



# Progress Report on Tranche Release

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Project Number: 41380  
Loan Number: 2489  
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## Philippines: Governance in Justice Sector Reform Program (Subprogram 1)

## CURRENCY EQUIVALENTS

(as of 18 September 2009)

Currency Unit	–	peso (P)
P1.00	=	\$0.02097
\$1.00	=	P47.67

## ABBREVIATIONS

ADB	–	Asian Development Bank
BJMP	–	Bureau of Jail Management and Penology
BuCor		Bureau of Corrections
DBM	–	Department of Budget and Management
DOF	–	Department of Finance
DOJ	–	Department of Justice
GDP	–	gross domestic product
MTEP	–	medium-term expenditure program
MOOE	–	maintenance and other operating expenditures
NEP	–	National Expenditure Plan
NPS	–	National Prosecution Service
OPIF	–	organizational performance indicator framework
OSG	–	Office of the Solicitor General
PAO	–	Public Attorney's Office
RCAO	–	regional court administration office
TA	–	technical assistance

## 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. A loan to the Republic of the Philippines for subprogram 1 of the Governance in Justice Sector Reform Program<sup>1</sup> was approved on 16 December 2008, for \$300 million. The loan, as part of a program cluster, was to be disbursed in two tranches, each for \$150 million upon compliance with (i) specified first tranche release conditions upon loan effectiveness, and (ii) second tranche policy conditions approximately 12 months after loan effectiveness. The policy measures are anchored in the Medium-Term Philippine Development Plan, 2004–2010,<sup>2</sup> which envisages a judiciary that is independent, effective, and efficient, resulting from reforms in the justice system.

2. The loan agreement was signed on 18 December 2008 and became effective on 10 February 2009, following the provision by the Government of the Republic of the Philippines (the Government) of a legal opinion satisfactory to the Asian Development Bank (ADB), and the establishment of a program coordination committee, co-chaired by representatives of the Department of Finance (DOF) and the Supreme Court, and comprising representatives from the Department of Justice (DOJ), Department of the Interior and Local Government (DILG), Department of Budget and Management (DBM), and Office of the Solicitor General (OSG). The first tranche of the loan—amounting to \$150 million—was released in February 2009; and subprogram 1 is targeted for completion by 28 February 2010. There are two executing agencies for the Program: the Supreme Court and the DOF. The Supreme Court is the executing agency for program activities focused on reforms in the judiciary, while the DOF is the executing agency for all other program activities within the executive branch. The implementing agencies are the DOJ, DILG, DBM, and OSG. The objective of the Program is to support the Government in its efforts to enhance the rule of law in the Philippines. It aims to:

- (i) strengthen judicial fiscal autonomy and improve justice sector resource management efficiency, accountability, and access to resources by enhancing public financial management systems, supporting decentralization of financial management and administrative capabilities, and making remuneration in the justice sector more competitive;
- (ii) enhance justice sector integrity through the development and enforcement of codes of conduct and the participation of civil society in monitoring justice sector performance and integrity, conduct an integrity development review, transparency in the judicial selection and appointment process, and the wide and timely dissemination of judicial decisions;
- (iii) improve justice sector efficiency through the development of efficient case flow management, streamlined investigation, prosecution, and court processes, sustainable capacity-building programs for justice sector staff, and the promotion of a sector-wide approach to justice reform;
- (iv) improve access to justice by the poor and vulnerable groups through the designation of selected courts to expeditiously handle small claims, capacity building of selected justice sector agencies to support gender and development-related reforms and activities, and a comprehensive multisectoral jail decongestion strategy; and

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<sup>1</sup> ADB. 2008. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Cluster, Loan for Subprogram 1 and Technical Assistance Grant to the Republic of the Philippines for the Governance in Justice Sector Reform Program*. Manila.

<sup>2</sup> Government of the Philippines, National Economic and Development Authority. *Medium-Term Philippine Development Plan, 2004–2010*. Manila.

- (v) strengthen delivery of justice through supporting the implementation of efficient and effective alternative dispute resolution mechanisms nationwide.

3. The program cluster builds on previous and ongoing technical assistance (TA),<sup>3</sup> which have supported institutional capacity building and implementing measures to address key priorities, including decentralizing the judiciary's financial management and administrative functions to regional court administration offices (RCAOs), improving the integrity of the judiciary and other justice sector agencies, and improving access to justice. Ongoing TA<sup>4</sup> includes support for jail decongestion, establishment and operation of a coordinating mechanism for justice sector agencies, capacity building for the implementation of performance-based budgeting in justice sector agencies, and replication of RCAOs in two additional judicial regions, following the pilot RCAO in judicial region 7 under tranche 1. The Government monitors the program and policy actions closely through the program coordination committee (para. 2).<sup>5</sup> This progress report outlines the reforms implemented under the Program and the policy reforms achieved by Government to comply with the conditions for the release of the second tranche.

## II. MACROECONOMIC AND JUSTICE SECTOR ISSUES AND DEVELOPMENTS

### A. Macroeconomic Development

4. **Recent economic developments.** The Philippine economy has seen steady growth from 2003 to 2007, a period that was characterized by the implementation of sound macroeconomic policies, fiscal consolidation, and a favorable external economic environment. Table 1 highlights key macroeconomic indicators since 2003. Growth has been rising steadily, culminating in a 3-decade high of 7.1% in 2007. However, this slowed sharply to 3.8% in 2008, reflecting weakening global demand for exports because of the global financial crisis. Growth for 2009 is expected in the range of 1.0% to 1.8%. Prospects for growth remain weak in 2010 as the global economy is only expected to recover slowly.

5. **Fiscal stimulus program.** In response to the global financial crisis, the Government announced that it would implement an Economic Resiliency Program—a fiscal stimulus package for 2009–2010 intended to offset the impact of the crisis, boost domestic demand, and accelerate economic recovery. The P330 billion package (23% of the total 2009 budget appropriation) comprises (i) P160 billion in 2009 to expand welfare programs, such as cash transfers to poor families and road maintenance; (ii) P100 billion for large infrastructure projects to be funded by government corporations and social security institutions; and (iii) P70 billion in the form of tax breaks. The main aim of this stimulus package is to protect expenditures on health, education, and social welfare, and to support employment-generating projects. There is a strong rationale for supporting social spending, since the Government needs to support the most vulnerable groups during the slowdown.

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<sup>3</sup> ADB. 2001. *Technical Assistance to the Republic of the Philippines to Strengthen the Independence of the Judiciary*. Manila (TA 3693-PHI); 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 (TA 4832-PHI); Technical Assistance to the Republic of the Philippines for Supporting Governance in Justice Sector Reform Program (TA 7210-PHI) attached to ADB. 2008. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Cluster, Loan for Subprogram 1 and Technical Assistance Grant to the Republic of the Philippines for the Governance in Justice Sector Reform Program*. Manila.

<sup>4</sup> i.e. Supporting Governance in Justice Sector Reform Program (footnote 3).

<sup>5</sup> The establishment of this committee was a condition for program loan effectiveness of the Program.

