



Technical Assistance Report

Project Number: 41675
December 2007

Republic of the Philippines: Enhancing Revenue Collection and Strengthening the Criminal Prosecution of Tax Evasion Cases

CURRENCY EQUIVALENTS

(as of 29 November 2007)

Currency Unit	–	peso (P)
P1.00	=	\$0.0233
\$1.00	=	P42.80

ABBREVIATIONS

ADB	–	Asian Development Bank
BIR	–	Bureau of Internal Revenue
CSP	–	country strategy and program
CTA	–	Court of Tax Appeals
DOF	–	Department of Finance
DOJ	–	Department of Justice
DPSP	–	Development Policy Support Program
IA	–	implementing agency
ICT	–	information and communication technology
MCC	–	Millennium Challenge Corporation
NPS	–	National Prosecution Service
PMO	–	program management office
RATE	–	Run after Tax Evaders
USAID	–	United States Agency for International Development
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Law, economic management and public policy
Subsector	–	Public finance and expenditure management
Themes	–	Governance, capacity development
Subthemes	–	Financial and economic governance, public governance, institutional development

NOTES

- (i) The fiscal year (FY) of the Government and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. The Government of the Republic of the Philippines has requested the Asian Development Bank (ADB) to provide technical assistance (TA) to support an integrated structure for reforms to enhance revenue collection, including the prosecution of tax evasion, as part of the Government's overall fiscal consolidation effort. The ADB country strategy and program (CSP) for the Philippines considers fiscal consolidation through tax revenue enhancement and improved governance as key pillars of the development assistance strategy to the country. ADB fielded a Fact-Finding Mission in November 2007 to discuss and reach an understanding with the Government on the objectives and scope of the proposed TA, the terms of reference for consultants, and the cost and implementation arrangements. The design and monitoring framework is in Appendix 1.

2. The proposed TA complements and enhances ADB's ongoing activities in this area. Under the Development Policy Support Program loan (DPSP), ADB is supporting the Government's fiscal consolidation effort. Under an ongoing TA to the justice sector, ADB is assisting justice sector agencies strengthen their capacity to prosecute and adjudicate cases.¹ At the request of the Government, ADB is also helping to prepare a process map to clarify perceived impediments to the successful criminal prosecution of the Bureau of Internal Revenue's (BIR) "Run after Tax Evaders" (RATE) cases and develop recommendations to address the impediments (process map).

II. ISSUES

3. **Enhancing Revenue Collection.** The 2005–2007 Philippine CSP highlights fiscal imbalance as a binding constraint to higher sustainable growth. In recent years, the Government has made excellent progress in fiscal consolidation, with the national Government deficit falling from 5.2% of gross domestic product (GDP) in 2003 to 1.1% in 2006. The deficit is expected to fall below 1% of GDP in 2007 this year, and the consolidated public sector budget to be in surplus of about 0.1% of GDP. Tax policy measures implemented between November 2004 and February 2006 resulted in a 20% increase in tax revenues in 2006 over 2005 levels, and helped address the problem of fiscal sustainability. Consequently, the Government advanced its target of a balanced budget from 2010 to 2008. Additional reforms in taxation, rationalization of fiscal incentives, and tax administration will be necessary to achieve this target and ensure that the fiscal adjustment is sustainable. International comparisons of tax revenue-to-GDP ratios suggest that there is much upside potential for improving tax revenue performance in the Philippines.

4. However, revenue performance in 2007 has fallen short of the 2007 budget target. BIR collection from January to August 2007 was up about 8% over the same period in 2006, but short of the 2007 target of 14.8% increase over 2006 levels. The slowdown in tax revenue collections this year is explained by several factors, including the removal of the 70% cap on value-added tax (VAT) credits that contributed to a drop in VAT collections in the first semester, appreciation of the peso exchange rate that lowered VAT collections on imported products, and the prevalence of tax exemptions in the growth sectors of the economy that limited growth-induced tax collection. Weak tax administration and inefficiencies in the tax policy indicate that BIR has been unable to lift tax revenues through improvements in tax efficiency and enforcement.

