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PHILIPPINES FACILITATING PUBLIC INVESTMENT (FPI)

Final Report

March 2019

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PHILIPPINES FPI

Final Report

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ACRONYMS AND ABBREVIATIONS

AAB	Authorized Agent Bank
ACBA	annual cash-based appropriation
ADB	Asian Development Bank
APCPI	agency procurement compliance and performance indicator
APP	annual procurement plan
ASEAN	Association of Southeast Asian Nations
ATC	Alphanumeric Tax Codes
BIR	Bureau of Internal Revenue
BMB	Budget Management Bureau
BOC	Bureau of Customs
BPRR	business process review and reengineering
BTMS	Budget Treasury Management System
CBA	cost-benefit analysis
CIT	corporate income tax
COA	Commission on Audit
CODE-NGO	Caucus of Development NGO Networks
CSC	Civil Service Commission
CSE	common-use supplies and equipment
CSO	civil society organization
CTRP	Comprehensive Tax Reform Program
DAI	DAI Global, LLC
DBM	Department of Budget and Management
DBP	Development Bank of the Philippines
DILG	Department of the Interior and Local Government
DOF	Department of Finance
eBIRForm	BIR electronic tax form (new)
eFPS	electronic filing and payment system (old)
EGPS	Electronic Government Procurement System
eTIS	electronic taxpayer information system
FIU	Fiscal Intelligence Unit
FPI	Facilitating Public Investment
FTP	File Transfer Protocol
FY	fiscal year

GDP	gross domestic product
GFMIS	Government Financial Management Information System
GGAC	Good Governance and Anti-Corruption Cluster
GPH	Government of the Philippines
GPPB	Government Procurement Policy Board
GPRA	Government Procurement Reform Act
GXI	G-Xchange, Inc.
IMF	International Monetary Fund
IPA	Investment Promotion Agency
IRR	implementing rules and regulations
ISG	Information Systems Group
ISSP	Information Systems Strategic Plan
IT	information technology
ITS	Integrated Tax System
KPI	key performance indicator
LANDBANK	LANDBANK of the Philippines
LGU	local government unit
LTS	Large Taxpayer Service
M&E	monitoring and evaluation
MCC	Millennium Challenge Corporation
MGEPS	Modernized Government Electronic Procurement System (new)
MOA	memorandum of agreement
MTEF	medium-term expenditure framework
MTRS	medium-term revenue strategy
MTS	Medium Taxpayer Service
NEDA	National Economic and Development Authority
NGA	national government agency
NPSTAR	National Program Support for Tax Administration Reform
OGP	Open Government Partnership
PEA	Post-entry audits
PEM	public expenditure management
PFM	public financial management
PhilGEPS	Philippine Government Electronic Procurement System (old)
PIT	personal income tax

PMEB	Performance Monitoring and Evaluation Bureau
PMIS	Project Management and Implementation Service
PPP	public-private partnership
PRA	Philippine Reclamation Authority
PS	Procurement Service
PS-DBM	Procurement Service-Department of Budget and Management
PSA	Philippine Statistics Authority
Q	Quarter
RBMER	results-based monitoring, evaluation, and reporting
RDO	Revenue District Office
RMO	Revenue Memorandum Order
ROIC	return on invested capital
RSO	Revenue Special Order
SEC	Securities and Exchange Commission
SERG	Strategy, Economics, and Results Group
STTA	short-term technical assistance
TA	technical assistance
TARA	Tax Administration Reform Act
TIMTA	Tax Incentives Management and Transparency Act
TMAP	Tax Management Association of the Philippines
TRABAHO	Tax Reform for Access to Better and High-Quality Opportunities
TRAIN	Tax Reform for Acceleration and Inclusion
TSP	tax software provider
TWG	technical working group
UAT	user acceptance test
ULAP	Union of Local Authorities of the Philippines
USSD	unstructured supplementary service data
VAT	value-added tax
WACC	weighted average cost of capital
ZBB	zero-based budgeting

PROJECT OVERVIEW AND MAJOR ACCOMPLISHMENTS

The Philippines Facilitating Public Investment (FPI) Project commenced in 2013 under the broader Partnership for Growth bilateral agreement between the Government of the Philippines (GPH) and the U.S. Government. The main objective of the five-year project was to help shift the Philippine economy from a low-growth path to a higher, sustained, and more inclusive growth trajectory driven by public investment and on par with high-performing Association of Southeast Asian Nations (ASEAN) member state economies such as Malaysia, Singapore, Thailand, Vietnam, and Indonesia.[1] The FPI Project was designed to help the help the GPH achieve its goal of expanding limited fiscal space and returning to a sustainable revenue and expenditure path that was outlined in the Philippines Development Plan (2011 to 2016); and to achieve the following economic outcomes:

- Increase the tax effort of the Philippines to 16 percent of gross domestic product (GDP).
- Increase Gross Capital Formation to 22 percent of GDP.
- Increase total GPH expenditures to approximately 20 percent of GDP.

DAI Global, LLC (DAI), FPI's implementing partner, worked strategically with GPH counterparts and stakeholders to address tax revenue deficiencies, tax evasion issues, and public spending and investment bottlenecks. Technical assistance (TA) interventions were designed to solve the following three main GPH public financial management challenges (PFM):

1. **Low tax collection** rates due to a narrow tax base and high effective tax rates on individuals compared to the rates of ASEAN member states contribute to a poor tax environment. Personal income tax rates remained unadjusted for more than a decade, resulting in high rates at very low levels of income. Numerous exemptions in the tax code and outside the tax code under the discretion of various departments exacerbated the situation, because the exemptions are given as business incentives although there is no evidence that they are effective.

2. **Weak tax administration** at the Bureau of Internal Revenue (BIR) has one of the lowest tax staff to taxpayer ratios in ASEAN. Vague tax administration laws and weak rules governing private sector transactions had resulted in a narrow tax base. In addition, ineffective tax information systems reduce the efficiency of the tax administration.

3. **Inefficient public expenditure management** (PEM) due to antiquated accounting and budgeting practices. Weak policy coordination and project management combined with ad hoc policy changes and poor accountability contributed to expenditure constraints and inaccurate financial reporting about the GPH's cash position.

SUMMARY OF FPI MAJOR ACCOMPLISHMENTS

FPI successfully navigated these challenges to meet or exceed all major project indicators. FPI's implementation strategy promoted embedded staff in partner agencies and prioritized direct TA to

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1 Although the Philippines registered a 6.7 percent GDP growth in 2017, which is among the highest in ASEAN, its average growth in the 1990s and 2000s was among the lowest.

counterparts. The Department of Budget and Management (DBM), Department of Finance (DOF), and BIR assigned office space for five years to FPI advisors and had held numerous public reform-oriented forums that were jointly organized with both private sector and civil society groups. FPI applied this impactful approach to promote large structural reforms and develop more efficient constituent- and government-facing systems.

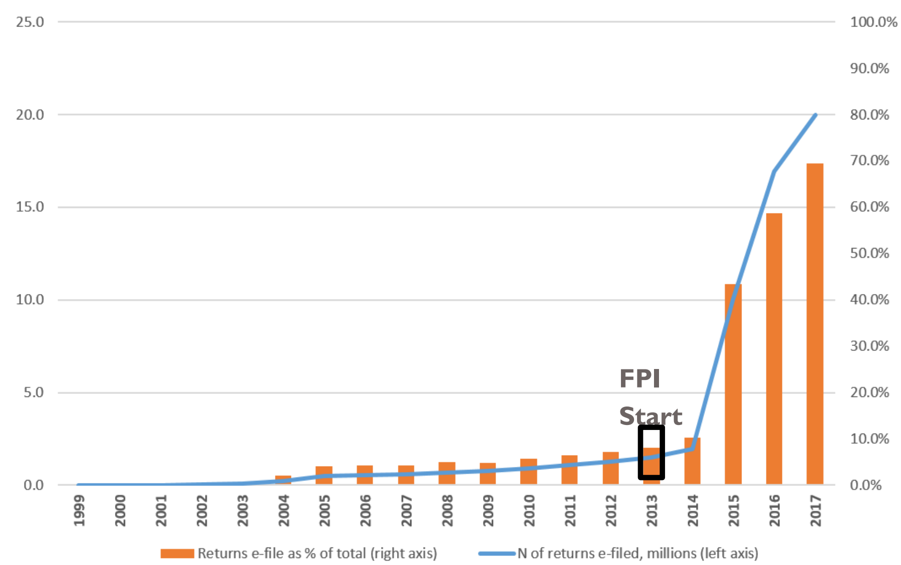
Through the five-year project, FPI helped to champion and pass meaningful tax reform; develop a modern tax e-filing system that is now used for filing approximately 75 percent of all tax returns; implement business process review and reengineering (BPRR) activities to align the national government budget's *Manual of Operations* to core activities, and develop detailed guidelines based on staff needs; modernize the government's e-procurement system, creating an efficient system to meet government procurement needs while reducing opportunities for corruption; and launch meaningful civil society engagement to ensure that tax reforms reflect local inputs and concerns—and lead to taxation that works for the people of the Philippines. By the end of the project, FPI had surpassed all three indicators: 1) fiscal space rose to 3.7 percent as of 2017, above the target of 3 percent; 2) gross fixed capital formation as of Quarter 3 (Q3) 2018 grew to 27.6 percent of GDP, exceeding the 22 percent target; and 3) total government expenditure increased to 20 percent of GDP as of Q3 2018, meeting the 20 percent target. The project team is pleased to highlight the notable achievements below.

1. **Secured tenfold increase in e-filing after strengthening BIR's electronic filing system.** FPI provided TA to support the development of a newer platform of the bureau's electronic tax forms, called eBIRForms, to replace the decades-old electronic filing and payment system (eFPS). FPI's tax information technology (IT) team worked with relevant BIR units to redesign and develop key elements of eBIRForms; provided support in promoting electronic filing; and helped develop, monitor, and maintain the system during development. The new system enables taxpayers to accomplish more transactions in less time. Over the past three years (see Figure 1), electronically filed tax returns have increased tenfold, thereby influencing the overall increase in tax compliance.[2] Moreover, FPI assisted in increasing electronic payment options, which almost eliminates the need for face-to-face transactions between taxpayers and BIR officials. Today, about 75 percent of all tax returns are filed electronically and lines at BIR offices have subsequently been reduced.

Taxpayers being assisted with manual filing. Over the course of the project, FPI increased the percentage of e-

2 BIR tax collections increased by 13.4 percent in 8 months of 2018, while averaging about 11.4 percent from 2010 to 2017.

FIGURE 1: NUMBER OF TAX RETURNS E-FILED, 1999–2017



Source: Bureau of Internal Revenue.

2. **Passage of the landmark Tax Reform for Acceleration and Inclusion (TRAIN) Law, RA 10963.** FPI provided TA to support the government's Comprehensive Tax Reform Program (CTRP). This TA consisted of policy advice, technical studies, impact assessments, support to outreach activities and "just-in-time" TA to help the DOF respond to last-minute queries during congressional hearings. This assistance led to the drafting, adoption, and implementation of Package 1 of the CTRP—the TRAIN Law.

President Duterte signs the TRAIN Law in February 2018. *Source: ABS-CBN.*

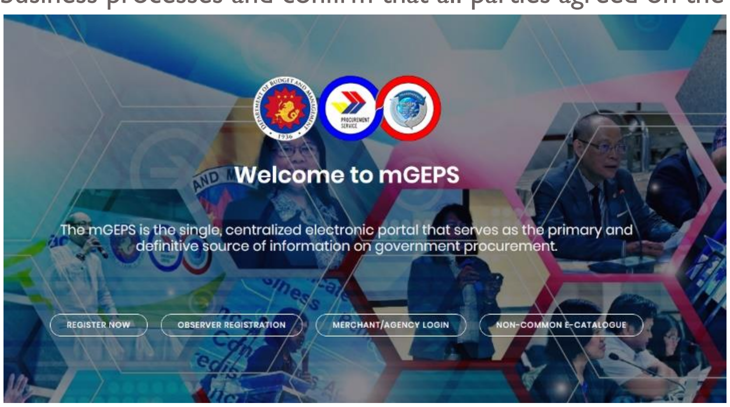
The project also provided studies that were instrumental in formulating Package 2 of the CTRP on corporate taxation and fiscal incentives reform. A version of this has come to be known as the Tax Reform for Access to Better and High-Quality Opportunities (TRABAHO) Bill. The House of Representatives passed the Bill, which is currently under deliberation in the Senate. Ongoing technical support is likely to be required to ensure adoption of TRABAHO along with its proper implementation. TRAIN and TRABAHO, once passed, will broaden the tax base, generate more revenue, and is more equitable—serving to:

- Modernize the Philippines tax system.

- Increase the competitiveness of the country by lowering both the personal and corporate income taxes.
- Strengthen the value-added tax (VAT) system by reducing the number of exemptions.
- Rationalize the tax incentives program by reducing redundant tax incentives and granting them to activities that provide the greatest net benefits to the country.

3. **Updated the Manual of Operations for the national government budget for the first time in more than three decades.** The first revision since the 1980s, this document contains procedures on how to prepare the government's cash-based budget. TA to the DBM was guided by the results of the BPRR activities conducted by FPI (see Annex 1 for more details) in April 2014. The BPRR analyzed DBM's five core budget business processes: the preparation of programs, activities, and projects; release of funds from the Miscellaneous Personal Benefits Fund to fill vacant positions; retirement (including gratuity) and pension fund disbursements; vehicle purchase procedures; and signature authority within the DBM. To consolidate the findings of the BPRR and prepare clear guidance for staff, the DBM called on FPI to update its Manual of Operations. The upgrade enabled the government's spending agencies to strengthen budget planning and more efficiently execute planned expenditures, resulting in increased public benefits associated with an efficient budget, such as health, education, and improved infrastructure.

4. **Improved functionalities of the Modernized Government Electronic Procurement System (MGEPS).** FPI assisted with selection and quality control for implementation of MGEPS, which replaced the old GPH Electronic Procurement System (PhilGEPS). Record-keeping for contract execution was fragmented throughout national government agencies, and the lack of transparency after bid award was an area of significant concern. A critical requirement for MGEPS was to integrate it with the new Government Financial Management Information System (GFMIS). FPI supported this activity by holding workshops with DBM staff and vendors to review proposed business processes and confirm that all parties agreed on the integration approach. By integrating MGEPS and GFMIS, the systems can now exchange information on procurements. This enables public officials to seamlessly create and manage procurement requests, commitments, and contract expenditures, and ensures that accounting information is recorded in GFMIS. In addition, FPI assisted the DBM with the creation of a virtual store and e-catalog—a key goal of the DBM. During workshops with the DBM, procurement services, and vendors, business requirements and system design were reviewed, discussed, and agreed upon, with technical input from FPI's advisor.



5. **Facilitated more effective civil society participation through the Open Government Partnership (OGP) process.** FPI supported the OGP with carefully designed and highly effective public dialogues organized across the Philippines. These events were attended by high-level government officials, civil society, the private sector, and academia. In the span of five years, FPI helped to facilitate 20 regional dialogues in seven key cities from Luzon and the Visayas to Mindanao (Manila, Clark, Baguio City, Cebu City, Davao City, Zamboanga City, and General Santos City). The OGP has been considered a major platform for dialogue between the government and external stakeholders to encourage collaborative efforts in developing public policy toward more inclusive and democratic governance. The main achievements supported by the public dialogues were the passage of TRAIN and improvement of scores for the Open Budget Index.

FPI held Open Government Dialogues on the CTRP April 25–26, 2017 in Cebu with DOF Undersecretary Karl Chua (second from right) and DBM Director Rolando Toledo (right).

KEY FACTORS FOR POSITIVE PROJECT OUTCOMES

Several key factors came together to positively affect the outcome of the project, notably:

- OGP events in tandem with tax roadshows effectively promoted both public expenditure and tax reforms.
- The tax reform consensus group garnered solid support and produced momentum, leading to passage of the CTRP.
- The Tax Management Association of the Philippines (TMAP) tax survey played a lead role in promoting awareness during the elections campaign period.
- Newly appointed DBM Secretary Benjamin Diokno, a respected former Budget Secretary and professor, and DOF Undersecretary Karl Chua were solid champions for the government's fiscal reform agenda.

All these key factors came together and contributed to ensuring that fiscal reforms would be placed front and center in the new administration's reform agenda. Soon after the elections, the new administration under President Rodrigo Duterte immediately held the first Sulong Pilipinas Convention in June 2016 to engage the private sector and support the Philippines' economic development program. The FPI team and key stakeholders from the tax reform consensus group attended, as well as leaders from the business sector and civic groups. At the end of the event, Sulong

Pilipinas had showcased the 10-point socioeconomic agenda[3] of the new government. These are presented below with those that are most relevant to FPI's support in bold:

1) Continue and maintain current macroeconomic policies, including fiscal, monetary, and trade policies.

2) **Institute progressive tax reform and more effective tax collection, indexing taxes to inflation. A tax reform package will be submitted to Congress by September 2016.**

3) Increase competitiveness and the ease of doing business. This effort will draw upon successful models used to attract business to local cities (e.g., Davao) and pursue the relaxation of the constitutional restrictions on foreign ownership, except as regards land ownership, in order to attract foreign direct investment.

4) **Accelerate annual infrastructure spending to account for 5 percent of GDP, with public-private partnerships (PPPs) playing a key role.**

5) Promote rural and value chain development toward increasing agricultural and rural enterprise productivity and rural tourism.

6) Ensure security of land tenure to encourage investments, and address bottlenecks in land management and titling agencies.

7) Invest in human capital development, including health and education systems, and match skills and training to meet the demand of businesses and the private sector.

8) Promote science, technology, and the creative arts to enhance innovation and creative capacity toward self-sustaining, inclusive development.

9) Improve social protection programs, including the government's Conditional Cash Transfer program, to protect the poor against instability and economic shocks.

10) Strengthen implementation of the Responsible Parenthood and Reproductive Health Law to enable especially poor couples to make informed choices on financial and family planning.