**Table 1: Key Macroeconomic Indicators in the Philippines**  
(% of GDP, unless otherwise indicated)

Indicator	2003	2004	2005	2006	2007	2008
Real GDP growth (%)	4.9	6.4	5.0	5.3	7.1	3.8
Fixed capital investment growth (% change)	3.8	1.3	(6.6)	3.9	10.9	2.9
Private construction (% change)	6.8	4.8	(1.1)	(3.7)	13.0	8.2
Public construction (% change)	(11.3)	(9.3)	(18.0)	31.4	29.2	(0.4)
Durable equipment (% change)	9.2	3.2	(7.1)	1.3	4.5	1.9
Workers' remittances (\$ billion)	7.6	8.6	10.7	12.8	14.4	16.4
Total employment (millions of persons, average of period)	30.6	31.6	32.3	32.6	33.6	34.1
Unemployment rate (% average of period) <sup>a</sup>	—	—	7.7	8.0	7.3	7.4
Annual inflation (% average of period)	3.5	6.0	7.7	6.2	2.8	9.3
Annual inflation (% year-end)	3.9	8.6	6.7	4.3	3.9	8.0
M2 growth (% growth, year-end)	4.2	10.0	9.8	22.1	10.7	15.4
Credit to the private sector (net, % change)	1.9	4.9	(0.3)	6.7	8.5	17.0
Interest rate (91-day treasury bill, secondary market, end period in %)	6.5	8.4	6.4	5.1	4.2	5.8
External debt	72.1	63.1	54.8	45.4	38.1	32.3
Debt service ratio (% of exports)	22.5	18.6	18.9	17.4	15.5	15.3
Current account balance	0.4	1.9	2.0	4.5	4.9	2.5
Gross official reserves (\$ billion)	17.1	16.3	18.5	23.0	33.8	37.6
<b>Public finances</b>						
Consolidated public sector budget balance <sup>b</sup>	(5.1)	(4.8)	(1.8)	0.2	0.4	0.4
National government budget balance <sup>c</sup>	(4.6)	(3.8)	(2.7)	(1.1)	(0.2)	(0.9)
Revenues and grants <sup>d</sup>	20.8	20.5	22.1	23.0	24.1	23.1
National government tax revenues	12.8	12.4	13.0	14.3	14.0	14.1
Expenditures <sup>e</sup>	26.4	25.5	24.1	22.9	23.7	23.7
National government expenditures	19.5	18.3	17.7	17.3	17.3	17.1
Capital outlays	2.6	2.7	2.4	2.3	2.9	3.0
Interest payments	5.2	5.4	5.5	5.1	4.0	3.7
Nonfinancial public sector debt	—	95.2	85.9	73.9	60.9	59.9
National government debt	77.7	78.2	71.4	63.8	55.8	56.3
Gross reserves as % of short-term liabilities <sup>f</sup>	124.2	125.8	120.1	172.7	215.2	257.6

( ) = negative, — = no data available, GDP = gross domestic product.

<sup>a</sup> Open unemployment rate measures the number of people out of work and looking for work. The unemployment rate used is the rate averaged over four quarters. Series break: from 2006, figures adopt the new unemployment definition per National Statistical Coordination Board Resolution No. 15 date dated 20 October 2004.

<sup>b</sup> Includes social security institutions, local government units, 14 monitored government-owned and government – controlled corporations and others.

<sup>c</sup> Authorities' definition, includes proceeds from privatization.

<sup>d</sup> The sum of all nonfinancial public sector revenue net of intra-public-sector payments.

<sup>e</sup> Defined as the difference between nonfinancial public sector revenue and balance.

<sup>f</sup> Short-term liabilities include medium- and long-term debt due in the following year, and exclude loans backed by gold and securities pledged as collateral.

Sources: National Statistical Coordination Board (May 2009 report), Central Bank of the Philippines, Department of Finance, Bureau of Treasury, Department of Labor and Employment, National Statistics Office (all data as of 5 August 2009, and International Monetary Fund Public Information Notice 12 February 2009 <http://www.imf.org/external/np/sec/pn/2009/pn0921.htm>).

**6. Fiscal performance.** The fiscal stimulus plan comes at a cost to the national budget. With about half of the plan (P160 billion) sourced from the P1.4 trillion national budget appropriation, the Government has had to revised its budget deficit target for 2009. From less than 1% of GDP in 2008 (P68 billion), the budget deficit target for 2009 was revised from 0.5% of GDP (P40 billion) to 3.2% (P250 billion). This has prompted the Government to postpone its target date for a balanced budget from 2010 to 2013. The economic slowdown reduced tax collections for the first 6 months of 2009 by about 6.4% over the same period in 2008 (20% below the Government's original 2009 budget projection). Targeted external borrowing has

ballooned to \$3.5 billion in 2009, from \$2.5 billion in 2008, a 40% increase. The Government's attempt to resuscitate the economy through higher government expenditures amidst falling revenues means that in 2010 it will be confronted with a complex budgetary situation: (i) the extent of recovery of the economy will create uncertainty in tax revenue, (ii) the Government is committed to reducing the national government budget to 2.5% of GDP in 2010, and (iii) the new administration after national elections in May 2010 may have new priorities. Support under the program for increased provision of budgetary resources to justice sector agencies needs to be viewed within the context of these constraints.

## **B. ADB Country Strategy and Program**

7. The Philippine country strategy and program<sup>6</sup> identifies governance and support for judicial reforms as key pillars of ADB's development assistance. The ADB focus on governance, macroeconomic and public expenditure management, and anticorruption activities in the Philippines is anchored in the Development Policy Support Program, which both complements and reinforces the Governance in Justice Sector Reform Program and ADB's other sector loan programs and projects that are aligned with government strategies. The Development Policy Support Program sets out broad policy outcomes for improving public expenditure management overall. The Local Government Finance and Budget Program supports expenditure management in local government. ADB has also provided technical assistance since 2003 to strengthen judicial autonomy and capacity as well as to improve the efficiency of the judiciary in planning and managing its resources and improving the efficiency and quality of services to the courts. These initiatives have resulted in the DBM taking several measures that have improved the resources available to the judiciary and increased its operational autonomy. These include (i) sustained increases in the judiciary annual budgets from 2.18% in 2004 to 5% in 2005 and culminating in 21% in 2009, (ii) retention by the judiciary of unused portions of its budget, (iii) full authority by the judiciary to realign any part of its budget without DBM clearance; and (iv) semiannual release of notice of cash allocations without conditions.

## **C. Recent Justice Sector Reforms<sup>7</sup>**

8. Improving the service delivery of justice sector agencies requires a number of interlinked reforms. These comprise stronger incentives to deliver public services, enhanced expenditure and budget management capabilities, greater accountability for the use of resources, and greater participation by citizens. The Program has underlined systemic issues affecting judicial fiscal autonomy and justice sector accountability and access to resources. It has highlighted justice sector integrity issues, and access to justice by the poorer and more vulnerable groups, including measures to deliver justice by strengthening alternative dispute resolution mechanisms.

9. A key factor in the weakness of justice sector institutions has been poor incentives and a lack of finance. Budgetary constraints have led justice sector agencies to prioritize recurrent expenses (primarily personnel) and budgetary compression has led to low salaries. When these are coupled with antiquated equipment and infrastructure, the result is staff vacancies and disincentives for efficient performance. Resource constraints also make justice sector

<sup>6</sup> ADB. 2005. *Country Strategy and Program (2005–2007): Philippines*. Manila.

<sup>7</sup> The Philippine justice system is a network of agencies and offices that perform dispute resolution, investigation, prosecution, police action, and corrections and rehabilitation of offenders. It operates under a regime of separation of powers, where the three branches of government—legislative, executive, and judicial—are independent from each other's control, and balance each other's power. Justice sector functions are distributed among the branches of government. No one government branch or office performs all or any of the above functions.

agencies—particularly the judiciary, prosecution service, and law enforcement—susceptible to external influence, which undermines the independence of courts and the integrity of other agencies. Fiscal management capabilities, particularly in budget planning, are weak. This prevents the agencies from defending their budget requests and obtaining the resources that they need. Agencies are unable to exercise proper oversight over their field offices and the lack of transparent procedures and accountability mechanisms with respect to the use of public funds contributes to the perception that the agencies are susceptible to corruption.

