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Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 05-Sep-2017 | Report No: PIDISDSC21949



BASIC INFORMATION

A. Basic Project Data

Country Philippines	Project ID P163428	Parent Project ID (if any)	Project Name Philippines Customs and Trade Facilitation Project (P163428)
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date Nov 27, 2017	Estimated Board Date Jul 12, 2018	Practice Area (Lead) Trade & Competitiveness
Financing Instrument Investment Project Financing	Borrower(s) REPUBLIC OF THE PHILIPPINES	Implementing Agency Bureau of Customs	

Proposed Development Objective(s)

The Project Development Objective is to improve the efficiency, effectiveness and transparency of the Bureau of Customs.

Financing (in USD Million)

Financing Source	Amount
International Bank for Reconstruction and Development	200.00
Total Project Cost	200.00

Environmental Assessment Category B-Partial Assessment	Concept Review Decision Track II-The review did authorize the preparation to continue
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Note to Task Teams: End of system generated content, document is editable from here.

Other Decision (as needed)



B. Introduction and Context

Country Context

The Philippines' strong macroeconomic fundamentals provide the necessary conditions for rapid, sustained, and inclusive growth. The country is increasingly characterized by robust economic growth, low and stable inflation, healthy current account surplus, more-than-adequate international reserves, and a sustainable fiscal position — a combination never seen in its history. Globally, this strong performance was recognized by all three major credit rating agencies with sovereign credit rating upgrades to two notches above investment grade and by record high foreign direct investment inflows. With a solid macro-economy that has proven to be resilient to shocks, the country can now focus its attention on implementing crucial structural reforms that can sustain growth, create more and better jobs, and eradicate extreme poverty.

Past economic growth was strong and accelerated from 5.9 percent in 2015 to 6.8 percent in 2016. In 2016, the rapid expansion of the economy was driven by investment growth, fueled by investments in durable equipment and a public infrastructure drive that led to strong growth in the construction sector. Private consumption remained strong boosted by robust remittance inflows and expanding consumer credit. However, net exports have softened as weaker-than-expected global growth led to soft external demand.

The medium-term growth outlook remains positive. The Philippine economy is projected to grow at 6.9 percent in 2017 and 2018, before slowing slightly to 6.8 percent in 2019. The economy's primary engine of growth over the coming years is likely be increased capital investment, largely driven by the administration's public infrastructure development agenda. Greater demand for capital goods for planned infrastructure investments, as well as increased demand for consumer-goods imports fueled by continued economic growth and rising household incomes, are expected to drive import growth.

Poverty reduction was faster in the period of 2012-2015 compared with previous years. Poverty rate declined from 10.5 percent in 2012 to 6.6 percent in 2015, measured by the US\$1.90 a day (2011 PPP) poverty line, or from 32.0 percent to 25.3 percent measured by the US\$3.10 a day poverty line. Poverty is expected to continue to follow a downward trend. Extreme poverty is projected to further decrease from 6.6 percent in 2015 to 4.0 percent in 2019. Poverty is likely to reduce at a faster pace if economic growth becomes more inclusive. Poverty reduction will mainly stem from the continuous movement of employment from agriculture to more productive sectors, and from an improvement of productivity in the agricultural sector.

The Philippine Development Plan (PDP) 2017-2022 is the first medium-term plan anchored on the *AmBisyon Natin 2040*. The AmBisyon Natin 2040 is the government's 25-year vision, which envisages that improvements in productivity and efficiency can more than triple the gross national income per capita by 2040. As a result, the PDP aims to lay down a solid foundation for more inclusive growth, a high-trust and resilient society, and a globally competitive knowledge economy. The PDP envisions the Philippines as an upper middle income country by 2022, which means that the economy will need to expand by about 50 percent by 2022 from its base in 2016. As a result, poverty incidence will decrease to 14 percent in 2022.

