



FACILITATING PUBLIC INVESTMENT (FPI)

QUARTERLY REPORT: OCTOBER 2017 – DECEMBER 2017

January 2018

This publication was produced for review by the United States Agency for International Development. It was prepared by the advisor(s) supporting USAID's Facilitating Public Investment project. The author's views expressed in this publication do not necessarily reflect the views of USAID or the United States Government.

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Program Title:	Facilitating Public Investment
Sponsoring USAID Office:	USAID/Philippines
Contract Number:	AID-492-C-13-00014
Contractor:	DAI
Date of Publication:	January 2018
Author:	FPI Resident Project Team

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ACRONYMS

ASPAP	Association of Schools of Public Administration in the Philippines
API	Application Programming Interface
BIR	Bureau of Internal Revenues
BOM	Business Operations Manual
CCN	Cooperating Country National (i.e., Filipino)
CEPR	Center for Economy Policy Research
CIT	Corporate Income Tax
COP	Chief of Party
COR	Contracting Officer's Representative
CPAR	Contractor Performance Assessment Report
CSO	Civil Society Organization
DBM	Department of Budget and Management
DCOP	Deputy Chief of Party
DOF	Department of Finance
EGAT	Bureau for Economic Growth, Agriculture, and Trade, USAID
EGPS	Electronic Government Procurement System
EITI	Extractive Industries Transparency Initiative
eTIS	electronic Taxpayer Information System
FEF	Foundation for Economic Freedom (DAI FPI consortium member)
FIU	Fiscal Intelligence Unit
FOI	Freedom of Information
GDP	Gross Domestic Product
GGRCPC	Good Governance Research Colloquium and Paper Competition
GIFMIS	Government Integrated Financial Management Information System
GIFT	Global Initiative for Fiscal Transparency
GOCC	Government-Owned and -Controlled Corporation
GPH	Government of the Philippines
HNWI	High Net Worth Individuals
HR	Human Resources
HRD	Human Resource Development
i ³	Integrity Investments Initiative (USAID project)
ICTO	Information and Communication Technology Office
ISG	Information Services Group
ISSP	Information Systems Strategic Plan
IT	Information Technology
JCA	Jacobs, Cordova & Associates (DAI FPI consortium member)
JUSTICE	Judicial Strengthening for Court Effectiveness (USAID project)
KPI	Key Performance Indicator

LGU	Local Government Unit
LOE	Level of Effort
LTТА	Long-Term Technical Assistance
LTS	Large Taxpayer Service
M&E	Monitoring and Evaluation
MOU	Memorandum of Understanding
MTO	Medium Taxpayer Offices
MTS	Medium Taxpayer Service
NCPAG	University of the Philippines National College of Public Administration and Governance
NCR	National Capital Region
NEDA	National Economic and Development Authority
OGP	Open Government Partnership
OPIF	Organizational Performance Indicator Framework
PCCI	Philippine Chamber of Commerce and Industry
PEFA	Public Expenditure and Financial Accountability
PEM	Public Expenditure Management
PGF	Partnership for Growth
PFM	Public Financial Management
PIDS	Philippine Institute for Development Studies
PIT	Personal Income Tax
PMEB	Performance Monitoring and Evaluation Bureau
PMP	Performance Management Plan
PAP	Programs, Activities, and Projects
PPP	Public-Private Partnership
PSPA	Philippine Society for Public Administration
RFP	Request for Proposals
RDO	Regional District Office
RbMer	Results-Based Monitoring, Evaluation, and Reporting
SERG	Strategy, Economics, and Results Group
SMART	Specific, Measurable, Achievable, Relevant, Time-Bound
SOW	Scope of Work
SPF	Special Purpose Funds
STTA	Short-term Technical Assistance (Advisor) (International)
TAMIS	Technical and Administrative Management Information System
TARA	Tax Administration Reform Act
TCN	Third Country National
TOR	Terms of Reference
TOT	Training of Trainers
TRAIN	Tax Reform for Acceleration and Inclusion
TRADE	Trade-Related Assistance for Development (USAID project)
TWG	Technical Working Group (with the DBM)
USAID	United States Agency for International Development
VAT	Value-added Tax

EXECUTIVE SUMMARY

Since 2013, the USAID Facilitating Public Investment (FPI) Project has been supporting the Government of the Philippines (GPH) in expanding its public and private investments through higher tax revenues, improved public expenditure management, and greater fiscal transparency. FPI's assistance to the GPH encompasses a wide array of reform interventions, including policy reforms, systems development, process improvements, capacity development of counterpart GPH staff, organizational development, facilitation of inter-agency partnerships, and collaboration with civil society organizations (CSOs), among others.

Now on its fifth and final year of implementation under the Partnership for Growth (PFG) intervention theme of USAID, FPI developed a work plan which focuses on edifying its previous works with the GPH that are geared towards achieving a broad-based, sustained, and inclusive growth. FPI has two project requirements in realizing its mandate: (1) strengthening GPH's tax effort, and (2) improving public expenditure management.

Performance Requirement 1: Tax Effort Strengthened. During the reporting period, FPI has achieved remarkable milestones in its simultaneous and ongoing activities with the GPH in the areas of tax administration and tax policy reform. A major highlight of this quarter is the enactment of Tax Reform for Acceleration and Inclusion (TRAIN) Package 1, the first of the five packages of the Administration's Comprehensive Tax Reform Program (CTRP).

For the *tax administration component*, FPI has made significant contribution in the developments of TRAIN Package 1 as the enacted TRAIN version (RA 19063) incorporated several tax administration-related measures. These measures include the simplification of tax filing requirements; registration requirements for self-employed individuals and professionals; establishment of electronic sales reporting system and electronic receipts; and resolving of gender-biased provision in the 1997 NIRC which gives the automatic right to the *father* as the *"proper claimant of additional exemption in respect to any dependent children, unless he explicitly waives his right in favor of his wife in the withholding exemption certificate"* despite the fact that the family code provides that the child custody is awarded to the mother when parents are living separately.

FPI also opened the quarter by playing a significant role in the facilitation, development, and implementation of new mobile and e-payment facilities of the Bureau of Internal Revenue (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 LandBank of the Philippines and Development Bank of the Philippines (DBP). These new online tax payment facilities will allow taxpayers to settle their tax obligations at any time through credit, debit, and prepaid cards from any banks. With these developments, revenues collected through BIR's ePayment and mobile payment facilities reached more than PhP 14.7 million from around 8,400 transactions.

Another important activity that was carried out at the beginning of FPI's Year Five is the improvement of BIR's audit effectiveness. International STTA Yassie Hodges went on assignment for an assessment of BIR's

current processes on risk-based audit case selection and process evaluation for taxpayer segmentation into small and medium categories. After these meticulous assessments, Ms. Hodges crafted a list of recommendations for process improvements and formally presented them to BIR Commissioner Caesar Dulay.

For the *tax policy component*, the passage of Republic Act (RA) 10963, also known as the Tax Reform for Acceleration and Inclusion (TRAIN) Act, was the key milestone during the reporting period. FPI has played a crucial role throughout its development, stakeholder engagement, and legislative debate stages. FPI's Tax Policy Reform team has also begun working with the DOF-SERG to design and formulate the second TRAIN reform package which focuses on lowering corporate income tax (CIT) and the fiscal incentives modernization.

FPI also continued its work on the Extractive Industries Transparency Initiative (EITI), which is also an Open Government Partnership commitment of the GPH for its 2017-2019 National Action Plan launched in August 2017. With the theme "Strengthening Transparency and Accountability in the Extractive Industries at the Subnational Level," FPI awarded five (5) civil society organizations (CSOs) EITI Grants Fund out of 16 grant applications. These CSOs will focus on conducting capacity-building activities that will introduce and strengthen EITI participation and implementation at the local level. For this grant cycle, FPI will focus on engaging small scale mining communities, their local governments, and other EITI-related national government agencies in dialogues that will provide opportunities for them to work together in the subnational implementation of EITI, such as the licensing of *Minahang Bayan* (People's Small Scale Mining Area) in municipalities and provinces which will enable the Government to monitor small scale mining activities.

Performance Requirement 2: Public Expenditure Management Improved. During the reporting period, the Project saw its process reengineering recommendations being realized in different stages of implementation. The most notable of these is the next budget preparation which will now use annual cash-based budget. Budget Secretary Benjamin Diokno said, "Shifting from obligation-based to annual cash-based budget is no small change. We are effectively changing the landscape of how government budgeting is done." Hence, agencies can only incur contractual obligations and disburse payments for goods delivered and services rendered and inspected within one fiscal year with an extended payment period of three months. The shift will make it easier to link budgets with physical accomplishments and programs can be matched with organizational outcomes that they produce.

Meanwhile, the following budget reforms are to be strengthened: Two-Tier Budgeting Approach (2TBA), Unified Accounts Code Structure (UACS), Program Expenditure Classification (PREXC), Disaggregation of lump-sum amounts to operating units, Results-based M&E. These have been piloted earlier and adopted in 2018 budget but clarifications continue to be issued.

Project activities for Public Procurement that will reengineer processes such as the Philippines Electronic Government Procurement System (EGPS) as well as those that focus on strengthening spending agencies' bid preparation processes were done in the quarter. The key concern when annual cash-based budget is implemented in 2019 is coping with delays in procurement. Other activities begun and implemented include: procurement trainings to multi-agency workshops and procurement process videos designed to help DBM and the National Government Agencies produce implementation-ready projects.

After assisting in the TOR preparation, the project carried out an assessment of qualified technical proposals for the Electronic Government Procurement System (EGPS). The result of this assessment helped the TWG in their evaluation and was a critical factor in their decision. DBM appreciated the inputs, comments, and recommendations of the project and requests further support down the line. There were two main areas tackled: 1) the assessment of qualified technical proposals for the EGPS and 2) the integration approach with the Budget Treasury Management System (BTMS). Potential implementation issues and anticipated next steps in the procurement process were also identified. Significant progress was made, based on the assessment, to complete the final selection of a qualified bidder for negotiations and prepare for the implementation phase of the project.

The project also did a review of the Unified Reporting System (URS) and gave recommendations for the short, medium, and long term in view of the transition years into a full Integrated Financial Management System (IFMIS) which, in the experience of other countries, could stretch up to six years. URS provides a facility for online data entry and submission of the various reports required from National Government Agencies and its Operating Units. It will be improved to fit system needs until the Budget Treasury Management System is fully in place.

The National Budget Operations Manual continues into its third version in view of anticipated changes in budget operations processes that the shift from obligation-based to annual cash-based budget will entail. This manual, even in transition as reforms are implemented, is an important reference document when gauging how the DBM processes changed and evaluating the impacts of these changes. The outputs of the *Writeshop* for the project committee that were meant to wrap-up the as-is processes incorporate improvements based on budget policies and reforms and decide on the continuity mechanism that was conducted were incorporated. An integration and finalization workshop for the third version of the manual is scheduled after the work is done on the three budget phases.

BACKGROUND

PROJECT GOALS AND OBJECTIVES

USAID contracted DAI to implement the FPI project in the Republic of the Philippines as part of the Partnership for Growth (PFG) initiative. The FPI project is intended to support the Philippines' expansion of public investment through higher tax revenue and public expenditure reforms. Through FPI, USAID supports efforts that facilitate gains in fiscal space and public investment that, in turn, spur increasing private domestic and foreign investment in the Philippines.

PARTNERSHIP FOR GROWTH (PFG)

With the joint commitment of the U.S. and Philippine Governments to transformational change embodied in the PFG, the Philippines has a rare opportunity to overcome the political obstacles that have long prevented it from attaining rapid, inclusive growth. Indeed, these forces are already beginning to produce results. Fueled by a surge in public investment, the Philippines growth rate in the third quarter of 2016 outpaced that of all its Asian neighbors, signaling a promising, but still uncertain, trajectory.

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

Working with and through existing government and donor initiatives is central to the FPI approach. The PFG agreement between the Philippine and U.S. governments provide both the foundation for USAID's ongoing engagement with the GPH and represents an explicit GPH commitment to improve fiscal management through improved spending efficiencies and increased tax effort. FPI evokes these initiatives to help garner broad-based support for the difficult reforms that are needed. The FPI team connects with and builds our work programs in conjunction with a wide array of ongoing and planned initiatives.

COUNTERPARTS

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

- Department of Finance
- Bureau of Internal Revenue
- Department of Budget & Management
- Bureau of the Treasury; and
- Other relevant agencies

PROJECT ACTIVITIES

PERFORMANCE REQUIREMENT 1: TAX EFFORT STRENGTHENED

OVERVIEW

Consistent with USAID's goals of ending extreme poverty and promoting inclusive sustainable growth, resilient and self-reliant democratic societies, the FPI project team continued to engage its counterparts in its efforts to support the Philippine Government realizing its fiscal policy reforms to establish a more inclusive and robust national economy.