10. Judicial administration is becoming more efficient. The Judicial and Bar Council, which is constitutionally mandated to nominate appointments to the judiciary to the President, has continued to try to reduce the judicial vacancies and to improve the quality of judicial appointments. The judiciary continues to demonstrate its independence, even as inadequate resources constrain court operations, and it has undertaken a number of interim measures to make the courts more efficient and accessible, particularly to the poor. Case management information systems introduced in the Supreme Court, Court of Appeals, and Court of Tax Appeals, are expected to increase judicial efficiency in the higher courts, and to complement earlier efforts to improve court efficiency. Since the Supreme Court launched its action program for judicial reform, the number of cases disposed of by the courts has consistently outnumbered those entering the court system. This trend continued in 2008, when the courts disposed of 107% more cases than the total number of cases filed that year. However, reducing the case backlog remains a challenge, as clearance rates (volume of cases disposed as a percentage of total caseload), remained below 40%. In the judiciary, critical financial management reforms are being undertaken in a pilot RCAO in judicial region 7. Two other RCAOs are targeted to be launched by 2010.

11. The judiciary has focused on improving access by poor and vulnerable sectors of society to the court system. The Supreme Court has conducted regular forums on linking reforms in court policies and rules that benefit the poor and vulnerable groups to ensure that poor and marginalized communities do not suffer a disproportionate burden of the cost of justice.<sup>8</sup> The court has re-launched its Justice on Wheels program, which deploys mobile courts to detention centers without courts or judges to hear cases in the area, complemented by court-annexed mediation<sup>9</sup> and free legal, medical, and dental aid. So far, the Justice on Wheels program has conducted operations in more than 25 locations in cities and provinces nationwide. In its first 6 months of its operations, 731 inmates were released; 5,386 individuals were provided with medical and dental assistance; 133 cases were mediated with a success rate of 85%; 595 individuals took advantage of free legal assistance; and about 6,700 individuals, including local community officials, attended lectures and forums or received information. Court-annexed mediation has strengthened the speedy resolution of civil disputes. In addition, the chief justice has continued to provide high-level leadership to strengthen the integrity of the judiciary, improve professionalism across judicial and non-judicial functions, and modernize judicial administration systems and processes to strengthen public trust and confidence in the courts.

#### **D. Lessons**

12. The challenges and risks faced by Philippine economy as a result of the ongoing global economic downturn, increasing fiscal deficit, oil price shocks, exchange rate volatility, and natural calamities may make it difficult to sustain the real increase in the budgetary allocations

<sup>8</sup> For example, Increasing Access to Justice: Bridging Gaps and Removing Roadblocks held in 2008, followed by a forum on Environmental Justice in 2009,

<sup>9</sup> Court-annexed mediation, as practiced in the Philippines, is an enhanced procedure before the main trial that involves settling cases filed in court with the assistance of a judiciary-accredited mediator.

for justice sector agencies. Given the complexity of some of the reforms supported, it is acknowledged that some reforms, particularly those involving higher budgetary outlay, may take longer than expected. The key lessons from the Program include the following.

- (i) **Importance of macroeconomic stability.** Economic stresses in 2009 and national elections in 2010 may mean that the Government and/or members of Congress may be tempted to introduce populist policies that could threaten fiscal discipline in 2010. However, the Government has announced its budget target for 2010 at 2.5% of GDP and since 2006 it has demonstrated commitment to its fiscal targets. The steady increase in the budget of the judiciary since 2008 is evidence of its commitment to strengthen the functional independence of this critical pillar of governance.
- (ii) **Ownership.** To institutionalize justice sector reforms, it is necessary to obtain the support of reform champions and of staff, who are likely to remain in an agency after the champion has moved on. Implementation of the ADB-supported reforms in the pilot RCAO was delayed, in spite of its approval by the Supreme Court en banc, in part due to resistance from staff in the Office of the Court Administrator and the Financial Management and Budget Office. The departure of Chief Justice Davide and the brief term of his successor, Chief Justice Artemio Panganiban, also made implementation of the reform more difficult. Strategic reforms that require a fundamental reconfiguration of policies and systems at central and field levels will require a capable reform management team that will have a direct reporting relationship to top management, so that the many operational issues that arise during implementation can be addressed.
- (iii) **Better coordination.** There is a need to strengthen coordination mechanisms between the justice sector agencies to ensure harmonization and mutual reinforcement of reforms. Although it may take time before a formal coordinating council is established because of the inherent limitations of the powers and functions of each agency, an interim coordinating mechanism may ensure the continuity of dialogue and help to coordinate the response to common issues among the justice sector agencies. Such a coordinating mechanism can serve as a sub-group of the Philippines Development Forum and articulate the reforms needed in the justice sector.

## E. Development Partner Coordination

13. Development partners continue to support the reform efforts of the justice sector agencies. The World Bank, through its Judicial Reform Support Project<sup>10</sup>, is strengthening information and communication technology in the courts; supporting construction of the Angeles City halls of justice and additional training center for Philippine Judicial Academy (the education arm of the judiciary); and helping to build capacity in the court financial management and procurement system. Since 2000, the World Bank has been reviewing the action program for judicial reform, in collaboration with ADB and other development partners. The review covers the reform efforts and accomplishments of the judiciary since 2000. ADB works closely with the Canadian International Development Agency, the European Union, and the United Nations Development Programme in the implementation of the jail decongestion program, a component of the Governance in Justice Sector Reform Program TA. Another component of the TA is strengthening case management and ADB is seeking closer coordination with the United States Agency for International Development (which has carried out more advanced work on case

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<sup>10</sup> The project provides support for infrastructure requirements of the judiciary (e.g. court buildings, computers, etc).

management and integrity development with the Supreme Court) in this initiative. ADB will also be collaborating with the Australian Agency for International Development in the internal control systems program for the justice sector agencies. The Supreme Court meets the various development partners regularly in a move to strengthen coordination among the partners. The judiciary will be conducting a comprehensive assessment of its reform program in 2010.

### III. PROGRAM IMPLEMENTATION

#### A. Status of Compliance with Second Tranche Release Policy Conditions

14. Since the release of the first tranche, the Government, through the program coordination committee, has consistently engaged with the implementing agencies and informed ADB of progress. It has demonstrated its commitment to justice sector reform by accelerating the implementation of the required actions for the release of the second tranche, so the Program can be completed.

15. In line with the focus of the first subprogram, six of the eight policy conditions that are required for the release of the second tranche focus on budget-related measures, while the remaining two focus on support for decentralization in the judiciary. All of eight policy conditions had been complied with by mid-October 2009 and significant progress had been shown with respect to 23 additional policy actions that are not second tranche release conditions. Of these, 10 have been accomplished and 13 are ongoing. The status of compliance with the conditions for the release of the second tranche is detailed below.

#### **Policy condition 1: Submission of Supreme Court organization performance indicator framework-compliant budget (complied with)**

16. Efforts to strengthen the judicial independence and the integrity of justice sector agencies have been demonstrated through the organization performance indicator framework (OPIF), an approach to expenditure management that directs resources toward national and departmental priorities and results (measured by performance indicators proposed by the agency). OPIF provides justice sector agencies with the opportunity to engage in transparent budget resource discussions. Under the first tranche, the Supreme Court and justice sector agencies in the executive branch have adopted and implemented OPIF-compliant budgets for fiscal year (FY) 2009.

17. For FY2010, the judiciary prepared its budget proposal through the OPIF process, starting with the Supreme Court, Court of Appeals, and Sandiganbayan.<sup>11</sup> For the release of the second tranche, the Supreme Court submitted an OPIF-compliant budget for 2010 using the DBM-prescribed OPIF forms: (i) form A—a budget matrix, which presents the court's major final outputs by program, activity and project, and budget allocation by expense class for the budget year; and (ii) form B—agency performance measures, which contain the court's major final outputs and targets for the next 3 years (FY2008–FY2010) and the corresponding total budget allocation reflecting amounts and output levels proposed within the expenditure ceiling provided by the DBM and the above ceiling. By submitting an OPIF-compliant budget, the judiciary seeks to strengthen its reporting requirements and to become more transparent. The performance indicators set by the Supreme Court include target caseloads and corresponding expenditure levels for the past year (2008), current year (2009), and budget year (2010). The DBM has confirmed that the 2010 budget submitted by the Supreme Court is OPIF-compliant and the

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<sup>11</sup> Sandiganbayan is the Philippines' anti-graft court.

performance indicators and targets and log frames submitted by the court are included in the second edition of DBM's OPIF book, which covers all OPIF-compliant agencies and will be published soon.