B. Sectoral and Institutional Context

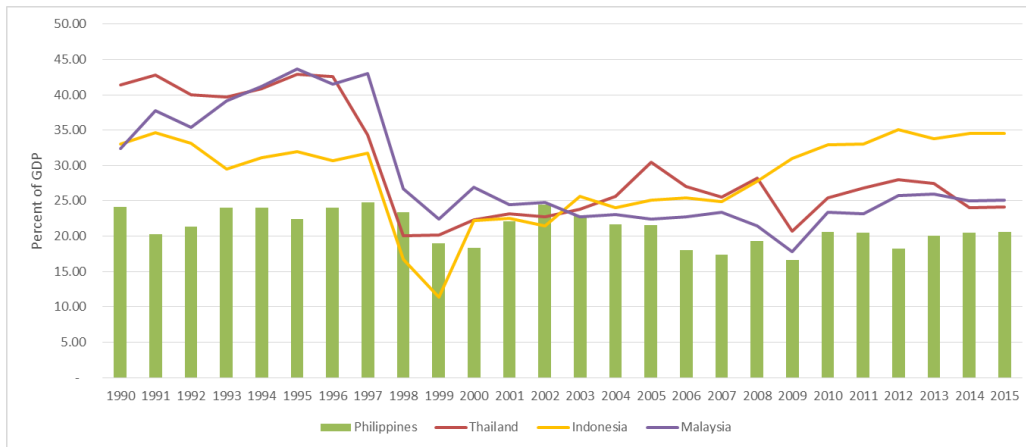
The Philippine economy has grown at a robust pace in recent years, but investment levels are amongst the lowest in the region. In 2015, the Philippines attracted US\$5.8 billion in net FDI, a 1.7 percent increase from 2014. Net FDI



inflows have lagged behind neighboring countries and investment levels have generally been declining. Gross domestic investment as a share of GDP peaked in 1997 at 24.7 percent, fell to 16.6 percent in 2009 before it picked up again to 20.6 percent in 2015. In contrast, investment in countries such as Malaysia and Thailand were beyond 35 percent of GDP during 1991-1996, and despite the decline during the 1997 Asian crisis, their investment levels have continued to be well above the Philippines (Figure 1).

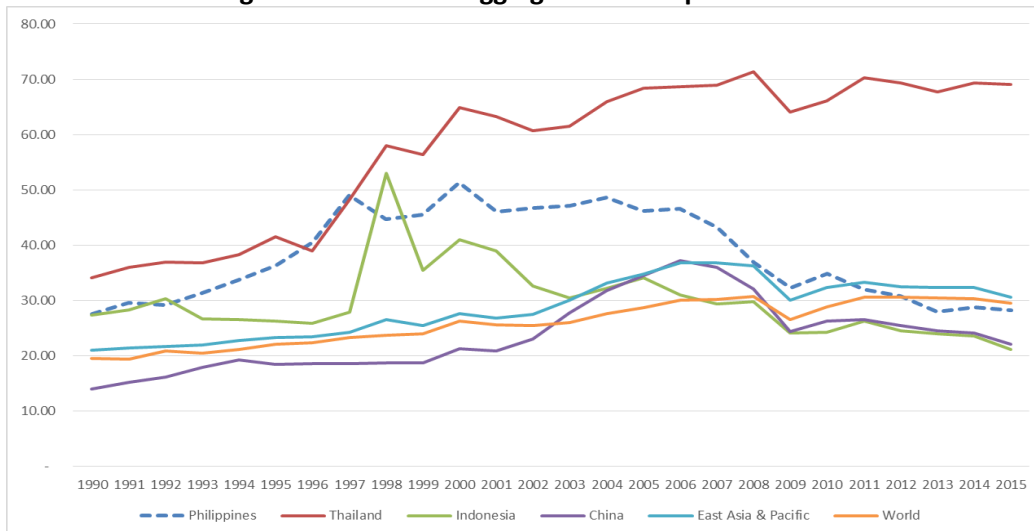
Growth rates of both exports and overall trade in the Philippines have been among the lowest in the region. The share of exports in the Philippines' GDP declined from 47.1 percent in 2003 to 28.2 percent in 2015, dipping below the average for East Asia and Pacific of 30.6 percent (Figure 2). While Filipino exports increased annually by 4.7 percent from 2000-2015, Thailand's exports increased by 5.3 percent and Indonesia's by 5.6 percent. Moreover, the Philippines' export basket has not changed substantially over the past decade. A product-space analysis reveals that the range of products exported by the Philippines has remained broadly constant over time. This is in comparison to countries like China, which have successfully diversified their exports.

Figure 1. Philippine investment conditions are still relatively weak compared to its neighbors as evidenced by low FDI levels...



Source: World Development Indicators

Figure 2. ... and the lagging share of exports in GDP





Source: World Development Indicators

Most of the country’s exports are intermediate goods with low added value. In 2014, 83 percent of the country’s export products were from the manufacturing sector. Half of these manufacturing exports were heavily import dependent electronic products, of which most were components, devices and semiconductors, with low value-addition. The domestic manufacturing sector remains limited to labor intensive and low-skill activities. There are few incentives in place to innovate, upgrade technology, and achieve scale in domestic manufacturing. The country invests very little in research and development, with only 78 researchers in R&D per million people, compared to Singapore’s 5,769, Malaysia’s 599, and Thailand’s 324.