In anticipation, the FPI team quickly mobilized project staff and resources to be able to respond to TA requests from the government. Within 12 months after the elections, FPI hired a total of 22 consultants that worked with either government counterparts or civil society. These teams provided numerous technical analyses; impact assessments; information, education, and communications materials; and technical notes that helped influence the scope, depth, and breadth of the government's reform program. The DOF and DBM, under the leadership of reform-minded individuals, steered both departments to efficiently coordinate resources not only from USAID, but also from other institutions, including World Bank and Asian Development Bank (ADB).[4] FPI, in coordination with these

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[3] Retrieved from https://www.doh.gov.ph/node/6750.

[4] For example, in at least two instances, FPI consultants doing analytical and communications work were continued under ADB contracts when the project started to wind down in 2017 and 2018. This ensured that analytical work was properly followed up.

stakeholders, was able to ride this momentum to help government partners to pass tax reform legislation, update procedures, and modernize information systems—leaving FPI with a strong legacy, and the GPH with a more modern and efficient fiscal policy and tax administration.

LESSONS LEARNED AND REMAINING CHALLENGES

Experience in the Philippines and in other countries shows that the success and sustainability of the gains from extensive fiscal reforms, such as those supported by FPI, depends largely on cooperation of government counterparts and participation of the private sector and civil society to implement and sustain reforms. These reforms are difficult to implement in the Philippines, because taxpayers who are often negatively affected are also the ones who have enjoyed long-time preferential treatment and see it as their "right" rather than as a privilege that the state may rescind. In addition, they have and actively use political influence that can be leveraged against the passage of new legislation.

Effective communication helps transform the way the public thinks about reforms and it is key to marshaling support for reforms and engaging politicians as their champions. FPI worked with government counterparts, the private sector, civil society, and academia to carefully formulate a unified reform strategy supported by technical studies and a meaningful weighing of the pros and cons of various options. Key stakeholders took ownership of the reforms and independently reinforced their own capacities to support the government, while FPI maintained sufficient flexibility to quickly respond to TA requests from counterparts.

The tenet that "you cannot change things overnight" is true for both tax and public expenditure reforms. The cost to some stakeholders is so high that gaining full support and enacting a quick solution can be simply impossible and sometimes detrimental. Constantly providing stakeholders with a complete picture of the reforms was necessary to keep the project on track to meet its ultimate objectives.

Finally, structuring a carefully thought-out work plan, coupled with the ability to quickly respond to just-in-time TA requests, ensured that both the project and the project team remained relevant, even in a highly volatile reform environment. The success of the FPI Project is, notably, due to team efforts, including: 1) careful crafting of reform options that were supported by technical studies; 2) the ability to work with government counterparts while gaining their trust and confidence as partners and, more importantly, to get them to "own" the results and path forward; and 3) the ability of the team, together with its counterparts, to follow up with highly effective communication strategies. This formula enabled FPI to achieve notable project milestones.

FPI supported part of the journey, but many challenges remain. The following are overarching recommendations for continued reforms:

- **Promote improvement of the distribution of the tax burden as the primary reason for advocating the next round of tax reforms.** This will ensure that the gains from the reforms will be meaningful for the majority of taxpayers and therefore should be sustained over a long period of time. Package 2 of the tax reform must be passed in a form that both lowers the corporate income tax (CIT) rate to 20 percent and rationalizes the conferment of fiscal incentives. Furthermore, the reform should establish a tax incentives program that ensures its availability to industries and firms that are deemed important to Philippine interests and proven to actually need them—but only for a fixed period of time. These will help ensure the increased competitiveness of Philippine businesses within the region and with the rest of the world. In addition, the government should enact rules that will make the tax administration account for its overall performance, not just on the amount of taxes it collects. The narrow focus on revenues has served to limit the efficiency of the tax administration and tends to disproportionately hurt smaller players.

- **Allocate more effort and resources to lower the cost of tax compliance for smaller taxpayers and those already known to be compliant.** The effective and efficient implementation of tax administration is a double-edged sword. While the BIR should firmly enforce its tax laws and prosecute those that abuse the tax system, it must also reduce the time and effort required to comply with tax filing for compliant and small taxpayers. The government should continue to expand and improve the use of electronic filing and payment and make this available to all taxpayers for all taxes. It should also continue to find ways to simplify filing for taxpayers, particularly smaller taxpayers, to remove burdens to compliance with tax rules and regulations.

- **Continue efforts to improve the budget-planning process of government.** Timely procurement and execution of government projects, especially infrastructure and other major expenditures, are assured only if the planning and execution cycles are viewed as a multi-year process. The government should expand the number of years of real budget coverage for infrastructure and all Tier 2 projects (fiscal space) to a minimum of three. Many infrastructure projects take several years of front-end work (e.g., survey, legal, etc.) that must be completed prior to breaking ground. The government should also ensure that planning features realistic prioritization of projects and their timelines to promote efficient implementation that meets annual budget-cycle timelines.

RECOMMENDATIONS FOR FOLLOW-ON ACTIVITIES TO REINFORCE AND CONSOLIDATE RESULTS

Based on the experience of FPI, DAI has identified activities that could reinforce and consolidate results if pursued under new USAID initiatives:

- **Continued tax reforms.** While the TRAIN and TRABAHO bills have been adopted, continued tax reforms are still needed and planned as part of the CTRP. Demand-driven tax policy and regulatory reforms, such as a reduction in incentives, simplified tax forms, less-frequent filing requirements, and a taxpayer bill of rights, should be promoted to GPH officials for consideration.

- **Risk management for revenue collection.** To further increase tax revenue, the BIR must use its limited resources more efficiently and effectively. Support could be provided to develop risk-management algorithms and extend previously provided training down to regional offices. Enforcement procedures should also be reinforced to support risk management.

- **Audit and collections case management.** Increasing revenues through audits and collections requires a more efficient use of staff resources. Risk management contributes to more efficient efforts for audit, but automation, through development of case managements systems, for both audits and collections would increase the efficiency of processing cases, improve the effectiveness of staff, and produce more revenue. For audits, the goal is to select cases that have the highest assessment opportunities which are collectable; while for collections, tax enforcement must be prioritized by age of debt and the level of enforcement required.

- **Medium-term revenue strategy (MTRS).** The GPH should develop a comprehensive strategy for collecting medium-term revenues and achieving its goals of making the tax system fairer, simpler, and more efficient. The MTRS provides a framework for the medium term instead of just planning revenue collection for the next fiscal year. The MTRS incorporates revenue estimates due to changes in tax policy and administration, as well as the effects of potential fiscal risks such as financial crises, commodity shocks, contingent liabilities from PPPs, and natural disasters.

- **Amendments to the Manual of Operations for the national government budget.** Amendments to the manual will be needed when the Budget Reform Bill passes. The DBM deemed it untimely and inappropriate to incorporate procedural reforms ahead of the adoption and effective date of new legislation.

- **Annual cash-based appropriations (ACBAs).** Shifting to ACBAs—as proposed by the Budget Reform Act (Senate Bill 1761), which is up for approval in the Senate—would help address chronic underspending and low absorptive capacity. A comprehensive change-management plan, starting with a communications campaign, should be initiated to support this shift.

- **Agency procurement compliance and performance indicators (APCPIs).** Because the APCPI process relies on self-assessment by agencies, the process needs to be evaluated. To make better use of the indicator data from the Government Procurement Policy Board (GPPB) Online Monitoring and Evaluation System, online management dashboards should be developed. Dashboards would improve analytical capabilities and help identify root causes of procurement problems.

- **Transparency and accountability through the OGP.** The proposed Budget Reform Bill addresses these issues, and the GPH should facilitate more open, inclusive, and meaningful engagement of civil society organizations (CSOs) and citizens throughout the budget process. A strategy and plan should be developed for engaging civil society and local government units (LGUs) in dialogue and collaboration, including pilots for participatory budgeting, to give voice to citizens on their spending priorities.

- **Medium-term planning and budgeting.** Although first introduced in 2007 by the DBM, dramatic underspending of appropriations indicates that the medium-term expenditure framework (MTEF) needs improvement. To address this, the MTEF could to be reintroduced in line departments and agencies. Having transitioned to Tier 1 and Tier 2 budgeting (Tier 1 represents continuing operations, while Tier 2 is "fiscal space"), the DBM could focus on Tier 2 multi-year programs and projects that make budgeting and planning more difficult. If pursued, the DBM should develop a training program targeted to line departments and agencies.

- **Performance budgeting.** While the GPH introduced performance budgeting in 2014, implementation of this reform should be considered a long-term endeavor. To successfully implement performance budgeting, the DBM needs to improve the quality and integrity of performance indicators and strengthen the evaluation and reporting of agencies' actual performance. To help address this gap, a monitoring and evaluation (M&E) training program for line departments should be developed.

- **Building capacity of line agencies.** While capacity problems in line agencies appear to be straightforward, chronic delays on infrastructure projects and underspending of budgets indicate deeper problems and a need for institutional reform. Some delays arise from institutional processes, while others occur during handoffs among institutions, when requesting information, seeking clarifications, addressing permitting, obtaining rights of way, and waiting for approvals. Addressing capacity in line agencies will require institutional reform, process reengineering, and training.

PROJECT OPERATING CONTEXT, CHALLENGES, AND OPPORTUNITIES

Within this section, DAI is pleased to present an overview of the context in which FPI was implemented, challenges that the project team faced and the implementation strategy designed to address them, and an overview of FPI activities, with linkages to project objectives.

FPI was conceived to both complement existing fiscal reform projects and build on recent efforts at improving tax collection and public expenditure efficiency. Existing support from the International Monetary Fund (IMF), the U.S. Department of the Treasury, and the Millennium Challenge Corporation (MCC) were underway to reengineer business processes of the BIR and develop a new corporate tax IT system for the government. This newer, web-based system, called the Integrated Tax System (ITS), was conceived to make compliance more efficient while strengthening tax administration. In addition, the World Bank National Program Support for Tax Administration Reform (NPSTAR) was designed to support the government's efforts to improve tax administration through change management and several institutional reforms. But, despite all the support, the impact on tax administration efficiency was limited, and the transformation of the BIR was not completely realized.

A series of external events that included two global fiscal crises and a series of reform efforts meant that the Philippines' fiscal position wavered between periods of improvement and decline. Immediately following the 1997 CTRP, the Philippines experienced waning tax performance until the early 2000s, due in part to the Asian financial crises. By 2004, the tax effort[5] declined to its lowest level in recent history at 11.8 percent from the record high of 15.3 percent in 1997. The combination of eroding revenue and expanding government spending resulted in a ballooning government deficit, which put the country on the verge of a fiscal crisis by the middle of the decade.[6]

To avert the impending crisis, the Arroyo administration introduced measures to bolster revenue and adjust government spending. This included an adjustment of the VAT rate from 10 percent to 12 percent,[7] expansion of the VAT base, and a temporary increase in the corporate tax rate from 32 percent to 35 percent, which lasted from 2006 to 2008. In the meantime, another law was enacted to adjust the excise tax rates on alcohol and tobacco products, albeit only marginally, in 2005.[8] By 2008, the tax effort had recovered to 13.6 percent of GDP, but the continuous enactment of revenue-eroding measures and the global financial crisis in 2008 reversed revenue increases and hurt the country's fiscal position by the time the Aquino administration assumed office in 2010. By that time, the tax effort had fallen back down to 12.1 percent.

At the onset of the Aquino administration, attempts to undertake any broad-based tax reform was immediately forestalled by a campaign promise not to enact any new taxes.[9] Between 2011 and 2012, the administration focused on incremental improvements to tax administration efficiency, which resulted in increased tax recovery from 12.4 to 12.9 percent of GDP.[10]

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5 In this context, tax effort is computed as the ratio of actual tax collections to GDP.

6 De Dios, E. et al. (2004). *The deepening crisis: The real score on deficits and the public debt*. University of the Philippines School of Economics.

7 Republic Act No. 9337, also known as the Expanded VAT Law.

8 Republic Act No. 9334.

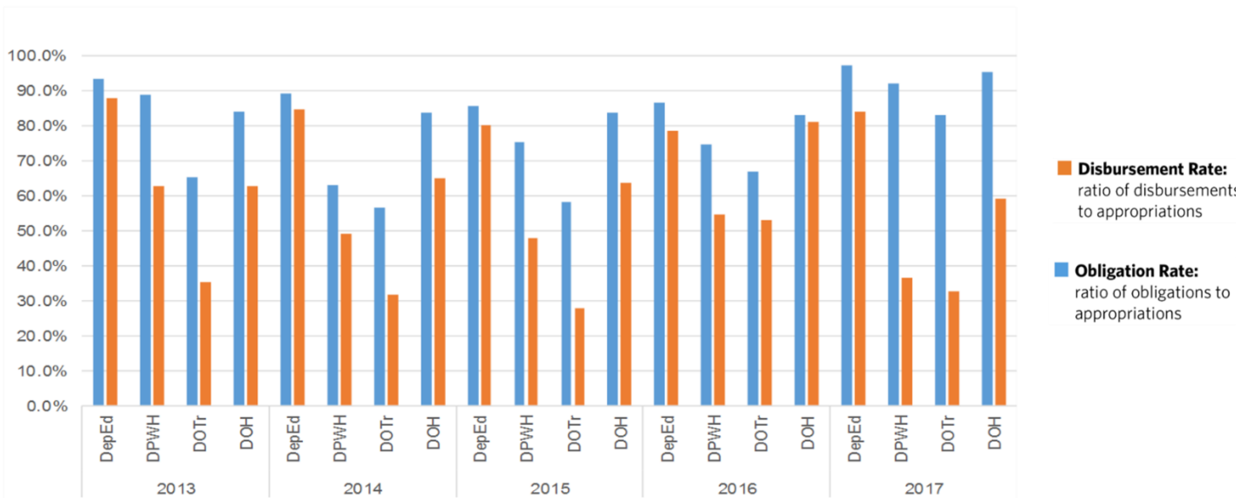
9 Retrieved from https://news.abs-cbn.com/business/01/21/10/aquino-no-new-taxes-if-elected-president.

10 World Bank. (May 2013). *Philippine economic update: Accelerating reforms to meet the jobs challenge*. Retrieved from http://www.worldbank.org/content/dam/Worldbank/document/EAP/Philippines/Philippine_Economic_Update_May2013.pdf.

In the meantime, efforts by both the Arroyo and Aquino governments to improve tax administration saw little impact in improving actual compliance and support services for taxpayers. Despite the introduction of the eFPS in 1999, usage of the system was low and remained flat for the next 14 years. Shortly after this, a new tax administration system, the ITS, was developed in 1999. In 2002, a bill was introduced in Congress, but was unsuccessful at transforming the BIR into an independent revenue authority. And, from 2007 to 2013, a World Bank-sponsored reform program was implemented, which was intended to prepare the BIR for deeper institutional reforms.[11]

Underspending, especially for investments to promote growth and development, persisted throughout the past two decades in the Philippines. The GPH's large spending agencies consistently underspent their budgets year after year (see Figure 2). The underspending, measured against the obligated budget, was as large as 70 percent in some years. This meant planning and budgeting were not aligned, some essential services were not delivered, and opportunities for sustainable growth were lost.

FIGURE 2: ACTUAL DISBURSEMENT VS. OBLIGATIONS OF SELECTED AGENCIES



Source: Department of Budget and Management.

A major breakthrough occurred in December 2014 when FPI was invited to participate in the DOF's effort to undertake a comprehensive tax reform, which was submitted to Congress in early 2015. The DOF's Fiscal Intelligence Unit (FIU), which directly reported to the Finance Secretary, asked FPI to help organize a workshop for this purpose. Local and foreign experts from academia, the private sector, and World Bank and IMF, and former government officials, were invited to present proposals and ideas that would help craft the government's reform. The effort was spearheaded by the FIU and quickly propelled FPI to the forefront of the government's fiscal reforms. But, as quickly as the DOF launched its reform agenda, its momentum waned because politicians and the bureaucracy began to prepare for the upcoming national elections in May 2016.

[11] World Bank. (December 2013). *National program support for tax administration reform (NPSTAR)*.

The period immediately preceding a national election is a challenging time to launch fiscal reforms. Historical records show that government expenditures increase by about 0.9 percentage points of GDP during election years. Together with campaign spending, these serve to boost GDP growth by about 2.7 percentage points.[12] In 2015, the anticipated change in political leadership resulted in a "wait-and-see" attitude that tended to dictate the policy dialogue between the FPI team and government counterparts. A change in government leadership would also mean replacing the President's Cabinet Secretaries and key officials in the bureaucracy working directly for them.

While development partners and the DOF saw the need for comprehensive tax reform, most stakeholders still failed to understand the delicate balance between increasing revenue and the need to improve the distribution of the tax burden. While a bill was filed solely to restructure the personal income tax (PIT),[13] other efforts were directed at only increasing "sin taxes." This fragmented approach also meant that distinct stakeholders pursued interests that were independent of one another.

While challenges slowed progress on comprehensive tax reform, over time the reforms continued and produced results. Political economy issues regularly impact tax reforms, and the situation faced by FPI was not uncommon. Persistence and a readiness to provide "just-in-time" TA enabled FPI's successes and set the stage for further tax reforms.

FPI saw the election period as the perfect time to engage external stakeholders from the private sector. The team understood that widespread support from various sectors could reasonably persuade the incoming administration on the merits of fiscal reforms, which would then catapult the notion of a CTRP to the forefront of the policy reform dialogue.

In 2015, FPI sponsored Open Government Partnership (OGP) events that paired public expenditure and tax reform dialogues. The Philippines is one of the founding members of the OGP, which espouses transparency in public governance. Since the beginning of the project, FPI supported the OGP agenda. In 2015, FPI sponsored six OGP events in different parts of the country. By the end of the project, FPI had sponsored 20 OGP events in seven key cities around the country, bringing together more than 2,000 individuals representing multi-sectoral organizations and agencies in the country. The logical pairing of the OGP and the tax reform group came naturally under the good governance umbrella. Participants of the event were augmented with notable tax and public expenditure experts who were eventually organized as a tax/fiscal reform consensus group (see box on next page for more details).

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[12] World Bank. (May 2013). *Philippine economic update*.

[13] For example, HB 5401, introduced by Rep. Colmenares in 2015.

