deviation from a six month moving average of monthly exchange rate (%)	0.14	<=15%	<=10%	<=10%	<=5%
	Absolute value of deviation from a six month moving average of monthly CPI (%)	0.92	<=15%	<=10%	<=10%	<=5%
Tax and Expenditure Systems Improved	Ratio of tax revenues to GDP (%)	17.0	16	17	18	20
	Ratio of the number of actual income tax payers to number of potential tax payers (%)	18.9	20	21	22	23
Trade liberalized and facilitated	Ratio of exports and imports to GDP (%)	108.4	86	88	90	92
	Effective protection rate (%)	23.3	21	18	15	13
Investment liberalized and facilitated	Ratio of gross domestic capital formation to GDP (%)	24.84	22	23	23	24
	Number of telephone lines per 100 person-population	8.06	10	12	14	15

* 1996
Notes:

For base year figures, basic data came from the NSCB for national income accounts data; the NSO for the CPI data; the BSP for monetary variables; NTC for telephone lines; BIR for tax filers as reported in the Mission's Results Review for 1998; and DOF for tax revenues.

- *Financial system strengthened.* The financial system is essential to mobilizing resources and allocating such savings to various potential investments in the economy. Savers are matched with investors as well lenders with borrowers. In addition to aggregating savings and investments allocation, Stiglitz[62] pointed out that an efficient and robust financial system also does a good job of monitoring the use of funds such that these continue to be used productively, reduce risk, increase liquidity, convey information. All these functions are essential for sustaining economic growth. It is important that the GOP plays and important role in strengthening the financial through appropriate regulations and the provision of correct incentives to prudential and productive behavior.

Four indicators for measuring progress are envisioned: ratios of M2, stock market capitalization, and gross domestic savings to GDP. The fourth one is ratio of non-performing loans to total loans outstanding. Except for domestic savings which is for 1996, all benchmark figures are for 1997.

Given the current economic downturn, no improvements in the financial indicators are expected in the next two years. The ongoing currency turmoil resulted in the massive withdrawal of foreign investments (mostly portfolio investments) in the country. For instance, the capitalization of the Philippine equities market was sliced to about one-third - from about US$80 billion in 1996 to the current US$25 billion. With confidence in the Philippine economy not yet fully restored, any significant market recovery would most likely take place by the year 2000.

In order to squelch the speculative attacks on the peso, the BSP was forced to adopt a tight monetary policy. Such policy response entails raising interest and putting a lid on money supply growth. A tight monetary policy coupled with a marked slowdown in foreign investments imply relatively low growth in domestic liquidity.

Given all these developments, M2, savings, and market capitalization as percentages of GDP would fall relative to their 1997 benchmarks. In general, a higher ratio of M2, savings, and market capitalization indicate the strengthening and deepening of the financial system.

The currency crisis likewise puts into question the financial strength and stability of the domestic banking system. The overaggressive lending policies of the banks resulted in the deterioration in the quality of their assets. Adding to their woes is dollar loan exposures to non-dollar generating ventures. Thus, when the peso was allowed to float freely, these companies had difficulty servicing their debts. As such, the ratio of non-performing loans to total loans has increased sharply in the past two years—from 2.8% in 1996 to an estimated 12.0% as June 1998.

The policy agenda is expected to increase the breadth and the depth of the financial markets and improve domestic resource mobilization. However, considering the financial crisis that the country is undergoing, the indicators show that the economic conditions would worsen first before it could improve. These improvements, as could be seen from the indicators, would be realized by the year 2000.

[62] Stiglitz. (1998). "Sound Finance and Sustainable Development." Keynote address to the Asia Development Forum in Manila.

- *Macroeconomic stability*. Recent events in the country and in the Southeast Asian region tell how volatility of key macroeconomic variables including interest rates, exchange rates and the general price level can adversely affect the investments and savings decisions of the private sector. While these economic variables do fluctuate, economic agents adjust to oscillations at the margin if such fluctuations are within expectations. It is, of course, difficult to define expected fluctuations.

  However, one may be able to define statistical thresholds beyond which any observed fluctuations from the respective moving averages of these variables become a serious macroeconomic concern and typically precede a slowdown of economic growth. In the case of the Philippines, the threshold for interest rates (i.e. about 85% of the observations are less than the threshold) is 20%; while it is 5% for exchange rates and the consumer price index. Table 7 illustrates the frequency distribution of the absolute deviation in percent of the 91-day Treasury bill rate, nominal exchange rates, and the consumer price index from their respective averages from 1980 to 1997.

  Moreover, one may be able to arrive at a correlation of macroeconomic instability indicators (i.e. absolute value of deviations from the moving averages of the costs of doing business) with economic downturn. It can be shown that these economic instabilities are precursors of a downturn. Thus, it is in the best interest of GOP to promote macroeconomic stability. The Treasury bill rate and the peso-dollar rate are particularly useful leading indicators of economic slumps and contractions in trade and investments. Surprisingly, the correlation between the lag structure of inflation rate and economic growth were not as robust. Table 8 shows the correlation coefficients between the absolute value of deviations from the moving averages of the costs of doing business and economic growth indicators.

TABLE 7
CUMULATIVE FREQUENCY DISTRIBUTION OF THE ABSOLUTE VALUE OF DEVIATIONS FROM SIX-MONTH MOVING AVERAGE OF SELECTED MACROECONOMIC VARIABLES: 1980-1997
(IN PERCENT)

	91-day TBR	Exchange Rate	CPI
Less than 5%	41.18	87.75	86.76
Less than 10%	66.18	96.57	97.06
Less than 15%	78.92	98.04	99.02
Less than 20%	85.29	99.51	100.00
Less than 25%	90.20	100.00	
Less than 100%	100		

Source of Basic Data: Bangko Sentral ng Pilipinas

There are three indicators for monitoring progress with respect to securing macroeconomic volatility: the absolute value of the percentage deviation for the interest rate, the exchange rate and the consumer price index. The base year (1997) marker is the simple average of the monthly deviations in 1997. The progress markers representing thresholds of tolerable volatility are higher (i.e. at 15%) in 1998 and are going down to 5% in 2001 in light of the macroeconomic volatility that is already present in the economy. The slowing down of economic growth will tend to erode the government capacity to quickly restore stability without sacrificing employment, something that it may not be prepared to do politically. Besides, if the government had to do this, it would be at the cost of tolerating high volatility of interest rates as what was done during the economic recession from 1983 to 1985.

- *Tax and Expenditure Systems Improved.* Macroeconomic stability depends, among other, on the sustainability of the country's fiscal balances. The government's tax collection efforts need to be improved in order to increase revenues and keep the fiscal deficit within prudent levels. At the same time, efforts at improving the design of the tax policy structure starting with the recent comprehensive tax reform program (CTRP) has to continue. A good tax system will reduce distortions and enable a better allocation of resources. In addition, prudent expenditure policies need to be pursued to maximize the returns to the economy of scarce public resources. Innovations in the budget process such as the midterm budget framework will have to continuously be explored and implemented.

TABLE 8
CORRELATION COEFFICIENTS

	GDP	GNP	GDKF	Exports	Imports	Trade
T-Bill Rate						
T	-0.4297	-0.4152	-0.4570	0.0459	-0.2834	-0.1584
T-1	-0.3472	-0.2816	-0.3304	0.0268	-0.0735	-0.0298
T-2	-0.2762	-0.2064	-0.2433	0.0188	0.0853	0.0614
T-3	-0.1415	-0.0967	-0.2145	-0.0184	0.1151	0.0589
Forex						
T	-0.4831	-0.5189	-0.3844	-0.1016	-0.4796	-0.3586
T-1	-0.5813	-0.5973	-0.5483	-0.1684	-0.6000	-0.4646
T-2	-0.7103	-0.7110	-0.6207	-0.2346	-0.5752	-0.4857
T-3	-0.7695	-0.7634	-0.6329	-0.2325	-0.5137	-0.4531
Inflation						
T	0.0533	0.0351	0.0388	0.1095	0.0906	0.1037
T-1	0.0764	0.0838	0.2850	0.0507	0.2190	0.1466
T-2	0.0219	0.0135	0.0252	0.0631	0.2380	0.1643
T-3	0.0530	0.0775	0.0447	0.0744	0.1791	0.1440

Notes:
1/ GNP, GDP, Gross Domestic Capital Formation (GDKF), Exports, Imports, and Trade are from the National Income Accounts and expressed in constant 1985 prices.
2/ The figures represent the correlation between the absolute value of the deviations from the moving averages of the costs of doing business (i.e. 91-day treasury bill rate, peso-dollar rate, and inflation rate) and growth rate of critical macroeconomic variables (i.e. GNP, GDP, GDKF, Investments, Exports, Imports, and Trade)
3/ The computations made use of quarterly data with sample period covering 1st Quarter of 1982 to 2nd Quarter of 1997.

Two progress indicators are proposed: the ratio of tax revenues to GDP and the ratio of the number of actual tax payers to numbers of potential taxpayers. These are the same indicators as those used in the SO2 results framework. However the expected values of these indicators over the midterm period (1998-2001) are lower than those expected by the Mission because of the current economic crisis. Thus, the picture depicted in the progress markers table indicates that the tax system may weaken first before it may improve as the country approaches 2001. However, with respect to the income tax participation rate, its expected value increases because of the possible impact of the CTRP and the continuing effort of the GOP to improve tax administration (i.e. computerization of the BIR).

- *Trade Liberalized and Facilitated.* As in the case of the tax and expenditure systems, the results indicators are the same as with the SO2 results framework. These are the trade-to-GDP ratio and the effective protection rate (EPR). The EPR is the proportionate increase of domestic value-added to world value-added resulting from the GOP's trade policies. A lower EPR tends to indicate a higher degree of openness and international competitiveness of the Philippine economy. As a result international trade, i.e. the sum of exports and imports, as a proportion to GDP rises.

  The benchmark figures for 1997 and the expected EPRs from 1998 to 2001 were taken from the Mission's SO2 results framework. The trade liberalization program of the government would reach its culmination in 2004 when a uniform tariff of 5% would be adopted. The values expected for the trade to GDP ratio for the period 1998 to 2001 are lower because of the current economic crisis. With the peso losing more than 50% of its value, growth in imports of goods and services have practically screeched to a halt this year. On the other hand, exports - in spite registering impressive growth rates - were unable to offset the sharp deceleration in the growth of imports.

  Investments Liberalized and Facilitated. Two results indicators are used for measuring the extent of investments liberalization and facilitation - the teledensity rate and gross domestic capital formation as a percent to GDP. These and the benchmark figures are the same as those used in the SO2 results framework. Gross domestic capital formation as a percent to GDP decline is expected to decline in the next four years. The economic downturn along with the loss of business confidence would result in a marked slowdown in both domestic and foreign investments. The Philippine economy would most likely reach the relative investment levels posted in 1997 after 2001.

  The expected teledensity rate in the midterm period will increase due to the roll-over commitments of the different telecommunication companies when the economy was in a better shape than it is today. However, the teledensity rates may fall short of the targets set by the NTC since a number of telecommunication firms have been remiss with their commitments. Weak demand for telephone services has often been blamed for their failure to fulfill their commitments to the NTC.

Comparison of the AGILE and the SO2 Results Framework

The Mission's strategic objective of improving the national systems for trade and investments in the Philippines, called the SO2 objective, has four intermediate results. These are (1) trade liberalization; (2) investments liberalization and encouragement; (3) improvement of fiscal resource mobilization and allocation; and (4) improvement of financial markets. The AGILE results in essence follow this framework except for the following slight modifications. One variation is that the task of securing macroeconomic stability is introduced to the framework in order to highlight the important contribution of macroeconomic instability to the current economic slowdown. The loss of business confidence appears to be closely tied with the extreme swings of key macroeconomic variables. A second differentiation is that the AGILE results framework has seven new indicators. Three of these are associated with the macroeconomic stability. Finally, the third type of modification is the changes in the values taken by these indicators in the period from 1998 to 2001 in light of the economic slowdown. The projected progress markers under the existing SO2 were estimated before the economic crisis.

CHAPTER THREE

THE FIRST-YEAR TASK ORDER: BUILDING THE MOMENTUM FOR STRATEGIC POLICY CHANGES

Considering recent economic developments in the Philippines and throughout the Asia region, the following First-Year Task Order was prepared keeping in mind the need to focus on preserving the gains from market-friendly reforms and to ensure that further liberalization measures are pursued. With the current economic downturn, however, threats of policy reversals are becoming apparent, particularly in the area of trade liberalization. AGILE partner-clients are also finding themselves confronted with policy reform challenges—many of them requiring in-depth policy analyses and sustained advocacy efforts—as the external shocks of the continuing Asian crisis begin to take their toll on the Philippine's economic performance. The first year individual task orders described below were formulated with these policy reform challenges in mind, as well as the threat of trade liberalization policy reversals.

More specifically, in this year's selection of task order activities, the following considerations were taken into account by the AGILE Core Team:

- The GOP has outstanding international commitments to implement liberalization and deregulation reforms, as well as to participate in other reform programs mandated under existing multilateral agreements;

- Substantial policy analysis and formulation, and advocacy work has been initiated by the GOP and private sector partners through recently concluded or still ongoing technical assistance programs funded by the USAID and other donor agencies;

- Activities must be designed and implemented to promote the achievement of the evolving AGILE Policy Agenda, a preliminary version of which was discussed in the previous chapter; and

- The current Asia regional crisis which has adversely affected the Philippine economy will require more strategic and informed policy reform initiatives from the GOP, an opportunity that AGILE should seek to respond to with innovativeness and dynamism.

This Task Order Work Plan comprise activities covering the period 15 October 1998 through 30 September 2001 and is based on intensive discussions with the participating AGILE partner-client. To facilitate understanding of how the proposed individual task orders ultimately contribute to achieving the AGILE Policy Agenda discussed in the previous chapter, the task orders below have been grouped according to their relevance to the following preliminary AGILE policy agenda items: strengthening the financial system, promoting macroeconomic stability; improving the tax and public expenditure systems, liberalizing and facilitating trade, and liberalizing and facilitating investments. Table 9 below provides a summary overview of the proposed activities under each individual task order proposed, their objectives, anticipated outputs, expected policy reform results, as well as the partner-clients they are servicing.

AGILE POLICY AGENDA NO. 1: STRENGTHENING THE FINANCIAL SYSTEM

Task Order Activity A.101: Providing Advocacy Support To Capital Markets Legislation

Since 1986, the Philippines has achieved significant gains in the area of capital markets development. Among the important reforms implemented by the government are: (1) the unification of the two stock exchanges; (2) the full automation of securities trading; (3) the establishment of the Philippine Central Depository, Inc.; and (4) the shift from merit-based to full-disclosure regulation. These reforms have resulted in a significant increase in market capitalization, the number of listed companies, and the average daily value turnover. However, despite these gains, the Philippine capital markets remain underdeveloped compared to its Southeast Asian neighbors. Moreover, bank loans and equities are still the biggest sources of new capital in the face of a largely non-existent debt market.

In order to preserve the gains already achieved while enabling the Philippines to catch-up with its neighbors, more reforms in the country's capital markets will require implementation. In addition, the ongoing currency turmoil in Asia has exposed the inherent weaknesses of the banking system and the need for greater transparency, as well as improved prudential regulations in the financial system. In this regard, the Capital Markets Development Center, Inc. (CMDCI)—the research and advocacy arm of the Philippine Stock Exchange, Bankers Association of the Philippines, Financial Executives Institute of the Philippines, and the Investment Houses Association of the Philippines—has identified the more urgent of these banking and financial policy reforms and is seeking their approval in Congress through the following legislative bills: (1) Securities Act of 1998; (2) Revised Investment Company Act; (3) Tax Reform for Financial Services; (4) Amendments to the General Banking Act; (5) Pre-Need Securities Code; and (6) Amendments to the Central Bank Act. The CMCDI believes that all these legislative reform measures will be crucial to expanding the breadth and depth of the Philippine capital markets.

In order to broaden the support for these bills, CMDCI has requested AGILE assistance in conducting a series of advocacy activities. Members of the Philippine Congress, particularly those representing concerned Congressional and Senate committees, will need to be briefed on the various policy issues as well as the proposed policy reforms constituting the bills. The proactive support of concerned government agencies, the financial sector, and other stakeholders will also have to be mobilized through various consensus building mechanisms and participatory forums. A series of CMDCI-initiated policy dialogues, conferences, and meetings will, therefore, have to be carefully designed, organized, and conducted—with the appropriate technical and funding support of AGILE—to support the successful passage of critical financial and banking policy reforms that will ultimately benefit the Philippine capital markets.

