



Technical Assistance Report

Project Number: 48140-001
Capacity Development Technical Assistance
September 2014

Republic of the Philippines: Strengthening Treasury Operations and Capital Market Reform (Financed by the Japan Fund for Poverty Reduction)

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 18 August 2014)

Currency unit	–	peso (P)
P1.00	=	\$ 0.0228
\$1.00	=	P43.69

ABBREVIATIONS

ADB	–	Asian Development Bank
BTr	–	Bureau of the Treasury
TA	–	technical assistance

GLOSSARY

Bureau of the Treasury	–	The Bureau of the Treasury is an agency of the Ministry of Finance. Under Executive Order No. 449, it acts as the principal custodian of financial assets of the national government and its agencies and instrumentalities. The Treasury's official duties can be found at http://www.treasury.gov.ph/aboutbtr/mission_main.html .
On-the-run securities	–	In finance, an on-the-run security or contract is the most recently issued, and hence most liquid, of a periodically issued security. On-the-run securities are generally more liquid and trade at a premium to other securities. Other older issues are referred to as off-the-run securities, and trade at a discount to on the run securities.
Treasury single account	–	A Treasury single account is an essential tool for government cash management. It is critical for ensuring that (i) all tax and nontax revenues are collected, and payments are made correctly in a timely manner; and (ii) government cash balances are optimally managed to reduce borrowing costs (or to maximize returns on surplus cash). This is achieved by establishing a unified structure of government bank accounts via a treasury single account system.

NOTES

- (i) The fiscal year of the Government of the Philippines ends on 31 December.
- (ii) In this report, "\$" refers to US dollars unless otherwise stated.

Vice-President	S. Groff, Operations 2
Director General	J. Nugent, Southeast Asia Area Department (SERD)
Director	S. Hattori, Public Management, Financial Sector and Trade Division, SERD
Team leader	S. Schuster, Senior Financial Sector Specialist, SERD
Team members	S. Ismail, Financial Sector Specialist, SERD J. Mendez-Santos, Associate Project Analyst, SERD M. Parra, Operations Assistant, SERD
Peer reviewer	G. Giannetto, Senior Financial Sector Specialist, EARD

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE AT A GLANCE	
I. INTRODUCTION	1
II. ISSUES	1
III. THE CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE	3
A. Impact and Outcome	4
B. Methodology and Key Activities	4
C. Cost and Financing	5
D. Implementation Arrangements	5
IV. THE PRESIDENT'S DECISION	5
APPENDIXES	
1. Design and Monitoring Framework	6
2. Cost Estimates and Financing Plan	9
3. Outline Terms of Reference for Consultants	10
4. Initial Poverty and Social Analysis	14

CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 48140-001	
Project Name	Strengthening Treasury Operations and Capital Market Reform	Department /Division	SERD/SEPF
Country Borrower	Philippines Republic of Philippines	Executing Agency	Bureau of Treasury
2. Sector		Financing (\$ million)	
✓ Finance	Finance sector development		0.25
	Money and capital markets		0.25
		Total	0.50
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth Environmentally sustainable growth Regional integration	Pillar 1: Economic opportunities, including jobs, created and expanded Disaster risk management Pillar 3: Money and finance	Climate Change impact on the Project	Low
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development Knowledge solutions Partnerships Private sector development	Public financial governance Application and use of new knowledge solutions in key operational areas Implementation Private Sector Conducive policy and institutional environment	No gender elements (NGE)	✓
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Not Applicable	
6. TA Category:	B		
7. Safeguard Categorization	Not Applicable		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.00	
None		0.00	
Cofinancing		0.50	
Japan Fund for Poverty Reduction		0.50	
Counterpart		0.10	
Government		0.10	
Total		0.60	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		No	

I. INTRODUCTION

1. The finance sector strategy of the Government of the Philippines is anchored in the Philippine Development Plan, 2011–2016.¹ Reforms are to deepen the financial system through the balanced development of banking and capital markets.² To achieve these objectives, the government adopted a revised capital market development blueprint for 2011–2016. This blueprint includes a wide range of initiatives including sequenced steps to increase liquidity in the government bond market including the creation of market makers and the launch of an interdealer repo market with a master agreement.³ To complement these activities, the blueprint identifies efforts to strengthen the clearing and settlement system, including a more definitive framework for close-out netting.⁴ The government has asked the Asian Development Bank (ADB) to provide technical assistance (TA) to support this work.⁵ The TA is consistent with ADB's country partnership strategy, 2011–2016 for the Philippines and efforts to strengthen governance and reduce corruption through legal and regulatory reforms in budget execution and reporting.⁶ It is included in ADB's country operations business plan, 2014–2016.⁷

II. ISSUES

2. Budget execution continues to be less than optimal, with under-utilization rates averaging approximately 15% since at least 2004.⁸ Poorly developed public financial management along with the underdeveloped debt issuance process of the Bureau of the Treasury (BTr) have adversely affected government efforts to support infrastructure development and deliver social programs as envisioned in the Social Contract with the Filipino People (footnote 1). These issues have also produced explicit and substantial costs beyond inefficient budget execution. When coupled with an extremely complex and unpredictable set of budget disbursement procedures, individual government entities have developed a practice of maintaining unauthorized, off-budget and possibly unaudited cash accounts to smooth expenditures.⁹ Government entities maintaining on-budget, high balance and high turn-over accounts are required to place their deposits in commercial banks, which do not provide any remuneration to BTr. These on- and off-budget accounts divert much-needed resources from the government, necessitate the over-issuance of government debt to provide a cushion against unreliable cash flow forecasts, and are prone to misuse. In addition, the level of government