Broad consensus was achieved by the FPI-organized tax reform group on the objectives and contents of a comprehensive tax reform. It was well understood by the consensus group that a genuine tax reform needed to be comprehensive. While challenging at the beginning, the group's diverse membership quickly realized that true consensus could be achieved only if meaningful objectives that support both higher economic growth and a more equitable distribution of the tax burden was maintained. These objectives were understood to be to: "**1) increase tax revenues** to support the need for greater budget expenditures; **2) redistribute the tax burden** to improve the fairness of the system and make it more competitive with those of its peers; and **3) reduce the cost of compliance,** which has consequences that are both broad and far reaching." These objectives, including recommendations on the contents of a CTRP, were drafted as a report by FPI (see Annex 2 for more details).[14] The report was shared with both the group and government counterparts.

FPI assisted TMAP efforts to survey the five presidential candidates cemented tax reform as an election issue. All five presidential candidates, including then Mayor Rodrigo Duterte, answered the survey and acknowledged tax reform as a major issue that needed to be addressed through their administrations. TMAP consulted the FPI team on the thrust of the survey, and the presentation of the questions. TMAP was part of the tax reform consensus group organized by FPI.

In the sections below, the FPI team is pleased to present an overview of project activities, under Performance Requirements 1 and 2—Strengthening Tax Effort and Improving Public Expenditure Management (PEM)—and crosscutting initiatives, followed by a summary of lessons learned. The interventions profiled below include: 1) technical support from local and international experts for tax policy, tax administration, and PEM; 2) capacity-building activities for government counterparts and CSOs; 3) coalition-building activities; and 4) crosscutting communications and outreach support.

FPI-Organized Tax/Fiscal Reform Consensus Group

In 2015, the FPI team established a multi-stakeholder group that was to engage the government in a reform dialogue while developing consensus on the scope and depth of a comprehensive tax reform approach. Together with key members from the Action for Economic Reforms civic organization, the first "consensus group" meeting was held in June 2015. This was attended by various members of diverse backgrounds that included **civic groups** led by Action for Economic Reforms, Sin-Tax Coalition, Social Watch, Bantay-Kita, and Foundation for Economic Freedom; **academia** led by the University of the Philippines School of Economics and National College of Public Administration and Governance; **business organizations** led by TMAP and the Management Association of the Philippines, and later on by the Philippine Chamber of Commerce and Industry; **government representatives** led by the DOF, DBM, and National Economic and Development Authority (NEDA); **representatives from the Congress and Senate** led by the Ways and Means Committees of both Houses of Congress and the Appropriations Committees; **former high-ranking government officials**; and **business leaders from the private sector**.

During the first meeting, the FPI team led a presentation, detailing the current situation, which included the state of the taxpaying environment. Within nine months, the group held seven group meetings, after which subsequent tax reform-focused meetings continued, but were then organized by various members of the group. Although the group itself is now inactive, individual members continue to actively participate in various reform forums, including congressional hearings at the Lower House and Senate.

[14] Many elements from the FPI-led consensus policy paper may be found in both TRAIN and TRABAHO. This includes the reduction in both PIT and CIT rates and equipping the government with the necessary knowledge and tools to be able to effectively manage its tax expenditures.

PROJECT RESULTS BY PERFORMANCE REQUIREMENT

PERFORMANCE REQUIREMENT 1: STRENGTHENING TAX EFFORT

Under Performance Requirement 1, FPI strove to implement measures to help the BIR meet annual tax revenue targets by passing comprehensive tax reform and promoting continuous improvement to tax administration through technical support and capacity building focused on easing the burden of tax compliance through e-filing initiatives and supporting strategic planning and implementation. These initiatives are detailed in the sections below on Tax Administration and Tax Policy initiatives.

TAX ADMINISTRATION

Strengthening tax effort required transforming the BIR into a properly resourced, modern, and more efficient and effective tax administration that operates in accordance with internationally accepted principles of self-assessment, voluntary compliance, accountability, and transparency. Strengthening the tax effort has eased the burden of compliance for taxpayers and has made tax administration easier to manage. FPI led efforts to affect continuous improvements to tax administration by improving risk management and reducing the cost of tax compliance. The project team spent the first 12 months of the project reviewing relevant laws and processes, identifying binding constraints to collecting revenue, and establishing baseline performance measures for the DOF BIR and targeted activities under the control of the Bureau of Customs (BOC).

TAX BENCHMARKING ANALYSIS

The FPI team's tax benchmarking analysis led to an intensified focus on actions to help improve the deployment of the electronic taxpayer information system (eTIS), which was under development at the BIR with MCC support. The eTIS was a crucial component to the majority of FPI's revenue initiatives. However, eTIS development and implementation faced significant challenges, primarily because of the bureau's existing structure. FPI learned that the BIR had no clear vision of how it needed to be restructured to perform its work using the eTIS as a platform. This deficiency made it difficult to specify and develop eTIS software in a timely manner, or in a manner designed to implement it efficiently (if it could even be delivered). Prospects for the effective use of eTIS were further limited by the high probability that even if the requisite software were to be developed, there would still be bottlenecks in data-entry processes.

Much work was needed to assist the BIR in developing a detailed description of how the bureau must perform its tasks in the future. During FPI's initial year, the BIR had no business process maps to guide the development of functional requirements for eTIS development—a major gap in ensuring the sustainability of eTIS implementation.

ASSESSMENT OF ELECTRONIC FILING AND PAYMENT IN THE PHILIPPINES

The Philippines was among the first countries in the region to implement electronic tax filing through the eFPS, which was intended for large taxpayers. However, 15 years after its initial implementation, less than 1 percent of taxpayers electronically filed their returns and less than 2 percent paid electronically. The electronic filing and payment facilities in the BIR were plagued by the substandard design of its eFPS.

FPI focused its first year on improving the electronic systems. Significantly enhanced e-filing and e-payment utilization were a key element of the tax administration moving forward, because they represented the best options for efficiently obtaining the data critical to tax administration for large taxpayers. These systems alleviated the challenges faced by the BIR and caused by massive current backlogs in its manual data-entry systems.

DEVELOPMENT OF THE BIR INFORMATION SYSTEMS STRATEGIC PLAN (ISSP) (2016–2018)

FPI's tax administration TA started with meticulously designing the approach needed to operationalize and ensure the sustainability of tax reform initiatives. Most importantly, FPI helped develop the BIR ISSP for 2016–2018. This was completed during the project's second year, and it helped the bureau shape its strategic direction and address the institutional planning deficiencies of the eTIS. While the BIR has been focused on implementing reforms, too little consideration had been given to identifying the projects that would create the most positive impacts on revenue collection. During Year 1, FPI directly assisted in this area through its BIR business process-mapping exercise and its analysis of impediments to e-filing.

FPI provided training to BIR stakeholders on developing a Strategic Map to improve revenue collection.

ANNUALIZED OVERVIEW OF FPI PROGRESS YEARS 1–5

YEAR 1 ACTIVITIES

During the first year, FPI initiated activities that centered on reviewing current laws and practices and strengthening awareness of the most binding constraints limiting revenue productivity. FPI also established baseline performance measures for the DOF BIR and BOC. The highlights of these activities follow:

- **FPI's tax benchmarking analysis** focused on actions that could improve the chances that the eTIS system (under development by the BIR with MCC support) could be successfully deployed. The functionality of eTIS was critical for increasing tax revenues. The development and implementation of eTIS, however, faced significant challenges, including the absence of a clear view of how the BIR would need to be structured to perform its work using eTIS as a platform. This deficiency made it difficult to prepare functional requirements and develop eTIS software in a timely manner. Furthermore, there were concerns about data-entry bottlenecks, and there were no business process maps to guide the development of eTIS.

  FPI staff believed that it was of the utmost importance that the BIR must first prepare a detailed description of business processes for how the BIR planned to perform its work in the future. Doing this required a clear understanding of the current baseline environment. During the project's first year, there were no business process maps to guide the development of functional system requirements for eTIS development, posing a critical threat to success. FPI led development of the required process maps, an exercise that extended through the first quarter of the next project year.

- **Assessment of electronic filing and payment in the Philippines** was performed during the last quarter of Year 1 as a direct follow-on to FPI's earlier tax benchmarking analysis. The Philippines was one of the first countries in the world to implement an eFPS for taxes. However, in 2013 (15 years after its initial implementation), less than 1 percent of taxpayers electronically file and less than 2 percent pay electronically. The electronic filing and payment facilities in the BIR were plagued by many issues, the most critical being a substandard design of its main electronic filing and payment system. With input from the BIR, FPI developed recommendations on how these systems could be improved. Significantly enhanced e-filing and e-payment utilization is critical for the tax administration going forward, because they represent the best options for efficiently obtaining the data critical to administering taxes for the most important taxpayers. At the same time, they could help alleviate the challenges faced by the BIR due to massive backlogs in its manual data-entry systems.

- **FPI assisted with development of the BIR ISSP for 2016–2018** that was completed during Year 2 of the project. This activity was critical in helping shape the BIR's strategic direction and directly addressed the institutional-planning deficiencies that gave rise to eTIS challenges. While the BIR was focused on implementing reforms, too little consideration was given to identifying the projects that would create the most positive impacts on revenue collection. In addition, FPI conducted a BIR business process-mapping exercise and an analysis of impediments to e-filing.

YEAR 2 ACTIVITIES

FPI designed activities that centered on developing the administrative capacity to improve utilization of e-filing. E-filing enabled BIR to receive a much more complete set of data in a timely manner. In turn, the data helped the government implement improved tax administration procedures and provided the DOF access to information to improve tax policy. The combination of improved tax administration and tax policy created an environment for enhanced voluntary compliance. The highlights for Year 2 activities follow:

- **Continued collaboration with the BIR for an increased e-filing rate.** FPI continued critical support to the BIR and its subcontractors, directly contributing to the significant progress achieved in this area. FPI estimated that the BIR would receive around 35–40 percent of all returns electronically in 2015, more than triple the proportion received in that form during 2013. FPI's efforts contributed to the expansion of the capacity of the older e-filing system (eFPS), further development and implementation of a new e-filing system (eBIRForms), production of taxpayer guides and enabling regulations, development of related business process maps, and design and execution of an e-filing public awareness campaign. Positive outcomes realized during the project's second year included reductions in wait times for filing returns at tax offices, especially during peak filing periods; lower BIR printing costs; and a reduced backlog in the processing of paper returns. FPI also helped the BIR develop a background processing software that extracted data from electronic returns and used it to populate BIR databases.

- **Expand e-payment rate.** FPI projected that the number of e-payment transactions increased from 0.95 million transactions in 2013 to 1.7 million in 2015; much of this growth stems from the expansion of e-filing via eFPS and the development of related e-payment facilities by banks. Further increases in the use of e-payment mechanisms in the Philippines would require a reengineering of business processes to better facilitate e-payment services provided by banks, and for mobile payments facilitated through dominant mobile payment operators such as Globe Telecom and Smart. FPI helped redesign associated mobile payment business processes and agreed on key elements of a work plan for going forward. FPI advised the BIR to abandon use of a controversial Filing Reference Number; doing so permitted all taxpayers to use bank e-payment facilities regardless of filing method, including taxpayers who file paper returns, those who e-file via eBIRForms, and those who simply e-mail their tax returns.

- **Collaboration with the BIR on development of short- to medium-term e-filing and e-payment work plan.** During FPI's second year, the team collaborated with the BIR to develop a work plan that aimed to expand e-filing and e-payment systems, as well as tax form simplification. The plan targeted an increase of e-filing to 60 percent of all tax returns in 2016.

- **Taxpayer segmentation** strategies were important tools in the quest to focus limited BIR resources on the most "at-risk" revenue. FPI advocated throughout the period for both an expansion of the Large Taxpayer Service (LTS) and creation of several regional Medium Taxpayer Service (MTS) units. FPI drafted a concept paper on "Increasing the Use of Taxpayer Segmentation Strategies in the Philippines" (see Annex 3), incorporating a segmented approach into the BIR ISSP, which was presented to key stakeholders. The BIR Commissioner agreed with the underlying premise of the proposals, but noted that the remaining time for this administration was likely insufficient for their full implementation. FPI's proposal to create MTS units and increase LTS coverage was supported by the Secretary of Finance, who advocated for expanding the LTS by 1,000–2,000 taxpayers. The BIR, with support from the IMF, identified additional taxpayers that could potentially be absorbed by LTS or otherwise be prioritized. It should be noted that the BIR increased the number of large taxpayers by about 90 in 2014 and 169 taxpayers in 2018. The latter is an important development given the significant size of these taxpayers.

- **Second-stage customs value database. Increase coverage, improve risk management and automation, and support post-customs clearance audits for the Post Entry Audit unit.** FPI deployed a short-term technical assistance (STTA) International Customs Expert to increase the capacity of the DOF FIU/Philippine Reclamation Authority (PRA) to conduct post-entry audits (PEA). Training sessions were conducted on customs valuation, tariff classification, risk management, and related business processes. FPI identified a number of "most binding constraints" that limited the overall effectiveness, including:

  - 100 percent no-contact policy that prevents the most effective type of audit (i.e., field audit).

  - Limited institutionalization of the unit (the approval of the structure by the DBM is still pending).

  - PRA personnel have limited capacity/experience in conducting field audits.

  - Risk management is irregular and suboptimal.

  - PRA's focus on auditing transactions from 2012 placed emphasis on audits that historically were less likely to be collected than assessments from more current periods.

FPI also assisted the PRA in automating a risk-based audit-selection process based on risks from misclassification and undervaluation. FPI and FIU leadership met with DOF Secretary Purisima to clarify the next steps in this area. It should be noted that the PRA practice of auditing "old" transactions has had the unforeseen side effect of limiting the development of the customs valuation database. If, as recommended, the PRA refocuses on auditing more recent transactions, it will have renewed interest in (and need for) expanding the current customs value database.

YEAR 3 ACTIVITIES

During Year 3, FPI continued to undertake reviews of current and proposed laws, regulations and business practices, assisted in the analysis and development of legislative proposals, identified and built awareness of factors limiting revenue productivity, and sought to improve the systems and tools used to measure BIR effectiveness within both BIR and DOF.

- **Joint FPI/BIR short- to medium-term e-filing and e-payment work plan.** FPI conducted a two-day workshop with the BIR and key stakeholders that was designed to develop a work plan to further significantly expand both e-filing and e-payment, as well as promote tax form simplification. The activity was championed by Deputy Commissioner of Internal Revenue (DCIR) Lanee C. David and supported by Commissioner Caesar R. Dulay and Deputy Commissioner Jesus Clint Arañas. A key objective of the plan was the desire to have 60 percent of all returns received electronically in 2016. The workshop produced a short-term e-filing and e-payment work plan to guide implementation during the remainder of FPI's existence.

In reality, the expansion in e-filing had already surpassed the e-filing utilization metrics set by the BIR. From a baseline e-filing rate of 8 percent of all returns in 2014, the rate increased to 10 percent in 2014 and 51 percent in 2015, surpassing utilization metrics.

- **Tax form simplification.** The new administration under President Rodrigo Duterte placed tax form simplification among its most urgent priorities. The BIR created a taskforce for this purpose, and, at the BIR's request, FPI provided TA to help guide the team on both operational and IT issues. FPI had strongly recommended that the first step toward simplification be a reduction in required filing frequency, because this represents the lowest risk to collections, is the easiest option to implement, and the relief from the burdens from too-frequent filing can be immediately realized by the country's taxpayers.

  While the Tax Code prescribed quarterly filing for the three mentioned tax types, various revenue regulations and other issuances released in previous years have effectively changed the requirement to mandate monthly filing. Reverting back to quarterly filing as mandated by the law would reduce the number of tax returns submitted by taxpayers by around 9.1 million—cutting the number virtually in half. This substantial reduction would have a big impact on lowering the cost of compliance for taxpayers and improving the ease of doing business.

- **Taxpayer segmentation.** Another priority of the Duterte administration was the creation of medium taxpayer offices, which FPI first introduced to the BIR two years ago as an integral part of a solid shift to taxpayer segmentation. This task was assigned to the BIR's Project Management and Implementation Service (PMIS) led by Assistant Commissioner Marietta Lorenzo. Her office requested FPI's critical assistance in this area.

- **Taxpayer assistance (TA).** In August 2016, FPI completed the transfer of the Know Your Taxes domain (www.knowyourtaxes.ph) to the project. This website was previously supported by the MCC, but because of the close-down in May 2016, the BIR requested support from FPI. This website had been very useful in hosting eBIRForms download packages and providing useful information to guide taxpayers during the launch of new facilities, such as tax payments through GCash (a Global Telecom mobile phone application).

- **Mobile payments. The number and amount of mobile payment transactions this year, albeit still relatively low, exceeded those during the last 10 years added together.** FPI, together with the USAID E-PESO Activity and Mynt (a mobile money provider), worked with the BIR to release a new version of GCash in April, which improved their services so that the BIR could receive tax payments for all taxes. Mobile money was first allowed by the BIR 11 years ago, however, the implementation was severely limited.

  The FPI-driven upgrade expanded tax payment coverage to encompass all tax types and all tax forms, removed artificial transaction caps, and included development of an Android application for ease of use. Even more importantly, FPI experts have helped draft and pilot new payment, reporting, and reconciliation business processes that demand significantly less data and have been introduced.

YEAR 4 ACTIVITIES

FPI played a key role in the facilitation, development, and implementation of new mobile and e-payment facilities for the BIR, which helped leverage taxpayers' voluntary compliance, thereby improving the bureau's tax collection. New online tax payment facilities were launched in October in collaboration with the LANDBANK of the Philippines (LANDBANK) and Development Bank of the Philippines (DBP). These new online tax payment facilities allow taxpayers to settle their tax obligations at any time through credit, debit, and prepaid cards from any bank. FPI also continued assisting the BIR to improve its taxpayer service by streamlining the processes in various transactions. This includes the project's ongoing work with the BIR in simplifying tax forms and reducing tax filing frequency for small and medium taxpayers. Taxpayer segmentation was a crucial part of FPI's TA to the bureau.

