

AN ASSESSMENT OF THE ARMED FORCES OF THE PHILIPPINES  
MODERNIZATION PROGRAM

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MASTER OF MILITARY ART AND SCIENCE  
General Studies

by

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## ABSTRACT

AN ASSESSMENT OF THE ARMED FORCES OF THE PHILIPPINES  
MODERNIZATION PROGRAM, by LTC Thomas R Sedano Jr, 91 pages.

The abrogation of the United States (US) Military Bases Agreement in 1992 left the Philippines with very limited military capabilities. With a weak economy, what was left was an Armed Forces of the Philippines (AFP) that can barely contain its internal security threats and has no external defense capabilities. Republic Act (RA) 7898 signed in 1995 provided the legal basis for the implementation of the AFP Modernization Program. It approved the fifteen-year program in the amount of 331 billion pesos. This study aimed to determine the current state of the AFP Modernization Program by assessing the implementation of the Capability, Materiel, and Technology Development (CMTD) of the program from 2000 to 2006. Using the descriptive-evaluative research method, several factors were identified to have influenced in the implementation of the program, namely: funding, lengthy acquisition process, changes in acquisition policies, shifting of priorities and programs, and assignment of key personnel. The successful implementation of the AFP Modernization Program will need the commitment of the AFP, the Philippine Congress, and the government leadership.

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## ACRONYMS

ABC	Approved Budget for the Contract
AFP	Armed Forces of the Philippines
AFPMATF	Armed Forces of the Philippines Modernization Act Trust Fund
AFPMP	Armed Forces of the Philippine Modernization Program
AFPMPMO	Armed Forces of the Philippines Modernization Program Management Office
ASG	Abu Sayaff Group
BAC	Bids and Awards Committee
BCDA	Bases Conversion and Development Authority
BEP	Bid Evaluation Plan
BIR	Bureau of Internal Revenue
CMTD	Capability, Materiel, and Technology Development
COR	Circular of Requirements
CPP/NPA	Communist Party of the Philippines/New Peoples Army
CSAFP	Chief of Staff, Armed Forces of the Philippines
CUP	Capability Upgrade Program
DBM	Department of Budget and Management
DND	Department of National Defense
DO	Department Order
DOJ	Department of Justice
EDO	External Defense operations
EEZ	Exclusive Economic Zone
EO	Executive Order

FMF	Foreign Military Funding
FMS	Foreign Military Sale
GAA	General Appropriations Act
GEPS	Government Electronic Procurement System
GHQ	General Headquarters
IPPL	Integrated Priority Project List
IRR	Implementing Rules and Regulations
ISO	Internal Security Operations
JR	Joint Resolution
MBA	Military Bases Agreement
MDT	Mutual Defense Treaty
MILF	Moro Islamic Liberation Front
NEDA	National Economic and Development Authority
NGO	Non-governmental Organization
PA	Philippine Army
PAF	Philippine Air Force
PM	Project Manager
PMC	Philippine Marine Corps
PMO	Project Management Office
PMT	Project Management Team
PN	Philippine Navy
PNP	Philippine National Police
RA	Republic Act
RPL	Reprioritized Project List
RRPL	Revised Reprioritized Project List

SND	Secretary of National Defense
TO	Table of Organization
TWG	Technical Working Group
US	United States
VFA	Visiting Forces Agreement

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## CHAPTER 1

### INTRODUCTION

“We will uphold law and order through a holistic response consisting of political, economic, psychosocial, and security components. We will meet the defense and security challenges of this era. Let us work for the modernization of the armed forces so that we will modernize our entire nation.”

Her Excellency Gloria Macapagal-Arroyo  
President of the Republic of the Philippines  
AFP Modernization Program  
Accomplishment Report, 2004

The abrogation of the United States (US) Military Bases Agreement in 1992 left the Philippines with very limited military capabilities. With a weak economy, what was left was an Armed Forces of the Philippines (AFP) that can barely contain its internal security threats and has no external defense capabilities. With this, enhancing the capability of the AFP has become a primary concern. Republic Act 7898 signed in 1995 provided the legal basis for the implementation of the AFP Modernization Program. It approved the fifteen-year program in the amount of 331 billion pesos. Twelve years into the program, little has been accomplished. Implementation of the program has been relatively slow.

With that as a background, this study aims to assess and determine the current state of the AFP Modernization Program by assessing the implementation of the Capability, Materiel and Technology Development (CMTD) component of the program from 2000 to 2006. To make this assessment, this study will focus on these specific questions:

1. What is the current state of the CMTD component of the AFP Modernization Program?

2. Did the CMTD component attain its set goals and objectives?

3. What projects were accomplished and what were not?

4. What factors led to its accomplishment or non accomplishment?

The following assumptions will be used to facilitate the conduct of this study:

1. The CMTD component of the AFP Modernization Program is viable and can be implemented. Despite the delays experienced in the implementation of the modernization program, recent developments indicated that the program can be implemented. Some projects were accomplished and others are now in the pipeline. More importantly, there are now efforts from the government leadership to fast track the implementation of the program.

2. The internal security role remains with AFP. The threat the Philippines is currently confronting affects the implementation of the modernization program. The transfer of internal security responsibility from the Philippine National Police (PNP) to the AFP in 1998 was an example to this. If this security responsibility will again be transferred to the PNP then the lined up modernization projects will be drastically affected.

3. There will be no major changes in the political situation in the Philippines that will impede the implementation of the AFP Modernization Program. The past years had been politically unstable for the Philippines. The 2003 mutiny and the 2006 foiled coup d'etat by rightist military groups were examples of situations that will impede the

implementation of the modernization program. The successful implementation of the modernization program is anchored on a stable political environment.

### Current Situation

The termination of the Military Base Agreement (MBA) between the Philippines and the US revealed the inadequacy of the AFP to protect the country from external as well as internal threats. From the inception of the MBA, the US underwrote much of the security requirements of the Philippines. The archipelago clearly established a dependency on the US for its national defense. The withdrawal of the American forces in 1992 and the continuing decline of US military assistance package left the Philippines with insufficient indigenous defense resources to protect its exclusive economic zone and territorial air and sea space. This further resulted in the deterioration of the aging and obsolete military equipment, which previously relied heavily on US military assistance for its maintenance. This predicament highlighted the imperative of modernizing the Armed Forces of the Philippines.