An important part of FPI's work on assisting the GPH in strengthening its tax effort is the institutionalization of a Comprehensive Tax Reform Program. Both of FPI's tax policy and tax administration components played significant roles in the enacted version of CTRP's TRAIN Package 1 or the RA 10963. The TRAIN Act has incorporated several tax administration-related measures that were recommended by FPI. These measures include the simplification of tax filing requirements, registration requirements for self-employed individuals and professionals, establishment of electronic sales reporting system and electronic receipts, and resolving of gender-biased provisions in the previous National Internal Revenue Code of 1997.

On January 1, 2018, the TRAIN Act was fully implemented by the Government and is expected to generate Php 130 billion in government revenues of which, 60% will go to infrastructure programs; 27% will be allocated to social protection programs including the unconditional cash transfer to the 10 million poorest Filipino families, health, nutrition, and anti-hunger programs; and about 13% will be for military modernization. FPI has been very active working with the GPH, particularly with the Department of Finance, by providing technical assistance throughout the development of the TRAIN Law as well as in its public consultation campaigns.

FPI's crosscutting communications and outreach team has also started working with the Bureau of Internal Revenue (BIR) in their preparation for the TRAIN Act's implementation. They have started brainstorming with the Bureau's key communications officials for a Communication Integration Workshop which aims to develop effective communications strategies for the reforms.

FPI's mission also includes assisting the BIR to become a well-financed, modern, more efficient, and more effective tax administration that has adopted internationally accepted principles of self-assessment, voluntary compliance, and transparency. New online tax payment facilities were launched in October 2017 in collaboration with the LandBank of the Philippines 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. These developments have brought forth significant increase in BIR's collection through its electronic payment facilities.

Another important activity that was carried out at the beginning of FPI's Year Five is the improvement of BIR's audit effectiveness. International STTA Yassie Hodges went on assignment for an assessment of BIR's

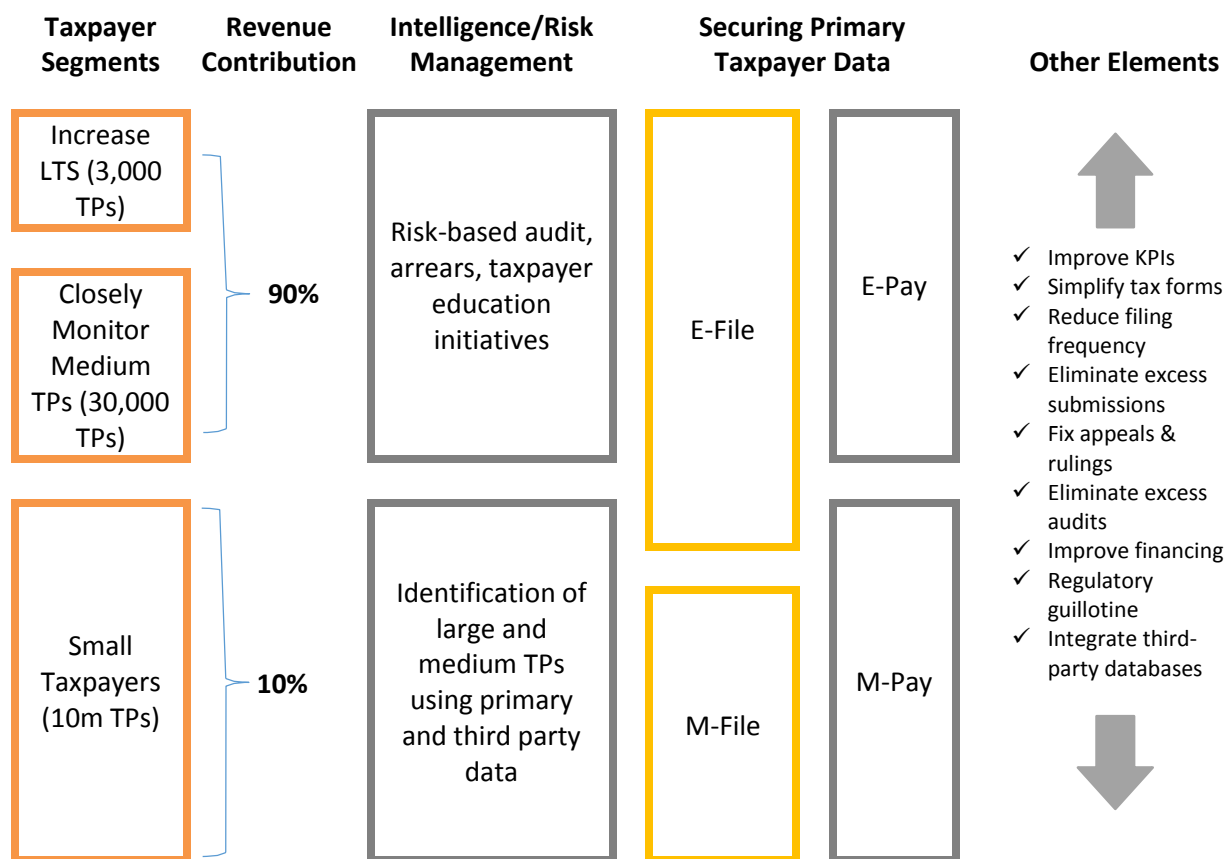
current processes on risk-based audit case selection and process evaluation for taxpayer segmentation into small and medium categories. After these meticulous assessments, Hodges crafted a list of recommendations for process improvements and formally presented them to BIR Commissioner Caesar Dulay.

FPI also continued its work on the Extractive Industries Transparency Initiative, which is also an Open Government Partnership commitment of the GPH for its 2017-2019 National Action Plan launched in August 2017. With the theme “Strengthening Transparency and Accountability in the Extractive Industries at the Subnational Level,” FPI awarded five (5) civil society organizations (CSOs) EITI Grants Fund out of 16 grant applications.

ADMINISTRATIVE EFFECTIVENESS IMPROVED

The USAID Facilitating Public Investment (FPI) project works in close collaboration with the Bureau of Internal Revenue (BIR) to support the Philippine Government’s initiative of improving its tax administration system to address revenue loss and improve fiscal transparency. FPI’s mission includes assisting BIR to become a well-financed, modern, more efficient, and more effective tax administration that has adopted internationally accepted principles of self-assessment, voluntary compliance, and transparency. Achieving these standards in tax administration would, in turn, make tax compliance less burdensome to taxpayers, as sound tax administration only requires taxpayers to submit the minimum amount of information that the tax administration actually needs, uses, and is able to process. Primary data should be submitted by taxpayers by electronic means (such as e-filing, e-payment, and e-registration) whenever practical to minimize unnecessary physical interactions between tax officers and taxpayers, thereby reducing the scope for potential corruption. FPI has and will continue to advocate strongly for the adoption of a more sophisticated taxpayer segmentation based approach to tax administration. FPI’s recommendations call for both expanding BIR’s Large Taxpayer Service (LTS) and the introduction of regional Medium Taxpayer Service (MTS) and High Net Worth Individuals (HNWI) units. The proposed MTS and HNWI units would require extending this dedicated coverage to a comparatively small number of taxpayers (up to 100,000), but would enable BIR to achieve effective administrative control over taxpayers accounting for 80-90% of current tax revenues. Finally, BIR’s performance improvements can best be achieved through the development of a strong intelligence function with access to the third party databases needed to sharpen its abilities to identify risky taxpayers for further audit, enforce collections, and take other targeted administrative actions. The FPI strategy is graphically summarized on the next page.

Graph 1. Selected elements of the FPI-recommended approach



Launch of the BIR-LandBank ePayment Service - Link.BizPortal

BIR and the FPI Project team have successfully finalized all prerequisites for LandBank's launching of online tax payment facility. Since 80% of over the counter (OTC) transactions of LandBank are related to BIR, this online tax payment facility is a major step in LandBank's move to cash lite business. As a result, LANDBANK account holders can now pay their taxes through the LandBank LinkBiz Portal, an alternative payment channel that allows taxpayers to pay their taxes via the internet. This will help address the hassle of queuing, especially during the tax season, and provides a safer and more convenient platform of paying government fees. Paying electronically is initially available for individual and non-individual taxpayers and tax agents who maintain Peso ATM Savings and Current Accounts with LandBank.

LANDBANK is planning to expand coverage and functionality of this payment facility and make it available for Bancnet-member banks and internationally branded cards as additional payment option for taxpayers.

LandBank's ePayment service is in line with its continuing efforts to streamline payment of government fees and as part of its compliance to Bangko Sentral ng Pilipinas' memorandum to transition from cash-heavy to cash-lite government transactions in its National Retail Payment System.

Launch of BIR-DBP PayTax Online.

Over 120 officials and representatives from the Bureau of Internal Revenue (BIR) national and regional offices, Department of Finance, Development Bank of the Philippines (DBP), private sector organizations, and the media participated in the official launch of BIR and DBP's "Pay Tax Online" service last October 19, 2017 held at the NTC Auditorium of the BIR National Office. BIR Commissioner Caesar Dulay emphasized that BIR will continue to explore and develop innovative technologies that will enhance the Bureau's taxpayer service. This event underscores a major milestone for the Philippine Government as it continues to improve its tax administration services, which is a key factor in enhancing fiscal performance and advancing the ease of doing business in the country.

e-Payments

In November, GCash, the credit card tax payment portal of Development Bank of the Philippines - PayTax, and the online tax payment portal of LandBank - Link.BizPortal have collected more than PHP 14.7 million in around 8,400 transactions. This is more than double total collection through GCash (around 7.3 million) in 2016.

Risk Management

The increased productivity due to greater use of risk-based audit techniques is one of those Year 4 Work Plan Activities that were postponed and is now being implemented under the Project's Year 5 Work Plan. This specific activity on improving audit effectiveness of the BIR started in September 2017 when the international consultant Yassie Hodges came on board. Her main assignment entails the assessment of the current processes that BIR utilizes for risk based audit case selection, process evaluation for segmenting taxpayers into medium and small categories, and crafting of recommendations for process improvements.

Tasks were aligned with major objectives set by BIR on the beginning of the mission:

1. Increase Revenue Collections
2. Expand the Tax Base
3. Enhance Overall Compliance.

Ms. Hodges explained to BIR's top management basics of Risk Management and the Risk Based Compliance Framework, covering best practices, what is the current situation regarding each area at BIR, and recommendations to BIR to optimize business processes.

The main bottleneck was identified as a lack of process ownership for the overall Risk Management which should cover both Compliance and Institutional Risk. FPI offered to BIR assistance with operationalizing a Risk Management Unit. The primary objectives of this unit is to focus on identifying potential risk to the revenue stream, presenting findings to the operational units for action, and monitoring processes to determine if actions taken has mitigated the risk. Two options were offered for positioning of Risk Management Unit:

- Option 1: The Planning and Management Service – the Management Division currently has a risk management component. As a result, it is recommended the designated Risk Management

- Division will focus on both Compliance and Enterprise/ Institutional Risk
- Option 2: A Risk Management Unit can be established reporting directly to the Deputy Commissioner Operations with a focus on Compliance Risk.

Option 1 is the more preferred option because Planning and Management Service is directly under the Commissioner and should take care of both Compliance and Institutional Risk.

Since Ms. Yassemine Hodges was not available to continue the assignment, FPI identified and engaged a new consultant, Mr. John Hayes, to continue work on Risk Management. The assignment of Mr. Hayes will leverage previously identified opportunities to strengthen the Bureau of Internal Revenue (BIR) compliance activities by developing its risk management capacity. While a risk management division does exist within Planning and Management Services, its work is institutionally focused and there appears to be little use of risk management techniques to manage and improve compliance.

The objective of the assignment is to assist BIR to develop a structured approach to risk management and implementing a risk based compliance framework. It is intended that the work be carried out in 4 assignments over the period from December 11, 2017 to May 31, 2017.

Several presentations were made to the Commissioner, Deputy Commissioners, and Assistant Commissioners on:

- Key risk management principals and processes
- How these principals and process could be introduced in BIR
- Indicative BIR risk management structure
- Members of the Risk Management Committee
- Establishment of a project implementation team

BIR supports all proposals to implement risk management and has agreed to establish the Risk Management Committee (RMC) and project implementation team by the time of the next mission of consultant in mid-January.

Discussions were held with audit services within the Operations Group and Large Taxpayer Service on existing case selection processes and audit outcomes. Business plans, management information reports and audit statistics will be provided by mid-January.

A draft structure has been developed and communicated with BIR. Draft roles and responsibilities have been developed for RMC, the Risk Management Unit (RMU) in Project and Management Service (PMS), and the Risk Management Section (RMS) in Operations Group (OG).

BIR Communications Technical Assistance

The FPI Communications and Outreach Team attended a series of meetings with BIR's key communications officials representing the Client Support Service (CSS), Operations Group (OG), Information Systems Group (ISG), and the Project Management and Implementation Service (PMIS) to lay down the technical support the Project Team can provide the Bureau based on the official request from the BIR Commissioner Caesar Dulay. Deputy Commissioner Lani Cua-David (ISG), Assistant Commissioner Marietta Lorenzo (PMIS), and HREA Beverly Milo (OIC for CSS) we constantly engaged and updated by the FPI Team throughout the series of planning meetings on the next steps of technical assistance on BIR's communications.