- **Tax collection increase.** For the month of July 2017, the BIR collected ₱138.38 billion in tax revenues. This translates to about ₱3.66 billion or 2.72 percent more than the collection goal of ₱134.72 billion. Compared to the July 2016 collection of ₱117.61 billion, the BIR posted a growth rate of 17.66 percent or an increase of ₱20.77 billion. The improvement in the BIR's collection cannot be solely attributed to economic growth. The bureau collects about 80 percent of the country's total revenue, and a crucial part of its continuous success in surpassing its collection targets comes from improving tax administration, specifically the developments in e-filing and e-payment facilities.

BIR Commissioner Caesar Dulay (man standing on right) observes e-Lounge services of Makati Revenue Region 8 with RR-8 Director Glenn Geraldino (man standing on left).

- **Expanding available tax payment channels.** In an effort to provide a faster and more secure, reliable, and convenient service to taxpayers, the BIR issued Bank Bulletin No. 2017-12 on July 10, 2017, encouraging all Authorized Agent Banks (AABs) to develop and enhance their own internet banking facilities and other electronic payment channels to accommodate tax payment transactions. AABs were advised to avail themselves of system requirement specifications from the BIR the FPI team played a significant role in developing the specifications for electronic tax payment.

- **Credit/debit/prepaid card tax payment.** After numerous delays and postponements, the DBP officially launched the PayTax Online service October 19, 2017 at the National Training Center Auditorium of the BIR National Office. This new online tax payment facility allows taxpayers to easily use debit, credit, and prepaid cards to settle their tax obligations, because the service will be available 24/7. More than 100 officials and representatives from the BIR national and regional offices, DOF, DBP, USAID, private sector organizations, and the media participated in the event. BIR Commissioner Caesar Dulay noted that the PayTax Online service adheres to President Rodrigo Duterte's 10-point Socioeconomic Agenda aimed at establishing a more robust and inclusive national economy. USAID, through Mission Director Lawrence Hardy II, expressed their support and admiration for the GPH's earnest efforts to improve tax administration transparency and accountability.

  The FPI team, together with the BIR, successfully finalized all prerequisites for LANDBANK's launching of the online tax payment facility "Link.BizPortal" on October 12, 2017. Since 80 percent of LANDBANK's over-the-counter transactions are related to the BIR, this online tax payment facility is crucial to LANDBANK's plan for moving to "cash-lite" business.

  These events underscored a major milestone for the GPH as it continued to improve its tax administration services, a key factor in enhancing fiscal performance and advancing the ease of doing business in the country.

- **Mobile tax payment.** During the last week of August 2017, Globe Telecom's G-Xchange, Inc. (GXI)/GCash finally finished development of an unstructured supplementary service data (USSD) application for tax payment. The USSD application has the same functionalities as existing Android and iOS applications and will allow taxpayers without smartphones to pay their taxes in a convenient way. Other benefits of the USSD application is that it will not require an internet connection, can be used in areas with weak mobile signal coverage, and is also compatible with older cellular phones.

  During the first half of September 2017, the BIR and GXI successfully finished a user acceptance test (UAT) of the USSD application for tax payment, and the system was successfully launched September 20, 2017. To ensure seamless integration of USSD tax payment, the BIR and GXI/GCash agreed to not promote new systems in the first few weeks of implementation to give the IT team time to fix any problems they may have encountered.

  Total GCash collections in this quarter topped ₱16.6 million in 8,670 payment transactions, with more than ₱2.5 million collected in one day. Comparing it with the ₱6.2 million collected in the previous quarter, this represents a 168 percent increase in revenue collected through GCash.

- **Cleaning up taxpayer registration.** The BIR finally decided to take serious steps to clean up the overly bloated Taxpayer Registration Database. On August 7, 2017 the BIR issued Revenue

Memorandum Order (RMO) No. 18-2017, prescribing the policies, guidelines, and procedures for tagging and classifying inactive business taxpayers. RMO 18-2017 defines and sets criteria for tagging and classifying taxpayers as "inactive"; provides policies, guidelines, and procedures for handling inactive business taxpayers; defines responsibilities of all concerned stakeholders for monitoring and reporting; and details measures for non-compliance.

YEAR 5 ACTIVITIES

Through FPI technical support, the BIR continued to improve its tax collection outcomes. The bureau reported that it was 16.8 percent ahead of its tax collection target for the first quarter of 2018, eclipsing their goal by ₱60.82 billion. This improvement was sustained through the second quarter of 2018, when BIR collections in April rose 24 percent, compared with the same period in 2017 (₱232.618 billion in April 2018 vs. ₱187.67 billion in April 2017). BIR tax collections in the first half of 2018 totaled ₱964.63 billion.

Improved voluntary compliance was also evident in 2018's income tax-filing season. As part of the BIR's TRAIN Law implementation activities, the bureau released eBIRForms version 7.0 in April. Additionally, taxpayers with ATM cards that belong to a BancNet member bank were able pay taxes using LANDBANK's Link.BizPortal. Despite the additions and improvements to the system, tax filings proceeded without any system glitches in April. As a result, more taxpayers completed their income tax filings electronically and the BIR received no reports of long lines for filing at Revenue District Offices (RDOs)—a hallmark of the era prior to e-filing.

- **Launch of the BIR/DBP PayTax Online.** In anticipation of the TRAIN Law's passage, FPI supported the official launch of the PayTax Online service October 19, 2017 at the BIR National Office. More than 120 officials and representatives from the BIR, national and regional offices, DOF, DBP, private sector organizations, and the media participated. This event underscores a major milestone for the GPH, because it continues to improve its tax administration services, a key factor in enhancing fiscal performance and advancing the ease of doing business in the country. BIR Commissioner Dulay emphasized that the BIR will continue to explore and develop innovative technologies that will enhance the bureau's taxpayer services. After the launch of PayTax Online, FPI supported the launch of several new platforms and tax forms that were meant to simply tax filing and improve filing compliance prior to the start of the 2018 filing season.

- **Launch of eBIRForms Version 7.0.** As part of the TRAIN Law's implementation, the BIR released eBIRForms version 7.0 in April 2018. The new version of eBIRForms was developed by BIR's contractor, with technical support from the FPI team. New Alphanumeric Tax Codes (ATCs) and tax types were implemented and added to the package. Two additional forms were included: 1601EQ (Quarterly Remittance Return of Creditable Income Taxes Withheld [Expanded]); and 1601-FQ (Quarterly Remittance Return of Final Income Taxes Withheld).

- In May 2018, the BIR released version 7.1 of eBIRForms with FPI's assistance. This new release contained four new forms: 1701Q (Quarterly Income Tax Return for Individuals, Estates, and Trusts); 2200-S (Excise Tax Return for Sweetened Beverages); 0619-E (Monthly Remittance Form for Creditable Income Taxes withheld [Expanded]); and 0619-F (Monthly Remittance Form for Final Income Taxes withheld). Several other forms are updated regarding ATCs and calculations.

To ensure the sustainability of tax form updates, FPI also developed an initial version of a tax software provider (TSP) tool that contains Form-1706 as proof of concept, which will serve as the template for future forms. A development team with programmers from CAI-STA and BIR received training from FPI how to continue with TSP tool development.

A new File Transfer Protocol (FTP) server system was created in August 2017. When the initial version was completed, the system was closely monitored with no problems reported. In October 2018, the BIR fully transferred to the new system.

- **Developments on the BIR's e-filing.** Use of a government-issued credit card is no longer a stumbling block in the institutionalization of e-filing and e-payment systems. In April 2018, the BIR took over all payments for cloud-based services of e-filing and e-payment. These activities were all planned and budgeted as part of the bureau's standard annual procurement.

  Furthermore, the project's tax administration team developed a plan to consolidate FTP servers and all major cloud-based services. The consolidation occurred in December 2018 and now, BIR currently uses only three cloud-services providers for redundancy purposes.

  With the BIR now fully responsible for cloud-based services and maintenance of the two servers for eBIRForms' back-end processing provided by FPI, the infrastructure needed for e-filing and e-payment system is already in place and institutionalized. FPI finalized knowledge transfer to the BIR and finished the handover in November 2018.

- **Developments on the BIR's e-payments.** In April 2018, LANDBANK expanded their tax payment portal to accept BancNet ATM cards. All taxpayers with an ATM card from a BancNet member bank can now pay taxes using LANDBANK's Link.BizPortal. This tax payment channel was launched after a successful UAT performed by the BIR and FPI.

- **2018 tax filing season results.** With the implementation of several FPI-supported platforms and activities, 2018's income tax filing season was deemed a success without any glitches. The majority of taxpayers used the convenience of e-filing, thereby reducing lines at RDOs. Even though the TRAIN Law simplified filing requirements and changed the frequency of percentage tax filing from monthly to quarterly, the number of electronically received files in the first six months of 2018 was approximately three percent higher than the number of files received in the same period of the previous year, meaning that more taxpayers are using e-filing for their taxes.

  In addition, the new BIR e-pay channels performed well during the first half of April at the peak of the income tax filing season. LANDBANK, GCash, and the DBP collected more than ₱51 million via approximately 14,000 transactions in the first 16 days of April. The increase in collections continued through April and BIR was able to collect approximately ₱100 million through these new e-pay channels. Collections via e-pay in the second quarter of 2018 totaled ₱176.4 billion, 39 percent more than total collections from 2005 until the end of the first quarter of 2018.

  The BIR continued to achieve excellent results in tax collection growth. The growth continued in the second quarter: April 2018 outperformed April 2017 by 24 percent (₱232.618 billion in April 2018 vs. ₱187.67 billion in April 2017). BIR collections in the first half of 2018 totaled 964.63 billion. When compared with the ₱848.013 billion collected in the same period last year, this represents a

13.8 percent increase. The BIR also surpassed its end-of-June collection goal of ₱938.7 billion by 3 percent.

BIR Commissioner Dulay attributed the strong six-month performance to a combination of improved tax administration and performance of revenue personnel, as well as the higher levies under the TRAIN Law.

POST-TAX FILING SEASON ACTIVITIES

- Following the end of the 2018 tax-filing season, FPI continued to provide support for initiatives by partner government agencies. A summary of these activities is provided below:

  - Transfer eFPS users to the eBIRForms system. After a series of discussions with BIR's officials on improving the efficiency of the existing eFPS, the BIR has decided to transfer eFPS users to eBIRForms.

  - The BIR currently has two e-filing systems: eFPS and eBIRForms; eFPS is an older system that was first implemented in 2003 and was originally designed to cater to large taxpayers. Since then, the coverage of eFPS has been expanded several times with more than 140,000 taxpayers enrolled. Because of limited capacity, eFPS was struggling to handle the number of users and frequently slowed down during filing deadlines, which prevented taxpayers from electronically filing their taxes on time.

  - To improve eFPS functionality and reduce the number of users by transitioning them to eBIRForms, FPI made the following recommendations:

    1) Revise the regulations mandating different categories of taxpayers to use eFPS. Except for large taxpayers, medium taxpayers, and national government agencies (NGAs) mandate other eFPS users to use any available type of e-filing (and e-payment). Analyze the impact of changes to other BIR and government regulations and requirements.

    2) Communicate transfer to eFPS banks and create joint action plan to support e-payment expansion.

    3) Identify all eFPS users that are not in three selected categories: large taxpayers, medium taxpayers, and NGAs. Information Systems Group (ISG) will create a list of these taxpayers sorted by total tax paid in the previous year (2017) and split the list into batches of 20,000 taxpayers.

    4) Gradually transfer taxpayers from eFPS to eBIRForms. Start with the lowest-ranking batch (taxes paid). Send an email to all taxpayers in each batch informing them about the transfer. Give a certain amount of time to taxpayers to comply with the change (two weeks to one month). After that period, disable taxpayers' ability to use eFPS.

    5) Provide full support to taxpayers during the transition.

    6) Constantly monitor eFPS performance and analyze the impact of reducing the number of users in every batch.

- On September 10, 2018, FPI and the E-PESO Project conducted an eFPS issuances workshop, where FPI provided guidance on implementing rules and regulations at the BIR National Office. This workshop was sponsored by BIR's ISG Deputy Commissioner Lanee David in preparation for the bureau's transition to maximizing eBIRForms.

- Third-party e-filing and e-payment system. On June 21, 2018, the BIR, FPI, and E-PESO Project organized and conducted a TSP workshop to define required policies and procedures for TSPs that would like to offer e-filing and/or e-payment of taxes to their clients. FPI provided TA and identified two options for TSPs to submit tax returns to the BIR for processing:

  1) *Use asymmetrical encryption and exchange public keys with TSPs*. TSPs will use the BIR public key to encrypt tax returns and their own private key to sign the file. This will require the bureau to update eBIRForms' back-end processing system to support asymmetrical encryption. With this option, eventual errors in tax returns will be discovered only after the BIR validates received tax returns.

  2) *Customize eBIRForms for use by TSPs to load, validate, encrypt, compress, and submit tax returns prepared by their software*. Since TSPs will use the same validation as classic eBIRForms, this option will reduce the number of received erroneous tax returns.

- Client Support Service, a TSP, elected the second option and FPI was asked to support implementation.

- **Risk management.** On May 15, 2018, BIR Commissioner Dulay signed the Revenue Special Order (RSO) 422 series of 2018, institutionalizing the Risk Management Committee and its structure, a priority agenda of the BIR Chief and a means to increase the agency's productivity. The institutionalization of the Risk Management Committee marks an important milestone of FPI's TA to the BIR. It served as a meaningful development that enables BIR to leverage productivity through greater use of risk-based audit techniques, which are aligned with international best practices.

  After the signing of RSO, FPI immediately conducted a workshop to capacitate the implementing teams within the BIR. On May 17, 2018, FPI led a half-day briefing session on risk management foundations for the newly created Risk Management Committee's members, covering structuring and implementing risk management in a tax administration. More than 30 BIR personnel from its Operations Group, Project Management and Implementation Service, and Planning and Management Service, and Revenue Region No. 5 (Caloocan City) and No. 6 (Manila) attended the briefing.

  Following this briefing, FPI organized a two-day risk management training for the Operations Group and LTS, which had two components:

  - Component 1 was a seminar that focused on international standard risk management principles and processes, and Organisation for Economic Co-operation and Development tax administration principles.

  - Component 2 was a workshop that centered on practical implementation of risk management.

- Part of the workshop was a training exercise that required participants to identify risks in their workplace and then resolve those risks through the standard risk management process of behavior analysis, assessment and prioritization, and determination of an appropriate mitigation strategy. This activity was successfully completed with strong participation, but more time was needed to cover the development of work plans.

- The BIR's Planning and Management Service and PMIS were satisfied with the progress and plan to push the training program down to regional staff after FPI closed. Furthermore, FPI and the BIR discussed priority actions for operationalizing risk management in the bureau. These priority actions were summarized and submitted.

TAX POLICY

The Philippines has struggled with huge budget deficits. In 1997, the deficit was more than two percent of GDP and reached a high of five percent in 2002. During these years, the annual tax revenue collected by the BIR and BOC were routinely below their collection targets. Through FPI, USAID provided broad-based support for tax policy reforms to encourage public and private investment, improve the equitability of the tax system, and promote economic growth. FPI was strategically positioned to assist the government in developing, campaigning for, and passing comprehensive tax reform under TRAIN that benefits both the government and taxpayers.

LIMITED ACCESS TO DATA

During its first year, FPI reviewed key tax policy issues with a focus on the Aquino administration's policy reform priorities in two areas—the taxation of certain financial instruments and the taxation of income in mining operations. Limited data made assessing the effectiveness of tax policy challenging. FPI analyzed the existing tax system and cost of taxpayer compliance, tax burden, and tax expenditures. Steps to enhance tax policy commenced with identifying current tax expenditures[15] and analyzing previous efforts to measure current tax gaps (the difference between actual and potential collections for a given revenue source).

POLITICS AFFECTING THE TAX REFORM DISCUSSION

The following year, FPI supported two tax policy reform initiatives. The first was a DOF-sponsored CTRP that addressed inequities in PIT, CIT, and the adjustments on VAT and petroleum excise. The second initiative focused on investment tax incentives reform, which was enacted in December 2015 as the Tax Incentives Management and Transparency Act (TIMTA). The CTRP agenda during the Aquino administration, however, did not prosper because of the nearing 2016 presidential elections.

[15] A tax expenditure is defined as a form of deviation in tax policy that reduces tax liabilities and costs the government revenue. They are considered a form of "spending" via the tax code, because revenue that could be spent on public services is forgone. In the Philippines, tax expenditures that are of most interest to policy makers are those that exhibit overall negative net benefits to society.

During the Duterte administration, FPI worked with the DOF's Strategy, Economics, and Results Group (SERG), headed by Undersecretary Karl Chua, to garner support from legislative champions in both the lower and upper houses, and establish coalitions with the civil society and business sectors to advocate for the comprehensive tax reform agenda. FPI, in collaboration with the DOF and its non-governmental coalition partners, conducted a series of consultation meetings, nationwide roadshows, and regional dialogues with stakeholders during CTRP's development stage until the enactment of tax reform Package 1, now known as the TRAIN Law.

DOF Undersecretary Karl Chua (third from right) answers questions during the Open Forum hosted by FPI as part of the Duterte administration's efforts to inform the public about the CTRP.

On December 19, 2017, President Duterte signed the TRAIN Law (Republic Act 10963), the first comprehensive tax policy reform in the Philippines in 20 years. The TRAIN Law is expected to generate ₱130 billion in revenues for the GPH, with allocations of 60 percent to infrastructure programs; 27 percent to social protection programs, including unconditional cash transfers to the 10 million poorest Filipino families for health, nutrition, and anti-hunger programs; and approximately 13 percent for military modernization.

TRAIN enactment was one of the project's most significant milestones—but was just the first step toward a holistic tax policy reform. Four more reform packages are underway to break free from the current binding constraints that keep the Philippines from achieving its full economic potential. To have a genuine CTRP, the GPH must address both tax policy and tax administration reform.

FPI, during the fifth year of the project and through its contract extension, helped DOF conduct two studies. The first was a cost-benefit analysis (CBA) of tax incentives. The second study was an assessment of the impact of tax incentives on the profitability of firms. These studies informed FPI's support for the legislation of CTRP Package 2, which lowered the CIT from 30 to 25 percent. It also modernized investment tax incentives to make the GPH's incentive program performance-based, targeted, time-bound, and transparent. However, the second package and the following CTRP packages currently face major delays and legislative support challenges, because of the upcoming 2019 elections.