Recent events in the region underscore the need for modernization. In terms of external defense, the country's claim in the Spratly Islands in the southwestern Philippines continues to be challenged by the other regional claimants. China, Vietnam, Taiwan, and Malaysia are most likely to pursue their respective claims in the island. In some islands for example, these countries have already deployed their own troops. Chinese and Vietnamese navies had violent confrontations in these islands. The most serious incident in 1988 when Chinese and Vietnamese navies clashed at Johnson Reef in the Spratly Islands sinking several Vietnamese boats and killing over 70 sailors (Globalsecurity.org. 2007, para. 6). On the other hand, the Philippines had its share of

action when it destroyed Chinese markers and seized Chinese fishing boats after China occupied the Mischief Reef in 1995. The Spratly Islands, which are believed to be rich in hydrocarbons and considered as an important transport route, are a potential catalyst for major inter-state conflict in the coming years (Bardonaro 2006, para 2).

The need to guard the countries' extensive Exclusive Economic Zone (EEZ) was highlighted with the increase of apprehensions of Chinese and other nationals engaged in poaching in the 200 mile waters, and other illegal activities in the Spratly's and other areas surrounding the Philippine archipelago (Baviera 2001, para 4). These activities became more prevalent after the Mischief Reef incident in 1995.

As to internal defense, the country is continuously facing threats from various groups. The local Communist Movement popularly known as the Communist Party of the Philippine/New Peoples Army (CPP/NPA) had been waging protracted war in the Philippines for more than three decades. From a small band of rebels led by ideologues, they were able to multiply. The fight with these rebels had been a tug-o-war. From its peak of 25,000 guerilla fighters in 1987, it was reduced to 6,020 in 1995 (Headquarters, Northern Luzon Command 2005, 1). However, after counter revolutionary struggles, it is regaining its strength. In August 2002, the US placed the CPP/NPA on the official list of foreign terrorist organizations (Lum and Nicksch 2006, 12). On the other hand, the Muslim Secessionist Group, particularly the Moro Islamic Liberation Front (MILF), is still a potent threat in southern Philippines in the absence of the formal peace agreement with the Philippine government. The Abu Sayaff group (ASG), although the smallest, is the most radical of the Islamic groups operating in the southern Philippines. It is designated as a foreign terrorist organization by the US government (CNN.com. 2001,

para 1). The ASG conducts bombing, assassinations, kidnapping for ransom, and extortion to advance their cause.

In the past years, countries in the region have exerted their efforts in improving their respective military capabilities. Southeast Asian states, particularly Singapore, Malaysia, Thailand, and Indonesia, engaged in force modernization programs to varying degrees. The initial acquisition of F-16C by Singapore, then Indonesia and Thailand and Malaysia's subsequent interest in acquiring advanced strike fighters are clear indications of arms build up in the region. Singapore has the most sophisticated air force in Southeast Asia. Likewise, its navy has seen rapid modernization in the past years and will soon have a true blue-water capability (Tan 2004, 8). Not wanting to be left behind, Malaysia started building up its conventional capabilities. Aside from the main battle tanks and infantry fighting vehicles it acquired in 2002, the Malaysian government announced in 2003 that it will spend \$1 billion (US dollars) to acquire at least four Airborne Warning and Control aircraft (Tan 2004, 11). Although Thailand's priority is the restructuring of its armed forces, it has also decided to buy 160 Swiss-made Pz68/88 tanks (Tan 2004, 15). On the other hand, Indonesia is improving its maritime security capabilities. In 2003, its military announced that it planned to buy two submarines, four destroyers, and two mine sweepers between 2005 and 2011 (Tan 2004, 17).

As compared to its neighboring countries, the Philippine Navy has very limited offshore patrol vessels while the Philippine Air Force has no air defense aircraft and limited radar capability. These limited capabilities render the Philippines weakest in terms of naval and air power in the region. These weaknesses highlight the need to come

up with credible armed forces to address the AFP's mission of internal security, external defense to include the protection of its exclusive economic zone.

In 1995, the AFP Modernization Act or Republic Act Number (RA) 7898 was signed into law. RA 7898 declares as a policy that the State shall modernize the AFP to a level where it can effectively and fully perform its constitutional mandate to defend the Republic of the Philippines, safeguard its national security, and assist government agencies in the socio-economic development of the country. The Philippine Congress approved the program with the promulgation of Joint Resolution No. 28 on 19 December 1996. As provided in the resolution, the program will be implemented for the period of fifteen years. This also approved a 50 billion pesos budget ceiling for the first five years. In Section 3 of RA 7898, the following objectives were outlined to support the implementation of the program:

1. To develop the AFP's capability to uphold the sovereignty and territorial integrity of the Republic and to secure the national territory from all forms of intrusion and encroachment.
2. To develop its capability to assist civilian agencies in the preservation of the national patrimony.
3. To enhance its capability to fulfill its mandate to protect the Filipino people not only from armed threats but from the ill effects of life-threatening and destructive consequences of natural and man-made disasters and calamities.
4. To improve its capability to assist other agencies in the enforcement of domestic and foreign policies.
5. To enhance its capability in the conduct of Internal Security Operations (ISO).

6. To enhance its capability to fulfill the country's commitments.
7. To develop its capability to support national development.

As defined by RA 7898, the program intends to develop naval, air, ground, and General Headquarters (GHQ) capabilities to enable the AFP to perform both national defense and peacetime functions. It depicts the size and shape of the AFP in terms of personnel, equipment, and facilities. And to facilitate the attainment of the above objectives, the following five components were identified:

1. Force Restructuring and Organizational Development (FROD) focuses on the reorganization of the AFP into a compact, efficient, and responsive standing force with capabilities for both defense and national building requirement.

2. Human Resource Development (HRD) involves the development of the overall level of competence and professionalism of AFP personnel.

3. Doctrines Development (DD) requires the formulation, evaluation, and institutionalization of doctrine at the strategic, operational, and tactical levels.