TABLE 9. FIRST YEAR TASK ORDER ACTIVITIES SUMMARY MATRIX

POLICY AGENDA/ TASK ORDER ACTIVITIES	TASK ORDER OUTPUTS/ DELIVERABLES	TASK ORDER ACTIVITY OBJECTIVE/S	EXPECTED POLICY REFORM RESULTS	PARTNERS/ CLIENTS
A. STRENGTHENING THE FINANCIAL SYSTEM				
A.101. Provide Advocacy Support to Capital Market Legislation	• On-going Advocacy Assistance to the Capital Markets Development Center • 4 Seminars • 4 Consultations • Advocacy Materials	• Enact appropriate banking and financial policy reforms to expand the breadth and depth of the Philippines' capital markets.	• Enactment of the Securities Act of 1998 • Enactment of the Revised Investment Company Act • Enactment of Revenue Neutral Tax Policy Reforms in the Financial Sector • Enactment of the Revised General Banking Act • Enactment of the Pre-need Securities Code • Enactment of Amendments to the Central Bank Act	• Department of Finance (DOF) • Bangko Sentral ng Pilipinas (BSP) • Capital Markets Development Center, Incorporated (CMDCI) • Securities and Exchange Commission (SEC) • Congress
A.102. Conduct a Study on Developing the Philippine Mutual Funds Industry	• Study on Development Strategies for the Philippines Mutual Funds Industry	• Develop the mutual funds industry in the Philippines. • Further stimulate the country's domestic resource mobilization and facilitate the shift from short-term to long-term savings.	• Enactment of the Revised Investment Company Act	• DOF • BSP • CMDCI • SEC • Congress
A.103. Policy Task Management for AGILE-Supported Financial Sector Reforms	• Technical studies • Draft scopes of work and proposals • Technical memoranda • Consultation reports, discussion summaries, meeting minutes • Activity status reports	• Increase the capability of the GOP and private sector groups to formulate and evaluate options for addressing policy constraints affecting the Philippine financial sector	• Formulation and implementation of market friendly financial policy reforms	• DOF • BSP • CMDCI • SEC • Congress

TABLE 9. FIRST YEAR TASK ORDER ACTIVITIES SUMMARY MATRIX

POLICY AGENDA/ TASK ORDER ACTIVITIES	TASK ORDER OUTPUTS/ DELIVERABLES	TASK ORDER ACTIVITY OBJECTIVE/S	EXPECTED POLICY REFORM RESULTS	PARTNERS/ CLIENTS
B. PROMOTING MACROECONOMIC STABILITY				
B.101. Update of the National Economic Development Authority (NEDA) Macroeconomic Model	• Revised and enhanced macroeconomic model for medium-term planning • Training program on model adjustment and development	• Expansion of the scope of NEDA's macroeconomic model • Development of a social sector block	• Strengthening of the GOP's capacity to forecast critical macroeconomic variables as well as to forecast and evaluate the impact of external shocks on the economy	• NEDA • DOF • BSP
B.102. Providing Strategic Economic Policy Planning Assistance to the NEDA	• Sectoral reviews and Issue Papers • Policy Conference • Conference Proceedings	• Strengthen the capability of the GOP to formulate a pro-market policy planning framework	• Adoption of the appropriate policies that reduce macroeconomic volatility and promoting sustained economic growth	• NEDA
B.103. Conduct of a Study on the Financial Valuation of National Food Authority (NFA's) Assets and Liabilities	• Assessment Study on the NFA's Assets, Liabilities, and Net Worth • Draft instrument for the implementation of NFA's Financial Restructuring	• Promote of macroeconomic stability through a more cost-efficient food security program that separates the regulatory and trading functions of the NFA	• Enactment of the NFA Reorganization Act	• DA • NFA • Congress
B.104. Conduct of a Study on the Reorganization of the NFA	• Study on the Restructuring of the NFA Organization • Legal advice on the implications of the proposed NFA Reorganization Structure	• Promote macroeconomic stability through a more cost-efficient program that separates the regulatory and trading functions of the NFA	• Enactment of the NFA Reorganization Act	• DA • NFA • Congress
B.105. Policy Task Manager for Macroeconomic Reforms	• Technical studies • Draft scopes of work and proposals • Technical memoranda • Consultation reports, discussion summaries, meeting minutes • Activity status reports	• Increase the capability of the GOP and private sector groups to formulate and evaluate options for addressing the policy constraints affecting the Philippine macroeconomy	• Formulation and implementation of market-friendly economic policies	• Department of Budget and Management (DBM) • NEDA • DOF • DA • BSP • Congress

TABLE 9. FIRST YEAR TASK ORDER ACTIVITIES SUMMARY MATRIX

POLICY AGENDA/ TASK ORDER ACTIVITIES	TASK ORDER OUTPUTS/ DELIVERABLES	TASK ORDER ACTIVITY OBJECTIVE/S	EXPECTED POLICY REFORM RESULTS	PARTNERS/ CLIENTS
C. Improving the Tax and Public Expenditure Systems				
C.101. Rationalizing Road User Charges in the Philippines	• Study on Restructuring Motor Vehicle Charges • Technical Advisory Support for the Enactment of an Integrated and Simplified Road User Charge • Seminar • Advocacy Materials	• Formulate and implement a technically sound framework for the GOP's shift to a simplified and integrated road user charge as the primary instrument of taxation for road transport services	• Enactment into law and institution of a road users tax	• DOF • Congress
C.102. Creation of a DOF Satellite Office	• On-going Policy Analysis and Advocacy Assistance to the DOF • On-going Donor Coordination Activities	• Enhance the GOP's revenue and public expenditure financing mobilization efforts through legally enacted new tax measures. • Enhance donor-supported policy reform programs • Strengthen the DOF's capacity in tax and expenditure systems	• Enactment of administratively feasible tax measures that promote specific development objectives including the idle land tax, land conversion tax, road user tax, tax amnesty program, additional levy on premium and unleaded gasoline, excise tax on motor vehicles, rationalization of fiscal incentives	• DOF • Congress
C.103. Policy Task Management for AGILE-supported Fiscal Sector Reforms	• Technical studies • Draft scopes of work and proposals • Technical memoranda • Consultation reports, discussion summaries, meeting minutes • Activity status reports	• Increase the capability of the GOP and private sector groups to formulate and evaluate options for addressing the policy constraints affecting the Philippine tax and public expenditure systems	• Formulation and implementation of market-friendly economic policies	• DOF • DBM • Congress

TABLE 9. FIRST YEAR TASK ORDER ACTIVITIES SUMMARY MATRIX

POLICY AGENDA/ TASK ORDER ACTIVITIES	TASK ORDER OUTPUTS/ DELIVERABLES	TASK ORDER ACTIVITY OBJECTIVE/S	EXPECTED POLICY REFORM RESULTS	PARTNERS/ CLIENTS
D. LIBERALIZING AND FACILITATING TRADE				
D.101. Support to the Bureau of Customs in Implementing the Transactions Value as Basis for Import Valuation	• On-going Technical Support to the BOC • Study Tour to Observe Import Valuation Methods • Echo Seminars • Manual on the Use of Transactions Value as Basis for Import Valuation • Advocacy Materials	• Facilitate GOP's Compliance with its WTO Commitments under the Agreement on Implementation of Article VII of the GATT • Improve the BOC's capacity for using transactions value as basis for import valuation	• Effective and prompt compliance of WTO-related commitments	• BOC • PhilExport
D.102. Providing Policy Advisory Services to the GOP on Trade and Related Matters	• On-going Policy Analysis and Advocacy Assistance to the Departments of Trade and Industry and Agriculture • Advocacy Material	• Facilitate the GOP's compliance with its WTO commitments as well as those under other multilateral trade treaty negotiations • Strengthen the DTI's and DA's capacity in trade and related policy development and implementation	• Effective and prompt compliance of WTO-related commitments, and ASEAN and APEC contributions • Adoption of a uniform tariff rate of 5% on all imports except sensitive agricultural products in 2004 • Implementation of a zero-duty tariff rate on agricultural inputs for five years under the Agriculture and Fisheries Modernization Act of 1997 • Acceleration of tariff reductions on sensitive agricultural products	• DTI • DA • NEDA • DFA • Tariff Commission • Philexport • Philippine Chamber of Commerce and Industry
D.103. Policy Task Management for AGILE-Supported Trade Policy Reforms	• Technical studies • Draft scopes of work and proposals • Technical memoranda • Consultation reports,	• Increase the capability of the GOP and private sector groups to formulate and evaluate options for addressing the policy	• Formulation and implementation of market-friendly trade policies	• DTI • DA • NEDA • Department of Foreign Affairs (DFA)

TABLE 9. FIRST YEAR TASK ORDER ACTIVITIES SUMMARY MATRIX

POLICY AGENDA/ TASK ORDER ACTIVITIES	TASK ORDER OUTPUTS/ DELIVERABLES	TASK ORDER ACTIVITY OBJECTIVE/S	EXPECTED POLICY REFORM RESULTS	PARTNERS/ CLIENTS
	discussion summaries, meeting minutes • Activity status reports	constraints affecting Philippine trade		• Tariff Commission • Philexport • Philippine Chamber of Commerce and Industry
		E. LIBERALIZING AND FACILITATING INVESTMENTS		
E.101. Provision of Technical Support to Reforms on Interconnection Policy	• Ongoing policy analysis and advocacy assistance to the National Telecommunications Commission (NTC)	• Improve access to telecommunication services at affordable prices through the resolution of interconnection problems	• Effective implementation of the interconnection and universal service policies in the telecommunications industry	• NTC • Telephone Operators of the Philippines (TOP) • Telephone Users Group of the Philippines (TUGP)
E.102. Provision of Technical Advisory Services on Telecommunications Policy	• Ongoing policy analysis and advocacy assistance to the DOTC • Issue papers on: (1) the creation and activation of a universal access fund; (2) the institutional set-up for overseeing of the APEC Mutual Recognition Arrangement; and (3) the elements of a convergence bill	• Strengthen the capability of the DOTC to address issues and concerns brought about by the deregulation of the telecommunications industry and by the commitments of the Philippines to multilateral institutions	• Formulation and implementation of appropriate policies that takes advantage of the rapid gains in information technology	• DOTC • DTI • TOP • TUGP

TABLE 9. FIRST YEAR TASK ORDER ACTIVITIES SUMMARY MATRIX

POLICY AGENDA/ TASK ORDER ACTIVITIES	TASK ORDER OUTPUTS/ DELIVERABLES	TASK ORDER ACTIVITY OBJECTIVE/S	EXPECTED POLICY REFORM RESULTS	PARTNERS/ CLIENTS
E.103. Provision of Legal Advisory Services on Competition Policy	• Ongoing legal advisory services to the NEDA on competition policy reforms	• Promote the enactment of legally sound economic reforms on competition policy particularly with respect to the power and retail trade sectors	• Enactment of the Power Sector Reform • Enactment of the Electric Power Sector Reform • Enactment of amendments to the 1954 Retail Trade Law • Formulation and implementation of legal instruments for the privatization of the NAPOCOR	• NEDA • DTI • Department of Energy (DOE) • National power Corporation (NAPOCOR) • Congress
E.104. Conduct Survey on Related Literature on Port Operations	• Review of related literature • Database of all existing issuances affecting port operations	• Enhance the capability of the GOP to formulate policy options for addressing the high costs and inefficiencies on Philippine port services	• Formulation and implementation of policies that would result in the continued liberalization of port operation services and the inter-island shipping industry	• MARINA • PPA
E.105. Policy Task Manager for Reforms in Investment Facilitation and Liberalization	• Technical studies • Draft scopes of work and proposals • Technical memoranda • Consultation reports, discussion summaries, meeting minutes • Activity status report	• Increase the capability of the GOP and private sector groups to formulate and evaluate options affecting investment facilitation and liberalization	• Formulate and implement market-friendly investment policies	• NEDA • DOF • DOTC • DOE • NAPOCOR • MARINA • PPA • Congress

The proposed AGILE–supported activities will include (1) technical briefings for the concerned committees in the Philippine Senate and Congress; (2) monitoring of the progress of proposed bills through regular consultations with congressional staff, inter-agency conferences, and policy briefings; and (3) workshops, policy dialogues and conferences for sector-wide consultations on the proposed bills that affect the capital markets.

To respond to CMDCI's request for assistance in undertaking all these activities, a senior CCN Finance Policy Advisor (3 pm) and a junior level CCN Capital Markets Advocacy Specialist (30 pm) will be procured by AGILE under this task order. Furthermore, the relevant policy meetings, seminars, consultations and advocacy materials will be funded by AGILE under this task order in order to promote the sustained growth of the Philippine capital markets.

Task Order Activity A.102: Conduct A Study On Developing The Philippine Mutual Funds Industry

One of the priority bills being pushed in the Philippine legislature is the proposed Revised Investment Company Act. The proposed bill aims to lay the groundwork for the development of the country's mutual funds industry which, in turn, is expected to stimulate further the country's domestic resource mobilization and investments. In more developed countries, mutual funds play a vital role in mobilizing funds from small savers, and in facilitating the shift from short-term to long-term savings. As they cover a broad range of investment styles—for growth, value, small-capital, or emerging markets—to suit the risk and return profiles of different investors, mutual funds have proven to be attractive alternatives to bank deposits. Despite these features, the mutual fund industry is largely an underdeveloped sector in the Philippines. By the end of 1997, the industry accounted for a mere 0.1 percent of the stock market capitalization in the country. However, in a developed financial market like the US, this ratio can reach as high as 45 percent.

AGILE discussions with the Securities and Exchange Commission (SEC) and the CMDCI indicate that the local mutual funds industry is beset with two problems. The first problem has to do with the industry's being largely underdeveloped by Asian standards in terms of asset size, number of companies, and portfolio management skills. The second problem involves the negative public perception in the Philippines of mutual funds, mainly because of their failure in the country in the 1960s due to inappropriate and inefficient management.

Given the urgent need for domestic resource mobilization in the Philippines, particularly amidst the large-scale withdrawal of foreign capital currently being experienced within the Asian region, CMDCI has requested AGILE assistance in promoting the development of the mutual funds industry in the Philippines. This entails, first and foremost, a study on the status and development prospects of the industry. The proposed AGILE study should be able to provide a solid foundation to any restructuring measure that would be prescribed for the industry, particularly through the Revised Investment Company Act.

Numerous studies have already been conducted to analyze the status of Philippine mutual funds, as well as the obstacles confronting the industry. The proposed AGILE study will focus on formulating the appropriate development strategies for the country's mutual funds industry. The recommended strategies will, in turn, take into consideration the constraints hampering the industry's development as well as the *best practices* affecting the industry in the Asia-Pacific region. Specifically, the proposed study will:

- determine the constraints restricting the development of the Philippine mutual funds industry;
- analyze the experiences of other countries in the development of their respective mutual funds industries;
- identify *best practices* in the mutual funds industry within the Asia-Pacific region including the United States; and
- formulate development strategies for the Philippine mutual funds, such strategies to include establishing innovative distribution channels in the country for mutual funds shares.

Based on discussions with CMDCI and a review of related literature, the proposed AGILE study will cover the following:

- ♦ an analysis of the current state of the Philippine mutual funds industry;
- ♦ discussion on the state of the Philippine mutual funds industry vis-a-vis its Southeast Asian neighbors;
- ♦ determination of obstacles constraining further development of the mutual funds industry;
- ♦ discussion on the experience of other countries in the development of their respective mutual funds industries;
- ♦ identification of *best practices* in the mutual funds industry;
- ♦ formulation of development strategies for the Philippine mutual funds industry;
- ♦ analysis of the potential impact of the mutual funds development strategy on resource mobilization; and
- ♦ identification of legislative and administrative reform measures necessary to operationalize the Philippine mutual funds development strategies.

The findings and the recommendations of the study will be presented to the concerned technical committees in the Philippine Congress and the Senate, particularly as part of their deliberations on the Revised Investment Company Act. The study will likewise be presented in other advocacy forums that will be supported by AGILE to solicit feedback from the relevant stakeholders.

A team of consultants led by a highly qualified senior expatriate Mutual Funds Expert (2 pm), assisted by a mid-level CCN Mutual Funds Specialist (4 pm) and a junior level CCN Mutual Funds Analyst (4 pm), will be recruited by AGILE under this task order to conduct the proposed study.

Task Order Activity A.103: Policy Task Management For AGILE-Supported Financial Sector Reforms

With the ongoing currency turmoil in the Southeast Asian region, the weaknesses in the financial system are often cited as the primary reason for the economic downturn. In order to address these concerns, the GOP is in the process of implementing reforms that will strengthen bank supervision and surveillance through stricter prudential regulations. Moreover, AGILE discussions with CMDCI and the Philippine Stock Exchange indicate that there is a need to preserve the gains already achieved in the area of capital markets development by guarding against potential and tempting major policy reversals. Furthermore, AGILE meetings with the *Bangko Sentral ng Pilipinas* and the Monetary Board point to other critical policy reform measures that are still in the pipeline. These policy reforms will essentially ensure the depth and breadth of the Philippine financial system, its sustained growth, and competitiveness in both the Asia and international markets.

Given the range and scope of the policy reforms in the financial system that AGILE partner-clients will have to respond to in the near- and medium-terms, a Finance Policy Task Manager will be required to supplement the AGILE Core Team efforts to ensure timely, innovative, and strategic responses to requests for technical assistance. Under this task order, a mid-level CCN Finance Policy Reform Task Manager (30 pm) will be recruited by AGILE on a multi-year basis to perform tasks that include the following:

- provide quick-response technical analysis on finance policy-related issues to concerned AGILE partner-clients under the technical supervision of the AGILE Senior Resident Advisors;
- prepare scopes of work, special activity fund proposals, and other necessary documents to ensure that resources are made available to each activity;
- undertake advocacy work on finance-policy related reforms under the technical supervision of the AGILE Policy Advocacy Advisor and in coordination with CMCDI;
- coordinate with the policy advisors based at the AGILE-Department of Finance Satellite Office on finance policy-related matters to ensure timely and efficient support from the AGILE Headquarters;
- coordinate with other government agencies and private sector associations involved in financial sector reforms;
- assist the AGILE Senior Resident Advisors and the Policy Advocacy Advisor in identifying policy issues and formulating options to address policy constraints affecting the Philippine financial sector;
- review draft policy studies, surveys, and diagnostic reports;
- prepare periodic activity status reports; and
- perform other tasks that may be required by the Senior Resident Advisors and the Policy Advocacy Advisor in support of the AGILE Policy Agenda.

AGILE POLICY AGENDA NO. 2: PROMOTING MACROECONOMIC STABILITY

Task Order Activity B.101: Providing Policy Advisory Services To Update The NEDA Annual Model

Both the NEDA Director General and Assistant Director General have emphasized to AGILE the importance of strengthening the capacity of the institution to incorporate structural changes currently taking place in the Philippine economy and to developing a social sector block in its econometric planning model. While the basic groundwork for these efforts has been completed with prior assistance from USAID, an expansion of the model will be able to refine the economic and investment programming of the GOP, while providing more information on the social impacts of various economic policies. The proposed inclusion of data and projections on the formation of new businesses and net employment generation in the model, for example, will provide NEDA with a fuller basis for policy impact tracking. Furthermore, pro-competition GOP efforts equipped with a deeper understanding of the social dimensions of each policy option will have increased probability of success in advocacy and policy reform implementation. Thus, an updated NEDA econometric planning model can become a powerful GOP tool for broadening the support for policy reform measures that can lead the Philippines to a higher growth path—providing access to more economic opportunities for the majority of the Filipino people in the long-run.

NEDA relies on macroeconometric models to analyze and forecast the effects of policy changes on the overall economy as well as on specific sectors. Over the years, these models have been used to formulate the development plans of the country. A macroeconomic model, built in 1993 by the Philippine Institute of Development Studies, has been superseded by a newer model which was developed by Dr. Joseph Lim of the School of Economics of the University of the Philippines. This more recent model incorporates the structural changes that have resulted from the major policy reforms of the past two administrations. However, an expansion of the current model is still deemed critical for NEDA to be able to capture other important policy variables, thereby increasing the usefulness of the model.

The proposed AGILE initiative under this task order aims to make the planning model of the NEDA more comprehensive. The assistance is likewise aimed at strengthening—for sustainability purposes—the internal capacity of the NEDA, DOF, BSP and DBM to update and, if necessary, reformulate and redesign the macroeconomic model in the future. In this regard, a new software—the E-views—will also be used making the model easier to use. The proposed expansion of the model will:

- Link fiscal accounts with the external sector and monetary blocks. This refinement will include the interaction between deficit financing and foreign and domestic financing, and the likely impact of deficit financing on monetary aggregates and macroeconomic variables such as interest rates and inflation;

- Simulate the effects of the fiscal deficit, as well as foreign or domestic borrowing, not only on the balance of payments but also on monetary aggregates; and

- Develop a social sector block in an effort to evaluate the social welfare impacts of proposed policy reforms. This is in keeping with the Estrada Government's objectives of generating higher growth while simultaneously reducing poverty incidence, and improving social indices such as access to health and education. The statistics that would be generated under this effort will also help to update the real sector block since improvements in social indicators improve the productivity of the labor force in the economy, with the feedback loop resulting in another source of growth.