Since passing TRAIN, inflation spiked in 2018, reaching as high as 6.4 percent in August. While detractors are quick to blame the law, some experts[16] agree that several factors conspired to unexpectedly raise prices in the Philippines, including 1) rising oil prices in the international market[17]; 2) depreciating peso; 3) rising price of rice due to a shortage in the market; 4) higher gasoline pump prices due to TRAIN; and 5) higher inflationary expectations. The government, in particular the DOF, has

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[16] De Dios, E.S. (2018). *The insulted economy: Economic and business policy reforms under the Duterte administration*. [Presentation].

[17] In addition, Habito points out rising international prices as a major factor. Retrieved from https://opinion.inquirer.net/113603/stay-the-course-2.

responded by moving to suspend, albeit temporarily, the next round of oil price increases which would have taken effect in January 2019.

ANNUALIZED OVERVIEW OF FPI PROGRESS YEARS 1–5

YEAR 1 ACTIVITIES

The FPI team initiated a **taxpayer cost of compliance study** designed to achieve an in-depth understanding of those features of the current law, regulation, and administrative practice that resulted in greater than necessary costs to taxpayers in their efforts to comply with the tax laws. Interviews were conducted with taxpayers from across the spectrum of locations, economic sectors, and business size. The analysis was completed in Year 2 and was used as the basis of a concrete set of recommendations for reforms that benefit taxpayers, some of which required changes in law.

FPI also helped the DOF deepen and **update previous tax gaps studies and institutionalize an annual tax expenditure report** that will eventually reflect all such expenditures. Together, annual tax gap and tax expenditure reports will form the basis of what should be the source of revenue options incorporated into the out years of the Philippine's MTEF for policy-planning purposes.

Revenue profile and indicator refinement. Key performance indicators for revenue regions that were recommended by FPI were incorporated into the evolving DOF FIU scorecard that is used to benchmark performance and guide discussions during annual joint visits by the DOF Secretary and BIR Commissioner. For regional visits, FPI followed best international practices by recommending additional indicators measuring the penetration of the e-filing system, audit productivity and efficiency, arrears collection, active filers, and the ratio of income taxpayers to total registered taxpayers (separately for individuals and companies). During the month of June 2014, three regional performance audits were conducted by the FIU.

Risk management database. FPI, in collaboration with FIU, BIR, BOC, and a number other parties, initiated and implemented a data integrity analysis. This activity was designed to help develop the integrated database that will be used to support the development of enhanced risk analysis capacity. In particular, the database was key to support further improvements in taxpayer registration, risk-based audit selection, and other critical BIR processes.

DOF/BOC data sharing. FPI coordinated an interagency meeting for data sharing between the DOF and BOC. The BOC shared 20 of 90 tables from the electronic-to-mobile operational system on customs operations with the DOF as an initial wave of data sharing; the data encompassed the period 2009 to 2013.

Securities and Exchange Commission (SEC) data sharing/processing. Following a series of meetings and consultations facilitated by FPI, the SEC released an official communication on sharing unprocessed electronic data files on registered entities, encompassing public corporations, private corporations, and all partnerships. The data, which included registration information and financial statements, was submitted (under SEC Memorandum 6-2006) by entities with annual gross receipts of at least ₱5 million, except for bank and non-bank financial institutions under the supervision of the Bangko Sentral ng Pilipinas (BSP, or central bank) or the Insurance Commission. In addition to the coordination assistance that FPI had been providing to the FIU on this initiative, FPI supported the unit in processing the electronic data and preparing it for analysis.


FPI delivers a presentation to the BIR on e-filing and developing an ISSP.

BIR data. The BIR was in the process of preparing previously requested data related to taxpayer registration information, gross receipts/sales, and taxes paid for the fiscal year (FY) ending 2012. FPI was informed by the BIR that it can share the requested data on income and taxes paid, but cannot share the taxpayer identification number or taxpayer name and address information because of the restriction provided for by the Tax Code. The BIR communicated that they could initially only submit data on the amount paid for income tax, VAT, and percentage taxes for each taxpayer for the covered period due to the large volume of data and the diversity of data sources in which data were stored within the BIR IT system. FPI explored ways to address the confidentiality-based restrictions on taxpayer identification numbers, names, and addresses in a continuing effort to maximize the value of the activity to all parties.

Other data initiatives. FPI assisted the FIU in obtaining an official copy of data derived from the Family and Income Expenditure Survey and the Labor Force Survey from the Philippine Statistics Authority (PSA). The data will be an integral component of the third-party reference data being compiled to support several planned FIU initiatives.

In addition, FPI provided the FIU with **automation scoping support** that included an assessment of the current state of existing IT systems and an assessment of short- to medium-term data-processing and analytics needs. This was subsequently used to develop a roadmap to support FIU's processing and requirements. During the reporting quarter, FPI also provided input on the FIU IT plan for the following year in conformance with the DOF's ISSP and the government budget process. Given the multiplicity of data sources, formats, and quality, FPI's IT STTA referenced above were heavily involved in assisting the FIU in enhancing its IT system and database management practices.

Customs value database. FPI was fully engaged during the year in the creation of a customs value database for the FIU. The database will assist in identifying the risks of under-invoicing by traders in order to reduce tax and customs obligations.

Customs port monitoring indicators. FPI continued the development of monitoring indicators to help the DOF manage customs performance and inform the Secretary during his regular visits to ports. As an outgrowth of collaboration with the FIU, by having the FPI Chief of Party and Deputy Chief of Party serve as resources for the panel presentations by the Customs Policy Research Office, FPI provided a list of possible indicators for district ports for the FIU's consideration. The listing of port performance indicators was a consolidation of the proposed best practices garnered from consultation meetings made by FPI with key experts from other projects involved in trade facilitation and customs reform.

Customs learning visits. FPI assisted the FIU in planning learning visits to the customs authorities of Hong Kong, Japan, and India. The primary objective of the learning visits was to expose the FIU and BOC staff to best practices in customs administration, with specific emphasis on port operations, customs valuation, post-entry audit, and other risk assessment and management functions of port authorities.

Taxes and budgeting. It is important that budget targets be treated as forecasts rather than the only performance measure. The public finance system of the Philippines must be transformed into one where the underlying forecast of macroeconomic conditions is established through a fully transparent and non-partisan mechanism, and the revenue forecast is then based on that set of economic assumptions in equally transparent and non-partisan ways. FPI worked with both the DOF and DBM to effect a transformation in budget-setting processes to reflect such a transformation. The project team continued to support a transparent increase in BIR funding, accompanied by the development of improved key performance indicators (KPIs) designed to measure whether the BIR is collecting the "correct" amount of taxes given macroeconomic conditions rather than an exogenously determined target amount.

YEAR 2 ACTIVITIES

The FPI team continued during this period to review key tax policy issues in the Philippines, with a focus on items that were policy priorities for the Aquino administration.

FPI conducted a limited **taxpayer cost of compliance study** during the period designed to achieve an in-depth understanding of those features of current law, regulation, and administrative practice that resulted in greater than necessary costs to taxpayers in their efforts to comply with tax laws. The study utilized interviews with taxpayers from across the full spectrum of locations, economic sectors, and business size. The DOF Secretary and BIR Commissioner opposed the conduct of a full cost of compliance survey, preferring to use project resources elsewhere. The more limited assessment that was pursued, however, enabled the development of 16 recommendations to reduce taxpayer compliance costs. The recommendations were presented to the DOF and BIR at the CTRP workshop. Potential support for implementation of the recommendations this late in this administration remains unclear. For the remainder of Year 2 and subsequent years of implementation, FPI continued to explore new options for reducing the costs of compliance in the Philippines.

Tax writing workshop. In early January 2015, FPI and the DOF jointly organized a workshop designed to bring together key stakeholders from the Executive (represented by the DOF and BIR), development partners (FPI, World Bank, and the IMF), civil society (Action for Economic Reforms), and Congress (staff from the House Ways and Means) to lay the foundation for a comprehensive tax reform package. The workshop led to development of a narrow set of meaningful reform options. From this set of options, key DOF officials, sitting in executive session and after weighing output from the workshop, decided on the key elements of the CTRP. The proposed changes were designed to result in structural changes to major taxes that enhance revenue productivity, tax fairness, and international tax competitiveness. Ultimately, the President decided that the time was not right for this initiative, but it remained on the boards as an option for possible legislative change, along with a number of other bills that more narrowly focus on revising the rate structure of current income taxes. Political pressure provided a window of opportunity to modify individual and CIT structures by rationalizing the tax rates and aligning those taxes with international practice, expand the VAT base and modify the VAT rate, update the structure of the excise tax on petroleum/products, and potentially take advantage of the need for reform of fiscal incentive reform needs either directly or through the adoption of the FPI recommended Alternative Minimum Tax proposal.

Computing the "net effect" of the DOF-sponsored CTRP. At the request of the DOF, FPI prepared revenue impact estimates for the proposed CTRP. Table 1 shows the major components of the reform proposals with associated revenue impacts.

TABLE 1: REFORM PROPOSALS AND ASSOCIATED REVENUE IMPACTS

Proposal	Revenue Impact in the first year
For wage earners, exempt the first ₱1 million of income and lower the top rate from 31 percent to 25 percent over 6 years	-₱151 billion to -₱215 billion
For self-employed and professionals, lower the tax rate from 32 percent to 25 percent over 5 years	+₱2 billion
For corporations, lower the tax rate from 30 percent to 25 percent over 5 years	-₱9 billion
Repeal the Bank Secrecy Law restriction impacting the BIR and make tax evasion a predicate crime to money laundering	+₱47 billion
Increase the VAT rate from 12 percent to 14 percent and expand the VAT base	+₱162 billion (80 billion* and 82 billion from rate increase and base expansion, respectively) *the tax expenditure account could be as high as ₱40 billion per DBM data
Increase excise tax on gas, diesel, and other oil	+₱101 billion
Total	**+₱88 billion to +₱152 billion**

Source: Department of Finance

The DOF also requested that the FPI team evaluate the net effect of the proposal on welfare. FPI looked at a Filipino family's cash position after adjusting for the changes in income tax that would result from the proposed increase in personal exemptions at two representative income levels—₱500,000 and ₱1 million—in comparison with the increase in household expenditures that would result from the proposed increases in the VAT and petroleum excise tax rates.

- **Potential revenue impact of lifting the Bank Secrecy Law.** FPI estimated that the potential increase in revenues that would result from lifting bank secrecy restrictions would be from 0.3–0.5 percent of GDP. FPI clarified that the impact should not be interpreted as representing only anticipated direct recoveries of unpaid taxes uncovered as a result of the measure, but also reflects improved collections due to an increase in voluntary compliance that would result from the enactment of the provision.

- **Advancing investment tax incentives reform.** With DOF-sponsored variants of TIMTA having arisen in both Houses of Congress, the FPI team supported DOF outreach efforts by working with the staff of the chief congressional sponsors, Congresswoman Leni Robredo, Ways and Means Chair Romero Quimbo, and Senator Sonny Angara. FPI provided timely commentary on and clarification of versions as they emerged following committee hearings. TIMTA passed on a third reading in both Houses, cleared the bicameral hearing, and was been signed into law.

  TIMTA is a transparency measure that can more fully integrate the participation of stakeholders (NEDA, DOF, and Congress) in the analysis of the cost-effectiveness of tax breaks extended to particular sectors. Most importantly, this will serve to help clarify and strengthen both NEDA's development plans and Congress' role in budget oversight.

To achieve effective management over fiscal incentives, the government now has to work toward the enactment of a meaningful fiscal incentives rationalization law and a PFM law. The former must clarify the institutional arrangements in managing and granting fiscal incentives beyond the Department of Trade and Industry, while the latter will serve to link this with development planning.

- **Support for longer-term fiscal reforms through a multi-stakeholder reform group.** FPI facilitated many meetings in early 2016 with a diverse set of counterparts, including officials from the DOF, DBM, Congress, the private sector, civil society, and academia. A significant number expressed commitment to engage in a series of meetings throughout the rest of the year in which participants discussed issues around tax policy and administration, as well as PEM, with the goal of constructing a platform for consensus on a reform agenda. The group's output helped fill in the information set that the incoming Duterte government needed to consider when formulating its fiscal agenda.

- **Transfer pricing.** The BIR sought FPI's assistance in formulating a program to reform the current transfer pricing program and help revise relevant BIR policies and procedures to bring them closer to international best practices. The first wave of assistance consisted of 1) customized training on transfer pricing issues (including advanced pricing techniques) to capacitate the BIR to draft and update its current regulations; 2) assistance in drafting a transfer pricing audit manual; and 3) assistance in structuring an optimal transfer pricing unit for the BIR with an associated long-term training plan.

YEAR 3 ACTIVITIES

The FPI team continued to engage counterparts in a series of activities designed to lay the foundation for achieving these objectives. Team members helped the DOF in the analysis needed to develop the DOF's emerging comprehensive tax reform strategy, including the proposal of several key legislative options that will be incorporated into the measure.

FPI provided critical support to the DOF and congressional staff during the successful passage of TIMTA, and during subsequent enactment have assisted the DOF in the formulation of the implementing rules and regulations (IRR) needed to operationalize the measure. Over the course of the year, the core group of esteemed participants from both inside and outside of government joined together to develop a framework fiscal reform agenda and actively advocated for tax reform. In line with government priorities, FPI continued to devote energy to enhancing the technical capacity of the FIU (and more generally the DOF and BIR) to synthesize information from a diverse set of sources to quantify areas of revenue opportunity. The FIU has become a focal point for bringing together data from the BIR, BOC, and other governmental agencies in performing this work, which at its core is designed to analyze the risks to the revenue stream posed by taxpayers from different sectors or with differing characteristics.

- **Advancing investment tax incentives reform.** Republic Act 10708 (TIMTA) was signed into law by President Aquino on December 8, 2015. It was only a first, but meaningful, step toward the systematic and transparent scrutiny of all the tax incentives granted by the government to recipient firms when fulfilling their tax obligations. After enactment, FPI worked with the DOF throughout the period to support development of the IRR needed to make TIMTA work as it should.

- **Monitoring BIR Performance.** The official KPIs for the BIR do not accurately reflect how well the central and regional offices actually performed their administrative responsibilities, and in all likelihood contribute negatively to the tax environment. The major drawback of the KPI index was its excessive emphasis on revenue goals (the index allocates 40 percent weight to achieving revenue goal by each RDO). A number of indicators measured inputs rather than outputs or outcomes. As a result, revenue collections often became the only indicator that was used to judge RDO performance by default. This created a set of distorted incentives for the BIR to collect the targeted amount of tax at all costs, even if it resulted in administrative behaviors that compromise fairness. Setting targets for each RDO led to the inefficient allocation of the BIR's scarce human and financial resources. Finally, the set of KPIs completely ignored the appeals function, which was crucial for achieving fairness end reducing corruption.

At the DOF's request, FPI worked to help build the capacity within the FIU to evaluate tax administration performance. The ultimate objective was for the FIU to come up with a limited set of practical indicators that measure performance with respect to the five key functions of tax administration.

FPI provided training on the essentials of relevant tax administration and conducted a number of brainstorming sessions to help finalize the index. In turn, the FIU and FPI collected the relevant data to inform the Performeter. The new KPI's will be trialed through the next year in comparison to the official BIR KPIs.

- **SEC data sharing/processing.** The SEC receives a great deal of corporate data that can and should be used to support improved tax policy analysis and development of better risk management practices for tax administration. FPI, in close collaboration with the FIU, largely completed SEC data processing for 2012 and 2013 data received by the SEC in electronic format. A number of shortcomings in SEC forms and processes were identified during this activity. FPI assisted the FIU in communicating recommendations for improvement to the SEC. During the remainder of this project year, FPI supported the SEC in processing 2014 financial reports. In cooperation with the FIU and BIR, FPI conducted several follow up analyses, including the use of the data to help identify larger taxpayers.

- **BIR business processes analysis and reengineering.** Building on of the previous two years, FPI continued to successfully build traction within the BIR and DOF and promoted e-filing and e-payment reforms, even though business process maps detailing how VAT audit, filing, registration, and other processes that should have been conducted were incomplete. FPI, in response to major backlogs in conventional data entry mechanisms recommended revising the BIR business process for e-filing. This led to the maximum number of returns being accessible digitally in the shortest timeframe possible. Consequently, e-filing business processes were significantly re-engineered during the reporting year to permit smoother functionality, cleaner taxpayer databases, and a better taxpayer experience.

  FPI also initiated the reengineering of tax payment business processes. As a direct result of these efforts, the BIR now allows payments at banks without the use of the previously required (to its detriment) Filing Reference Number. The use of this number is counter to international best practices, because it can limit payment-processing options through entities other than the BIR.

- **FPI advocacy for improved tax climate.** FPI reiterated its recommendations for creating a more taxpayer-friendly tax environment to DOF Secretary Dominguez and BIR Commissioner Dulay shortly after they assumed office. Key FPI recommendations included: 1) ensure that audit results are well substantiated and are actually entered into the tax administration systems (whether eTIS or ITS) to make them fully transparent to BIR management; 2) ensure that the Commissioner's office issues advance tax rulings, as well as accepts and considers cases where the amount of tax due is disputed; 3) eliminate the need to submit tax appeals twice (i.e., RDO and Revenue Region) before it is referred to the headquarters; 4) create an Independent Appeals Tribunal that could issue preliminary rulings expeditiously; and 5) develop a meaningful and effective taxpayer bill of rights.

YEAR 4 ACTIVITIES

FPI's continued technical support to the DOF in strengthening and broadening public-private dialogue events in support of the administration's comprehensive tax reform agenda resulted in significant progress in the legislation of TRAIN Package 1, which was enacted into law.