The share of firms exporting in the Philippines is relatively low. Based on enterprise survey data, just 6.9 percent of domestic firms and 25.5 percent of foreign firms in the Philippines directly or indirectly export goods and services, far fewer than in peer countries. Up to 61 percent of domestic firms in Thailand are exporters, while 78.7 percent of foreign firms in Vietnam, 84 percent in Malaysia and 93 percent in Thailand, directly or indirectly export. Furthermore, domestic firms in the Philippines export only 3.5 percent of their output, compared to 26 percent in Malaysia and 25.7 percent in Thailand.

The country’s export competitiveness is impeded by high trade costs. The Doing Business 2016 reports highlights that trade costs in the Philippines are some of the highest within ASEAN (Table 1). Investors in the Philippines pay twice as much to export/import a container as investors in Thailand. Results from the Global Competitiveness Index indicate that trade is affected by the burden of government regulations (101/140), quality of overall infrastructure (106/140), and burden of customs procedures (107/140). The resulting high trade costs hinder the country’s export competitiveness and ability to create high quality jobs.

Table 1. Trade costs in the Philippines are some of the highest in the region

Countries	Cost in USD per container	
	Export	Import
Malaysia	321	321
Vietnam	309	268
Indonesia	254	383
Thailand	223	233
Philippines	456	580
Lao PDR	73	153
EAP Average	396	421

Source: Doing Business 2016, World Bank Group

The call for higher rates of export-led economic growth will continue to put customs and other border agencies in the spotlight. Today, the trading community uses just-in-time supply chains to maximize competitive advantage, and it demands that border management agencies do not disrupt those chains by employing outdated practices and procedures and imposing excessive red tape. However, the poor performance of the Bureau of Customs (BoC) hampers



the Philippines' capacity to use trade as a vehicle for inclusive economic growth, job creation and poverty reduction. The Philippines is currently ranked 95th in the Doing Business (Trading Across Borders) indicator and is ranked 78th on the Customs and Border Management component of the 2016 Logistics Performance Index, having fallen 31 places since 2014, reflecting not only its poor performance but the efficiency and effectiveness gains made by competitors.

The poor performance of the BoC is due to outdated infrastructure and inadequate practices. The challenges faced by the BoC include: (i) an old and outdated customs ICT system unable to accommodate modern paperless trade practices in line with regional and international standards; (ii) a lack of key capabilities needed for effective customs administration such as risk management, intelligence, valuation, and post clearance audit, all of which are absent or underdeveloped; (iii) poor office accommodation, inadequate access to physical resources and infrastructure such as x-ray scanners and CCTV capabilities; (iv) inadequate management information systems needed to drive effective management decisions, a lack of performance monitoring and evaluation capabilities and inadequate operational statistics; (v) a lack of pro-active dialogue and effective coordination with key stakeholders including port operators, other border management agencies, and the private sector; and (vi) an operational environment in which almost all key customs activities are vulnerable to corruption.

The current administration wants to lower the costs of trade and increase the trust in government institutions such as the BoC. The PDP calls for the implementation of laws, rules and regulations to reduce the cost to exporters and importers as well as facilitate and streamline procedures for trade. This includes the full and effective implementation of RA 10863 - Customs Modernization and Tariff Act (CMTA), which was signed into law in 2016. Moreover, the PDP calls for fostering credible and effective institutions that will enforce the rule of law and guarantee stability and predictability in the investment climate. Transparency and accountability in government transactions will strengthen the public's trust in government as an agent of reform.

The CMTA seeks to transform BoC into a modern and efficient organization that is at par with global standards. The CMTA provides a sound legal framework for the adoption of international standards. The CMTA aims to modernize customs laws, rules and procedures in line with the standards of the Revised Kyoto Convention (the World Customs Organization's blueprint for modern and efficient customs procedures), the World Trade Organization's Trade Facilitation Agreement (TFA), other relevant international agreements, recommendations from the business sectors and industry groups as well widely accepted best practices in customs administration. Once fully implemented, the CMTA will provide the legal basis for the full automation of customs procedures and encourage the further simplification and harmonization of import and export procedures in line with international standards.