Through this task order, a team of consultants will be engaged by AGILE to provide the necessary technical advisory services and training to NEDA. The existing model and data will be reviewed by the team of consultants and the corresponding recommendations on updates, corrections, and expansions will be formulated. A general approach for model updating will then be agreed in principle between NEDA and the team of consultants, with technical inputs from the AGILE Senior Resident Advisors. The updating and reformulation of the model will be directly performed by NEDA, under the technical guidance of the AGILE consultants and advisors. Nonetheless, to ensure the quality of the model and its usefulness, a macroeconomist with expertise in developing macroeconometric models will also be provided by AGILE to review the draft final product. With the necessary adjustments incorporated, the model will then be presented to a wider audience in NEDA and in the other GOP offices.

The outputs from this proposed AGILE assistance will include the following: (1) a revised and enhanced macroeconomic model for medium term planning; (2) a report detailing the revisions on the existing model; and (3) a report on the training of personnel from NEDA and other GOP agencies on model adjustment and development.

The proposed assistance will be provided over a period of nine calendar months, starting in November 1998. For this purpose, AGILE will engage the services of a senior expatriate Macroeconomist/Advisor (10 person-days), 2 senior CCN Macroeconomic Modelers (6 pm), and a senior expatriate Model Reviewer (10 person-days) whose combined efforts will be supplemented with the appropriate level of research assistance.

Task Order Activity B.102: Providing Strategic Economic Policy Planning Assistance To NEDA

AGILE meetings with NEDA senior representatives likewise confirmed the importance of preserving the gains of the GOP's previous structural reforms and of ensuring the continued implementation of the government's planned privatization, deregulation, and liberalization programs. In this regard, the Estrada Administration has already expressed its commitment to pursue market-friendly reforms, while at the same time promoting policies that will allow more equitable access to opportunities for increased income. Thus, amidst the worst economic crisis in post World War II Asia and the consequent slowing down of economic growth in the region, a key challenge confronting NEDA these days is how to sustain the momentum for pro-market policy reforms to combat the adverse impacts of the Asia crisis on the Philippine economy—and to put country back on the road to sustained economic growth.

To respond to the challenge, NEDA is attempting to shift to a more participatory approach in the formulation of the new agenda for the country's short-term and medium-term economic growths. The economic conditions prevalent six months ago have changed significantly in the last quarter of 1998. The Japanese economy continues to show recessionary trends, the regional crisis of confidence has spread to Russia and then to Latin America, creating a cycle of negative feedbacks to export expectations, and thus to equity markets valuations throughout the world. These have resulted in substantial withdrawals of capital from emerging markets, increasing the pressures for depreciation, and adding to the cost of foreign finance for countries like the Philippines. Given these new external and internal conditions, as well as the potential negative economic impacts of the continuing La Niña phenomena, more concerted efforts between the public and private sectors for responding to emerging economic issues must be forged.

Currently the discussion about growth centers on the issue of avoiding a significant slump in economic activities. End year projections range from a positive one percent to a negative 0.5 percent. While these scenarios are unfolding, there are encouraging news about the recovery of investment applications and continuing export growth, although at a slower rate. Thus, it is even more imperative to synchronize the new initiatives from both the private and public sectors—in order to transform them into positive and strategic interventions that would allow the country to move to a higher growth path. Towards this objective, NEDA has requested the assistance of AGILE in organizing a national conference that will focus the discussions on policy options for higher growth recovery.

The proposed AGILE activity under this task order aims to respond to the NEDA request by providing them with technical assistance in the form of advisory services on the preparation of a coherent and consistent economic policy framework, particularly in response to the ongoing economic crisis in Asia. Five background policy papers will be prepared by the proposed AGILE advisors to NEDA on the following topics:

- macro-economic stabilization policies;
- trade and industrial policies;
- agriculture and food policies;
- social sector policy issues; and
- infrastructure and public utilities.

The policy papers containing the analysis and recommendations on the above topics will be presented in a high level policy conference around early January next year. NEDA will invite key GOP officials, as well as representatives from the private sector to participate in the conference. Representatives from international donor groups will likewise be asked to participate. Following the conference, the policy experts will finalize their reports incorporating the reactions of the conference participants. The revised reports and a chapter summarizing the background policy papers and key policy recommendations will constitute the outputs of this proposed activity.

It is envisioned that by facilitating a multisectoral conference for addressing the key policy concerns currently confronting the Philippine economy, this proposed AGILE technical assistance will be able to contribute to the formulation and implementation of a strategic economic policy planning framework for the Estrada Administration. This will be essential to ensuring the resiliency of the Philippine economy amidst the Asia economic crisis and to putting the country back on the road to sustained economic growth.

The proposed assistance will be implemented over a period of four calendar months—beginning in late October 1998 and ending by approximately March 1999. Five senior CCN short-term advisors (10 pm) in the areas agriculture, trade and industry, macroeconomic planning, social sector development, and infrastructure investment programming will be engaged by AGILE to supplement the core team efforts to undertake the required NEDA assistance.

Task Order Activity B.103: Conducting A Study On The Financial Valuation Of NFA Assets And Liabilities

A recently completed study under an Asian Development Bank-financed technical assistance has recommended a comprehensive matrix of policy and institutional reforms geared towards increasing the efficiency and productivity of the country's foodgrains sector. As part of an envisioned Grains Sector Development Program (GSDP), the realignment of the mandates of the National Food Authority (NFA) has been proposed by the study in order to attain a more cost-effective food security program. Specifically, the proposal calls for the separation of the NFA's regulatory functions from the agency's proprietary functions. In the process, a government line agency that will be responsible for the regulatory functions of the NFA will be created, while a corporation—with the private sector as non-controlling shareholders—will deal separately with the agency's proprietary functions. Towards this end, the Office of the President has recently announced that it will pursue the "*separation and privatization of the marketing and trading functions of the NFA and limit its role to the maintenance of buffer stocks and the promotion of market competition for food grains*," amidst other key strategic interventions designed to ensure food security and alleviate rural poverty. In support of this policy thrust, President Estrada has likewise declared that his administration has prioritized, among others, a bill seeking to separate the regulatory functions of NFA from its proprietary functions.

The proposed realignment of the NFA mandates has financial implications which will require a comprehensive assessment of the agency's assets and liabilities, particularly its existing financial obligations. The implications are more pronounced given that the ADB study is recommending that the government line agency that will be responsible for all regulatory functions be made a regular line agency of the Department of Agriculture, while the proposed corporation be established to operate with private sector participation.

To support President Estrada's call for the early passage of an NFA Reorganization Bill, a Working Group consisting of NFA, the Department of Agriculture, and the Office of the House Majority Floor Leader of the Philippine Congress has been organized. In this regard, given the financial implications of restructuring the NFA, the Working Group has requested AGILE assistance in the conduct of a study that will respond to the need for appropriate valuation of NFA assets and liabilities. The requested AGILE study will provide the essential technical inputs to the NFA Reorganization Bill which has been filed in the Philippine Congress—a legislative act that will contribute significantly to food security and the more efficient marketing and privatization of food grains in the country, both of which are vital preconditions to the country's macroeconomic stability.

The primary objective of the AGILE study described in this task order is to formulate a technically-sound and viable modality for NFA's financial transformation, viewed as necessary to fully effect its proposed reorganization. Specifically, the study will (1) validate the assets, liabilities, and total net worth of the NFA, including an assessment of its financial performance in the last ten years and its financial obligations; and (2) identify the most appropriate modality for implementing the planned financial transformation given the existing rules and regulations of the Commission on Audit, the Department of Finance, and the Department of Budget and Management.

In particular, a team of consultants will be tasked to undertake the following:

- review the audited balance sheets and income statements of NFA from 1987 to 1997, including all major financial transactions; and evaluate the agency's financial performance during the period under study;
- review all outstanding financial obligations of NFA, prepare summary reports on the status of these obligations, and identify options for retiring these obligations;
- validate the agency's assets and liabilities using the appropriate appraisal mechanisms while counterchecking and verifying financial transactions with contracting parties;
- identify and evaluate various implementation modalities to transfer such assets and liabilities to the new organizations that will be formed based on the agency's validated assets and liabilities and taking into account the proposed separation of NFA's functions;
- review all pertinent government rules and regulations, particularly those of the Commission on Audit, the Department of Finance, and the Department of Budget and Management, on the transfer of assets and liabilities of government agencies such as NFA; and
- formulate a suitable implementation modality for the transfer of NFA's assets and liabilities to the new organizations that will be formed, including preliminary principles and guidelines that will affect such transfer.

The team of consultants tasked by AGILE to conduct the study under this task order will comprise the following: a senior CCN Finance Specialist/Team Leader (3.0 pm); a mid-level CCN Finance and Accounting Specialist (2.0 pm); a junior level CCN Accounting Analyst (3.0 pm); a senior expatriate Appraisal/Privatization Specialist (1.0 pm) and a mid-level CCN Appraisal Specialist (2.0 pm). The consultants will work with their GOP counterparts at NFA and DA, and will collaborate closely with the NFA Reorganization Working Group. The study will be implemented within a timeframe of 4 calendar months, starting at around 02 November 1998 and ending by approximately 27 February 1999.

Task Order Activity B.104: Conducting The NFA Reorganization Plan Study

A critical institutional reform that has been proposed for the sustained development of the Philippine grains sector is the realignment of the mandates of the National Food Authority (NFA) to achieve a more cost-effective food security program. Under a recent ADB study cited in the preceding task order, the separation of the regulatory and proprietary functions of NFA has been recommended. Specifically, the study calls for a government line agency to assume the regulatory functions of NFA while a corporation is formed to undertake its proprietary functions. This proposed realignment of the mandates of NFA stems from the inability of the agency to effectively and efficiently discharge its functions—as contained in Presidential Decree No. 4 (PD 4) and subsequent decrees and laws and as dictated by its generally abstract and broad policy directions—to promote the integrated growth and development of the grains industry.

The difficult balancing act that NFA has to regularly perform due to its conflicting mandates is best demonstrated by its programs to protect both the farmers and the consumers. As part of its price stabilization function at the farm level, the agency implements a grains procurement program and a price support policy that ensures the availability of a ready market for the farmers' harvests, assuring them of reasonable profits. Meanwhile, at the other end of the marketing chain, the consumers are also given protection with the agency's effort to continuously and sufficiently supply them with grains at affordable prices. Toward this objective, NFA implements a rice release price that is consistently lower than the prevailing market price—in fact, most of the time too low, thereby causing the farmers to argue that the agency tends to favor consumers at their expense. The private traders and millers, on the other hand, use NFA's pricing scheme as a guide to their business operations. For traders to sell at a price that approximates NFA's rice release price, they have to purchase paddy from the farmgate at a price that is 50 percent lower than the agency's rice release price. This 2:1 ratio of the rice retail price to the farmgate price has been confirmed and validated by many traders and the above mentioned ADB study. Thus, each time NFA sets its release price at lower-than-market price, farmgate prices become either too low or dip to below the government-set support price. Consequently, NFA contributes largely to the perennial problem of depressed farmgate prices all over the country.

Primarily to promote agriculture modernization to ensure food security and alleviate rural poverty, the Office of the President has recently announced that it will prioritize, among others, a bill seeking to separate the regulatory functions of NFA from its proprietary functions. In this regard, a Working Group consisting of NFA, the Department of Agriculture, and the Office of the House Majority Floor Leader of the Philippine Congress has been organized. In a recent meeting, this Working Group concluded that because of the proposed bill's far-reaching implication, AGILE assistance will be required to further study the proposed restructuring of NFA. The agency's present organizational structure and staffing pattern will need to be assessed and all possible alternative organizational structures and staffing patterns that could be established in response to the decoupling of the agency's functions would have to be identified and their feasibility assessed. From such an inventory, new structures and patterns can be formulated and their potential impacts analyzed.

AGILE recognizes that the proposed study will provide the essential technical inputs to the NFA Reorganization Bill which has been filed in the Philippine Congress—and will contribute significantly to food security and the more efficient marketing and privatization of food grains in the country. These, in turn, will be pivotal to promoting the country's macroeconomic stability, a prerequisite to sustained trade and investments, particularly amidst the worst economic crisis being experienced in Asia.

The specific objectives of the proposed study include (1) evaluating the current mandates, roles, and functions of NFA; (2) reviewing and assessing the present organizational structure and staffing pattern of NFA; (3) conducting an inventory of all relevant government laws, rules, and regulations that could affect the proposed NFA restructuring; (4) formulating and recommending suitable organizational structures and corresponding staffing patterns for the new organizations that will evolve from the decoupling of NFA's mandates and functions; (5) reviewing the implementation modalities of similar restructuring initiatives previously pursued by GOP, and (6) recommending an appropriate and viable implementation modality taking into account the various implications of the restructuring on the present officers and employees of the agency.

A team of consultants led by a senior CCN Organization Specialist (3.0 pm), and assisted by a mid-level CCN Human Resource Specialist (2.0 pm), a mid-level CCN Finance Specialist (2.0 pm), a mid-level CCN Institutional Development/Personnel Specialist (2.0 pm); and a senior level CCN Legal/Labor Specialist (2.0 pm) will be recruited by AGILE under this task order to undertake the study. It is anticipated that AGILE's appointed consultants will work with their GOP counterparts at NFA and DA, and will collaborate closely with the NFA Reorganization Working Group. It is furthermore projected that the study will be implemented within a timeframe of 4 calendar months, starting at around 02 November 1998 and ending by approximately 27 February 1999.

Task Order Activity B.105: Policy Task Management For AGILE–Supported Macro Policy Reforms

The GOP recognizes that one of the key ingredients to promoting broad based growth is the maintenance of macroeconomic stability. AGILE meetings held with the DOF Undersecretary for the International Finance Group, BSP Director for Economic Research and Treasury, and the NEDA Director-General indicate that several policy reform measures and mechanisms will need to be put in place to ensure efficiency and consistency in the country's overall economic and financial programming. AGILE technical assistance in these macro policy reform areas will require emphasis in ensuring the synchronized efforts of the various GOP agencies involved—resulting in monetary and fiscal changes that are supportive of macroeconomic stability.

Macroeconomic stability leads to higher investment levels and hence, accelerated growth. However, monetary and fiscal policies will need to be carefully combined to achieve this objective. Furthermore, domestic policies and tools will have to be responsive to the changing regional and international political and economic conditions. In this regard, it is anticipated that AGILE will be working closely with various partner-clients to provide the appropriate technical advisory services and support that will strengthen the GOP's capacity to achieve and maintain stability. Some issues to consider in this regard are: (1) the effects and tradeoffs of macro policies on key variables that affect investment and growth, (2) the impact of changes in international conditions, and (3) factors and processes affecting planning and implementation decisions in the country.

To help the GOP formulate policies for promoting macroeconomic stability, it is expected that concerned partner-clients will request a wide variety of AGILE assistance. Hence, a Macro Policy Task Manager will be required on a multi-year basis to supplement the AGILE Core Team efforts. Under this task order, a mid-level CCN Macro Policy Task Manager (30 pm) will be recruited to ensure the timely and appropriate responses of AGILE to requests for technical assistance aimed at promoting macroeconomic stability. The following tasks will be assigned to the Macro Policy Task Manager:

- provide quick-response technical analysis on micro policy-related issues to concerned AGILE partner-clients under the technical supervision of the AGILE Senior Resident Advisors;
- prepare scopes of work, special activity fund proposals, and other necessary documents to ensure that resources are made available to each activity;

- undertake advocacy work on macro-policy related reforms under the technical supervision of the AGILE Policy Advocacy ;
- coordinate with the policy advisors based in the AGILE-Department of Finance Satellite Office on finance policy-related matters and potentially with the *Bangko Sentral ng Pilipinas* to ensure timely and efficient support from the AGILE Headquarters;
- coordinate with other government agencies and private sector associations involved in monetary and fiscal sector reforms;
- assist the AGILE Senior Resident Advisors and the Policy Advocacy Advisor in identifying policy issues and formulating options to address policy constraints affecting the macroeconomic stability of the Philippines;
- review draft policy studies, surveys, and diagnostic reports;
- prepare periodic activity status reports; and
- perform other tasks that may be required by the Senior Resident Advisors and the Policy Advocacy Advisor in support of the AGILE Policy Agenda.

AGILE POLICY AGENDA NO. 3: IMPROVING THE TAX AND PUBLIC EXPENDITURE SYSTEMS

Task Order Activity C.101: Rationalizing Road User Charges In The Philippines

As the Philippines moves upward along its economic growth path, it inevitably must cope with the increasing demand for efficient and reliable transport systems and services from its growing population. In this regard, the *Philippine Transport Strategy Study* which was conducted through an Asian Development Bank-funded technical assistance in 1996 concluded that in terms of traffic volume and expenditure, roads constitute the largest mode of transport in the country. Specifically, according to the study, approximately 80 percent of domestic passenger traffic and 60 percent of freight traffic currently use the country's road network. In addition, it is estimated that about 75 percent of the government's capital infrastructure on transport infrastructure is typically allotted to roads. Nonetheless, the study describes the country's road network as relatively sparse and generally of low quality. Expanding the existing network to provide better access to areas currently isolated from the rest of the country will require massive budgetary outlays from the government, despite and amidst efforts to attract private sector investments into the transportation sector. Similarly, improving the existing network to upgrade them to satisfactory design and construction standards, as well as ensure that they are in good condition entails large and sustained budgetary allocations.

Recognizing the urgency of mobilizing and earmarking sufficient government funds to expand and maintain the country's road system, the Finance Secretary has announced that his department will propose the enactment of a new legislation that will abolish all fees and taxes currently collected on motor vehicles such as the private vehicle registration fees and motor vehicle taxes, in favor of a simplified road user charge that will integrate all such fees and taxes. Towards this end, the Domestic Finance Group of the DOF has requested AGILE assistance in conducting a study that will enable them to formulate and implement a technically-sound framework for shifting to the proposed integrated road user charge. In order to respond to the concerns of those that will be affected by the proposed legislation, AGILE assistance has likewise been sought in the conduct of consultations that will solicit feedback from the concerned stakeholders. It is envisioned that the AGILE-supported study and consultations will lead to a more efficient and equitable taxation of road transport systems and services, eventually leading to improved roads that will respond to the country's increasing trade and investment transactions.

The proposed AGILE assistance will support the DOF in formulating and implementing a technically-sound framework for shifting to a simplified and integrated road user charge as the primary instrument of taxation for road transport services. The assistance will come in two parts: a study that will examine the existing DOF framework for the proposed road user charge as well as other modalities currently in use in other countries; and advocacy support for the resulting draft legislation in the forms of technical advisory services during the congressional deliberation process and consultation workshops with the stakeholders.