**Policy condition 2: Supreme Court to prepare and adopt a rolling medium-term expenditure program to cover 2009–2011, which should include information relating to the use of the Judiciary Autonomy Fund (complied with)**

18. The Supreme Court has adopted a medium-term expenditure program (MTEP) for 2009-2012. The 2009-2010 portion provides for significant increases in personnel services and maintenance and other operating expenditures (MOOE), in particular a very large increase in the allocation for capital outlay. This is a significant reversal of the previous expenditure pattern where the courts and justice sector agencies prioritized personnel services at the expense of maintenance and other operating expenses and capital outlay. This meant that more than 80% of justice sector agencies' budgets went on salaries, leaving less than 15% for maintenance and other operating expenses, and less than 3% for capital investment.

**Table 2: Summary of Supreme Court and Lower Courts Medium-Term Expenditure Program, 2009–2010**  
(P '000)

	2009	2010	% Increase
Personnel services	7,946,289	9,226,252	16.1
MOOE	3,066,270	4,484,551	46.3
Capital outlay	51,931	178,212	243.2

MOOE = maintenance and other operating expenses

Source: Supreme Court of the Philippines.

19. The MTEP also contains information on the use of the Judiciary Autonomy Fund, which was established in connection with the RCAO in judicial region 7 (RCAO 7), demonstrating the court's commitment to transparency in the use of this fund.<sup>12</sup>

**Policy condition 3: The National Expenditure Plan for 2010 to be submitted by Department of Budget and Management to Congress shall reflect the benefits and allowances to justice sector agencies, including the Public Attorney's Office and Office of the Solicitor General, as a special provision, in accordance with RA 9417, RA 9279, and RA 9406 (as may be amended from time to time) (complied with)**

<sup>12</sup> On 14 November 2006, the Supreme Court issued an order to implement reforms to strengthen the independence and fiscal autonomy of the judiciary by decentralizing its administrative and financial management functions through a pilot regional court administration office, which was launched by the current chief justice in judicial region 7 in May 2008. A key feature of the decentralization effort was the creation of the Judiciary Autonomy Fund, which is managed and controlled by the chief justice, currently through the Office of the Court Administrator. The fund is the source of all disbursements to support expenditures of the pilot regional court administration office and courts in the Seventh Judicial Region. The Supreme Court resolved that all funds attributable to the pilot regional court office in Region 7 and for all courts in the Seventh Judicial Region shall be deposited in the Judiciary Autonomy Fund. All funds accruing to the Seventh Judicial Region for its use and operation by virtue of any legislation or contractual agreement (e.g., budgetary appropriation from the national government, local government unit contributions, fees collected by courts, and revenues from the use or rental of court assets) shall be deposited in the Judiciary Autonomy Fund.

20. In recognition of the need to strengthen incentives to staff, three agency-specific laws (referred to above) were passed to allow for the provision of special allowances of up to 100% of base pay for staff in these agencies.<sup>13</sup> Funding for such allowances was to be sourced from fees and awards collected by the agencies themselves. However, of the three agencies, only the OSG and the National Prosecution Service (NPS) are likely to be able to raise significant revenues. The Public Attorney's Office (PAO) is unlikely to be able to raise sufficient revenues because of the nature of its work and the clients it serves. In accordance with these three laws, the National Expenditure Plan (NEP) for 2010 included a special provision for each of the proposed budgetary appropriations of the NPS, OSG, and PAO to allow them to retain and use the fees and awards they collect to fund the special allowances of their legal staff. Without the special provisions included in the NEP, the revenues collected by these agencies would revert to the National Treasury as income of the General Fund, and thus would not directly fund the special allowances of these agencies' legal staff. An increasing portion of the special allowances will, however, be subsumed into basic pay (fully funded by DBM) as the civil service salary standardization initiative is phased in—with an increase of some 50% of basic salaries by 2010 and 100% by 2012. However, there will remain a shortfall, even after the current salary standardization initiative is fully phased in, as its increases are based on 2001 salaries, while the agency laws are based on increases in relation to base pay in more recent years.

**Policy condition 4: National Expenditure Plan for 2010 budget<sup>14</sup> to show Department of Budget and Management proposal to provide (1) the judiciary<sup>15</sup> with budget sourced from the national government equivalent to at least 1% of total government expenditure proposed under the 2010 National Expenditure Plan; and (2) other justice sector agencies compliant with the organization performance indicator framework-compliant, real increases in budgetary resources, taking into consideration current inflation, consistent with their approved medium-term expenditure programs, and based on performance, absorptive capacity, and the prevailing macroeconomic and fiscal situation of the country (complied with)**

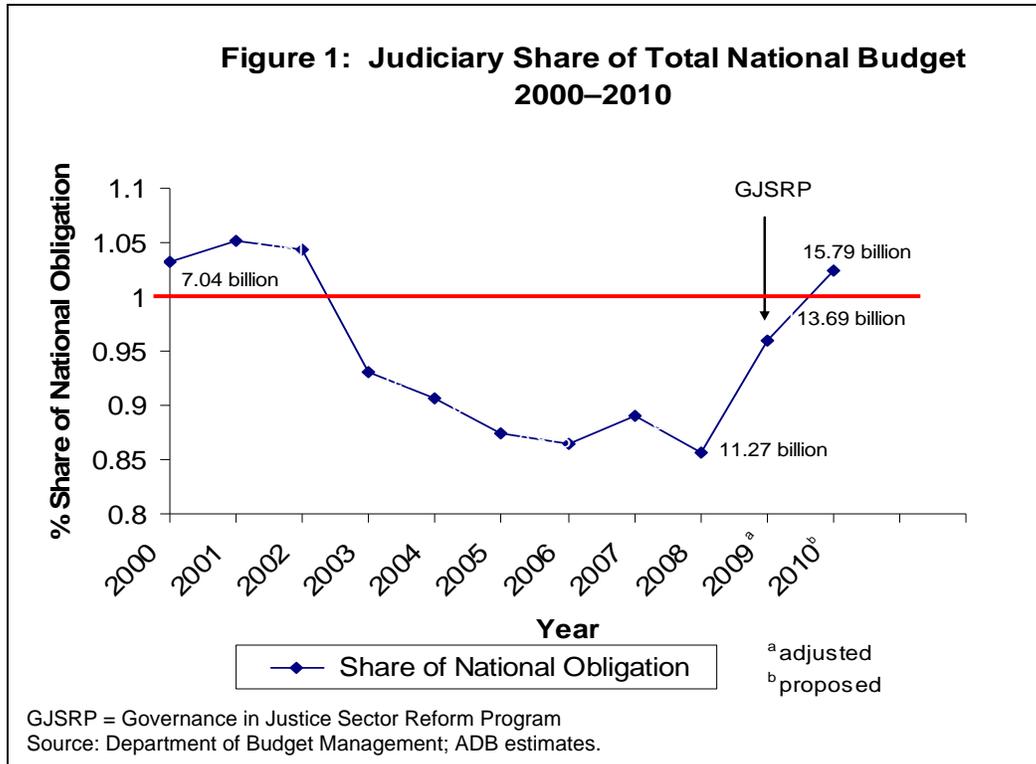
21. **Judiciary.** During the Program's implementation period, the judiciary's overall budget has increased significantly from 0.86% of the national budget in 2008 (before the Program) to 0.96% (or a 21.5% increase) in 2009 and 1.03% (or a 15.3% increase) in 2010. These allocations have reversed a declining overall trend and restored the judiciary's share to pre-2003 levels.