Relationship to CPF

The project is linked with engagement areas 1 and 3 in the CPF. Under a more competitive international environment, the implementation of trade reforms is key in achieving rapid, inclusive and sustained economic growth (area 3). Moreover, the modernization of BOC will lead to a more transparent and accountable governance (area 1).

C. Proposed Development Objective(s)

Note to Task Teams: The PDO has been pre-populated from the datasheet for the first time for your convenience. Please keep it up to date whenever it is changed in the datasheet.

The Project Development Objective is to support the Bureau of Customs to reduce trade costs, improve transparency,



and increase revenue collection.

Key Results (From PCN)

The PDO indicators for the proposed project include:

- Lower trade transaction costs facing the trading community, as indicated by a reduction in the average time taken to process customs declarations;
- Improved perception of trader and other stakeholders with respect to the frequency of unofficial payments to customs officials;
- Improved revenue collection.

D. Concept Description

The proposed project aims to support export-led economic growth by supporting the Bureau of Customs to reduce trade costs, improve transparency, and increase revenue collection. The project will support the modernization of systems, procedures and operational activities in line with accepted international standards for the processing and clearance of imported and exported goods. This will be especially beneficial for traders from outside Manila (i.e. Visayas and Mindanao), which will be able to deal with Customs without having to complete their processes at the capital. This in turn will increase the Philippines' trade competitiveness, facilitating the growth and diversification of exports.

The overall project design has been guided by a recent comprehensive diagnostic study based on the internationally accepted Customs Capacity Building Diagnostic Framework developed by the World Customs Organization. The Framework involved assessments of the key components of modern Customs administration and is consistent with accepted international standards and best practice approaches. The WCO Framework includes: (i) leadership and strategic planning; (ii) organizational and institutional framework; (iii) human, financial and physical resources; (iv) change management and continuous improvement; (v) legal framework; (vi) customs technical and operational systems and procedures; (vii) information and communication technology; (viii) management information and statistics; (ix) external cooperation, communication and partnership; (x) and integrity and good governance. While the diagnostic study identified key priorities for reform and modernization attention it will be supplemented by a number of detailed studies and reviews to be conducted as activities under the project.

The project will consist of three operational and one project management support components: institutional development, trade facilitation, ICT modernization, and project management. The regional coverage of the project will include, but not limited to, Manila and Mindanao. The estimated financing amount will range between USD 120 to 150 million equivalent, depending on the agreed scope of work to be determined prior to project appraisal. Indicative costs are included for each component.

Project activities will be implemented in a carefully sequenced manner based on: i) the findings and recommendations of the diagnostic study; ii) Bank experience in similar Customs reform and modernization projects; iii) interdependences between key technical areas and ICT procurement. For example, experience suggests that developing a sound risk management regime is an essential pre-requisite for more complex activities such as post clearance audit, compliance improvement and the establishment of an Authorized Economic Operator regime. Likewise, many customs technical activities are heavily dependent on the availability of high quality ICT support. As



such, the project will devote significant attention to fast tracking the design and implementation of the core ICT system and related infrastructure. Moreover, as the current ICT infrastructure is not sustainable in the longer term, significant attention has been paid to preparation of the technical and functional specification for the new system during project preparation. Based on work already completed, it is envisaged that the procurement process for the new core Customs ICT system will commence before project effectiveness. In parallel, relevant assessments and technical assistance activities will commence to ensure that BoC officials are able to take advantage of the new processing capabilities once the new functionality progressively becomes operational. Given that using the Bank's two stage bidding process for the ICT system will take up to one year it is considered realistic to commence both the ICT procurement process and the delivery of technical assistance inputs in parallel during the first year of the project. Such an approach will also assist in front loading project disbursements.

Component 1. Institutional Development (US\$25.5-50m)

This component will support the development of BoC as a professional organization that is transparent, accountable and more responsive to the needs of public and private stakeholders. This will be achieved by undertaking an organization and structure review, supporting strategic and operational planning, developing client service standards, preparing integrity assessments and mitigation strategies, and supporting human resource management and development reforms.

Subcomponent 1.1. Organizational, Structure Review and Human Resource Management

Organizational and Structure Review. To ensure the BoC is able to effectively manage its wide range of responsibilities and dispersed workforce there is a need to review the current organizational structure to identify opportunities to improve command and control and enhance operational communication between the central administration in Manila and operational units in the regions. The project will finance the conduct of a comprehensive assessment of the current structure and the identification of any opportunities for improvement. In addition, the project will support an assessment of the Headquarters structure to ensure that the organizational model appropriately reflects the priorities and functional responsibilities being enhanced or developed under the project. This will require the strengthening of some of the departments, particularly those that support value added functions, and reductions in others and adjustments to clarify roles and responsibilities and to eliminate functional overlaps.