¹ ADB. 2006. *Technical Assistance to the Republic of the Philippines for Enhancing the Autonomy, Accountability and Efficiency of the Judiciary and Improving the Administration of Justice*. Manila.

5. **BIR's Tax Administration Reform Agenda.** In 2006 BIR established the tax administration reform group comprising senior management from BIR and the Department of Finance (DOF). A 4-year tax administration reform agenda and action plan was designed and implementation started in mid-2007. The action plan comprises seven priorities including cleaning, expanding, and computerizing the taxpayer database; and implementing a risk-based audit system, improved administration and collection of tax arrears, and human resource development. Several development partners are supporting different components of BIR's tax administration reform agenda (Appendix 2). The World Bank has provided an \$11 million program loan to support tax administration reforms, primarily computerization of regional tax offices (RDOs). In addition, BIR is implementing programs to improve the detection and enforcement of tax evasion. Several aid agencies are providing technical assistance to support the BIR's RATE program. ADB is supporting the Government's tax policy reform agenda through its DPSP-1 loan, with an expanded role under DPSP-2, active participation in the Government-donor group on tax reform, and preparation of the tax prosecution process map.

6. **National Risk-Based Audit System and Industry Tax Performance Benchmarks.** The Government is committed to implement a risk-based audit system necessary for effective tax enforcement and revenue enhancement over the long term. At the same time, BIR will continue to expand its industry tax performance benchmarks to identify taxpayers in a particular industry for inspection and audit for suspected tax evasion. These benchmarks have proven to be useful tools in detecting tax evasion and place pressure on large taxpayers to adhere to industry norms.

7. **Inefficiencies in Tax Policy or Legislation.** The Government provides numerous tax deductions, exemptions and credits for VAT, customs duties, corporate and individual income, among others. In addition, several tax regulations and policies create investment distortions in several sectors such as the banking and financial sector. The structure of excise taxes and their administration has also affected excise tax collections, especially in alcoholic and tobacco products. Consequently, excise tax collections have not grown in line with growth in the consumption of such products.

8. **Inadequate Tax Revenue Forecasting Capacity.** DOF analysis shows that tax revenue growth does not track GDP well. The reasons for this are unclear. In any case, that fact has hampered DOF's capacity to forecast tax revenues necessary for formulating the national Government budget and medium-term expenditure plan. DOF does have a program for forecasting revenues, but this model is considered outdated, may not properly account for various exemptions, and is not integrated with sources of economic growth (such as the input-output table). Forecasting tools require upgrading. This is critical not only for setting revenue and therefore spending targets in the budget, but also as one way to benchmark against actual collections.

9. **The RATE Program.** BIR, the Department of Justice (DOJ) through the National Prosecution Service (NPS), and the Court of Tax Appeals (CTA) are the key actors in the criminal prosecution of tax evasion cases. Until recently, criminal prosecution of tax evasion has not been a primary objective of BIR operations; the focus had been on taxpayers' voluntary payments, which account for the bulk of BIR collections. Recently, BIR has begun to focus on criminal prosecution of tax evasion. In March 2005, BIR established the RATE program, which focuses on detecting tax evasion and preparing cases to submit to DOJ for prosecution. RATE cases are resource-intensive and require BIR to make a determination that sufficient evidence is

available to prove before DOJ that probable cause exists against an alleged taxpayer, that the taxpayer “probably” committed the violation.²

10. **BIR Capacity Building.** The focus of the RATE program has been on the filing of RATE cases. As of 31 August 2007, BIR had filed 87 RATE tax evasion complaints with DOJ, involving an estimated tax liability of P6.39 billion. Six complaints have progressed to the filing of criminal charges in CTA. BIR staff responsible for preparing and prosecuting RATE cases are receiving training and equipment under the Millennium Challenge Corporation (MCC) fund to strengthen their capacity in this area. However, the RATE program has not yet been institutionalized within BIR—there is no separate office, permanent staff, nor a separate budget. The absence of an institutionalized framework undermines efforts to build a long-term capacity to prepare and prosecute RATE cases. DOF is planning to institutionalize the RATE program under DOF’s proposed rationalization program, which has been submitted to the Department of Budget and Management for approval.