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<sup>13</sup> The DOJ legal staff include prosecutors and state counsels. PAO legal staff include public defenders. OSG lawyers are solicitors.

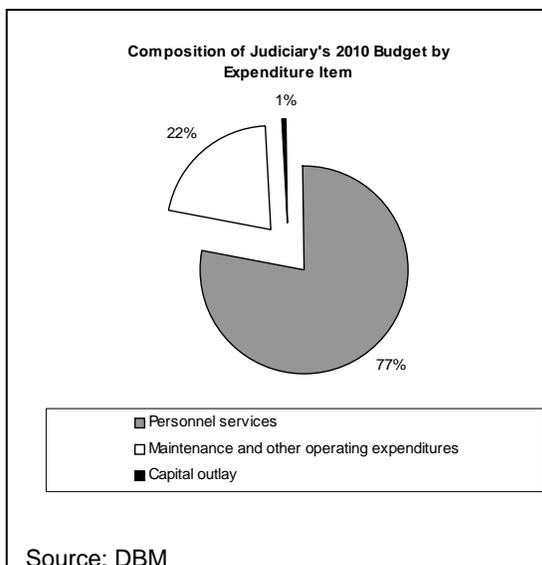
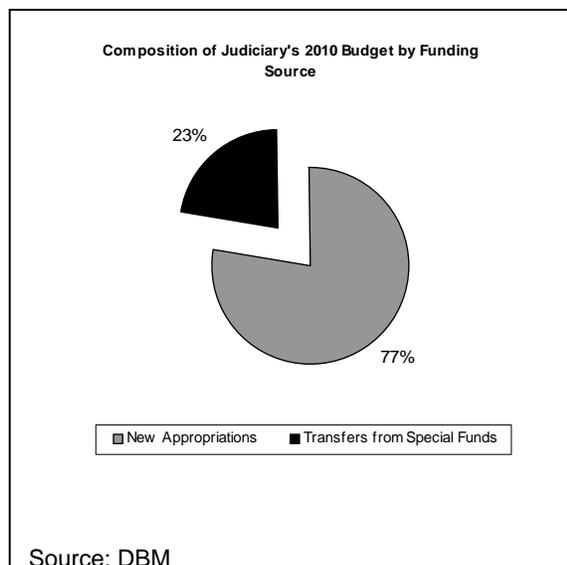
<sup>14</sup> Agency budgets, for the purposes of the current subprogram, are defined as expenditures that are provided for by law and whose provision is therefore guaranteed. These include new general appropriations (e.g., for capital outlay), automatic appropriations (e.g., for pensions), as well as transfers from special purpose funds (e.g., to fund personnel-related costs not otherwise provided for in agency-specific allocations (e.g., new positions filled during the year). It does not include items such as congressional initiatives, which fall outside of DBM's authority to control and provide. Please note that budget estimates for 2009 and 2010 are not final full year allocations and are likely to understate actual amounts.

<sup>15</sup> The judiciary, for the purposes of the current subprogram is defined as the Supreme Court and the lower courts, the Court of Appeals, the Court of Tax Appeals, and the Sandiganbayan.



22. The proposed increase for 2010 as submitted to Congress mainly relates to significant increases in pension and salary related automatic appropriations rather than increases in new appropriations related to maintenance and other operating expenditures. In line with the Government's commitment to fiscal consolidation in 2010, the Government is programming a reduction in the national government budget deficit from 3.2% of GDP in 2009 to 2.5% in 2010 through tax revenue increases and cut backs on discretionary expenditures.<sup>16</sup> Initially the Government proposed a cut back in the 2010 appropriations for operating budget of the judiciary by P328 million similar to expenditure reductions in most other line ministries. Subsequently, DBM recognized the necessity to maintain the operating budget of the judiciary to 2009 levels and has submitted to Congress a revision to the Judiciary budget of an additional P328 million. The proposed increase in the judiciary's budget for 2010 is significant as it occurs at a time when the Government is proposing an overall national government budget contraction (i.e., budget deficit reduction from 3.2% of GDP in 2009 to 2.5% of GDP in 2010).

<sup>16</sup> It should be noted, however, that the Judiciary also has access to other substantial sources of funding—notably the Judicial Development Fund, financed from retained court fees (estimated to be P1.7 billion in 2010). Also, in line with the principle of fiscal autonomy enshrined in the Constitution, the Judiciary, unlike other agencies in the executive branch, has significant flexibility in the allocation and use of its budget—with the Supreme Court having authority to realign any item in its budget including modification of staffing and administrative patterns. Also, unlike current practice with other agencies, the Department of Budget and Management releases funds to the Judiciary on an unconditional semi-annual basis in line with the Judiciary's proposed expenditure plan.

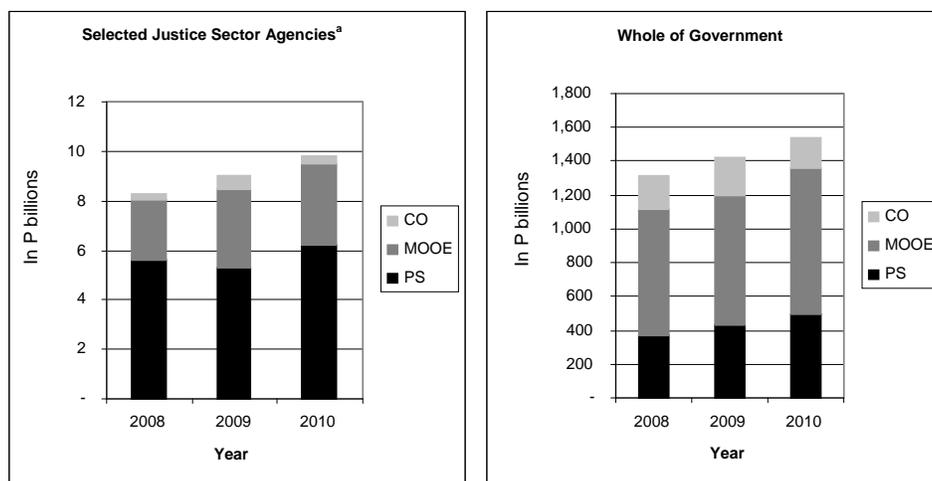


23. **Justice sector agencies.** Justice sector agencies covered under the program<sup>17</sup> have seen an aggregate 8.6% nominal increase in their 2010 budget (versus a Government-wide increase of 8%). This amounts to a real increase of 4.1% if the National Economic Development Authority's inflation forecast of 4.5% for 2010 is taken into account. As with the judiciary, resources provided to these agencies have long been inadequate and this has directly affected their ability to carry out their responsibilities effectively.

24. The PAO has operated with an unworkable ratio of one attorney for every three courts, which inevitably leads to a large and growing backlog of cases and delays in processing. The PAO has only recently obtained the legal mandate to increase staff levels to a ratio of one attorney per court and to increase salaries to levels that are more in line with those paid to lawyers in other agencies. Other agencies, including the OSG, NPS, and the Bureau of Jail Management and Penology (BJMP), will receive similar above-average real increases in 2010.

25. Nevertheless, budgets remain very compressed, as reflected in expenditure patterns for the sector, which remain dominated by salary-related expenditures and show much lower shares of spending on capital outlay and MOOE than Government-wide norms.

