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IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-74310)

ON A

LOAN

IN THE AMOUNT OF US$ 11.0 MILLION

TO THE

REPUBLIC OF THE PHILIPPINES

FOR A

NATIONAL PROGRAM SUPPORT FOR TAX ADMINISTRATION REFORM

December 15, 2013

Poverty Reduction and Economic Management Unit
PREM-Philippines
East Asia and Pacific Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective)

Currency Unit = Philippine Peso (PhP)
1.00 = US$ 0.0231
US$ 1.00 = PhP43.23

FISCAL YEAR

ABBREVIATIONS AND ACRONYMS

AusAID	Australian Agency for International Development
ACIR	Assistant Commissioner for Internal Revenue
AR	Accounts Receivable
BAC	Bids and Awards Committee
BIR	Bureau of Internal Revenue
BoC	Bureau of Customs
CAS	Country Assistance Strategy
CIR	Commissioner of Internal Revenue
COA	Commission on Audit
CTRP	Comprehensive Tax Reform Program
DBM	Department of Budget and Management
DCIR	Deputy Commissioner for Internal Revenue
DoF	Department of Finance
eFPS	Electronic Filing and Payment System
eTIS	Electronic Tax Information System
GoP	Government of the Philippines
HR	Human Resources
HRIS	Human Resource Information System
ICR	Implementation Completion Results
IAU	Internal Audit Unit
IFR	Interim Financial Report
ISG	Information Systems Group
IMF	International Monetary Fund
IP	Integrity Plan
KPI	Key Performance Indicator
LTS	Large Taxpayers Service
MCAP	Millennium Challenge Account Philippines
MCC	Millennium Challenge Corporation
MTPDP	Medium Term Philippine Development Plan
NARA	National Authority for Revenue Administration
NEDA	National Economic and Development Authority
NPSTAR	National Program Support for Tax Administration Reform
NTAP	National Tax Administration Program

NTRC	National Tax Research Center
OG	Operations Group
PAD	Project Appraisal Document
PDO	Project Development Objective
PFMCF	Public Financial Management Competency Framework
PMS	Performance Management System
PMIS	Project Management and Implementation Service
PQU	Philippine Quarterly Update
RATE	Run After Tax Evaders
RMC	Revenue Memorandum Circular
RMO	Revenue Memorandum Order
SMIS	Senior Management Information System
SWS	Social Weather Stations
TCP	Tax Computerization Program
TRAG	Tax Reform Administration Group
MCAP	Millennium Challenge Account Philippines
MCC	Millennium Challenge Corporation
NTAP	National Tax Administration Program
NTRC	National Tax Research Center
OG	Operations Group
PMIS	Project Management and Implementation Service
PQU	Philippine Quarterly Update
RATE	Run After Tax Evaders
SMIS	Senior Management Information System
SWS	Social Weather Stations
TCP	Tax Computerization Program
TRAG	Tax Reform Administration Group

Vice President:	Axel van Trotsenburg
Country Director:	Motoo Konishi
Lead Economist:	Rogier van den Brink
Project Team Leader:	Kai Kaiser
ICR Team Leader:	Joselito Armovit

COUNTRY
National Program Support for Tax Administration Reform

CONTENTS

1. Project Context, Development Objectives and Design

1. **The National Program Support for Tax Administration Reform (NPSTAR) project, approved in March 2007, was intended to enhance the effectiveness and efficiency of tax administration by the Bureau of Internal Revenue (BIR).** The BIR, an attached agency of the Department of Finance (DoF), accounts for the bulk of tax revenues in the Philippines. The project responded to prevailing pressures to increase revenue mobilization and the diagnosis that sustainable improvements in revenue mobilization would require substantial improvements in the organization's tax administration capabilities (notably improving enforcement/compliance, and implicitly also tackling corruption).

2. **NPSTAR's gambit, along with a DPL series launched in parallel, was that revenue pressures would in effect also drive institutional reforms in the BIR.** However, shortly after NPSTAR implementation commenced in mid-2007, the authorizing governance environment waned, causing support for long-term reforms to quickly deteriorate. And by the end of 2008, the DPL series lapsed due to insufficient progress in the area of tax collection effort and administration.[1] Moreover, pressures to meet short-term revenue targets, often on a monthly basis, resulted in less focus in meeting the reform targets. With a weak foundation for accelerating revenue collection, the BIR regularly missed its collection targets, resulting in fast turnover of commissioners for failing to meet the collection targets (there were four commissioners between 2006 and 2010). All these contributed to weak ownership of the reform, and hence weak performance.

3. **A change in administration in 2010 and stable leadership at BIR resulted in progress in advancing organizational reforms and performance.** The new leadership at both BIR and DoF has proactively tackled the challenge of tax compliance/enforcement in the Philippines. At the same time, BIR's leadership has sought to drive a more gradual but sustained effort to improve both the integrity and tax administration performance of BIR as an organization. This transformation remains in progress and will be vulnerable to a change in authorizing environment. While NPSTAR has served to support this recent positive trajectory, its long-term institutional development impact remains tentative. On-going reform efforts by BIR, coupled with scaled-up support by other development partners, will need to deepen progress on fundamental organizational change management along with IT systems reforms.

1.1 Context at Appraisal

4. **Improving the tax effort has been a perennial challenge.** Between 1998 and 2004, the Philippines tax effort declined from 12.8 percent to 11.8 percent of GDP (see

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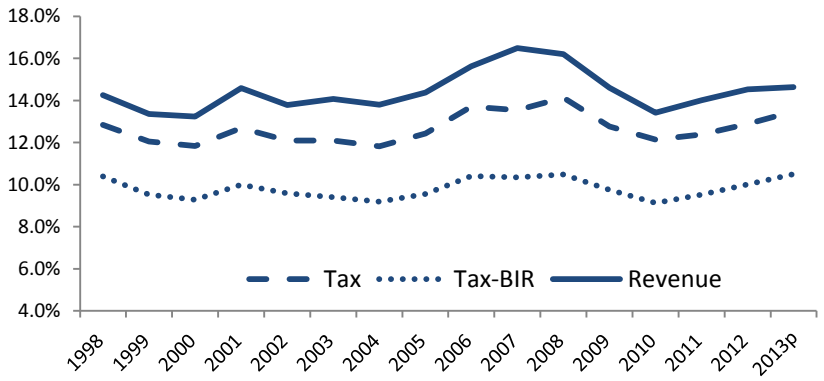
[1] A new DPL program was approved in 2011 to also support efforts at enhancing tax policy and administration. A second operation was approved in February 2012. For tax administration, the DPL 2 supported the on-line publication of BIR's agency level Key Performance Indicators (KPI).

World Bank, 2003, DPL 2 PAD, 12:17, Figure 1). A new administration came to power in 2001, ending a period of political turmoil, but confronting a fiscal crisis with the consolidated public sector debt reaching over 100 percent of GDP and a deficit of 6 percent in 2003. Following the enactment of a series of tax measures, tax to GDP ratios rebounded from under 12 percent in 2004 to 13.7 percent of GDP in 2006 (ICR First DPL, 2009, Figure 1). But in July 2005, seven secretaries and three heads of agencies (the "Hyatt 10" incident) – including the Secretary of Finance and Commissioner of BIR – resigned over disputes on the 2004 elections. In the meantime, reforms in tax administration were clearly lagging as the National Tax Research Center (NTRC) and the Department of Finance (DoF) showed that levels of tax evasion from individuals and the non-issuance of receipts amounted to about 13 percent of total collections by the BIR (or PhP 130 million in FY 2012). The tax base was narrow, with an estimated one third of tax payers unregistered. Further sustained increases in tax effort required improvements, notably in BIR's compliance and enforcement work.

Figure 1. Ratio of Revenue, Tax, and BIR to GDP



Source: Department of Finance, by CY

5. **The period leading up to appraisal underscored the challenges of improving tax effort and associated initiatives to transform BIR.** In the 1990s, the World Bank had already engaged in BIR through its Tax Computerization Project (TCP; World Bank loan approved in 1993) automating most core tax procedures in 41 (out of 124) District offices in 19 Regions and the Large Taxpayers Service. TCP ICR dated June 2000 rated the project as satisfactory for achievement of objectives. But while TCP was considered successful, advancements in technology and project delays had quickly rendered the system obsolete shortly after completion. In the early 2000s, attempts were made to transform the BIR into a semi-autonomous revenue administration through the filing of the Internal Revenue Management Authority (IRMA) and subsequently the National Authority for Revenue Administration (NARA) Bills. This reform effort did not gain traction due to internal resistance as it proposed that some staff would need to resign and re-apply for their positions as part of the plan to instil competence and greater accountability. Prevailing knowledge at that time could reasonably show that if top BIR leadership would lead reform management, this was sufficient to ensure political commitment to long term reform planning. Given the strong internal opposition to radical

reform, policy makers now opted to advance reforms along a more gradual path lead by the Bureau's top management.

6. However both the GoP and the World Bank continued to articulate the need to substantially and urgently improve tax administration. The Philippines Medium Term Development Plan (2004 – 2010) and the World Bank's Country Assistance Strategy for the Republic of the Philippines (CAS, April 19, 2005) clearly recognized this imperative. A joint Bank/Fund diagnostic mission was carried out in December 2005 ("Critical Priorities in Tax and Customs Administration Reform." World Bank & IMF, February 2006), in response to a request from government for assistance in the area of tax administration reform. The mission determined that a sustainable tax administration reform program should first address fundamental business process improvements and basic managerial, systemic, and human resource issues before any attempt to automate and develop systems solutions. Given that the Bureau of Internal Revenue accounted for the bulk of tax collections (relative to the Bureau of Customs, another attached agency of the DoF), it naturally emerged as a focus of institutional reform.

7. **The Bureau of Internal Revenue (BIR) formulated the National Tax Administration Program (NTAP) and submitted this together with a proposed IBRD-financed NPSTAR to the Development Budget Coordination Council (DBCC) in November 2006.** The NTAP, supported by NPSTAR, sought to enhance the efficiency and effectiveness of BIR by engaging in strategy development focused on (i) tax compliance, (ii) tax enforcement and control, (iii) human resource development and management, and (iv) change and project management. The cost of the overall reform program was USD 24.1 million, to be collectively supported across several development partners (WB, US MCC, USAID, Swedish SIDA and AusAID, see Section 1.5). NPSTAR was intended to support close to half (46 percent) of this program through loan financing, notably including an emphasis on the last two components. The other partners provided support through grant funding.[2] For the program to succeed, however, not only progressive implementation of institutional reforms in BIR needed to align to recurrent pressures for meeting revenue targets, but also the reluctance to pursue more fundamental governance reforms in BIR had to be overcome, including around human resource management. In this context, the Bank's support for BIR was from the outset risky. While more fundamental governance and staffing reforms would have significantly accelerated the transformation of BIR's tax administration, the appetite for more rapid and assertive reforms of the organization at the time was limited. The project was therefore built on the premise that a strong interest in enhancing BIR tax effort would also drive an adequate prioritization of business process and HR change management actions, rather than short term measures to prop up revenues.

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[2] As explained subsequently, the original design for NPSTAR appears to have been as a TA project. For a number of reasons, the Philippines was reluctant to borrow for TA. This meant that the project was converted to a broader national support program instrument.

8. **BIR institutional transformation remains hinged on the tenure of the current leadership.** The authorizing environment greatly improved for the BIR in the second half of NPSTAR implementation, owing largely to the President's strong support for governance reforms. While this significantly improved the reform trajectory towards achieving the PDO, sustaining or institutionalizing these gains beyond the administration remains a challenge that can only be achieved by deeper involvement of oversight agencies and external stakeholders.

1.2 Original Project Development Objectives (PDO) and Key Indicators

9. As BIR's NTAP, NPSTAR's Project Development Objective (PDO) focused on a set of twin objectives, namely:

- Increase taxpayer compliance by increasing the *Efficiency* and *Effectiveness* of the BIR; and
- Enhance BIR capacity to undertake a *Sustainable* and long-term reform program.

10. The PDO was to be assessed against a set of six key performance and two outcome indicators. By project component, these were:

Component A: Tax Compliance

1. A unified/integrated and comprehensive registration system with complete and up-to-date taxpayer information
2. Increase in the number of stop-filer cases arising from erroneous/invalid registration information eliminated from registration database
3. Increase in the number of taxpayers over estimated potential number of unregistered taxpayers

Component B: Tax Enforcement and Control

4. Increase in the number of accounts receivables (AR) settled and improved settlement process

Component C: Human Resource Development and Management

5. Increase in the use of performance management system (PMS) for office and staff appraisal and development

Component D: Management Tools, Change Management and Project/Program Management

6. Increase in the use of output and outcome indicators in internal management reports

Intermediate outcome indicators

1. Increase in external expectations of reform accomplishments

2. Increase in staff awareness and understanding of the need for reform as well as the reform

11. The indicators were designed to measure not just improvements in the core functions of tax administration (compliance and enforcement) but also the agency's capability to implement and manage long term reforms, including the effect on stakeholders.