Internal Communication is the immediate concern because the BIR must align all existing and anticipated reforms in the systems and processes of the Bureau. BIR officials and staff also need to have a common language and knowledge on tax administration reforms and other BIR protocols.

The FPI Communications and Outreach Team and the BIR Communications Team agreed to set a two-day Communications Integration Workshop (CIW) at the start of 2018 to come up with a detailed tactical (short term) and strategic (long term) communications plan. The initial objectives of the workshop are the following:

- Provide a refresher course on Formulating an Effective Communications Plan;
- Learn from the best practices of various divisions/teams involved in BIR's communication activities;
- Assess the existing communications and outreach materials of BIR and identify gaps and areas which can be improved or developed; and
- Come up with a communications team organizational structure

The workshop also intends to help BIR align its communications plan with the upcoming reforms brought by the enactment of the TRAIN Package 1 which will affect the whole tax administration of the Bureau.

TRAIN, Republic Act 10963

On December 19, 2017, the Tax Reform for Acceleration and Inclusion (TRAIN) was signed into law by President Duterte. The first comprehensive tax policy reform in the Philippines in 20 years.

TRAIN Package 1, the first of a series of 5 tax packages, is expected to increase government revenues by 0.7% of GDP in 2018, increasing further to 1% in 2020, and finally by 0.8% in 2022. Moreover, TRAIN will reduce the tax burden of over 90% of wage earners, broaden the VAT base, adjust upward outdated tax rates on tobacco, oil products, mining and coal, introduce taxes on diesel, sugar-sweetened beverages, and cosmetic procedures. Through TRAIN Package 1, relief amounting to PhP 2,400 for the first year and PhP 3,600 for the next 2 years, will be provided to about 10 million families that are anticipated to be affected by the temporary increase in inflation.

The table below summarizes the impact of TRAIN:

Summary of Impact (In billion PhP)	2018	2020	2022
Personal Income Tax – adjustment of brackets and rates	-138.2	-166.7	-201.2
Self-employed and Professionals – simplified regime	-11.5	-13.8	-16.7
VAT – expansion of base	37.2	58.2	45.9
Oil	55.2	120.2	124.4
Automobile	14.4	16.2	18.2
Sugar-sweetened Beverages	54.5	61.5	68.8
Mining and Coal	3.9	9.3	10.7
Tobacco	4.3	7.9	7.0
Other tax	62.5	73.0	96.9
Other non-tax	38.9	34.0	41.4
% to GDP	0.7%	1.0%	0.8%

The additional revenues generated by TRAIN are critical to fulfilling an increase in infrastructure spending dubbed as the “Build, build, build” program and in maintaining a sustainable budget deficit level projected at -3.1% of GDP in 2018, -3.4% of GDP in 2020, and -3.4% of GDP in 2022. To instill fiscal discipline, the proceeds of the reform are earmarked for infrastructure spending (70%) and social spending (30%).

FPI provided holistic technical assistance consisting of impact analyses of the various proposals, communications support with nation-wide roadshows, stakeholder surveys and focus-group discussions, and provided just-in-time technical assistance to the Department of Finance’s SERG team under USEC Chua.

Tax Administration recommendations of FPI incorporated in TRAIN Package 1:

1. Simplified filing requirements

a. Filing and payment of Percentage taxes

Filing and payment of Percentage Taxes are reverted to quarterly – in Section 128 Exceptions which allowed Commissioner to change filing and payment frequency are deleted from NIRC.

b. Filing and payment of Withholding Taxes

Filing and payment of Taxes Withheld at Source are reverted to quarterly – in Section 58 provisions which allowed Commissioner and Secretary of Finance to change filing and payment frequency are deleted from NIRC. However, regarding Withholding on Wages, provision allowing Commissioner to require employers to pay or deposit the taxes deducted and withheld at more frequent intervals, is not removed.

c. Filing and payment of Value Added Tax

During the first five years of TRAIN, filing of VAT returns will be quarterly with monthly payments, but after five years, both filing and payment will be done on a quarterly basis.

The Section 114 of NIRC on Return and Payment of Value Added Tax is amended in such a way “that beginning January 1, 2023, the filing and payment required under this subsection shall be done within twenty-five (25) days following the close of each taxable quarter.”

2. Simplified Registration Requirements of Self-Employed Individuals and/or Professionals.

- Section 236 of NIRC is amended in such a way “that the Commissioner shall simplify the Business Registration and Tax Compliance Requirements of Self-Employed Individuals and/or Professionals.”

3. Electronic Sales Reporting System

- This shall be implemented under TRAIN but is postponed for 5 years. It is dependent on the establishment of a system that’s capable of storing and processing the required data. This provision is limited to exporters and large taxpayers. (Section 237-A)

4. Electronic Receipts or Sales or Commercial Invoices

- This shall be implemented under TRAIN but is postponed for 5 years. It is dependent on the establishment of a system that's capable of storing and processing the required data. This provision is limited to exporters and large taxpayers. (Section 237)

5. Gender Issue

- The gender issue from the previous Tax Code where "the husband shall be deemed the head of the family and proper claimant of the additional exemption in respect to any dependent children, unless he explicitly waives his right in favor of his wife in the withholding exemption certificate" is resolved. All related statements on this are removed from the NIRC as non-applicable since there are changes in allowable deductions.

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 the academe, private sector, civil society, and the FPI team.

Package 2 promises to lower the corporate income tax 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 will also strengthen the government's ability to detect and deter abuses coming from related party transactions. Primary among this is to provide a working definition of related parties, for the purpose of implementing the tax law.

Beginning in December 2017, FPI started assisting the DoF with 3 key studies including a cost-benefit analysis, estimates of leakage from abusive related party transactions, and the tax expenditure accounts estimation.

Corporate Taxation and Fiscal Incentive Rationalization

FPI continues to support the development of the tax reform Package 2 on corporate taxation and fiscal incentives rationalization. The direction of this reform package follows 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 is scheduled for early November to discuss progresses in Package 2. Just as in Package 1, FPI will participate by providing key technical inputs to Package 2. The DoF plans to submit the reform package within the first quarter of 2018.

Tax Expenditure Accounts

A mission was held in October to help the government expand its tax expenditure accounts that are already being published as part of budget documents. As noted by the FPI team, foregone revenues from VAT is likely to be among the largest sources of tax expenditures in the Philippines, owing to many provisions found in numerous laws exempting various individuals and groups from the coverage of the tax.

The team identified data sources and provided estimation procedures. At the moment, the Department of Finance Research and Information Office is requesting the data from the Bureau of Internal Revenue and the Bureau of Customs.

The next mission is envisioned to happen within the first quarter of 2018, when data will be available.

Philippine Tax Academy

FPI engaged the services of two consultants to develop the curriculum of the BIR and the BoC/BLGF. The consultants have begun to engage all three Agency-counterparts with the goal of holding trainings already under the Tax Academy early in 2018. The first batch of trainings will be held in conjunction with the official launch of the training facility in February 2018.

Extractive Industries Transparency Initiative (EITI)

Roundtable Discussion on EITI

FPI conducted a Roundtable Discussion and a CSO Consultative Meeting on October 27, 2017 about USAID's EITI Support through FPI since the project expanded its initiative on fiscal transparency and accountability on the extractive industry in 2015. The Department of Finance Assistant Secretary and Philippine EITI Chairperson Maria Teresa Habitan attended and delivered a Keynote speech to the event and was followed by a Message of Support from USAID through the OEDG Deputy Director Jenna Diallo. Jennifer Anderson Lewis, the Senior Governance and Rule of Law Advisor of the USAID Washington's Center of Excellence on Democracy, Human Rights and Governance (DRG), also participated in the roundtable discussion and shared her experience in the EITI implementation in other countries receiving USAID support.

The Extractive Industries Transparency Initiative (EITI) is a global standard that promotes open and accountable management of natural resources. It seeks to strengthen government and company systems, inform public debate, and enhance trust among industry players.

The two-part event on the EITI's main objectives were to (1) learn from the milestones and challenges of the past USAID EITI CSO grantees in realizing the goals of localizing EITI implementation in the Philippines and (2) identify the gaps where USAID's technical support on EITI can further be developed or concentrated for the next EITI funding cycle.

Around 40 individuals attended the event representing the FPI Project Team, USAID, past EITI CSO Grantees, DOF, DBM Open Government Partnership Secretariat, and Open Government CSO advocates.

EITI Analytical studies

Statements of Work (SoW) for the EITI analytical studies which were approved by the USAID/FPI's COR provide that the researcher covers the following areas of concern to promote transparency and accountability (T&A) in the extractive sector at the sub-national level:

- Review of community agreements on mining
- Impact of transparency and accountability initiatives on the extractives sector and host

- communities
- Participatory local legislation, policy, and planning processes at the LGU level
- Conduct of people-centered exploration and extraction operations, that are gender-sensitive and address conflict risks and environmental and social sustainability
- Evaluate the rehabilitation efforts in abandoned mines.

CSO Grant Application and Selection

Of the 16 grant applications that were received and initially screened by the FPI Grants Coordinator, only seven (7) received merit approval for evaluation by the Selection Committee of which six (6) met the minimum number of points (60) and were included in the financial review.

EITI's Grants Selection Committee for RFA 004 which was convened on November 7, 2017 to evaluate and score the technical proposals was composed of the following FPI project personnel as members: Bruce Hutchins, Jem Armovit, and Raelita Legaspi. The committee evaluated the proposals based on the following criteria:

- Minimum 3-year track record in undertaking similar projects (20 points)
- Organizational capability to undertake the tasks (20 points), with the following indicators: project team composition and qualifications, and current reach of organizations to network with IPs
- Quality of proposal as demonstrated by their understanding of the problem (10 points), the appropriateness of methodology to the Scope of Work (15 points)
- Feasibility of plan given timeframe and plan to disseminate outputs (15 points)

EITI Grants Awarded to CSOs

The FPI Finance and Operations Manager, together with the Grants Coordinator, conducted technical and financial reviews as part of the pre-award responsibility determination. The five CSO applicants that were awarded EITI grants are the following:

1. BAN Toxics, Inc. - Southern Leyte
 Project Title: "Project CLEAR (Creating Local Engagements in ASGM communities through Research and Capacity-Building)"
 Proposed project location: municipalities of Jose Panganiban, Labo and Paracale, province of Camarines Norte; and Pinut-an, San Ricardo, province of Southern Leyte
 Grant amount awarded: USD 65,177 (Php 3,258,872)
2. Jaime V. Ongpin Foundation, Inc.: - Benguet
 Project Title: "Strengthening Multi-Stakeholder Participation in Small Scale Mining Governance in Benguet"
 Project location: 13 municipalities of Benguet Province
 Grant amount awarded: USD 76,326 (Php 3,816,366)
3. Concerned Citizens of Abra for Good Government (CCAGG) - Abra
 Project Title: "Building-up for Transparency and Accountability Initiatives on Mining in Abra and Kalinga Provinces"

Project location: municipalities of Licuan-Baay and Malibcong, province of Abra, and 3 IP communities (Banao tribe) of Balbalan, province of Kalinga
Grant amount awarded: USD 54,311 (Php 2,715,513)

4. The Roman Catholic Bishop of Kabankalan, Inc. – Negros Occidental

Project Title: “Augmenting Government’s Environmental Protection Mandate for the Extractive Industry in Southern Negros Occidental”

Project location: Municipalities of Hinoba-an and Cauayan, Cities of Sipalay and Kabankalan in the province of Negros Occidental.

Grant amount awarded: USD 36,593 (Php 1,829,652)

5. Foundation for the Development of Agusanons, Inc.(FDAI),

Project Title: “Caraga Mining Governance Project: Empowering Local Stakeholders in Managing Mineral Resources Of Agusan Del Sur, Surigao del Norte and Surigao del Sur Provinces”

Project location:

- Province of Agusan del Sur
- Municipal Government of Rosario, Agusan del Sur
- Province of Surigao del Sur
- Municipal Government of Carrascal, Surigao del Sur
- Province of Surigao del Norte
- Municipal Government of Claver, Surigao del Norte

Grant amount awarded: USD 43,694 (Php 2,184,710)

The proposed projects will run from December 1, 2017 to May 31, 2018.

PERFORMANCE REQUIREMENT 2: PUBLIC EXPENDITURE MANAGEMENT IMPROVED

PERFORMANCE BUDGETING CAPACITY OF DBM AND LINE AGENCIES STRENGTHENED

To facilitate gains in fiscal space, FPI is focused on institutionalizing the Philippine Government's Public Expenditure Reforms to improve expenditure management. For this reporting period, the following activities were done to strengthen the performance budgeting capacity of DBM and line agencies:

1. Technical Assistance to DBM on Public Procurement

a. Assessment of Qualified Technical Proposals for the Philippines Electronic Government Procurement System

John Yates, the International Short Term Technical Assistance (ISTTA) Consultant from DAI successfully delivered this to DBM and was requested by officials to return for follow ups. The purpose of this activity was to provide input on the procurement process; assess the evaluation of qualified proposals, specifically including input on contractor clarifications; and provide recommendations for implementation of EGPS. The procurement process for the new EGPS was well underway when the assessment of the qualified technical proposals was conducted. The procurement process included two previous tendering processes that resulted in no qualified bidders submitting proposals. Therefore, a sense of urgency existed to identify qualified bidders and select a contractor for negotiation. This also needs to be completed before the end of the calendar year, based on the project's budget obligation. With two qualified bids received on December 1, 2017 by DBM, the assessment of qualified technical proposals for EGPS was able to proceed.