Another important highlight of FPI's tax policy TA was filing of the Tax Administration Reform Act (TARA) or HB 4888 at the Lower House by Albay Congressman Joey Salceda on January 31, 2017. FPI hired a technical consultant to draft the provisions of TARA. TARA was showcased alongside the DOF sponsored TRAIN Package 1 in a series of national tax roadshows, which was also organized and supported by FPI through partner Philippine Chamber of Commerce and Industry. TARA was meant to complement TRAIN by providing a modernized tax environment that is conducive to the proper implementation of the Philippines tax law. However, the tax reform champions in both Houses and the DOF had to prioritize passage of TRAIN Package 1 and have undivided attention to crafting the major tax policy reform of the government. DOF's SERG consequently planned to craft an additional Tax Administration Package after Tax Reform Package 2 passed.

- **Cooperation with the DOF.** FPI had several meetings with SERG Director Mark Ablang regarding tax administration reforms. The team discussed several issues and recommendations from FPI regarding tax filing simplification and taxpayer segmentation. Director Ablang agreed to the idea of reverting to the tax filing frequency originally prescribed by the Tax Code for certain types of tax returns. He agreed to further explore this option as "low-hanging fruit" in making taxpayer compliance easier.

  The DOF asked for FPI's assistance in preparing an "e-invoice" implementation strategic roadmap. E-invoicing was a part of the Tax Reform Bill and the DOF explored how and when it could be implemented in the Philippines. FPI explained to Director Ablang why real-time e-invoice reporting is not the best option, but since this was part of the Bill and the DOF needed to explore all options, the team agreed to provide some guidance and assistance to the DOF in preparing the roadmap.

- **TRAIN Package 1.** As part of its assistance to the ongoing reform, FPI assessed and found that SB 1592 was inferior to HB 5636 in three ways:

  - SB 1592 was projected to raise less additional revenues, amounting to only about 0.3 percent of GDP versus the additional 0.7 percent of GDP expected from HB 5636. Despite adding more tax measures (e.g., coal tax, cosmetic surgery tax, etc.), HB 5636 reduced the potential taxes from PIT and VAT by reducing the top marginal rate and minimized the number of VAT exemptions.

- SB 1592 introduced more complications when compared to HB 5636 and the existing National Internal Revenue Code. Varied rates were introduced while the overall rate for petroleum products was lowered.

- SB 1592 introduced changes to tax rules that favored higher-income individuals, which would likely worsen the distribution of the tax burden. And lastly, SB 1592 limited the capacity of the government to provide safety nets to mitigate the impact on the poor and vulnerable.

HB 5636 was passed by the Lower House May 31, 2017. On September 20, the Senate Ways and Means Committee filed its committee report on SB 1592.

- **Corporate taxation and fiscal incentives rationalization.** FPI continued to support the development of tax reform Package 2 on corporate taxation and fiscal incentives rationalization. The direction of this reform package followed the principle of lowering tax rates, while applying this to a broader base. As a follow-up to the DOF-sponsored workshop in late June, another workshop scheduled for early November discussed Package 2. Just as in Package 1, FPI provided key technical inputs to Package 2.

- **Tax expenditure accounts.** FPI organized a team of experts to help the DOF estimate the value of tax expenditures and analyze its efficiency as a fiscal tool of the government. The team consisted of an international expert, a local expert, a legal expert, and a researcher. The team's first mission occurred in October 2017. In addition to expanding the tax expenditure estimates, FPI was also asked to assist in developing a cost-benefit analysis of the fiscal incentives program in preparation for Package 2, which was done in Year 5.

YEAR 5 ACTIVITIES

FPI continued its technical support for the DOF's SERG on CTRP Package 2, particularly through the development of a comprehensive CBA on investment tax incentives; a study of counter-intuitive outcomes, i.e., firms that receive tax incentives do not perform better than firms that do not enjoy tax incentives; and a firm-level profitability analysis with and without incentives. The DOF formally submitted its version of the Duterte administration's CTRP Package 2 to the Lower Chamber of Congress in time for resumption of the second regular session on January 15, 2018. CTRP Package 2 centered on lowering the CIT from 30 percent to 25 percent, and modernized investment tax incentives. This modernization effort was designed to make the GPH's incentive program performance-based, targeted, time-bound, and transparent.

In August 2018, the substitute bill for the second DOF-sponsored tax reform package was filed at the House Committee on Ways and Means. The committee agreed to formally name the bill Tax Reform for Access to Better and High-Quality Opportunities (TRABAHO), instead of TRAIN 2. The TRABAHO Bill sought to lower CIT from 30 percent to 20 percent, and to rationalize the fiscal incentives program that big firms currently enjoy. The bill was approved by the House of Representatives on the third reading—the second of five tax policy reforms.

CTRP Package 2: Corporate income tax and fiscal incentive rationalization. FPI assistance to the design and formulation of the second tax reform package began in mid-2017 in the DOF-sponsored small-group consultation attended by key government officials and experts from academia, the private sector, civil society, and the FPI team. Package 2 lowered the CIT rate to be more aligned with the Philippines' ASEAN peers, while expanding the tax base by enacting rules that will make the government more judicious in granting tax incentives. Furthermore, Package 2 also strengthened the government's ability to detect and deter abuses coming from related party transactions. Critical to this was providing a working definition of related parties to implement the tax law.

During a media interview on July 31, 2017, Senate President Vicente Sotto III said he was willing to sponsor the administration's second tax reform package that centered on lowering the CIT and modernizing the fiscal incentives program of the country. Meanwhile, a group of eminent economists called on Congress to take "urgent action" to pass into law the Duterte administration's proposed corporate tax system reforms to help fulfill its goal of making Philippine taxation "simpler, fairer, and more efficient" and ensure that incentives given to businesses truly benefit the Filipino people.

Since December 2017, FPI assisted the DOF with three key studies related to the bill, including a CBA, estimation of leakage from abusive-related party transactions, and estimation of tax expenditure accounts. All three studies, generically referred to by the DOF as the CBA of tax incentives, supporting TRAIN Package 2 were presented to Congress once the sessions resumed after the President's State of the Nation Address in late July. These activities are described in detail below.

COST-BENEFIT ANALYSIS OF INVESTMENT TAX INCENTIVES

DOF's SERG unit, headed by Undersecretary Karl Chua, asked FPI to undertake a CBA on tax incentives, primarily to help with passage of the tax reform package, but also to determine the effectiveness of the incentives program by the government, and a study of a counter-factual, i.e., firms that receive tax incentives do not perform better than firms that do not enjoy tax incentives.

The tax incentives program of the government has been driven by the desire to increase investments, without analyzing the net impact on tax revenues, as well as long-term growth. However, since the passage of TIMTA in 2015, the DOF has access to important data on tax incentives that were previously known only to the Investment Promotion Agency (IPA), including the Department of Trade and Investments. While this information has been used to calculate the value of tax expenditures, a proper CBA requires information that is not part of TIMTA. FPI has instead used other sources of available information from the SEC and PSA to calculate both direct and indirect benefits and costs.

Preliminary estimates showed that the overall benefit-to-cost ratio is likely less than one, which indicates an overall net cost to the country in running the tax incentives program thus far. Further breaking the analysis down into redundant and non-redundant incentives (useful in spurring investments) would show that the likely source of waste is coming from the former, even as the latter tends to show the necessity of providing incentives.

ESTIMATING LEAKAGE FROM RELATED PARTY TRANSACTIONS (E.G., TRANSFER PRICING)

FPI estimated the leaking from related party transactions, per a request from the DOF. While abusive transfer pricing practices can only be established through an audit, the resulting impact on a business entity's cost structure could indicate the presence of such abusive behaviors. FPI's findings indicate a much larger proportion of deductions for activities that do not enjoy preferential tax treatment as compared to counterparts enjoying either the income tax holiday or special rate.

FPI replicated this methodology across industries and years, and the results show a consistent behavior. FPI determined that the estimate of potential leakage from abusive transfer pricing (related party transactions) practices using data from 2011 to 2015 amounts to about 0.5 percent of GDP annually.

USING A PROPENSITY SCORE MATCHING (PSM)METHODOLOGY

FPI provided consultant Melba Tutor to the DOF to do a study that utilized PSM to further establish which investments were redundant. Given the rules of the PSA, the consultant had to perform the matching of data within the premises of the PSA.

FIRM-LEVEL PROFITABILITY STUDY

Responding to a request from the DOF, FPI hired the services of a financial expert to help analyze the impact that incentivized activities may have on the overall profitability of various firms. The Technical Advisor made use of 2015 firm-level data from the DOF representing IPA-registered firms from various industries.

The study compared the difference between two variables—the return on invested capital (ROIC) and the weighted average cost of capital (WACC) at the industry level, with and without incentives. The difference represents a firm's residual profits, after accounting for the costs incurred.

Findings showed that among 1,428 firms in the data used, about 50 percent, from various sectors, have ROICs that exceeded their WACCs even when stripped off incentives. In other words, firms in the sample are profitable even without tax incentives about 50 percent of the time.

The study recommended that the DOF enlarge the sample to contain firms that are not registered with the IPA (no tax incentives), and to do this for at least five years to account for variable behavior arising from the product's lifecycle.

PERFORMANCE REQUIREMENT 2: IMPROVING PUBLIC EXPENDITURE MANAGEMENT (PEM)

PEM refers to how the government oversees public funds. Efficient PEM helps the government spend within sustainable limits. It ensures that budget allocations are in harmony with the government's overall strategic priorities and that the provision of public services is delivered at reasonable quality and cost. FPI helped the GPH improve PEM by helping the DBM modernize public sector procurement and accounting practices and instituting holistic fiscal reforms to ensure that the country is getting value for the people's money.

Throughout FPI's five-year implementation, the project provided technical support for the GPH's initiatives on improving PEM. FPI worked with the DBM, providing TA in modernizing the government's procurement and accounting practices and in updating its decades-old budget operations manual. These are aligned with the goal of institutionalizing holistic fiscal reforms in the country.

IMPROVING CORE BUSINESS PROCESSES

In mid-2014, the DBM requested that FPI conduct a business process review and reengineering (BPRR) of its core business processes. A BPRR is a comprehensive analysis of people, processes, and supporting infrastructure to enable the organization to recognize loopholes and success factors and formulate possible solutions. In January 2015, FPI presented the results of the BPRR to the DBM, and the project proposed establishing a change management steering committee to institutionalize and sustain BPRR recommendations. However, due to the department's change of priorities at that time and the project's funding limitations, these recommendations did not gain traction. The change of administration in June 2016 consequently led to a change of direction for the whole budget department, with Secretary Benjamin Diokno being appointed as the new department chief. On January 4, 2017, Secretary Diokno issued Department Order No. 1, establishing a Budget Operations Manual Project Committee composed of a steering committee and technical working group (TWG) to update the Manual of Operations for the National Government Budget, based on FPI's BPRR recommendations. As a development partner, FPI played a key role in providing technical and administrative assistance to the TWG in streamlining and reengineering the DBM's key internal business processes. This was a tedious process, because it involved more than just rearranging workflows; it also required a culture change within the organization, and the acquisition of better support infrastructure, such as new IT systems.

MODERNIZING PUBLIC PROCUREMENT SYSTEM

FPI also helped to lead efforts to modernize PhilGEPS, a key PFM reform initiative. To keep up with the increasing demands of government line agencies and merchants to successfully conduct procurement activities, the DBM prioritized the operationalization of MGEPS, which was expected to streamline and increase the efficiency and transparency of public procurement, bringing in international consultants as technical advisors. FPI was heavily involved from the beginning stages of MGEPS, including review of the terms of reference and technical requirements, guidance on tender selection requirements and process, development of integration requirements with the GFMIS, capacity building of MGEPS' end-users at the DBM, and guidance on quality control for the virtual store and e-catalog.

The DBM launched PhilGEPS 1.5 on March 26, 2018 in coordination with procurement services as a first step to transition to a fully functioning MGEPS. PhilGEPS 1.5 was developed using more modern and sophisticated software to address slow performance, due primarily to increased user traffic, and difficulties on the part of both government agencies and merchants in using the system. As part of the transparency initiative in PEM, MGEPS will provide accessible data analytics to generate statistical procurement reports from bid requests to final execution of contracts for the purchase of goods and services.

ANNUALIZED OVERVIEW OF FPI PROGRESS YEARS 1–5

Both public procurement system modernization and core business process improvement activities are outlined below.

YEAR 1 ACTIVITIES

The first year of the project focused on strengthening the review of budget policies and proposals under performance-informed budgeting. This involved the use of performance information in budget work under a new budget approach, and it tasked DBM budget analysts to analyze the interrelationship between physical and financial indicators of an agency's operations in their evaluation of their budget proposals. It also called for the analysis of spatial dimensions and sectoral implications of budget proposals. In the DBM's Budget Call for 2015, Secretary Abad stressed the need to consider spatial and sectoral dimensions in government service delivery in the 2015 budget. Considering the dimensions means that it can be clearly conveyed to the public how the budget will assist in meeting the goals of inclusive growth and in meeting sector targets laid out in the Philippine Development Plan (2011–2016). This presented some challenges to DBM staff whose main function had been focused on meeting the expenditure goals of the national government. They were used to traditional line-item budgeting that focused on controlling input costs.

- **Pilot expenditure review of the agriculture, health and transportation sectors.** FPI helped develop and implement a strategy that built the capacity of the DBM to prepare the 2015 budget with a results-oriented perspective. FPI determined that DBM Budget Management Bureau (BMB) analysts needed help reviewing agency budget proposals and performance targets in the agriculture, health, and transportation sectors. The targets needed to be aligned with the GPH's inclusive development framework that exists to provide better social services, access to jobs, and better economic opportunities for Filipinos. FPI organized meetings to discuss development challenges with NEDA and agency officials. Budget analysts in three of the DBM's Operations Bureaus gained valuable insights about sector expenditure. FPI's PEM expert completed a draft of the expenditure review of the Department of Transportation and Communications and delivered two other reports on agriculture and health. FPI intended that the expenditure review reports serve as concrete policy documents that could inform strategies to improve planning, budgeting, and performance evaluation of these agencies.

- **Mentoring and coaching of DBM staff in the evaluation of 2015 agency budget proposals.** Two FPI sector experts helped DBM budget analysts better understand technical information about agriculture and health programs during the budget review process. This was partly in response to instructions from the Budget Secretary (through a May 12, 2014 memorandum) "to scrutinize the priorities set by agencies through the lens of inclusive development." The sector experts helped the budget analysts focus their evaluation on the appropriate sector performance information and recommended a framework for evaluating the implications of proposed 2015 expenditures.

- **Comparative analysis of country budgeting systems.** In April 2014, FPI Consultant Bruce Hutchins conducted a study benchmarking the budgeting system in the Philippines against leading international practices. His report included an analysis of the budgeting cycle, existing gaps, and the roles/participation of staff in the process.

- **Initial business process review of BMBs.** FPI helped the DBM analyze the operational implications of a measure to comprehensively release the budget for expenditures in the enacted budget law, or the General Appropriations Act. This served as an initial business process review of the BMBs to generate a baseline assessment of the resources used to produce budget release documents and to analyze the effects of the Special Allotment Release Order (SARO)-as a release order. International budget expert Bruce Hutchins found that significant efficiency gains in the use of staff time could be realized by the General Appropriations Act (GAA)-as-release-document policy. With the time saved from the comprehensive release of appropriations, the staff can shift their attention to analytical work and performance evaluation. However, the benefit from this measure was not felt evenly in all operations bureaus because of the prevalence of "negative lists" in some agency budgets that required staff to review each request before they can be spent by the agencies.

- **DBM BPRR study.** The DBM sought FPI assistance to conduct a more comprehensive review of its budget planning and execution business processes. The project saw this as an opportunity to help the DBM make needed adjustments to its internal systems for performance-informed budgeting and related tasks for performance evaluation. FPI determined that business processes were antiquated and that analysts could not use the GFMIS to evaluate budget expenditures. A workshop for DBM budget analysts gave an overview of updated budget evaluation business processes; 32 analysts were trained on new evaluation tools and processes.

The initial findings were that some tedious processes have arisen from outdated policies and procedures. The capacity of budget analysts is simply no match for the volume and technical nuances of the various transactions that these processes involve, and there were chronic delays in the release of budget appropriations. The government is in the process of acquiring an automated GFMIS that might render some of these obsolete, but there is a need for interim process changes to alleviate the situation and free up staff time for evaluation work. The TA was instrumental for the DBM to develop an organizational strategy to address these problems.

FPI held a workshop for DBM budget analysts to provide them an overview of the business process review. The workshop elicited active participation by DBM staff in mapping processes and planning improvements for their day-to-day operations. FPI consultants gave 32 participants a "walk-through" of the useful tools in the process review and helped them select a suitable approach for the processes to be reviewed.

- **Business process mapping**. The business process review activity had reached advanced stages of data gathering, process mapping, consultations with implementing agencies, and analysis of options. It covered processes for five key services of the DBM: 1) budget preparation for programs, activities, and projects, with the aim of eliminating lump sums in the national budget; 2) budget release against the Miscellaneous Personnel Benefits Fund for filling vacancies; 3) Calamity Fund; 4) Pension and Gratuity Fund for police and military personnel; and 5) purchase of motor vehicles. Analysts were trained to analyze budget credibility and budget planning, monitoring and evaluating budget expenditures.

YEAR 2 ACTIVITIES

The activities described above during Year 1 were completed in Year 2. The project's first year focused on engaging key DBM officers on three pilot program expenditure reviews; these were completed in Year 2 and followed by a series of workshops, seminars, and other activities designed to deepen counterpart understanding of M&E work in the context of performance-informed budgeting.

Budget formulation and execution reforms were critical to increasing the level of government expenditures. To increase the level of government spending, critical reforms were an imperative in the procedures through which budgets are both formulated and executed. FPI helped the DBM and agencies identify budget formulation and expenditure bottlenecks and improve cooperation and communication between the DBM and agencies. Several expenditure issues related to filling vacant positions, procuring vehicles, and responding to disasters were resolved.

FPI was guided by government counterparts through the DBM Executive Committee, which is chaired by the Budget Secretary and composed of its high-level officers. A summary of Year 2 activities is provided below.

- **Support for program evaluation in the DBM.** FPI followed up on its completion of the three pilot expenditure reviews through a series of meetings with officials from the DBM with FPI sector experts and officials from the Departments of Health, Agriculture, and Public Works and Highways in a series of seminars focused on preparing performance-informed budgeting in these areas. Project evaluation work within the DBM was slow, due to the leadership of the relevant unit having faced extended periods of legal distress, as well as difficulties posed by the decision by the GPH to not proceed with development and implementation of the GFMIS. Activities were suspended pending resolution of those conditions.