4. Capability, Materiel and Technology Development (CMTD) involves the acquisition and upgrade of armaments and equipment. This component is also the focus of this thesis.

5. Bases Support Systems Development (BSSD) focuses the development of permanent land, air and naval bases with adequate support systems and facilities.

#### Definition of Terms

The following terms are defined for the purpose of easy understanding:

AFP Modernization Program or AFPMP refers to the modernization program submitted by the President of the Philippines pursuant to Section 7 of the AFP

Modernization Act and approved by Congress through Joint Resolution No. 28, dated 19 December 1996 (Department of National Defense (DND) 2000, 4).

Program Management is the application of program resources to assure that the program is properly structured and funded. Given the required support within the service, the defense department, congress and the contractor execute the requirements of the contract with regard to cost, schedule and performance (Sammet and Green 1990, 136)

Bid Evaluation Plan or BEP is a comprehensive document that contains the procedure for the acquisition of an equipment or weapons system, indicating the method of procurement, conduct of qualification of bidders, and the bidding proper up to and including the award of the contract. It includes the method and criteria to be adopted in the evaluation and assessment of bidders' statements and the method and criteria for the evaluation and assessment of bids. The BEP also includes provisions for the integration and evaluation of counter-trade proposals (DND 2000, 4).

Circular of Requirement or COR defines the operational and technical requirements of the equipment or weapons system to be procured. It is presented in the context of the National Defense Strategy, the likely operational scenarios, and the doctrines or concept of operations in which such equipment or weapons system shall be employed (DND 2000, 4).

Equipment Acquisition is the first stage in the procedure for the acquisition of equipment and weapons systems under the capability, materiel, and technology development component of the AFP Modernization Program. It involves the formulation of the Circular of Requirements and the preparation of the Bid Evaluation Plan (DND 2000, 5).

Contract Negotiation is the second stage in the procedure for the acquisition of equipment or weapons system under capability, materiel, and technology development component of the AFP Modernization Program. It involves the bidding process, including the post-qualification of the winning bidder and award of the contract (DND 2000, 5).

Upgrade refers to the improvement, refurbishing, or rehabilitation of existing equipment or weapons system in order to improve its original operational capabilities through the replacement of components or sub-systems with new ones, or the installation of new additional equipment such as missiles, fire control system, and digital electronics (DND 2000, 9).

#### Limitations

There are limitations concerning the research. The research method is based on gathering data from open sources. The nature of the subject matter will undoubtedly limit the references of this paper. Considering that this thesis will focus on a specific subject matter about the Armed Forces of the Philippines, needed materials might not be readily available in the US. To address this concern, the author brought most of the reference materials from the Philippines with him, like reports from the AFP Modernization Program Management Office (AFPMPMO), Department of National Defense (DND) policies and publications, and Congress resolutions, to assist him in his study. Moreover, contacts were established particularly in the AFPMPMO to facilitate the request for information and other reference materials. The Internet is also one good source of reference materials. From here one can easily access important sites, for example, the AFPMPMO, DND, and the like. Another limitation is the time available to complete the

study. Because of time constraints, this study must be completed from February to November 2007.

### Delimitations

To make this study workable, the author will set delimitations to the scope of the thesis. Although the AFP Modernization Program is composed of five different components, this study is limited only to the assessment of the CMTD component of the program. It is relevant to focus this study on the CMTD component since it is the major component of the program. In terms of funding for example, it accounts for 89 percent of the total budget. Moreover, the assessment will only be focused from the year 2000 to 2006. The year 2000 is a good base year for most of the projects were planned in this year. In evaluating this component, accomplished projects vis a vis goals set will be evaluated. This will lead the author in determining the accomplishments made so far in the CMTD component of the program. The author will also seek to determine what factors affected in the implementation. In so doing, economic, political, and security issues related to the implementation of the CMTD component will also be considered. On the other hand, this author will not look into the kind, type, and cost of the equipment that would be acquired nor assess the usability or viability of the weapon system.

### Significance of the Study

The significance of the study is linked to the importance of implementing the AFP Modernization Program to address the current internal security threats, protect the country's exclusive economic zone, and address future external threats. The findings of this thesis may provide the basis for the formulation of measures necessary for its

successful implementation. In addition, this thesis may be a vehicle to identify weaknesses in program management and offer solutions to address the flaws.

The next chapter will present the numerous resource materials that have bearing on the implementation of the AFP modernization program.

## CHAPTER 2

### REVIEW OF RELATED LITERATURE

There are numerous resource materials which contributed relevant information to this thesis. These materials include government documents, master's theses, and other scholarly works on the AFP modernization program. Other secondary sources, such as, newspaper articles and other publications were also used in the study.

#### Government Documents

The 1987 Philippine Constitution declares as a state policy and principle that the primary duty of the Government is to serve and protect the people. In addition, the constitution states that “the Armed Forces of the Philippines is the protector of the people and the state. Its goal is to secure the sovereignty of the state and the integrity of the national territory.” With this, the approval of RA 7898 or the Armed Forces of the Philippines Modernization Program (AFPMP) in 1995 will develop the capabilities of the AFP to accomplish its constitutionally mandated tasks.

Republic Act 7898 declares as a state policy to “Modernize the Armed Forces of the Philippines to a level where it can effectively and fully perform its constitutional mandate to uphold the sovereignty and preserve the patrimony of the Republic of the Philippines.” The law also specifies that the AFPMP shall be geared towards the development of naval defense, air defense, ground defense, and general headquarters capabilities of the armed forces.

Section 14 of RA 7898 stipulates that the DND-AFP shall strengthen its systems and procedures for equipment acquisition and identifies two (2) sequential steps in the

process, each requiring the separate decisions of the Secretary of National Defense (SND). First, Equipment Acquisition or Project Identification shall start at the Major Service level, while Contract Negotiations, which includes the procurement process, contracting and contract implementation stages, shall start at the GHQ, AFP level. This process is also established in Department Circular (DC) Number 01 the Implementing Guidelines, Rules and Regulations (IGRR) of the AFPMP issued on 6 March 2000. This circular seeks to ensure the coordinated and synchronized implementation of the program both at the AFP and DND levels. It outlines the process to be undertaken and guarantees compliance with existing laws, rules and regulations.