1.3 Revised Key Indicators, and reasons/justification

12. NPSTAR was restructured and extended by the end of 2011. Originally anticipated to close at the end of 2011, the project was extended to end-June 2013. The PDO and four components were not altered, but performance indicators were revised. The justification can be summarized as two-fold:

(i) New leadership of BIR in mid-2010, shortly after a new administration came into power in June 2010. This development provided a significant new impetus to institutional reform efforts at BIR, notably still fully aligned to the PDOs. At the end of 2010, utilization rate stood at only 16 percent (BIR data). During the first three years of NPSTAR, there had been significant turn-over in BIR leadership and apparent limited appetite to drive forward change management reforms in the agency. The performance of NPSTAR during this period mirrored this weak leadership and was rated as Moderately Unsatisfactory for 18 months until it was upgraded in July 2011 as the renewed reform effort gained momentum. The extension of the NPSTAR provided for an existing mechanism to advance reform investments in the organization. In 2011, the US Millennium Challenge Corporation (MCC) also initiated a major new project with a USD 45 million grant commitments for BIR. The continued engagement of the World Bank through NPSTAR was also seen providing important contributions in the area of change management and human resource reforms.

(ii) The key indicators for NPSTAR were proving problematic for measuring progress with respect to the PDOs. This was due mostly to the fact that measuring a number of these were difficult because of the lack of accurate data even at the BIR district levels. Of note are "stop-filer cases arising from erroneous or invalid registration information" and accounts receivables. Furthermore, effective solutions to these problems will require comprehensive strategies encompassing different BIR functions and perhaps systems enhancements. Therefore the reformulation of project indicators was done to better align with available data sources. For instance, the gap in taxpayer base, which was previously measured against a theoretical "potential" tax base, was now compared to the labor force. While the objective was met for some, other revised indicators remained plagued by inaccurate or unavailable data (e.g. filing compliance and arrears). Three PDO indicators were revised, 4 were continued while 1 was dropped and 2 were newly introduced (see **Table 4**). For intermediate indicators, 1 was revised, 1 was dropped while 2 were newly introduced. In 2009, a taxpayer survey had been implemented, but this reported exceptionally high satisfaction with BIR. The broad measure was now

seen as credible by the new leadership, although the value of external stakeholder views was seen by both the BIR management and task team to merit continued scrutiny.

13. The reformulated project indicators are presented below by project Component.

Component A: Tax Compliance

1. A unified/integrated and comprehensive registration system with complete and up-to-date taxpayer information
2. Registered taxpayer as a percentage of the labor force
3. Percentage of filers over total registered taxpayers for corporate income tax
4. Percentage of filers over total registered taxpayers for personal income tax
5. Increase in the number of new registered taxpayers

Component B: Tax Enforcement and Control

6. Increase in the number of accounts receivables (AR) settled and improved settlement process
7. Amount of arrears collected in year n as a percentage of potentially recoverable arrears in year n-1

Component C: Human Resource Development and Management

8. Increase in the use of performance management system (PMS) for office and staff appraisal and development

Component D: Management Tools, Change Management and Project/Program Management

9. Use of operational indicators in BIR quarterly reports and of agency-level KPIs in BIR annual report

Intermediate outcome indicators

1. Percent of respondents who said that BIR services have met their expectations in the ease of conducting transactions
2. Percent of respondents who said that BIR services have met their expectations in generating satisfying results
3. Percent of BIR staff awareness of the project involved in tax reform

1.5 Original Project Components

14. NPSTAR was structured in four components to be implemented over a period of five years with indicative annual costs as follows (in million USD):

Table 1: Indicative Annual Cost per Component

	FY 07	FY 08	FY 09	FY '10	FY '11	Total
Tax Compliance	1.35	0.86	0.64	0.75	--	3.59
Tax Enforcement	0.26	1.03	0.41	0.02	--	1.72
HR Development	0.40	1.12	0.71	0.10	--	2.33
Mgmt/CM/Proj	0.71	1.07	0.88	0.71	--	3.36
Total	2.75	4.08	2.62	1.58	--	11.0

Source: NPSTAR PAD

15. While the first two represent core functions of tax administration (e.g. registration, filing, payment including enforcement of collections and audit), the next two represent support functions in HR management, internal audit and project and overall reform management – this spoke to the way BIR operated and reformed institutionally over time to respond to a broader metric of tax administration measures. Taxpayer service strategy was also limited to support returns filing issues. NPSTAR was not designed to cover other major functions of tax administration such as rulings/legal, appeals and the development of the core tax administration system as cross-cutting support function. Below is a description of the four components and sub-components, and planned contributions by other development partners as articulated in the PAD:

Component A: Tax Compliance

Tax registration and verification: This component was to finance the consulting assistance necessary to develop a cost-benefit based registry verification and clean-up strategy, as well as efforts to identify non-registered taxpayers.

MCC would finance the computerization of the remaining 77 non-computerized BIR district offices.

Stop-filer and e-services: This component was to finance consulting assistance to establish the exact nature and dimensions of the stop-filer problem.

Component B: Tax Enforcement and Control

Arrears Management and Accounts Receivable: This sub-component was to support technical assistance to analyse and evaluate the arrears inventory, estimate ease of "collectability" and amount to be collected, design a strategy for collection. In addition, it would finance the arrears clean-up exercise and the development of an accounts receivable system.

Case preparation and prosecution: Activities under this sub-component were to also include support for tax enforcement efforts by strengthening the ability of the BIR to prepare non-RATE cases for prosecution.

The Run after Tax Evaders (RATE) This component was to provide support in the form of technical assistance for the installation o f a case monitoring system and a workflow/automated archiving system.

MCC was to finance training in case preparation and equipment for RATE.

SIDA was to finance the development of and training for risk-based audits, including software and equipment for computer-based audits.

Component C: Human Resource Development and Management

Human Resource Development and Management: This component was to finance activities the support the modernization of the Human Resources (HR) function.

MCC was to finance the development of a human resource management information system (HRMIS)

Performance Management System: This component was to finance consulting assistance to undertake the review and implementation of the USAID-financed organizational and individual performance management system in the mid 2000's.

AusAID was to finance training on the use of the PMS.

Component D: BIR Management, Change Management, and Program Management

Governance and management: This component aimed to increase management capacity through improved strategic planning and quality assurance, a Senior Management Information System (SMIS), and the strengthening of the Internal Audit Unit (IAU) to increase internal control, including an assessment of major integrity risks and the preparation of an Integrity Plan (IP).

Change management: 14 percent of Bank financing was to consist of change management activities such as external and internal information dissemination campaigns, workshops, and information dissemination materiel, with staff and user surveys to provide feedback.

Tax reform administration: This component was to finance the strengthening of the TRAG, through training, technical assistance and office equipment.

This component was also meant to finance activities and feasibility studies to prepare the BIR for the next steps in reform, such as a new organization, improved performance indicators, and the introduction of budget programming and cost accounting systems.

1.6 Revised Components

Unrevised

1.7 Other significant changes

Closing date was extended by 18 months, from December 31, 2011 to June 30, 2013.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

16. **In principle, the NTAP, and underlying support through NPSTAR, provided a compelling platform to support the government's wider objective of fiscal consolidation through enhanced tax effort.** The program/project design drew on a significant body of diagnostic analysis in advance of the preparation (including with the IMF). Available evidence suggested that tax compliance (and notably enhancements in the registry base) and improved enforcement would be pivotal to enhancing tax effort. At the same time, the program recognized the needs for more sustained institutional strengthening in the BIR through HR measures, change management, and systematic reform project management. In this regard, NPSTAR also deepened wider World Bank support for improved tax administration through a DPL program launched just prior at the end of 2006. One of the DPL's initially met prior actions was also that "The Borrower has established a high-level tax reform administration group in the BIR to implement its tax administration and reform agenda." This was met with the creation of the Tax Reform Administration Group (TRAG), the BIR's reform unit, in 2008.

17. **The World Bank was also able to draw on significant prior operational engagement with BIR.** The experience of the 1993-1999 TCP project and its subsequent institutional development impact highlighted the importance of BIR's authorizing environment both in terms of meeting revenue targets, the importance of committed leadership to drive BIR institutional reforms, and ensuring that BIR staff across various levels and parts of the organization collaborate in the implementation of reforms. The lessons would also serve to guide the Bank's project management scope during supervision. The TCP experience also highlighted the need to move beyond a primary reliance on IT systems investments. But while government was clearly focused on enhancing tax effort, the depth of ownership was arguably open to question in BIR for the NTAP or DoF/President's Office (to drive its implementation).

18. **A progressive sequencing of reforms efforts in BIR clearly identified as a requisite path to generating sustained gains in the agency's tax effort.** Rather than invest heavily on IT systems, NPSTAR placed a premium on providing strategic change management support to prepare the organization for potential future larger systems investments. The design team of NPSTAR recognized the need to enhance the BIR's tax collections effectiveness, but moreover, that deeper underpinning systemic changes were needed in the organization to sustain gains in collection performance from a tax administration modernization program. The previous spectre of having staff disruptions at BIR hold revenue collections hostage, coupled with apparent legislative and legal hurdles, however also underscored the need to promote a gradual but progressive trajectory of reforms.

19. **There was some ambiguity as to whether NPSTAR was a program or TA operation.** The original design of NPSTAR apparently envisioned the project as a TA operation. However, government was apparently adverse to borrowing for TA.

Consequently, NPSTAR was converted into a national program operation, while retaining much the same focus on activities. Given a receptive authorizing environment for reforms at the outset of the project, this distinction could have ultimately not been that material. Given waning strategic reform ownership during the first phase of the project, this meant effectively a weakening of possibly anchor points for the project.

20. **NPSTAR built on a number of lessons drawn from the Bank's long-standing engaged with tax administration reforms in the Philippines.**

i. The need for visible, top management support – the organization of a reform Steering Committee composed of senior managers was, at that time, thought to be a reasonable assumption in establishing reform ownership by BIR;

ii. Inadequate change/closure of nonperforming subcomponents – performance indicators were meant to assist in identifying slow performing subcomponents, while a decision on their continuation or modification was to be formally made during supervision missions;

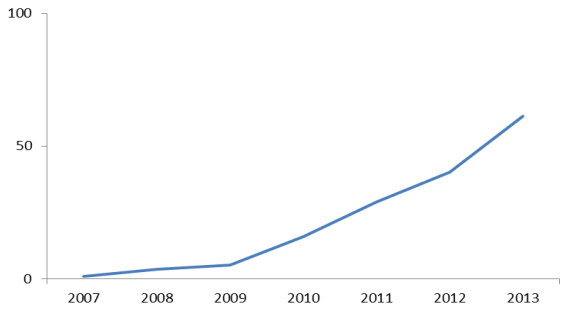
iii. Institutional modernization as an iterative process – encouraging the semi-annual revision/updating of the program action plan during supervision missions;

iv. Need for immediate gains to gain program credibility – understanding that short-term successes are essential to enhance the credibility of the reform and facilitate political support;

2.2 Implementation

21. **NPSTAR's cumulative annual disbursement profile provides an initial snapshot of annual implementation progress.** The first two years of implementation were particularly slow, followed by some pick-up through enhanced project management between 2009-2011. By the end of 2009, utilization was 5.33% versus an initial plan of 86%. Implementation accelerated with the appointment of a new Commissioner under a new administration in mid-2010. While NPSTAR was expected to see a full investment of its resources with its extension at the end of 2011, execution only reached just over 61.3 percent by closing (see Figure 2).