11. **Delays in Prosecuting RATE Cases.** Currently, of the 87 RATE complaints filed with DOJ, 35 have been resolved by DOJ (13 in favor of BIR with a finding of probable cause, 18 have been dismissed, and 4 have been remanded or referred back to BIR). Seventy-eight cases remain part of the DOJ caseload. Delays in DOJ’s handling of cases, including RATE cases, arise from the problems facing DOJ as a whole, e.g., the absence of formal training on trial techniques for new prosecutors, the large caseloads of prosecutors, including those assigned to a Special DOJ or BIR Taskforce, deficiencies in physical resources and administrative systems that would make prosecutors more productive, and the absence of a uniform approach to case flow management and performance management. Delays in the handling of RATE cases can also be specifically attributed to capacity constraints in this area—DOJ lawyers, while proficient in prosecuting criminal cases, do not have sufficient experience or background in tax laws. Since DOJ resolutions set a trend in future rulings on cases submitted for preliminary investigation and define the standards for BIR case development, there is a critical need for capacity development. In addition, there is no existing database of DOJ resolutions issued after preliminary investigations of criminal complaints, including RATE complaints, that could help ensure consistency in the resolution of cases filed by BIR for preliminary investigation and provide BIR with a preview of how future cases will be decided by DOJ. Such a database would also help in monitoring complaints that have been dismissed for lack of a probable cause.

12. **Tracking the Status of RATE Cases.** In addition, there is currently no effective means of monitoring, evaluating, and managing DOJ prosecutors or tracking the status of all criminal cases, including RATE cases, that they are prosecuting. There is no system for promptly producing reports on the status of cases, without significant effort. Monthly reports are compiled and submitted in hard copies, relying on information gathered manually from docket books and other records. In 2007, DOJ introduced a transitional reporting system for prosecutors that introduced standard reporting formats on end-of-year pending caseloads and period accomplishment reports reviewing the disposition of cases. The system is currently being enhanced with support under an ADB TA (footnote 1). However, since the system is dependent on paper collection and manual compilation of figures, progress in implementing it has been slow. DOJ plans to develop an information and communication technology (ICT) infrastructure and to maximize the use of existing ICT for collecting standard data. In the 2007 budget, DOJ requested additional funds to enable it to begin to procure the necessary ICT infrastructure (desktop computers for prosecutors and associated infrastructure to link them to a common

² In contrast, the standard of proof needed to obtain a conviction for tax evasion is “beyond a reasonable doubt” (there is no doubt that the taxpayer committed the violation).

network). Improvements to this system would help in the quick resolution of RATE complaints and improve oversight over prosecutors prosecuting RATE cases.

13. **Capacity Building at the Court of Tax Appeals.** CTA only recently acquired jurisdiction over criminal tax cases, including RATE cases. Prior to this, CTA only had appellate jurisdiction over civil and criminal cases decided by the lower court and appeals from BIR tax assessments. Currently only six RATE cases have been filed with CTA and no judgments have been issued. Novel legal issues are predicted with the rise in the number of tax evasion cases filed with CTA. The first few decisions that CTA will promulgate on tax evasion cases will be setting a precedent. They will define the direction of DOJ in handling preliminary investigations of tax evasion cases and provide guidance to BIR in deciding which tax evasion cases to develop. This prospect, together with the fact that CTA justices are not familiar with criminal procedure, makes CTA capacity enhancement critical.

14. **Aid Agency Support for CTA and DOJ in the Prosecution of RATE Cases.** The United States Agency for International Development (USAID), through the Rule of Law project, has been assisting CTA to develop and implement a case flow management information system, and is providing training to CTA justices on tax evasion adjudication. Under the Rule of Law project, USAID is currently in discussions to help DOJ prepare a prosecutors manual that would include, among others, guidance on prosecuting RATE cases; and is also supporting NPS to develop a case management system for criminal cases, including RATE cases. The Asia Foundation is in discussions with DOJ to help implement DOJ's new capacity development program, prepared with ADB assistance.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

15. The TA will support enhanced tax revenue collection. The proposed TA outcomes are an improved tax policy and strengthened criminal prosecution of tax evasion.