Before the assessment, the TWG conducted the initial evaluation of the qualified bidders' proposals. The initial evaluation was extremely close at 67.70 for the Comclark consortium versus 66.58 for the Nextix proposal. However, the Nextix consortium had superior scores in key areas, including Firm Qualifications, Work Experience, and Modules/Functionality Available. On the other side, Comclark had better scores for the Oral Presentation/Proof of Concept, and Qualifications of Personnel. In regard to the Oral Presentation/Proof of Concept, it was used to adjust scores for Modules/Functionality Available, but still favored Nextix. However, for the Oral Presentation/Proof of Concept, the score was higher for the Comclark consortium without any explanation provided. Therefore, notes from the Oral Presentation/Proof of Concept were requested to justify the score, since it had a material impact on selection. In addition, the Qualifications of Personnel included formal education and always gave a higher score, based on higher levels of formal education regardless of the requirements of the position. While the criteria could not be changed by the TWG, they did seek clarification on personnel qualifications, as some were noticeably low. With input from the International Public Procurement Specialist, the TWG asked for clarifications from the Comclark and Nextix consortia and re-evaluated the proposals, accordingly, to make a final selection for negotiations. General comments addressing the procurement process, selection criteria, and potential issues for project implementation was given by FPI. Bidder Specific comments based on the technical proposals were also provided in the assessment. Clarifications were sought from the bidders. All these were relayed to counterparts who upon receipt of clarifications did a re-evaluation. The Assessment of Qualified Technical Proposals for the Philippines Electronic Government Procurement System was successful in terms of providing inputs and clarifications to the TWG for finalizing the contractor selection. Significant input and advice as well as key recommendations

were provided throughout the assessment. In addition to key recommendations, the adviser provided input to be shared with the selected contractor to address potential implementation concerns. These concerns need to be discussed with the selected contractor during the negotiation phase of the procurement process. DBM requested FPI for further assistance in assessing the contractor's inception report in the next quarter.

b. EGPS Integration with the Budget Treasury Management System (BTMS)

Integrating the Electronic Government Procurement System with the BTMS will increase efficiency in the procurement and payment processes, improve the accuracy of financial records, and reduce errors that need to be corrected in these systems. This is a critical requirement for DBM, but integration of procurement information systems with financial management systems is a challenge for DBM who sought FPI technical assistance for a full systems integration. The main challenges revolve around tracking commitments and obligations, as this information originates in the procurement system, but creates records that need to be captured in the financial management system. DBM has made the integration of EGPS and BTMS a priority. This requirement was clearly stated in the functional requirements for the EGPS RFI. DBM asked the International Public Procurement Specialist of FPI to review the integration requirements, as well as the integration approach proposed by the qualified bidders. Due to the complexity of integrating procurement and financial management systems, the issue must be thoroughly addressed during requirements gathering and system design, and then close management oversight will be required during implementation, as challenges may crop up. Systems integration represents one of the key project risks for the EGPS project.

For systems integration, there are two main approaches that would be appropriate for EGPS and BTMS: (1) database integration and (2) application programming interface integration. Database integration is an older approach, and often organizations prefer a more modern approach. Integrating at the database level requires extraction of data from one system, transformation of information to match the informational and formatting requirements of the receiving system, and loading of the data into the receiving system. This process works forwards and backwards among integrated systems. There are risks to this approach for integration, including damaging data integrity, but this approach is also very flexible and for this reason is still commonly in use. The other main approach for EGPS and BTMS, application programming interface (API) integration, involves using programming interfaces for systems to communicate with each other and exchange information. The system APIs allow web services using the Simple Object Access Protocol (SOAP) to call objects and request data in a response to support integration. While API integration is generally preferred, it requires well designed and implemented APIs to function properly. If an API does not support providing needed information, then the API must be reprogrammed. Additional programming creates risk and the project should try to avoid over customization. For this reason, the APIs for both the EGPS and BTMS need to be carefully evaluated before pursuing this approach. In summary, the integration approach for EGPS and BTMS will depend on the evaluation of existing capabilities of the systems before a decision on approach can be made and will need to be closely monitored during systems implementation.

c. Training on Project Costing and Specifications Writing

FPI engaged an International Consultant who will develop the training design and content for a three-day training for two batches of 40 participants scheduled this January 31-February 2 and February 8-10. During

the period, the international consultant needed to be booked during the quarter as arrival in Manila was January 19. Design of the training has commenced during the quarter as consultations with participants and local procurements specialist continue.

The expected participants for the 1st batch will come from the Government Procurement Policy Board-Technical Support Office (GPPB-TSO) and member agencies of the GPPB. Thus, it will be a diverse group of procurement personnel with varying concerns and will likely be experienced in procurement and have high level knowledge on local procurement policies. On the other hand, the expected participants for the 2nd batch will come from the PS-DBM's Procurement Groups. The group is composed of rank and file personnel who are directly involved in the procurement activities in the PS-DBM.

d. Promotional video on the Government Procurement Reform Act (GPRA)

DBM Secretary Benjamin Diokno requested support in DBM's information drive for faster procurement. This was dubbed "GPRA Works!" to promote the Government Procurement Reform Act (RA 9184) and its IRR. The service provider engaged by FPI is currently developing the audio-visual presentation promoting the benefits of the GPRA and the best practices that were implemented by the Bases Conversion and Development Authority. The 3- to 5-minute video was procured in this period and filming started in December. The said AVP will also be used in the upcoming Open Government Partnership Regional Dialogues which will take place in key cities all over the Philippines during the first quarter of 2018.

2. Rationalization of Public Financial Management Systems

The workshop on the Rationalization of Public Financial Management Systems with the Budget and Treasury Management System (BTMS) aimed to identify the public financial management systems being implemented, developed, or planned by the government of the Philippines, and discuss the plan of action as it relates to BTMS. The systems presented are to be evaluated on whether or not they will be integrated to BTMS to achieve the Financial Management Information System or will only be interfaced. The communication between organizations is critical in avoiding redundant systems or projects being funded.

The table below shows the Public Financial Management Functions Matrix:

PFM Functions in BTMS	NGCDS	TRAMS	URS	eNGAS/eBudget	Activities/Remarks
Budget Management					
1. Appropriations Mgt. – define which budget line is for comprehensive release, etc.	X	X	Y – functions to be integrated to BTMS	Y – account the utilization of the allotment; manual encoding	DBM and COA to discuss further details
2. Allotments Mgt.	X	X	Y	Y	DBM and COA to discuss further details
3. Monthly Disbursement Program (MDP) – submitted by agencies as basis of NCAs	X	X	Y	X	
4. Cash Allocation	Y – referring to NCAs	Y – total NCAs on a per acct and per operating unit	Y	Y – monitor NCAs received and the utilization by agency and by MDS acct	BTMS Steering Committee to set meetings to discuss further details
Commitments Management					
1. Commitment Process – reserve a part of appro to pay for something, but not binding	X	X	X	Y – eBudget – temporary earmarking of obligations	BTMS Steering Committee to set meetings to discuss further details
2. Obligation of Funds – after award of contract is made	X	X	Y	Y – eBudget – records actual obligation and post in the registry	BTMS Steering Committee to set meetings to discuss further details
Payments Management					

PFM Functions in BTMS	NGCDS	TRAMS	URS	eNGAS/eBudget	Activities/Remarks
1. Mgt. of Gov't Suppliers	X	X	X	Y	
2. Receipt/Return & Verification of Goods or Services	X	X	X	Y	
3. Processes Relating to Personnel Services	Y—dashboard reporting by allotment class (actual checks and ADA)	Y— reporting by allotment class culled from MDS reports (cleared checks and ADA)	Y— reporting by allotment (total disbursement)	Y—eNGAS+eBudget - reporting by object of expenditure (actual disbursement)	
4. Processes Relating to MOOE	Y – dashboard reporting by allotment class (actual checks and ADA)	Y – reporting by allotment class culled from MDS reports (cleared checks and ADA)	Y – reporting by allotment (total disbursements [1])	Y – eNGAS+eBudget - reporting by object of expenditure (actual disbursement)	
5. Processes Relating to Capital Outlay	Y – dashboard reporting by allotment class (actual checks and ADA)	Y – reporting by allotment class culled from MDS reports (cleared checks and ADA)	Y – reporting by allotment (total disbursements)	Y – eNGAS+eBudget - reporting by object of expenditure (actual disbursement)	
6. Bank Reconciliation – match information from	Y	X	X	Y	

PFM Functions in BTMS	NGCDS	TRAMS	URS	eNGAS/eBudget	Activities/Remarks
system with those from banks					
7. Other Payments	Y – dashboard reporting (actual checks and ADA)	Y – financial expenses (cleared checks and ADA)	Y – reporting by allotment (total disbursements)	Y – eNGAS+eBudget - reporting by object of expenditure (actual disbursement)	
Receipts Management					
1. Tax Revenue Collection by BIR, BOC, and all other revenue collecting agencies	Y – but limited to NCO (sourced from daily agency reports)	Y – limited to collections from BIR and BOC through AABs and AGDBs (based on daily source data)	Y – (sourced from quarterly agency reports)	Y – based on ORs and reports submitted by all tax revenue collecting agencies by nature or source; and generate collections of taxes by type of taxpayer	Concern on possible discrepancy after reconciliation.
2. Non-Tax Revenue Collected by other agencies	Y	Y – collection from all other agencies through AGDBs whether tax or non-tax	Y – (sourced from quarterly agency reports)	Y – based on ORs and reports submitted by all non-tax revenue collecting agencies by nature or source	
Cash Management					
1. Maintenance of Bank Account Data	Y – maintenance of 4,700 clearing accounts linked to agency codes	Y – maintenance of 4,700+ clearing accounts	X	Y – eNGAS – maintenance of subsidiary ledgers per bank account per agency and per fund	

PFM Functions in BTMS	NGCDS	TRAMS	URS	eNGAS/eBudget	Activities/Remarks
2. Aggregate Cash Receipts and Disbursements	Y – reporting filter	Y – separate reports for receipts and disbursements	Y – separate reports for receipts and disbursements	Y – eNGAS	
3. Bank Reconciliation	Y – for discrepancies on daily collections only (i.e., agency vs bank)	X	X	Y – eNGAS – but does not generate bank reconciliation statement	
4. Cash Flow Forecasting	X	X	X	X	BTr identified need
5. Mgt. of Cash Balances	Y – reports only	X	Y – FAR 4	Y – based on the schedules/subsidiary ledgers	
Property, Plant & Equipment					
1. Acquisition of PPE	X	X	X	Y – eNGAS – require the details per PPE item	
2. Disposal of PPE	X	X	X	Y – eNGAS – require the details per PPE item	

PFM Functions in BTMS	NGCDS	TRAMS	URS	eNGAS/eBudget	Activities/Remarks
3. Transfer of PPE	X	X	X	Y – eNGAS – require the details per PPE item	
4. Periodic Functions of PPE	X	X	X	Y – eNGAS – require the details per PPE item	
5. Improvement & Maintenance of Property, Plant & Equipment (PPE)	X	X	X	Y – eNGAS – require the details per PPE item	
Accounting & Fiscal Reporting					
1. Legal Framework – follows the GAM, PPSAS, UACS, EO 292, and GAA	Y – for UACS only	Y – enhancement planned for UACS compliance	Y	Y	
1.1 Compliance with PREXC (FY2018) and MFO/PAP (FY 2017)	X	X	Y	Y	Identify timelines when the systems can comply with this
2. Instrument used for recording transactions in books	Y – as source of data for BTr accounting system (as oversight)	Y – source data only	Y – for allotments and disbursement authorities	Y – through Journal Entry Voucher, ORS, and required supporting documents	
3. Accounting Entries in Books	Y – as source of data for BTr accounting system (as oversight)	Y – source data only	X	Y	
4. Process of Adjusting Entries	Y	Y – source data only	X	Y – through Journal Entry Voucher, ORS, and	

PFM Functions in BTMS	NGCDS	TRAMS	URS	eNGAS/eBudget	Activities/Remarks
				required supporting documents	
5. Periodic Function – closing of accounts per end of month or year	Y – only generate reports for month, quarter, and year	Y – source data only	X	Y	
6. Fiscal Reporting	Y – input to the BTr accounting system (as oversight)	Y – source data only	Y – FAR 1	Y	

FPI has identified the next steps as follows:

1. Identify other agencies that may be operating its own or planning to develop its own PFM system
 2. Identify agency manual cashiering systems that can use the Receipts Management module of BTMS (for non-tax only)
 3. COA to identify other internal control mechanisms that are not present in the BTMS
 4. BTr to identify the extent of roll out necessary for the National Government Collection System (NGCS) – 1st Quarter of 2018
 5. BTMS Steering Committee to develop work plan for the rationalization of PFM systems
 6. BTMS Steering Committee to set meeting with BIR and BOC to determine if their systems can accommodate UACS compliance
 7. DOF to clarify status of the planned PhPay to the BTMS Steering Committee
- a. Unified Reporting System (URS) Review and Recommendations

Upon the request of DBM, FPI did a review of the Unified Reporting System (URS) which provides a facility for online data entry and submission of the various reports required from National Government Agencies and its Operating Units. The review was based on presentation delivered by DBM's URS Team and interviews with team members. The current number of users is around 10,000, but expected total number is around 20,000, in the case were all anticipated Departments/Agencies and their units are enrolled and registered.