Figure 2. NPSTAR CY Disbursement Profile



Source: BIR Reform Unit, by CY

22. The following describes key factors that affected NPSTAR implementation:

a. **Soon after becoming effective, NPSTAR implementation confronted a significant waning of apparent reform ownership.** While the government's pre-occupation with fiscal crisis had waned, BIR continued to be confronted with short term pressures fore revenue mobilization. The DPL ISR, Annex 7, of September 2009 provides a detailed review of waning tax reform efforts during this period. BIR also made limited effort to advance efforts to enhance its tax payer registry. Between 2005 to 2010, four (4) Commissioners were successively appointed to the BIR with an average tenure of just 15 months each. Throughout this period, the BIR cycled through 3 different reform plans/operational plans/priority activities developed between 2 Commissioners, as the last one had yet to release his priority actions in early 2010.

i. Revenue Memorandum Circular 12-2006 – BIR vision/mission and strategy map, February 2006
ii. NTAP – overall reform plan, developed in 2006
iii. Revenue Memorandum Circular 83-2008 – BIR vision/mission, Dec. 2008
iv. Revenue Memorandum Order 21-2009 – BIR priority programs, June 2009

b. **The constant shift in priorities meant that implementing long term measures suffered.** Thus the turn-over of Commissioners was accentuated by weak institutional continuity in the BIR reform unit, allowing staff-count to fluctuate between 10-16. The observed initial portfolio of prioritized activities under NPSTAR underemphasized more strategic and change management oriented initiatives (see Annex 2 Outputs by Component). For instance, the project's procurement plan for 2008 tended towards IT and IT related activities such as the enhancement of electronic filing, registration clean-up and backlog encoding, without any sense of strategy formulation towards the underlying issues surrounding the registration database update issues. During this period the IT focused support from MCC and SIDA were successfully delivered.

c. **Project implementation activity picked up in 2009, but still in the absence of revitalized or comprehensive reform program.** During this brief period, the reform unit had consolidated operations through increased monitoring of ongoing projects, implementing these and paying the consequent bills. This caused disbursements to triple to 16% by the end of 2010. In this period, two Commissioners were appointed, with the last remaining in office for just 7 months. In February 2010, Revenue Memorandum Circular 10-2010 was issued, now directing the Bureaus attention to 108 priority activities/projects. This was to remain in effect until it was again replaced with a medium term strategic plan in July 2011.

d. **A change in administration and BIR leadership in 2010 saw renewed attention to reforms in the agency.** The new government came to power on a platform of good governance, but has also seen a fall in tax to GDP ratios

approaching 12 percent. A new Commissioner was appointed in end-June 2010 and continues to remain in office more than three years later. Upon her appointment, the new Commissioner ordered the carrying out of a gap analysis based on best practices. This signalled the prioritization of and encouraged the development of long term reform planning at the BIR. In early 2011, the BIR reform and planning units jointly facilitated a session with key BIR officers and staff, producing a medium term strategic plan for 2011-2016 (RMO 23-2011 and RMO 30-2011). Subsequent plans that were developed were an IT plan (through the MCC IT tax project) and a reform masterplan (2013) as an operational follow up to the strategic plan. These developments served to further bolster the move to restructure and extend NPSTAR. With long term reform planning underway, the BIR's reform unit has also been able to fully staff its plantilla, which now stands at 42 including local core tax administration experts.

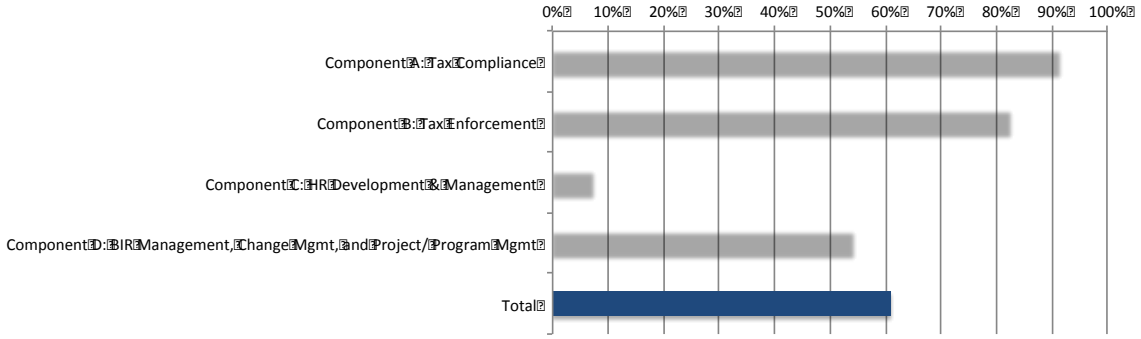
e. **The strengthened reform momentum for BIR also saw significant renewed support from development partners.** The entry of the USD45 million MCC project to the BIR in mid-2011 significantly changed the landscape for NPSTAR. With the reform focus now on the development of the electronic tax information system (eTIS), NPSTAR funds have been channelled mostly to developing support systems that will eventually be integrated into the core-eTIS. However, still consistent with NPSTAR project components, notably tax compliance and enforcement, this was supported by the Bank's supervision teams. This has allowed the financing of several IT focused activities, funded under NPSTAR (see Annex 2, Table 6).[3]

f. **Given initial lags, the World Bank made a concerted effort to improve notably HR, change and project management initiatives under the project**. Figure 3 suggests, relative investment implementation in HR Development & Management significantly trailed all other components. While a central rationalization plan had been approved from DBM during this final phase, the regional offices rationalization plan was still pending. In turn, there seem to be limited traction on major efforts at HR reform, beyond some preparatory investments and facilitating workshops (in part funded through an on-going PER TA). While BIR has targeted completed disbursements at 80% in 2012, in the final analysis it was unable to complete about 10 IT projects prior to closing. Funding for the bulk of these projects will be sourced by the BIR through other means.

[3] Strategic packages include a registration update strategy (this includes enabling taxpayers to update information online, however implementation of this package has not started), a taxpayers service strategy and a competency-based HR mechanism. Also developed and supported by other development partners, notably the IMF, include a risk-based compliance strategy, audit strategies based on focused (rather than comprehensive) audits and more effective tax arrears management.

g. **Full effect of IT packages supported under NPSTAR will be felt upon integration into the MCC eTIS (electronic tax information system).** Out of a total of 23 packages under Tax Compliance and Tax Enforcement Components, 13 are IT and IT-related packages. This also represents about 90% of the total value of packages between the two NPSTAR Components. The full potential of a number of these packages, such as tax registration and filing related projects will be realized once these are integrated into the MCC eTIS project which is scheduled for late 2014 at the earliest.

Figure 3. Component Implementation



2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

23. **M&E Design**. The TRAG, and subsequently the Project Management and Implementation Service (PMIS), with the assistance of the BIR Policy and Planning Service is responsible for monitoring the project outcomes and results through the project indicators. The restructuring process sought to address some of the apparent limitations around the first indicator set, although some degree of continuity was apparent (see Annex 2, Table 2 and Table 3). The nine project indicators all project components. The three intermediate outcome indicators also sought to capture progress with respect to BIR broader institutional reform efforts by both external and internal stakeholders.

24. **The timely and comprehensive preparation of project monitoring reports continue to present a significant challenge for BIR.** The PMIS has been diligent in monitoring the indicators, and submitting these to the Bank during supervision missions. However, these reports were plagued with significant data problems – either the data could not be produced or was inaccurate. Annually, the BIR is requested to present voluminous amounts of information for submission to oversight agencies and Congress which it accomplishes by manually gathering information from its field offices, every year. While BIR is in possession of a sophisticated management dashboard (using SAS), this tool can only generate information on aggregate and field level tax collections. Even after closing, M&E information has lagged. Various Aide Memoires have emphasized BIR's need to improve data provision. One project indicator remains unmeasured. Meanwhile, all three Intermediate Results Indicators have not been measured beyond an initial baseline, which itself appear to confront measurement issues (see Annex 2).

25. **Stakeholder response and feedback remains unmeasured.** This was originally measured in a 2009 survey, however the BIR Commissioner instructed to redo the survey for reporting extremely high rates of satisfaction by both internal and external stakeholders. To date, the BIR has attempted to bid out the service resulting in failure twice and now planned for 2014. BIR states in its website that it intends to actively pursue this next. This has delayed original plans to institutionalize stakeholder feedback to help strengthen compliance strategies. The Millennium Challenge Account Philippines however is currently implementing a contract to measure stakeholder responses, as baseline for a planned public awareness campaign. In the meantime, independent surveys confirm marked improvements in the BIRs perceived sincerity in fighting corruption.

2.4 Safeguard and Fiduciary Compliance

26. **Financial Management.** The project was generally rated with moderately satisfactory financial management performance and with moderate FM risk throughout the life of the project. There were points where financial management implementation had been rated moderately unsatisfactory and financial management risk was assessed to have become substantial. Issues raised during these periods included (i) delays in the processing of billings from supplies/consultants, (ii) inadequate control over receipt of supplies/purchases, (iii) delays in the submission of financial reports as required in the loan agreement, (iv) lapses in control particularly in the procurement of goods and timely reconciliation of accounting records and ledgers on property, plant and equipment, and (v) delay in the appointment of consultant for the capacity building of the Internal Audit Division. Most of the agreed financial management actions arising from FM implementation reviews were properly addressed and resolved before the next review mission.

27. **The project has substantially complied with the financial covenants which include the submission of the quarterly Interim Financial Reports (IFR) and the annual audited project financial statements, despite some delays.** Out of the six audit reports received on the audit of the project financial statements, four audit opinions were unqualified or clean opinion while two (CY2010 and 2011) have qualified audit opinions. Among the issues raised by the Commission on Audit (COA), the supreme audit institution mandated to conduct the external audit of the project, included (i) negative cash balance in the 2010 project financial statements due to unrecorded fund transfer, and (ii) uncertainly on the effects of the technical review still being conducted by the Technical Audit Specialists on the systems audit being conducted at the time of audit in 2011. The issues were subsequently addressed. Other observations by COA as included in the Management Letter were either fully or partially complied with as reported by COA in the subsequent audit/follow up.

28. **Total loan disbursement at the end of the disbursement deadline date amounted to US$6.7 million or 61% of the total loan amount of US$11 million.** Among the reasons for the low disbursements included (i) delays in awarding of contracts which also delayed the implementation of project activities and non-submission of deliverables by the closing date; and (ii) incomplete supporting documents for the billings

of some consultants resulting to non-payments of the billings by the disbursement deadline date.

29. **Procurement**. Overall, at project closing date, procurement implementation was rated as moderately satisfactory. Delays in procurement implementation was experienced during the initial 2-3 years of project life because of: (a) frequent changes in the items to be procured as shown by the a number of revisions in the Procurement Plan; (b) lack of capacity in the preparation, processing and finalization of Terms of Reference or Specifications for the technical assistance needed by various BIR end-user units; (c) multiple reviews of documents; and (d) inadequate knowledge on Bank's procurement procedures by member of Bids and Awards Committee – Tax Reform Administration (BAC-TRA). As remedial measures to address the delays and to increase capacity: (a) trainings were conducted for the BAC-TRA and those involved in the procurement process; (b) a consultant was hired to write terms of references; and (c) procurement steps were streamlined.

30. **To demonstrate its commitment to improve its agency procurement system, the BIR volunteered to be one of the pilot agencies for the implementation of the Agency Procurement Compliance and Performance Indicator (APCPI) system that is supervised by the Government Procurement Policy Board (GPPB).** The APCPI objective is to have a continuing process of identifying strengths and weaknesses in the procurement system, and to have an action plan to address the weaknesses. For a period of 3 years from 2009 to 2011, BIR's APCPI ratings improved from a low of 1.23 points (maximum of 3.00points) in 2009 to 1.98 points in 2010 to 2.06 points in 2011. Starting late 2010 up to 6 months before the final closing date in June 30, 2013, under the leadership of the new Commissioner, the BAC-TRA implemented the Procurement Plan and procured several contracts that resulted to an improvement in project disbursements. In early 2013, however, the Procurement Plan underwent 3 revisions to accommodate changes in Management policies. Thus, a number of bidding processes were either delayed or cancelled and not implemented. This drastically reduced the utilization of the loan proceeds.

31. As to compliance to the Procurement requirements of the Loan Agreement, there was substantial compliance in: (a) procurement planning; (b) the implementation of fiduciary requirements for prior review; (c) the use of the bidding documents and forms; and (d) the implementation of the Procurement and Consultant Guidelines.

2.5 Post-completion Operation/Next Phase

32. **The major concern remains the institutionalization, or full follow through and implementation of activities under NPSTAR.** No follow-up operation is envisioned, although BIR is taking forward a number of projects, particularly those that could not be completed prior to NPSTAR closing. The growing number of development partners in the BIR is also supporting further institutionalization of a number of activities. Four notable outcomes include:

1. *The Project Monitoring System (PMS).* Through NPSTAR the PMS was completed in late 2012. Along with system development, the project provided capacity building for users (PMIS and operations) and managers. With a functioning PMS the BIR, with assistance from the IMF, is developing a detailed reform master plan containing over 40 reform projects that will be implemented over the next few years. With the PMS these reform projects will be monitored on a timely and relevant basis. The simple, systematic, and periodic implementation monitoring of the portfolio of all reform projects, and constituting activities, in BIR likely to be of significant practical benefit going forward.
2. *The competency-based HR manual*. During the last year of implementation, the WB actively pushed for a strategic approach to HR reforms. This lead to the development of a modern competency-based HR mechanism for BIR HR management. However, this output was never fully implemented under the project. In the meantime, with AusAID support, the government is currently developing a Public Financial Management Competency Framework (PFM-CF). The project proposes a framework that will identify, recruit, maintain, develop and manage competencies for PFM related expertise to be applied across the entire government. Armed with a competency-based HR manual, the BIR is well poised to implement the PFM-Competency Framework (PFM-CF).
3. *Tax Payer Assistance Facilitation.* Through NPSTAR BIR has developed 38 eLounge sites around the Philippines. These sites will be vital in the development and implementation of a future taxpayer assistance strategy.
4. *Business Process Reengineering.* Now guided by the BIR strategic plan, ongoing business process reengineering, and in-depth IT planning guided by the MCC funded development of the Electronic Tax Information System (eTIS), there are a number of IT projects (e.g. database consolidation, audit tracking, case management, etc.) that were developed/enhanced and awaiting integration into eTIS.