B. Methodology and Key Activities

16. The TA activities are divided into two components:

- (i) **Component 1: Tax revenue enhancement.** This component will support the Government's agenda to implement sustainable revenue enhancing measures and broad tax policy and administration reforms. Activities in this component include the following: (a) drawing on international best practices, assess the design and structure of excise taxes and their administration, and give recommendations for strengthening the excise tax regime; (b) provide a series of technical background papers on improving efficiency and administration of other taxes (VAT, income taxes), determined in consultation with DOF; (c) carry out tax performance benchmarking for two major industries; and (d) evaluate DOF's current tax revenue forecasting models and assist DOF in upgrading tax revenue models integrated with national income accounts and the input-output tables.
- (ii) **Component 2: Strengthen criminal prosecution of tax evasion.** This component focuses on strengthening the criminal prosecution of tax evasion through capacity building, enhancing institutional linkages between BIR and DOJ, and case performance monitoring. Key activities include the following: (a) develop and implement an internal database at NPS to consolidate and share

internal probable cause rulings and decisions on RATE cases, and related training and a framework for monitoring the use and impact of such database in terms of consistency and predictability of rulings; (b) build the capacity of NPS and BIR prosecutors, including the provision of research and resource materials; (c) build the capacity of CTA justices on criminal tax evasion by providing resource materials and related training; and (d) enhance processes, procedures, and systems to enable tracking of tax evasion cases at NPS, a related performance measurement system.

C. Cost and Financing

17. The total cost of the TA is estimated at \$600,000 equivalent, of which \$500,000 will be financed on a grant basis by ADB's TA funding program. The Government will provide in-kind contribution equivalent to \$100,000 by providing counterpart staff, office space and utilities, administrative services, and physical facilities. Appendix 3 gives the detailed cost estimates and financing plan.

D. Implementation Arrangements

18. DOF will be the Executing Agency and BIR, NPS, and CTA will be the implementing agencies (IAs). DOF will form a steering committee comprising representatives from the IAs to oversee TA implementation.

19. A team of international consultants paired with national consultants will be engaged to implement the TA activities. The consultants will be hired individually or through a firm by ADB through consultant qualification selection (CQS), according to the *Guidelines on the Use of Consultants* (April 2007, as amended from time to time). All payments under the Project will conform to ADB's *Procurement Guidelines* (2007 as amended from time to time). The TA will require 15 person-months of international and 28 person-months of national consulting services (5 international and 5 national consultants). Each component will be considered a stand-alone component. The TA is expected to be implemented over 12 months, from January 2008 through December 2008. Outline terms of reference for consultants are in Appendix 4.

20. The consultants will be responsible for providing reports and deliverables as required under their terms of references. Each component will produce a final report on activities. The timing of each TA activity will be determined in consultation with DOF and the relevant IA.

IV. THE PRESIDENT'S DECISION

21. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$500,000 to the Government of the Philippines for Enhancing Revenue Collection and Strengthening the Criminal Prosecution of Tax Evasion Cases, and hereby reports this action to the Board.

