



Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 03-Feb-2020 | Report No: PIDISDSA24442

**BASIC INFORMATION****A. Basic Project Data**

Country Philippines	Project ID P163428	Project Name Philippines Customs Modernization Project	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date 06-Mar-2020	Estimated Board Date 07-Jul-2020	Practice Area (Lead) Finance, Competitiveness and Innovation
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 of Customs and reduce trade costs.

Components

Component 1. Modernization of Customs Modernization
 Component 2. Organizational Development
 Component 3. Project Management.
 Contingency

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	97.82
Total Financing	97.82
of which IBRD/IDA	82.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	82.00
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Non-World Bank Group Financing



Counterpart Funding	15.82
Borrower/Recipient	15.82

Environmental Assessment Category

B-Partial Assessment

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. The Philippines’ strong macroeconomic fundamentals provide the necessary conditions for rapid, sustained, and inclusive growth. The country is increasingly characterized by robust economic growth, healthy current account surplus, more-than-adequate international reserves, and a sustainable fiscal position — a combination never seen in its history. While growth has moderated from a peak of 6.9 percent in 2015, the medium-term outlook remains positive. Growth is expected to surpass 6 percent in 2020-21 as global growth may moderately improve. 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.

2. Economic growth helped to reduce national poverty in the Philippines over the past decade. Between 2006 and 2015, the country’s average annual gross domestic product (GDP) per capita grew by 5.6 percent. This robust growth rate helped to push the national poverty rate from 26.6 percent in 2006 to 21.6 percent in 2015, declining by an average of 0.6 percentage points (ppts) per year. The factors that have been driving poverty reduction in the recent past, including the movement of employment out of agriculture, the recent increase in real wages among private sector workers, and the increase in remittances and government conditional cash transfers, are likely to continue to push the poverty rate down.

3. The Philippines is highly vulnerable to the impacts of climate change, which poses significant risk to the country’s recent achievements in poverty reduction and could negatively affect economic growth. Across its 7,641 islands, the Philippines is exposed to multiple natural hazards including typhoons, earthquakes, flooding, storm surges, tsunamis, volcanic eruptions and landslides. Many of these natural hazards, including typhoons, flooding, storm surges, and landslides, are exacerbated by climate change and will increase in frequency and intensity as the impacts of climate change continue to unfold. Recent studies indicate that a M7.2 earthquake on the West Valley Fault (in Metro Manila) could cause USD 48 billion in economic losses, resulting in a catastrophic impact on government and business continuity¹.

4. 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.

¹ The Greater Metro Manila Area Risk Assessment Program (PHIVOLCS, 2013)



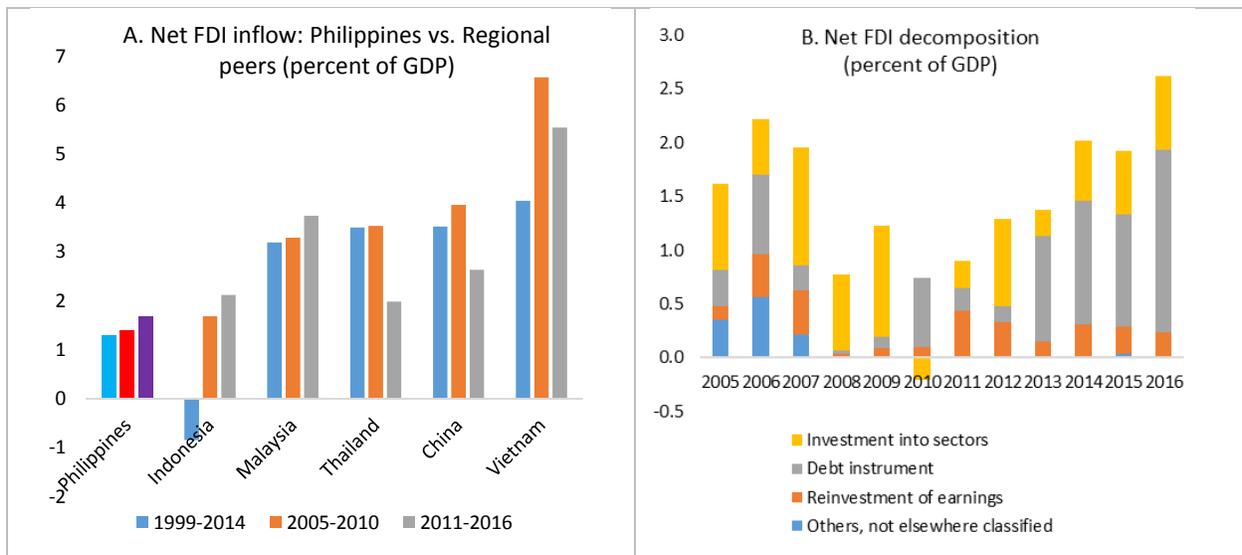
As a result, the PDP aims to lay down a solid foundation for more inclusive growth, a high-trust and resilient society, and a globally competitive knowledge economy.