33. At a broader policy level, the World Bank continues to support the Department of Budget and Management (DBM) in potential reforms to the *rationalization plan framework.* Initiated in 2004, and recently slated for termination, the plan has arguably hampered more timely and fitting efforts to better align BIR organization, staffing, and incentives structures to its overall mandate and performance objectives. Providing BIR with a more flexible modernization framework, in concert with the DBM, has the potential of advancing some of the HR reform and change management processes that have lagged under NPSTAR implementation.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

34. NPSTAR's objectives were highly relevant to the CASs (2005-9 and 2010-12/3) and the Philippine Development Plan (2011-2016), which are anchored on inclusive

growth and poverty reduction. Greater tax administration efficiency and effectiveness through long-term and sustainable reforms is key to achieving inclusive growth and reducing poverty in the long run. Low tax to GDP ratios remain a perennial challenge for the Philippines, with improvements in BIR tax administration proving to be a significant key to addressing this challenge. The project design, overall, was effective and also remains relevant. The emphasis on and prioritization of HR and change management is important in any reform that seeks to implement institutional change.

3.2 Achievement of Project Development Objectives

35. NPSTARs contribution can be gauged by BIR progress on key functions – compliance and enforcement – but also its longer term institutional ability to sustain improvements in tax effort and modernization efforts. The project indicators/ intermediate outcome indicators suggest that BIR has made some, but only partial progress to these objectives (see Table 2, Table 3 and Table 5). A rating of Moderately Unsatisfactory is appropriate whether one assesses the achievement of the PDO based on the original or revised indicators as majority of these remain unmet or unmeasured (see Annex 2). But despite a protracted start, the project provided a platform of existent support for BIR leadership notably during the latter part of the project. The extent to which BIR institutional reforms – reflecting the second part of the PDO – remain vulnerable to changes in individual leadership remains a concern.

36. **The reform project management structures initiated under the NTAP/NPSTAR are beginning to gain traction.** Advances to the PDO are reflected in the current structure of reform management and the strengthening of reform planning and monitoring, specifically this refers to the organization of both the reform Steering Committee and the tax reform unit (formerly the TRAG, but now known as the PMIS). Both were written as covenants to the loan. The Steering Committee, which continues to meet regularly, has enabled BIR management to meet exclusively on reform matters without the distraction of pressing day-to-day needs. The reform unit has been officially recognized in the BIR through the approval of its National Office Rationalization Plan in 2010. Its membership has therefore steadily grown from 10 in 2007 to 42 at present. The manner in which this unit has been staffed by various tax administration experts has been effective at placing the necessary core expertise needed to design reform specifications and inputs. NPSTAR has also made significant contributions to tax enforcement, notably to the RATE program, in continuing to build capacity and managing external expectations on the program. Following a gap analysis in 2010, BIR issued its own medium term reform plan and associated indicator for the medium term.

37. **Incomplete registration has hampered definitive measurements of improvements in overall tax compliance.** NPSTAR tax compliance measures looked to capture the ratio of actual filers/payers against the population of liable taxpayers. The main challenge in this regard has been the large degree of historical under-enumeration and updating of a registry of respective taxpayers (e.g., corporates, individuals, wage earners). Therefore the inability to efficiently update registration information has also meant that the registry is also riddled with inactive taxpayers (see Annex 2, Table 2 and Table 3.)

38. **Tax compliance in the Philippines under BIR responsibility continues to confront a number of challenges.** Overall analysis suggests that the tax base for both companies and individuals remains narrow (World Bank 2011, IMF 2011). The BIR lacks a comprehensive and up-to date registry of taxpayers. Given the historical primary emphasis on meeting revenue targets, the tendency has been to focus on capturing mainly large and immediate taxpayers. The large taxpayers' office has focused on a more systematic enumeration of bigger corporates. For example, one emphasis by the BIR over the past few years has been to shift the management of large taxpayers' accounts from regional to the central office. The thrust of this move was based on the assumption that the national office would be more professional and effective in managing this tax source. The number of these transfers was however limited to just over 2,000 in recognition of capacity challenges of the Large Taxpayers Service (LTS), while still accounting for close to two thirds of total tax collections by volume. Given that the perceived revenue yield to effort of a broader set of individual or corporate taxpayers is more limited relative to the investment of creating and maintaining an up-to-date registry.

39. **The lack of an up-to-date taxpayer registry also causes problems in filing compliance.** The extremely low filing ratios (number of actual filers against the registered taxpayers for corporations and individuals) is also a manifestation of a registry that has not updated the list according to whether taxpayers are still active or not. However, given that there is a gap between potential and actual taxpayers, one cannot discount the fact that actual filing compliance is low.

40. **Managing and measuring tax arrears or accounts receivables have historically been weak in BIR.** This problem was again a symptom of an excessive focus on collecting current revenues, versus investing heavily on potential collections that may or may not generate revenue in the future. This lack of attention in the past did manifest in the low baseline for the NPSTAR indicator on arrears. During appraisal, the total arrears of the Bureau was pegged at PhP4.5 billion. Due to better account management, the BIR now reveals this to be PhP296 billion. Since 2 years ago, the IMF has been giving TA to help BIR improve its process and mechanisms in managing arrears. Since late 2012, a compliance council has been organized to handle, among others, the problem of arrears. Today in four key field offices of the BIR, a number of teams are tasked to collect from taxpayers with unpaid tax balances. What has not been completed though, and due to its sheer volume, is a complete inventory of what are still potentially recoverable from the existing stock of arrears.

41. **BIR has issued its operational performance indicators but shows weakness in monitoring and using this for performance management.** In 2011 and 2012, BIR issued its agency and operational level key performance indicators. The agency level indicators are published in the BIR website for three years (2010-2012), however it has yet to produce the operational indicators – which is more granular drilling down on more detailed performance indicators at district office and up.

3.3 Efficiency

42. The NPSTAR PAD mentions that the effective implementation of a "relatively small" reform program (NPSTAR) designed to improve tax administration will yield significant payoffs in terms of more revenues that translate to increased spending in infrastructure and social services, thereby improving the country's competitiveness and reduce poverty.

43. Recent developments show an improving trend in the Philippines' tax to GDP ratio however, the project remains hard pressed to lay claim to this. The World Bank (PQU, 2010 to 2013) reports that this improving trend is primarily due to more effective tax enforcement activities, such as the Run After Tax Evaders (RATE) program of the BIR. In tax enforcement, BIR through NPSTAR invested under 10% of the total NPSTAR loan, less than the programmed 15%. Moreover, close to 90% was invested in just completed IT projects that have yet to be integrated into the MCC funded eTIS (see Figure 3). Until such time, the benefits to having these systems remain limited.

44. In a span of three years, the tax effort increased from 12.1% in 2010, to 12.4% in 2011 and to 12.9% in 2012. This occurred despite a decrease in revenue performance of the Bureau of Customs, whose effort ratio dropped from 2.9% of GDP in 2010 to 2.7% in 2012. Therefore, the BIR improved its collection performance by 1% of GDP in three years. This improvement translated to a little over PhP100 billion in 2012.

45. Through the RATE program, the number of tax evasion cases under the Aquino Administration increased to 153 this year alone, compared to the 23 cases in 2010 (http://perangbayan.com/). Also for 2013, the BIR targets to increase the number of self-employed individual taxpayers (SEIT) from 402,000 to 1.8 million and to reach a PHP 200,000 average tax collection per SEIT. However, the number of convictions arising from these cases filed remain limited.

46. Implementation of the BIR reform program is underway, and is managed through a reform master plan while monitoring progress of individual packages is possible through its performance management system. For the BIR, increasing revenues means tackling the need to increase the tax base from which the BIR levies taxes, but more importantly, that this gets translated into comparable improvements in filing compliance and ultimately into payments. During the span of NPSTAR, filing efficiency ratios for corporate and personal income tax (see revised PDO indicators, Table 2) only marginally improved, reinforcing the argument that the upward trajectory in the tax effort to date results from greater enforcement activities.

3.4 Justification of Overall Outcome Rating

Rating: Moderately Unsatisfactory

47. Overall, the PDO was, at best, only partially achieved whether assessed on the original or revised indicators (see Table 2, Table 3, and Table 5 in Annex 2). As per revised indicators, of the nine PDO indicators, four were met while four were not, with one yet unmeasured (potentially recoverable arrears remains undefined at BIR).

Meanwhile, all three intermediate outcome indicators, to gather stakeholder feedback on the reforms, remain unmeasured. Arguments may be made on the quality of support to the RATE program, which further bolstered the BIR's performance. However, this as well as other packages under NPSTAR and other development partners currently in BIR, have yet to fully take hold and translate to improvements in filing compliance. While this may eventually translate to an increase in efficiency, the project team bases its rating on the current status of the indicators.

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

None

(b) Institutional Change/Strengthening

48. **The current institutional reform trajectory in BIR is by all accounts positive.** But most observers would concur that this reform trajectory remains dependent on the current authorizing environment and BIR leadership. The litmus tests for a consolidation in BIR remains will be how it fares in the context of transitions of either its own leadership or the wider political landscape. Historically BIR has been prone to political capture and weaknesses in governance. Building the type of institutional resilience that will make the agency largely immune from these types of pressures remains vulnerable.

49. **Basic reform project implementation and internal change management remains a challenge.** Achieving technical gains (effectiveness and efficiency in tax compliance and enforcement) requires assistance to core tax administration functions, while introducing institutional change requires a different strategy. In the BIR prospects for institutional transformation capable of sustaining technical gains over the long term remain moderate for the BIR. The agency has received assistance in the past to re-design and strengthen its technical capability through tax administration modernization. This continues to happen in the core areas of tax registration, filing of returns and payment of taxes, audit, enforcement and management of arrears, and legal enforcement. However, examples of institutional transformation that successfully implemented tax administration reforms had designed programs that also incorporated changes to an agency's support function, notably HR management (e.g. Peru and South Africa). The comprehensive approach to reforms enabled an agency to improve its technical capability while complementing this with an effective change management program. No program at present exists for the BIR that incorporates effective HR management, management and organizational flexibility and change management to complement technical and functional improvements. Delays in basic project implementation during the final phase of NPSTAR underscored that even with a strong reform unit, actual project implementation can often be delayed across functional units.

4. Assessment of Risk to Development Outcome

Rating: High

50. **The greatest risk to the development outcome is a leadership change in BIR to one that is less reform oriented.** As BIR history shows, changes in leadership were often accompanied by consequent changes in both strategic and operational priorities where the succeeding plans had served to completely replace the previous one. Where continuity is essential to achieving sustained gains, this risk is rated as **high**. Experience in tax administration reform efforts, especially where IT systems are involved, show that increase in efficiency and effectiveness is a result of sustained improvements on how entities like the BIR operates, records and makes use of information, usually achieved over a period of time. With 3 years left for the current administration before national elections are held, there is only enough time for the BIR to build its IT system (eTIS) with institutionalization (e.g. capacity building and other change management activities) being left to the succeeding leadership. Continued emphasis must also be placed on improving the timeliness and integrity of performance indicators that measure BIR's reform progress, whether by oversight agencies such as the DoF or the broader public.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

Rating: Moderately Unsatisfactory.

51. **At inception, NPSTAR assumed broader ownership for a reform strategy reflected in the NTAP.** Against this backdrop, the project components were sufficiently balanced to deliver assistance to a broad category of core tax administration functions as well as critical support functions, overall risk and identified individual risks, for the most part, accurately depict the situation at that time, lessons learned were considered and successfully incorporated, and, which provided sufficient safeguards against possible deficiencies and weaknesses during implementation. In ensuring quality at entry, NPSTAR was fully aligned to support the BIR reform plan. But NPSTAR represented a gambit in the sense that it assumed that efforts to improve tax efforts would be aligned with real ownership around reforming/modernizing BIR.

52. **The project performance indicators design did not ensure the availability of accurate data.** If this was not entirely possible at the time, or was found deficient during the project duration, then strategic activities to ensure the production of accurate data could have been pursued more actively during execution. Furthermore, the risk from a "lack of sustained political commitment to the reform and possible change in administration" was severely underestimated – a critical ingredient to implementing an NPS facility. Even as this was so, a counter-argument may be put forth, in that prevailing knowledge and experience at the time led the design team to reasonably conclude that by allowing the BIR's top management to lead reforms (via the reform steering committee setup), was sufficient to ensure staff "buy-in" for the reform program.

(b) Quality of Supervision
Rating: Moderately Unsatisfactory.