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>database at NPS on RATE rulings (probable cause) at headquarters in one regional pilot, related training, and monitoring framework to track and promote more consistency in rulings;</p> <p>2.2 Training of NPS and BIR investigators and prosecutors and provision of research and resource materials;</p> <p>2.3 Provision of legal resource materials to the CTA ; and</p> <p>2.4 Development of case tracking processes, procedures and system for NPS and related performance measurement system (initial focus on RATE cases)</p>	<p>15 investigators and prosecutors trained</p> <p>Resource materials procured in 2008</p> <p>Monitoring and performance indicators system established at NPS in 2008</p>	<p>ADB Review Missions</p> <p>NPS and BIR reports ADB review missions</p> <p>CTA ADB review missions</p> <p>NPS ADB review missions</p>	
<p>Activities with Milestones</p> <p>1. Consultants mobilized [February 2008], diagnostic studies, policy papers and recommendations completed by July 2008, consultations ongoing through December 2008.</p> <p>1.1 Technical paper on options to improve administration of excise taxes completed by July 2008, used as input into Government's reform effort, and aligned with policy measures for DPSP-3 (for 2009).</p> <p>1.2 Series of other technical paper on tax policy for reform as identified by BIR or DOF. Technical papers completed before August 2008.</p> <p>1.3 Two industry benchmark studies completed by May 2008, consultations with BIR's Large Taxpayer's Unit, and benchmarks used in BIR's audit system by July 2008.</p> <p>1.4. Upgraded revenue forecasting model by April 2008, training of staff completed by May 2008, and used for revenue forecasts for the 2009 proposed national government budget.</p> <p>2. Consultants mobilized [February through April 2008] and final workplan prepared [March/April 2008]</p> <p>2.1 Design for an internal database for NPS rulings along with related procedures and training submitted [May 2008]. Finalized [August 2008]</p> <p>2.2 Training of NPS and BIR prosecutors and investigators [begins in April through November 2008]</p> <p>2.3 Provision of legal resource materials for CTA [list of materials identified and confirmed by May 2008, procurement ongoing until November 2008]</p>		<p>Inputs</p> <p>ADB TA of \$500,000 consisting of</p> <ul style="list-style-type: none"> • Consulting services - 5 months of international consultants and 28 months of national consultant services \$358,000 • Equipment - \$52,000 • Training and Seminars - \$39,000 • Administrative and support costs - \$14,000 • Contingency - \$37,000 <p>Government financing of \$100,000 consisting of</p> <ul style="list-style-type: none"> • Office accommodation - \$60,000 • Counterpart staff \$20,000 • Other - \$20,000 • Support from other development partners(World Bank, MCC, USAID) 	

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
2.4 Report assessing statute of case tracking processes, procedures and NPS system [May 2008], recommendations to enhance/implement [July 2008], implementation [August through October 2008]			

ADB = Asian Development Bank, BIR = Bureau of (Inland) Internal Revenue, CTA = Court of Tax Appeals, DOF = Department of Finance, GDP = Gross Domestic Product, MCC = Millennium Challenge Corporation, NPS = National Prosecution Service, RATE = Run After Tax Evaders, TA = Technical Assistance, USAID = United States Agency for International Development, VAT = Value Added Tax.

DEVELOPMENT PARTNERS' COORDINATION MATRIX

Tax administration reform	World Bank Tax Reform Program (\$11 million loan for computerization of regional tax offices (RDOs), support for cleaning databases in selected RDOs) SIDA – support for developing the national risk-based audit system Australian Tax Office – support for developing programs for addressing tax arrears, technical support for strategy to clean the taxpayer database MCC – support for cleaning database in selected RDOs IMF – technical assistance to BIR in support of its tax administration reform group ADB – policy support through DPSP
Building the capacity for criminal tax prosecution	MCC – technical support to BIR's RATE Program USAID- Rule of Law program assisting CTA

ADB = Asian Development Bank, BIR = Bureau of Internal Revenue, CTA = Court of Tax Appeals, IMF = International Monetary Fund, MCC = Millennium Challenge Corporation, RDO = regional tax offices, SIDA = Swedish International Development Cooperation Agency.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Component 1	Component 2	Total Cost
A. Asian Development Bank Financing^a			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	178.00		178.00
ii. National Consultants		156.00	156.00
b. International and Local Travel	12.00	12.00	24.00
c. Reports and Communications	4.00	5.00	9.00
2. Equipment ^b	2.00	50.00	52.00
3. Training, Seminars, and Conferences ^c	4.00	35.00	39.00
4. Miscellaneous Administration and Support Costs		5.00	5.00
5. Contingencies	10.00	27.00	37.00
Subtotal (A)	210.00	290.00	500.00
B. Government of the Philippines Financing			
1. Office Accommodation			60.00
2. Remuneration and Per Diem of Counterpart Staff			20.00
3. Others			20.00
Subtotal (B)			100.00
Total			600.00

^a Financed by the Asian Development Bank's technical assistance funding program.

^b Equipment includes: computers, facsimile machines, legal resource materials.

^c Training, seminars and conferences includes training prosecutors at BIR and NPS, workshop on revenue forecasting and on tax policy reforms.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Component 1

1. This component comprises four activities: assessing excise tax administration, providing a series of technical policy briefs on tax policies (value-added tax [VAT], income tax, etc), benchmarking tax performance in selected industries, and upgrading revenue tax forecast models.