Human Resource Management and Development. As a key element of its reform and modernization agenda, the BoC is planning to significantly strengthen the capacities and technical competence of its staff. The project will therefore finance a detailed staffing requirements assessment to determine appropriate staffing and deployment level required to effectively deliver on its government mandate in all key areas of BoC responsibility. It will also finance a competency/training needs assessment of the BoC, and based on the findings of the assessment, prepare a comprehensive Human Resource Development (HRD) Strategy and Implementation Plan. The HRD Strategy will focus on developing competencies needed to support the overall reform and modernization program and better match future requirements. As a part of this work, an assessment will be made of internal human resource management systems as they relate to the professional development and performance management of staff and how such practices can contribute to enhancing professional competencies. For example, the extent to which recruitment, staff mobility, career advancement and remuneration policies assist or hamper competency development opportunities within the BoC. If appropriate, options for alternatives to regular public sector employment remuneration and conditions of service will be explored to better reflect the unique law enforcement, community protection and revenue collection nature of customs duties.



Based on the HRD strategy the project will support the development of a comprehensive training curriculum addressing the most critical training and development needs of the BoC. The curriculum will describe learning objectives, learning outcomes, appropriate learning sequences, subject module outlines as well as monitoring and evaluation methodologies and the most appropriate delivery vehicles¹. The curriculum should address the development needs of new staff joining the BoC as well as officials who are already serving in the Bureau and will include management and leadership development needs as well as pure technical training requirements. Once agreement is reached on the curriculum the project will finance the development of a series of comprehensive learning materials covering content areas outlined in the curriculum. These activities are expected to lay the groundwork for the development of a highly trained and professional workforce. However, given an anticipated significant increase in recruitment of new officials and the need to ensure sustainability of the BoC's capacity to provide ongoing professional development opportunities for serving officials at various stages in their careers, it is envisaged that the project will also support the construction and operationalization of a National Customs Training Academy.

Integrity Risk Assessment and Mitigation. As the BoC has suffered from poor reputation for integrity, it is vitally important that the project focus on tackling corruption. The project will therefore support the adoption of a comprehensive and sustainable anticorruption and integrity enhancement program in line with the internationally agreed WCO Revised Arusha Declaration on Integrity in Customs. The program will focus both on prevention and enforcement and will eliminate opportunities for the inappropriate use of official discretion and face to face contact between officials and the private sector and where this is not feasible, significantly enhance the supervision, monitoring and enforcement capabilities of the BoC.

Strategic and Operational Planning. To support the structural changes and the overall reform and modernization program, the BoC needs to improve its strategic planning capabilities as well as its capacity to monitor its performance and meet stakeholder expectations. The BoC has already developed a five-year Strategic Plan but requires additional support to further improve its in-house capacity for strategic and operational planning. In addition, it requires support to prepare a practical monitoring framework to track reform progress and results through quantifiable targets and clear and verifiable performance indicators across all key functions of Customs. Concrete milestones and performance outcomes will need to be developed and cascaded throughout the organization with specific responsibilities and accountabilities established and monitored. Once key indicators and monitoring mechanisms have been agreed, a series of accurate baselines will be established allowing client service standards to be developed covering all key client service areas. Once agreed, the client service standards will be published and performance against them reported on an annual basis.

Subcomponent 1.2. Facilities and Equipment Upgrading

The BoC is a large and geographically dispersed organization which maintains significant properties and operational facilities in both Manila and regional centers. Many of its buildings and grounds are old and in poor condition and were designed to meet the needs of staff and clients prior to automation of key procedures and prior to the availability of modern inspection equipment. They do not adequately support contemporary approaches to customs administration. Likewise, BoC lacks adequate equipment to effectively screen and examine the large volumes of cargo it is required to control.

This subcomponent will support the BoC in upgrading its accommodation and operational facilities in both the Port of Manila HQ and in regional offices (including Mindanao) to better meet its government mandate, improve client service

¹ Taking into account the suite of e-learning modules currently available through the WCO.



requirements, improve the physical security of customs control areas and facilitate the operationalization of advanced non-intrusive detection equipment (x-ray scanners). In most cases this will require renovation and refurbishment of existing sites and office accommodation rather than new construction. Nonetheless, the project will support the design and construction of a new building to house the proposed National Customs Training Academy. Detailed site surveys, design studies and architectural plans will need to be developed as part of project implementation. Indicative estimates of the costs involved in this sub-component will be prepared prior to project appraisal. Likewise, estimates of the costs involved in the procurement and deployment of new scanning equipment will also be prepared prior to appraisal.