¹ Government of the Philippines. National Economic and Development Authority. 2011. *Philippine Development Plan, 2011–2016*. Manila. <http://www.neda.gov.ph/PDP/2011-2016/default.asp>

² Cross-cutting themes include the provision of an enabling environment, progressive adoption of international standards and best practices, and good governance and transparency.

³ A "market maker" is a broker-dealer firm that accepts the risk of holding a certain number of shares of a particular security in order to facilitate trading in that security. Each market maker competes for customer order flow by displaying firm offers to buy and sell a particular security. Once an order is received, the market maker immediately sells from its own inventory or seeks an offsetting order. This process takes place in mere seconds.

⁴ Closeout netting reduces pre-settlement risk if counterparties have multiple offsetting obligations to one another. (e.g multiple interest rate swaps or foreign exchange forward contracts). The parties agree to accomplish this by agreeing to net those obligations. In the event that a counterparty defaults, or some other termination event occurs, the outstanding contracts are all terminated. They are marked to market and settled with a net payment. This technique eliminates "cherry picking" whereby a defaulting counterparty fails to make payment on its obligations, but is legally entitled to collect on the obligations owed to it.

⁵ ADB. 2013. *Country Operations Business Plan: Philippines, 2014–2016*. Manila.

⁶ ADB. 2011. *Country Partnership Strategy: Philippines, 2011–2016*. Manila.

⁷ The TA first appeared in the business opportunities section of ADB's website on 19 August 2014.

⁸ Government of Australia. 2013. *Implementing the Treasury Single Account in the Philippines: Report on the Functional Review*. Manila.

⁹ Estimates indicate that BTr, government-owned and -controlled corporations, government agencies, special institutions, and local government units have opened approximately 170,000 bank accounts; and the three largest government-owned and -controlled banks alone hold P500 billion of public entity cash deposits.

debt has been inflated by a legally mandated bond-sinking fund.¹⁰ This fund produces a negative carry of approximately 2%, or P20 billion per year, as proceeds are invested largely in low-yielding bank accounts.¹¹ Finally, the excess liquidity in the financial system produced by these inefficiencies must be routinely removed, which places a significant strain on the central bank.¹²

3. The primary government debt issuance practices of BTr, while improved, remain inefficient and relatively costly as evidenced by the lack of liquidity. The government bond market remains fragmented. The number of primary dealers at 37 is too high, which transforms the process into a private placement format. The secondary government bond market is characterized by a near absence of two-way price quotes as potential market-makers lack the necessary inventory management tools, such as repos and interest rate derivatives. In essence, presumptive market makers are unable to take short positions to hedge their long positions. As a result, liquidity in the government bond market is far below what would be expected in a country with an investment-grade credit rating. A risk-free yield curve has yet to develop as infrequently traded securities provide unreliable prices and yields at key maturity points. A reliable short-term reference rate has yet to be developed. Bid–ask spreads for “on-the-run” securities are among the lowest in the region but the standard deviation of the sample is the highest and average lot sizes among the lowest. Bid–ask spreads for “off-the-run” securities are among the widest.¹³

4. **Ongoing enhancements to public financial management.** To address poor budget execution and forecasting, the Philippines adopted the Philippine Public Financial Management Roadmap in February 2011. This road map provides a whole-of-government approach that proposes to clarify, simplify, and harmonize the financial management process and related information systems. Australia has committed A\$30 million to the Philippines–Australia Public Financial Management Program over 5 years to support this reform effort.¹⁴ The program has four primary objectives: (i) increase the efficiency and effectiveness of the allocation, utilization, and reporting of budgeted funds by oversight agencies; (ii) improve public financial management capability in select departments; (iii) generate more timely, reliable, and accessible public expenditure management information; and (iv) strengthen external oversight of public expenditure management linked to physical performance information. A key phase of this reform has focused on strengthening the government’s cash forecasting and management systems, including the creation of a treasury single account. In conjunction with this effort, and as a prelude to this larger TA, ADB funded a small-scale TA project to provide urgently needed ancillary support to strengthen BTr’s systems and capacity.¹⁵

5. These two projects together have produced several key milestones. A program management office was established in 2012 to ensure interagency cooperation. A new harmonized budget classification and unified account code structure was developed, and a

¹⁰ Republic Act 1000 of 1954 mandated the establishment of a bond sinking fund at a sufficient level to redeem at maturity the bonds issued under the provision of law. The act stipulated that the fund shall receive 10% of all medium and long-term issues of domestic government securities.

¹¹ This fund approximates 8% of gross domestic product and 20% of all outstanding government debt.

¹² *The Philippine Star*. 2013. BSP triples losses to P78.43B. 12 December.

¹³ ADB. 2013. *Asia Bond Monitor*. Manila.