During the study phase of the proposed assistance, a team of consultants led by an expatriate transport economist with the relevant technical and geographic experience will be tasked to undertake the following:

- Formulate an appropriate policy framework that will guide the design and implementation of the proposed road user charge based on a review of the existing DOF framework, an analysis of the experience of other countries (particularly the U.S., selected European countries, and ASEAN countries) in the application of road user charges, and the findings as well as recommendations of other ongoing donor-funded projects that are relevant such as the World-Bank financed *Road Information Management Support Systems (RIMSS)* and the *Better Roads Philippines (BRP)*;
- In close consultations with other relevant donor-funded projects, conduct an analysis of the Philippine experience with various road user charges, including the preparation of an inventory of current road user charges that will summarize key implementation aspects such as institutional modality, revenues generated, operational and administrative costs, political and social acceptability, and legal viability;
- Based on the above, and with other relevant data gathering and analysis such as the determination of costs—road damage, congestion costs, and environmental costs—caused by the use of typical vehicles on different classes of roads, formulate options for a policy operational framework that will assist the DOF in securing congressional approval for a simplified and integrated road user charge in the Philippines;
- Based on an evaluation of the economic, institutional, and socio-political viability of each identified policy operational framework, formulate policy and operational recommendations to the DOF on how the road charges in the Philippines can be rationalized to reflect more equitable and efficient taxation for road transport services;
- Present the study findings and conclusions in a policy seminar designed and organized to solicit feedback from the DOF, DPWH, DOTC, and representatives from other stakeholder groups consisting of affected business organizations, consumer groups, members of the academe, international donors, and members of Congress and their staff; and

- Based on the comments received during the policy seminar and from the AGILE Core Team, the DOF, and USAID, prepare and submit the final version of the study.

After the conduct of the study, advocacy assistance will be provided to DOF through consultants who will be tasked with the following:

- Provide technical advisory services to the DOF, particularly with respect to incorporating the study findings and conclusions into the draft bill proposing the adoption and implementation of an integrated and simplified road user charge in the Philippines;
- Review and advise on the legal aspects of the proposed legislation;
- Serve as DOF resource persons during policy briefings, seminars, and consultation forums to discuss the proposed road user charge; and
- Assist DOF in the design and conduct of policy briefings, seminars, and consultative meetings and workshops with the relevant stakeholders.

Under this task order, AGILE will recruit consultants to form the study team which would be composed of the following: a senior expatriate Transport Economist/Team Leader (2.5 pm); a senior CCN Road/Transport Economist/Deputy Team Leader (2.0 pm), a mid-level CCN Road/Transport Specialist (2 pm), and a junior level CCN Road Tax Analyst (1.5 pm). Advocacy services will be provided through the continued services of the senior CCN Road/Transport Economist/Deputy Team Leader (1 pm) and the mid-level Road/Transport Specialist(1 pm). A senior CCN Legal Specialist and a mid-level Policy Workshop Specialist (1 pm) will also be hired to support the advocacy efforts of the DOF towards enacting the proposed legislation on an integrated road user charge.

It is anticipated that the study phase will be implemented within a timeframe of 3.75 calendar months, starting at around 02 November 1998 and ending at around 15 March 1999. The advocacy phase will be implemented after the completion of the study and will continue through to approximately 30 April 1999.

Task Order Activity C. 102: Creation of a DOF Satellite Office—Strengthening GOP Capacity in Tax and Public Expenditures Systems

In an effort to reduce the country's fiscal deficit and minimize its adverse impacts on the Philippine's economic performance, the GOP has proposed several revenue generating measures in the form of new taxes, improvements in tax administration, and the implementation of a tax amnesty program. In particular, seven new tax measures have been identified by the Estrada Administration: (1) the idle land tax; (2) land conversion tax; (3) road user charge; (4) tax amnesty program; (5) additional levy on premium and unleaded gasoline; (6) excise tax on motor vehicles to include commercial vehicles; and (7) rationalization of fiscal incentives. The first four of these tax measures have already been prioritized by the Estrada Administration and bills to support these measures have been filed in the Lower House of Congress. The rationalization of fiscal incentives, on the other hand, is a component of the Comprehensive Tax Reform Program (CTRP) that the previous Congress failed to address due to time constraints. The GOP expects that from these proposed measures, a large proportion of the estimated PhP 18-B shortfall in revenues next year will be generated.

Nonetheless, any new tax measure is generally unpopular and is, therefore, met with resistance and vigorous debates in the Philippine Congress. This was certainly the case for CTRP, a significantly revised version of which was eventually enacted into law. Hence, it is anticipated that the proposed new tax measures of the GOP will also generate a lot of policy debates and discussions, requiring in-depth policy analyses and vigorous advocacy campaigns.

Given the enormity and complexity of these required tasks, the DOF—through the Office of the Undersecretary for the International Finance—has requested AGILE's technical advisory and advocacy assistance. Moreover, it has been determined that the timely delivery of the requested assistance can only be made possible with the creation of an AGILE satellite office at the DOF. AGILE's establishment of a DOF satellite office, which will be manned by two resident advisors and an advocacy specialist, will help ensure that crucial policy issues are identified and immediately addressed, and that further technical assistance is provided when necessary. Through this satellite office, the continued presence of on-call policy advisory services will also be assured. In addition, the satellite office can assist the DOF in coordinating the various donor activities in the Philippines—in order to complement efforts and avoid potential duplication or gross overlapping of projects.

Under this task order, a DOF Satellite Office will be established by AGILE to carry out the following:

- Provide quick response policy analyses and advocacy support on issues related to improving tax and public expenditure systems. Specifically, this would entail providing technical advisory services before and during congressional deliberations on proposed tax measures; designing and implementing consensus building activities to promote broader support for the passage of the proposed tax measures; and assistance in the formulation of draft bills and executive issuances incorporating the results of the technical studies and the consensus building activities;

- Ensure the timely identification and provision of additional technical assistance to the DOF in their efforts to push for the enabling and implementation of new tax measures; and

- Enhance the capacity of the DOF to implement donor-supported policy reform programs.

A senior expatriate Tax Policy Advisor (12 pm) and a senior CCN Capital Markets Policy Advisor (12 pm), as well as a mid-level CCN Policy Advocacy Specialist (6 pm) will be deployed by AGILE in the DOF Satellite Office. The responsibilities of the proposed resident advisors will include:

- providing advisory services in the form of policy analysis, formulation, and advocacy in the areas of fiscal policy and capital markets development;
- conducting quick response analyses on tax administration and capital markets development issues;
- coordinating with bilateral and multilateral institutions in order to identify areas of possible collaboration;

- supplementing the efforts of the CMDCI in support of capital markets legislation;
- coordinating with the Finance Policy Task Manager to ensure the efficient utilization of AGILE resources;
- coordinating with the Tax Policy Task Manager to ensure that the relevant task order activities and corresponding resources are made available each year; and
- performing other tasks that may be required by the AGILE Senior Resident Advisors.

The responsibilities of the Policy Advocacy Specialist will be as follows:

- assisting DOF in the design of strategic advocacy plans for each of the proposed tax measures;
- working closely with the AGILE Advocacy Coordinator, providing assistance to the DOF in designing and managing the conduct of advocacy events geared towards increasing public debate and forging consensus on specific tax issues;
- assisting in the design and implementation of information dissemination programs on each of the proposed tax measures; and
- performing other tasks that may be required by the AGILE Policy Advocacy Advisor.

In addition to the above, a technical assistant will be hired to provide research assistance and administrative support to the satellite office. The technical assistant will coordinate with the AGILE office manager in making sure that the logistical support required by the satellite office is received from the AGILE Headquarters in a timely manner. On an intermittent basis, the services of a mid-level CCN Legal Advisor will also be hired in order to address the legal resiliency of the policy reforms in the area of tax administration.

The proposed AGILE assistance will produce (1) technical studies on the proposed tax measures highlighting the experiences of other countries, (2) strategic advocacy plans for each of the proposed tax measure; (3) technical briefings for the concerned committees in Congress and the Senate; (4) monitoring reports on the progress of the proposed tax measures through regular consultations with congressional aides, inter-agency conferences, and technical meetings; (5) workshops, policy dialogues, and conferences for sector-wide consultations and consensus building on the proposed; (5) draft bills and executive issuances incorporating the findings of the technical studies and the results of the consultations; (6) regular updates on the activities of bilateral and multilateral institutions in areas related to the AGILE Policy Agenda; (7) technical advisory memos in the areas of tax policy analysis, formulation, and policy advocacy; and (8) policy briefs, primers, and other necessary publications that will increase level of awareness and acceptability of the proposed tax measures.

The DOF will complement AGILE resources by making available the space required for the AGILE satellite office. The DOF will likewise provide the satellite office with the appropriate level of secretarial support.

Task Order Activity C.103: Policy Task Management For AGILE-Supported Fiscal Sector Reforms

The biggest problem currently confronting the Philippine economy is its huge fiscal deficit which can adversely impact the real sector. The consolidated public sector deficit targets have been set at PhP 64 billion (B) in 1998 or 2.0% of GNP for 1998 and PhP 82B or 2.4% of GNP for 1999. In order to reduce this fiscal deficit, the GOP has imposed strict austerity measures and has proposed several revenue generating measures. However, understandably, most of these proposed tax measures are proving to be both unpopular and controversial. In addition, the revenue effort of the Philippines (i.e., its government revenues as a percent of GNP) remains one of the lowest in the region. Moreover, the surplus in the national government cash operations in the past four years can largely be attributed to the proceeds of the GOP's privatization program. Poor tax administration continues to plague the government as can be gleaned from the country's low tax participation rate. And finally, the move towards a 5% uniform tariff rate by 2004 is expected to further exert downward pressures on the tax revenues.

Given all the fiscal sector reforms currently in the pipeline, a mid-level CCN Fiscal Policy Task Manager (30 pm) will be required to augment the AGILE Core Team efforts to ensure timely, dynamic, and strategic responses to requests from concerned partner-clients for technical assistance. AGILE, through this task order, will engage the services of the Fiscal Policy Task Manager to carry out the following:

- provide quick-response technical analysis on fiscal policy-related issues to concerned AGILE partner-clients under the technical supervision of the AGILE Senior Resident Advisors;
- prepare scopes of work, special activity fund proposals, and other necessary documents to ensure that resources are made available to each activity;
- undertake advocacy work on fiscal-policy related reforms under the technical supervision of the AGILE Policy Advocacy;
- coordinate with the resident advisors based in the AGILE-Department of Finance Satellite Office and the Bureau of Customs on fiscal policy-related matters to ensure timely and efficient support from the AGILE Headquarters;
- coordinate with other government agencies and private sector associations involved in fiscal sector reforms;
- assist the AGILE Senior Resident Advisors and the Policy Advocacy Advisor in identifying policy issues and formulating options to address policy constraints affecting the Philippine tax and expenditure systems;
- review draft policy studies, surveys, and diagnostic reports;
- prepare periodic activity status reports; and
- perform other tasks that may be required by the Senior Resident Advisors and the Policy Advocacy Advisor in support of the AGILE Policy Agenda.

AGILE POLICY AGENDA NO. 4: LIBERALIZING AND FACILITATING TRADE

Task Order Activity D.101. Support to the Bureau of Customs in Implementing the Transactions Value as Basis for Import Valuation

In a meeting convened at the office of the BOC Deputy Commissioner last August 1998—with representatives from the US Embassy, USAID, TAPS, SGS, the Technical Working Group (TWG) at BOC and AGILE—it was agreed in principle that BOC will need continuing technical assistance to implement the WTO transaction value for custom purposes which should be operational by January 1, 2000. Following the Senate's ratification of the GATT Uruguay Round Agreement in December 1994, the Philippines became an automatic member of the World Trade Organization (WTO) upon its establishment in 1995. With this membership which enhances the country's trading opportunities around the world, the country also became obligated to implement all the WTO Agreements which cover goods, services, and intellectual property.

To date, the Philippines has been able to comply with many of its WTO obligations, such as those under the Agreements on Agriculture, Services, and Intellectual Property Rights. The Government likewise enacted Republic Act 8181 entitled, "*An Act Changing the Basis of Dutiable Value of Imported Articles subject to Ad Valorem Rates of Duty from the Home Consumption Value (HCV) to Transactions Value (TV), Amending for the Purpose Section 201 of the Tariff and Customs Code,*" last March 1996. The passage of this law legally enabled the GOP to comply with its obligations under the Agreement on Implementation of Article VII of the GATT Uruguay Round. This Agreement calls for a fair, uniform, and neutral system of valuing goods for customs purposes—with such a system conforming to commercial realities and outlawing the use of arbitrary or fictitious customs values. As provided for in the WTO Agreement and as stipulated in RA 8181, the country will adopt the transactions value (TV) as the basis of valuation rules by January 1, 2000.

However, closer examination of the legislated law indicates that improvements are still required to make it more WTO-consistent. In particular, the system of published values presented in RA 8181 needs to be eliminated and provisions that would allow the BOC to conduct post-entry audit ,as well as the creation of a new unit in charge of imports valuation, will have to be instituted. Under a USAID technical assistance to the BOC—which is funded through a USAID grant to PhilExport—a draft manual for using the transactions value import valuation and a draft bill amending RA 8181 have been prepared. Unfortunately, under the existing implementation arrangements, the technical assistance and the funding support to continue the advocacy efforts for revising RA 8181 will cease to be available by end of September 1998.

To support the continuing efforts of the GOP to comply with its WTO commitments, AGILE assistance has been requested by the BOC in advocating the required changes to RA 8181. Moreover, technical assistance will also be required to increase the capacity of the BOC personnel to apply the transactions value methodology, once this new system of valuation is implemented. This would entail the conduct of training on the use of transactions value as the basis for customs valuation and a study tour to observe how such method can be applied in a developing country like the Philippines. In addition, the BOC has asked for technical assistance in implementing the organizational changes that will be required by the transactions value procedures and post-entry audit.

Under this task order, AGILE Core Team resources will be supplemented by a team of consultants tasked to assist the BOC (1) in working for the enactment of a more WTO-consistent law to implement the transactions value as basis for import valuation, and (2) in improving its capacity to apply such methodology for customs valuation. The envisioned assistance will have two major components. In the first component, AGILE support will focus on BOC capacity building and will comprise the following:

- A study tour to the United States for up to 8 selected customs examiners to train them on the application of the transactions value as the basis for customs valuation under the auspices of the US Customs Bureau;
- Echo seminars to BOC personnel;
- Assistance in the finalization and publication of the manual for using transactions value in import valuation; and
- Assistance in the formulation and implementation of the required BOC organizational changes, in close collaboration with the Department of Budget Management and the Civil Service Commission.

In the second component, AGILE support will focus on facilitating BOC's advocacy campaign for the enactment of amendments that will ensure RA 8181's consistency with the WTO. In particular, AGILE will assist BOC in:

- Formulating and implementing a strategic advocacy plan for broadening private sector support to the proposed RA 8181 amendments; and
- Drafting, producing and disseminating the necessary print materials that will facilitate support for the proposed amendments.

The proposed AGILE assistance will produce several outputs: (1) training reports; (2) training manuals; (3) a transactions value operational manual; (4) advisory memos; (5) after-event reports; and (6) a primer and other print materials on the use of the transactions value for import valuation. It is anticipated that the package of assistance to the BOC will be provided over a period of 15 calendar months and will commence by November 1998.

The following specialists will be recruited by AGILE under this task order in order to provide BOC with continued technical support: a senior CCN Trade Economist (7.5 pm), a senior CCN Advocacy Advisor (1.5 pm), a senior expatriate Transactions Value Specialist (1 pm), and a junior level CCN Documentation Specialist. In the course of their work, these specialists will be supported by a training assistant, organization development analyst, data management analyst, a systems and procedures specialist, and an advocacy associate.

Task Order Activity D.102: Providing Policy Advisory Services To The GOP on Trade and Related Matters

Although the Philippines has been able to comply with many of its WTO obligations, AGILE discussions with the Department of Trade and Industry (DTI) and the Department of Agriculture (DA) indicate that the appropriate enabling laws for WTO-consistent countervailing duty and anti-dumping mechanisms and safeguard systems, as well as intellectual property protection for plant varieties and genetic materials have not been legislated. To facilitate GOP compliance through the enactment of the appropriate legal mechanisms, a carefully formulated and well-synchronized set of advocacy activities must be implemented—with AGILE support. In addition to this area that requires AGILE assistance, a number of the GATT Uruguay Round Agreements have set timetables for future work. This built-in-agenda will require new negotiations in some areas; while in others, assessment reviews will have to be conducted. This year, the first review of the operation and implementation of the Agreement on Sanitary and Phytosanitary Measures, and a full review of the rules and procedures under the Dispute Settlement Mechanism will be conducted. In addition, further negotiations for improving rules and procedures for government procurement will also be initiated. Preparatory work for the next round of agriculture negotiations will also begin in September this year, when the WTO Governing Council meets to discuss the framework for the negotiations in 1999.

WTO "Built-in Agenda"

1998

- Services (emergency standards):results of negotiations on emergency safeguards to take effect (by 1 January 1998)
- Anti-dumping: examine standard of review, consider application to countervail cases (1 January 1998 or after)
- Rules of Origin: Work program on harmonization of rules or origin to be completed (20 July 1998)
- Sanitary and phytosanitary measures: first review of the operation and implementation of the agreement (November 1998)
- Government procurement: further negotiations start, for improving rules and procedures (by end 1998)
- Dispute settlement: full review of rules and procedures (by end 1998)

1999

- Intellectual property: review of certain exceptions to patentability and protection of plant varieties (1 January 1999 or after)
- Intellectual property: examination of scope and methods for complaints where action has been taken that has not violated agreements but could still impair the rights of the complaining party (by end 1999)
- Agriculture: negotiations initiated (one year before end of 6-year implementation period.

AGILE assistance to the DTI and DA has also been requested in ensuring that commitments under the Association of Southeast Asian Nations (ASEAN), as well as the Philippine contribution to the Asia Pacific Economic Cooperation (APEC) are consistent with the country's WTO obligations. In addition, support in the drafting of implementing rules and regulations on recently enacted legislation, such as the Agriculture and Fisheries Modernization Act of 1997, the Fisheries Code of 1998, and the Intellectual Property Rights Code of 1997, will be required to ensure WTO-consistent provisions.

To respond to the need for timely policy analysis, formulation and advocacy assistance to the GOP on trade and related matters, consultants will be recruited by AGILE under this task order primarily to provide advisory services in:

- Ensuring compliance with the Philippines' WTO obligations;

- Ensuring consistency of the GOP's multilateral and bilateral commitments with WTO rules and disciplines; and
- Instituting WTO-consistent legislation, policies, and programs.