53. **During the first three years of implementation, the Bank supervision teams clearly struggled to strike a balance between taking "quick wins" and achieving long term meaningful gains.** However as pointed out earlier, the authorizing environment at the time, pressured by the need to raise immediate revenue, had shown little interest in pursuing long term reforms through more strategic packages (e.g. HR and change management). Earlier aide memoires focused on quick wins rather than more strategic packages that take longer to implement. In this respect, the Bank supervision teams during this period, despite having a clear mandate to review/assess and make strong recommendations on the prevailing reform trajectory then, did not sufficiently exercise this. As articulated in the aide memoires (i.e. Oct 2009, Mar and Apr 2010), the Bank team repeatedly called the attention of the BIR on the slow progress in backlog encoding and data matching exercises. However, without the benefit of a clear registry clean-up strategy, jumping to such activities may lead to less than efficient outcomes, especially since this would have to be a recurring activity just to maintain "clean" and up to date data. Although there was a call to form such a strategy (Oct 2009 AM), it must be noted that this was only developed, via Bank assistance, during the gap-analysis exercise in 2011. The same may be said for arrears management and taxpayer services.

54. **During the last three years of NPSTAR, the more conducive environment was clearly reflected in the Bank's supervision missions.** In this period, strategies for taxpayer services (Taxpayer Service Strategy) and registration were developed by the Bank. The Bank sought to provide more proactive support for advancing HR and change management reforms, including through supplementary TA activities. At the same time, BIR continued to be subject to lags in reporting notably intermediate indicators even after restructuring. Arguably the Bank could have been more forthright seeking a more timely resolution of these information gaps, which continue to pose a challenge even for the ICR phase. While the Bank was not provided with the best conditions in the first phase of the project, it appear to make a best faith effort to advance reforms. However, given the on-going delays in efforts to resolve the monitoring indicators, a rating of MU for the first phase of the project. Proactive engagement in the final phase of the project would merit a more satisfactory rating, but is again weighted down by delays in arriving at monitoring indicators in a timely fashion. Given the longer phase of the initial period, the rating would therefore average to MU rather than MS.

(c) Justification of Rating for Overall Bank Performance
Rating: Moderately Unsatisfactory.

55. **The World Bank was not successful in averting some of the key limitations of implementing NTAP/NPSTAR.** Given the national program support modality inherent in the project, implementation was clearly contingent on continued ownership and support both within BIR and key stakeholders such as DoF. For a number of years, however, the Bank allowed the program to proceed in the absence of an apparently clear and well sequenced master reform plan. Moreover, gaps in indicators were dealt with from supervision to supervision mission, rather than taking a more pronounced stance. It

should be noted that 2009-10, the overall relationship between the Bank and the government has experienced some strains, including as they related to governance and corruption issues/investigations. While country management sought to advance the dialogue with the counterpart, more assertive measures specifically with regards to NPSTAR – either through restructuring -- would not have proven especially productive.

5.2 Borrower Performance
(a) Government Performance
Rating: Moderately Unsatisfactory

56. **Government ownership and implementation drive for tax administration reform was weak for much of the projects lifetime.** Following appraisal, apparent government commitment quickly waned as BIR leadership was constantly pressured by DoF/the Presidency and consequently changed for failing to meet headline revenue targets. This average 15 month tenure of four (4) Commissioners did little to provide guidance, stability and credibility to multi-year comprehensive reform programs such as NPSTAR. As shown earlier, over the course of six years from 2006 to 2011, five reform/operations/priority plans were developed and implemented during the term of the sitting leadership. As argued earlier, this created uncertainty and hesitation to the leadership and management of the reform program, and was only corrected midway through the project. The experience over the past 8 years only highlights the reality that a stable leadership at the helm of BIR is absolutely necessary to sustain the momentum of long term reform programs. The evaluation of the first phase of NPSTAR would merit an unsatisfactory rating. Owing to some progress in the second phase of the project meriting potentially a marginally satisfactory rating, a overall rating of MU is proposed.

(b) Implementing Agency or Agencies Performance
Rating: Moderately Unsatisfactory

57. **BIR reform implementation for much of NPSTAR proved at best partial.** Especially in the early phase of the project, there was limited commitment or drive to advance a strategic reform plan and implement associated activities accordingly. Key weaknesses HR management and change management activities, two key packages that would have lent immense credibility to the BIRs reform program then – as well as the pick-up during the latter years. This pick-up however was cut short by failure of BIR to follow through on key packages that were procured and implemented late. Although the PMIS has shown immense improvement in project management, it shares this task with other players in the BIR, notably the Information Systems Group for IT projects and the Operations Group for non-IT projects.

58. **Timely production and disclosure of key performance and management indicators remains a challenge for BIR.** Agency reporting systems have remained fragmented and lacked automation. While various efforts have been made to establish management dash boards, these have tended to be at best only partially functional. Ratio measures for taxpayer compliance have been subject to uncertain denominators owing to incomplete firm or individual taxpayer registries. This has undermined the accurate calculation of respective base-lines and trends. Moreover there are no established

mechanisms to gain feedback on perceptions of BIR performance from internal or external stakeholders. Consequently efforts in this regards have tended to be ad hoc, and not very effective in arriving at trends.

(c) Justification of Rating for Overall Borrower Performance
Rating: Moderately Unsatisfactory

59. **While tax administration reforms supported by NPSTAR have accelerated towards closing, overall borrower performance has had a number of limitations.** As per its design, NPSTAR was predicated on a reasonable commitment by BIR to change management and HR reforms. During the initial phase of implementation this was absent. The second phase of NPSTAR, following the appointment of a long-standing Commissioner in 2010 was subject to a significant improvement in the reform drive in BIR. The project management unit also took on an increasingly proactive role in coordinating and following up on project and activities being finance by NPSTAR. However project execution remained dependent on decentralized implementation across units. This continued to be associated with delays in project implementation notably for IT packages. Towards the end of NSTAR the Commissioner and the project management unit have also been making a more systematic use of the reform masterplan in strengthening project accountability, but until late there continues to be challenges with reliable performance indicators. DoF also took a more proactive role in monitoring BIR collection numbers at a more granular level. On balance, the rating for the first phase of the project would be unsatisfactory, which is offset by marginally satisfactory for the latter part of the project (owing to continued lags in M&E indicators and implementation lags).

6. Lessons Learned

60. **IT projects/automation on their own will not deliver institutional reforms.** Potential vested interests inside and outside the agency have historically posed a significant barrier to achieving an authorizing environment for deeper reforms. While fiscal crises have often provided a call for reforms, implementing these reforms requires a more extensive constellation of factors. Reforms around BIR have been a balancing act of ensuring continuous revenue flows, while seeking to advance more transformational changes in the organization. But actually delivering on change management and human resources management, even if acknowledged as being critical, does not come easy.

61. **NPSTAR proved to be highly dependent on reform leadership within but also outside of BIR.** Reforming the BIR is beyond technical in nature. Any reform program for the BIR must confront two issues: (i) for the most part BIR, and its people, perform functions the way it does because it is optimal to do so; and therefore (ii) achieving sustainable gains requires behavioural change in BIR. For instance, the extreme emphasis in meeting collection goals has prevented the organization from undertaking reforms that may disrupt short term performance. Similarly, audit is treated by auditors as a mechanism for immediate collections and less to strategically encourage compliance in the long run.

1. **A comprehensive reform program for an institution like the BIR requires the active participation of oversight agencies.**

   a. **External agencies should hold BIR reforms to account.** In its role as oversight agency, DoF can play a constructive role by seeking to hold BIR to account for not just ad hoc revenue targets. During implementation, DoF Secretary should ideally monitor BIR performance indicators to help ensure continuity of reform program despite potential changes in Bureau leadership. For example, aside from the NPSTAR project indicators, BIR also has Agency-Level KPIs which have been published for 2010 and 2011 (www.bir.gov.ph/pgs/bir_pgs_as_acc_report.htm), and Operational KPIs which it is currently gathering. This is important in allowing BIR performance to be assessed more broadly, away from just short term collection targets.

   b. **As a pre-requisite, DBM to provide sufficient managerial flexibility to BIR in terms of budgeting and human resource arrangements.** Designing such a mechanism may be challenging especially in a rules-based, compliance oriented environment. But such a mechanism will enable BIR management to reorganize more quickly, and enable the assignment or appointment of competent personnel to full time reform work.

   c. **An effective set of project indicators requires ensuring the integrity of the data**. If this is not possible (i.e. the set of indicators would not accurately measure progress towards meeting the PDO) then the project could support activities that ensure the credibility of the data.

d. **Phasing project implementation with clear pre-requisites to proceed with succeeding phases.** In the case of NPSTAR, the implementation of both HR management related activities and change management during the first 2 years as a condition for the continuity of the project.

e. **Revenue pressures should not be confused with commitment to deeper institutional reforms for tax administration.** Institutional and human resource reforms are often deeply challenging, and often politically contested. While particularly fiscal crisis can provide an opening of instituting tax administration reforms, they cannot sustain them. Other sustained drivers such as concerns with good governance or the modernization of the bureaucracy are required to advance more medium to long term reforms.

2. **Citizens/taxpayers need to become part of the reform agenda at both design and implementation stages.** While tax administration reform leadership and ownership from within BIR has proven critical for progress, external stakeholders within and outside government are critical to reinforcing and sustaining institutional modernization. Within government, the DoF and the Office of the President continue to be critical stakeholders. However, a broader popular demand, and appreciation, for modern tax administration is critically interlocked with reform champions in government. The DoF, in collaboration with BIR, has recently launched a major public campaign around tax compliance and accountability. The traction of these reforms will also hinge on the wider public acceptance of government responsiveness and integrity, including on the expenditure side. The experience of NTAP/NPSTAR suggests that close attention should be paid to monitoring and assessing responses from existing tax payers, but also the broader public. This information should feed into strategies that can reinforce the drive for technical and institutional reforms in tax administration.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/implementing agencies

The ICR was presented and discussed with the Commissioner of Internal Revenue and the head of the BIR reform unit (PMIS) on separate occasions on December 16 and 17, 2013, following early briefings on the overarching approach to the report. While the Commissioner has stated that she has no comments on the report, BIR does not formally object to but neither endorses the findings of the assessments. The preference has been to take the report as an independent product of the World Bank. The experience in the first half of NPSTAR implementation only confirms the Commissioner's sense that reforms in an institution like BIR cannot be driven by external donors, but can only be led by the institution itself. To quote Commissioner Kim Jacinto-Henares: the result of the first half of the program versus the second half merely confirms what I have been saying from day one, the success of any reform or assistance must be recipient driven and not donor driven. Reforms that are donor driven will have very little chance of succeeding no matter how much money or effort thrown at it by the donor agency.

The BIR recognizes the initial difficulties encountered during the early years of implementation (2007 - early 2010) but notes the significant progress now being made in institutionalizing the reforms envisioned under the NTAP/NPSTAR. NPSTAR has been able to provide a number of critical building blocks in this reform effort, which is duly noted in Section 2.5 of the report. The BIR, in the meantime, plans to continue making use of these to move the reforms and help deepen institutional changes.

(b) Cofinanciers

None

(c) Other partners and stakeholders
(e.g. NGOs/private sector/civil society)

None

Annex 1. Project Costs and Financing by Component (in USD million equivalent)

Project Component	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD million)*	Ratio of Actual to Appraisal Estimate per Component
Component A: Tax Compliance	3.59	3.28	91.4%
Component B: Tax Enforcement	1.72	1.42	82.5%
Component C: HR Development & Management	2.33	0.17	7.3%
Component D: BIR Management, Change Mgmt, and Project/ Program Mgmt	3.36	1.82	54.2%
Total Required	**11.0**	**6.69**	**61%**

*Latest available data from BIR, as of 11 November 2013

NPSTAR provided support to 37 activities/projects. These are analyzed in detail in Annex 2, Table 6, including scored by perceived contribution to the PDO/respective modules.

Annex 2. Results and Analysis of the PDO Indicators and the Intermediate Outcome Indicators

This annex is broken down into two sections: (i) a weighted analysis of pre- and post-restructuring PDO indicators and intermediate indicators, (ii) a drill down analysis of packages financing under the respective components. This is meant to elucidate the way in which the overall PDO/results indicators were supported by individual packages.

A. Results and Analysis of the PDO Indicators and the Intermediate Outcome Indicators

Per ICR guidelines (OPCS August 2006), the overall rating (Table 5) is based on a combination of assessments done against the revised (Table 2) and original (Table 3) PDO indicators, weighted by the relative value of disbursements before and after revision. Table 4 provides a comparative summary overview of the pre- versus post-restructuring indicators.

Since the last Implementation Status Results (ISR) in April 2013, there has been no progress in these indicators. Of the nine PDO indicators, 4 have been met, 4 have not been met, and 1 is unmeasured. Likewise, all three IRIs have not been measured.

Compliance: The two compliance indicators concerning Corporate and Personal Income Tax filling efficiency have not been met. This low ratio is a symptom of BIR pursuing larger and more "lucrative" tax payers to meet its revenue targets. To meet revenue targets, the commissioner has continued to focus on revenue mobilization not filing efficiency. However in October 2012, the Commissioner passed an issuance making filing a part of individual performance appraisal for Regional and District Heads, with data to be collected on a quarterly basis starting at the beginning for 2013. As of today, this data has not been completely generated.