¹⁴ The program is assisting the Philippine government to implement its Philippine Public Financial Management Reform Roadmap: Towards Improved Accountability and Transparency, 2011–2015. This comprehensive public financial management reform agenda aims to clarify, simplify, improve, and harmonize the financial management processes and information systems of the civil service. The program commenced in October 2011.

¹⁵ ADB. 2013. *Technical Assistance to the Republic of the Philippines for Strengthening Treasury’s Liquidity Management*. Manila.

public financial management competency framework is being pilot tested. Expenditure agents have strengthened their internal controls, and managers and internal auditors from national government agencies are being trained to utilize the newly developed Philippine government internal audit manual. The government-integrated financial management information system is being developed with notable progress recorded by the recent launch of a treasury single account and introduction of commercial terms for government deposits.¹⁶ ADB's small-scale TA concurrently strengthened BTr's operations and technical capacity and in the process produced the following outputs: (i) implementation of a revised organization structure; (ii) implementation of revised duties and job descriptions, and a mechanism for screening prospective new staff; (iii) creation of a dealing room with formal process flows, approval limits, and asset management guidelines; (iv) a diagnostic of the repo market and instruments; and (v) enhanced capacity.

6. **Completing the reform agenda.** BTr urgently requires additional capacity development given ongoing staff retirements and increase in newly hired staff. In addition, the ongoing reorganization has created new highly technical positions, and enhanced the job descriptions of existing positions. BTr expects its market professionals to develop more direct relationships with the government's trading partners and to build relationships with the investor community. Moreover, improved budget forecasting and execution will enable BTr to more accurately plan and execute its borrowing programs, while reducing the relative cost of issuance. However, the primary and secondary government debt markets need to be strengthened. Participation in primary auctions should carry responsibilities and access to privileges with new issuance focusing on identified benchmark securities to enhance market liquidity and improve price discovery. Linkages to capital market development efforts must be enhanced to provide a deep and efficient short-term debt market through which BTr can deploy its excess short-term funds. For example, many of the initiatives supported by this TA compliment activities being undertaken under a separate ADB-funded TA.¹⁷ They include support to refine and implement the capital market development blueprint, the development of capacity in nonbank financial regulators, efforts to enhance demand for capital market instruments, and preliminary support to introduce a short-term debt market anchored on a master repurchase agreement.

7. The TA is also being coordinated with an International Monetary Fund-led diagnostic of the government debt market. This diagnostic, to which ADB contributed, includes a blueprint and timelines to improve the government debt market. This blueprint serves as a template for coordination between ADB, the International Monetary Fund, and the United States Treasury. In effect, the US Treasury will provide a resident advisor to strengthen the primary dealer system, while ADB will provide technical assistance to enhance BTr's infrastructure, while at the same time providing significant capacity development. In addition, ADB will support efforts to develop the capital market.

III. THE CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE

8. The TA has three objectives: (i) address the government's immediate need to continue enhancing BTr's technical capacity for core treasury operations (e.g., issuance and support operations), including investment, debt portfolio, and risk management; (ii) work in conjunction and coordination with the US Treasury resident advisor program to rationalize and improve the primary dealer system, leading to lower relative costs of issuance; and (iii) address several key

¹⁶ The development of the government integrated financial management information system and the creation of a treasury single account are both supported by Executive Order 55, issued September 2011.

¹⁷ ADB. 2011. *Technical Assistance to the Republic of the Philippines for Capacity Development of Financial Regulators*. Manila.

capital market development constraints including the development of a range of short-term investment alternatives for BTr's idle cash balances.

A. Impact and Outcome

9. The TA impact will be more cost-effective utilization of the government's fiscal resources. The impact will be brought about through a culmination of reforms leading to a reduction in the relative cost of issuing and administering government debt and in turn, increasing the fiscal resources available to alternative and higher priority uses. The outcome will be enhanced efficiency of primary and secondary government debt markets.

B. Methodology and Key Activities

10. **Output 1: Debt and cash management functions enhanced.** BTr's immediate operating capacity will be developed by directly supporting key functions in the front and middle offices. The TA will continue ongoing support to develop BTr's trading desk to strengthen its capacity to manage investable cash and to execute broader asset management strategies. Activities will include the development of physical infrastructure; direct training of staff; establishment of monitoring and performance management systems; and strengthening of BTr's middle office and the requisite monitoring, risk management, limits, and reporting structures.

11. **Output 2: Primary dealer system strengthened.** To ensure BTr's underlying infrastructure can sustain the ongoing reforms, the TA will (i) assess and review BTr's auction system and provide recommendations for improvement and/or replacement; (ii) assess and review BTr's scriptless registry with recommendations for improvement and/or replacement; (iii) assess BTr's internal treasury management system and provide recommendations for improvement (related "equipment" budget of \$40,000); and (iv) enhance BTr's capacity. Knowledge products on a variety of topics to be finalized during TA implementation.¹⁸ They will help build stakeholder consensus for the proposed reforms. If necessary, an independent national expert will be retained to administer this component and to develop the terms of reference.