As envisioned, a senior CCN Trade Economist (15 pm) and a senior CCN Agricultural Trade Economist (15 pm) will be provided by AGILE as policy advisors on a full-time basis to both the DTI and DA. Each senior policy advisor shall have the following duties and responsibilities:

- provision of advisory services in trade policy analysis, formulation and advocacy;
- conduct of quick-response analyses on trade related issues; and
- coordination with the Trade Policy Task Manager in ensuring the timely and efficient implementation of proposed task order activities.

The senior Trade Economist/Policy Advisor will be assigned to the DTI and will be asked to report to the Assistant Secretary for International Trade. The senior Agricultural Trade Economist/Policy Advisor will be assigned to the DA and will be asked to report to the Assistant Secretary for Policy and Planning. On an intermittent basis, the services of a senior CCN International Trade Law Expert (1.5 pm) will also be engaged to assist both policy advisors. It is expected that on a quarterly basis, or whenever necessary, a report on the status of AGILE-supported trade and related policy issues will be provided to the Chief of Party, or his duly designated representative, by the advisors who will be recruited under this task order.

Task Order Activity D.103: Policy Task Management for AGILE-Supported Trade Policy Reforms

Given the Asia regional crisis, the Philippines' burgeoning fiscal deficit, and the possibility of an economic recession; liberalization policies are popularly but mistakenly blamed for the country's current economic problems. As a consequence, possible reversals of external sector liberalization policy reforms are emerging—seriously threatening the economic gains of previous policy reform programs. For example, several industry groups are now clamoring for the freezing of tariffs at current levels until 2003, when a uniform 5% tariff rate will be implemented. In certain sectors, such as in agriculture, there is a growing constituency for increasing tariff protection. These developments are disturbing considering the country's commitments to the various multilateral trade organizations. It should be noted that the country committed to: 1) bind its tariffs under the GATT Uruguay Round Agreement; 2) reduce tariffs to 0% to 5% levels by 2003 under the ASEAN Common Effective Preferential Tariff (CEPT) Scheme; and be a free trade area among APEC economies by 2020. Moreover, any move to reverse the phase down schedule currently embodied in the government's Tariff Reform Program (TRP) will have serious negative implications for the economy.

The major thrust of trade policy should be to ensure that the gains over the last 10 years are at least preserved. This means sustaining the import liberalization and tariff reforms and ensuring that:

- The direction taken under the TRP towards a unitary tariff for industrial goods and non-sensitive agricultural products will be in the range of 5% by the year 2003 and that the country will be able to arrive at sound and policy consistent MFN tariff offerings in the next round of WTO negotiations;
- The country's trade commitments under the WTO are legally enabled;
- The country's domestic trade and investment policies, as well obligations to other multilateral agreements such as ASEAN and APEC, are consistent with the WTO obligations; and
- The GOP's active participation in future work program of the WTO (built-in-agenda) are facilitated.

Given the above and to support the implementation of the AGILE trade policy reform agenda, the AGILE Core Team will require additional technical expertise to ensure the timely and proper implementation of the planned activities. Specifically, this would require the hiring, on a multi-year basis, of a Trade Policy Task Manager (30 pm) who shall be tasked with the following:

- provide quick-response technical analysis on trade policy-related issues to concerned AGILE partner-clients under the technical supervision of the AGILE Senior Resident Advisors;
- prepare scopes of work, special activity fund proposals, and other necessary documents to ensure that resources are made available to each activity;
- undertake advocacy work on trade-policy related reforms under the technical supervision of the AGILE Policy Advocacy Advisor and in coordination with the Policy Advocacy Coordinator;
- coordinate with the DTI- and DA-based AGLE resident advisors trade policy related matters to ensure timely and efficient support from the AGILE Headquarters;
- coordinate with other government agencies and private sector associations involved in trade sector reforms;
- assist the AGILE Senior Resident Advisors and the Policy Advocacy Advisor in identifying policy issues and formulating options for addressing policy constraints affecting Philippine trade;
- review draft policy studies, surveys, and diagnostic reports;
- prepare periodic activity status reports; and
- perform other tasks that may be required by the Senior Resident Advisors and the Policy Advocacy Advisor in support of the AGILE Policy Agenda.

AGILE POLICY AGENDA NO. 5: LIBERALIZING AND FACILITATING INVESTMENTS

Task Order Activity E.101: Providing Support To Interconnection Policy Reform

In 1993, the GOP liberalized the telecommunications sector in an effort to ensure access to telecommunication services at affordable rates. This was enabled through two executive orders: Executive Order (EO) 59 which mandated all carriers to interconnect with each other and EO 109 which required new entrants into the industry to install fixed lines in designated areas under the government's service area scheme. However, five years after the issuance of the mandatory interconnection policy, industry entrants are now claiming that their growth is stunted by the slow pace of investments in interconnection facilities by the dominant carrier. This interconnection issue must be thoroughly diagnosed—the entrants perceive that the leading carrier is investing in interconnection facilities at a much slower pace than required by a fast-growing industry, resulting in serious congestion problems and eventually customer dissatisfaction. The leading carrier's view, on the other hand, is that the congestion is not so serious as to warrant a change in their investment pace.

The interconnection problem described above must be resolved because it has ramifications on other interrelated issues. One issue is the appropriateness of the access charge that the dominant carrier bills to industry entrants for the use of its existing interconnection facilities. At present, entrant carriers are charged by the dominant carrier at levels much higher than best practice charges in other parts of the world. These charges are higher because the dominant carrier is bundling in the interconnection fee or access charge, the opportunity cost of producing interconnection services and the development costs it incurs in its proportionately higher share in providing fixed line telephone services at regulated tariffs. However, entrant carriers—under EO 109—are contributing their share as well in said development burden.

This raises the other related issue of the appropriateness of the service area scheme. The scheme requires carriers to invest in a given number of fixed lines in designated areas in pursuit of the government's universal service program. High cost local exchange centers (LEC) assigned to an entrant carrier under EO 109 are likely to receive lesser attention from the leading carrier than other LECs which are operating more profitably for as long as the access charges are uniform throughout the country. Maintaining the uniform access charge policy throughout the country will imply that the GOP may have to modify the service area scheme to ensure that the objective of providing telecommunication access to the entire population is achieved.

Concerned about the growing number of interconnection-related problems, the National Telecommunication Commission (NTC) is currently working on an effective solution within the shortest time possible. Towards this end, it has requested the participation of carriers, asking them to submit their respective positions on the interconnection issue and to attend the meetings that the Commission had been and will be conducting. Four carriers have submitted their respective position papers, namely the Philippine Long Distance Company (PLDT), the Telecommunications Operators of the Philippines (TOP), the Smart Telecommunications, and the Telecommunications Users Group of the Philippines (TUGP). Given the urgency of resolving the interconnection issue, the NTC has requested AGILE for technical assistance in analyzing these papers, highlighting the technical work that needs to be done to arrive at the solution. Noting that existing studies on the problem and other related issues had already been completed under previous technical assistance grants, the NTC is interested in an initial AGILE report that would that would tap existing work here and abroad. The initial report that AGILE will produce will be presented to the NTC and the relevant carriers and stakeholders. It will include(a) an analysis of the policy and technical gaps; and (b) recommendations for a possible NTC Plan of Action that will include the appropriate policy and technical studies as well as strategic policy advocacy activities.

Specifically, a senior expatriate Telecommunications Economist (1 pm) and a senior CCN Telecommunications Specialist (1 pm) will be engaged by AGILE :

- To analyze the respective policy positions of telecommunications service providers and users on the interconnection problem, highlighting the technical work that needs to be done to arrive at a solution;
- To formulate a plan of action for solving the interconnection problem, including the appropriate policy and technical studies as well as advocacy activities that will be conducted;
- To provide NTC with information, analysis, and recommendations on telecommunications-related policy gaps; and
- To participate as resource persons in the meetings that will be conducted by the NTC on the interconnection problem.

The proposed AGILE assistance under this task order primarily responds to NTC's request for a participatory action planning process that will resolve the interconnection problem. Previous efforts in this area had apparently left out the stakeholders including the leading carrier—a feature that explains the limited impact so far of GOP efforts to solve the problem. However, while it is giving the participatory process the opportunity to contribute significantly to formulating the appropriate solution, the NTC is aware that in the end, it will have to formulate the revised set of implementing rules and regulations on interconnection.

Task Order Activity E.102: Providing Policy Advisory Services on Telecommunication Policy

In 1993, the telecommunications sector was liberalized in an effort to ensure access to telecommunication service at affordable rates. However, five years after the mandatory interconnection policy, industry entrants are claiming that their growth is being stunted by the relatively slow pace of investments in interconnection facilities by the dominant carrier needs to make. As discussed in the previous task order, this interconnection problem has ramifications on other interrelated issues. Firstly, there is the issue on the appropriate access charge that the dominant carrier can bill to the entrants for the use of existing interconnection facilities. Secondly, there is the issue of the appropriateness of the service area scheme. It should be underscored that if the "one charge throughout the country" policy needs to be maintained, the current service area scheme will have to be modified to ensure that the government's objective of providing access to telecommunications services are met.

These issues have become a cause of concern not only here in the Philippines but also in the global scale. Thus, an agreement with respect to measures affecting access to and use of public telecommunications transport networks and services has been annexed to the WTO General Agreement on Trade in Services. Moreover, APEC and APT initiatives on Mutual Recognition Arrangements (MRAs) have been forged among member economies.

In view of the above, the Telecommunications Policy and Planning Division of the DOTC has requested AGILE for assistance in the form of telecommunication policy advisors. The proposed advisors will assist the DOTC in formulating options on appropriate investment policies that support the development of the telecommunications sector. At the same time, the advisors will help strengthen the technical capacity of the DOTC staff to address the issues mentioned.

To facilitate the proposed technical assistance, the services of two (2) mid-level CCN Telecommunications Economists (12 pm) will be provided on a half-time basis to the DOTC under this task order. The advisors shall perform the following tasks:

- Provide technical advisory services in telecommunications policy analysis, formulation, and advocacy;
- Prepare policy studies and position papers on emerging telecommunications policy issues;
- Conduct quick response policy analysis on telecommunications related issues such as interconnection and convergence;
- At the request of DOTC, participate in meetings and other forums where telecommunications issues are being discussed;
- Prepare issue papers with the end view of drafting detailed scopes of work for the conduct of full blown studies on the creation and activation of a Universal Access Fund; the institutional set up for overseeing the implementation of the MRA in accordance with the APEC Telecommunications Working Group document; and the essential elements for a convergence bill;
- Review and provide inputs for the updating of the National Telecommunications Development Plan; and
- Coordinate with the Investment Policy Task Manager in ensuring that the relevant task order activities are being implemented and that resources are made available on a timely basis.

The proposed Telecommunications Advisors under this task order shall report to the Telecommunications Policy and Planning Division of the DOTC.

Task Order Activity E.103: Provision of Legal Advisory Services on Competition Policy

Reacting to the rescinding of the first oil deregulation law by the Supreme Court and the Energy Regulatory Board's ruling to disallow Manila Electric Company's tax deductions, the NEDA Deputy Director-General has requested for AGILE technical assistance in the form of legal advisory services in the drafting of bills on competition policy. The NEDA Deputy Director-General is primarily responsible for coordinating the executive branch's legislative agenda with the Philippine

Congress and the Senate. Presently, there are two proposed bills in the legislative agenda of the Estrada Administration that focus on competition policy. These are:

- The Power Sector Reform Bill; and
- Amendments to 1954 Retail Trade Law (or Republic Act No. 1180).

The first bill aims to restructure the power industry including power generation, transmission, and distribution. It likewise calls for the privatization of the National Power Corporation and the introduction of reforms in the electric power industry with the goal of total electrification and reduced power costs. These twin objectives are to be achieved by promoting active participation of the private sector in the power sector. The second bill aims to liberalize the retail trade business by allowing foreign ownership.

The primary objective of the proposed AGILE assistance under this task order is to provide legal advise in the drafting of priority bills in the area of competition policy to ensure their legal resiliency. In particular, a legal analysis of bills pending in the legislature—on power sector reform and amendments to the Retail Trade Law—will be provided. In this regard, three mid-level CCN Legal Specialists (60 pm) will be recruited by AGILE as consultants and will be asked to report to the NEDA Deputy Director-General. At the end of their contract, a compilation of the draft bills, legal analysis, and legal memoranda of the proposed bills on competition policy, and an acceptance of these outputs from the Deputy Director-General will be submitted by the consultants to AGILE. The Legal Specialists may also be tasked to review other administration priority bills by the NEDA Deputy Director-General.

Task Order Activity E.104: Conducting A Survey of Literature on Port Operations

Problems in inter-island shipping have centered on cargo rate regulation, the lack of competition among regularly scheduled cargo shipping lines, and rampant inefficiencies in domestic port operations. The regulatory authority responsible for the shipping sector, the Maritime Industry Authority (MARINA), under the DOTC, regulates liner route franchising and continues to fix cargo rates according to arbitrary classification schemes that ignore economic value. Furthermore, little progress has been made in addressing the endemic problems in port operations that have been diagnosed in several studies and business conferences. Privatization of port operations is currently stalled, and the regulatory framework governing cargo handling and port operations has actually taken a turn for the worse with the repeal in May 1997 of Executive Order No. 212, which sought to de-monopolize cargo-handling operations in public ports.

In the area of port operations, the high costs and the inefficiency of port services continue to pose the biggest problems. Although the Philippine Ports Authority (PPA) has begun to open up the cargo handling services in some of the major ports to more than one operator, the one-port-one-operator policy still prevails in other public ports. This policy restricts competition in cargo handling services, allegedly resulting in inefficiencies and eventually leading to high costs in the delivery of shipping services. Demonopolization of port cargo handling services has often been recommended by business groups and associations to address these problems.

There are other policy concerns in the provision of port services that need to be examined. These include the bureaucratic red tape in voyage clearance, the need to rationalize cargo handling rates, revision of the private port policy, acceleration of the privatization of public ports, and the charging of progressive berthing fees. These are just some of the policy initiatives in the area of port operations where AGILE could provide valuable assistance to its partner-clients, and in particular, the DOTC. But for any effort to improve the efficiency of port operations in the country to have an increased chance of success, a determination of the current state of the industry needs to be done. The result of this effort should provide the solid foundation on which would depend the policy prescriptions that could be formulated to address current inefficiencies.

Under this task order, a study to comprehensively review the literature on Philippine port operations will be conducted by a junior level CCN Port Operations Specialist (2 pm). The proposed survey of literature on Philippine port operations will involve the following:

- Building of a database on all existing laws (i.e., Republic Acts, Executive Orders, Administrative Orders, implementing rules and regulations) affecting port operations;
- Preparation of executive summaries of research reports conducted by the World Bank and other donor agencies;
- Compiling of policy briefings and presentations, conference proceedings, and position papers;
- Preparation of a bibliographical listing of all relevant studies and reports; and
- Integration of the findings, conclusions, and recommendations of the various research reports into a port operations policy brief.

The Port Operations Specialist who will be recruited under this task order shall report to the AGILE Chief of Party or his designee. The study will be conducted within the time frame of two calendar months, starting during the first week of November 1998. It is anticipated that a draft version of the report will be submitted to AGILE for review by mid-December 1998.

Task Order Activity E.105: Policy Task Management For Reforms in Investment Facilitation and Liberalization

The financial crisis has resulted in a loss of confidence in the economies of the Southeast Asian region. In the case of the Philippines, this loss of confidence has led to a 11.7% drop in real investments during the first six months of 1998. The higher costs of doing business has also forced a large of number of corporations to put on hold or cancel their expansion or modernization plans. In addition, the current economic downturn is raising questions on the real benefits of the GOP's liberalization efforts. Several sectors have even blamed these market-friendly reforms as the root cause of the economic recession. As such, threats of policy reversals, particularly in the areas of trade and investment, are becoming apparent.

In order to enhance the degree of competitiveness of the Philippine economy, the policy reform gains made in the past ten years must be preserved. For the trade sector, this would entail continued support for the implementation of WTO commitments and for measures beyond these commitments that are in line with the APEC initiatives. As far as investments are concerned, policy initiatives should center on removing or lowering the barriers to entry in domestic industries.

Particular attention should be given to the opening up to greater competition of contestability monopolies (i.e., public utilities and infrastructure services) in the industrial and services sectors which are critical to economic development.

Given the range and thrusts of these investment policy reforms, the AGILE Core Team will need additional technical expertise to ensure the appropriate and timely response to requests from concerned partner-clients. Specifically, this would require engaging a mid-level CCN Investment Policy Task Manager (30 pm) to perform the following:

- provide quick-response technical analysis on investment policy-related issues and concerns to concerned AGILE partner-clients under the technical supervision of the AGILE Senior Resident Advisors;
- prepare scopes of work, special activity fund proposals, and other necessary documents to ensure that resources are made available to each activity;
- undertake advocacy work on investment policy-related reforms under the technical supervision of the AGILE Policy Advocacy Advisor;
- coordinate with other government agencies and private sector associations involved in investment sector reforms;
- assist the AGILE Senior Resident Advisors and the Policy Advocacy Advisor in identifying policy issues and formulating options for addressing policy constraints affecting Philippine investments;
- review draft policy studies, surveys, and diagnostic reports;
- prepare periodic activity status reports; and
- perform other tasks that may be required by the Senior Resident Advisors and the Policy Advocacy Advisor in support of the AGILE Policy Agenda.

TASK ORDER RESULTS, TIMING, AND RESOURCE REQUIREMENTS

The AGILE Core Team anticipates that the task orders presented above will yield, or contribute to, the following long-term results:

Task Order Activity A.101: Providing Advocacy Support To Capital Markets Legislation. Enactment of appropriate banking and financial policy reforms to expand the breadth and depth of the Philippines capital markets.

Task Order Activity A.102: Conduct A Study On Developing The Philippine Mutual Funds Industry. Development of the mutual funds industry in the Philippines to stimulate further the country's domestic resource mobilization and facilitate the shift from short-term to long-term savings.

Task Order Activity A.103: Policy Task Management For AGILE-Supported Financial Sector Reforms. Increased GOP and private sector groups capability to formulate and evaluate options for addressing policy constraints affecting the Philippine financial sector.

Task Order Activity B.101: Providing Policy Advisory Services To Update The NEDA Annual Economic Planning Model. Expansion of the scope of NEDA's planning model by linking fiscal accounts with the external sector and monetary blocks, and by developing a social sector block.

Task Order Activity B.102: Providing Strategic Economic Policy Planning Assistance To NEDA. Strengthened GOP capacity to formulate a pro-market policy planning framework that will be able to respond strategically to ensuring the resiliency of the Philippine economy, amidst the worst Asia economic crisis, and to putting the country back on the road to sustained economic growth.