<sup>17</sup> These are over three dozen agencies across the Government with functions related to the justice sector. In addition to the judiciary, subprogram 1 focuses on five key agencies that are inextricably linked to the proper functioning of the courts and to the speedy and impartial disposition of cases and delivery of justice: (i) National Prosecution Service, (ii) Office of the Solicitor General, (iii) Public Attorney's Office, (iv) Bureau of Jail Management and Penology, and (v) Bureau of Corrections.

**Figure 2: Expenditure Patterns for Justice Sector Agencies**

CO = capital outlay; PS = personnel service; MOOE = maintenance and other operating expenditures

<sup>a</sup> The agencies are: (i) National Prosecution Service, (ii) Office of the Solicitor General, (iii) Public Attorney's Office, (iv) Bureau of Jail Management and Penology, and (v) Bureau of Corrections.

Sources: Department of Budget Management; ADB estimates.

26. With the exception of the Bureau of Correction (BuCor), which is in the process of expanding its facilities, the recent increases provided to the agencies mostly reflect a growth in personnel-related expenses in line with the significant expansion of staffing in agencies such as the PAO, the OSG, and BJMP. This will need to be matched with adequate provision for increases in capital outlay and maintenance and other operating expenditures to adequately accommodate and equip the new staff and allow them to carry out their responsibilities effectively.<sup>18</sup>

**Policy condition 5: Department of Budget and Management to commence the release of the scheduled allocations to the judiciary in line with the approved budget and agreed upon operational cash program of the Supreme Court, in full each quarter without conditions (complied with)**

27. Related to the need to increase the judiciary's budget is the constitutional principle of fiscal autonomy, which grants the judiciary the right to receive its budget automatically and regularly once it has been approved by Congress. Upon the approval of the General Appropriations Act for 2009, the DBM provided a one-time notice of a cash allocation release covering the entire first 6 months requirement of the judiciary, amounting to some P5.5 billion, without conditions. The DBM has already provided the judiciary with an additional P6 billion to meet its budgetary requirements for the second half of 2009, also without conditions, after the Supreme Court submitted its monthly cash program to the DBM.

28. In previous years, the cash allocation was released to the judiciary through quarterly releases (as for other government agencies) and subject to submission of required reports and

<sup>18</sup> The OSG is in the process of expanding from 20 to 30 divisions, while the PAO aims to double its staff over the next 3 years in line with a recently amended agency laws. Timely and adequate provision will need to be made to accommodate and equip these new staff if they are to be used to full effect.

withholding of reserves based on the Government's own cash program limitations. The introduction of semiannual unconditional release by the DBM on 2009 has given the judiciary more flexibility to manage its resources and day-to-day operations and increased its fiscal autonomy.

**Policy condition 6: Replication of regional court administration offices in at least two selected regions** (complied with)

29. The Supreme Court has been at the forefront of decentralizing court administration since 2007. It decentralized its administrative and financial management functions through a pilot RCAO in judicial region 7 starting in July 2008 and approved the addition of RCAOs in at least two more regions in April 2009.<sup>19</sup> The Office of the Court Administrator (OCA) has recommended that the next two regions be judicial region 3 (Central Luzon), with the RCAO located in Angeles City, and judicial region 11 (Southern Mindanao) with the RCAO located in Davao City.<sup>20</sup>

30. The two new RCAOs are targeted to be open for business by 1 January 2010, allowing implementation of the full 1-year systems cycle. They are located in regions that will provide useful lessons for future scaling up nationwide. Judicial region 3 is the second largest region (with 207 lower courts) and with many highly urbanized areas and a large caseload, while judicial region 11 (with 87 lower courts) is one of the smaller regions, with a small caseload but a large rural population. This will complement the current pilot project in judicial region 7, which is a medium-sized region (with 143 lower courts). The three pilots will also test the impact that different geographical dispersal factors and caseloads have on administrative and financial management and support requirements. Implementation of these decentralization reforms, especially in the two new regions, will require clarity on personnel policies, staffing, and budgets, and on the coordinating and oversight role of OCA. ADB has been in dialogue with the court administrator and the chief justice to address these concerns. Change management and strengthening capacity development in the decentralization process will be the thrust of the technical assistance currently being implemented.<sup>21</sup> The lessons from the judicial region 7 will be major inputs in the extension to the new regions.

**Policy condition 7: Reflection in the Supreme Court work and financial plan for 2009 regional court administration office 7 budgetary requirements** (complied with)

31. The launching of the RCAO in judicial region 7 (RCAO 7) is a key reform of the judiciary. The RCAO's budget is deposited in the Judicial Autonomy Fund, which houses all funds accruing to judicial region 7. Initially the funds included budgetary appropriations from the national government, and Judiciary Development Fund releases to fund the allowances of court personnel. Eventually, with the judiciary-wide implementation of the financial reforms, the Judicial Autonomy Fund will house all funds accruing to the judiciary, including local government unit contributions, fees collected by courts, and revenues from the use or rental of court assets. To fund the full implementation of RCAO 7 in FY2009, the work and financial plan of RCAO 7 was approved for P488 million in July 2009, providing funds for salaries, MOOE for region 7 courts and for RCAO 7 operations. By way of support for the implementation of the RCAO 7, the Supreme Court has allocated P22 million for the maintenance expenses of the lower courts. With the approval of its work and financial plan, disbursements for 2009 to RCAO 7 are no

<sup>19</sup> Supreme Court en banc resolution A.M. no. 09-3-22 dated 14 April 2009

<sup>20</sup> Approved by the Supreme Court in its en banc meeting on 6 October 2009.

<sup>21</sup> Supporting Governance in Justice Sector Reform Program (footnote 3).

longer on a transactional basis. This is a significant step toward improving capacities for self-governance and more meaningful implementation of judicial fiscal autonomy.

**Policy condition 8: Inclusion in the National Expenditure Plan for 2010 of Office of the Solicitor General's budgetary provisions for reorganization and physical expansion** (complied with)

32. As part of the Government's efforts to improve the effectiveness and efficiency of the OSG, it has enacted legislation (RA 9417) that provides for funding of the OSG's reorganization and physical expansion. The expansion program involves a doubling of the number of legal divisions in the OSG from 15 to at least 30, with a corresponding increase in support staff and provisions. An additional 10 legal divisions have begun operations, with the remaining five divisions expected to be established by 2010. The NEP classifies expenditures under agency-specific budgets into three categories: (i) personnel services, (ii) MOOE, and (iii) capital outlay. The 2010 NEP increased the OSG personnel services budget from P146,646,000 in 2009 to P195,029,000 (a 33% increase), reflecting the provision for new staff under the reorganization, and its MOOE from P94,504,000 to P115,005,000 (a 22% increase), which includes an increased rental budget to accommodate new staff.

**B. Review of Progress of Non-Tranche Policy Actions**

33. The Government had also made steady progress in accomplishing the 23 policy actions that are not conditions to the second tranche release outlined in the policy matrix of the Program. Of these 23 second tranche policy actions, 10 have been accomplished and 13 are ongoing.

34. **Completion of an annual report template.** The Supreme Court has prepared an annual report template and completed a report that contains detailed information on its budget, revenue and expenditures, judicial vacancy rate, and highlights of efficiency gains of lower-level courts, third-level courts and the Supreme Court. This annual report on judiciary-wide operations and performance has helped to increase the accountability and transparency of the Supreme Court.

35. **Implementation of assessment report.** The approval by the chief justice of the measures recommended by ADB to push the decentralization forward and his directive to the court administrator to ensure their implementation confirm the Supreme Court's commitment to sustaining the reform. Several measures have been implemented: (i) creation of a regional procurement committee; (ii) decentralization of supplies and materials budget and procurement, including those of the Halls of Justice; (iii) full budget provision for RCAOs as separate item in the Supreme Court budget in the 2010 NEP; and (iv) provision of reform incentives to RCAO 7 personnel. The remaining measures, such as the creation of a pilot oversight unit, provision of a full-year capacity development program for the new pilots, and provision of full RCAO staffing, will be undertaken as part of the broader implementation process that is being planned with ADB technical assistance. The computerization of the RCAO system is planned by the Supreme Court for implementation once the system is in place.