Based on monitoring reports, the maximum number of concurrent users is around 300. The main issues mentioned by the IT team responsible for URS are: Connectivity, Training, Compliance, and Performance (slowdown of the system during deadlines). On the other hand, the main issue pointed by DBM Management is performance of the system. URS provide to users an option to generate consolidated report for the Department/Agency, summarizing data of all units of that agency based on several criteria. If these heavy, long running reports are executed during the peak time, performances of system will be surely affected.

Long-term solution-The best possible solution is to fully implement integrated financial management information system (IFMIS) in all National Government Agencies. All required data should be entered only once in integrated system and used to generate all needed reports. DBM is heading in this direction but full implementation of its Budget Treasury Management System will require a lot of time.

Mid-term solution-Currently, URS is trying to replicate layout of existing (paper and Excel table) reports defined by DBM. There is a lot of redundant data required by two or more different report. DBM is in the process of consolidating data requirements to eliminate duplicates and reduce effort required by end-users to accomplish requested reports. But, in both cases users have to key-in required data. Most Department/Agencies are using some sort of accounting software for every day operations and data requested by DBM is either already in the system or can be produced. In that way, time needed to accomplish the report will be reduced, as well as the number of errors done through manually encoding data in URS. DBM needs to define file format and data structure of data required to be submitted by agencies. The requested data can be extracted automatically from the accounting software of the agency,

validated and submitted to the DBM in XML or CSV format.

Short-term solution – the following immediately implementable solutions were recommended:

Improve performance of the system.

If DBM has a license for Oracle Enterprise Manager (OEM), logs from OEM could be used to analyze performance of the database. OEM has a tool – Automatic Database Diagnostic Monitor (ADDM) – which can be used as an initial step in pinpointing SQLs and can contribute to high locking contention. Another potentially useful tool, AWR (Automatic Workload Repository), is a built-in repository (in the SYSAUX tablespace) that exists in every Oracle Database. At regular intervals, the Oracle Database makes a snapshot of all of its vital statistics and workload information and stores them in the AWR. AWR reports can also provide valuable information about potential problems in the database and what should be fixed in order to improve the performances.

Separate Reporting Database.

Consolidated reports are heavy and could hinder overall system performances. There is no prescribed window for generating consolidated reports and users can run these reports at their discretion. Consolidated reports are long running and affect transactions performance. One solution to fix this issue is to separate the reporting database, which will remove locking contention from the transactional database. The reporting database can be a straight copy of transactional database, simply using delayed snapshots, which will not interfere with standard production transactions.

The reporting database can have a separate indexing strategy to support the reporting usage scenarios. The production database should have very carefully balanced indexes (indices) in order to avoid unnecessary overhead caused by updating indexes during post/delete/update transactions. Usually, the production database is highly normalized in order to ensure that data is stored in one place only. On the other hand, pre-joined, de-normalized table structure is more appropriate for the Reporting database to support super-fast queries.

The production and reporting database can be hosted on the same server or even the same instance in a separate database it can be used if resource utilization (CPU/memory/IO) is still on an acceptable level. If resource utilization is high, existing hardware can be upgraded or the reporting database can be moved to another server.

Implementation will depend on Oracle license used by DBM.

Possible options are: Physical Standby Database (redo apply), Logical Standby Database (SQL apply), Simple Replication (using snapshots) or Oracle Streams (Replication). Further investigation needs to be done in order to select the best option.

Training.

Create video tutorial covering standard functionalities of URS. Identify the most important needs and based on those needs, create “How-To” video tutorials.

Improve Compliance.

There are two different categories regarding compliance: compliance of all users expected to enroll and register on URS and compliance of already registered users. For the first category, URS should be able to produce a report containing all unregistered but mandated users for handling by DBM concerned officers. For the latter category, already registered users who failed to submit by the deadline should be handled by automatic notification from URS. The system contains e-mail addresses of all registered users and the schedule of all required reports to be submitted by users. On prescribed time before the deadline, URS should automatically send an advance warning to users who have not submitted yet. Also, users who failed to submit the report before the due date should receive an automatic notification from URS on non-compliance.

b. Budget Treasury Management System (BTMS) Manual

DBM also requested the project to update and revise The Budget Treasury Management System (BTMS) Manual in plain English, similar to the Budget Operations Manual format. The current version of the BTMS manual is highly technical being an IT user's manual.

The BTMS is an integrated, accurate, modern, reliable, and secure information system for the government's public financial management operations. It is essential for the attainment of a sustainable government resource planning solution, as it is adaptable to reform and modernization.

The proposed BTMS Manual content presentation sample is shown below.

Sub-process 1	PURCHASE REQUISITION	
Inputs	Procedures	Outputs
Purchase Requisition Form	1. Navigate the Purchase Requisition Menu	Goods or Services
	2. Create a Purchase Requisition	
	3. Review Purchase Requisition	
	4. Temp Save Purchase Requisition	
	5. Copy Purchase Requisition	
	6. Generate Purchase Requisition Form	
	7. View the Commitment related to Purchase Repulsion	
Insert Core System 1, Sub-Process 1 Flow Chart here		

3. Budget Operations Manual

The last Budget Operations Manual was developed back in 1995. Over the years, DBM has evolved and developed new concepts, techniques, and procedures to make budgeting an increasingly effective tool management in directing and controlling the budgetary and related fiscal affairs of the government.

The updated National Government Budget Operations Manual is a collaborative effort between the professional experts of the Department of Budget and Management and FPI. The manual reflects the goal to standardize and establish the framework for strengthening policy-based budgeting. This Budget Operations Manual serves the purpose of facilitating a rational and effective allocation of government

resources with a common language, standard procedures of preparing budgetary requests, and reporting performance. Moreover, to espouse the recommendations made in the previous business process reviews, the reengineered processes are incorporated into the manual.

DBM Secretary Benjamin Diokno assigned a Budget Operations Manual Committee to ensure the quality production of this Budget Operations Manual as a technical evaluation tool via the Department Order 2017- 1 issued. The Committee consists of a Steering Committee (SC) and a Technical Working Group (TWG). The SC leads the preparation, development, and maintenance of the Manual. Undersecretary Tina Rose Marie Canda chairs the SC. The TWG is divided into 4 teams with Directors, Division Chiefs and senior specialists from the Budget Operations Group. DBM Regional Directors from NCR, IV-A, and IV-B serve as coordinators and SC members.

FPI is providing vital support especially on the components of the manual that link planning and budgeting, regional development program, formulation and approval of national government fiscal program, reconciliation between cash and obligation budgets, and monitoring and review of agency performance. FPI also identified process improvements that may impact the creation of fiscal space.

The National Government Budget Operations Manual contains the sections and information shown in the following screenshots:

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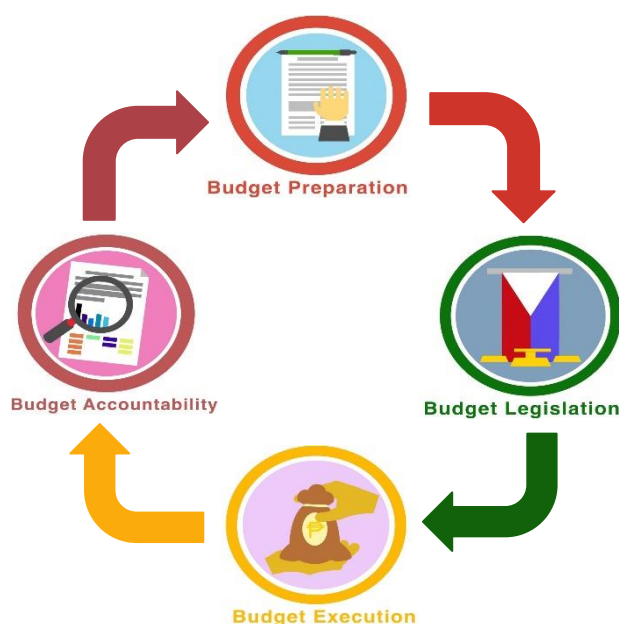
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The Budget Operations Manual includes inputs taken from source documents (DBM issuances, legal bases, and official memoranda/communications), official instructions/directives, and actions/outputs from previous processes, internal practices, and related measures. The specified outputs, on the other hand, are deliverables or milestones that need to be produced at the end of each process.

FPI has provided the required full technical and administrative assistance on the review, development, integration, and editing of the Budget Operations Manual within the set timeline. However, due to unforeseen circumstances, DBM has moved the completion and launch of the manual from December 31st, 2017 to the first quarter of 2018 to ensure accuracy and completeness.

The Budgeting Phases

There are four (4) major phases of the national government budget process: Budget Preparation, Budget Authorization or Legislation, Budget Execution, and Budget Accountability. The four phases overlap in continuing cycles as shown in the Budget Operations Cycle diagram below. However, the National Government Budget Operations Manual only focuses on the budget preparation, budget execution, and budget accountability operations internal to DBM. Each budget phase indicates both existing operating systems and processes, and possible improvements that are implementable until cut-off preparation period or December 31, 2017.



Budget Operations Cycle Diagram

The current revisions made on the Budget Operations Manual highlight the core systems and major processes. Incremental improvements were added into existing core systems while major process improvements (to be procedures) are organized in a separate section.

FPI identified two budget preparation core systems where incremental improvements were integrated: formulation/updating of Forward Estimates and technical budget hearings for Tier 1 Forward Estimates and regional budget review and consultation. For budget accountability operations, new and major process improvements were recognized.

Core System: Formulation/Updating of Forward Estimates and Technical Budget Hearings for Tier 1 Forward Estimates

Inputs	Procedures	Outputs
Previous year FE guidelines, information on macroeconomic assumptions and parameters	1. Review existing FE guidelines/circular to document last year's issues and concerns on formulating and finalizing FE's of agencies and draft new FE's Guidelines for the formulation and updating of FE for three-year period (FPRB)	Draft Budget Preparation Guidelines on FE
	2. Transmit draft proposed guidelines to concerned B/S/O's and Functional Group's head for their comments and approval	Revised draft BPG on FE
Endorsement/action memo of Group's head to the Secretary	3. Endorse (Functional Group's heads) the latest draft of FE guidelines to the Secretary for review and/or approval/signing of the FE Guidelines	
Relevant data/statistics from agencies, latest macroeconomic	4. Update (BMBs) the FE in consultation/coordination with their respective departments/agencies based on the FE Guidelines. For agencies with FE's computations (for Tier 1	Revised updated FE

parameters	proposals), agencies BMBs prepare a comparative matrix between their formulated FE's and the agency computed Tier 1 FE's. If the agency computations are equal to or lower than the BMB's computations, the BMB's adopt the agency estimation. For agencies without FE's computations for Tier 1 proposals, the BMB's adopt their own FE's formulation.	
Pro-forma invitation letter on TBH for Tier 1, BMB-formulated FE's Tier 1 proposals	5. Conduct of TBH for Tier 1 for those agencies with higher Tier 1 FE's proposals compare to BMB's TBH-recommended FE's Tier 1 proposals. The BTB documents the discussions and issues raised during the TBH and I prepares the summary report on the TBH-recommended FE's (Tier 1 proposals).	
BMB's presentation materials on FE, prescribed table for the summary of FE levels, summary report on the TBH-recommended FE's for Tier 1 proposals	6. Conduct of Executive Review Board (ERB) preliminary and/or final hearings on agency FE's ERB-recommended for Tier 1 proposals. BMB's and selected DBM-RO's (for the SUC's) prepare their agency FE's (Tier 1 presentation materials and prescribed tables for the summary of FE levels of departments/ agencies proposals) and for the multi-year budgetary requirements of Tier 1 proposals and submit those materials and tables to BTB.	
	7. Present FE to the Secretary for approval	Approved agency FE's for Tier 1 budget
Agency's confirmation letter	8. Transmit confirmation letters to agencies re: Tier 1 and out-year FE levels for their confirmation.	Agency-confirmed Tier 1 and FE levels
	9. Consolidate FE levels and present to the Cabinet for approval of the consolidated FE levels	Approved agency FE levels/ceilings
	10. Formulate technical guides and/or manual for the updating and formulation of FE's (proposed process improvement)	
	11. Establish data management system for FE's by designing a computerized FE database that is accessible to all BMB's through the Local Area Network (LAN). The database shall be administered and maintained by the FPRB. (proposed process improvement)	
	12. Design and implement an IT system for updating and formulation of Agency's FE's. (proposed process improvement)	