Enforcement: Comprehensive and timely measurement + reporting of arrears/accounts receivable remains a major concern in BIR. The IMF continues to provide TA to improve this area, which is beginning to show signs of improvement in terms of collecting from arrears. However, an accounting of what is potentially recoverable has yet to be completed.

However, progress is evident in other aspects of enforcing tax laws. In tax fraud, the RATE program continues to deliver on its mandate to file high-profile cases every other week, while IT solutions have recently been developed that will allow BIR access to sales and other transactions directly from taxpayers (i.e. eSales, eAccReg, GIS and eORB).

BIR Management: Operational indicators were issued in October 2012, however BIR has been unable to generate this data for use by management. An office under the Commissioner, called the Program Management Service is in charge generating the data via submissions from field offices (regions and districts). Incomplete submissions from the field have stalled the process.

All three (3) intermediate results indicators have not been measured and are not expected to be available in time for the ICR. Both taxpayer and BIR staff satisfaction surveys (a baseline in 2009 and a follow up in 2010) were funded under NPSTAR. In 2011

Commissioner Kim Henares, who found the results to be exceedingly positive, instructed the BIR to re-do the survey under local funding. To date no bid has been successfully awarded, but is targeted for bidding in 2014. In the meantime, the MCC (through its local implementing arm, MCAP) is currently implementing a contract with the Social Weather Station (SWS) to gather feedback from internal and external stakeholders to guide reform activities.

Table 2. Revised PDO Indicators

	Revised Indicators	Baseline	Target	Actual/Status	Remarks	Rating	Value
I. Tax Comliance							
1 =	A unified/integrated and comprehensive registration system with improved up-to-date taxpayer information.	Registration database for clean-up as of 2006: 385,000 corporate and 6.3 million	single database for all taxpayers	ITS database consolidation project in 2011. Met since 2011		MU	3
2 ≠	Percentage of filers over total registered taxpayers for corporate income tax	35% for CIT (2010)	85% of taxpayers in database file returns the following year	37.1% Dec 2012 Unmet	Does not include information from data processing divisions in Quezon City and Caloocan. Outdated registration information also adds to low filing rate		
3 ≠	Percentage of filers over total registered taxpayers for personal income tax	29% for PIT (2010)	85% of taxpayers in database file returns the following year	31% Dec 2012 Unmet	Does not include information from data processing divisions in Quezon City and Caloocan. Filing efficiency also suffers due to greater weight given to revenue performance of BIR		
4 =	Increase in the number of new registered taxpayers	1.3 million over 2004-2005	5% annual increase	7.59% Dec 2012. 5-year average growth of 12.5% Met since 2007 (except 2010)			
5 =	Registered taxpayer as a percentage of the labor force	44.4% (2010)	47%	51.6% Dec 2012. 48.3% in 2011 Met			
II. Tax Enforcement							
6 ≠	Increase in the number of accounts receivable (AR) settled and improved settlements process.	PhP4.5 billion from 2003-Aug 2006	10% annual reduction in outstanding AR	Unmet	Current BIR estimate of AR is now PhP296 billion (in BIR website)	MU	3
7 ≠	Amount of arrears collected in year n as a percentage of potentially recoverable	PhP4.5 billion from 2003-Aug 2007	10% annual reduction in outstanding AR	Unmeasured	"Potentially unrecoverable" is undefined for BIR. However, ongoing cleanup of arrears		
III. HR Development and Management							
8 =	Increase in the use of performance management system (PMS) for office and staff appraisal and development	PMS developed and piloted in LTS and some offices	Institutionalization of PMS for all offices and individuals	Met since Oct 2012	BIR issued 2 formal documents: RMO 29-2004 for individuals (per civil service guidelines) RMO 24-2012 implementing operational KPIs	MS	4
IV. BIR Management/Change Management/Project Management							
9 ≠	Use of operational indicators in BIR quarterly reports and of agency-level KPIs in BIR annual report	Limited use	Routine use by Management Committee	Unmet	Generation of operational KPIs remain incomplete as of November 27, 2013	MU	3
Intermediate Outcome Indicators							
1 ≠	Percent of respondents who said that BIR services have met their expectations in the ease of conducting transactions	85.2% (2010)	87%	Unmeasured		MU	3
2 ≠	Percent of respondents who said that BIR services have met their expectations in generating satisfying results	81% (2010)	90%	Unmeasured		MU	3
3 ≠	Percent of BIR staff awareness of the project involved in tax reform	79.5% (2010)	82%	Unmeasured		MU	3
					Overall	**MU**	**3.14**

Table 3. Original PDO Indicators

Original Indicators							
	Original Indicators	**Baseline**	**Target**	**Actual/Status**	**Remarks**	**Rating**	**Value**
I. Tax Comliance							
1 ≠	Increase in the number of stop filer cases arising from erroneous registration information eliminated from registration database	Invalid stopfilers identified from registration clean-up process	80% of invalid stop-filers arising from erroneous/invalid registration are identified	Unmeasured	Target value has not been identified, since registration clean-up remains incomplete		
2 =	Increase in the number of new registered taxpayers over estimated potential number of unregistered taxpayers.	1.3 million between 2004 and 2005	Annual increase of at least 5%	Met 7.59% Dec 2012. 5-year average growth of 12.5%	Potential number of unregistered taxpayers have not been measured for the project	MU	3
3 ≠	A unified/integrated and comprehensive registration system with improved up-to-date taxpayer information.	385,000 corporate and 6.3 million individuals	80% of taxpayers at anytime have up-to-date and complete profiles in database	Unmeasured	Target value has not been identified, since registration clean-up remains incomplete. Altough registration continues to increase between 2009 to 2012 from 15 to 21 million		
II. Tax Enforcement							
4 ≠	Increase in the number of accounts receivable (AR) settled and improved settlements process.	PhP4.5 billion from 2003-2006	10% annual reduction in accounts receivable	Unmet	Current BIR estimate of AR is now PhP296 billion (in BIR website)	MU	3
III. HR Development and Management							
5 =	Increase in the use of performance management system (PMS) for office and staff appraisal and development	PMS developed and piloted in LTS and some offices	Institutionalizatio of PMS for all offices and individuals	Met since Oct 2012	BIR issued 2 formal documents: RMO 29-2004 for individuals (per civil service guidelines) RMO 24-2012 implementing operational KPIs	MS	4
IV. BIR Management/Change Management/Project Management							
6 ≠	Increase in the use of output and outcome indicators in internal management reports and decisions	Routine use by management	Increased use	Unmet	Generation of operational KPIs remain incomplete as of November 27, 2013	MU	3
Intermediate Outcome Indicators							
1 ≠	Increase in external expectations of reform accomplishments	Results of survey to be conducted at the start of the loan	80% of expectations are commonly shared	Unmeasured	Taxpayer and employee satisfaction surveys were conducted in 2009 and 2010, but no follow up survey has	U	2
2 ≠	Increase in staff awareness and understanding of the need for reform as well as the reform	Results of survey to be conducted at the start of the loan	70% of staff indicates high level awareness and understanding of the reform	Unmeasured	been carried out. However through MCAP, stakeholder feedback will be measured with results later this year	U	2
					Overall	**MU**	**2.83**

Table 4: Original versus Revised Indicator Set

	Original Indicators	Baseline	Target		Revised Indicators	Baseline	Target	Actual/Status	Remarks
	I. Tax Comliance								
1	Increase in the number of stop filer cases arising from erroneous registration information eliminated from registration database	Invalid stopfilers identified from registration clean-up process	80% of invalid stop-filers arising from erroneous/invalid registration are identified					Unmeasured	Target value has not been identified, since registration clean-up remains incomplete
2	Increase in the number of new registered taxpayers over estimated potential number	1.3 million between 2004 and 2005	Annual increase of at least 5%					Unmeasured	Potential number of unregistered taxpayers have not been measured for the
3	A unified/integrated and comprehensive registration system with improved up-to-date taxpayer information.	385,000 corporate and 6.3 million individuals	80% of taxpayers at anytime have up-to-date and complete profiles in database					Unmeasured	Target value has not been identified, since registration clean-up remains incomplete
				1	A unified/integrated and comprehensive registration system with improved up-to-date taxpayer information.	Registratio database for clean-up as of 2006: 385,000 corporate and 6.3 million	single database for all taxpayers	ITS database consolidation project in 2011. Met since 2011	
				2	Percentage of filers over total registered taxpayers for corporate income tax	35% for CIT (2010)	85% of taxpayers in database file returns the following year	37.1% for CY 2012 Unmet	Does not include information from data processing divisions in Quezon City and Caloocan. Outdated registration information also adds to low filing rate
				3	Percentage of filers over total registered taxpayers for personal income tax	29% for PIT (2010)	85% of taxpayers in database file returns the following year	31% for CY 2012 Unmet	Does not include information from data processing divisions in Quezon City and Caloocan. Outdated registration information also adds to low filing rate
				4	Increase in the number of new registered taxpayers	1.3 million over 2004-2005	5% annual increase	7.59% for CY 2012. 5-year average growth of 12.5% Met since 2007 (except 2010)	
				5	Registered taxpayer as a percentage of the labor force	44.4% (2010)	47%	51.6% for CY 2012. 48.3% in 2011 Met	

	Original Indicators	Baseline	Target		Revised Indicators	Baseline	Target	Actual/Status	Remarks
	II. Tax Enforcement								
4	Increase in the number of accounts receivable (AR) settled and improved settlements process.	PhP4.5 billion from 2003-2006	10% annual reduction in accounts receivable	6	Increase in the number of accounts receivable (AR) settled and improved settlements process.	PhP4.5 billion from 2003-Aug 2006	10% annual reduction in outstanding AR	Unmet	Current BIR estimate of AR is now PhP296 billion (in BIR website)
				7	Amount of arrears collected in year n as a percentage of potentially recoverable	PhP4.5 billion from 2003-Aug 2007	10% annual reduction in outstanding AR	Unmeasured	"Potentially unrecoverable" is undefined for BIR. However, ongoing cleanup of arrears
	III. HR Development and Management								
5	Increase in the use of performance management system (PMS) for office and staff appraisal and development	PMS developed and piloted in LTS and some offices	Institutionalizatio of PMS for all offices and individuals	8	Increase in the use of performance management system (PMS) for office and staff appraisal and development	PMS developed and piloted in LTS and some offices	Institutionalization of PMS for all offices and individuals	Met since Oct 2012	BIR issued 2 formal documents: RMO 29-2004 for individuals (per civil service guidelines) RMO 24-2012 implementing operational KPIs
	IV. BIR Management/Change Management/Project Management								
6	Increase in the use of output and outcome indicators in internal management reports and decisions	Routine use by management	Increased use	9	Use of operational indicators in BIR quarterly reports and of agency-level KPIs in BIR annual report	Limited use	Routine use by Management Committee	Unmet	Generation of operational KPIs remain incomplete as of November 27, 2013

	Original Indicators	Baseline	Target		Revised Indicators	Baseline	Target	Actual/Status	Remarks
	Intermediate Outcome Indicators								
1	Increase in external expectations of reform accomplishments	Results of survey to be conducted at the start of the loan	80% of expectations are commonly shared					Unmeasured	Taxpayer and employee satisfaction surveys were conducted in 2009 and 2010, but no follow up survey has been carried out. However through MCAP, stakeholder feedback will be measured with results later this year
2	Increase in staff awareness and understanding of the need for reform as well as the reform	Results of survey to be conducted at the start of the loan	70% of staff indicates high level awareness and understanding of the reform					Unmeasured	
				1	Percent of respondents who said that BIR services have met their expectations in the ease of conducting transactions	85.2% (2010)	87%	Unmeasured	
				2	Percent of respondents who said that BIR services have met their expectations in generating satisfying results	81% (2010)	90%	Unmeasured	
				3	Percent of BIR staff awareness of the project involved in tax reform	79.5% (2010)	82%	Unmeasured	

Table 5. Overall Rating against Original and Revised PDO Indicators

		Against Original Indicators	Against Revised Indicators	Overall	Comment
1	Rating	MU	MU	-	No significant improvement
2	Rating value	2.83	3.14	-	
3	Weight (% disbursed before/after Indicator change	49%	51%	100%	
4	Weighted value (2x3)	1.39	1.60	2.99	
5	Final rating (rounded)	-	-	MU	Unmeasured indicators keeps rating "below the line"
	Assigned value: Highly Satisfactory=6, Satisfactory=5, Moderately Satisfactory=4, Moderately				
		Unsatisfactory=3, Unsatisfactory=2, Highly Unsatisfactory=1			

Annex 2 (cont)

B. **Outputs by Component**

The BIR successfully procured 35 packages, including 44 projects, under NPSTAR between June 2007 and June 2013 representing 61 percent or USD6.75 million of the total USD11 million loan. Of the 35, 13 completed packages were procured between 2008 and 2010, while 21 were procured between 2011 and 2013 marking greater volume of activity during the second half of implementation. This increased activity in the second half is only highlighted by the vast difference in the value of completed projects. Between 2011 and 2013, 89 percent of total value of NPSTAR packages were procured and implemented, majority of which were IT and IT related.