12. **Output 3: Development of capital market enhanced.** The TA will (i) prepare a road map to eliminate bifurcation between taxable and tax-exempt investors; (ii) continue support for the introduction of the global master repurchase agreement or equivalent, thereby eliminating the documentary stamp tax issue and fostering the development of a repurchase market; (iii) launch a platform for securities borrowing and lending, including the conditions necessary to incorporate the contractual savings sector; and (iv) enhance BTr's capacity. Knowledge products, covering a variety of topics to be finalized during TA implementation,¹⁹ will be used to build stakeholder consensus to support capital market development. If necessary, an independent national expert will be retained to administer this component and to develop the terms of reference.

¹⁸ The preliminary list of knowledge products has been agreed as follows: a contrast between multiple- and single-price auctions, development of benchmark securities and yield curves, conduct of switch auctions, and primary dealer liquidity facilities.

¹⁹ The preliminary list of knowledge products has been agreed as follows: Separate Trading of Registered Interest and Principal of Securities, inflation-linked bonds, catastrophe bonds, and retail treasury bonds.

C. Cost and Financing

13. The TA is estimated to cost \$600,000, of which \$500,000 will be financed on a grant basis by the Japan Fund for Poverty Reduction and administered by ADB. The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, secretarial assistance, and other in-kind contributions. The cost estimates and financing plan are presented in Appendix 2.

D. Implementation Arrangements

14. BTr will be the executing and implementing agency. The TA will be implemented from 1 November 2014 to 30 October 2016. TA monitoring and evaluation will be based on actual results compared with performance targets (the design and monitoring framework). TA review missions will be frequent to ensure TA completion within the projected timelines. TA inception and completion reports will be supplemented with periodic progress reports.

15. To attract the most-qualified experts and to recognize the uncertainties associated with some innovative TA delivery, the packaging of the consulting services may involve one or several packages and a combination of firms and individuals. For those specifically identified engagements, market testing and discussions with BTr will confirm the appropriate packaging prior to soliciting expressions of interest. ADB will engage consulting firms through quality- and cost-based selection (80:20), according to its Guidelines on the Use of Consultants (2013, as amended from time to time). Individual consultants will be recruited using the individual consultant selection method in accordance with the consulting guidelines. Procurement, if any, will be conducted in accordance with ADB's Procurement Guidelines (2013, as amended from time to time). A total of 14 person-months will be allocated to national consultants to support enhancements to asset management and risk management; 4 person-months will be allocated to international consultants to evaluate BTr's infrastructure and systems; and 3.6 person-months will be allocated to national consultants to research, stakeholder consultations, and the production of knowledge products. A fixed sum of \$25,000 will be allocated to provide continuing support to developing a repo market. A budget of \$40,000 is reserved for the purchase of information technology-related equipment, which will be donated to BTr upon TA completion. Outline terms of reference are presented in Appendix 3. Disbursements under the TA will conform with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

IV. THE PRESIDENT'S DECISION

16. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of \$500,000 to the Government of the Philippines to be financed on a grant basis by the Japan Fund for Poverty Reduction for Strengthening Treasury Operations and Capital Market Reform, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact More cost-effective utilization of the government's fiscal resources</p>	<p>By 2018: Bid-ask spreads on off-the-run securities decline by 20% by 2016 (baseline 2014: 16.8 basis points)</p> <p>Government bond fragmentation reduced by 15% by 2016 (baseline 2014: 105 treasury issues)</p> <p>BTr's earnings on investable cash mirror the HSBC Local Currency All Bond Index (baseline 2014: no performance mandate)</p>	<p>AsiaBondsOnline annual liquidity survey</p> <p>BTr internal reports</p> <p>BTr internal reports</p>	<p>Assumptions Cooperation between government agencies remains high.</p> <p>Global market conditions remain conducive to issuance and debt market reforms.</p> <p>Risks Vested interests are resistant to reforms.</p> <p>The legal framework requires significant revision to support the contemplated reforms.</p> <p>The capacity and resources of BTr and other regulatory agencies are not adequate to support implementation of the reforms.</p>
<p>Outcome Efficiency of the primary and secondary government debt markets enhanced</p>	<p>Lower cost primary auction methodology adopted by 2016 (baseline 2014: Dutch single-series auctions)</p> <p>Basic primary dealer obligations, privileges, and operating standards introduced by 2016 (baseline 2014: none)</p>	<p>BTr internal reports Consultant reports</p> <p>BTr internal reports Consultant reports</p>	<p>Contemplated reforms cannot be implemented within the duration of the TA.</p>
<p>Outputs 1. BTr's debt and cash management functions enhanced</p>	<p>Under stage 1 of the TSA project, the number of BTr accounts is reduced to less than 100 by 2016 (baseline 2014: 400)</p>	<p>BTr internal and consultant reports</p>	