Core System: Regional Budget Review and Consultation

Inputs	Procedures	Outputs
	1. Prepare and issue (RDC) regional budgeting guidelines (RDC Budget Memorandum No. ____) for the preparation of regional agencies budget proposals. DBM Regional Offices provides technical inputs in the crafting of the budget preparation guidelines and procedures.	RDC Budget Memorandum
RDC prescribed budget forms	2. Submit (AROs and SUCs) their respective budget proposals to RDC using prescribed RDC budget forms	
	3. Convene (RDC) the various RDC Sectoral Committees as the venue for hearing the ARO's/SUC's budget proposals. DBM RO's participates and chair/manage the budget consultations of some Sectoral Committees.	Sectoral Committees recommendations and endorsement of budget proposals to the RDC
Sectoral Committees budget review recommendations forms	4. Conduct RDC Budget Hearings adopting the Two-Tier Budgeting Approach (2 TBA) in the review of proposed programs and projects. DBM RO's participates and jointly manages with NEDA RO's the conduct of the budget hearings.	RDC feedback and recommendations on budget proposals
	5. Draft the RDC resolutions endorsing the ARO's and SUC's recommended budget levels to their respective agency central office. DBM RO's in some cases provides technical inputs in the crafting and finalization of RDC resolutions.	
	6. Evaluate the budget proposals of all SUCs' and LGUs' projects proposed for national government assistance, AND review/evaluate (DBM Ros) ARO's proposed: 1) Technical Education and Skills Development programs, 2) statistical programs/activities, 3) Research and Development programs, and 4) natural resources, environment, technological and engineering sciences programs. <i>(proposed process improvements)</i>	
	7. Provide (DBM Ros) copies of RDC resolutions to BMB's and submit action memo to BMB's containing critical information on the RDC's actions and recommendations on the Tier 2 proposals of ARO's and SUC's <i>(proposed process improvements)</i>	

The table below shows the summary of FPI's recommended Budget Accountability process improvements:

Core System	Major Processes
1. Performance Review and Analysis of PREXC-Structured Programs, Activities and Projects	1. Determining the Evaluating Agency Program Outputs and Results
	2. Evaluating Agency Organizational Outcomes
2. Implementing the National Evaluation Policy and Strategy Framework at Organizational Outcome Level	1. Review of Agency Program Outputs and Organizational Outcomes
	2. Considering Best Practices in Evaluation
	3. Using Evaluation, Reporting and Disseminating Results
3. Implementing the Results-based Monitoring Evaluation and Reporting (Rammer) Policy and Strategy	1. Prescribing and Adopting Standards on Agency Program Performance Monitoring
	2. Prescribing and Adopting Standards on Agency Program Performance Evaluation
	3. Prescribing and Adopting Standards on Agency Program Performance Reporting
	4. Prescribing and Adopting Organization and Staffing Standards for Agency M&E units

National Government Budget Operations Manual Continuity Mechanism

Budgeting improvements, innovations and reengineering efforts are a continuing concern in the DBM that may result in changes in budget operations policies, strategies, approaches, systems, and processes.

DBM's current innovative efforts such as those under the BTMS, PREXC, and Budget Cycle Analytics are certain examples of the immediate concerns that may not practically be reflected in the manual within its current completion timetable. However, once fully implemented, these improvement measures will be included in the manual to sustain its relevance and usefulness to users. The proposed continuity mechanism aims to address the requirement of reflecting in the manual all necessary updates, adjustments, and changes in budget operations policies, systems and processes. It ensures timely upkeep and accuracy of the Budget Operations Manual.

FPI prepared the suggested components to be reviewed and discussed by the Technical Working Group as shown below.

1. Check Feedback Form (to be converted to Google form once email is created)

<p>7.1 Appendix A.</p> <p style="text-align: center;">National Government Budget Operations Manual Feedback Form</p> <p>Please use this form to report any issues that you encounter with the documentation, and any updates that you have to help us deliver a complete and accurate Budget Operations Manual. Email the completed form to xxxxxx@dbm.gov.ph.</p> <p>Name: _____ Date: _____ Manual version: _____</p> <p>Section Title: _____ Subtitle: _____ Page Number/s: _____</p> <p>Information to change (please provide screenshot):</p> <div style="border: 1px solid black; height: 150px; width: 100%; margin-top: 10px;"></div>	<p>New content or revision (please provide screenshot/s and/or attach the related document):</p> <div style="border: 1px solid black; height: 200px; width: 100%; margin-top: 10px;"></div> <p>Other comments:</p> <div style="border: 1px solid black; height: 50px; width: 100%; margin-top: 10px;"></div>
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2. Create email address where the feedback forms will be sent to
 - a. Who will create?
 - b. What will the email address be?
3. Determine location in shared drive where the Budget Operations Manual copy will be stored and accessed
4. Correct and accurate information will be provided by all DBM bureaus, offices, and services concerned through coordination of the technical working group
5. Identify the persons in charge (only members authorized to indicate changes in the manual)
 - a. TWG Chairman: final approval of the updates and changes; disseminate newsletter; provide directions, decide, and approve actions pertaining to any changes or inputs to the Budget Operations Manual
 - b. Overall OIC: receive the feedback; forward the feedback to the correct budget phase group; check and approve changes or updates made; provide monthly report to TWG Chairman
 - c. Overall Budget Preparation OIC: check the feedback forwarded by the overall technical head; verify information to be received and delivered; approve the changes before forwarding to the overall OIC for final approval

- i. Budget Preparation Technical Head: update the budget preparation section in question after new content has been approved by the overall budget preparation OIC
 - d. Overall Budget Execution OIC: check the feedback forwarded by the overall technical head; verify information to be received and delivered; approve the changes before forwarding to the overall OIC for final approval
 - i. Budget Execution Technical Head: update the budget execution section in question after new content has been approved by the overall budget execution OIC
 - e. Overall Budget Accountability OIC: check the feedback forwarded by the overall technical head; verify information to be received and delivered; approve the changes before forwarding to the overall OIC for final approval
 - i. Budget Accountability Technical Head: update the budget accountability section in question after new content has been approved by the overall budget accountability OIC
 - f. Technical Working Group: coordinate and gather information from all DBM bureaus, offices, and services concerned
 - g. Steering Committee: convene whenever necessary to decide on matters related to the manual, and issue policy statements as required; review TWG reports and recommendations.
6. Create a newsletter to inform staff of the changes and updates made
 7. Track feedback
 - a. Who will track the feedbacks received?
 - b. Person in charge of tracking the feedbacks will provide a monthly report to the overall OIC
 8. Identify who will be the author per budget phase
 9. Determine the updating timeline
 - a. Cosmetic modification: immediately
 - b. Process change or update: within 48 hours from the time the Circular is posted in the DBM website
 - c. Incorrect information
 - d. Other possible changes or updates that may be requested

The proposed steps on how to update the manual are shown in the screenshot below:

How to Update the Manual

Below are the steps to update the Budget Operations Manual:

1. Acknowledge receipt of feedback within 24 hours.
2. Identify the section to be updated.
3. Forward the feedback to the correct department or person-in-charge.
4. Verify the information in question, and the data to be added.
5. Update the information in question accordingly (department expert, part of the TWG). Cosmetic modifications (e.g. typographical or format error) are to be updated immediately.

Cosmetic Modification	Process Change or update	Incorrect Information
Immediately	Within 48 hours from the time the Circular is posted in the DBM website	TBD

6. For inaccuracies, process changes, and updates: seek approval from the overall in-charge prior to updating the information.
7. Create and disseminate an internal newsletter containing the process, or section update to the DBM staff.
8. Track the feedback and updates accordingly.
9. Present a monthly report of the feedback and updates to the committee chair.

National Government Budget Operations Manual Integration and Finalization

An upcoming National Government Budget Operations Manual Integration and Finalization event will be held to finalize and prepare the Budget Operations Manual for the implementation activities and launch set in February 2018. The event will serve as a venue to clarify and decide on crosscutting concerns, integrate remaining team outputs, and address other related matters. Additionally, the institutionalization of the manual's updating and continuity mechanism will be discussed and decided. Each budget phase team will also present their assigned, completed sections highlighting the budget operations reforms already included, and ongoing budget operations reforms efforts that will eventually be added in the manual.

Cross-cutting Issues

The cross-cutting issues below are yet to be finalized by the DBM Steering Committee:

Budget Execution	Responses
<p>1. Ensure strict adoption of the National Government Fiscal Calendar per Joint Circular No. 2017-1 specifically on the submission by agencies to NEDA of the following documents/data as inputs to the Budget Priorities Framework (BPF):</p> <ul style="list-style-type: none"> • Socio-Economic (prepared by NEDA), critical for succeeding budget operations activities • Report (SER) • Three-year Rolling • Infrastructure Program (TRIP) • Regional Development Plans • Results Matrix • Public Investment Program (PIP) 	<p>1. Ensure compliance.</p> <ul style="list-style-type: none"> • Agencies need to strictly comply with the timeline and it has to be engrained in the agencies' behavior that the timely submission is crucial for next year's budget preparation • Find a way to realign the matrix to the targets of the agencies to be able to link the plan to the budget (the social sector is already aligned) • Identify specific program indicators for agencies that are not yet aligned, which impacts the whole budget operations • Recommend to NEDA to use SER for budget preparation and the resource materials for budget accountability • Evaluate and analyze PREXC updates • Discuss an analysis of the required forms with Congress
<p>2. Integration of IT systems</p> <ul style="list-style-type: none"> • Online Submission of Budget Proposals System (OSBPS) (report on actual obligations by sub-object) • Budget Preparation Management System (BPMS) • eBudget System • Unified Reporting System (URS) (e.g., report on actual obligations through BFARs) • Government Manpower Information System (GMIS) / Personnel Services Itemization and Plantilla of Positions (PSIPOP) • Budget Cycle Analytics (BCA) • Budget Treasury Management • System (BTMS) - will cover URS and eBudget 	<p>2. Currently, Budget Preparation has stand-alone systems that can be utilized by Budget Execution and Budget Accountability</p> <ul style="list-style-type: none"> • There is dependency between and among the systems; sequence: OSBPS -> Encode proposals -> locked (agencies can no longer interfere of manipulate) -> BPMS is formed -> adjustments are made as GMIS will be linked to BTMS -> eventually, there will be a module where eBudget will be integrated -> Congress -> Budget Approved • Data completed in Budget Preparation (autonomous line) should be the same data forwarded to the lowest level • The level of data required may be an issue as budget execution requires higher level data and budget preparation needs details to the lowest level • URS and eBudget- encoding by budget of expenditure should not be done twice, reconcile the requirements for having a document that will have higher level summaries with the information addressing the lower level requirements

	<ul style="list-style-type: none"> GAA should be uploaded in URS, the actual obligation will be encoded (down to the lowest) – to be discussed and clarified further Budget Cycle Analytics- there is no incentive or penalty provision for form submission delays to URS; the documents to be uploaded needs to be strictly required
3. Early approval by MITHI of agencies' Information Systems Strategic Plans (ISSP) in time for the budget preparation	<p>3. Agencies should know the components of ISSP for the level provided for budget preparation; evaluation and approval of ISSP is by DICT, MITHI only harmonizes the requests that are contained in the ISSP</p> <ul style="list-style-type: none"> Agencies need to be responsible for the budget preparation requirements; the recommendations made during preparation need to be the ones executed during budget execution
4. Undertaking of regular Monitoring and Evaluation (M&E) using technology such as automated tools in monitoring big ticket programs & projects and performance review as input to budget preparation	<p>4. Directors need to determine the outputs that PMEB will be needing to be applied to budget preparation</p> <ul style="list-style-type: none"> Proposal: include the major programs as quarterly, the output of URS allotment, SPF, and budget continuing are uploaded. Issues need to be addressed within the specific department, and a separate internal module may be created but not in the URS (this will address general issues) Original design of FAR 1 includes part B, which includes the major programs but has been changed as reports should be homogenous URS utilization should be targeted to 90-95%
5. Quality and timeliness in the determination/evaluation of PS requirements	<p>5. Ensure specific power and authority are delegated</p> <ul style="list-style-type: none"> Use OPCCB, LGRCB, etc. as resource people, and discuss between and among the different groups that there are documents not met within the specified timeline During budget preparation, define minor issues which BMB can address to avoid delays; minor structural changes will be addressed by OPCCB If there are inefficiencies observed, bring up to the Secretary to be addressed accordingly; identify point person to

	determine acceptable requests and coordinate with regions
Budget Execution	Responses
<p>GMIS system is being used during Budget preparation (as basis of RG/TL) and execution – in relation to timeliness and quality</p> <ul style="list-style-type: none"> • GMIS is not updated in a timely manner • Step increment (some employees are already retired but the salaries have not been adjusted) • Does not coincide with the actual requirements of the agencies 	<ul style="list-style-type: none"> • There should be consequences when the agencies do not update GMIS in a timely manner; do not penalize law abiding agencies nor should we reward recalcitrant agencies • There should be a provision where access of the agency over the GMIS should also open to DBM; DBM should be able to know adjustments made immediately • To speak with ASec Myrna about including in the manual a system which will provide where the movement of personnel will be tracked even without BTMS • GMIS enhancement proposal may be discussed the following week
Budget Accountability	Responses
<ol style="list-style-type: none"> 1. Budget Execution Documents (BEDs) to be transferred to Budget Execution Group 2. Integration of RbMER in the Budget Execution and Accountability 	<ol style="list-style-type: none"> 1. BEDs will be under Budget Execution <ul style="list-style-type: none"> • Certain BEDs are redundant, so an analysis on what the necessary documents (without which you cannot make an honest to goodness evaluation of the agencies) are need to be made • Examine the unexamined areas of the Budget Operations

Transparency, Efficiency, and Accountability

Government budgeting is the critical exercise of allocating revenues and borrowed funds to attain economic and social goals of the country. It enables the government to plan and manage its financial resources to support the implementation of various programs and projects that best promote the development of the country.