Figure 4. Volume of Completed Packages

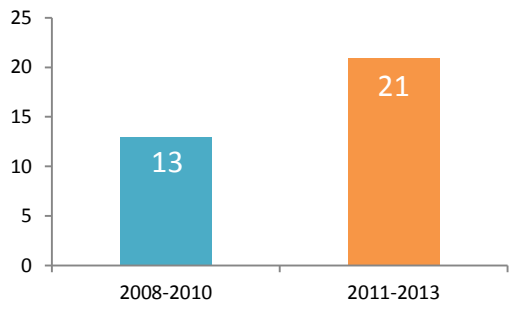
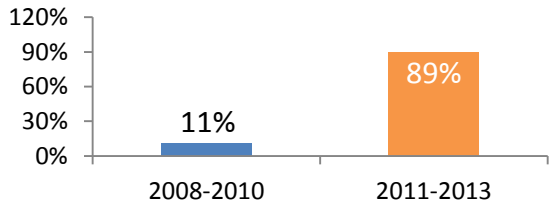


Figure 5. Value of Completed Projects



Source: BIR Reform Unit

The impact of these packages on the PDO is assessed below, per NPSTAR Component.

<u>Component A: Tax Compliance.</u>

Moderately Unsatisfactory. NPSTAR did not make a substantial contribution to the efficiency and effectiveness of tax compliance, as majority of the projects supported continue to have at best limited impact or no effect in achieving the PDO. To support tax

compliance, NPSTAR funded a total of 12 major projects, 6 directly supported tax registration, while the rest supported filing compliance, stop-filer and the development of the regional data center in Mindanao. BIR utilized 91% of planned allocation.

This component was designed to support activities that would develop strategies to address issues on the integrity of the taxpayer registry, as well as a cost-benefit based clean-up strategy, and establish the exact nature and dimensions of the stop-filer problem. NPSTAR supported a number of registration related projects and activities that arguably would have been much more efficiently carried out if such a strategy were in place to guide the overall effect on the registry. For instance, a comprehensive compliance strategy could identify groups or taxpayer types whose registry could yield the highest returns in terms of revenues. This could then be followed up through pro-active taxpayer services or tax mapping activities, to register and allow filing and payment of taxes. Enforcement activities (audit and collections) then ensure that the proper tax is paid. Throughout it all, a mechanism to ensure easy access to information update is necessary to ensure that the registry remains "clean". While activities were pursued to perform data-matching and information update, with no other registration related activities that encouraged the efficient update of information, then these would have to be periodically performed again and again. And as per aide memoires in 2009 and 2010, though encouraged, the backlog cleansing was never resolved. The Bank commented in 2009 that, by way of strategy, BIR should focus on the larger taxpayers. However, it was only in 2011 that an elaborated clean-up strategy was developed, aside from an overall strategic plan an IT plan that supports this, and an operational plan to allow timeline monitoring and management. It must be noted however that the BIR still has a long way to go before all these activities are accomplished and seamlessly integrated.

The BIR's filing compliance for companies and individuals remain very low compared to the indicator targets. This is driven by an excessive focus on current revenues, but also by outdated registration data which does not easily update as inactive or is tagged as "temporarily inactive". This has a tendency to understate actual filers when compared to the existing registry. A more strategic approach now exists at the BIR, a compliance strategy (for registration and filing) that makes use of taxpayer services and enforcement action, and the eventual development of a system that encourages easier updates. The BIR has also issued its operational indicators (2012) that balances between short term and longer term performance of an office and select individuals (regional and district heads). However, stalled data generation has prevented this from being routinely used for management purposes.

There are a number of activities in this component that are anticipated to have substantial impact. Of note is the database consolidation of the Integrated Tax System (ITS). Whereas in the past, the existing seven databases of the BIR were not fully integrated, this project accomplished that in 2011 with now a single login for all databases. Another is the eTIN enhancement which effectively expanded the coverage of this facility by making its use more efficient. The benefits of these projects will be fully realized with the development and integration into the eTIS.

Component B: Tax Enforcement and Control

Moderately Satisfactory. NPSTAR made substantial contribution in tax enforcement, but limited in internal audit. There were 11 major projects and activities supported under this component, 4 were IT projects, 4 were focused on the Run After Tax Evaders (RATE) program, 2 were on internal audit (advisory on structure and operations), and 1 to standardize collection enforcement. BIR utilized 82.5% of planned allocation.

Most of the progress in this component is highly attributable to the RATE program – its case preparation technique and capacity of staff, its campaign to instill fear of non-compliance and general awareness of the program. A tax evasion case becomes a RATE case if the intent to evade (criminal) is present. During the second half of NPSTAR, where 2 RATE cases have been filed each month, visibility has been key as a number of newspaper and television ads were supported under NPSTAR. These were guided by a communications plan and implemented by a communications consultant. Capacity of RATE lawyers were also improved, as on-the-job training was provided by a legal consultant that both helped prepare cases and training staff on prosecution techniques. All in all, there have been 179 RATE cased filed to date since mid-2010. It must be noted however that the conviction rate lags, as only 5 convictions have been secured since.

The ability of IT projects pursued to help enforcement may also be differentiated from other components in that benefits, though not maximized, may already be achieved even as they remain stand-alone units. Of note are the Tax Rulings and Case Management System (TRCMS) and the Electronic Letter of Authority Monitoring System (e-LAMS) for audits. Maximizing the benefits may be achieved once properly integrated into eTIS compliance modules at the least.

Although 2 important projects were carried out to help strengthen the organization and functions of internal audit, recommendations have not yet been presented and discussed thoroughly with the Reform Steering Committee. Internal audit in BIR remains arguably weak, with only cases for minor offenses being filed against erring employees.

Component C: Human Resource Development and Management

Moderately Unsatisfactory. Only one project was successfully pursued during the entire duration of NPSTAR, even as HR management related projects have been included in the Annual Procurement Plans since 2008. Utilization rate is only 7.3% of planned allocation.

It was only after the high-level gap analysis exercise/workshops facilitated by World Bank experts in early 2011 that plans to take HR reform further were more actively pursued. As the assistance from other development partners (MCC/MCAP and IMF) commenced in 2011, Bank assistance in this area was then focused on complementary projects that would help sustain functional improvements with more efficient placements of competent staff. Two projects were quickly identified, a reengineering of the HR process and a manpower planning process, to also guide reorganization efforts (Ratplan). However, due to time constraints and prolonged procedures, only the first project was

successfully implemented. NPSTAR assistance in this area ended with a reengineered HR management process, reflected in a competency-based HR manual, and improved capacity by HR staff to carry out certain HR functions, such as developing job descriptions which are vital in hiring, placements, performance monitoring and career management. Implementation of this manual will be implemented through the Public Financial Management Competency Framework (PFMCF) project supported under AusAID. Owing to efforts in the latter phase of the project, the component is rated MS rather than U (as evidence by very low execution levels).

Component D: BIR Management, Change Management, and Program Management

Moderately Unsatisfactory. It is more accurate to assess this in its 2 sub-components: governance and management, and, change management. NPSTAR is arguably more successful in its support for the first, than it was for the second. Utilization rate is only 54.2% of planned allocation.

Reform management has strengthened since the Tax Reform Administration Group (TRAG then headed by a Deputy Commissioner) was first organized in 2007. From an average staffing complement of 15, the TRAG (subsequently reorganized as Project Management and Implementation Service, now headed by one level lower Assistant Commissioner) staff has steadily grown since 2010 and at present numbers 42.

Table 6. Staff Complement of the PMIS

Position		2006	2007	2008	2009	2010	2011	2012	Present
Manage-ment	Senior (DCIR/ ACIR/ HREA)	1*	1*	1*	2*	2*	2*	2	2
	Middle	0	0	0	0	0	0	4*	4*
Technical (Project Officers)		7	10	10	9	8	8	10	10
Non-Technical (Admin/Support)		2	4	1	5	5	5	5	5
Core Expert/Technical Assistant		0	0	0	0	0	5	11	21
Total		10	15	12	16	15	20	32	42

*OIC
Source: BIR-PMIS

An important development was the creation of a "core group" of BIR tax administration experts, which has also been expanding in number. They are a vital component to the PMIS, lending their expertise in the formulation of new ideas for reengineering and policy purposes. Membership has grown from an initial 5 to 21, and is composed of experienced officers from the field representing all core functions of the BIR. This group has been vital also to the development of the BIR strategic plan (2011-2016), IT plan (by

guiding groups think through system specifications for eTIS) and the reform master plan. Governance and management however is weighed down by yet the absence in the use of operational indicators for management purposes. While a critical set of well-balanced (for instance the value of audit assessments are balanced by an indicator on actual collections from audit) indicators was developed in late 2012, data generation has so far been incomplete and as a result no reports have yet been generated to guide BIR management.

While the change management contract was implemented for 18 months starting mid 2010 to late 2011, arguably it was less than ideally timed and designed. Rather than a critical component to manage actual or anticipated change in behaviour, the contract was designed to introduce, train and communicate the principles of change management to a wide BIR audience.

Table 7. Projects by NPSTAR Component

Component	Project	Implementation Period	Value	Remarks	Assessed impact on PDO*
A: Tax Compliance	eTIN enhancement	Nov 2008 - Mar 2009	3,500,000.00	Increased efficiency on registration to be fully achieved with integration into eTIS	+, limited
	Engagement of data analysts/ programmers for matching BIR-LGU reg data	May 2009 - Nov 2009	2,390,000.00	Initial progress (in early 2010, 1033 (computerized) out of 1628 LGUs submitted data. Did not benefit from overall strategy, such as efficient mechanism to maintain up to date reg info.	No effect
	Engagement of data analysts/ programmers for reg cleanup and accounts receivable conversion	May 2009 - Nov 2009	2,350,000.00	Encoding continued until 2010 but backlog not eliminated; absent of an overall registration clean-up strategy	No effect
	Preparation and production of a comprehensive registration manual	Jul 2010 - Oct 2010	500,000.00	Necessary to standardize reg process across BIR. However, need overall strategy to monitor reg information	+, limited
	ITS database consolidation	Jan 2011 - July 2011	43,159,260.00	Necessary to consolidate 7 databases and provide single login. Can detect multiple TINs	+

Component	Project	Implementation Period	Value	Remarks	Assessed impact on PDO*
	Systems enhancement and integration of the electronic accreditation and registration (eAccreg) and electronic sales reporting (eSales) systems	May 2012 - May 2013	1,080,000.00	Delayed project, not completed under NPSTAR. Represents payment for inception report.	+, limited
	Information security-implementation and capacity building	May 2012 - Nov 2012	8,400,000.00	Part of IT integrity. However, database suffers from non-clean/non-updated info.	+, limited
	Electronic Official Registration Books (eORB)	May 2012 - Nov 2012	4,480,000.00	Supports electronic capture data of tobacco firms; no plans to expand coverage (i.e. suppliers)	+, limited
	Imaging of archived documents	Dec 2012 - Jun 2013	-	Commenced but not paid under NPSTAR	No effect
	Development and support for RDC Mindanao (various expenses)	2008 - 2009	6,076,821.00	1 Package with 6 projects. A sub-component of Component A	+
	Various goods and equipment	2009 - 2011	68,964,166.25	1 Package with 3 projects. IT, office and other non-IT equipment.	+, limited
	Strategic validation of registration clean-up	2008	5,223,440.32	Tax mapping project that was not completed due to non-delivery of output.	No effect
B: Tax Enforcement and Control	RATE - Media consultant	Oct 2009 - Apr 2010	300,000.00	Improved visibility of the RATE program	+

Component	Project	Implementation Period	Value	Remarks	Assessed impact on PDO*
	RATE - Legal consultant	Oct 2009 - Apr 2010	500,000.00	Improved internal case preparation and litigation technique	+
	RATE - communications agency	Apr 2011 - Mar 2012	1,971,200.00	Improved visibility of the RATE program	+
	RATE - public information campaign	2011	2,449,033.44	Improved visibility of the RATE program	+
	Enhancement of e-letter of authority monitoring system (eLAMS)	Aug 2011 - Feb 2012	4,995,200.00	Allows management to track audit cases. Will benefit eTIS. Not completed under NPSTAR	+
	Preparation of comprehensive collection manual (technical writer)	May 2010 - Jun 2011	1,231,570.00	Necessary to standardize collection enforcement practices, however did not benefit from an overall collection strategy	+
	Foreign internal audit advisor	Sept 2009 - Oct 2009	1,245,660.00	Recommendation to get local advisor carried out	+, limited
	Local internal audit advisor	Oct 2011 - Oct 2012	5,500,000.00	Most recommendations have not been discussed by RSC	+, limited
	Tax rulings and case management system (TRCMS)	Feb 2012 - Jun 2013	23,795,597.00	Improved standardization of tax rulings	+