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	<p>At least 60 staff trained in enhanced investment, and/or debt and/or risk management functions by 2016</p> <p>(baseline 2014: 0)</p> <p>At least two knowledge products published by 2016</p>	<p>BTr internal reports and consultant reports</p> <p>BTr internal reports and consultant reports</p>	
2. Primary dealer system strengthened	<p>Basic primary dealer obligations, privileges, and operating standards implemented by 2016</p> <p>Primary dealer liquidity facility established by 2016</p> <p>At least two switch auctions completed by 2016</p> <p>At least two knowledge products published by 2016</p>	<p>Consultant reports BTr website</p> <p>Consultant reports BTr website</p> <p>Consultant reports BTr website</p> <p>Consultant reports BTr website ADB website</p>	
3. Development of capital market enhanced	<p>Domestic repurchase market launched with at least 200 transactions per year by 2016</p> <p>(baseline 2014: negligible)</p> <p>Lending and borrowing of debt securities expanded with at least 100 transactions per year by 2016</p> <p>(baseline 2014: negligible)</p> <p>At least one new treasury instrument introduced by 2016</p>	<p>Consultant reports, ADB website, BTr website</p> <p>Consultant reports, BTr website, news reports</p> <p>Consultant reports BTr website News reports</p>	

<p>Activities with Milestones</p> <p>1.0 BTr's debt and cash management functions enhanced</p> <p>1.1 National consultants fielded (October 2014)</p> <p>1.2 Training programs initiated (December 2014)</p> <p>1.3 Knowledge products completed (June 2015)</p> <p>1.4 Operating procedures governing investment, debt, and risk management finalized and implemented (September 2015)</p> <p>1.5 Independent investment, debt, and risk management functions staffed and operating (December 2015)</p> <p>2.0 Primary dealer system strengthened</p> <p>2.1 Knowledge products published (September 2014)</p> <p>2.2 Basic primary dealer obligations, privileges, and operating standards introduced (December 2014)</p> <p>2.3 Diagnostic of BTr's auction system completed (June 2015)</p> <p>2.4 Diagnostic of BTr's risk management system completed (September 2015)</p> <p>2.5 Diagnostic of ROSS completed (December 2015)</p> <p>3.0 Development of capital market enhanced</p> <p>3.1 Stakeholder consultations completed (December 2014)</p> <p>3.2 Domestic repurchase market launched based on the GMRA (June 2015)</p> <p>3.3 Securities borrowing and lending launched (June 2016)</p> <p>3.4 New treasury product launched (June 2016)</p>	<p>Inputs</p> <p>JFPR \$500,000</p> <p>Note: The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, secretarial assistance, and other in-kind contributions.</p>
--	---

ADB = Asian Development Bank, BTr = Bureau of the Treasury, GMRA = Global Master Repurchase Agreement, HSBC = Hong Kong Shanghai Banking Corporation, JFPR = Japan Fund for Poverty Reduction, ROSS = registry of scriptless securities, TA = technical assistance, TSA = treasury single account.
Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN

(\$'000)

Item	Amount
Japan Fund for Poverty Reduction^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	185.0
ii. National consultants	151.0
b. International and local travel	72.0
c. Reports and communications	17.0
2. Equipment ^b	40.0
3. Miscellaneous administration and support costs ^c	4.0
4. Contingencies	31.0
Total	500.0

Note: The technical assistance (TA) is estimated to cost \$600,000 of which contributions from the Japan Fund for Poverty Reduction are presented in the table. The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, secretarial assistance, and other in-kind contributions. The value of government contribution is estimated to account for 20% of the total TA cost.

^a Administered by the Asian Development Bank.

^b The actual equipment to be purchased will be determined by an international expert deployed under output 2 to assess the Bureau of the Treasury's internal treasury management system. This budget allocation is expected to be used to purchase software and/or limited hardware.

^c Represents support to workshops, publications, and other expenses primarily associated with the delivery of discussion papers and related training.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Output 1: Bureau of the Treasury's Debt and Cash Management Functions Enhanced

1. **National investment and debt management specialist** (individual, intermittent, 5 person-months). The objective of the engagement is to improve the technical capacity of staff of the Bureau of the Treasury (BTr) across its various operations units including dealing, processing, and asset management. The expert will work with BTr's government debt resident adviser and assist BTr in implementing its updated organization structure as well as launching BTr's newly developed investment, debt and risk management functions. The expert will likewise strengthen BTr's dealers by increasing their technical capacity through classroom and on-the-job training. In conjunction with the delivery of capacity development and knowledge products under outputs 2 and 3 of this TA, the expert will assist BTr in identifying the scope of coverage and the structure and content of the related capacity development. The expert will improve BTr's trading room infrastructure by, among others, establishing standardizing operating procedures governing counterparty settlement instructions and delivery-verses-payment (DVP) for offshore bonds. Finally, the expert will support BTr's efforts to expand the investor base and number of dealing participants, and will establish a permanent market and stakeholder feedback mechanism to provide for constant enhancement.

2. The consultant will have at least 15 years of experience as a treasurer or asset manager with a national treasury or an international bank. The duration of this consultancy will be a total of 134 working days (5 months) on an intermittent basis starting in November 2014 and finishing by November 2015. The expert will report to the national treasurer and other relevant officials as well as the Asian Development Bank (ADB) project officer.

3. **National debt and risk management specialist** (individual, intermittent, 9 person-months). The objective of this engagement is to strengthen BTr's middle office risk management processes. Upon completion of the engagement, BTr's staff will be able to identify, quantify, manage, and control all risk exposures arising from the investment functions of the BTr.

