

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: SEGF

TA No. and Name TA 3245-PHI: Nonbank Financial Sector Development			Amount Approved: \$2,000,000	
			Revised Amount: 1,860,000	
Executing Agency: Securities and Exchange Commission		Source of Funding: TASF	TA Amount Undisbursed \$18,906	TA Amount Utilized \$1,841,094 (as of 29 August 2003)
Date			TA Completion Date	
Approval 25 August 1999	Signing 12 Jan. 2000	Fielding of Consultants 15 March 2000	Original March 2001	Actual 31 March 2003
			Financial Account Closing Date	
			Original September 2001	Actual 30 September 2003 (projected date)
Description				
<p>The financial sector in the Philippines has long been bank-dominated and development of the nonbank financial sector has been hindered by, among other things, weaknesses in the regulatory and supervisory framework. One of the key lessons of the Asian financial crisis was that there is a need to promote the development of a sound nonbank financial sector with a view to providing an effective alternative means of corporate finance to bank lending. The TA was designed to support a series of ADB's program loans by providing technical inputs for institutional reform and capacity building in the nonbank financial sector.</p>				
Objectives and Scope				
<p>The objective of the TA was to promote the development of a sound nonbank financial sector primarily through strengthening of governance structures and institutions. The TA aimed to achieve this objective through providing support for: (i) reorganization and strengthening of the Securities and Exchange Commission (SEC), (ii) introduction and implementation of prudential standards, (iii) evaluation of the viability of nonbank financial institutions, (iv) development of SEC's monitoring, compliance, and enforcement mechanisms, (v) development of a phased action plan to improve the policy, regulatory, and market infrastructure for money and debt markets, (vi) training and capacity building in SEC to allow it to effectively carry out its regulatory functions, and (vii) capacity building in Bureau of Treasury (BTr).</p>				
Evaluation of Inputs				
<p>Overall, ADB and the EA found the consultants' inputs to be satisfactory. The TA aimed to assist SEC in its transformation into an effective market regulator and supervisory body. The TA involved 34 person-months of international and 71 person-months of domestic consulting services which was used to:</p>				
<ul style="list-style-type: none"> (i) Support the SEC reorganization: The consultants reviewed relevant laws identifying SEC's new responsibility, clarified job descriptions, and drafted the reorganization plan, including a management information system (MIS) plan and human resource development. (ii) Analyzing/Comparing the Philippine regulations/markets with international principles: The consultants conducted studies on the Philippine prudential/market regulatory framework, intermediaries, debt markets, and surveillance functions in the NBF sector, and provided technical comments/recommendations to SEC. (iii) Strengthening SEC and other NBF institutions' function/capacity: The consultants conducted trainings for SEC, BTr, and the Philippine Stock Exchange (PSE) on market malpractice, investigation, and market development and regulation, based on their assessment on training needs. 				
<p>The consulting firm completed most of their TORs and their performance was satisfactory. SEC requested for further refinement of three operational manuals and its relevant training. To meet this request, additional resources i.e., expertise in MIS and accounting and auditing was required during the course of TA implementation. To accommodate this request the Bank approved a minor change in scope was made to reflect these concerns.</p>				
<p>Five individual domestic consultants were subsequently hired to provide additional 24 person-months of consulting services to support capacity building/institutional strengthening of the restructured SEC including MIS, and introducing market governance. The consultants frequently conferred with SEC staff, to make the outputs closely tailored to SEC's needs.</p>				
<p>Given the evolving needs of SEC, it took longer time for TA implementation. This necessitated extension of the TA completion date to 24 months. However, SEC and ADB closely coordinated to promptly make necessary changes and monitor the progress in TA implementation after the minor change in scope. Therefore, the performance of ADB and SEC is rated as satisfactory.</p>				
Evaluation of Outputs				
<p>Consultants' periodic reports were generally adequate and timely, and SEC was also generally satisfied with the outputs of the TA and their quality.</p>				

The key outputs of the TA include:

- (i) **The SEC reorganization completed:** The TA provided the necessary technical inputs in the drafting of the reorganization plan which entailed the drafting of a clearly articulated general mandate of the SEC, and of its three major operating departments, the re-definition of the working relationships and linkages between these departments based on their new mandates and objectives, and the formulation of specific and appropriate job description for SEC's new/modified functions. A series of training to improve (assistant) directors' management skills, including its seven regional office chiefs, institutionalized the in-house structure for capacity building.
- (ii) **Procedural manuals for six operational departments and relevant trainings:** The manuals drafted by the original consulting firm served as useful guides, that enabled the SEC officials and personnel to effectively perform its market regulatory functions during the transition phase. These manuals were later refined by local consultants to make them more relevant as the SEC officers and staff settled into their redefined roles and assured additional responsibilities. The local consultants finalized manuals for three other operational departments as well. These manuals (six in total) and training for relevant SEC staff are considered to be applicable and useful, and gave SEC confidence as it became the first governmental organization that has operational manuals.
- (iii) **Strengthening of data-management system and relevant training:** Through support for building up stronger information management capabilities and staff training, SEC significantly improved its monitoring/ enforcement functions and enhanced its responsiveness for public requests for information. Its Annual Report 2002 shows that the income from public reference increased by 63%, whereas MIS Expert (domestic) reported that 90% of reference requests are completed within 1-3 hours, and the number of financial documents investigated/reviewed for compliance with SEC's requirements is increased.
- (iv) **Regulatory reviews and NBF regulator training:** The consulting firm produced recommendations/ comments on the existing legislations on the NBF sector and conducted seminars for regulators including a self-regulatory organization (PSE) to address issues and strengthen the NBF regulatory structure.
- (v) **Corporate Governance:** The TA assisted SEC in introducing the Code of Corporate Governance for publicly listed firms and conducting seminars for all SEC staff, and 300 board members, lawyers, accountants, and academics to enhance their awareness on importance of accountability, transparency and disclosure.

The reorganization plan, which called for a marked reduction in staff numbers through voluntary redundancy packages, caused the original consulting firm to face problems in implementing the training programs, which is one of the major reasons for the minor change in scope. The recruitment of new staff allowed the programs to be effectively implemented. Subsequent training activities by domestic consultants were tailored to the needs of the target audience and were well received. The TA also provided support for the development of in-house training capacity to ensure sustainability.

Overall Assessment and Rating

Based on the generally successful delivery of outputs and their perceived impacts, which led SEC to launch further efforts for enhancing its regulatory capacity (e.g., additional 4 manuals for its administrative departments were finalized) and improving market governance in the NBF sector, the TA is rated as successful.

Major Lessons Learned

Providing support for major institutional change and related capacity building requires careful planning encompassing medium to long-term perspective and should be flexible in design and implementation to respond quickly to the changing needs. Close consultation between the EA and the consultants with proper understanding of EA's needs and temporary weaknesses due to the major reorganization (e.g., a greater focus on developing basic skills and knowledge) are particularly important in conducting the facilitating of the staff development programs including the preparation of operational manuals. TA and the flexible implementation helped in responding effectively to SEC's emerging needs.

Recommendations and Follow-Up Actions

Although the main goal of the TA activities, to support the reorganization of SEC through appropriate inputs for institution building, was successfully achieved, there still remain further needs to strengthen SEC's capacity and ensure its effectiveness as the principal nonbank financial market regulator. Continued inputs are required to improve enforcement capabilities, and plan detailed sequence in complying with international best practices.

Further improvements on enhancing governance and adopting international standards in accounting and auditing were achieved under subsequent TA3773-PHI: Strengthening Regulations and Market Governance, for example, (i) SEC's and PSE's reporting requirements for listed firms reviewed, and a rationalization plan recommended; (ii) SEC's new market monitoring/surveillance system installed; (iii) "training of trainers" seminars on the International Accounting Standards conducted; and (iv) the Accountancy Act of 1992 reviewed and a new draft law submitted to the Congress.