36. **Implementation of the organizational performance indicator framework by field offices.** The DOJ, the National Police Commission, the Philippine National Police (PNP), BuCor, and BJMP have submitted OPIF-compliant budgets to DBM. The adoption of OPIF by field offices of these agencies is an integral part of budget planning and preparation and budget execution, since budget proposals and output targets originate from field offices and are then

reviewed and consolidated. In this regard, the DBM spearheaded a series of workshops, coordination and harmonization meetings, and discussions to align the final outputs and performance indicators of the field offices of the NPS, which is on its way to decentralizing financial management through an OPIF approach. RCAO 7 of the Supreme Court has prepared OPIF-compliant budgets for 2009 and 2010. Other agencies are beginning decentralization of OPIF-based financial management and will receive capacity building support under the attached TA.<sup>22</sup>

37. **Submission of mandatory accountability reports.** Since January 2009, the judiciary has submitted quarterly reports on its physical and financial operations; quarterly reports of actual income; a statement of allotment, obligations and balances; and a monthly report of disbursements. These mandatory reports have strengthened its accountability mechanism.<sup>23</sup>

38. **Implementation of financial management guidelines and procedures in the Regional Court Administration Office for Region 7.** Since FY2009, RCAO 7 has been using decentralized manuals in its operations, which prescribe in detail the policies, procedures, and reporting formats and schedule for the entire RCAO 7 operations. The manuals cover the following systems: budgeting, financial accounting, cash management, physical assets management and personnel administration.

39. **Evaluation of policy to increase the budget share of Department of Justice local and field offices.** With ADB assistance, the DOJ is assessing its resource management framework, and fine-tuning resource allocation standards for its regional and field prosecution offices. In particular, it is linking its capital outlay and MOOE to budget preparation and administration. With the assistance of ADB, the NPS has trained central officers and regional prosecutors on results-based budget preparation. This is expected to pave the way for more meaningful involvement by field offices in financial management and in due course to greater resources as their needs are better identified and defined.

40. **Adoption of a lawyer's manual by the Office of the Solicitor General.** The OSG has adopted and prepared for publication a lawyer's manual that is scheduled to be distributed during the last quarter of 2009.

41. **Establishment of an integrity unit.** After completing a review and enhancement of performance and integrity, the Supreme Court has conducted workshops for judges and clerks of courts throughout the country to implement the recommendations of the review in the lower courts. It has carried this out through the recently formed Executive Committee on Integrity Development Review. The results of the workshops will form part of the action plan to strengthen judicial integrity. The report recommended the creation of a committee responsible for the corruption risk management plan of the court. Once this committee has been established, it will have oversight functions on the implementation of the judiciary-wide risk management plan, which is part of the overall action plan.

42. **Development of National Prosecution Service integrated case tracking system.** The DOJ has published an NPS administrative case management manual and since January 2009 its provisions have become part of the procedural rules and guidelines related to NPS case management.

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<sup>22</sup> Supporting Governance in Justice Sector Reform Program (footnote 3).

<sup>23</sup> Reports required by the National Budget Circular Nos. 5-07 and 5-07A.

43. **Publication of prosecutor's manual.** The DOJ has revised its manual for prosecutors, which contains general principles of prosecution and preliminary investigation, trial preparation, sample formats for NPS forms, special sections on human rights and tax evasion cases, and templates for trial briefs. With ADB assistance, 2,500 manuals have been produced, 2,000 of which have been distributed nationwide to prosecutors since August 2008, with the remaining 500 to be distributed within 2009.

44. **Adoption of joint Department of Justice and Bureau of Internal Revenue guidelines on tax cases.** The prosecutor's manual includes a special section on prosecution of tax cases, including a chapter on each of the common tax offenses, relevant tax-related jurisprudence, and templates of trial briefs.

45. **Establishment of a justice sector coordinating council.** In August 2009, the various justice sector agencies met to begin formalizing a coordinating body. The initial agreement was to set up a system of working groups to support their principals in reporting and bringing up issues and recommendations to further justice sector reform. These arrangements were confirmed in a subsequent meeting in September 2009 where representatives from each agency were nominated and implementation arrangements further detailed and agreed upon including the establishment of a secretariat located in the Department of Justice. The body will complement coordination efforts currently carried out under the Philippines Development Forum.

46. **Allocation of Court of Tax Appeals Third Division budget.** For 2009, the budget for the positions in the Third Division<sup>24</sup> amounting to P31.38 million was allocated. This lump-sum appropriation was carried over to the NEP for 2010.

47. **Creation of a Department of Justice internal management unit.** The DOJ has created an internal management group for the NPS.<sup>25</sup> Reporting directly to the chief state prosecutor, the group is implementing reforms in the organization, systems, and procedures of the NPS in organizational structure, management of resources, human resource management, integrity development, and the anticorruption efforts of the Government

48. **Capacity building of National Prosecution Service internal management unit.** ADB provided technical assistance<sup>26</sup> to the NPS to develop a strategy to enhance its internal management unit's absorptive capacity. The NPS is evaluating its existing rules and guidelines, (such as Department of Justice issuances), and operational policies related to prosecutor performance as well as effective systems to monitor prosecutor performance and support capacity development.

49. **Implementation of a training program.** The Supreme Court is yet to formulate a comprehensive training program for non-judicial staff. However, it is in discussions with ADB for technical assistance to develop training programs for its non-judicial and support staff in collaboration with the Philippine Judicial Academy. RCAO 7 has trained staff on financial management and capacity building for administration. Technical assistance from ADB<sup>27</sup> will continue the training of staff from RCAOs, OCA and other offices with oversight functions.

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<sup>24</sup> As of August 2009, the three justices of Court of Tax Appeals Third Division have not yet been appointed by the President. Hence, the Third Division has not commenced operations.

<sup>25</sup> Through Department Order No. 736.

<sup>26</sup> ADB 2007. *Technical Assistance to the Republic of the Philippines for Enhancing Revenue Collection and Strengthening the Criminal Prosecution of Tax Evasion Cases*. Manila (TA 7035-PHI).

<sup>27</sup> Supporting Governance in Justice Sector Reform Program (footnote 3)

50. **Completion of a nationwide access to justice program.** The Supreme Court is required to complete the design of a nationwide access to justice program. While in the process of doing this, it has re-launched its Justice on Wheels program, is preparing a curriculum for the training of court personnel on the use of Filipino in court proceedings, and has finalized a rule on mandatory legal service for members of the bar to render legal aid to indigent clients.

51. **Designation of small claims courts.** In connection with the implementation of the new rules of procedure in small claims cases, in October 2008 the Supreme Court issued an administrative order which designated 44 pilot small claims courts nationwide.<sup>28</sup>

52. **Evaluation of gender action plan.** The judiciary has begun evaluating a gender action and development plan for the Philippine judicial system for 2004–2009. The Committee on Gender Responsiveness in the Judiciary (CGRJ), which is composed of representatives of the Supreme Court, lower courts, and other offices in the judiciary, was created in 2003 to mainstream gender in the judiciary's policies, programs, and structures through the conduct, coordination and monitoring of judicial activities that promote gender-responsiveness. Through ADB assistance, the CGRJ is collecting data and designing measures to strengthen and track performance. With the conclusion of the gender action and development plan in 2009, the CGRJ, with ADB assistance, will be holding an assessment and planning workshop in November 2009. A consultant engaged under the TA has begun activities to support the judiciary's gender sensitivity training activities for family court judges and personnel.