Philippine Congress Joint Resolution (JR) 28, passed in 17 December 1996, provides the basis for subsequent executive and legislative actions to implement the program until its complete implementation. JR 28 stipulated the size and shape of the AFP in terms of personnel, equipment, and facilities during the various phases of the program. It also contains the projects under it, including the major weapon and non-weapon equipment and technology acquisitions being considered by the different major services.

Although JR 28 approved the amount of 331.62 billion pesos, said amount was broken down into two sub programs to cushion the large budgetary requirements. Sub-program I, the core program, was allocated a budget of 164.55 billion pesos. Sub-program II, the ancillary program, was allocated the amount of 167 billion pesos. Included in the resolution is the submission of complete contracts and other arrangements to the Philippine Congress and the provision that prioritizes the development of air and naval capabilities beginning with the protection of the exclusive economic zone. In

addition, it also prescribes the conduct of study to fully utilize the trust fund and generate additional funds for the program.

On 25 February 1998, RA 8551 otherwise known as the Philippine National Police (PNP) Reform and Reorganization Act of 1998, was passed and had a significant impact in the implementation of AFPMP. RA 8551 transferred the primary responsibility of counterinsurgency and other serious threats to national security from the PNP to the AFP. As a result, the priority list of projects in JR 28 was revised focusing on equipment for ISO. The projects intended for external defense were sidelined. The transfer of responsibility brought about by this bill and the resurgence of internal threats in the country shifted the program from its original thrust of developing the AFP's external defense capabilities.

Even before the formal passage of the modernization program, the Philippine Congress had enacted RA 7227, otherwise known as the Bases Conversion and Development Authority (BCDA) Law, with the objective of supporting the funding requirements of the AFP modernization program. RA 7227 provides, among others, that 32.5 percent of the proceeds from the sale of key military camps within Metro Manila shall be used to finance the AFP modernization program. This law was further amended after the enactment of the AFP Modernization Act. On 24 February 1995, RA 7917 was passed increasing the share of the AFP from 32.5 percent to 35 percent from the sale of previously identified Metro Manila military camps.

In addition to this, then President Joseph Estrada issued Executive order 309 on 3 November 2000, prescribing that proceeds of leases, joint ventures, and all transactions other than sale entered into by BCDA shall be distributed equally between BCDA and the

AFP. This issuance, like RA 7917, had identified fund generation activities to support the implementation of the modernization program.

The implementation of the program should abide with RA 7898, and other pertinent laws, particularly RA 9184, or the Government Procurement and Reform Act. RA 9184, passed on 18 December 2002, provided for the modernization, standardization, and regulation of the procurement activities of the Government. In accordance with RA 9184, the Government advocates that all procurements must be transparent and competitive and therefore shall be through public bidding, except when extraordinary circumstances warrant the procurement through other methods of procurement. A standard and uniform set of rules and regulations governing the procurement shall be adopted to ensure a competitive and streamlined procurement process. Additionally, accountability and public monitoring of the procurement process shall also be observed. All these principles are designed to eradicate malpractices, especially graft and corruption in Government procurement.

With the enactment of RA 9184, the Government Procurement Policy Board (GPPB) issued Resolution No. 06-2003 dated 1 December 2003, per recommendation by the DND-AFP, repealing Section 14 of RA 7898, "AFP Procurement System." The repeal thus gave the SND greater latitude to institute reforms in the procurement system.

Executive Order 235 was issued by President Gloria Macapagal Arroyo to streamline the rules and procedures for defense projects and the speedy response to security threats while promoting transparency, impartiality, and accountability in government transactions. The order delegated the authority to sign and approve defense contracts to SND except for contracts required by law to be acted upon or approved by

the President. While for contracts involving an amount below 50 million pesos, the Chief of Staff, AFP has been given full authority to sign and approve the contracts. Another feature of the executive order is the creation of the single Bids and Awards Committee (BAC) at GHQ, AFP level.

Another issuance by President Arroyo was Executive Order 109 on 27 May 2002. This stipulates that government contracts without public bidding which involve an amount of at least 300 million pesos must be approved by the Department of Justice (DOJ) and the National Economic and Development Authority (NEDA). This order was in line with the government's program of good governance through promotion of impartiality and accountability in government transactions.

#### Secondary Sources

The commandant's paper presented by Philippine Army LTC Gener P del Rosario (2004) entitled "Equipment Acquisition Process under the AFP Modernization Program," posits that the process of equipment acquisition aimed at developing ground, air and naval capabilities of the AFP through the AFPMP is better understood in terms of policy, procedure, and organization. The documentary research conducted revealed that the equipment acquisition process has not attained the desired phasing timelines due to problems in terms of policy, procedure, and organization. Regarding policy, the Judge Advocate General Office (JAGO), AFP, and the Office of Legal Affairs, DND must resolve contentious legal issues under RA 9184. In terms of procedure, Project Management Team (PMT) and Technical Working Group (TWG) membership should be on a more permanent basis from the start of the project until completion. For issues pertaining to organization, BAC and TWG members must be compelled to attend BAC

proceedings and perform jury duty functions. Likewise, consultants must be hired to assist in program implementation, and courses must be conducted to ensure compliance with existing rules and regulations. Lastly, action officers must be designated to monitor the projects.

The issues and concerns hampering the implementation of the AFPMP can be rectified through the unwavering commitment and support by the Government, DND-AFP and the people behind the implementation of the program. Finally, the study recognized that the acquisition of defense equipment and weapons systems must be aggressively pursued despite recurrent impediments in its implementation due to the current and emergent security situation.

Philippine Army LTC Reynaldo G Mutiangpili's paper (2005) entitled "Strengthening the DND-AFP Acquisition System," sought to identify the issues and concerns affecting the implementation of the Philippine Defense Acquisition System. The paper also presented an alternative perspective on how to improve the system, identified clear lines of authority, responsibility and accountability, and suggested defense capability structures and committees that would provide the foundation of the whole system. The study confirmed that policies are crucial in the proper and effective implementation of the system and there is a need to reassess the current policies to suit the needs of the system. On the importance of defined authorities, the general perception was that the DND-AFP acquisition system is not responsive to the needs of the DND-AFP. The study recommended having separate acquisition processes for defense projects and common equipment.