Component 2. Trade Facilitation (US\$2.75m)

This component will support the implementation of internationally agreed standards for the processing of imported and exported cargo consistent with WTO, WCO, and ASEAN commitments. This will be done by reviewing and redesigning business processes, implementing the provisions of the WTO's Trade Facilitation Agreement related to Customs, improving the level of voluntary compliance, and developing or strengthening a range of critically important value-added functions including intelligence, post clearance audit, enforcement and anti-smuggling and compliance based risk management. This component will include four main activities.

Subcomponent 2.1. Value Added-Functions

Intelligence Risk Management. The development of enhanced intelligence led risk management capabilities will allow the BoC to achieve an appropriate balance between trade facilitation and regulatory control. To achieve this balance, BoC needs to apply a set of modern risk based procedures that allow it to better differentiate between high risk consignments requiring enhanced surveillance and control, and low risk consignments that can be facilitated thus reducing the need for time consuming and ineffective inspection and testing requirements.

While all customs administrations across the globe collect and process a large amount of transaction data, the capacity to effectively target potential offences requires officials to have access to additional 'value added' information for analytical and targeting purposes. Currently the BoC does not have an effective in-house intelligence capacity or a structured process for collecting, storing, analyzing and distributing relevant information on trader compliance, seizures, modus operandi, suspicious persons, etc. Access to such information plays a central role in the development of a successful risk management regime and allows Customs officials to make informed decisions about where to deploy resources. The project will therefore finance a detailed assessment of current capabilities to identify gaps and recommend remedial actions to strengthen and formalize the risk management regime and to develop an effective intelligence capacity. In addition to building in-house capacity, the project will finance the procurement of appropriate ICT support to enhance in-house research and analysis capabilities. Procurement of the required ITC support for intelligence and risk management enhancement is included in the ICT component of the project.

Post Clearance Audit. While the BoC has already implemented a Post Clearance Audit regime there is significant scope to strengthen and broaden its capacities in this critical element of customs administration. Post clearance audit is, however, a complex activity and its effective implementation will require significant investment in training and technical assistance. The project will therefore support the development of a comprehensive post clearance audit capacity within the BoC, assistance to prepare a sound national audit plan, the production of relevant operational manuals and the design and delivery of practical training in post clearance audit techniques.

Trader Compliance. In many countries, including the Philippines, customs administrations operate in an environment of relatively low trader compliance. As a result, they typically employ a regime based on extremely high levels of physical



and documentary inspection. While such an approach is understandable such a regime does not adequately differentiate between traders that are highly compliant and those that are not. As such, there is little incentive for many traders to fully comply with all regulatory requirements as they are essentially subject to the same high levels of government intervention regardless of their compliance history. Likewise, there are few meaningful sanctions applied to traders that do not comply. The task cluster is therefore focused on the development of a comprehensive compliance improvement strategy and implementation plan. As such, the project will finance the design and implementation of an Authorized Economic Operator scheme suitable for the Philippines needs and operating environment.

Implementation of the CMTA. While the CMTA has been passed into law, the enabling regulations necessary to implement the law are still being completed by the BoC. As of May 2017, only five implementing rules and regulations (IRRs) have received final approval. There are another 27 draft IRRs that are either pending final approval or are still being developed.

As the regulations are revised, the underlying procedures and processes within the BoC will also need to be updated. These will all require significant changes and reforms to internal systems, procedures and related protocols and will require the adoption of a range of new and more technically demanding staff capabilities within the Bureau. The project will finance support to prepare and implement all the required internal reforms and procedural changes necessary to give full effect to the provisions of the CMTA. For example, while the CMTA makes provision for administrative appeals of customs decisions and the necessary regulations have been developed but the enabling systems and procedures have not yet fully implemented. The project will support their effective implementation including detailing eligibility; the hierarchy of appeals; the relationship between the appeal mechanisms and further judicial review procedures; set appropriate time frames; ensure safeguards of neutrality; and detail recourse to independent review; and ensure appropriate procedures are developed to separate of release of goods from final clearance following review of decisions. The appeal process finally implemented will be compatible with global good practice and international standards, particularly those required by the WTO and the WCO. Similar systems and procedures will need to be developed and implemented covering a wide range of modern customs processes.