Task Order Activity B. 03: Conducting A Study On The Financial Valuation Of NFA Assets and Liabilities. Promotion of macroeconomic stability through a more cost-efficient food security program that separates the regulatory and trading functions of NFA.

Task Order Activity B.104: Conducting The NFA Reorganization Plan Study. Promotion of macroeconomic stability through a more cost-efficient food security program that separates the regulatory and trading functions of NFA.

Task Order Activity B.105: Policy Task Management For AGILE-Supported Macro Policy Reforms. Increased GOP and private sector groups capability to formulate and evaluate options for addressing policy constraints affecting the Philippine macroeconomy.

Task Order Activity C.101: Rationalizing Road User Charges In The Philippines. Formulation and implementation of a technical-sound framework for the GOP's shift to a simplified and integrated road user charge as the primary instrument of taxation for road transport services.

Task Order Activity C.102: Creation of a DOF Satellite Office—Strengthening GOP Capacity in Tax and Public Expenditure Systems. Enhanced GOP's revenue and public expenditure financing mobilization efforts through legally enacted new tax measures and an enhanced capacity to implement donor-supported policy reform programs.

Task Order Activity C.103: Policy Task Management for AGILE-Supported Fiscal Sector Reforms. Increased GOP capability to formulate and evaluate options for addressing policy constraints affecting the Philippine tax and public expenditure systems.

Task Order Activity D.101: Support To The Bureau of Customs in Implementing The Transactions Value as Basis for Import Valuation. Facilitation of GOP's compliance with its WTO commitments to further improve the country's trade opportunities globally.

Task Order Activity D.102: Providing Policy Advisory Services To The GOP on Trade and Other Related Matters. Facilitation of GOP's compliance with its WTO commitments as well as those under other multilateral trade-related treaty obligations.

Task Order Activity D.103: Policy Task Management For AGILE-Supported Trade Policy Reforms. Strengthened GOP capability in the formulation and implementation of critical reforms affecting trade facilitation and liberalization.

Task Order Activity E.101: Providing Support To Interconnection Policy Reform. Improved access to telecommunication services at affordable prices through the resolution of existing interconnection problems.

Task Order Activity E.102: Providing Policy Advisory Services on Telecommunication Policy. Strengthened DOTC capability to address issues and concerns brought about by the deregulation of the telecommunications industry and by the commitments of the Philippines to multilateral institutions.

Task Order Activity E.103: Provision of Legal Advisory Services on Competition Policy. Enactment of legally sound economic reforms on competition policy, particularly with respect to the power and retail sectors.

Task Order Activity E.104: Conducting A Survey of Literature on Port Operations. Enhanced GOP capability to formulate policy options for addressing the high costs and inefficiencies of Philippine port operations.

Task Order Activity E.105: Policy Task Management For Reforms in Investment Facilitation and Liberalization. Increased GOP and private sector capability for formulating and evaluation policy options affecting investment facilitation and liberalization.

Figure 8 illustrates the linkage between the task order outputs that AGILE will generate and how they might lead to specific changes in economic policies or the GOP policy reform process. The diagram also depicts how these changes that the AGILE outputs will be contributing to will support the USAID SO2 framework. Table 10 summarizes the illustrative outputs for each task order activity proposed, the core team responsibility for each activity, and the estimated resources required to produce the anticipated outputs. Figure 9 presents an illustrative timeline for each task order activity.

FIGURE 8. ILLUSTRATIVE AGILE FIRST-YEAR TASK ORDER RESULTS

TASK ORDER/RESULTS	POLICY OUTCOME	SO2 INTERMEDIATE RESULTS
TASK ORDER ACTIVITY A.101 Opportunity costs for failing to enact the six priority bills in capital markets development that have been identified by the CMDCI Indicator. Policy analysis and formulation communicated to stakeholders and used as advocacy support in public deliberations Measurement. Notes of public hearings and stakeholder meetings	• Securities Act of 1998 and Revised Investment Company Act enacted • Tax Reform on Financial Services and Amendments to the General Banking Act enacted • Pre-Need Securities Code and Amendments to the Central bank Act enacted	IR 3: Financial Markets Improved
TASK ORDER ACTIVITY B.102 Strengthen the capability of the GOP to formulate a pro-market macroeconomic policy framework that will be able to adequately respond to the ongoing financial crisis Indicator Policymakers using appropriate tools and methodologies in the pursuit of market-friendly reforms Measurement: Review of macroeconomic policy framework and technical advisory memos	• Reduced macroeconomic volatility and promoted sustained and broad-based economic growth • Pursued policies which reduced the adverse impact of external shocks including fluctuations in net short-term capital flows • Adopted a coherent and consistent macroeconomic policy framework for medium-term planning	IR 1: Fiscal Resources Mobilized and Allocation Improved IR 2: Trade and Investment Policies Liberalized
TASK ORDER ACTIVITY C.101 Enhanced the GOP's revenue and public expenditures financing mobilization efforts through legally enacted tax measures and an enhanced capacity to implement donor-supported policy reform programs Indicator: Policy study analysis communicated to stakeholders and used as advocacy support in public deliberations Measurement: Notes of public hearings and stakeholder meetings	• Appropriate IRR on the CTRP formulated • Fiscal incentives for investment promotion rationalized • Appropriate strategies to improve tax administration formulated and implemented • Fiscal Responsibility Act enacted • Medium-Term Fiscal Framework adopted	IR 1: Fiscal Resources Mobilized and Allocation Improved
TASK ORDER ACTIVITY D.101 Increased capacity of the GOP to meet its WTO commitments to further improve the country's trade opportunities Indicator: BOC using WTO-consistent approaches in import valuation Measurement: Monitoring of BOC internal directives on import valuation	• System of published values in RA 8181 eliminated • Provisions that would allow BOC to conduct post-entry audit formulated and implemented • Imports Valuation Unit in the BOC established • Enhanced BOC's capability to apply transaction value as the basis of import valuation	IR 2. Trade and Investment Policies Liberalized
TASK ORDER ACTIVITY E.102 Strengthen the capacity of the DOTC to address issues and concerns brought about by the deregulation of the telecommunications industry and by commitments of the Philippines to multilateral institutions Indicator: Regulations/administrative inefficiencies brought to the attention of policymakers and stakeholders Measurement: Notes on public hearings and stakeholder meetings	• In appropriate service area scheme regulations eliminated • Improved regulatory framework for enhancing competition • Effective interconnection and universal service policies implemented • Appropriate policies to take advantage of rapid advances in information technology formulated and implemented	IR 2: Trade and Investment Policies Liberalized

TABLE 10. EXPECTED AGILE OUTPUTS AND ESTIMATED RESOURCE NEEDS: FIRST YEAR TASK ORDER

TASK ORDER ACTIVITY	EXPECTED OUTPUTS	CORE TEAM RESPONSIBILITY	TASK ORDER RESOURCES
Task Order Activity A.101. Support To Capital Markets Legislation	• Congressional Policy Briefings • Congressional Consultations and Inter-Agency Conferences • Workshops, Policy Dialogues and Conferences	Ramon Clarete/Joji Reyes/Teret Calabia	• Filipino Financial Economist/Advisor (3 PM) • Filipino Capital Markets Advocacy Specialist (30 PM) • Venues and meals for seminars , consultations, and meetings • Advocacy materials
Task Order Activity A.102. Conduct of a Study on Mutual Funds Development	• Study on Development Strategies for the Philippine Mutual Funds Industry	Fernando Fernholz	• Expatriate Finance Economist (2 PM) • Filipino Mutual Funds Specialist (4PM) • Filipino Finance Analyst (4 PM)
Task Order Activity A.103 Finance Policy Task Management	• Quick-response Technical Analysis And Policy Advocacy Services on Finance Policy-related Issues • Draft Finance Policy SOWs and SAF Proposals For AGILE Funding • Finance Policy Advocacy Advisory Memos • Finace Policy Studies Reviews • Finance Policy AGILE Activity Reports	Fernando Fernholz/Joji Reyes	• Filipino Finance Policy Specialist (30 PM)
Task Order Activity B.101 Update of the NEDA Annual Macroeconomic Model	• Revised and Enhanced NEDA Macroeconomic Planning Model • Report on on Revisions To The Existing Model • Training of NEDA and other GOP personnel	Fernando Fernholz	• Expatriate Macroeconomic Modeler (10 PD) • 2 Filipino Macroeconomic Modelers (3 PM) • Expatriate Model Reviewer (10 PD)
Task Order Activity B.102 Provide Strategic Economic Policy Planning Assistance to the NEDA	• Sectoral Reviews/Issue papers • Policy Conference • Conference Proceedings	RamonClarete/ Fernando Fernholz/Joji Reyes	• Filipino Agriculture Specialist (2PM) • Filipino Trade and Industry Specialist (2 PM) • Filipino Macroeconomist (2 PM) • Filipino Social Sector Specialist (2PM) • Filipino Infrastructure Specialist (2 PM) • Venue, meals, and kits for the Policy Conference

TASK ORDER ACTIVITY	EXPECTED OUTPUTS	CORE TEAM RESPONSIBILITY	TASK ORDER RESOURCES
Task Order Activity B.103 Conduct of a Study on the Valuation of NFA Assets and Liabilities	• Assessment Study on the NFA's Assets, Liabilities, and Net Worth • Draft Instrument for Implementing the NFA's Financial Restructuring	Ramon Clarete/Joji Reyes/Teret Calabia	• Filipino Finance Specialist/Team Leader (3 PM) • Expatriate Appraisal/ Privatization Specialist (1PM) • Filipino Finance and Accounting Specialist (2 PM) • Filipino Appraisal Specialist (1 PM) • Filipino Accounting Analyst (3 PM)
Task Order Activity B.104. Conduct of the NFA Reorganization Study	• Study on the Restructuring of the NFA Organization • Legal Advice on the Implications of the Proposed NFA Reorganization Structure	Ramon Clarete/Joji Reyes/Teret Calabia	• Filipino Organization Specialist/Team Leader (3 PM) • Filipino Legal/Labor Specialist (2 PM) • Filipino Human Resource Specialist (2 PM) • Filipino Finance Specialist (2 PM) • Filipino Institutional Development/ Personnel Specialist (2 PM)
Task Order Activity B.105. Macroeconomic Policy Task Management	• Quick-response Technical Analysis And Policy Advocacy Services on Macro Policy-related Issues • Draft Macro Policy SOWs and SAF Proposals For AGILE Funding • Macro Policy Advocacy Advisory Memos • Macro Policy Studies Reviews • Macro Policy AGILE Activity Reports	Fernando Fernholz/Joji Reyes	• Filipino Macroeconomic Policy Specialist (30 PM)
Task Order Activity C.101. Conduct Road Users' Charges Study	• Study Formulating a Technically-Sound Framework For GOP's Shift To A Simplified and Integrated Road User Charge In the Philippines • Study Feedback Seminar • Legal Advisory Memos • Policy Briefings, Seminars and Consultations • Congressional Study Briefings	Fernando Fernholz/Joji Reyes	• Expatriate Transport Economist/Team Leader (2 PM) • Filipino Road/Transport Economist/ Deputy Team Leader (3PM) • Filipino Road Transport Specialist (3PM) • Filipino Road Tax Analyst (2 PM) • Filipino Legal Specialist (1 PM) • Filipino Policy Workshop Specialist/ Facilitator (1PM)

TASK ORDER ACTIVITY	EXPECTED OUTPUTS	CORE TEAM RESPONSIBILITY	TASK ORDER RESOURCES
Task Order Activity C.102. Strengthen DOF Capacity in Tax and Public Expenditure Systems	• DOF Satellite Office • Policy Analysis and Advocacy Assistance to the DOF on Tax and Public Expenditure Systems • Donor Coordination Advisory Services	Ramon Clarete/ Fernando Fernholz	• Expatriate Tax Economist (12 PM) • Filipino Tax Economist (12 PM) • Filipino Tax Policy Advocacy Specialist (6 PM) • Filipino Legal Specialist (1.5 PM) • Filipino Technical Assistant (12 PM)
Task Order Activity C.103. Fiscal Policy Task Management	• Quick-response Technical Analysis And Policy Advocacy Services on Fiscal Policy-related Issues • Draft Fiscal Policy SOWs and SAF Proposals For AGILE Funding • Fiscal Policy Advocacy Advisory Memos • Fiscal Policy Studies Reviews • Fiscal Policy AGILE Activity Reports •	Ramon Clarete/Joji Reyes/Teret Calabia	• Filipino Tax and Public Finance Policy Specialist (30 PM)
Task Order Activity D.101. Support to the Bureau of Customs (BOC) in Implementing Transactions Value as Basis for Import Valuation	• On-going Technical Support to the BOC • Study Tour to Observe Import Valuation Methods in the US • Echo Seminars • Manual on the Use of Transactions Value as Basis for Import Valuation • Advocacy Materials	Fernando Fernholz/Teret Calabia	• Filipino Trade Economist (7.5 PM) • Trade Policy Advocacy Advisor (1.5 PM) • Expatriate Expert on Transactions Value (1 PM) • Documentation Specialist (1PM) • 4 Support Staff for Organization Systems and Issues (15 PM each) • Travel expenses and per diem
Task Order Activity D.102. Technical Advisory Services on Trade Related Matters	• Policy Analysis and Advocacy Assistance to the DTI, and the DA	Ramon Clarete/Joji Reyes/Teret Calabia	• Filipino Trade Economist (15PM) • Filipino Agricultural Trade Economist (15 PM) • International Trade Law Expert (1.5 PM)
Task Order Activity D.103. Trade Policy Task Management	• Quick-response Technical Analysis And Policy Advocacy Services on Trade Policy-related Issues • Draft Trade Policy SOWs and SAF Proposals For AGILE Funding • Trade Policy Advocacy Advisory Memos • Trade Policy Studies Reviews • Trade Policy AGILE Activity Reports	Ramon Clarete/Joji Reyes	• Trade Policy Economist (30 PM)
Task Order Activity E.101. Technical Advisory Services to the National Telecommunications Commission (NTC) on	• Policy Analysis and Advocacy Assistance to the NTC	Fernando Fernholz/Joji Reyes/ Teret Calabia	• Expatriate Telecommunications Expert (1 PM) • Filipino Telecommunications Economist (1 PM)

TASK ORDER ACTIVITY	EXPECTED OUTPUTS	CORE TEAM RESPONSIBILITY	TASK ORDER RESOURCES
Interconnection			
Task Order Activity E.102. Technical Advisory Services to the Department of Transportation and Communication on Telecommunications Policy	• Policy Analysis and Advocacy Assistance to the DOTC • Issue Papers on : 1) the creation and activation of a Universal Access Fund; 2) the institutional set-up for overseeing the implementation of the APEC Mutual Recognition Arrangement on Telecommunications; and 3) the elements of a convergence bill	Ramon Clarete/Joji Reyes/Teret Calabia	• 2 Filipino Telecommunications Economists (6 PM each)
Task Order Activity E.103. Legal Advisory Services on Competition Policy Reforms	• Legal Advisory Assistance to the NEDA on Competition Policy Reforms	Ramon Clarete/Teret Calabia	• 3 Filipino Legislative Legal Experts (60 PM)
Task Order Activity E.104. Survey of Literature on Port Operations	• Review of Literature • Database on all Existing Issuances Affecting Port Operations	Ramon Clarete/Gilbert Garchitorena	• Filipino Port Operations Specialist (2 PM)
Task Order Activity E.105. Investment Policy Task Management	• Quick-response Technical Analysis And Policy Advocacy Services on Investment Policy-related Issues • Draft Investment Policy SOWs and SAF Proposals For AGILE Funding • Investment Policy Advocacy Advisory Memos • Investment Policy Studies Reviews • Investment Policy AGILE Activity Reports	Fernando Fernholz/Joji Reyes	• Filipino Economist (30 PM)

FIGURE 9. FIRST YEAR TASK ORDER TIMELINE

TASK ORDER ACTIVITY	QUARTER 4			QUARTER 1			QUARTER 2			QUARTER 3		
	O	N	D	J	F	M	A	M	J	JY	A	S
Task Order Activity A.101. Support Capital Markets Legislation												
Prepare legislative advocacy plans	■	■										
On-going advocacy work for the legislation of capital market reforms	■	■	■	■	■	■	■	■	■	■	■	■
Task Order Activity A.102. Conduct Study on Mutual Funds Development												
Policy study on development strategies for the Philippine mutual funds industry		■	■	■	■							
Task Order Activity A.103. Finance Policy Task Management												
On going task management and program development support	■	■	■	■	■	■	■	■	■	■	■	■
Task Order Activity B.101. Update of the NEDA Macroeconomic Model												
Refinements in NEDA macroeconomic model		■	■	■	■	■	■	■	■	■		
Peer review of the NEDA model										■		
Task Order Activity B.102. Provide Strategic Economic Policy Planning Assistance to the NEDA												
Prepare sectoral issue/background papers for the conference	■	■	■	■								
Policy conference and proceedings			■	■	■	■						
Task Order Activity B.103. Conduct of A Study on the Valuation of NFA Assets and Liabilities												
Assessment Study on the NFA's assets, liabilities and net worth		■	■	■	■							
Drafting of instruments to implement the NFA's financial transformation					■							
Task Order Activity B.104. Conduct of the NFA Reorganization Study												
Study on the restructuring of the NFA organization		■	■	■	■							
Legal opinion on the implications of the proposed NFA reorganization structure				■	■							
Task Order Activity B.105. Macroeconomic Policy Task Management												
On going task management and program development support	■	■	■	■	■	■	■	■	■	■	■	■
Task Order Activity C.101. Conduct Road User's Charges Study												
Study on options for restructuring motor vehicle charges	■	■	■	■	■							
Advocacy for the results of the study					■	■						

FIGURE 9. FIRST YEAR TASK ORDER TIMELINE

TASK ORDER ACTIVITY	QUARTER 4			QUARTER 1			QUARTER 2			QUARTER 3		
	O	N	D	J	F	M	A	M	J	JY	A	S
Task Order Activity C.102. Strenghten DOF Capacity in Tax and Public Expenditure Systems												
Create satellite office												
On-going policy analysis and advocacy assistance to the DOF												
On-going donor coordination activities												
Task Order Activity C.103. Tax Policy Tax Management												
On-going task management and program development support												
Task Order Activity D.101. Support to the Bureau of Customs in Implementing Transactions Value as Basis for Import Valuation												
On-going technical support to the BOC												
Advocacy plan for the legislation of proposed amendments to RA 8181												
Study and tour to the US												
Echo seminars												
Task Order Activity D.102. Provide Technical Advisory Services on Trade Related Matters												
On-going advocacy assistance to the DTI and other GOP line Departments												
Task Order Activity D.103. Trade Policy Task Management												
On-going task management and program development support												
Task Order Activity E.101. Provide Technical Advisory Services to the National Telecom-munications Commission (NTC) on Interconnection												
Assistance to the NTC in integrating various stakeholder positions on the interconnection issue												
Prepare work program for future work on interconnection												
Task Order Activity E.102. Provide Technical Advisory Services to the Department of Transportation and Communications (DOTC)												
On-going policy analysis and advocacy assistance to the DOTC												
Prepare issue papers												
Task Order Activity E.103. Provide Legal Advisory Services on Competition Policy Reforms												
On-going legal advisory assistance to the NEDA												

FIGURE 9. FIRST YEAR TASK ORDER TIMELINE

TASK ORDER ACTIVITY	QUARTER 4			QUARTER 1			QUARTER 2			QUARTER 3		
	O	N	D	J	F	M	A	M	J	JY	A	S
Task Order Activity E.104.												
Survey of Literature on Port Operations												
Review of literature on port operations												
Development of a data base on all existing issuances affecting port operations												
Task Order Activity E.105.												
Investment Policy Task Management												
On-going task management and program development support												

CHAPTER FOUR

THE AGILE MANAGEMENT PLAN

The preceding chapters underscore the fact that AGILE will cover a wide span of policy issues and will need to support multiple activities that will be carried out simultaneously within the dynamic process of policy formulation and advocacy. The extensive breadth of AGILE policy concerns and the complexity of the Philippine policy reform process require a decentralized management approach—an approach that will enable the AGILE Core Team to extend its services to the AGILE collaborating partners and maintain its ability to respond to their needs in a timely manner. To surmount AGILE's management challenge, the AGILE Core Team has designed a management framework that recognizes that a decentralized management system will be vital to the AGILE operations. The key features of this management framework include:

- **Expanding the ability of the AGILE Core Team** to communicate with GOP agencies and private sector groups, as well as provide administrative and technical backstopping to technical assistance teams, with the recruitment of *Policy Task Managers*;

- **Devolving technical assistance management responsibilities** to eligible subprojects which will be given semi-autonomous status;

- **Maintaining partner-client responsiveness** through continued physical presence in AGILE satellite offices housed for key GOP partner agencies;

- **An operational plan** that provides clear distinctions between management in the field and home office support; and systems and procedures for a decentralized but effectively controlled management system to keep AGILE focused on its technical work; and

- **Using a state-of-the-art project management and monitoring information system** that allows all participants in AGILE implementation to be informed of activities and progress.