- **Support for change management in the DBM.** FPI helped the DBM implement a change-management strategy for changes to budget processes. The project conducted an initial business process review of the BMBs to generate a baseline assessment of the resources used to produce budget release documents. The DBM subsequently requested that FPI take this one step further and mount a more comprehensive business process review and business process reengineering to help the agency craft a concrete organizational strengthening plan to realize their reform objectives.

  This additional activity was initiated by performing a process mapping exercise, which systematically collected and processed comprehensive and accurate data to describe the processes undertaken by the BMB—the inputs, outputs, and sequence of steps to convert the inputs into outputs; management supervision and assistance; and equipment and IT resources used. The output is an inception report presenting the information gathered from this activity and an analytical framework for identification and prioritization of process modifications or reengineering options.

  This was followed by an analysis of relevant business processes and identification of areas where improvements could be made. Team members designed and carried out activities to engage process owners in identifying the current issues limiting process performance, questioning the methods used in the processes, formulating proposed methods or process modifications for performing the tasks, and developing updated work standards for the new or modified processes.

YEAR 3 ACTIVITIES

Significant budget process reengineering efforts designed to ameliorate key spending bottlenecks were initiated in Year 2 and continued throughout Year 3 as FPI focused on the budget preparation and execution processes internal to the DBM. FPI helped the DBM develop a comprehensive and transparent budget M&E environment, improve the quality of budget estimates for bills proposed in Congress, and standardize budget formulation and execution processes to make performance-informed budgeting more robust.

- **Support for change management in the DBM.** The DBM, through Joint Memorandum Circular No. 2015-01, reorganized during the Q2 of 2015 by consolidating seven BMBs into five and creating two new bureaus: Performance Monitoring and Evaluation Bureau (PMEB) and Public Expenditure Management Bureau. The reorganization addressed the low budget expenditure utilization rates. The BMBs held primary responsibility for M&E from the agencies and focused on department utilization rates. As a result, BMB staff members were reassigned to the PMEB as part of the reorganization. What remains to be done, however, is to define the exact roles of the PMEB within the several actors, specifically the BMB, NEDA, and Program Management Service of the Office of the President.

  The GPH has several oversight bodies conducting performance monitoring. Oversight is conducted by the Congress (360 report), NEDA (Philippine Development Plan and Philippine Investment Plan), the Office of the President Planning Management Services (State of the National Address Technical

Report), and the DBM (budget preparation and execution reports). Reporting is not coordinated by these oversight agencies and NGAs often provide varying performance indicators. FPI helped the DBM's PMEB define its functions by divisions and better align its roles and responsibilities with its organizational structure. FPI also provided recommendations for a draft results-based monitoring, evaluation, and reporting (RBMER) framework to be enhanced. With the help of FPI, the PMEB conducted six consultation meetings with pilot departments to determine the status of M&E systems, processes, structures, operational set-up, M&E plans, and related information and issues within these agencies. The results of these activities will further assist in refining the PMEB's draft RBMER framework and preparing an M&E handbook.

FPI assisted the PMEB in preparing its work plan from 2016 through 2018. The work plan provided a mechanism for incorporation of FPI-suggested activities under the covered period.

- **Study of M&E.** Monitoring and evaluation are two distinct processes that are inextricably linked. Monitoring provides information about inputs and assesses major programs and services and their final outputs. Evaluation strategically determines the outcome or impact of these services and programs at organizational, sectoral, national, and societal levels.[18] The activities covering the hierarchy of results determination and assessment are intrinsic to the whole M&E system. M&E may help increase transparency and accountability if an organization has adequate ways to measure and report results.

  At the DBM's request, FPI conducted a study during Year 3 that strengthened expenditure management and performance-informed budgeting processes at the DBM. The report from this study presented specific issues relating to M&E in the DBM, including the Budget Operations Bureaus, Budget Technical Bureau, and the newly organized PMEB. FPI's analysis also covered the DBM's internal operational processes on M&E and how they link with oversight agencies, particularly with NEDA and presidential management staff.

YEAR 4 ACTIVITIES

FPI's continued technical support to the DBM in crafting and institutionalizing public procurement reforms brought forth notable developments. FPI's recommendations to the DBM drawn from the 2014 BPRR were linked to three DBM instructions: National Budget Circular No. 567, Guidelines on the Release of funds for FY 2017; Budget Circular 2016-5 as amended by Budget Circular 2017-1 issued on April 26, 2017, pertaining to the revised guidelines on the acquisition and use of Government Motor Vehicles; and National Budget Circular No. 565, pertaining to the government-wide adoption of a RBMER policy.

The Budget Reform Bill (House Bill 5590), sponsored by Appropriations Committee Chair Karlo Nograles, was submitted to Congress incorporating FPI's key recommendations.

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[18] World Bank technically defines "monitoring" as the systematic collection and analysis of information as project implementation progresses aimed at the efficiency and effectiveness of a project or organization; while "evaluation" is the periodic assessment of relevance, performance, and efficiency of actual project impact against the agreed strategic plan and stated project objectives.

FPI conducted a writing workshop for the development of an updated DBM Budget Operations Manual. This consolidated all outputs of the TWGs, including for those for public procurement that supported the President's Build, Build, Build infrastructure program.

DBM Secretary Diokno acknowledged FPI's assistance with the Budget Operations Manual, the OGP, and the budget reforms embodied in the BTMS and the Budget Reform Bill, as well as the continuing support that established a new electronic government procurement system.

- **Procurement Service (PS)-DBM needs assessment.** An assessment of the PS-DBM's existing business process provided the DBM with recommendations that improved the PS-DBM's procurement and contracting processes and increased government spending.

  The assessment identified the following recommended activities: 1) work study on the procedures and processing time for the transactions involving the entirety of its operations related to the sale of common-use supplies and equipment (CSE); 2) strengthen the policy on submission of annual procurement plans (APPs) for CSE to improve the PS-DBM's forecasting; 3) assist the PS-DBM in assessing the expansion of its products list; 4) assist the PS-DBM in studying the best warehouse and logistics systems for its operations; and 5) provide capacity building assistance to PS-DBM procurement personnel.

- **Preliminary assessment of PhilGEPS, PS-DBM, and BTMS processes compared with related GPH policies.** The objective of the analysis was to map the legal framework that supports the PhilGEPS, PS-DBM, and BTMS procurement-related processes and functions to identify the bases for each function and process and assist in guiding future policy amendments. In this regard, FPI assessed the functions of the PhilGEPS, PS-DBM, and BTMS vis-à-vis the Government Procurement Reform Act (GPRA) and relevant COA rules and regulations.

  The assessment identified the need to review and amend the GPRA IRR in line with the decision of the DBM to take over management of the PhilGEPS from the PS-DBM. In addition, the assessment also noted that relative to the PhilGEPS modernization and its linkage with the BTMS, the plan to link the latter's commitment-management function to the bid-posting function of the former may require an amendment to the Guidelines for Electronic Bidding issued by the GPPB.

- **Development of the Budget Operations Manual.** The National Government Budget Operations Manual aims to provide clear instructions and guidelines to technical staff and officials in the DBM on preparing, executing, coordinating, and managing the accountability requirements of government agencies. It includes common and standard approaches and practices in evaluating agency proposals and in monitoring agency performance against resources.

  DBM Secretary Diokno assigned a Budget Operations Manual Committee to conduct quality control for the manual. The committee consisted of a steering committee and a TWG. Undersecretary Tina Rose Marie Canda chaired the steering committee. The TWG was divided into four teams with directors, division chiefs, and senior specialists from the Budget Operations Group. DBM regional directors from National Capital Regions IV-A, and IV-B serve as coordinators and steering committee members.

FPI provided essential technical and administrative assistance to the TWG, as specified in the department order. FPI focused on the Budget Operations Manual components that will link planning and budgeting, regional development program, formulation and approval of the national government fiscal program, reconciliation between cash and obligation budgets, and monitoring and review of agency performance. FPI facilitated the integration of the Unified Accounts Code Structure and RBMER framework into the manual. Additional areas for the manual that are not in the core budget management phases previously included by the steering committee (the process improvement of which will have impact on the creation of fiscal space) were also identified.

- **Budget Operations Manual writing workshop.** FPI sponsored a National Government Budget Operations Manual writing workshop on August 10 and 11, 2017 in Tagaytay City, Philippines. During the workshop, the following manual sections were drafted: document procedures and process maps for the existing budget operations processes; budget formulation gaps and process improvements; and crosscutting issues. In addition, actions and next steps were determined to address issues identified during the workshop.

- **BTMS manual.** The BTMS is an integrated, accurate, modern, reliable, and secure information system for the government's PFM operations. It is essential for the attainment of a sustainable government resource-planning solution, because it reinforces reform and modernization. The BTMS manual was written in a highly technical IT format. FPI was asked to update the manual and revise it in plain English using a similar format to the Budget Operations Manual. The revised manual included the following sections: introductions and purpose; process maps; and IT processes and procedures. Coordination meetings were held to map counterpart and FPI contributions to the manual.

- **Expanded TA to the PMEB.** The PMEB was formed due to the increasing demand for reliable information, fiscal transparency, and accountability. FPI provided TA to the bureau, particularly in its organizational development efforts, by defining detailed function statements for its five divisions, the activity plan, and short-term milestones. The FPI team comprehensively discussed and provided comments, advice, and suggestions on the assigned functions and on existing M&E operations. Below are some of the areas identified where M&E concerns were significant:

  - Development of operational capacity.
  - Implementation of the Philippine National Evaluation Policy with NEDA, as mandated under Joint Memorandum Circular No. 2015-1.
  - Development of M&E standards and guidelines for agencies at different levels.
  - Implementation policies and guides for the RBMER framework.
  - Design of data configuration in revised budget execution and accountability forms under the Program Expenditure Classification program.
  - Development of an M&E implementation plan for the DBM and selected departments on a pilot arrangement.

During FPI's Year 4, the project's assistance to the PMEB was expanded. The bureau requested in-depth support on specific functions for its five divisions, with the consideration of previous inputs. The functions ultimately connect to the bureau's roadmap, which details the outputs, deliverables, and milestones for each division.

YEAR 5 ACTIVITIES

FPI helped finalize the Budget Operations Manual, improve public procurement processes, and develop an e-catalog and virtual store.

- **Modernization of public procurement.** To advance ongoing public procurement initiatives, FPI mobilized an international public procurement specialist to provide TA to help modernize the GPH's e-procurement system. FPI also supported preparation of a DBM circular outlining the strict submission requirements for APPs for both CSE and non-CSE by agencies. The project team also helped to finalize the MOA template used by the PS-DBM in their capacity as the procurement agent representing government spending agencies for local and foreign vendors.

  FPI completed documentation of critical business processes within PS-DBM targets to improve their efficiency in performing identified tasks. By providing written step-by-step procedures to achieve specific outputs, stakeholders were expected to perform their related tasks faster and more efficiently.

- **Continued TA in the operationalization of MGEPS.** FPI submitted its third and final major technical report on its assistance to MGEPS. The DBM asked the project to assess the status of critical areas in MGEPS and identify whether a third-party competency assessment was needed. In response to a request from Undersecretary Lilia Guillermo, FPI designed and conducted workshops that mapped the entire procurement process for the e-catalog and virtual store with the relevant government agencies and key stakeholders, such as the GPPB, PhilGEPS, and PS-DBM. During the follow-up meeting, the contractor Nextix/Nextenders confirmed that the virtual store could be completed by October, pushing back the original July completion date. In September, FPI submitted to the PS-DBM a detailed plan to support the e-catalog's operationalization.

  With a detailed operationalization plan, FPI assisted DBM in reviewing the terms of reference for MGEPS. After the bidding process for the new Electronic Government Procurement System (EGPS) began, the DBM further requested FPI's TA for the review/assessment of qualified technical proposals—to give inputs and recommendations to the TWG to support their evaluation—as well as the post-qualification, proof of concept, and early implementation stages. Following the selection of the EGPS vendor, FPI continued to provide support in the development of the initial project deliverables, including the inception report.

- **Budget Manual of Operations.** The final manual for the proposed manual handover ceremony was submitted to the DBM June 15, 2018. Among its features are the simplified and user-friendly procedures that came as a result of the workshop held by FPI January 30. This latest version also had more complete procedures for budget execution, and included cash-based budgeting procedures in budget preparation.

On August 9, the FPI team conducted the first part of the sustainability workshops on the manual. FPI presented the revised updating and continuity mechanism, the procedures for which were already in use to prepare the latest version of the operations manual.

The second part of the sustainability workshops took place in September 2018. New agreements were to highlight changes in budget execution processes brought about by the shift to cash-based budgeting.

DBM Undersecretary Canda agreed to FPI's proposal to have an integrated handover activity of the manual but requested a final sustainability workshop in November with the final updated copy.

- **Production of promotional video on the GPRA.** FPI delivered DBM Secretary Diokno's requested support for the DBM's information drive for faster procurement. This was dubbed "GPRA Works!" to promote the GPRA (RA 9184) and its IRR. FPI developed an audiovisual presentation promoting the benefits of the GPRA and the best practices that were implemented by the Bases Conversion and Development Authority. The video was used by Secretary Diokno in his press conference, which was later posted on the DBM website, shown in the OGP regional dialogues, and viewed by private and public sector participants at the Philippine Annual Procurement Summit. The video started with a brief introduction of the procurement process and described how the featured agency was able to procure three big-ticket infrastructure projects following RA 9184. It closed with the Secretary saying it could be done and urging agencies to come forward with their own best practices. The material received good reviews all around and was deemed appropriate for its purpose.

- **Business process review.** FPI assessed the PS-DBM's existing business processes to provide the DBM with recommendations for improving PS-DBM's procurement and contracting processes to increase government spending.

- **Continued support for expanded TA to the PMEB.** FPI explored areas where expanded TA was being requested. Based on the requests, FPI coordinated with the Human Resource Division of the Administrative Service to gather information on existing competency descriptions of DBM positions focused on PMEB roles.

  During the briefing with the Administrative Service, FPI provided guidance on the role of the Civil Service Commission (CSC) in the government's competency enhancement. In this role, CSC assesses the maturity level of an agency's set of competencies, systems, and practices related to five human resource management systems—recruitment, selection and placement, learning and development, performance placement, and rewards and recognition—using the Program to Institutionalize Meritocracy and Excellence in Human Resources Management (PRIME-HRM) program. PRIME-HRM is a program developed by the CSC to institutionalize meritocracy and excellence in human resource management. The DBM was rated 78 percent by CSC under the PRIME-HRM assessment of the department's human resource management system's maturity level.

- Previously, a study was completed to define the core organizational and technical competencies of selected positions in the operations bureaus and the Administrative Service. Functional statements were then improved and written using the prescribed DBM-CSC Form No. 1. However, because the PMEB is a newly formed bureau, its positions were not covered by the study.

- To ensure that they meet the standards set in other bureaus, the PMEB requested FPI's assistance in identifying and defining the required competencies for PMEB positions. These well-defined competency profiles will lead to better and efficient hiring, and placement policies and requirements. It will also be useful for developing and applying competency-based training programs suitable to the existing requirements of the DBM, particularly in implementing its priorities under the reformed PFM system.

CROSSCUTTING OUTREACH SUPPORT ON REFORM INITIATIVES THROUGH THE OPEN GOVERNMENT PARTNERSHIP (OGP)

Starting in 2014, FPI helped the DBM promote public outreach for its open government agenda by facilitating OGP dialogues, consultations, and workshops with citizen groups and local government partners. These activities helped shape the development of the Philippines' Third OGP Country Action Plan and provided a vehicle for increased civil society participation in monitoring the commitments of OGP partner agencies.

The OGP is an international initiative launched in 2011 that provides a platform for domestic reformers to make their governments more open, accountable, and responsive to citizens. The Philippines is a founding member and one of 75 participating countries. FPI provided funds to support where government and civil society are working together in developing and implementing open government reforms—supporting execution of OGP regional dialogues in each of the island clusters of Luzon, Visayas, and Mindanao.

In 2017, FPI's support for the OGP initiative helped the Philippine OGP Secretariat prepare the Fourth Philippine-OGP National Action Plan, the first OGP action plan under the Duterte administration, and the second USAID-supported OGP plan. USAID also funded the participation of the Philippine Delegation in various international OGP events, as well as activities that helped disseminate information about the GPH's work on good governance and the OGP.

In line with ASEAN's Partnering for Change, Engaging the World, the GPH demonstrated to the international community the country's open government practices. FPI co-funded the High-Level Regional Roundtable Discussion on Open Government: A Side Event of the Philippines Chairmanship of the ASEAN, August 15, 2017 in Pasay City, Metro Manila. This roundtable discussion became a venue for recognizing and sharing best practices to implement initiatives on transparency, accountability, and public participation among Southeast Asian nations. The Philippines Fourth OGP National Action Plan 2017–2019, which encapsulates the Duterte administration's commitment to preserve a government that is transparent, accountable, and genuinely engaged with the people in the country's governance and development agenda, was formally launched at this ASEAN OGP event.

In 2018, FPI continued to support the OGP to engage more LGUs and CSOs by rolling out the initiative at the subnational level. Regional dialogues were conducted in six cities. Because of a more active engagement from the Department of the Interior and Local Government (DILG) in 2018's OGP dialogues compared to previous years, government counterparts expected a more meaningful engagement of the LGUs and more national government agency participation. This was part of the strategy to ensure continuity of the activities after FPI ended.

One of the objectives of the dialogues was to expand the active participation of government agencies under the participatory governance cluster to ensure that there will be ownership among the implementing agencies of the program submitted in the Fourth National Action Plan. With strong USAID support, the OGP coalition was able to bring together more than 2,000 participants from NGAs, NGOs, LGUs, and the private sector. LGUs were encouraged to submit local OGP initiatives for the 2018 OGP Local Program of the OGP International Support Unit. Four LGUs took part in calls for proposals. After a competitive selection process of the OGP Support Unit, the OGP announced that the Province of South Cotabato was included in the five new local governments to be part of the OGP Local Program for 2018. The province will join the other 15 OGP local existing participants, which will co-create the CSO Action Plan for 2018–2020.