Sectoral and Institutional Context

5. The Philippine economy has grown at a robust pace in recent years, resulting in increased in foreign direct investment (FDI), but composed of low equity investments (Figure 1). Philippines net FDI in 2016 reached 2.6 percent of GDP, up from 1.5 percent in 1999. In comparison, FDI into Malaysia and Thailand represented 4.3 percent, and 6.9 percent in Vietnam. When decomposing net FDI into direct-equity versus inter-company borrowing, direct equity investment into sectors has not increased during the last decade (0.8 percent of GDP in 2005 and 0.7 percent of GDP in 2016). Most of the net FDI inflow increases were due to increases in inter-company investment through debt instruments, from 0.3 percent of GDP in 2005 to 1.7 percent of GDP in 2016. These figures showcase the low investment to GDP ratio, which is a structural feature of the Philippine economy, resulting in a low capital to labor ratio.

6. Growth rates of both exports and overall trade in the Philippines have been among the lowest in the region. The share of exports in GDP declined from 47.1 percent in 2003 to 27.9 percent in 2016, slightly below the average for East Asia and the Pacific of 28.3 percent (Figure 2). While exports increased annually by an average of 5.9 percent from 2000-2016, Thailand’s exports increased by 6.0 percent and Indonesia’s by 6.6 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.

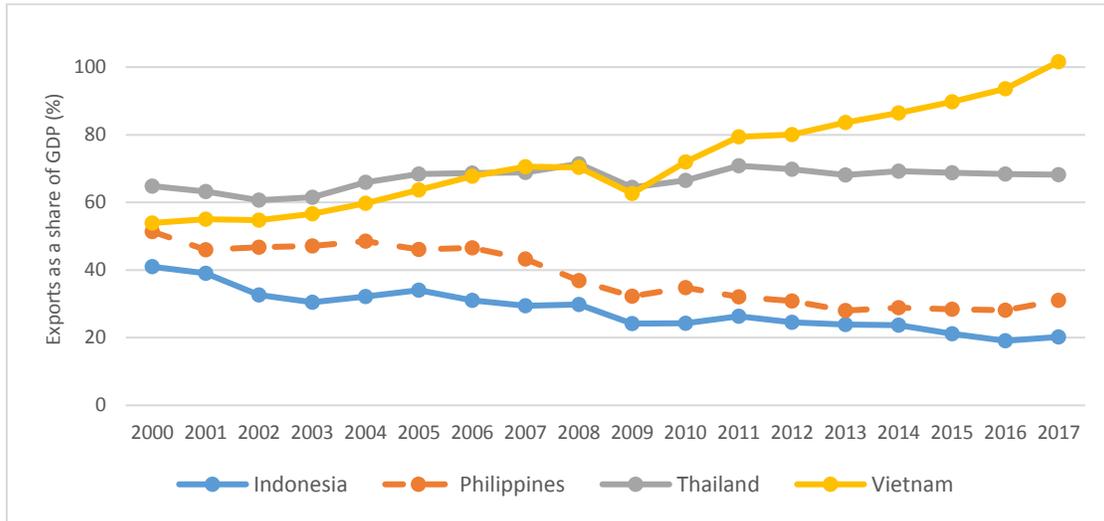
Figure 1. Net FDI inflow into the Philippines is relatively low and equity into sectors remains small