Subcomponent 2.2. Revenue Collection, Community Protection, and National Security

To effectively implement the trade facilitation reforms in the previous subcomponents, the BoC will need to simultaneously strengthen its capacity to effectively enforce its government mandate in respect of revenue collection, community protection, and national security. As such, it will need to further develop its investigation, enforcement and anti-smuggling capabilities to ensure it can effectively deter, prevent and detect fraud and criminal activities. The project will support the development and implementation of a comprehensive customs investigation, enforcement and anti-smuggling strategy as well as training in a range of appropriate new technical capabilities and related equipment and software support. The procurement of the necessary equipment needs will be covered under subcomponent 1.4.

Component 3. ICT Sustainability and Upgrade (US\$ 95m)

This component will support the modernization of BoC's core ICT systems, related technical infrastructure and internal capacity to manage and operate a sophisticated ICT operation to ensure it contributes to improving operational effectiveness, integrity, accountability, and organizational performance. It will encompass, replacement of BoC core ICT processing system & related infrastructure, development of a long term BoC ICT Strategy, capacity development for ICT staff, investment in sustainability of current system during redevelopment period, connection and interoperability with whole of government National Single Window (NSW) system and port community systems and implementation of



Enterprise Resource Planning (ERP) solution covering human resources and payroll, financial management, asset management and KPI tracking, management dashboard, etc.

Subcomponent 3.1. Customs Processing System

BoC will separately appoint turn-key suppliers for delivery of a core customs processing system (CPS) and implementation of an ERP solution to address the internal administrative needs of the BoC. It is anticipated that suppliers of these solutions will also deliver new business processes based upon international best practices (completely new business and operations processes).

The modernization of the customs Processing System will consist of the following primary activities:

- Philippines Customs Processing System Implementation including back-office automation. This activity will include Business Process simplification, software development and Information Communications and Technology (ICT) infrastructure to support the CPS implementation.
- Strengthening the BoC's MISTG Unit, through the Implementation of a new Operating Model. This activity will include alignment of the structure of MISTG in support of the new CPS and back office systems, and strengthening the capacity of MISTG to manage its internal, external stakeholders and service providers.
- Strengthening Customs Modernization through: i) Implementation of a Risk Management Software Module and capacity building support; ii) Implementation of a Valuation database and capacity building support; iii) implementation of an advanced Intelligence support system; and iv) Customs business process harmonization and simplification through business process re-engineering and implementing the new processes in the BoC and the CPS.
- ICT Infrastructure for selected Customs sites including Hardware, Communications infrastructure but not including last-mile connectivity between BoC sites and the Government Network backbone

While improving the operational performance of Customs remains a high priority for BoC, it is only one of many agencies involved in the processing and clearance of traded goods. Global experience suggests that cargo clearance times are largely determined by the performance of the weakest link in the border processing chain. It matters little if Customs declarations can be submitted and processed electronically; the dependency on other documents that need to be examined and approved manually prior to release will ultimately affect the overall clearance times for cargo.

In line with international standards and WTO trade facilitation requirements, the Philippines Government is in the process of implementing a National Single Window System (NSW), labelled as TradeNet. This will allow different Government Certificate, License, Permit issuing Agencies (CLPIAs) to accept requests from traders, process requests for appropriate Certificates Licenses and Permits (CLPs) and digitally issue such CLPs; thus, streamlining the overall process and reducing the need for duplicate processing.

A joint CPS-NSW Working Group will be established to ensure the NSW meets the requirements of the BoC's CPS Project. As Trader Registration, Tariff Management, Permit and License Management, and Risk Management are key processes of any CPS and NSW system, it is vital that TradeNet address the BoC's needs in these areas.

TradeNet is governed by the Department of Finance (DoF) and is being developed by the Government Department of ICT (DICT). Its status, as indicated by DoF, is that it will start on-boarding the CLPIAs within the next 2 to 3 months and is likely to be fully operational by the time the CPS implementation is scheduled to start.



Subcomponent 3.2. Administrative Systems Enterprise Resource Planning

BoC is likely to undergo substantial growth from its current staff strength of about 3,000 staff to its full complement of about 6,000 staff, within the next 2 to 4 years. This rapid growth is likely to put additional pressure on all the back-office and administrative systems of BoC. Key administrative systems requirements are for financial management (expenditure management) systems that can integrate with the national budget planning and treasury systems, staff payroll for regular payment of salaries, human resources management for career planning of a large professional workforce and an assets management solution that can easily support all core productive assets of BoC across the country. It is anticipated that a simple installation of an ERP solution covering the four modules will effectively address the core needs and it may be sufficient to consider a middle-tier ERP solution for BoC.