ANNUALIZED OVERVIEW OF FPI PROGRESS YEARS 1–5

FPI consistently engaged multi-sectoral stakeholders in fiscal reform dialogues to come up with comprehensive and inclusive tax policy reform.

FPI helped build awareness and consensus in addressing the most binding constraints that had been identified. These included discussions/negotiations with counterparts and also with representatives of activities funded by other donors, including the ADB, MCC (during its project implementation in the Philippines), and IMF, as well as Philippine business associations and taxpayer groups.

These consensus-building activities later developed into stronger support for good governance dialogue initiatives in the Philippines under the umbrella of the Good Governance and Anti-Corruption Cluster (GGAC) and the OGP.

YEAR 1 ACTIVITIES

- **Support for promotion of the Good Governance Summit held in January at the Philippine International Convention Center.** This activity was organized by the DBM as one of the conveners of the OGP. FPI arranged media coverage and promotion of the event as part of the FPI objective of supporting the hosting of international events by the DBM and the GGAC. At least five members of the team participated in the event.

- **TA for development of the GGAC website.** FPI held discussions with DBM technical staff and the Office of the President to define the content and desired features of the GGAC website. Project staff prepared the scope of work for procurement of a website developer.

- **Consultation meetings with the GGAC Secretariat.** FPI staff discussed its communications and networking strategy and plans for a participatory assessment of communication needs and goals among GGAC member agencies. Project staff prepared a scope of work for an STTA consultant to draft a communications and outreach strategy, and long-term public relations staff to help GGAC Secretariat implement the plan. Evaluation of the previous communication efforts of the Secretariat was used as the baseline of the plan.

- **Facilitated and funded participation of nine delegates from government GGAC member agencies, CSOs, and academia in the OGP Regional Summit in Bali, Indonesia.** Most of the participants were panelists, speakers, and facilitators. The Philippines is a member of the OGP steering committee and plays an important role in disseminating the good governance best practices of different countries to promote transparency, accountability, and participation. One FPI staff member accompanied the delegates.

- **Consultation meetings with government agencies and other development partners.** FPI assisted the GGAC Secretariat in developing the GGAC and OGP initiatives' governance indicators.

- **Good governance dialogues.** Together with the GGAC, in partnership with the Union of Local Authorities of the Philippines (ULAP) and InciteGov and other CSO members of the Philippine OGP steering committee, FPI conceptualized and organized good governance dialogues in five regions throughout the country. The two-day activity was fully funded by FPI and discussed the key budget reforms and the 2015 national expenditure program, which was led by DBM Secretary Abad. Secretary Abad underscored the Aquino administration's Budget Transformation Agenda of "spending within our means, on the right priorities, and with measurable results." This was followed by a presentation on budget priorities for 2015, as well as breakout sessions on zero-based budgeting (ZBB) studies. One of the reforms introduced by the Aquino government, ZBB is an innovative approach to budgeting that involves evaluating previous expenditures to ensure that programs and projects are responsive and relevant and produce the most impact.

YEAR 2 ACTIVITIES

- **Funded and co-organized the good governance dialogues held in five major cities that covered all 14 regions of the Philippines from September to November 2014.** The five events were attended by more than 2,000 individuals from NGAs and LGUs, CSOs, academia, the private sector, and the media.

  The good governance dialogues were inspired by the experiences of participants sponsored by USAID through FPI in the OGP Regional Summit in Bali, Indonesia. As a result of a post-event evaluation meeting between DBM/GGAC's Patrick Lim, ULAP Executive Director Czarina Medina, DBM Assistant Secretary Tanya Hamada (former executive director of InciteGov, representing the CSO during the Bali summit), and FPI agreed to propose regional forums to respond to the challenge of sustaining national governance reforms, helping to ensure that the benefits of an open government will directly trickle down and be felt by more citizens—especially the poor. The regional forums included discussions of the national government's budget reforms, a presentation of the 2015 budget, and review of local OGP initiatives, including implementation of the Seal of Good Local Governance, bottom-up budgeting, and open data. The results of ZBB studies and best practices from previous implementations of bottom-up budgeting were also presented to enable participants to learn the processes, strategies, issues, and other prerequisites of successful reforms.

As part of the good governance dialogues, FPI held an International Tax Forum in November 2014 with local and international participants that focused on taxation in the ASEAN region.

FPI's strategy for enhancing transparency and accountability supported both the GGAC initiatives of the Aquino administration and the reform initiatives arising from the Philippines' membership in the OGP. The challenge for the Philippines was how to sustain and deepen these gains beyond the 2016 national elections.

- **Budget forum.** The budget was presented to the public for the first time as opposed to the traditional practice of the executive branch only presenting the budget to Congress for approval. It was also the first time that the OGP was presented to the regions since it was first introduced to the public in during the Good Governance Summit.

- **Funding and organizational support for a follow-on event focused on the role of Filipino youth in the OGP.** This follow-on event to the series of five good governance dialogues was conducted in March 2015, and it raised awareness of good governance reforms and the OGP among youth as a way to expand the reform constituency and enhance prospects for longer-term sustainability.

FPI supported a youth-oriented follow-on event to the Good Governance Summit to raise awareness about good governance reforms and the OGP. Pictured on the left is USAID Mission

DBM forged a partnership with the University of the Philippines National College of Public Administration and Governance, the National Youth Commission, and the organizers of the Good Governance Summit for a program focused on youth. The Youth Summit is an annual national event that seeks to promote the principles of good governance to Filipino youth. The summit also provided an entry point for youth to be involved in the OGP, where commitments and ideas are solicited as input for the Country Action Plan.

- **Youth Summit media plan.** FPI also assisted with drafting a media plan for the Youth Summit.

YEAR 3 ACTIVITIES

- **Capacity development activities for CSO participation in the OGP.** FPI, working with InciteGov, Action for Economic Reforms, and Bantay Kita, organized nationwide capacity development sessions for CSOs on the OGP and national and local budgeting for a total of 268 participants from CSO networks. The workshops were two-day activities designed to capacitate CSOs to effectively engage national and local governments through the OGP platform. Objectives of the workshops were to:

  - Provide information on platforms for CSO participation in the OGP and national and local budget processes.

- Raise awareness on tax reform issues and transparency in the extractive industries.
- Provide information on platforms to engage the legislature for advocacy.
- Map CSO budget advocacy work and identify convergence areas for complementarity and support.
- Develop a community advocacy action plan for subnational engagement in resource extraction.

- **GGAC website.** The GGAC Secretariat continued to implement the website and project monitoring system built with FPI support (the initial launch was in Q4 of 2015.) The improved website design helped the Secretariat better organize online content. The project monitoring system was also helpful to the Secretariat, because it allowed officials to quickly send notifications and reminders to member agencies. Member agencies reported that they liked using the system because it provides an organized way of storing their reports.

YEAR 4 ACTIVITIES

Under the Duterte administration, the Philippines remained a strong advocate for the OGP and good governance reforms. During the December 2016 OGP Global Summit in Paris, DBM Secretary Diokno, as head of the Philippine OGP delegation, declared the Philippines' continuing commitment to the OGP initiative. During the good governance dialogues (February to May 2017), Secretary Diokno vowed to spearhead government programs that strengthened citizen participation in the budget process, public audit, and various good governance programs such as the anti-red tape and government-citizen feedback mechanisms.

Among the early OGP reforms the Duterte administration instituted were Executive Order No. 02, s. 2016, which operationalized the people's right to public information, a precursor to the Freedom of Information Law; Hotline number 8888, a new national public feedback mechanism on government services, which aims to improve public service delivery and encourage public reporting on improper actions by government officials and employees; and Executive Order No. 09, which established the Office of Participatory Governance under the Office of the Cabinet Secretary, to promote and ensure direct participation of various stakeholders in policy making and implementation of government programs, especially at the grassroots level. The Duterte administration also vowed to improve the ease of doing business in the Philippines, a commitment under the Fourth OGP National Action Plan.

In line with ASEAN's Partnering for Change, Engaging the World, the GPH demonstrated to the international community the country's good and replicable open government practices. FPI co-funded with the DBM the High-Level Regional Roundtable Discussion on Open Government: A Side Event of the Philippines' Chairmanship of the ASEAN. Around 300 participants from the NGAs, CSOs, business groups, international development partners, and the media took part in this roundtable discussion. Representatives from the international community, relevant ASEAN ministries, ASEAN embassies with presence in the Philippines, and CSOs in the region also participated in the event.

USAID Director of the Office of Economic Development and Governance Jeffrey Lehrer delivered a message of support highlighting the agency's continuous commitment to supporting the GPH in its resolve to establish an accountable and transparent government in line with USAID's values of transparency, accountability, and inclusivity. FPI's Deputy Chief of Party Bruce Hutchins was part of the panel discussion and talked about FPI's assistance to the GPH in institutionalizing its fiscal reforms.

MOVING FORWARD WITH THE OGP

The DBM and other partners in the OGP community recognize that these accomplishments would not have been possible without the support of USAID as a key development partner. Moving forward, DBM Secretary Diokno requested that USAID continue its support to OGP activities in the following areas:

- Support for the sustainability of the Non-Government Secretariat under the Caucus of Development NGO Networks (CODE-NGO).
- TA for developing the OGP subnational process (action plan development, implementation, and monitoring).
- Support for regular regional consultations.
- Support for communication and advocacy.
- Support for peer learning and capacity building of key OGP stakeholders.

YEAR 5 ACTIVITIES

As part of the response to this request to support OGP activities, FPI supported the OGP Secretariat chaired by the DBM and co-chaired by CODE-NGO through the regional dialogues. A post-activity assessment and planning workshop was conducted on April 17, 2018, to evaluate the regional dialogues and identify concrete plans for outputs from the dialogues for both governmental and nongovernmental stakeholders. From this assessment, the dialogue organizers rated themselves on whether they were able to achieve the objectives of the dialogues. Table 2 shows the output of the self-assessments based on the average rating of each objective, using a scale of 1 to 5, with 5 being the highest.

TABLE 2: REGIONAL DIALOGUES AND ORGANIZER SELF-ASSESSMENTS

No.	Objective	Avg. Rating
1	To promote/disseminate information on the OGP platform, specifically the Fourth National Action Plan, participatory governance cluster and roadmap, and other participatory governance initiatives of the Duterte administration.	4.35
2	To gather support among local stakeholders for implementing and monitoring the commitments in the Fourth National Action Plan.	3.10
3	To consult local stakeholders on the content of the participatory governance cluster and roadmap.	3.95
4	To provide an avenue for dialogue among LGUs and local CSOs on developing subnational OGP commitments/plans.	3.85
5	To provide an avenue for dialogue between national and local governments and the nongovernmental sector.	4.41
6	To raise awareness on the 2018 National Budget and the proposed tax reform Package 2.	4.28

The outputs of the activity were used by government agencies to implement their programs. Feedback gathered during the tax road show from consultations with business sectors was made available as reference material for legislators during committee hearings in the Congress and Senate. The comments on TRAIN were used by the DOF to craft succeeding packages of the comprehensive tax reform.

MONITORING AND EVALUATION

Through implementation of technical support, capacity building, and other initiatives, FPI helped partners achieve the following target outcomes:

1. Increased fiscal space from 1 percent of GDP in 2013 to 3.7 percent in 2018, exceeding the target of 3.2 percent.

2. Expanded gross fixed capital formation from 20.6 percent of GDP in 2013 to 27.6 percent as of Q3 2018, exceeding the target of 22 percent.

3. Increased government expenditures from 16.3 percent of GDP in 2013 to 20 percent as of Q3 2018, meeting the target of 20 percent.

FPI results across all indicators are presented in Table 3. Along with a presentation of targets and results by indicator, FPI provides a brief narrative detailing positive and negative variance against project targets.

TABLE 3: FPI RESULTS ACROSS ALL INDICATORS

Indicator	Target	End-of-Project Cumulative Achievement	Remarks
Increased Public Sector Investment			
Impact Indicator 1: Fiscal space (percentage of GDP, calendar year).	3.4% from 2013 baseline of 1%.	Exceeded: 3.75% in 2018.	Initially exceeded this target in 2016 when fiscal space rose to 4% of GDP.
Impact Indicator 2: Gross fixed capital formation (percentage of GDP, calendar year).	22% from 2013 baseline of 20.6%.	Exceeded: 27.02% as of Q3 2018.	First achieved the target in 2015 and consistently exceeded the 22% mark over consecutive fiscal years, achieving 24.6% in 2016 and 25% in 2017.
Impact Indicator 3: Total government expenditures (percentage of GDP, calendar year).	20% from 2013 baseline of 16.3%.	Missed: 19.56% as of Q3 2018.	Missed target by .44%.
Tax Effort Strengthened			
Higher-Level Outcome Indicator 1.1.1: Tax effort (percentage of GDP, calendar year).	16% from 2012 baseline of 12.9%.	Missed: 14.73% as of Q3 2018.	Missed target by 1.28 percent. 2018 data reflects net revenue gain from the TRAIN Law. The weaker than projected performance is partly explained by legislated exemptions and zero rating of several sectors, industries, activities, and individuals that effectively narrowed the VAT base. Passage of TRAIN in 2017 and prospective legislation of TRABAHO–which both seek to expand the CIT base—are seen to boost CIT productivity and likely boost actual CIT collections, as well.
Higher-Level Outcome Indicator 1.1.2: VAT gross compliance ratio (calendar year).	0.60 from 2012 baseline of 0.48%.	Missed: 0.50 as of FY 2017, likely to fall below 2018 target.	Note: 2018 breakdown by major tax types is not yet available.
Higher-Level Outcome Indicator 1.1.3: CIT productivity (calendar year).	0.14 from 2012 baseline of 0.12.	Missed: 0.124 as of FY 2017, likely to fall below 2018 target.	Note: 2018 breakdown by major tax types is not yet available. Through 2017, CIT productivity remained flat, at 0.12 within the period covered by the project. CIT revenues rose from ₱370 billion in 2012 to ₱588 billion in 2017, growing annually at an average rate of 9.8 percent. As with the VAT gross compliance ratio, CIT productivity's weak performance is due to the narrow corporate tax base resulting from investment tax incentives. The TRABAHO Bill is designed to expand the corporate tax base by removing unnecessary incentives, but it also seeks to lower the CIT at a staggered rate. The DOF claimed that the passage of the TRABAHO Bill was expected to yield revenue neutral results.
Higher-Level Outcome Indicator 1.1.4: PIT productivity (calendar year).	0.025 from 2012 baseline of 0.02	Increased from 0.067 in baseline year 2012 to 0.078 in 2017.	Note: No quarterly data for major tax type. Latest available annual data is 2017. Calculation of actual PIT productivity revised in July 2018 to reflect the formula prescribed in the USAID Collecting Taxes document. This revision significantly changed the magnitude of the indicator, and the new estimation is deemed too different from the original target for useful comparison.
Outcome Indicator 1.2.1: Number of bills supporting comprehensive tax reform submitted to Congress with technical support from FPI (cumulative, fiscal year).	2 legislative proposals by end of 2018.	Exceeded: 5 legislative proposals by end of 2018.	Indicator introduced in 2016. FPI technical support helped to facilitate the production and submission of the following CTRP legislative proposals to Congress: • TIMTA: Passed into law in January 2016.

Indicator	Target	End-of-Project Cumulative Achievement	Remarks
			• TRAIN: Package 1 of CTRP, passed into law in December 2016. • TARA: Submitted to Congress in January 2017. • TRABAHO: Package 2 of CTRP, provided assistance for both original DOF version (filed February 2018) and version passed by the Lower House (filed March 2018). • Mining Fiscal Reform: Part of so-called Package 2-plus of CTRP, submitted in August 2018.
Output Indicator 1.2.2: Number of FPI-supported dialogues and forums supporting comprehensive tax reform (cumulative, fiscal year).	8 dialogues and public forums by end of 2018.	Exceeded: 32 dialogues and public forums in support of the CTRP.	
Outcome Indicator 1.3.1: Percentage of revenues reported through e-filing (percentage, calendar year).	90% from 2012 baseline of 60%.	Achieved: 89.6% as of Q3 2018.	
Outcome Indicator 1.3.2: Doing Business: Time spent on paying taxes (hours per year, calendar year).	180 hours from 2013 baseline of 193 hours.	Missed: 182 hours as of 2018.	Missed target by only two hours. Doing Business annual report indicates a continuous decrease in the time taken to pay taxes.
Outcome Indicator 1.3.3: Number of returns e-filed as a percentage of the total number of returns filed (percentage, calendar year).	80% from 2013 baseline of 8.1%.	Achieved: 80.2% as of Q3 2018.	
Outcome Indicator 1.3.4: Tax payments made using mobile money and other forms of electronic payments (e.g., debit and credit cards) (percentage of transactions, calendar year).	20% from 2013 baseline of 7%.	Missed: 17.32% as of Q3 2018.	Indicator reached 19.19% in FY 2017. The latest 2018 data does not reflect full-year performance. Future reports may provide a more accurate measure.
Public Sector Governance and Expenditure Management Strengthened			
Higher-Level Outcome Indicator 2.1.1: Open Budget Index score.	60 from 2012 baseline of 48.	Exceeded: 67 as of 2017.	No Open Budget Survey for FY 2018. Philippines continuously scored higher in Open Budget Index, from 48 in 2012 to 64 in 2015 and 68 in 2017.
Higher-Level Outcome Indicator 2.1.2: Aggregate expenditure out-turn compared to original approved budget (percentage, calendar year).	-15% from 2013 baseline of -27.9%.	Exceeded: -12.68% as of 2017.	No quarterly data. Latest available annual data is 2017.
Output Indicator 2.2.1: Number of forums supporting increased transparency in selected OGP/Open Budget Index subcomponent indicators (cumulative, fiscal year).	10 by end of 2018.	Exceeded: 18 forums as of 2018.	
Outcome Indicator 2.3.1: Number of BPRR study recommendations adopted by the DBM (cumulative, fiscal year).	18 by end of 2018.	Exceeded: 22 as of 2018.	