Source: PSA, in Philippines Growth and Productivity Report (2018)



Figure 2. The share of exports in GDP has been worsening



Source: World Development Indicators (2019)

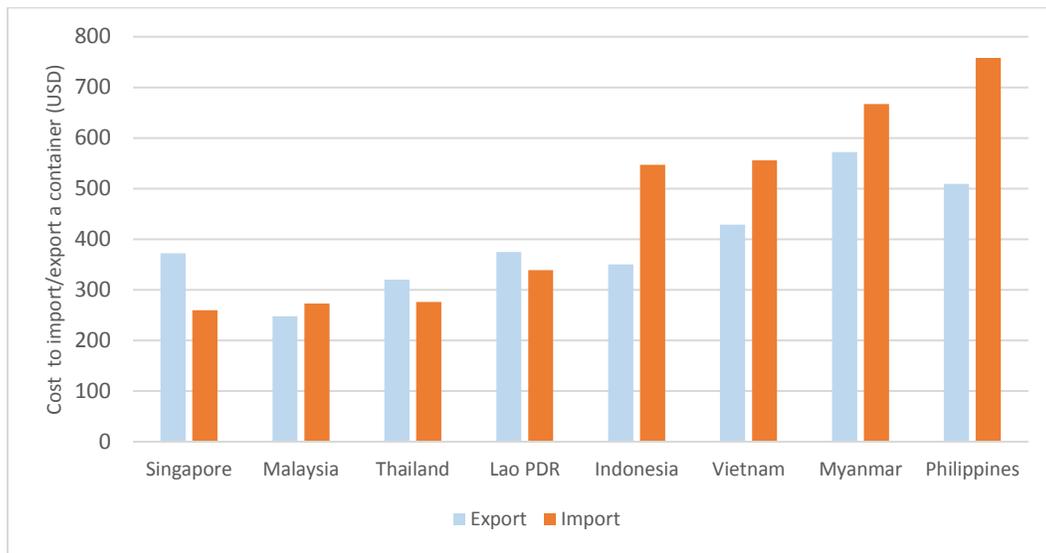
7. Most of the country’s exports are intermediate goods with low added value. In 2014, 83 percent of the country’s export products were from the manufacturing sector. Half of these manufacturing exports were heavily import dependent electronic products, of which most were components, devices and semiconductors, 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.

8. 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 Thailand.

9. The country’s export competitiveness is impeded by high trade costs. The Doing Business (DB) 2020 report highlights that trade costs in the Philippines are some of the highest within the Association of Southeast Asian Nations (ASEAN) (Figure 3). Investors in the Philippines face the highest import costs and the second highest export costs, just behind Myanmar. Results from the 2018 Logistics Performance Index highlight the low efficiency of the clearance process by border agencies (2.53/5), including Customs, together with the low quality of trade and transport infrastructure (2.73/5). The resulting high trade costs hinder the country’s export competitiveness and ability to create high quality jobs. This is especially important as the Philippines handles the 26th largest volume of container traffic in the world.



Figure 3. Investors in the Philippines pay some of the highest trade costs in ASEAN



Source: Doing Business 2020, World Bank Group

10. The call for higher rates of export-led economic growth, improved revenue collection performance and significantly higher levels of integrity will continue to put Customs 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. Nevertheless, the processing and clearance of imports and exports remains relatively inefficient and time consuming in the Philippines. For example, a container takes 120 hours to clear Customs and associated inspection procedures, much higher than in neighboring Vietnam (56 hours), Thailand (50 hours) or Malaysia (36 hours). Furthermore, the recent Mandanas ruling², will add further pressure for the Bureau of Customs (BoC) to increase revenue collection. By 2022, the internal revenue allotment to local government units will begin to include a share of import duties and other levies by BoC. The current poor performance of BoC hampers the Philippines' capacity to use trade as a vehicle for inclusive economic growth, job creation and poverty reduction.