The business process reengineering efforts of the Department of Budget and Management are aimed to achieve whole-government expenditure management efficiency about its oversight function and intended to improve internal operating efficiency for budget and management functions.

A key focus to maximize the effectiveness of the reengineered budget processes is highlighting the activities that help fully institutionalize the successful reform initiatives. Thus, the FPI Project will assist DBM in the transition of the operating units and the implementation of the new methodologies prescribed by the performance-informed budget system. This is significant on the changes' effect on operations, as Budget Management Bureaus (BMB) will have to collect, process, and evaluate data and results using entirely new methodologies. It will also ensure the budget execution and service delivery improvements.

The assistance on the development and implementation of the changes in budget formulation practices are necessary to expedite eminent domain actions.

4. Expanded Technical Assistance to Performance Monitoring and Evaluation Bureau (PMEB)

The Performance Monitoring and Evaluation Bureau, which is focused on addressing the call for fiscal transparency, information, and accountability has provided FPI the opportunity to explore areas where expanded technical assistance is being requested. FPI coordinated with the Human Resource Division (HRD) of the Administrative Service to gather information on existing competency descriptions of DBM positions focused on PMEB roles.

The Administrative Services briefing included resources that indicate the primary role of the Civil Service Commission (CSC) in the government's competency enhancement. CSC assesses the maturity level of an agency's set of competencies, systems, and practices related to four human resource management systems- recruitment, selection and placement, learning and development, performance placement, and rewards and recognition using the PRIME-HRM scheme. The PRIME-HRM is a program developed by the CSC to institutionalize meritocracy and excellence in human resource management. DBM was rated 78% by CSC under the PRIME-HRM assessment of the Department's Human Resource Management Systems' maturity level.

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

PMEB has requested FPI to step in, identifying, and defining the required competencies of PMEB positions. Well-defined competency profiles will lead to better and efficient hiring, and placement policies and requirements. It will also be useful in developing and applying competency-based training programs suitable to the existing requirements of DBM, particularly in implementing its priorities under the reformed PFM system.

FPI has already started conducting a Monitoring and Evaluation survey and interview. There are 35 authorized positions in PMEB, four of which are administrative in nature and 30 are technical positions except for the Bureau Director. The 30 technical positions are itemized as follows (Information on vacant and filled is as of December 2017):

Position Title	SG	No. of Positions		
		Filled	Vacant	Total
Chief Budget and Mgt. Specialist (CBMS)	24	2	3	5
Supervising Budget & Mgt. Specialist (SVBMS)	22	2	3	5
Senior Budget & Mgt. Specialist (SRBMS)	19	4	1	5
Budget & Management Specialist II (BMS II)	16	4	1	5
Budget & Management Specialist I (BMS I)	13	2	2	4
Budget & Management Analyst (BMAN)	11	4	2	6
Total		18	12	30

April 2017 statistical data indicates that all technical employees are CSC eligible and hold at least a

Bachelor's degree. Based on the survey results and interviews, FPI suggests that there will be four types of competencies to be defined for each rank of the technical position, as required by the CSC:

- Core competencies (characteristics that collectively lead to desired outcomes in the whole department)
- Leadership competencies – for supervisory positions (knowledge, skills, and behaviors needed to perform management/leadership functions and processes).
- Organizational competencies (knowledge and skills that lead to desired results in performing the functions of the bureau).
- Technical competencies (knowledge and skills required to perform a job)

The proficiency levels under each competency type will be further identified as level one for basic, level two for intermediate, level three for advanced, and level four for expert. The Generic Competency Dictionary (GCD) for the public sector of the Philippine government issued by the Civil Service Commission will also be used as a source document for defining the competencies. FPI is suggested to supply information to include the competency definitions for M&E positions. The core competencies may include the following:

- Integrity and Building Trust
- Passion for Results and Performance Excellence
- Continuous Improvement
- Leadership

Moreover, the PMEB technical competencies to be developed by FPI will be at bureau-level functions. It is part of the capacity building master plan for M&E, which is a requisite under NBC 565 that prescribes the RbMER. The results of the study may thereafter be replicated to other DBM bureaus, and eventually to other departments and agencies.

Note on PREXC Implementation

PMEB helped design the PREXC-based budget execution forms to be implemented in 2018. Circular Letter 2017-12 (amended guidelines for the preparation of the annual execution plans) was issued by the DBM on October 19, 2017, which prescribes the use of modified BED-1 (Financial Plan) and BED-2 (Physical Plan) that suit the PREXC scheme. Revised budget financial accountability reports (BFARs) are still being reviewed and commented by BMBs, an issuance is yet to be released.

PHILIPPINES OPEN GOVERNMENT PARTNERSHIP (OGP) SUPPORT

In August 2017, USAID, through the FPI project, co-organized and co-funded with the DBM the “High Level Regional Roundtable Discussion on Open Government: A Side Event of the Philippines’ Chairmanship of the ASEAN” at the Philippine International Convention Center in Pasay City, Metro Manila which launched the 4th PHL-OGP Action Plan. This round table discussion became a venue to recognize and share best practices in implementing initiatives on transparency, accountability, and public participation among Asian nations.

This event was attended by more than 300 participants from the Philippines’ national government agencies, CSOs, business groups, international development partners, media, representatives from the

international community, relevant ASEAN ministries, ASEAN embassies with presence in the Philippines, and civil society organizations in the region.

As of December 2017, 10 programs of the Philippine Open Government Partnership (PH-OGP) are successfully being implemented. These programs are under eight commitments of the PH-OGP, which are all in line with the goal to achieve better governance through accountability, transparency, and citizen participation.

Aside from the success of the OGP-ASEAN event, the PH-OGP continues to prove that the Philippines continue to take the lead in pursuing the OGP initiatives. Some of the highlights of PH-OGP towards the end of 2017 shows the unwavering commitment of the Philippines. Among these are:

- DBM was awarded as the sole Freedom of Information (FOI) Philippines Champion Department Awardee in the FOI Awards 2017¹. Secretary Benjamin Diokno was conferred a plaque of recognition as DBM is recognized as the FOI Champion Department Awardee of the FOI Philippines Awards because of its exemplary performance in the implementation of the FOI Executive Order and its role in providing technical and outreach assistance to the Presidential Communications Office (PCOO) in promoting and advocating for the passage of an access to information law under the Philippine Open Government Partnership initiative.
- Philippine Open Government Partnership (OGP) Steering Committee headed by Sec Diokno with co-chairman Pat Sarenas of CODE-NGO attended the Asia-Pacific Leaders Forum on Open Government in Jakarta Indonesia last December 14, 2017. Sec Diokno discussed future OGP directions and talks about openness in the Golden Age of Infrastructure in the Philippines on achieving poverty reduction and economic development. In the forum, he shared how the Philippines is ensuring that economic growth is equitable and inclusive through fiscal openness and transparency in the infrastructure sector under our very ambitious “Build, Build, Build” program.

Through Secretary Diokno's leadership, the Philippines continues to be recognized as a global leader on Open Government. The PH-OGP aims to be more bold and ambitious in the next few years as the country pursue subnational engagement and actively mainstream participatory governance and open government efforts at the local level through a strengthened communication and outreach campaign to kick off the first quarter of 2018.

DBM and other partners in the OGP community recognize that PHL-OGP accomplishments would not have been possible without the support of USAID as key development partner. Part of these accomplishments is the success of the OGP-ASEAN event and the OGP road shows in the previous years. Because of this, Sec Diokno requested USAID to continue to support the OGP activities in the following areas:

¹ FOI Awards recognizes significant contributions of government agencies and organizations to the development and progress of the Freedom of Information in the Philippines. FOI Awards 2017's theme was *Making Access to Information a Meaningful Right: The FOI Program One Year On*.

- Support to the sustainability of the Non-Government Secretariat under CODE-NGO
- Technical Assistance in developing the subnational process (action plan development, implementation and monitoring) of the PH-OGP
- Support to regular regional consultations
- Support to communication and advocacy
- Peer-learning and capacity building for key OGP stakeholders

To immediately respond to the request of our counterpart, the OGP secretariat together with the FPI team started the planning process of the next round of the regional dialogues to be conducted during the first quarter of 2018. And since the thrust of the OGP steering committee is to develop the subnational process, the FPI project allocated a budget to hire technical assistants to support the OGP steering committee efforts to achieve their goal to sustain the initiatives in the local level. On top of the project manager, there will be regional STTAs who will be based in the three regions (Luzon, Visayas, and Mindanao). The STTAs will assist the OGP secretariat and the Non-Government steering committee members in OGP activities and extend technical inputs as required in their respective regions. The Regional Coordinators will also ensure that non-government partners, e.g., CSOs, academe, public sector union, business sector and LGUs will fully participate in all the outreach activities in their region. Their task includes:

- Assist development of project work plan and timetable
- Provide inputs in the design of the regional dialogues, sub-national summit, and other outreach activities, including budgetary requirements
- Provide technical assistance and secretariat support to the PH OGP Non-Government Steering Committee Member in the Region in the conduct of the project activities
- Lead in coordination with CSOs, academe, public sector unions, business, and LGUs in all OGP activities in their respective areas
- Assist in the conduct of the outreach activities, specifically in sending and following up of invitations, documentation, secretariat work, financial reimbursements, and other coordinative work
- Participate in project meetings and provide documentation of these meetings
- Provide logistical support in all activities
- Coordinate with the respective implementing agencies/organizations (DBM, DILG, CODE-NGO, others)

After the final selection of the regional STTAs and Project Manager, the OGP team conducted a two-day orientation and work planning on November 2017. The work plan session's goal is for the STTA's to have a better understanding and appreciation of OGP and to build their capacity to have an effective engagement with the partners and stakeholders in their respective areas. This will help strengthen the active participation of the attendees in the regional dialogues and ensure the continuity of the activities to support the OGP initiatives even after the regional dialogues.

In the work plan, the OGP team agreed that after coordinating with the other member agencies of the steering committee, e.g. the Office of the Cabinet Secretary and Department of Interior and Local Government should decide on the following:

- The regional dialogues shall be a 2-day event that will start at the end of January until March, just enough time until the deadline of submission of the PGC Roadmap Phase II on March and the legislative process in the passage of the second package of TRAIN

- The regional dialogues will be held in 5 different clusters, namely: Mindanao Cluster 1, Mindanao Cluster 2, Visayas, Luzon Cluster 1, Luzon Cluster 2
- Through the regional dialogues, and with the recommendation of DILG, and LGU leagues, we can choose a Local Chief Executive (preferably a Governor) that will represent as the Global OGP Subnational Champion of the Philippines

The next round of the OGP Dialogue titled, *Open Government and Participatory Governance Regional Dialogues*, is expected to become bigger and bolder as it is designed to engage more national government agencies, LGUs, and civil society organizations representing various sectors in the Filipino society.

Concept Note

When the 4th National Action Plan (NAP) was launched in August of 2017, new non-government representatives in the PH-OGP Steering Committee were also elected. Unique in this Steering Committee is the selection of civil society representatives from the three island regions—Luzon, Visayas, and Mindanao.

At the international arena of OGP, there is a move towards implementation of sub-national commitments and plans. Membership in the OGP has not been limited at the country level, but sub-national units as well (i.e, cities, provinces, municipalities). The Philippines has trailblazed in this effort as well, with a commitment in the 4th NAP from the Provincial Governments of Albay, Bohol, and Agusan del Sur on open legislation.

In May 2016, the Participatory Governance Cluster (PGC) was created by virtue of Executive Order No. 24. The executive issuance reorganized the Cabinet into six clusters that adhere to the key priorities of President Rodrigo Duterte's administration. The Participatory Governance Cluster is tasked to pursue the following:

1. To enable public to understand, rationalize and implement national government programs and projects based on area-specific realities;
2. To strengthen consultation mechanisms to ensure effective implementation of programs and projects; and
3. To propose policies, programs and projects that would foster participatory governance and build the capacities of local government units for such purpose.