53. **Capacity building and training of Philippine National Police staff.** With the support of a consulting firm engaged under ADB TA<sup>29</sup> and supported by the Gender Development Fund, ADB will conduct a needs assessment to help define follow-on support for the Philippine National Police in improving its frontline response. TA support will include the development and dissemination of a comprehensive procedures manual for first responders and women desk officers handling gender-based violent crimes. A small-scale stress management program for women desk officers is also planned.

54. **Simplified inmate record system.** ADB is supporting by providing software for a simplified inmate record system to be used by BJMP and the BuCor. It will be pilot-tested in the Quezon City jail, which has a capacity of 800 inmates but as of end of June 2009 had a total inmate population of 2,790.

55. **Study on jail decongestion.** With ADB assistance, the BuCor will study its processes and procedures with the objective of decongesting national prisons. For a start, BuCor personnel participated in a multi-agency round table discussion among various stakeholders in July 2009. The round table was supported by ADB and led by the BJMP.

56. **Rolling out court-annexed mediation to selected sites.** In February 2008, the Supreme Court issued an administrative order that further defined the organization, powers, and functions of the Philippine Mediation Center.<sup>30</sup> So far, a total of 103 mediation units nationwide have been established.

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<sup>28</sup> SC administrative order 141-2008.

<sup>29</sup> Supporting Governance in Justice Sector Reform Program (footnote 3)

<sup>30</sup> Administrative Circular 33-2008,

#### **IV. CONCLUSION**

57. The Government has made significant progress in justice sector reform under the Program. Despite the challenges faced during the implementation period, the Government has remained steadfast in its commitment to comply with the conditions of the second tranche. The ADB review team is satisfied that, for the release of the second tranche, the Government has fully complied with the eight policy conditions.

#### **V. THE PRESIDENT'S RECOMMENDATION**

58. In view of the significant progress made by the Government in implementing the Governance in Justice Sector Reform Program as evidenced by the full compliance with all eight policy conditions for the release of the second tranche, the President recommends the Board approve on a no objection basis the release of the second tranche of the Program in the amount of \$150,000,000.

## STATUS OF COMPLIANCE WITH SECOND TRANCHE RELEASE POLICY CONDITIONS

Second Tranche Release Conditions	Compliance Status
1. SC to submit OPIF-compliant budget for 2010.	<b>Complied with.</b> For the FY2010 budget, the judiciary prepared its budget proposal using the OPIF process, starting with the Supreme Court, Court of Appeals, and Sandiganbayan. For the release of the second tranche, the Supreme Court submitted an OPIF-compliant budget for 2010, using an OPIF form prescribed by the DBM. The forms and the corresponding total budget allocation reflected amounts and output levels proposed within the expenditure ceiling provided by DBM.
2. SC to prepare and adopt a rolling MTEP to cover 2009–2011, which should include information relating to the use of the Judiciary Autonomy Fund.	<b>Complied with.</b> The Supreme Court has prepared and adopted an MTEP that covers 2009–2012. The 2009–2010 portion of the 2009–2012 MTEP provides for significant increases in personnel services and MOOE, in particular, together with a very large increase in allocation for capital outlay. Consequently, more than 80% of justice sector agencies' budgets had gone on salaries, leaving less than 15% for MOOE, and less than 3% for capital investment. The MTEP also contains information on use of the Judiciary Autonomy Fund, which was established in connection with the RCAO 7, demonstrating the court's commitment to transparency in the use of this fund.
3. The NEP for 2010 to be submitted by DBM to Congress shall reflect the benefits and allowances to justice sector agencies, including PAO and OSG, as a special provision, in accordance with RA 9417, RA 9279 and RA 9406 (as may be amended from time to time).	<b>Complied with.</b> In accordance with agency-specific laws, the National Expenditure Plan (NEP) for 2010 included a special provision for each of the proposed budgets of the NPS, OSG, and PAO. These will allow them to retain and use the collected fees and awards to fund the special allowances of their legal staff. Without the special provisions included in the NEP, the revenues collected by these agencies would revert to the National Treasury as income of the General Fund, and thus would not directly fund the special allowances of these agencies' legal staff.
4. NEP for 2010 budget to show DBM proposal to provide (1) Judiciary with budget sourced from the National Government equivalent to at least 1% of the total government expenditure proposed under the 2010 NEP and (2) other justice sector agencies compliant with OPIF, real increases in budgetary resources, taking into consideration current inflation, consistent with their approved MTEPs, and based on performance, absorptive capacity, and the prevailing macro economic/fiscal situation of the country.	<b>Complied with.</b> The judiciary's budget has seen a marked increase from 0.86% of the national budget in 2008 (before the Program) to 0.96% in 2009 (the Program's tranche 1) and 1.03% in 2010 (proposed tranche 2). These allocations have reversed a declining trend and restored the judiciary's share to pre-2003 levels.  Other justice sector agencies covered under the program have seen an aggregate 8.6% nominal increase in their 2010 budget versus a Government-wide increase of 8%. This amounts to a real increase of 4.6% if the National Economic Development Authority's inflation forecast of 4.5% for 2010 is taken into account. Resources provided to these agencies have long been inadequate and this has directly affected their ability to carry out their responsibilities effectively and efficiently.
5. DBM to commence the release of the scheduled allocations to the Judiciary in line with the approved budget and agreed upon operational cash program of SC, in full each quarter without conditions.	<b>Complied with.</b> To support the judiciary's fiscal autonomy, the DBM has implemented a semiannual cash allocation without conditions to the judiciary. In previous years, the cash was allocated to the judiciary through quarterly releases and was subject to the submission of required reports and withholding of reserves based on the government's own cash program limitations (as for all other government agencies). With cash allotments for 6 months being made available upfront, the predictability of resources and expenditure planning will improve.

Second Tranche Release Conditions	Compliance Status
<p>6. SC en banc to approve replication of RCAO in at least two selected regions other than Region 7.</p>	<p><b>Complied with.</b> The Supreme Court has approved the replication of the pilot RCAO in judicial region 7 in at least two additional regions: judicial region 3 (Central Luzon) with the RCAO located in Angeles City, and judicial region 11 (Southern Luzon) with the RCAO located in Davao City. This was approved by the Supreme Court in its en banc meeting of 6 October 2009.</p>
<p>7. SC Work and Financial Plan to reflect that the proposed capital expense, MOOE, and related expenses for RCAO 7 personnel that were provided in its proposed 2009 budget are allocated to fund full implementation of RCAO 7 in 2009.</p>	<p><b>Complied with.</b> The work and financial plan of RCAO 7 was approved in the amount of P488 million. The total amount will provide both the regional courts and the RCAO 7 with sufficient funds for its annual operational budget. With the approval of its work and financial plan, disbursements for 2009 to RCAO 7 will no longer be on a transactional basis. This is significant as planning and financing for RCAOs will be the sole responsibility of the judiciary as the DBM no longer requires work and financial plans.</p>
<p>8. The NEP for 2010 to be submitted by DBM to Congress shall reflect line item budget provision for OSG's reorganization and physical expansion, in accordance with RA 9417 (as may be amended from time to time).</p>	<p><b>Complied with.</b> The NEP increased the 2010 OSG personnel services budget from P146,646,000 in 2009 to P195,029,000 in 2010 or by P48.4 million (33% increase) and its MOOE from P94,504,000 to P115,005,000 or by P20.5 million (22% increase) to fund the OSG's expansion and reorganization program. The DBM provided a P42,894,000 budget for rent for 2010 for the OSG, which represents an increase of P20,094,000 (84.43%) over that of 2009 (P23,800,000) to fund rental of office space for the additional staff.</p>

DBM = Department of Budget and Management; MTEP = medium term expenditure plan; MOOE = maintenance and other operating expenditures; NEP = National Expenditure Plan; OSG = Office of the Solicitor General; PAO = Public Attorney's Office; RCAO = Regional Court Administration Office; SC = Supreme Court