The thesis of Attorney Rodelio Dascal's (2003) entitled "An Assessment of the Implementation of the AFP Modernization Program: Its Funding and Acquisition Process and Its Implications for National Security," particularly focused on funding and the procurement procedures under the AFPMP. Concomitantly, the study resulted in the following findings: there are infirmities in the laws regarding program implementation; the procurement system is hampered by the tedious and cumbersome rules and regulations heightened by the absence of a separate defense acquisition mechanism; and there is an urgency to enact remedial laws and corrective executive measures to accelerate program implementation. The study called for the enactment of remedial executive measures to change the procurement system through a defense capability development planning and acquisition system at the DND level and the establishment of a project management team as a field of military specialty.

Dennis Cacanindin and Alfred Tingabngab's thesis (2003) in the Naval Post Graduate School, Monterey, California, entitled "Establishing the Role, Functions and Importance of Program Managers and Program Management Teams in the Armed Forces of the Philippines Modernization Program Acquisition Process: A Comparative Analysis with US DoD System" identified the role functions and importance of Project Managers (PM) and PMT in the acquisition process of the AFP modernization program. They noted that in the AFP, PM, and PMTs in the structure are temporary and have no concrete role delineation in the acquisition process.

The submission by the AFP of the AFPMP Annual Accomplishment Reports to Congress and the President is mandated under Section 16 of RA 7898, to provide updates on program implementation.

The 2001 and 2002 AFPMP Annual Accomplishment Reports similarly identified as hindrances to AFPMP implementation a cumbersome procurement process and complex acquisition structure. The report recommended for the amendment of RA 7898 to pave the way for the establishment of a separate procurement procedure, specifically establishing a Defense Acquisition Office at the DND level for the acquisition of defense equipment and services and making the AFPMP a continuing program until the desired capabilities are reached. Also highlighted in the 2001 report was the failure of the AFP to meet its target to sign contracts and to obligate funds. The main reason was the inexperience in the conduct of large scale biddings involving foreign proponents.

The 2003 AFPMP Annual Accomplishment Report recognized that the program was affected with the frequent changes in the procurement laws. It was during this year that RA 9184 was introduced and the DND-AFP had to go through complicated times in learning and complying with the new procurement policies and procedures. This resulted to constant adjustment and subsequently caused the delay in the implementation. The uncertainty of funding was another issue during the year. With no definite funds from the Philippine Congress, projects were not pushed through particularly those that will involve multi-year contracts.

The 2004 AFPMP Annual Accomplishment Report reported its modest accomplishments with the delivery of seven critical defense equipment projects. The report proclaimed that the momentum gained by the accomplishments was unprecedented in the nine-year history of the AFPMP. However, the uncertainty of continuous funding was still an issue that hampered the planning and implementation. In addition, the change that transpired within the AFP organization during the year also affected the assignment

of the key officers implementing the program. This change had an impact in the efficient administration of the program.

The 2005 AFPMP Annual Accomplishment Report identified the tedious procurement process as the key challenge to the implementation of the AFPMP. The report also recognized that the process as embodied in RA 9184 and its IRR, although tedious, is necessary to ensure that limited resources are spent with transparency, competitiveness, and accountability. The problem of handling multi-year contracts was also experienced during the year because of the absence of implementing rules and regulations on this matter.

The 2006 AFPMP Annual Accomplishment Report pointed out the inadequacy of funds for the modernization program. The 18 billion pesos made available for the program's projects was way below the authorized ceiling of 10 billion pesos each year. There was no regular funding for the program. No other appropriations were made after the 5.4 billion pesos in 2000.

Some articles were also found relevant to this study. The article of Yvonne Chua and Luz Rimban of the *Philippine Daily Inquirer*, on 8 January 2007, entitled "AFP Modernization Drive Sputters" stated that after ten years and though more than 11 billion pesos had been released, there has been very little actual acquisition of new equipment for the AFP. What has happened was that the capability and materiel development component of the program, which is the core component of the program, has turned into one of repair and refurbishment with a huge chunk of funds being spent on regular items.

In another article, dated 22 March 2006, entitled "AFP Modernization Funds Unspent," Dan Mariano of the *Manila Times* wrote that according to Senator Edgardo

Angara, the delay in the implementation of the modernization program is caused by the piecemeal requisition of military equipment. As a result, weapons systems that could only be sourced overseas and were affordable in the mid 1990s are now beyond the AFP's reach following the depreciation of the peso. He further states that what further derailed the implementation was the shifting of priorities whenever a new military chief of staff was appointed.

An article of Malou Mangahas of the Philippine Center for Investigative Journalism in July 2001, entitled "Kickbacks and Negotiated Deals Mar AFP Procurement System," outlines procurement practices in the AFP that may undermine the implementation of the modernization program. She outlines in her report procurements in the past that were disadvantageous to the Philippine government.

#### Summary

The AFP modernization program has all the legal bases for its implementation. Joint Resolution 28 clearly stipulates the equipage and technology to be acquired based on envisioned capability, as well as funding requirements. DND Circular 1, on the other hand, lays down the implementing guidelines, rules, and regulations pertaining to the program. This includes the modernization structure, procurement policies, and the equipment acquisition process. These documents are valuable references in the determination of implementation gaps in the program.

Previous studies also brought to fore the need to improve the organization and procedures involving the implementation of the program. In addition, the AFPMP Annual Accomplishment Reports also highlighted these concerns. As recommended, acquisitions

under the modernization program must be different from the existing process prescribed by RA 9184 in order to hasten the acquisition process.

The next chapter will discuss briefly the research methodology that will be utilized in the conduct of the study.