11. The poor trade facilitation performance of the BoC is due to outdated infrastructure and inadequate business practices. The challenges faced by the BoC include: (i) an outdated customs processing system (implemented in 2005), 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; (iii) inadequate access to and use of non-intrusive inspection technologies; (iv) a lack of performance monitoring and evaluation capabilities and inadequate operational statistics; (v) a lack of pro-active dialogue and effective coordination with 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.

² In April 2019, the Supreme Court affirmed that the internal revenue allotment (IRA) to local government units (LGUs) will include a share of the tariff and duties collected by the Bureau of Customs. Those had been previously kept by the national government. LGUs will begin to receive the additional IRA starting in the 2012 budget.



C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The Project Development Objective is to improve the efficiency of Customs and reduce trade costs.

Key Results

The achievement of the PDO will be measured through the following PDO indicators:

- a) Time to import: Border compliance
- b) Time to export: Border compliance
- c) Cost to import: Border compliance
- d) Cost to export: Border compliance

D. Project Description

12. **Component 1. Modernization of Customs Operations.** This component will support the modernization of BoC's core Customs Processing System (CPS), 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.

13. The adoption of a Risk-Based Compliance Management environment will be the cornerstone of the new operating model with the new CPS. Risk management underpins almost all elements of modern customs administration. In recent times, the increasing complexity, speed, and volume of international trade, fueled by technological advances that have revolutionized global trading practices, have significantly affected the way in which customs authorities implement regulatory controls. Therefore, as part of the modernization efforts, this component will support the adoption of a more sophisticated risk management and cargo targeting capacity, together with modernized non-intrusive inspection services that provide the detection and control capacity, as well as the efficiency and trade facilitation that is expected from a modern Customs administration.

14. **Subcomponent 1.1. Customs Processing System.** This subcomponent will include the development and implementation of a core CPS by appointing a turn-key supplier. The CPS system will be largely built on commercial off the shelf software (COTS) solutions to provide a robust platform on which to develop the core functionality customized to the specific operating environment in the Philippines. The CPS will include the following features: trade management and registration; declaration creation, submission and processing; cargo inspection; duty suspense regimes; duty payment and accounting; clearance & release; integrated tariff management; risk management, including the use of big data analytics; and periodic and on-demand reporting. The development of the CPS will include the ability to receive, process and reconcile information (e.g. licenses and permits) from other agencies. Lastly, throughout the implementation of the CPS, this component will especially support the operationalization of modern compliance management functions. This will include areas such as risk management development, post clearance audit, authorized economic operators, advanced rulings, administrative appeals, and goods classification and valuation support.

15. **Subcomponent 1.2. Non-Intrusive Inspection Modernization.** This subcomponent will enhance fraud and contraband detection capabilities, eliminate waiting time for scanning, streamline overall inspection processes, reduce time to release legitimate trade, modernize BoC inspection processes, and improve trader perception of BoC business processes. This will be achieved by setting up two remote image analysis centers (RIAC) in existing facilities. The RIACs are a combination of hardware and software, which will allow BoC to



receive and interpret radioscopic images sent from operational scanner sites in real time. The RIACs will be fully integrated into the CPS, allowing BoC to leverage its modern risk management functions for more effective targeting. In addition, this subcomponent will provide technical assistance to: (i) define a scanning usage policy to optimize the use of existing scanning equipment as well as forthcoming technology deployment already decided by BoC; (ii) optimize BoC's scanners deployment program; and (iii) strengthen BoC's capacity to effectively manage and operate its modern non-intrusive inspection technology and processes.

16. **Subcomponent 1.3. Data Centers and Network Connectivity.** This subcomponent will provide the necessary space, equipment and connectivity required to run BoC's CPS, RIAC, and Back-Office systems (see Component 2). This subcomponent will upgrade the necessary equipment and connectivity for BoC offices to effectively link to the new ICT systems. Moreover, the subcomponent will support the rental of space in two separate data centers. Given the country's increasing vulnerability to natural disasters due to climate change, the data centers will be in seismic and typhoon proof areas. Furthermore, in order to ensure business continuity, the data centers will serve as disaster recovery centers and will have structural features that can withstand earthquakes and flooding.