The Cluster is co-chaired by the Department of Budget and Management (DBM) and the Department of the Interior and Local Government (DILG). During the first Participatory Governance Cluster Cabinet Meeting in October 2017, the proposal to harmonize of OGP and PGC activities was approved. The PGC also agreed to tap the PH-OGP mechanism for the expansion of the PGC Roadmap. This decision was both practical and strategic since the DBM also chairs and serves as the secretariat of PH-OGP.

Anchored on the principles of open and participatory governance, it is also imperative for local stakeholders to be informed and consulted on public finance (i.e., revenue and expenditure), particularly on the national budget and the current tax reform bill. As the first tax reform package or TRAIN recently passed as a bill and implemented by January 1, 2018, the second tax reform package proposal was also submitted by DOF to Congress. Package 2 will consist of a cut in corporate income tax rate to 25% from 30% currently in order to encourage firms to spend more and to improve the country's attractiveness to

foreign investors.

With the evolving nature of OGP implementation in the Philippines, it is crucial to expand the reach of OGP as well as advocate for its local implementation. Outreach activities and dialogues with local stakeholders (i.e, local government units, local CSOs, academe, business groups) will be co-funded and co-organized by USAID through FPI.

The activities will be led by the Department of Budget and Management (DBM)—the OGP government secretariat and the Caucus of Development NGO Networks (CODE-NGO)—the OGP non-government secretariat, as well as the Department of Finance (DOF).

The objectives of the Regional Dialogues are:

1. To disseminate information on the OGP platform and promote its core goals, specifically the 4th NAP, the PCG Cluster and Roadmap, other participatory governance initiatives of the Duterte Administration and the provisions and implementation of TRAIN and the corresponding tax administration measures that will complement it;
2. To gather support among local stakeholders in implementing and monitoring the commitments in the 4th NAP and TRAIN;
3. To consult local stakeholders on the content of the PGC Roadmap;
4. To provide an avenue for dialogue among LGUs and local CSOs on developing sub-national OGP commitments;
5. To raise awareness on the 2018 National Budget and the proposed tax reform Package 2.

Expected outputs:

1. Workshop output on proposed initiatives for the PGC roadmap and areas for government and non-government collaboration in the implementation and monitoring of OGP initiatives;
2. Identification of at least 3 LGUs that are willing to develop sub-national OGP plans;
3. Comments on the proposed tax reform package 2.

The Regional Dialogues will be conducted for 2 days from the last week of January until the end of March.

Region	Covered Regions	Date	Venue	No. of Pax
Mindanao Cluster 1	R9, R10, ARMM	January 30-31, 2018	Zamboanga City	275
Mindanao Cluster 2	R11, R12, R13	February 6-7, 2018	Davao City	275
Visayas	R6, R7, R8	February 20-21, 2018	Bacolod City	275
Luzon Cluster 1	NCR, R4A, R4B, R5	February 27-28, 2018	Metro Manila	350
Luzon Cluster 2	CAR, R1, R2, R3	March 6-7, 2018	Baguio City	275

PROJECT MANAGEMENT

During the reporting period:

- ISTTA John Hayes joined the team as the International Public Procurement Specialist to assess qualified technical proposals for the Philippines Electronic Government Procurement System.
- ISTTA Yassie Hodges went on assignment with FPI's Tax Administration Team and conducted an assessment of BIR's current processes on risk-based audit case selection and process evaluation for taxpayer segmentation into small and medium categories. After these meticulous assessments, Ms. Hodges crafted a list of recommendations for process improvements and formally presented them to BIR Commissioner Caesar Dulay.

ANTICIPATED ACTIVITIES NEXT QUARTER

During the next reporting quarter, the FPI project will undertake the following:

- Continue the implementation of tax policy, tax administration and performance budgeting.
- Provide assistance to BIR in improving Taxpayers' Audit and Segmentation.
- Provide assistance to BIR in its steps to further simplify the tax filing requirements particularly the forms and the frequency of filing, specifically to smaller taxpayers.
- Support BIR in improving the audit effectiveness by using automated selection which will be based on objective risk parameters rather than discretionary selection by individual tax officials. Automated selection process will reduce corruption; lower the audit burden on small and medium enterprises, which carry lower risk profiles.
- Enhancements for better management of the application on the BIR side, and some minor fixes.
- Provide technical assistance to BIR's internal, inter-agency, and external communications.
- The FPI team will continue to provide analytic support to SERG for Package 2.
- The FPI team will provide support for the DOF's engagement team in the development of outreach strategies comprehensive Tax Reform Measure and in the improvement of compliance monitoring consistent with TADAT assessment.
- Provide training to SERG and congressional teams engaged in tax policy analysis work.
- Provide support for the Tax Expenditure Analysis.
- Provide assistance to the development of Philippine Tax Academy.
- Implement/Award EITI Grants and EITI technical support projects.
- Monitor implementation of EITI Grants to ensure that projects are well aligned to the objectives and goals.
- Conduct two batches of Procurement Training on Project Costing and Specifications Writing.
- Conduct Integration and Finalization Workshop for Version 3 of the National Budget Operations Manual.
- Continue support to DBM on improvement of the Unified Reporting System.
- Support for the EGPS procurement process in its final stages, based on the complexity of the procurement and challenges faced to date. It is worth noting that the first two attempts to tender did not result in any qualified bidders. In addition, during the third attempt, recommendations for

clarifications provided by the adviser ended up changing the selection result.

- Review of BTMS API documentation from FreeBalance and provide feedback to DBM, as it is important to fully understand and design the integration correctly from the beginning of a project. Otherwise, DBM may end up using database integration, which is not the preferred approach.
- Support DBM in the EGPS project kickoff meeting providing recommendations on how to manage this meeting. This is particularly helpful when working with a consortium including an international firm. This will also clearly indicate to the consortium that DBM has sought and is receiving advice from an international public procurement specialist. During the kickoff meeting, the requirements of the inception report should be thoroughly reviewed, as the first main deliverable.
- Assess the EGPS contractor's inception report. The rest of the project hinges on having a well-developed and complete report that guides implementation. Meet with the DBM team to gauge progress, and address concerns directly with the contractor. Integration with BTMS will be a critical activity described in the inception report and requires additional scrutiny to ensure all issues are properly addressed.
- Continue supporting PH-OGP's activities specifically the upcoming regional dialogues and use it as a tool to boost awareness on the fiscal reforms being undertaken by the GPH.
- Provide technical assistance to PH-OGP secretariat as needed especially for the outreach and communications of the OGP initiative.

PROGRESS TO DATE BASED ON RESULTS INDICATORS

Performance Indicator Tracking Tableⁱ

Desired Impact: Public Sector Investments in Social and Physical Infrastructure Increased

Indicator	Data Source	Baseline		FY2014		FY2015		FY 2016		Q1 2017	Q2 2017	Q3 2017	FY 2017	FY 2018	Notes
		Year	Actual	Target	Actual	Target	Actual	Target	Actual	Actual	Actual	Actual	Target	Target	
Impact Indicator 1 Fiscal space (% of GDP, calendar year)	DBM; PSA	2013	0.98	1.50	1.29	2.00	2.16	2.50	4.02	-	-	-	3.00	3.36	Note: No quarterly data.
Impact Indicator 2 Gross fixed capital formation (% of GDP, calendar year)	PSA	2013	20.63	20.75	20.67	21.00	21.99	21.33	24.56	26.05	25.64	25.24	21.67	22.00	
Impact Indicator 3 Total government expenditures (% of GDP, calendar year)	BTr; PSA	2013	16.29	16.50	15.68	17.00	16.74	18.00	17.61	17.20	18.14	17.92	19.00	20.00	

Desired Outcome #1: Tax Effort Strengthened

Indicator	Data Source	Baseline		FY2014		FY2015		FY 2016		Q1 2017	Q2 2017	Q3 2017	FY 2017	FY 2018	Notes
		Year	Actual	Target	Actual	Target	Actual	Target	Actual	Actual	Actual	Actual	Target		
Higher Level Outcome Indicator 1.1.1 Tax effort (% of GDP, calendar year)	BTr; BIR; PSA	2012	12.89	13.16	13.61	13.40	13.63	14.00	13.68	13.41	14.94	14.94	14.70	16.00	
Higher Level Outcome Indicator 1.1.2 VAT Gross Compliance Ratio (calendar year)	BIR; PSA	2012	48	48	51	49	48	52	49e	-	-	-	55	60	Note: No quarterly data.
Higher Level Outcome Indicator 1.1.3 Corporate Income Tax (CIT) productivity (calendar year)	BIR; PSA	2012	0.117	0.120	0.120	0.122	0.123	0.125	0.127e	-	-	-	0.130	0.140	Note: No quarterly data.
Higher Level Outcome Indicator 1.1.4 PIT productivity (calendar year)	BIR; PSA	2012	0.020	0.0	0.021	0.0	0.022	0.023	0.022e	-	-	-	0.024	0.025	Note: No quarterly data.
Outcome Indicator 1.2.1 Number of bills supporting comprehensive tax reform submitted to Congress with technical support from FPI (cumulative, fiscal year)	FPI; DOF	2013	0	0	0	0	0	1	2	3	3	-	2	2	Tax Incentives Management and Transparency Act (TIMTA) (Jan 2016) Package 1 of Comprehensive Tax Reform Bills submitted by DOF to the Congress (Dec 2016) Tax Administration Reform Act (TARA) (Jan 2017) Package 2, though submitted by DoF, has not been filed
Output Indicator 1.2.2 Number of FPI-supported dialogues and fora supporting comprehensive tax reform (cumulative, fiscal year)	FPI	2013	0	0	0	0	0	4	12	27	-	-	8	8	Nov 2016: Tax reform consultations in (Cagayan de Oro, Cebu, and Clark) Jan-Feb 2017: Focus group discussions on tax reform (8 sectors) Feb-Mar 2017: Deepening understanding of the tax reform measure (Davao, Puerto Princessa, Panglao, Naga City)

Indicator	Data Source	Baseline		FY2014		FY2015		FY 2016		Q1 2017	Q2 2017	Q3 2017	FY 2017	FY 2018	Notes
		Year	Actual	Target	Actual	Target	Actual	Target	Actual	Actual	Actual	Actual	Target		
Outcome Indicator 1.3.1 Percentage of revenues reported through e-filing (% , calendar year)	BIR	2012	60.0	65.0	64.0	70.0	70.0	75.0	87.1	-	-	-	80.0	90.0	
Outcome Indicator 1.3.2 Doing Business: Time Spent on paying Taxes (hours per year, calendar year)	FPI	2013	193	NA	193	NA	191	192	186	-	-	-	190	180	Q1 data not available.
Outcome Indicator 1.3.3 Number of returns e-filed as a % of the total number of returns filed (% , calendar year)	BIR	2013	8.1	NA	10.0	30.0	51.3	60.0	69.0	79.0	-	-	70.0	80.0	
Outcome Indicator 1.3.4 Tax payments made using mobile money and other forms of electronic payments (e.g. debit and credit cards) (% of transactions, calendar year)	BIR	2013	7.0	NA	7.4	NA	7.9	13.0	15.7	-	-	-	15.0	20.0	Q1 data not available.

e Estimates based on BIR/BOC targets.

Desired Outcome #2: Public sector governance and expenditure management strengthened

Indicator	Data Source	Baseline		FY2014		FY2015		FY 2016		Q1 2017	Q2 2017	Q3 2017	FY 2017	FY 2018	Notes
		Year	Actual	Target	Actual	Target	Actual	Target	Actual	Actual	Actual	Actual	Target		
Higher Level Outcome Indicator 2.1.1 Open Budget Index (OBI) score	IBP	2012	48.0	50	NA	55	64.0	56.0	-	-	-	-	58.0	60.0	Note: No data yet for 2016. No quarterly data.
Higher Level Outcome Indicator 2.1.2 Aggregate expenditure out-turn compared to original approved budget (% , calendar year)	COA	2013	-27.9	NA	-24.6	NA	-21.8	-20.0	-20.7	-	-	-	-17.0	-15.0	Note: No quarterly data.
Output Indicator 2.2.1 Number of forums supporting increased transparency in selected OGP/OBI sub-component indicators (cumulative, fiscal year)	FPI	2013	0	0	0	2	2	6	2	4	5	-	8	10	Mar-Apr 2017: Phil-GOP National Summit (Davao and Cebu) July: OGP launch
Outcome Indicator 2.3.1 Number of business process review and reengineering studies recommendations adopted by DBM (cumulative) (cumulative, fiscal year)	DBM / FPI	2013	0	0	0	0	0	1	5	5	5	-	9	18	

ⁱ FPI Team is securing updated data to fill in specific sections in the Performance Indicator Tracking Table. The Project Team will submit a more updated version of the table within 30 days after the Quarterly Report submission.