## CHAPTER 3

### RESEARCH METHODOLOGY

This thesis will utilize the descriptive-evaluative research method to analyze and assess the current state of the AFP modernization program. In the descriptive-evaluative analysis, this author will identify and determine the different factors and their impact on the implementation of the program. The study will also use the qualitative method with the fundamental purpose of verifying and evaluating the AFPMP. A qualitative research will strive for deep and detailed understanding of a topic under study (Lowe 2007). As stated in chapter 1, this study will attempt to determine the current state of the CMTD component of the AFP modernization program and what factors affected its implementation. Basically, it will present a clear understanding of what happened to the program and what the program has attained from 2000 to 2006. To address the research questions, the following steps were or will be undertaken:

First, a literature review was conducted in chapter 2 on the different policies, statutes, issuances and reports relative to the creation and implementation of the modernization program. These references include a description of laws passed by the Philippine Congress, policies of the Department of National Defense, Circulars, and Executive Orders. These documents defined the AFP modernization program. Furthermore, studying the policies and statutes will help answer the research question in subsequent chapters as to whether the program attained its goals and objectives. Secondary sources that delved into the AFPMP were also examined. This included previous master's theses and other scholarly works on modernization. Other works that

may impact the implementation of the modernization program were also researched.

Newspaper and magazine articles were also sources of data regarding the assessment of the program.

The second step of the research will initially focus in determining what happened with the program from 1995 to 1999. Although this study, as mentioned earlier, will only cover assessment from 2000 to 2006, to learn what transpired during the initial stage of the implementation will facilitate understanding the modernization program. At this stage, it is important to determine the political, economic, and security events that had impact on the early years of program implementation. After this, the research focus will shift to results of the program from the year 2000 to 2006. The focus at this point is to determine how the different factors or events identified affected the accomplishment of the program from 2000 to 2006. As the research will employ qualitative method, the primary source of data will come from the conduct of documentary research on the different laws, policies, regulations, and other publications issued for the implementation of the AFP modernization program. Likewise, annual accomplishment reports will be major sources of data. This research will involve an in-depth collection and analysis of AFPMP documents. The purpose of this analysis process is to determine whether needed capabilities identified during the inception of the program were met. Analyzing the accomplishment, reports will answer the research questions on whether the CMTD component attains its set goals and objectives. It will also determine what projects were accomplished and what were not. Finally, it will identify what factors led to its accomplishment or non-accomplishment. Documents from the AFP Modernization and Project Management Office will also be utilized as materials to determine problems and

issues experienced during the implementation. This will help analyze the different factors that have direct bearing on the program's implementation.

The third step of the research will focus on how the CMTD component of the AFPMP was implemented in relation to principles of the Philippine government procurement program. As stipulated in the *Guidelines on the Establishment of Procurement Systems and Organization, Volume 1*, government procurement is governed by several principles. The first principle is transparency. This principle calls for the widest dissemination of bid opportunities and participation of pertinent non-governmental organizations (NGO). This principle also calls for the presence of observers at any or all stages of the process. The next principle is competitiveness. As a rule, public procurement must be conducted through public bidding unless otherwise authorized to use other modes of procurement. Another principle is the streamlining and use of technology in procurement. Under this, the process must be simple and adaptable to changes in modern technology to have an effective and efficient method. The accountability principle, on the other hand, stipulates that the head of procuring entities are responsible for establishing and maintaining transparency in the process. The last government procurement principle is public monitoring. This principle provides for a system of reporting and establishes a system of monitoring by outside parties.

This thesis is being presented in the following manner: Chapter 1 is the introduction. In this chapter, background about the AFPMP was introduced. This chapter also presented the limitations, delimitations, and the significance of the study. Chapter 1 likewise gave the current situation in the Philippines and in the neighboring countries that highlighted the need for the implementation of the modernization program. Chapter 2, on

the other hand, reviewed related literature. This chapter focused on references that have bearing on the implementation of the program. Chapter 3 describes the methodology applied to answer the research questions presented in chapter 1. Chapter 4 will re-introduce AFPMP. Although chapter 1 gave a brief overview of the program, this chapter will focus on CMTD to facilitate an understanding of this program's component. At this stage, objectives, goals, and timelines of CMTD will be presented. Likewise, this chapter will look into the factors and events that transpired in 1995 to 1999 that influenced the implementation of the AFP modernization program. This will give an overview of what happened with the implementation of the program from 1995 to 1999. This overview is important to set the tone for the next chapter.

Chapter 5 will present the analysis on the implementation of the program from 2000 to 2006. This chapter will determine the different factors that affected the CMTD component of the AFP modernization program. This chapter will likewise evaluate and analyze how the identified factors influenced the realization of the different CMTD projects. At this stage, accomplished and non-accomplished projects will be determined. In this chapter, the current state of implementation of the CMTD component of the program will now be determined.

Based on the analysis presented in chapter 5, conclusions and recommendations will be drawn and outlined in chapter 6. Those recommendations will also include topics for future study.

## CHAPTER 4

### CAPABILITY, MATERIEL, AND TECHNOLOGY DEVELOPMENT COMPONENT

In chapter 1, the AFPMP was introduced. In this chapter, AFPMP will be further discussed, particularly the CMTD component of the program which is the focus of this study. This chapter will also look into what has transpired with the program from its inception in 1995 to 1999. Although the focus of this thesis is from 2000 to 2006, knowing what happened during the early years of the AFPMP is necessary to better understand the implementation of the AFP modernization program.

As presented in chapter 1, the AFP modernization program is composed of five components: (1) force restructuring and organizational development; (2) human resource development; (3) doctrines development; (4) bases and support systems development; and (5) capability, materiel, and technology development. The core of the AFP modernization program is the capability, materiel, and technology development component. CMTD involves the acquisition of appropriate weapons systems and technology and the upgrade of weapons and equipment (AFPMP Annual Report 2006, 9). The CMTD is the biggest component of the AFPMP. In terms of funding, it accounts for 89 percent of the total AFPMP budget. With this, one can state that the success of the program is directly related to the overall success of the implementation of the CMTD component. Under the AFPMP, the AFP shall work for the development and employment of certain capabilities that can address the threats that confront the Philippines. Under the Department of National Defense Circular 01 the following policies and objectives shall govern in the implementation of the CMTD component (DND Cir 01 2000, 13):

1. The types and quantities of air force, navy, and army equipment and materiel to be acquired shall be based on and determined by the need to develop AFP capabilities pursuant to the modernization objectives.