In this chapter, each feature of AGILE's proposed management framework will be explained, particularly with respect to how they impact the Core Team's management responsibilities and ability to respond quickly and simultaneously to various requests for technical assistance from the participating GOP agencies and private sector groups. In addition, the roles and relationships of the subteams, subprojects, and satellite offices that will be created in keeping with the proposed decentralized management structure will be clarified. Management information flows and relationships will also be described and alternative modalities for technical assistance delivery to the GOP participating agencies and private sector groups will be illustrated.

EXPANDING THE MANAGEMENT CAPABILITY OF THE AGILE CORE TEAM

To handle the AGILE workload, the DAI Group proposed a multidisciplinary Core Team composed of two full-time resident advisors (**Dr. Ramon Clarete** and **Fernando Fernholz**), three full-time professional staff members (**Gilbert Garchitorena, Teresina Calabia,** and **Suzanne Babb**), and three part-time professionals (**Dr. Joji Reyes**, **Mr. Cesar Virata**, and **Peter Gajewski**). Figure 10 depicts the relationships of these core staff members and provide detailed position descriptions for each Core Team member. To support the professional core team, a group of locally recruited Filipinos will carry out the administrative, accounting, and clerical work of AGILE.

THE AGILE CORE TEAM FUNCTIONS

- Maintain contact with partners and stakeholders concerning policy issues, coordinating activities, and information exchange;
- Receive, appraise, and modify policy and Special Activity Fund (SAF) proposals;
- Coordinate the overall program relative to the policy agenda, life-of-contract workplan, and task orders;
- Award grants to non-government organizations (NGOs), if necessary;
- Draft and vet the activities/sub-activities for each task order;
- Originate, design and manage
- implementation of SO2 monitoring, economic reconnaissance, policy analysis and technical assistance activities;
- Prepare terms of reference and identify specialists to perform them;
- Manage short-term consultancies;
- Prepare and submit contract deliverables on time;
- Serve as principal contact point for the USAID Activity Manager for all aspects of AGILE; and
- Manage the field portion of administrative and logistic operations.

As Chief of Party, **Dr. Clarete** will serve as the principal liaison to USAID and the AGILE Steering Committee. In addition to providing technical oversight and advice on the range of AGILE activities and policy concerns, **Dr. Clarete** is tasked with the overall management of the Core Team and Task Order activities. **Mr. Fernholz** will serve as the Deputy Chief of Party and will primarily be responsible for managing the design and implementation of policy studies.

Suzanne Babb, as Project Administrator and SAF Manager, will be responsible for day-to-day project management including financial reporting and contractual compliance. She will also formulate *the SAF Policy and Procedure Manual* and will lead the AGILE Core Team efforts to evaluate SAF proposals in accordance with pre-approved selection criteria.

Gilbert Garchitorena is the Policy Monitoring Specialist and will design and implement a system that will systematically track, evaluate, and report on economic issues and development as they relate to the overall AGILE Policy Agenda. He will also ensure quick response to USAID requests for preparation of special reports and policy analyses, and will work with short-term consultants to draft for publication the AGILE *Success Stories.*

Teresina Calabia will provide technical assistance to AGILE-identified policy advocacy groups and will also assist them in preparing their SAF proposals. As Advocacy Coordinator, she will assist the Chief of Party and the Policy Advocacy Advisor in ensuring that appropriate and sufficient support is given to the GOP agencies and private sector groups, in the design and implementation of strategic advocacy plans.

FIGURE 10. AGILE CORE TEAM AND POSITION DESCRIPTIONS

Mr. Cesar Virata
Mr. Peter Gajewski
Senior Advisors

- Articulate economic policy issues to key members of the GOP to gain their commitment for the AGILE policy agenda;
- Ensure a smooth and effective working relationship with the AGILE Steering Committee; and,
- Serve as a resource to the AGILE technical staff on issues of TOR design and strategy

RESIDENT ADVISORS

Dr. Ramon Clarete, *Chief of Party*

- Principal liaison with USAID and Steering Committee;
- Manage Work Plans and Task Orders Development,
- Manage formulation and review of Policy Advocacy Agenda;
- Manage policy monitoring, assessment, and reporting requirements;
- Technical Lead for Advisory Services in Policy Analysis, Formulation, and Advocacy; Sectoral Lead in agriculture, microenterprise policy, institutional reform, tax administration, labor relations, and capital markets,
- Oversee the Special Activities Fund, and
- Responsible for overall management of the core team, task management team, satellite offices, and submission of deliverables to USAID.

Mr. Fernando Fernholz, *Deputy Chief of Party*

- Manage the design and implementation of policy studies;
- Collaborate with Chief of Party on Work Plans and Task Orders Development
- Liaise with USAID on SO2 assessments/updating;
- Advisory Services in Policy Analysis, Formulation, and Advocacy; and
- Technical and Sectoral Lead in trade and investment, transportation, BOT, telecommunications, intellectual property rights, and macroeconomic planning and management.

Suzanne K. Babb
Special Activities Fund Manager & Project Administrator

- Oversee day-to-day project administration including financial reporting and contractual compliance.
- Design and recommend for USAID approval a system for soliciting, screening, evaluating, and approving SAF proposals;
- Receive, appraise, and recommend changes to SAF policy studies and advocacy proposals, assist the Resident Advisors in facilitating USAID approval of selected SAF grants and awards; and
- Manage the AGILE TAMIS, and ensure team participation in reporting & tracking activities in the database.

Dr. Joji Reyes
Policy Advocacy Advisor

- Provide advisory services on AGILE's overall strategic advocacy plan;
- Assist formulation of issue-specific strategic advocacy plans,
- Assist the COP in facilitating AGILE support to GOP and private sector advocacy groups;
- Assist in identifying STTA consultants, advocacy groups, and *champions* who will implement the approved AGILE advocacy plan; and
- Review SAF proposals for policy advocacy, including those related to training, study tours, and commodity procurement

Teresina Calabia
Advocacy Management Specialist

- Liaise with identified project stakeholders, including the identified AGILE advocacy groups and *champions*, ensuring that the project's advocacy efforts are synchronized,
- Summarize and update AGILE's database on policy advocacy activities and developments;
- Provide technical assistance to AGILE identified policy advocacy groups in preparing their SAF proposals; and
- Assist the COP and Policy Advocacy Advisor in formulating and managing the implementation of approved AGILE strategic advocacy plans.

Gilbert Garchitorena
Policy Monitoring Specialist

- Design and implement a system that will systematically track, evaluate, and report on economic issues and developments as they relate to the overall AGILE Policy Agenda;
- Provide technical assistance to USAID in SO2 monitoring and evaluation, particularly the data collection aspects for agreed-upon performance indicators,
- Ensure quick response to USAID requests for preparation of special reports and policy analyses and support in communicating/disseminating AGILE's Policy Agenda;
- Draft for publication AGILE *success stories*; and
- Draft TORs to conduct M&E special studies, impact assessments, and other case analyses on AGILE subactivities

Dr. Joji Reyes will provide advisory services on the overall AGILE strategic advocacy plan and assist the Resident Advisors in managing the transformation of AGILE policy studies into policy briefs, primers, and notes for effective information dissemination. She will also review SAF proposals for policy advocacy, including those related to training, study tours, and commodity procurement. The two senior advisors, Mr. Cesar Virata and Mr. Peter Gajewski will serve as resources to the AGILE staff on economic policy issues. They will also facilitate a smooth and effective working relationship with the AGILE Steering Committee.

The current Core Team must be expanded to respond to the diversity of the AGILE Policy Agenda, the intricacies of managing the individual task orders to conduct policy studies and advocacy services, as well as the need for AGILE to be responsive to its partner-clients. AGILE proposes to hire four *Policy Task Managers* and appropriate research support staff to fulfill these needs. The *Policy Task Managers* will be experienced technical and managerial specialists in financial, macroeconomic, fiscal, trade, and investment policies. They will be tasked with ensuring that AGILE policy analysis, formulation and advocacy activities supportive of the AGILE policy agenda are carried out effectively. The research support staff will primarily be responsible for maintaining a policy impact database.

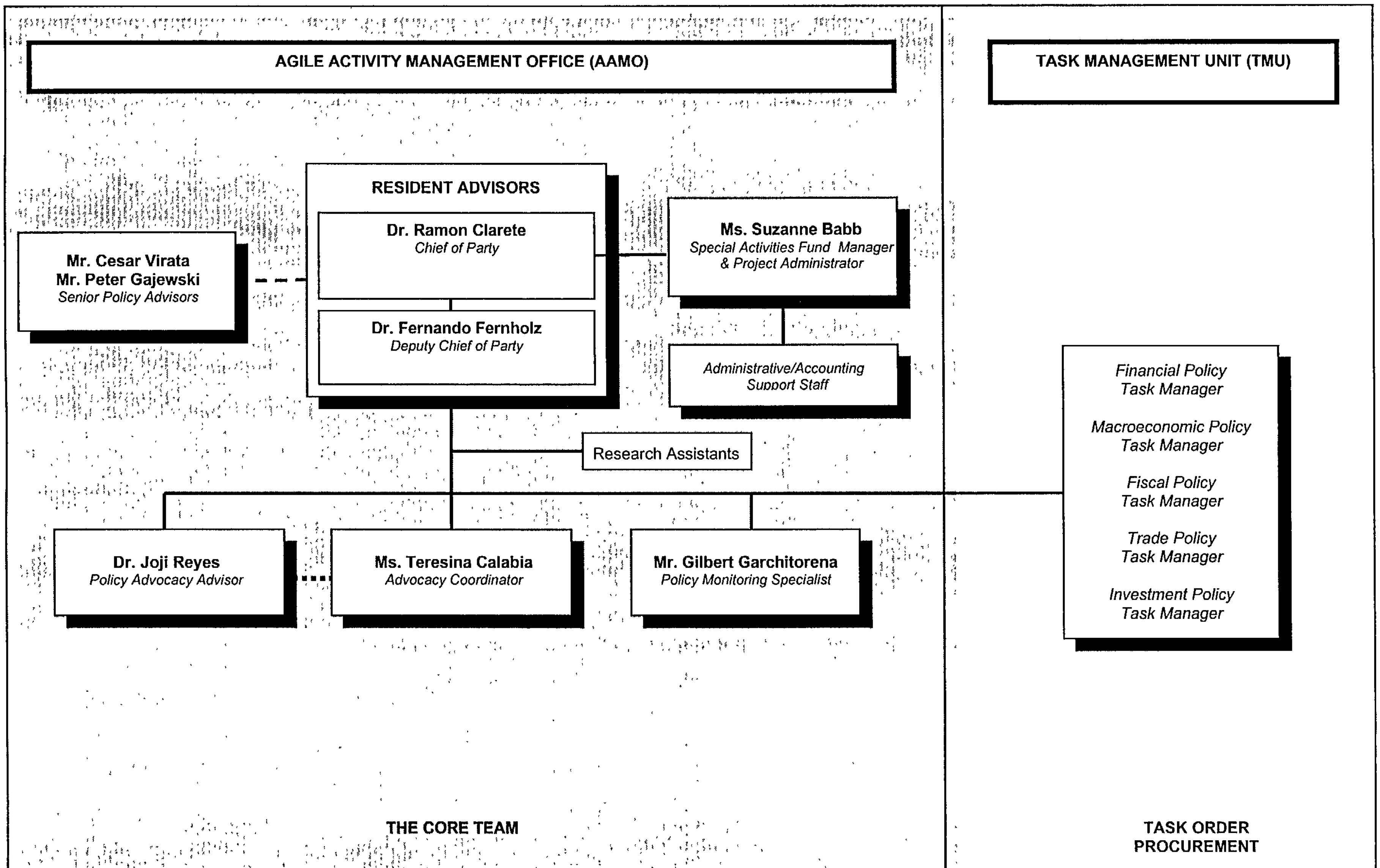
INDICATIVE SCOPE OF WORK FOR THE PROPOSED AGILE POLICY TASK MANAGERS

- Ensure the timely delivery of technical assistance to specific AGILE partners;
- Monitor the quality of activity and subproject outputs in their assigned fields;
- Initiate drafting of the necessary documents such as terms of references (TORs) and SAF proposals required to facilitate the flow of adequate resources to the subactivities and subprojects being managed;
- Undertake policy analysis and advocacy work under the guidance of the Senior Resident Advisors and the Policy Advocacy Advisor;
- Coordinate with the Policy Monitoring Specialist and the Advocacy Coordinator in ensuring that the Task Order activities are synchronized;
- Help identify and develop AGILE subprojects; and
- Prepare periodic activity status reports

The *Policy Task Managers* will serve as the principal link between the Core Team and the various GOP, private sector partners, as well as donors in the provision of timely technical assistance. In particular, *Policy Task Managers* will facilitate the prompt delivery of advisory services and timely reporting to the AGILE Core Team regarding potential problems related to the implementation of activities and subprojects under the *Annual Task Order Work Plans*. They will, moreover, provide assistance to the AGILE Core Team in identifying potential areas of technical assistance in their respective fields of specialization by maintaining close and sustained contacts with the partners-clients. Overall, they will play a key role in assuring that the AGILE Policy Agenda and the corresponding project activities to support this agenda remain consistent with those supported by GOP agencies and international donor institutions. The *Policy Task Managers* will report directly to the AGILE Resident Advisors and will have functional relationships with the rest of the Core Team.

Figure 11 shows that the combination of the *Policy Task Managers* and the appropriate research support staff with the AGILE Headquarters will effectively comprise the overall Activity Management Office, i.e., the Core Team, and a Task Management Unit, i.e., the task managers and research support staff. This organization structure of the AGILE Headquarters will be better equipped to take a more proactive stance in the delivery of technical assistance to its GOP and

FIGURE 11. ORGANIZATIONAL STRUCTURE OF THE AGILE HEADQUARTERS



private sector partners. Furthermore, this proposed structure would enhance the capability of the AGILE Core Team to undertake simultaneous and multidisciplinary activities over the life of the project.

MAKING AGILE MANAGEMENT MORE EFFICIENT THROUGH SUBPROJECTS

To make AGILE more accessible to its partner-clients, technical advisors and consultants will be deployed to the various clients' offices or will make themselves available to the clients for as much interaction as needed in each activity. These technical advisors and consultants would serve as another vital AGILE link to its GOP and private sector partners.

When a combination of AGILE activities or subactivities in a critical policy area is requested by a collaborating GOP agency, and requires sustained AGILE support for over a year, **Dr. Clarete** and **Mr. Fernholz** with inputs from the rest of the Core Team and the concerned *Policy Task Manager* will package AGILE support as a subproject. An AGILE subproject will have a clearly allocated set of resources to perform a set of clearly delineated tasks to achieve specified objectives. A subproject will be located in an *AGILE Satellite Office* within the premises of the requesting GOP agency, and will operate under semi-autonomous conditions with properly defined authorities and responsibilities. In this case, policies and procedures that will be detailed in the AGILE Subproject Policy and Procedure Manual will govern subproject operations.

Because a subproject will entail more AGILE resources than usual, not all GOP requests for subproject funding will be approved by the AGILE Headquarters. Following are preliminary guidelines for screening and evaluating requests for subproject funding:

- The request responds to a highly critical policy issue that is consistent with the AGILE Policy Agenda;
- The request will contribute significantly to the achievement of results anticipated under USAID's SO2;
- The applicant or agency has demonstrated sufficient technical capability and commitment to implementing not only the proposed subproject, but the recommendations of the subproject as well;
- The applicant or agency has clearly articulated the specific outcomes or results that should be expected from the proposed subproject;
- The implementation plan, which covers at least twelve months, is carefully prepared and is both realistic and viable; and
- The proposed subproject does not duplicate but rather complements, to the extent possible, ongoing or recently concluded policy reform assistance of donors, including USAID.

ESTABLISHING AGILE SATELLITE OFFICES IN KEY GOP PARTNER OFFICES

Even without a subproject, for key GOP agencies participating in AGILE, the need for continued physical presence in the department or agency for on-call policy advisory services, in areas that are consistent with the AGILE Policy Agenda is evident. Under the current highly centralized organization structure and management system of the AGILE Core Team, it would be relatively, if not entirely, impossible to meet this need for all key GOP partners simultaneously.

Initially, the AGILE Core Team has determined that a satellite office at the Department of Finance—as the primary collaborating agency—should be established. A part-time Finance Policy Advisor assisted by a Policy Specialist will staff the proposed AGILE Satellite Office at the DOF, on a preliminary basis. In the course of project implementation, additional satellite offices at other key GOP partners' offices may also be established.