1. Excise Tax Specialist (international, 1 person-month).

2. Component 1 will engage one international consultant to assess the efficiency of the structure of the excise tax regime and its administration. The consultant will make recommendations on how to improve excise tax revenues both in the short term and over the medium term.

3. The consultant's specialization will be in the area of fiscal and tax policy, particularly administration of excise taxes. Extensive international experience in that field will be required. The consultant will report directly to the Department of Finance (DOF) and the Asian Development Bank (ADB) responsible officer. His/her main tasks include the following.

- (i) Drawing on existing data and studies, evaluate the structure of excise taxes for alcohol and tobacco in terms of efficiency and tax revenue maximization.
- (ii) Assess the effectiveness of the administration of the excise tax, with a focus on the system for reporting, monitoring, and compliance of producers with excise tax obligations.
- (iii) Give recommendations on how to improve excise tax collection in the short term and over the medium term, with focus on the structure of the regime, administration of the tax, and compliance with it, drawing on regional best practices. Also include the least-cost technology options available for effective compliance and tax revenue maximization.

4. Within 2 months of inception, a final report will be submitted to DOF and ADB. It will be titled "Maximizing Revenue Collections from Excise Taxes: Administration Reforms."

2. General Tax Policy Expert (international, 4 person-months).

5. One international consultant will be engaged to assess selected tax policies and provide recommendations for reform with the aim of enhancing revenue. The consultant will be engaged to provide a series of technical background papers on tax policies covering VAT, corporate and individual income, and treatment of income of the self-employed, among others. The consultant will make recommendations on how to improve these taxes and their administration, with the aim of improving tax revenue sustainability over the medium term.

6. The consultant will be an expert in the area of fiscal and tax policy. He/she will report directly to DOF and the ADB responsible officer. The consultant's main tasks include:

- (i) Carry out diagnostic studies on selected tax policies including VAT, corporate and individual income, and treatment of income of self-employed, among others identified by the Department of Finance.
- (ii) Drawing on existing data and studies, evaluate the structure of excise taxes for alcohol and tobacco in terms of efficiency and tax revenue maximization.

- (iii) Give recommendations on how to improve these taxes over the short term and medium term with the aim of improving tax revenue sustainability over the medium term.

7. As agreed upon, a series of technical reports on selected tax policies will be submitted to DOF and ADB.

3. Tax Specialists to Benchmark Industry Tax Performance (2 international, 8 person-months).

8. Two international consultants will be engaged to assist DOF to benchmark tax revenue performance in two selected industries important to tax revenue enhancement. The consultants are expected to identify areas where revenue enhancement improvements could be made in the short term and medium term.

9. The consultants will specialize in tax policy relevant to the selected sectors and will be familiar with the Philippine tax regime, and DOF/BIR's system for benchmarking tax performance. They will report directly to DOF and the ADB responsible officer. Their specific tasks are as follows.

- (i) Benchmark performance in the two sectors that would allow BIR to assess the extent of tax avoidance by large taxpayers.
- (ii) On the basis of this benchmark, assist BIR to identify large corporations that are suspect for underreporting their transactions, and consequently "underpaying" their taxes. Here third-party information is the key.
- (iii) Analyze the revenue regulations governing the two sectors and undertake a thorough assessment to determine whether at present, adequate and sufficiently clear revenue regulations are in place to cover all taxable transactions. Approximate the extent of revenue lost as a result of inadequate governing rules and formulate appropriate regulations to close the gap.

10. Within 5 months of inception and as agreed upon, each consultant will submit a final report to DOF and ADB. The report will be titled "Benchmarking Tax Performance in the Selected Sector."

4. Revenue Forecasting Specialist (international, 2 person-months).

11. One international consultant will be engaged to assist DOF to review and upgrade existing models for forecasting tax revenues.

12. The consultant will specialize in macroeconomics; possess relevant statistical skills; and be familiar with econometrics for forecasting, input-output modeling techniques, and other statistical modeling skills. He/she will report directly to DOF and the ADB responsible officer. In particular the consultant will undertake these tasks.