2. The acquisition of new equipment and weapon systems shall be synchronized with the phase-out of uneconomical and obsolete major equipment and weapon systems in the AFP inventory.

3. No major equipment or weapons system shall be purchased if the same is not being used by the armed forces in the country of origin or used by the armed forces of at least two countries.

4. Only bids from suppliers who are themselves the manufacturers shall be entertained.

5. No supply contract shall be entered into unless such contract provides for, in clear and unambiguous terms, after-sales services and the availability of spare parts.

6. Bidders should not be, or have been, associated, directly or indirectly, with persons or firms or any of their affiliates that have been engaged by the AFP or the Government Arsenal or any of the agencies under the Department of Defense.

7. Equipment Acquisition and Contract Negotiation shall be treated as two sequential but separate steps. Equipment acquisition or project identification shall start at the major service commands while contract negotiation is at AFP GHQ level.

The above policies and objectives were outlined to guide in the implementation of the CMTD component. Said policies are in conjunction with the established government procurement procedures and were conceived to prevent the occurrence of acquisition problems experienced in the past. The implementation of the CMTD component is geared

towards the development of the AFP's naval defense, air defense, ground defense, and general headquarters capabilities. The CMTD component stipulates that with the archipelagic nature of the Philippines, the Philippine Navy (PN) shall develop its capabilities for naval defense, amphibious warfare, sealift and transport, and surface warfare. The Philippine Air Force (PAF) shall develop its air defense capability by acquiring multirole aircraft, air munitions, avionics, point and area defense missile system, maritime patrol and reconnaissance, and early warning and control system, as well as capabilities for strategic and battlefield airlift and limited ground attack in support of ground forces. The Philippine Army (PA) shall develop its capabilities for ground defense and internal security as well as its capability for assistance to national development, search and rescue operations, relief and rehabilitation, natural resources and environmental protection. The GHQ, on the other hand, shall focus on developing its capabilities for command, control, communications, and information systems network (DND Cir 01 2000, 14-15).

Under the AFPMP, aside from the development of capabilities to effectively carry out the ISO, the AFP shall also develop its capabilities for external defense operations (EDO) to address the defense needs at the Spratly Island Group and provide protection for the country's exclusive economic zone (DND Cir 01 2000, 15). The need to develop the EDO capabilities was highlighted after numerous incursions by the Chinese in Philippine waters after US forces left the country in 1992. After almost four decades of focus on internal threats, the AFP found itself ill-prepared and its equipment inadequate to face any potential external threat (De Castro 1999, 2). The AFP's capabilities were focused to fight counterinsurgency operations since prior to the departure of the US

military facilities in 1992, the US guaranteed the external defense of the Philippines. Basically, the presence of the US provided deterrence against potential external threats. Although the Philippines still has an existing defense treaty with the US under the Mutual Defense Treaty (MDT) of 1951, the Philippines cannot rely solely on the MDT for its external defense. In addition, under Article V of the treaty, the US will defend the Philippines under foreign aggression if attacked on the metropolitan territory or on the island territories under its jurisdiction (Department of Foreign Affairs MDT, 1951). The MDT does not apply to contested areas such as the Spratly Islands, where several nations including the Philippines, claim possession. Despite this reality, it still took three years before the Philippine Congress passed a bill directing the modernization the AFP and again took another five years before the modernization program was set into motion.

The passage of RA 7898 in 1995 was a big challenge for the AFP. Although Congress has showed its commitment to fund the fifteen-year modernization program, the law enabled it to determine the program's objectives and funding needs and it now has the important leverage over the program (De Castro 1999, 7). The first year of the program was spent deliberating the modernization plan. The Philippine Congress finally set the AFP modernization program in motion in December 1996 when it allocated 7 billion pesos (US \$ 175 million at the 1998 exchange rate) for the program for fiscal year 1997 (De Castro 1999, 7).

The year 1997 was a period of establishing mechanisms and systems. The AFP submitted a detailed modernization program for approval of Philippine Congress. In addition, functional and organizational structures were established at DND, GHQ, and Major Services to facilitate the implementation of the program. In this year also, a Five-

Year Rolling Plan (1997 to 2001) was formulated as the basis for yearly appropriation (AFPMP Annual Report 2001, 12). On the other hand, numerous deliberations were conducted in both Houses of Congress that further slowed its execution.

Under the CMTD, the following equipment acquisition projects were lined up for implementation in the fifteen-year AFP modernization program. As mentioned earlier the entire modernization program is divided into two sub-programs mainly due to financial constraints. Sub-program I will cover an amount of 164.55 billion pesos (approximately US \$ 412 million at the 1998 exchange rate) while sub-program II will cover the amount of 167 billion pesos. Table 1 represents the amount of equipment and number of weapons systems that will be acquired under each sub-program.

The below equipment acquisition programs were aimed to boost the naval and air defense capability of the AFP. The naval focus was to have the capability to intensify offshore patrol of the country's exclusive economic zone amidst the numerous sightings of Chinese presence in the Spratly Island group. The air force will likewise support this effort with the procurement of long range patrol aircraft and multirole fighters. Under the below acquisition program, the army will also improve its external defense capabilities. For the first time, the army will endeavor to develop its air defense capability. The below acquisition programs are comprehensive; however, it does not show how the list is going to be prioritized. Moreover, acquisition timelines were not stated nor funding appears to not be a major concern.

Table 1. Armed Forces of the Philippine Modernization Program Capability, Materiel, and Technology Development Projects

<b>Philippine Air Force</b>		
Type	Sub-program I	Sub-program II
Multi-Role Fighter	24	12
Surface Attack Aircraft	12	12
Light Lift Aircraft		9
Medium Lift Aircraft		6
Heavy Lift Aircraft		2
Search and Rescue Helicopter	3	9
Heavy Lift Helicopter	2	2
Long Range Patrol Aircraft	6	
Air Defense Radar	6	
<b>Philippine Navy</b>		
Type	Sub-program I	Sub-program II
Corvette	3	3
Patrol Craft	18	6
Patrol Boat	10	6
Offshore Patrol Vessel	7	5
Mine Warfare Vessel	1	3
Frigate		3
<b>Philippine Army</b>		
Type	Sub-program I	Sub-program II
Individual Weapon	15 lots	2 lots
Crew-Served Weapon	6 lots	5 lots
Artillery	112	40
Armor	19	89
Aviation	17	
Air Defense	4 lots	5 lots

Source: RESDAL, Philippines-1998 Defense Policy Paper, <http://www.resdal.org/Archivo/phili-cap7.htm> (accessed 31 May 2007).