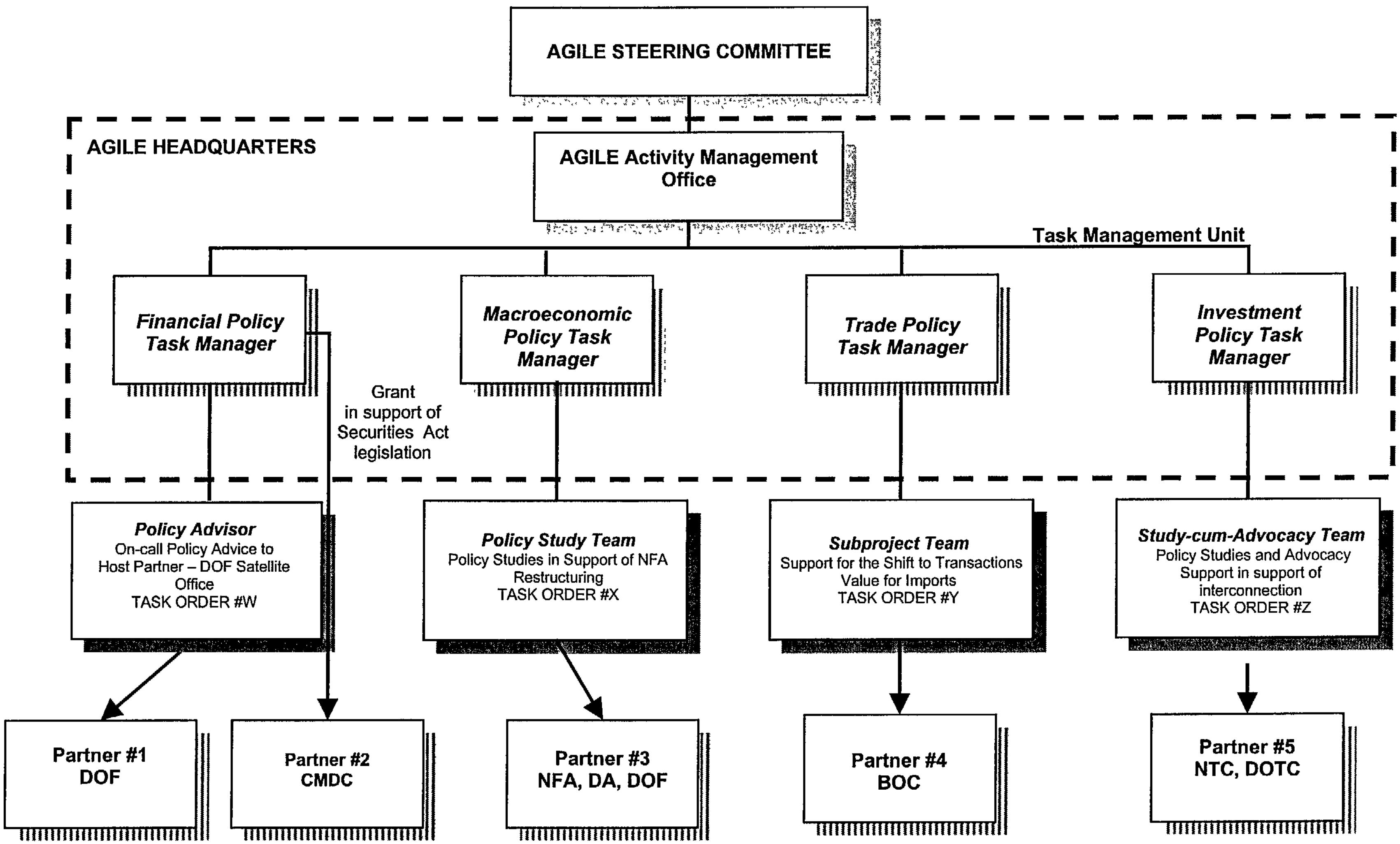
SUMMARIZING THE AGILE FUNCTIONAL AND MANAGERIAL RELATIONSHIPS

Figure 12 provides a summary of the various functional and managerial relationships possible with the expanded AGILE Core Team, the AGILE subprojects, satellite offices, and Task Order technical assistance teams working on policy studies or providing policy studies-cum-advocacy services. In the diagram, the AGILE Activity Management Office (AAMO), i.e., the Core Team, under the leadership of **Dr. Clarete** and **Mr. Fernholz** will provide overall technical and managerial supervision to all AGILE-supported activities. **Dr. Clarete** and **Mr. Fernholz** will divide the supervision responsibilities for the various activities under AGILE. They will also be responsible for ensuring that policy dialogues with the GOP, at all levels, and with the relevant private sector groups are maintained on a continuing basis. These activities do not preclude the two AGILE Resident Advisors from undertaking technical work—however, their primary responsibility will be to manage and maintain high-level policy dialogues. **Dr. Clarete**, as the Chief of Party or alternatively as the AGILE Project Director, will be the principal liaison to USAID and the AGILE Steering Committee.

Constituting the Task Management Unit (TMU), the *Policy Task Managers* will report directly to the Project Director and his Deputy as they provide administrative and technical backstopping to the various Task Order activities that are ongoing. Based on the proposed *First Year Task Order Work Plan* which is presented in the next chapter, five *Policy Task Managers* will initially be hired: the Financial Policy Task Manager, the Macroeconomic Policy Task Manager, the Fiscal Policy Task Manager, the Trade Policy Task Manager, and Investment Policy Task Manager. These managers and policy specialists will work directly with the AGILE collaborating partners, to allow them to have greater participation and control over the technical assistance process—thus, resulting in their "*project ownership*" of AGILE. The *Policy Task Managers* will also be available to engage in dialogue with the stakeholders as required. Furthermore, they will provide data and results indicators to the AGILE Policy Monitoring Specialist on a regular and continuing basis.

Primarily policy advisors, policy study teams, subproject teams, and study-cum-advocacy teams will be responsible for the actual delivery of AGILE assistance to its partners. Another delivery modality will be a private sector grant, such as the proposed grant in the *First Year Task Order Work Plan* to CMDCI to support advocacy on the Securities Act legislation. In Figure 12, this is shown using various illustrative Task Order activities that directly provide services to different AGILE partner-clients.

FIGURE 12. AGILE FUNCTIONAL AND MANAGEMENT RELATIONSHIPS WITH ILLUSTRATIVE TASK ORDERS



DECENTRALIZING ADMINISTRATIVE MANAGEMENT

DAI maintains a well-developed system for managing long-term USAID projects. A network of DAI-Bethesda home office staff, including procurement specialists, logistical backstops and financial and contractual specialists, will support the AGILE Headquarters.

Currently, Suzanne Babb is leading project administration at AGILE Headquarters. **Ms. Babb** has served as project administrator for two long-term USAID projects and has previously lived in the Philippines. She will serve as the primary link and contact with the home office staff on administrative matters, as well as with the Resident Advisors who report to the USAID Mission and the Steering Committee.

In order to reduce the administrative burden of the AGILE Chief of Party, **Ms. Babb** will be responsible for facilitating compliance with the core contract and ensuring that project administration efforts contribute to the effective and efficient implementation of the AGILE work plans. To assist in the accomplishment of these objectives, she will manage a cadre of experienced staff including accountants, bookkeepers, secretaries, administrative assistants, messengers and drivers.

The staff will be responsible for providing a wide array of non-technical support to the Resident Advisors and to all other members of the professional staff based in the AGILE Headquarters. Long and short-term technical advisors and any other personnel based at the AGILE headquarters will also receive support from the Core Team administrative support staff. .

In addition to these backstopping responsibilities, the administrative branch will be accountable for additional areas of personnel management. Specifically, the staff will be involved in recruitment, preparation of employment materials, travel arrangements, scheduling and other aspects of team mobilization.

Broader areas under the purview of the administrative branch include sub-contract management, budgeting, financial tracking, compilation and production of reports and other deliverables and procurement. The staff will also coordinate logistical support, as required, for study tours, training programs, seminars and special activities.

In maintaining this direct oversight of, and involvement in, all aspects of project administration, the AGILE Core Team—principally the Chief of Party—can ensure consistency and conformance throughout the network of subcontractors, technical advisors, policy task managers, satellite offices, subprojects and grant activities.

TAMIS: A POWERFUL MANAGEMENT TOOL FOR AGILE

The DAI Technical and Administrative Information Management System (TAMIS) plays an integral role in the storage, organization and dissemination of information on the AGILE project. TAMIS is a single system that tracks and facilitates work in the three major areas of the project management cycle— technical assistance, activity administration and results monitoring and evaluation. Since no component in the cycle stands alone, it is critical to link work in all areas, so that each supports and compliments the others.

Based in Lotus NOTES, a groupware software, the TAMIS is accessible to, and is in use by, members of the AGILE Core Team in Manila and at the DAI home office in Bethesda. One of the most powerful features of the TAMIS platform is the real-time interaction it affords--immediately and seamlessly sharing information across borders and time zones for efficient and accurate project management.

Another feature of TAMIS that contributes to its superior capacity to assist in project management, is flexibility. The daily users determine the shape and content of the TAMIS. Working with DAI programmers, the Chief of Party, the Policy Monitoring Specialist, the Project Administrator and other members of the AGILE Team are able to customize the TAMIS to fit the specific needs of AGILE. The freedom to design the system to look, work, and report the way the team and USAID requires, ensures that it will be used regularly as a valued tool.

Lotus NOTES also has the ability to link TAMIS with the World Wide Web (WWW) or Internet via a Lotus Domino Server. This would allow selected parts of the AGILE TAMIS to be viewed by AGILE clients and partners via an Internet browser like Netscape Navigator or Microsoft Explorer. For example, if AGILE clients would like to check the status of an SAF request or review the status of a policy issue, they could do so via the Internet at any time and from any location.

During her first visit to Manila, **Ms. Tanya Torres**, a DAI MIS Specialist, trained the AGILE Core Team members on the creation of basic documents and the organization of these documents in the TAMIS. With concrete work plans in place she will, during her second trip, complete the customization of the system. Her work will include making adjustments and adaptions to the database to fit the approved *LOC* and *First Year Task Order Work Plans*. Given the increased familiarity of the core team with the TAMIS, she will create forms for the team to test to ensure pertinent, useful information is being captured. Improvements will be made based on team needs and requests.

During her next STTA, **Ms. Torres** will also provide training to *the Policy Task Managers*. As with the rest of the AGILE Team, the participation of the *Policy Task Managers* will be critical to a complete, responsive database. Each *Policy Task Manager* will be required to maintain detailed reports, notes, meeting minutes and activity updates for the activities, subactivities, and subprojects in their respective areas.

For those who received the initial training, and have used the TAMIS, **Ms. Torres** will offer more in-depth instruction on the M&E capabilities and the technical and administrative tracking of activities and subprojects in the system. Finally, **Ms. Torres** will provide a demonstration of the fully functioning TAMIS to USAID and other interested stakeholders

Currently, the TAMIS reflects the overall and expected structure of AGILE. In its collapsed form, the *Main View* offers an outline of the major project components, the Core, and the Task Orders. Expanding the view one level, the user is able to see key activities under each of these major areas. For example, under the Core, the activities include Project Mobilization, Life of Contract Work Plan, SAF Activities and so forth. Under the First Year Task Order, the user is presented with the eight major policy areas to be addressed in 1998. Expanding any one of these components displays the next layer of the TAMIS, the subactivities. Under the first Task Order in the area of Improvement of Taxation Systems, the subactivity is a Road User Charges Study. A fully expanded version of the *Main View* (see Figure 12) reveals the draft scopes of work, recruitment efforts, communications and any other relevant information on this specific activity. At any time during implementation each TAMIS user can check for updates, add status reports, or track expenditures for this, or any AGILE, activity.

The *Main View* is, in actuality, a compilation of forms. Each form contains fields designed to capture strategic information. For example, when the user completes an Activity Form (i.e. Road User Charges Study), he/she will select the subresults, intermediate results of SO2, indicators and impact measurements to which this activity contributes. Other fields allow for the user to indicate the agencies involved, donor coordination and other relevant information. The other views in the TAMIS allow the user to organize activities in different ways. Simply selecting the View by Performance Measurement allows the M&E Specialist to see all the activities that feed in to the three major Performance Indicators. Likewise, the View by Success Stories displays the major project achievements that can be printed directly from the TAMIS and included in Quarterly Performance Reports.

The AGILE TAMIS includes a module for grant management. In this section the SAF Manager will enter proposals for funding or technical assistance. AGILE Core Team members will review proposals, complete evaluation forms based on ranked criteria and make recommendations for funding all within the TAMIS. Should a proposal be approved for an SAF Grant, it will then move through the TAMIS to the implementation phase. A grant agreement is automatically generated. Different views allow the TAMIS user to track grant performance and disbursements and a section on Grant Profiles provides a summary of each SAF funded activity that can be used in any given reporting period to demonstrate on-going activities under the SAF.

Other information tracked and stored in the TAMIS include, but are not limited to:

- Procurement (bid information and annual inventory)
- Training Reports
- Timesheets feeding in to overall LOE Counts
- Start-up and Close-down Modules
- STTA Recruitment, Checklists and Performance Evaluations
- Subcontracts Module

Following **Ms. Torres'** STTA, and for the life of the project, **Ms. Babb** will be responsible for quality control and completeness of the TAMIS database. She will monitor the database to assure that administrative and technical inputs are being posted regularly and appropriately. This will enable the Resident Advisors to refer to any and all sections of the TAMIS for up-to-date information regarding ongoing activities or those under preparation.

FIGURE 13. TAMIS MAIN VIEW

Activities and Related Information

Core
+ A. Activity Management
+ B. Policy Analysis/Formulation and Advocacy
+ C. Special Activities Fund (SAF)
+ D. Potential SAF Activities
+ E. SO2 Monitoring/Assessing and Reporting

Task Order 1
A. Strengthening the Financial System
+ A.101. Support Capital Markets Legislation (In Preparation)
+ A.102. Conduct a Study on Mutual Funds Development (In Preparation)

B. Promoting Macroeconomic Stability
+ B.101. Update the NEDA Annual Model (In Preparation)
+ B.102. Assistance in the formulation of the Medium-Term Development Plan (In Preparation)
+ B.103. Conduct a Study on the Financial Valuation of NFA Assets & Liabilities (In Preparation)
+ B.104. Conduct NFA Reorganization Plan Study (In Preparation)

C. Improving the Tax and Public Expenditure Systems
C.101. Road User Charge Study (In Preparation)
Activity Scope of Work: Draft Restructuring Motor Vehicle Charges (Last edited 08.16/98 by Imma Cordero)
Response: 08/02/98—Suzanne Babb—Appropriate Placement of the Study
Telephone Conversation: 08/27/98—Proposed Legislation on the Collection of a Road User Charge
Attached: Discussion re: Gabriel Roth's Candidacy
Comment: 08/21/98—Vishalini Lawrence—test example
Attached: Dr Clarete's email re: LOE and SOW guidelines
(Recruitment Needed) Short Term Assignment-Expatriate: Gabriel Roth – Road User Charge
Comment: 07/22/98--Ramon Clarete--Roth Availability
Comment: 07/31/98--Suzanne Babb--Initial Email from Gabriel Roth
Response: 07/31/98--Suzanne Babb--Objectives of the Road User Charges Study per Gabriel Roth
Response: 07/31/98--Suzanne Babb--Joji's Response
Comment: 08/03/98--Suzanne Babb--Reference for Roth
Response: 08/03/98--Suzanne Babb—Roth Reference and other
Candidates (Recruitment Needed) Short Term Assignment-Local/TCN: To Be Determined

D. Liberalizing and Facilitating Trade
+ D.101. Assistance in the Implementation of Transactions Value as Basis for Import Valuation (In Preparation)
+ D.102. Provide Technical Advisory Services on Trade Related Matters (In Preparation)

E. Liberalizing and Facilitating Investments
+ E.101. Conduct Interconnection Study (In Preparation)

+ E.102. Conduct of Baseline Survey on Concentration and State of Competition in Inter-island Shipping (In Preparation)
+ E.103. Selective Update of the "Barriers to Entry" Study (In Preparation)

F. Other Support to the AGILE Partners
+ F.101. Provide Policy Advisory Services (In Preparation)
+ F.102. Provide Activity Coordination Support (In Preparation)

G. Supporting Policy Impact Measurement
+ G.101. Survey of Literature on Port Operations (In Preparation)[60]

[60] This represents a partially expanded TAMIS view, with only one activity (C.101) in fully expanded form. Lines marked with an "+" indicate that there are additional levels of documents that can be expanded down from that line.

CHAPTER FIVE

CONCLUSION

As the Philippines joins the world community in attempting to understand the spreading global economic malaise during these last remaining years of the current millenium, and in looking for a concerted and effective strategy for containing these economic problems, AGILE gears up for work—preparing to assist its public and private sector partners to ensure a more resilient and robust Philippine economy. The job will not be easy and at best, AGILE's contributions will be focused on strengthening complementary efforts among partners and stakeholders to push for reforms consistent with enhancing the degree of competition in the Philippine economy, thus facilitating trade and investment. Current problems confronting the Philippine economy, however, will definitely serve as catalysts for reforms—potentially making AGILE's contributions effective and substantive. AGILE is, therefore, poised to seize the opportunities for carving itself a modest, but nonetheless, potentially important imprint in the history of Philippine economic development.

In this proposed *Life-of-Contract Work Plan*, the AGILE Core Team provides a blueprint for how it can accomplish, in close to four-years, the task of helping to sustain the momentum for economic policy reforms in the Philippines while ensuring that the resources under its control are applied effectively and prudently. The proposed work plan as presented discussed the preliminary AGILE Policy Agenda that has been formulated in consultation with its partner-clients; presented a *Draft First Year Task Order Work Plan*, and proposed a strategy for efficient management based on a decentralized but tightly controlled system. These plans, when approved, will by no means be final but will, in fact, be periodically reviewed and adjusted in light of the unfolding economic situation in the country.

AGILE's imprint will ultimately be weighed in terms of the legal documents it has helped to enable and the policy implementation capacities it has enhanced. The mix and quality of these reforms will circumscribe the extent and quality of AGILE's contribution. If the reforms that are enabled and implemented effectively can sustain and, if possible, accelerate the rate of per capita growth, then AGILE would have contributed to providing decent opportunities for the country's poor through economic growth. While there may be some doubts about the benefits of high economic growth accruing to the poorer segments of the country, an important consideration is that sustaining such growth is critical to broadening and increasing the avenues of economic prosperity for the poor. With a constant eye on this as its ultimate goal, AGILE will be working in the next three and a half years to help build the foundation for a prosperous Philippines in the next millenium.