Subcomponent 3.3. Project Management and Quality Assurance

The implementation of the CPS and the ERP will be complex ICT implementations requiring BoC to exercise a strong methodology based project management approach to ensure the successful and timely delivery of the ICT solutions. Not unusually, BoC lacks the internal capacity to manage such complex ICT implementations. In order to support BoC in managing these complex tasks, this component will also finance a Project Management and Quality Assurance (PMQA) consultancy to work together with BoC to manage and quality assure the implementations.

Subcomponent 3.4. Change Management and Communications

The introduction of a modern CPS and ERP will require BoC personnel to fundamentally change their current way of entirely paper-based work-processes to fully digitally enabled work processes. This could negatively impact the performance of BoC in the short-term as the new systems are deployed. This could also present a significant area of resistance to the adoption of new processes and the new systems. In order to facilitate a smooth transition and adoption of the new systems as well as to reduce potential resistance to change, this component will also finance a large-scale Change Management and Communications (CM&C) activity.

Component 4. Project Management, Monitoring and Evaluation, and Public Relations (US\$3m)

This component will support project implementation. This will include establishing a Project Implementing Unit (PIU) within the BoC to provide fiduciary support for quality assurance (supported by PMQA for the procurement of Component 3), together with monitoring and evaluation functions to assess progress in meeting the project's development objective. Moreover, the PIU will prepare and implement a media strategy to communicate BoC modernization efforts with the public.

Note to Task Teams: The following sections are system generated and can only be edited online in the Portal.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)



The project will provide technical assistance for enhancement of customs-related standards in Manila and Mindanao (specific sites will be determined during project preparation). Proposed project will include construction of customs academy in either Subic Bay Metropolitan Authority or Clark Freeport, both of which are owned by national government and fenced off from informal settlers. However, the final location has yet to be determined.

B. Borrower’s Institutional Capacity for Safeguard Policies

This is the first lending project with BoC thus the safeguards capacity needs to be assessed yet.

C. Environmental and Social Safeguards Specialists on the Team

Maya Gabriela Q. Villaluz, Environmental Safeguards Specialist
Maria Loreto Padua, Social Safeguards Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The BoC facilities upgrading will refurbish existing custom offices in Manila and Mindanao, which will include repainting and creating partitions. Moreover, BoC upgrading will also include the design and construction of a two/four-story building of around 2,500-5,000sqm to house the proposed National Customs Training Academy. The construction activities are anticipated to generate site-specific small-scale impacts such as noise, dust, vibration, disposal of construction debris, that are manageable or temporary. To address the potential impacts, an Environmental and Social Management plan (ESM) will be prepared. The project will also secure an Environmental Compliance Certificate from the Department of Natural Resources prior to construction.
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	TBD	No presence of indigenous people in any of the two proposed project area (i.e., Clark or Subic). However, final location for the construction of the academy has yet to be determined. It is judicious to anticipate that the BOC can still decide to go to project sites outside of Subic or Clark – thus the TBD.
Involuntary Resettlement OP/BP 4.12	TBD	Proposed project will include construction of customs



academy in either Subic Bay Metropolitan Authority or Clark Freeport, both of which are owned by national government and fenced off from informal settlers. However, the final location has yet to be determined thus the policy might still be triggered.

Safety of Dams OP/BP 4.37 No

Projects on International Waterways
OP/BP 7.50 No

Projects in Disputed Areas OP/BP 7.60 No

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Oct 31, 2017

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

Need to get final the site of the facilities upgrading before Appraisal to confirm whether the project will or will not involve land acquisition

CONTACT POINT

World Bank

Andres F. Garcia, Roberto Martin Nolan Galang
Senior Economist

Borrower/Client/Recipient

REPUBLIC OF THE PHILIPPINES

Implementing Agencies

Bureau of Customs
Nicanor Faeldon
Commissioner
faeldonn@customs.gov.ph



FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Andres F. Garcia, Roberto Martin Nolan Galang	
Approved By		
Practice Manager/Manager:	Chunlin Zhang	05-Sep-2017
Country Director:	Mara K. Warwick	19-Sep-2017

Note to Task Teams: End of system generated content, document is editable from here.