Component	Project	Implementation Period	Value	Remarks	Assessed impact on PDO*
	Development of collection reconciliation system (CRS)	Aug 2011 - Aug 2012	8,665,000.00	Improves reconciliation of tax collections between field offices and the National Government	+, limited
	Enhancement of accounts receivable (AR) conversion system	Aug 2011 - Sept 2012	5,080,000.00	Enhances system to convert data under old data structure. However, stock and assessment of AR still incomplete	+, limited
C: Human Resources Development and Management	Strategic review of human resource processes in the BIR	Dec 2012 - Jun 2013	7,219,823.10	Modernized HR mechanism, through development of competency-based manual. For implementation with PFM-CF by next year	+, limited
D: BIR Reform, Change Management and Project Management	BIR technical consultant/advisor	Oct 2009 - Oct 2010	1,500,000.00	Advisor for project management and TRAG functions	+, limited
	TRAG consultant and TOR writer	Nov 2010 - Apr 2011	750,000.00	Advisor for project management and TRAG functions	+, limited

Component	Project	Implementation Period	Value	Remarks	Assessed impact on PDO*
	BIR performance evaluation survey	Jun 2009 - Dec 2010	6,000,000.00	Results reported very high rates of satisfaction by both internal and external stakeholders. A re-survey was ordered	No effect
	BIR financial consultant	Jul 2008 - Dec 2008	150,000.00	Build capacity for BIR Financial Management Unit	+
	Strategic planning workshop	Nov 2008 - Dec 2008	610,000.00	Did not provide stable long term reform plan	+, limited
	Change management of tax reform agenda	Jun 2010 - Dec 2011	19,600,351.68	SOW limited to principles of CM with limited effect on actual reform changes	+, limited
	Project management system (PMS)	Feb 2012 - Jun 2012	4,999,811.13	Allows effective management through timely monitoring. Feeds into Reform Masterplan.	+
	Enhancement of PMS	Jan 2013 - May 2013	4,880,000.00	Allows effective management through timely monitoring. Feeds into Reform Masterplan.	+
	Technical writer for revenue issuances from BPR	Dec 2012 - Jun 2013	750,000.00	Formatted results of reengineering into formal revenue issuances	+

Component	Project	Implementation Period	Value	Remarks	Assessed impact on PDO*
	Various goods and equipment	2008 - 2011	39,221,257.60	1 Package with 4 Projects. IT, office and other non-IT equipment	+, limited
Total PhP			287,538,191.52		

Annex 3. Economic and Financial Analysis

N.A. As an institution-building project, quantitative computations of rates of returns are not applicable.

Annex 4. Bank Lending and Implementation Support/Supervision Process

A. Task Team members

Names	Title	Unit	Responsibility/ Specialty
Agnes Albert-Loth	Sr. Financial Management Specialist	EASFM	FM
Rosa Maria Alonso-Terme	Task Team Leader		TTL
Eric Le Borgne	Lead Economist	MNSED	Tax Policy/Analysis
Karl Kendrick Tiu Chua	Senior Economist	EASPP	Tax Policy/Analysis
Ruth Maturan Cruz	Program Assistant	UDRUR	ACS
Michael Z. Figueroa	Information Assistant	EASFD	
Necitas B. Garcia	Program Assistant	SARDE	ACS
Swati R. Gosh	Advisor	PRMVP	Tax Policy/Analysis
Chiyo Kanda	Manager for Portfolio and Operations	EACPF	CMU
Aisha Lanette N. De Guzman	Financial Management Specialist	EASFM	FM
Kim Sy Jacinto-Henares	Senior private sector development specialist		TTL
Kai-Alexander Kaiser	Senior Economist	EASPP	TTL
Ulrich Lachler	Consultant	EAPCE	TTL
Rene SD. Manuel	Senior Procurement Specialist	EASR1	Procurement
Tomas Jr. Sta. Maria	Financial Management Specialist	EASFM	FM
Joseph G. Reyes	Financial Management Specialist	EASFM	FM
Nenette V. Santero	Program Assistant	AFTPM	ACS
Samuel Haile Selassie	Senior Procurement Specialist	SARPS	FM
Ramesh Sivapathasundram	Lead Information Officer	TWICT	IT
Vera Songwe	Country Director	AFCF1	Project Preparation
Maria Consuelo Sy	Program Assistant	EACPF	ACS
Cecile D. Vales	Senior Procurement Specialist	EASR1	Procurement
Enrique Fanta	Senior Public Sector Specialist		Tax Administration Reform
Raul Junquera	Senior Public Finance Specialist	LCSPS	Tax Administration Reform

B. Staff Time and Cost

Stage of Project Cycle	Title	
	No. of staff weeks	USD Thousands (including travel and consulting)
Lending		
FY 07		178,087.16
FY 08	15.78	96,227.64
Total	15.78	274,314.80
Supervision/ICR		
FY 09	29.24	77,884.11

FY2010	46.28	170,780.43
FY2011	18.68	152,688.15
FY2012	14.20	79,045.07
FY2013	13.17	82,058.28
Total	121.57	562,456.04

Annex 5. Summary of Borrower's Completion Report

Below is a summary of a draft "End of Project Report" by the PMIS for the BIR. This report was prepared using format for the National Economic and Development Authority (NEDA). Although dated June 2013, it remains a draft document.

DRAFT
END OF PROJECT REPORT

OF THE

NATIONAL PROGRAM SUPPORT FOR TAX ADMINISTRATION REFORM (NPSTAR)

June 2013

The BIR prepared ICR, which remains a draft prepared by the PMIS, shares the same views as this ICR (WB) in a number of critical areas. These are:

1. A realization by BIR that its registration database is unclean in 2009. This was admitted in reports from field offices.

2. Lack of personnel (in TRAG) to monitor the tax reform projects in 2009.

3. Frequent change in BIR administration and re-shuffle of staff had affected the implementation of reform projects in 2009.

4. Lack of standard policies in the Integrated Tax System (ITS-current corporate system of the BIR) to address registration-related errors. And need for strategy to guide the clean-up effort of the registration database in 2010.

5. Although silent on specific projects, the report also admits that some NPSTAR funded projects may not have addressed the "right issues". A follow up interview expounded this to mean the achievement of the PDO.

6. Shifts in policy directions, owing to the frequent changes in BIR leadership, had caused equivalent revisions to project scope (for ongoing activities) causing delays in implementation.

7. That the reform environment had improved drastically with Commissioner Henares.

These points are also at the center of this ICR's arguments and issues raised. The agency report remains a draft and as yet does not include recommendations at this time.

Annex 6. List of Supporting Documents

Critical Priorities in Tax and Customs Administration Reform. World Bank and IMF. February 2006.

End of Project Report. BIR. June 2013.

Implementation Completion Report. First Development Policy Loan. September 30, 2009

Implementation Completion Report. Tax Computerization Project (P004599). June 29, 2000

Millennium Challenge Compact Grant. Revenue Administration Reform Project (RARP). http://www.mcap.ph/rarp-rips

Performance Governance System (PGS) Agency Scorecard. 2011-2013. ftp://ftp.bir.gov.ph/webadmin1/pdf/pgs_bir_scorecard_2013.pdf

Philippines – Country Assistance Strategy for FY10-12.

Philippines Quarterly Update. Various dates from 2009 to 2013. The WBG

Professionalizing the PFM Workforce Phase 1 – Development of the PFM Competency Framework. Project Overview. Powerpoint Presentation. 2013

Project Appraisal Document. National Program Support for Tax Administration Reform. February 2007

Project Completion Reports for NPSTAR. BIR. Various dates from 2009 to 2013.

Reforming the Philippine Tax System: Lessons from Two Tax Reform Programs. Benjamin Diokno. UPSE Discussion Paper No. 0502. March 2005

Revenue Memorandum Circular 12-2006. BIR Mission-Vision Statement 2006. http://www.bir.gov.ph/iss_rul/issuances.htm

Revenue Memorandum Circular 10-2010. BIR Mission-Vision and Strategic Map 2010. http://www.bir.gov.ph/iss_rul/issuances.htm

Revenue Memorandum Order 23-2011. BIR Strategic Map 2011. http://www.bir.gov.ph/iss_rul/issuances.htm

Revenue Memorandum Order 30-2011. BIR Strategic Plan 2011-2016. http://www.bir.gov.ph/iss_rul/issuances.htm

Revenue Memorandum Order 31-2011. Agency Level Key Performance Indicators for CY 2011-2016. http://www.bir.gov.ph/iss_rul/issuances.htm

Revenue Memorandum Order 24-2012. Operational Key Performance Indicators CY 2012. http://www.bir.gov.ph/iss_rul/issuances.htm

Second Philippines Development Loan. To Foster More Inclusive Growth. February 15, 2013. PREM EAP. The WBG


IBRD 33466R4
PHILIPPINES
SELECTED CITIES
PROVINCE CAPITALS
REGION CAPITALS
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
PROVINCE BOUNDARIES
REGION BOUNDARIES
INTERNATIONAL BOUNDARIES
I Ilocos
1 Ilocos Norte
2 Ilocos Sur
3 La Union
4 Pangasinan
CAR Cordillera Admin. Reg.
5 Abra
6 Apayao
7 Benguet
8 Ifugao
9 Kalinga
10 Mountain Province
II Cagayan Valley
11 Batanes
12 Cagayan
13 Isabela
14 Nueva Vizcaya
15 Quirino
III Central Luzon
16 Aurora
17 Bataan
18 Bulacan
19 Nueva Ecija
20 Pampanga
21 Tarlac
22 Zambales
NCR National Capital Reg.
IV-A CALABARZON
23 Batangas
24 Cavite
25 Laguna
26 Quezon
27 Rizal
IV-B MIMAROPA
28 Marinduque
29 Mindoro Occidental
30 Mindoro Oriental
31 Palawan*
32 Romblon
V Bicol
33 Albay
34 Camarines Norte
35 Camarines Sur
36 Catanduanes
37 Masbate
38 Sorsogon
VI Western Visayas
39 Aklan
40 Antique
41 Capiz
42 Guimaras
43 Iloilo
44 Negros Occidental
VII Central Visayas
45 Bohol
46 Cebu
47 Negros Oriental
48 Siquijor
VIII Eastern Visayas
49 Biliran
50 Eastern Samar
51 Leyte
52 Northern Samar
53 Samar
54 Southern Leyte
IX Zamboanga Peninsula
55 Zamboanga del Norte
56 Zamboanga del Sur
57 Zamboanga Sibugay
--- Zamboanga City
X Northern Mindanao
58 Bukidnon
59 Camiguin
60 Lanao del Norte
61 Misamis Occidental
62 Misamis Oriental
XI Davao Reg.
63 Compostela Valley
64 Davao del Norte
65 Davao del Sur
66 Davao Oriental
XII SOCCSKSARGEN
67 North Cotabato
68 Sarangani
69 South Cotabato
70 Sultan Kudarat
XIII Caraga
71 Agusan del Norte
72 Agusan del Sur
73 Dinagat Islands
74 Surigao del Norte
75 Surigao del Sur
ARMM Autonomous Reg. in Muslim Mindanao
76 Basilan
77 Lanao del Sur
78 Maguindanao
79 Sulu
80 Tawi-Tawi
** Shariff Aguak (Maganoy) and Sultan Kudarat serve as co-capitals of the province.
* Executive Order 429, May 23, 2005, provides for the transfer of Palawan province (#31) from Region IV to Region VI; Administrative Order 129 holds EO429 in abeyance until an implementation plan is approved by the President.
Luzon Strait
Babuyan Channel
Luzon
Philippine Sea
Sulu Sea
Celebes Sea
Mindoro Strait
Mindoro
Palawan
Samar
Leyte
Cebu
Panay
Mindanao
MALAYSIA
PHILIPPINES
Manila
Quezon City
Cebu
Davao
Zamboanga City
Cotabato
Iloilo
Tacloban
Legaspi
Puerto Princesa
Cagayan de Oro
Butuan
Baguio
Vigan
Tuguegarao
Naga
Calapan
Dumaguete
Siquijor
Tagbilaran
Roxas City
Kalibo
Catarman
Borongan
Surigao
Tandag
Mati
Tagum
Digos
Koronadal
General Santos
Alabel
Isabela City
Jolo
Tawi-Tawi
Panglima Sugala
Basco
Batan Islands
Babuyan Islands
Polillo Islands
Lubang Islands
Busuanga
Cuyo Islands
Dumaran
Bugsuk
Balabac
Cagayan Sulu
Sulu
Basilan
Sarangani
Siargao
Dinagat
Catanduanes
Masbate
Tablas
Romblon
Marinduque
Burias
Leyte Gulf
Davao Gulf
Moro Gulf
Mindanao Sea
Visayan Sea
Sibuyan Sea
Samar Sea
Camiguin
Bohol
Negros
NCR
CAR
I
II
III
IV-A
IV-B
V
VI
VII
VIII
IX
X
XI
XII
XIII
ARMM
0 50 100 150 Kilometers
0 50 100 Miles
5°N
120°E
125°E
20°N
10°N
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MAY 2009