17. **Component 2. Organizational Development.** The project will support BoC's modernization initiative to move to a modern customs administration. The new CPS will bring in the implementation of modern customs procedures, which will create new responsibilities and demands for BoC's workforce. Therefore, this component will upgrade BoC's back-office enterprise resource planning (ERP) ICT system, support an organizational and structural review, develop human resources (HR) management and development strategies and tools, and prepare a new customs training curriculum.

18. **Subcomponent 2.1. Administrative Systems Enterprise Resource Planning System.** BoC is expected to undergo substantial growth from its current staff strength of about 3,000 staff to about 6,000 staff during the next decade. This rapid growth will put additional pressure on all the back-office and administrative systems of BoC, which are largely manual. Therefore, this subcomponent will also appoint a turn-key supplier to develop a back-office enterprise ERP system. The system will include key administrative systems for: financial management (expenditure management) systems that can integrate with the CPS and the national 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 support all core productive assets of BoC across the country.

19. **Subcomponent 2.2. Organizational Modernization.** This subcomponent will support changes in the institutional structure to ensure that the organizational model and staffing requirements are aligned with the functional responsibilities enhanced under Component 1. This will start by developing an organizational model and staffing requirements that appropriately reflect the priorities and functional responsibilities being enhanced under the project. Thereafter, using the gender-disaggregated data generated by the ERP, the subcomponent will support the development of a gender-informed competency-based human resource management strategy together with a competency-based job catalogue expected under the new modern administration. This will include the inclusion of anti-corruption and integrity information into BoC's human resource strategy. Lastly, the subcomponent will develop a training program to build the competencies required for the modern organization.

20. **Component 3. Project Management and Implementation Support.** 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. In order to support BoC in managing the modernization agenda, this component will also finance a Project Management and Quality Assurance (PMQA) consultancy to work together with BoC to manage and provide quality assurance support during project implementation. The PMQA will support BoC's fiduciary, monitoring and evaluation roles, together with change management and communication. This component will also support gender-related data analytical activities, and several citizen engagement mechanisms, including: (i) participatory planning and policy-making with regards to the CPS design and implementation; (ii) annual multi-stakeholder dialogues; (iii) an online grievance redress mechanism embedded in the CPS.

E. Implementation

Institutional and Implementation Arrangements

21. The BoC, under the supervision of the Department of Finance, shall be the implementing agency and will have the primary responsibility for project execution and ensuring that the project development objectives are met. The BoC will establish a Project Implementation Unit (PIU) with the overall responsibility for project implementation.

22. The PIU will ensure timely execution of annual procurement, safeguards, physical, financial and performance audits of all project components. The PMU will develop a Project Operation Manual (POM) before effectiveness, which shall provide detailed implementation and coordination arrangements for the project. The details of the POM shall include roles and responsibilities of the implementing BoC Groups and functions associated in implementing the activities under each project component, including preparation of periodic progress reports and updating of implementation plans, along with detailed performance of fiduciary functions. Other PMU responsibilities include but are not limited to preparation of consolidated annual work programs and related budget requirements, fiduciary management, annual procurement plans, procurement of goods and services, semi-annual progress reports, process disbursement of project funds, review fund utilization and accountability, quality assurance of annual performance audits, oversee review meetings, supervise project staff and consultancy assignments, and other such work as required by the Project from time to time. To further support the project implementation by the PMU, the project requires the procurement of a PQMA firm throughout the duration of the project.