- (i) Assess co-movements between revenues from the major taxes and income, using gross domestic product and family income from the Family Income and Expenditure Survey as proxies for national income. From this assessment, ascertain the reasons for any weak co-movements between actual tax revenues and income, including the various tax exemptions.
- (ii) Review DOF's current revenue forecasting model and make recommendations for improving it.

- (iii) Upgrade the revenue forecasting model and explore the feasibility of integrating the model with the input-output (I-O) table to allow for intersectoral effects of economic growth on tax revenue collections. Develop the I-O model to allow DOF to carry out economy-wide impacts of tax policy changes on tax collections.

13. Deliverables will include an upgraded tax forecasting model integrated with the I-O model, and a manual for operating the model. DOF staff will be given training on using the model.

B. Component 2

14. This component comprises four activities.

1. Project Coordinators (2 national, 10 person-months)

15. Two consultants will be engaged: a project coordinator and a lawyer. The project coordinator will be engaged for 7 persons-months and the lawyer for 3 person-months.

16. The project coordinator will have at least 5 years experience in the justice sector and experience in project management. A degree in law or a relevant degree is preferred. The project coordinator will be responsible for these tasks.

- (i) Perform overall coordination with the program management offices (PMOs) in the National Prosecution Service (NPS), Court of Tax Appeals (CTA), and Bureau of Internal Revenue (BIR).
- (ii) Assist consultants to prepare and finalize coordinated work plans and reports.
- (iii) Organize meetings and workshops, including logistical arrangements.
- (iv) Work closely with the litigation and capacity development experts and the legal expert to prepare a list of proposed legal resource materials and related budget for review and comment by the implementing agencies and ADB, and oversee their procurement.

17. The lawyer will have at least 5 years in the practice of law, including litigation experience, and familiarity with tax laws. He/she will (i) work directly with the project coordinator and other project experts to provide guidance and recommendations to address constraints in the prosecution of RATE cases; and (ii) also assist in finalizing the background justice sector note that is under preparation by ADB as well as related reports that promote justice sector reforms with a focus on improvements in NPS.

2. Tax Litigation Experts (3 national, 4 person-months)

18. Three litigation and capacity development experts (4 person-months collectively) with at least 10 years litigation experience, including tax litigation, and training experience will be engaged. They will undertake these tasks.

- (i) Work closely with NPS, CTA, BIR, other development partners, and the project lawyer to identify areas where training is needed to develop capacity in the prosecution of RATE cases; and develop a list of proposed training events (clarifying their role therein) and budgets and, once agreed upon, organize and deliver the training.
- (ii) Assist NPS in the delivery of its overall training modules for new prosecutors.

3. Information Systems Specialist (national, 5 person-months)

19. The specialist will have at least 10 years experience in information systems development and implementation, and preferably experience in the justice sector. He/she will have the following tasks.

- (i) Work closely with NPS in reviewing options for a case flow management and tracking system at NPS (focus on probable cause rulings), including funding sources; develop recommendations for implementation under the TA and for review by NPS and ADB; and help NPS implement the agreed-upon recommendations.
- (ii) Assist NPS to develop a design for an internal database for probable cause rulings, including the piloting of the project in region 7 and at the national NPS office and help in implementation, in close coordination with the change management expert, monitoring and evaluation expert, and project coordinator.

4. Change Management Expert (national, 5 person-months)

20. The expert will have at least 10 years experience in developing and implementing change management strategies. Experience in the justice sector is desirable.. The expert will work with NPS and the SC PMO to develop strategies and actions for change management for reforms under the TA and assist in implementation.

5. Institutional Specialist (Monitoring and Evaluation) (national, 4 person-months)

21. An expert with substantial experience in benchmarking performance, including the design of performance monitoring frameworks, will be engaged. Experience in the justice sector is desirable. The expert will undertake these tasks.

- (i) Assist other experts in design reform initiatives under the TA, with a focus on quantifying key constraints, actions proposed to be addressed under the TA, and designed outcomes and impacts (quantifiable).
- (ii) Work with NPS and the SC PMO to build capacity in this area, and develop and implement performance measurement frameworks, with an initial focus on RATE cases.