4. The expert will work with BTr's national and international resident advisers and assist BTr in institutionalizing its risk management policies and procedures to support the investment framework. Work will include the design and implementation of an organizational setup, policies and procedures, and the responsibilities of the risk management function within the asset management division. The expert will design the organization structure and formulate the statement of responsibilities and performance standards for the risk management unit. In addition, the expert will (i) develop an operational and investment risk profile; (ii) formulate a detailed risk management program covering all facets of risk exposures including, but not limited to market, liquidity, and operating risks; and (iii) develop models and standards for setting liquidity, market, counter-party, and dealing risk limits. The expert will also design a management information system to monitor, oversee, and report all risk issues up to the investment committee. Finally, the expert will provide a training program for asset management personnel to cover the basics of risk management and risk principles.

5. The consultant will have at least 15 years of experience as a treasurer or asset manager with an international bank or the local operations of an international bank. The duration of this consultancy will be a total of 198 working days (9 months) on an intermittent basis starting in November 2014 and finishing by November 2015. The expert will report to the national treasurer and other relevant officials as well as the ADB project officer.

B. Output 2: Primary Dealer System Strengthened

6. **International government debt auction specialist** (individual or a firm, 22 person-days continuous). Currently, BTr utilizes the Automated Debt Auction Processing System (ADAPS) to support its primary government debt auctions. BTr has requested a review of this system to ascertain its relevance and functionality as compared to international norms and standards. The expert will review the ADAPS system and provide a diagnostic regarding the ability of the system to meet BTr's operating needs. If required, the consultant will provide recommendations for upgrades to or replacement of the system to ensure consistency with the overall upgrade of BTr's operations.

7. The expert will have at least 15 years of experience in a senior position at a national treasury with a focus on primary issuance and treasury auction systems; and at least 5 years of relevant consulting experience, mostly in Southeast Asia. The duration of this consultancy will be a total of 22 working days on a continuous basis starting in January 2015. The expert will report to the national treasurer and other relevant officials as well as the ADB project officer.

8. **International securities clearing, settlement, and custody expert** (individual or a firm, 22 person-days continuous). BTr utilizes a Registry of Scriptless Securities (ROSS) and has requested a review of this system to ascertain its relevance and functionality as compared to international norms and standards. The expert will review the ROSS and provide a diagnostic regarding the suitability of the system, in terms of appropriateness and cost, to meet the needs of BTr operations. Consideration will be given to the proposed expanded role of primary dealers and their privileges and responsibilities, including the possible use of ROSS to support an inter-dealer repo market. If required, the consultant will provide recommendations for upgrades or replacement of the system to ensure consistency with BTr's operations.

9. The expert will have at least 15 years of experience in a senior position at a national treasury with a focus on primary issuance and securities registries; and at least 5 years of relevant consulting experience, mostly gained in Southeast Asia. The duration of this consultancy will be a total of 22 working days on a continuous basis starting in January 2014. The expert will report to the national treasurer and other relevant officials as well as the ADB project officer.

10. **International treasury information technology specialist** (individual or a firm, 22 person-days continuous). The objective of this engagement is to improve BTr's underlying management information systems. The expert will work with BTr's national and international advisors to review and evaluate BTr's current treasury information management systems and to perform a needs assessment. The expert will provide recommendations for improvement including, if necessary, the identification of a suitable vendor supplied treasury management system.

11. The expert shall have at least 15 years of experience in a senior position at a national treasury with a focus on IT and information management. In addition, the expert will have at least 5 years of relevant consulting experience, mostly in Southeast Asia. The duration of this consultancy will be a total of 22 working days (1 month) on a continuous basis starting in November 2014. The expert will report to the national treasurer and other relevant officials as well as the ADB project officer.

12. **International capital markets specialist** (up to four experts, individually or through a firm, 40 person-days intermittent). The objective of this engagement is to provide capacity development to BTr, and market stakeholders, to support the introduction of new treasury processes. The international expert(s) will work with BTr and its national and international advisors to identify capacity development needs associated with BTr's emerging reform agenda with a specific emphasis on understanding financial markets and financial processes. The international expert(s) will then deliver the capacity development according to a plan established by the BTr and the national consultant. This capacity development is expected to generate knowledge products that can be used to build stakeholder consensus for the proposed reforms. Initial discussions identified the following areas of interest: a contrast between multiple- and single-price auctions, development of benchmark securities and yield curves, conduct of switch auctions, repo markets, and primary dealer liquidity facilities.

13. The expert(s) will deliver knowledge products to the national treasurer as described above, along with a written knowledge dissemination plan and stakeholder feedback mechanism. The knowledge products will include a thorough definition and description of the process, the advantages the process brings to BTr and end investors, the experience of other countries, and any related risks. The dissemination plan will include capacity development or consensus-building workshops as requested by BTr, as well as a feedback mechanism to assess the usefulness of the outreach.

14. The expert(s) will have at least 15 years of experience working with a global bank as a debt market expert and/or practitioner with a specialty in the assigned topic. The duration of this consultancy will be a total of 40 working days on an intermittent or continuous basis starting in June 2014. The expert(s) will report to the national treasurer and other relevant officials, and the ADB project office.¹

C. Output 3: Development of the Capital Market Enhanced

15. **International or national legal expert for repurchase agreements** (firm, output-based contract). The BTr has initiated a program to improve its cash management. In conjunction with this project, BTr will implement complimentary reforms to deepen and diversify the capital market including the introduction of a domestic repo market.