23. Beyond the project specific arrangements, implementation will be supported by an interagency Project Steering Committee (PSC), which will provide overall direction and strategic guidance. The PSC will be established before project effectiveness. This will ensure efficient project implementation and make sure that major implementation and supervision issues are adequately addressed by the implementing groups. The PSC will be chaired by the BoC Commissioner and include representatives from public agencies and private institutions.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project will support the modernization of the Bureau of Customs (BoC) by investing in modern ICT systems and installing ICT equipment (e.g. computers, servers) around the country (locations are not yet known). Under Component 1, the project will fund the installation of this equipment which may require



small building renovations within existing premises/properties of the BoC and will not entail land acquisition. Moreover, Component 1 may fund improvements in internet connectivity also in existing BoC premises. This may require small works in order to upgrade existing internet connections to faster speeds. The project will not have direct impact/effect on indigenous groups.

G. Environmental and Social Safeguards Specialists on the Team

Maya Gabriela Q. Villaluz, Environmental Specialist

Maria Loreto Padua, Social Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>The existing BoC facilities will be equipped with possible network cabling upgrades to improve BoC’s connectivity to accommodate the new ICT equipment. This will involve setting up of state-of-the-art computer systems, and state-of-the-art scanning equipment using sophisticated x-ray machines, minor building renovations and laying of underground cable pipes. Furthermore, the project will require the decommissioning and dismantling and disposal of outdated ICT equipment that includes computers, servers, modems, cable wires, and x-ray machines. This project will not finance any major infrastructure nor support the drafting of policies, strategies, laws and regulations which are likely to have environmental and social impacts when implemented through future programs or projects or involve the design and provision of capacity building to support the BoC or any other agencies to carry out activities that have potentially significant social and environmental impacts.</p> <p>The potential impacts from the small-scale works are noise and dust during the minor building renovation, installation of computer equipment, trench diggings for the pipe laying of underground cables, dismantling and disposal of ICT equipment such as</p>



computer systems, electronic devices, cable wires, outdated x-ray machines. The mitigating measures will include the proper collection and disposal of electronic wastes and construction debris, setting aside of soil overburden and putting up of highly visible barriers and signages as warnings and adequate filling up of trench diggings to prevent collection of surface run-off and avoid falling incidents and accidents.

The project is classified Category B and an ESMF has been prepared to describe the potential impacts and mitigating measures including a consultation plan and instructions to include the ESMF in the Contractor’s bidding documents.

Performance Standards for Private Sector Activities OP/BP 4.03	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	There are no forests to be affected in the project sites.
Pest Management OP 4.09	No	No chemical fertilizers will be used in the project.
Physical Cultural Resources OP/BP 4.11	No	No cultural resources will be affected.
Indigenous Peoples OP/BP 4.10	No	No direct negative impact on indigenous peoples.
Involuntary Resettlement OP/BP 4.12	No	Installation of equipment might entail small civil works, which will not entail land acquisition.
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	

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

Moderate impacts could occur from minor building renovation, inadequate electronic waste, construction debris management and trench diggings. Project may entail only small civil works for installation of equipment within existing premises thus this will not require land acquisition.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

There are no potential direct and or long term environmental nor social impacts anticipated as the small works will be



confined within existing buildings.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts. There are no relevant project alternatives as there are no new structures to be constructed.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

The borrower has established a project management unit that oversees the project's safeguards. The PMU has assigned an engineer from the Internal Administrations Group to provide timely advice to the PMU and take responsibility for implementing the safeguards-related tasks.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

The building owner(s) and occupants will be interested and affected stakeholders and will be identified during project implementation (since BoC renovation locations are not yet known). Those affected by any cable laying, in case is needed to upgrade connectivity, will similarly be identified during project implementation. The BoC has prepared a simple Environment and Social Management Framework which focuses on consultation plan with affected parties, if any, during the implementation phase and prior to any construction, if determined to be necessary. The anticipated issues could include nuisances such as noise, dust, electronic waste and construction debris collection and disposal, trench diggings and temporary disruption of activities inside the buildings under renovation. In addition, the ESMF identified good practices for adequate waste management, including electronic wastes and construction debris.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank 27-Jan-2020	Date of submission for disclosure 27-Jan-2020	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
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"In country" Disclosure

Philippines
27-Jan-2020

Comments

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?
No



The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

Yes

Have costs related to safeguard policy measures been included in the project cost?

Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

Yes

CONTACT POINT

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APPROVAL

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