16. The objective of this technical assistance is to build on completed diagnostics and ongoing stakeholder consultations to introduce a domestic repurchase agreement that conforms to international conventions and standards. The expert will provide support to BTR's efforts to introduce the global master repurchase agreement (GMRA) to the Philippine capital market by continuing stakeholder consultations and providing technical advice. The consultancy will be an output-based contract with the deliverables to be identified prior to the inception of the engagement. The expert will have at least 15 years of legal experience working in the securities industry or as a securities lawyer with a specialty in securities law, securities transactions, and specifically repurchase agreements. The expert will report to the national treasurer and other relevant officials as well as the ADB project officer.

17. **International securities clearing, settlement, and custody expert** (individual or a firm, 22 person-days continuous). BTr has initiated a program to improve cash management and will,

¹ This output can be combined with a similar contract in output 3 and delivered by a firm, by a single expert or a combination of up to eight experts on a continuous or intermittent basis. An independent national expert retained under Output 1 will assist BTr in developing the terms of reference.

in conjunction with this project, implement complementary reforms to deepen and diversify the capital market including the introduction of securities borrowing and lending for fixed income securities.

18. The expert will review the local legal, regulatory, accounting, and taxation regimes related to and/or affecting BTR's efforts to introduce securities borrowing and lending. The expert will, if necessary, recommend a framework to support the introduction of securities borrowing and lending; and identify any required changes to accounting standards and taxation and other supporting infrastructure that may be required.

19. The expert(s) will have at least 15 years of experience working with a global bank as a debt market expert and/or practitioner with a specialty in securities borrowing and lending; and have at least 5 years of relevant consulting experience, largely in Southeast Asia. The duration of this consultancy will be a total of 22 working days on a continuous basis starting in January 2014. The expert will report to the national treasurer and other relevant officials as well as the ADB project officer.

20. **International capital markets specialist** (up to four experts hired individually or through a firm, 40 person-days intermittent). The international expert(s) will work with BTR and its national and international advisors to identify capacity development needs associated with BTR's emerging reform agenda with a specific emphasis on understanding financial markets and financial products. This capacity development is expected to generate knowledge products that can be used to build stakeholder consensus for the proposed reforms. Initial discussions identified the following topics as areas of interest: Separate Trading of Registered Interest and Principal of Securities, inflation-linked bonds, catastrophe bonds (also known as cat bonds), and retail treasury bonds.

21. The expert(s) will deliver the knowledge products to the national treasurer, along with a written dissemination plan and stakeholder feedback mechanism. The knowledge products will include a thorough definition and description of the products, the advantages the product brings to BTR and end investors, the experience of other countries, and any related risks. The dissemination plan will include capacity development or consensus-building workshops as requested by BTR, as well as a feedback mechanism to assess usefulness of the outreach.

22. The expert(s) will have at least 15 years of experience working with a global bank as a debt market expert and/or practitioner with a specialty in the assigned topic. The duration of this consultancy will be a total of 40 working days on an intermittent basis starting in June 2014. The expert(s) will report to the national treasurer and other relevant officials as well as the ADB project officer.²

² Depending on market feedback, this output can be combined with a similar contract in output 2 and delivered by a firm, by a single expert or a combination of up to eight experts. The assignments may be continuous or intermittent. An independent national expert retained under Output 1 will assist BTR in developing the terms of reference.

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Philippines	Project Title:	Strengthening Treasury Operations and Capital Market Reform
Lending/Financing Modality:	Japan Fund for Poverty Reduction	Department: Division:	Southeast Asia Department Public Management, Financial Sector and Trade Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

Reducing poverty and eliminating the vulnerabilities of large sections of the population remain two of the government's principal challenges. In the late 1980s, poverty rates in the Philippines were about half that of other Southeast Asian countries. Since then, progress on poverty reduction has been slow, with an estimated poverty rate (headcount index) of 26.5% in 2009 (up from 24.9% in 2003), while 45% of the population is vulnerable to falling into poverty.

Sustaining high economic growth is the government's overarching response to achieving inclusive growth and thereby, a reduction in poverty. To support this initiative, the Philippine Development Plan, 2011–2016 translates the Social Contract with the Filipino People (SCFP) into three broad strategies: (i) attaining high, sustained economic growth through a stable macroeconomic environment, rapid growth of industry, investment in infrastructure; and curbing corruption and enforcing the rule of law; (ii) providing equal access to development opportunities by investing in human capital, especially in education, health, and other basic social services; and ensuring equal opportunities by improving access to infrastructure, credit, land, technology, and other productive inputs; and (iii) formulating effective social safety nets to ensure the protection and promotion of extremely vulnerable groups.^a

The country partnership strategy, 2011-2016 of the Asian Development Bank (ADB) for the Philippines is based on the intersection of Philippine Development Plan priorities with Strategy 2020, consistent with the needs of a lower-middle-income country.^b To support the government's objective of high, inclusive, and sustainable growth, ADB will focus on three core areas: infrastructure, environment, and education. However, ADB will also continue and deepen its efforts to strengthen governance and reduce corruption at the country, sector, and project levels. One of the main priorities for reform includes legal and regulatory reforms for budget execution and reporting. In effect, poorly developed public financial management along with the underdeveloped debt issuance process of the Bureau of Treasury (BTr) and its inability to anticipate cash inflows and outflows have adversely affected government efforts to support infrastructure development and deliver social programs. By strengthening public financial management, and increasing the linkages to existing ADB programs designed to deepen capital markets, the technical assistance (TA) will increase efficiencies within BTr's funding operations. The resulting fiscal savings, which are potentially significant, can then be redirected to support the SCFP's emphasis on human capital. In addition, by freeing up scarce resources, the TA can facilitate increased spending on infrastructure.

B. Poverty Targeting:

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

The overall design of the project is pro-poor. The TA provides indirect support to government efforts to achieve its goals under the SCFP. In addition, finance sector development has been found to provide direct benefits to the poor. For example, a recent International Monetary Fund working paper estimating the quantitative impact of finance sector development on poverty in 65 developing countries found that it directly reduces poverty by raising the investment and interest incomes of the poorest 20% of the population. Further, instability in the finance sector directly reduces incomes of the poor, thereby raising poverty.^c Therefore, finance sector reforms that aim to mitigate risks of finance sector instability help reduce the vulnerability of the poor or the likelihood that the near poor will fall into poverty as a result of finance sector crises.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. Poor or under execution of the budget compromises the government's ability to deliver on its SCFP. Reduced expenditure on human capital (e.g., health, education, and social services) disproportionately affects the poor through diminished productivity, as they do not have alternative income to compensate. Inadequate spending on infrastructure diminishes competitiveness overall, but likewise has a disparate impact on the poor as low-income regions lack the connectivity to participate in wealthier urban markets.

2. Impact channels and expected systemic changes. The TA will provide for more cost-effective and permanent utilization of BTr's fiscal resources. By reducing the cost of issuance and reducing negative carry on the bond sinking

fund, among others, the TA will free up significant scarce resources that can be redirected to support implementation of the government's SCFP. Increasing expenditures on human capital and infrastructure will ensure equal opportunities, thereby achieving more equal economic growth and a corresponding reduction in poverty.

3. Focus of the PPTA or due diligence. Not applicable. The TA targets development constraints identified through the work of other development partners as well as a preliminary ADB engagement funded through small scale TA.^{d, e}

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program? Not applicable.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women with access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes No The TA will improve fiscal management but will not directly alter the funding decisions proposed and authorized by Congress and the government.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No The TA provides high level support to strengthen BTr and to deepen the capital market. While no gender elements are explicitly identified, improved budget execution will allow increased spending on budgeted social programs such as education and health, which are unlikely to widen gender inequality or to have a negative impact on women.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity) EGM (effective gender mainstreaming)
 SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design. Key stakeholders include the government, through BTr, and the direct participants in BTr's debt issuance cash management programs.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable, and excluded groups? What issues in the project design require participation of the poor and excluded? Not applicable.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design? Not applicable.

Information generation and sharing Consultation Collaboration Partnership

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? Yes No The TA facilitates budget execution and fiscal management, not the basis of the underlying budget allocations.

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?

Resettlement plan Resettlement framework Social impact matrix
 Environmental and social management system arrangement None

B. Indigenous Peoples Category A B C FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? Yes No

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No

3. Will the project require broad community support of affected indigenous communities? Yes No

4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?

Indigenous peoples plan Indigenous peoples planning framework Social Impact matrix
 Environmental and social management system arrangement None

V. OTHER SOCIAL ISSUES AND RISKS
<p>1. What other social issues and risks should be considered in the project design?</p> <p><input type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____</p>
VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT
<p>1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No The TA targets development constraints identified through the work of other development partners as well as a preliminary ADB engagement funded through a small scale TA.</p>
<p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis, and participation plan during the PPTA or due diligence? Not applicable.</p>

^a Government of the Philippines, National Economic and Development Authority. 2011. *Philippine Development Plan, 2011–2016*. Manila. <http://www.neda.gov.ph/PDP/2011-2016/default.asp>

^b ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2010*. Manila.

^c S. G. Jeanneney and K. Kpodar. 2008. *Financial Development and Poverty Reduction: Can There Be a Benefit without a Cost?* IMF Working Paper 62. Washington, DC. The authors estimated quite large coefficients on the finance sector development variable—a 10% increase in the ratio of broad money (M3) to gross domestic product raises the incomes of the 20% poorest households by 3%–5%.

^d The Philippines–Australia Public Financial Management Program is assisting the Philippine government to implement its Philippine PFM Reform Roadmap: Towards Improved Accountability and Transparency, 2011–2015. This comprehensive PFM reform agenda aims to clarify, simplify, improve, and harmonize the financial management processes and information systems of the civil service in the Philippines. The program commenced in October 2011.

^e ADB. 2013. *Technical Assistance to the Republic of the Philippines for Strengthening Treasury's Liquidity Management*. Manila.

Source: ADB