The program could have started in 1997 with the initial funding of 7 billion pesos; however, the country was suddenly affected by the Asian financial crisis that depreciated the Philippine peso. The Asian financial crisis tremendously affected numerous countries in the region including Thailand, Malaysia, and Indonesia. Other countries like Taiwan, South Korea, Singapore, and Hong Kong were also affected. The Philippine peso was one

of the hardest hit. The peso fell from 26.4 pesos to 1 US dollar in July to a low of 51 pesos to 1 US dollar in December 1997. This development severely affected the Philippine government financial capacity to implement the AFP modernization program. Table 2 shows the depreciation of the peso starting in 1997.

Table 2. Philippine Peso Exchange Rate versus United States Dollar

Year	Php
1997	28.77
1998	41.06
1999	39.09
2000	44.19
2001	50.99
2002	51.60
2003	54.20
2004	56.04
2005	55.09

*Source:* Central Bank of the Philippines, Annual Report (2006), [http://www.bsp.gov.ph/publications/regular\\_annual.asp](http://www.bsp.gov.ph/publications/regular_annual.asp) (accessed 8 June 2007).

The sudden devaluation of the Philippine peso had an impact in the implementation of the program. It should be noted that at the time of the passage of the AFP Modernization Act in February 1995, the average exchange rate was only 25.67 pesos to a dollar. Even if the AFP had factored in 30 pesos to a dollar exchange rate in its financial projections, this was not enough to cushion the impact of the peso devaluation.

In mid-1998, the Philippine presidential election was held. The newly elected president, then President Joseph Estrada, decided to postpone the program's implementation "for a better time when the financial crisis was over." As a result, the 7 billion pesos earlier earmarked for the purchase of twelve combat aircraft and three

offshore patrol vessels was not released by the Department of Budget and Management (DBM) (De Castro 1999, 7). This executive practice is not new under the Philippine political setting. A new administration usually suspends the former administration's programs for evaluation and review.

The year 1998 also brought about changes in the Philippine security setting. The insurgency situation worsened in some parts of the country. The Local Communist Movement (LCM) started to gain strength. By the end of the year 2000, the movement's strength was estimated to be around 11,000 personnel; firearms at 7,000; and affected villages at 1,000 (Devesa 2005, 32). In the case of the secessionist movement, the Moro Islamic Liberation Front also gained a foothold in some areas of Central Mindanao. These prompted Congress to enact RA 8551, transferring the ISO responsibility from the PNP back to the Armed Forces of the Philippines. The transfer of responsibility affected the implementation of the program. As a result, the overall focus of the program was totally changed.

The AFP modernization program was conceived to develop the external defense capabilities of the AFP particularly, naval and air defense capabilities. With this sudden change, priorities were refocused to arrest the emerging insurgency and support the conduct of internal security operations. This development resulted in the reevaluation of projects initially lined up. In 1999, the multirole fighter and offshore patrol vessel projects were suspended, not just due to the devaluation of the peso, but because of the need to strike a balance between internal and external defense operations (AFPMP Annual Report 2001, 13).

In 1999, the AFP also focused on addressing the economic and legal issues affecting the implementation of the program. This year, program reviews were conducted to determine the conformity of implementing guidelines with existing rules and regulations. In compliance with section II of RA 7898, regarding the creation of the AFP Modernization Act Trust Fund, efforts were also made to locate the share of the AFP from the BCDA sale of Fort Andres Bonifacio in 1995, and work for the release of the funds to jumpstart the program (AFPMP Annual Report 2001, 13).

Four years after its enactment, the AFP Modernization program had accomplished little. The AFP has been confronted with funding and legal issues on how to implement the program. During 2000, however, the AFPMP experienced some modest accomplishments.

In the next chapter, the implementation of the program from 2000 to 2006 will be presented. The problems and issues that affected the implementation of the AFP modernization program will be discussed and analyzed and thus determine the current state of the program.

## CHAPTER 5

### ANALYSIS

“[D]espite the huge budgetary deficit, I will give top priority to the acquisition of modern equipment and weapons for the AFP.”

President Gloria Macapagal Arroyo  
AFP Modernization Program Annual Report, 2001

This chapter presents and analyzes the implementation of the program from 2000 to 2006. The result of this analysis will serve as the basis for recommendations in the implementation of AFPMP.

As prescribed in Department of Defense Circular 01, the SND is the administrator of the AFP modernization program. The SND exercises his functions through the Chief of Staff, Armed Forces of the Philippines (CSAFP), who in turn directs the respective Major Service Commanders of the Army, Navy, and Air Force. On 10 January 2003, the Office of the Undersecretary for Armed Forces Operations was created in DND to oversee the implementation of the modernization program. On the other hand, the AFP Capability Board, or the AFP Modernization Board created in 29 May 1995, serves as the advisory body of CSAFP in the execution of the program. The capability development boards of the major services were similarly created to serve as the advisory body of their respective Major Service Commanders. At GHQ, the Office of the Deputy Chief of Staff for Plans, J5, is responsible in formulating the long, medium, and short term plans, to include the five-year AFPMP rolling plan. The AFP Modernization Program Management Office (AFPMPMO), as a special staff, advises CSAFP in the management and implementation of the program and in the generation of funds for the AFP

Modernization Trust Fund (AFPMTF). The AFPMPMO functions under the supervision of J5, which in turn assumes the functional supervision of all the modernization program management office of the three major services. The AFPMPMO also serves as the secretariat of the AFP Capability Development Board and is responsible for the overall supervision of the PMT and TWG of all projects under the AFP modernization program. To give a clearer picture, figure 1 shows how the AFP modernization program is organized and functions.

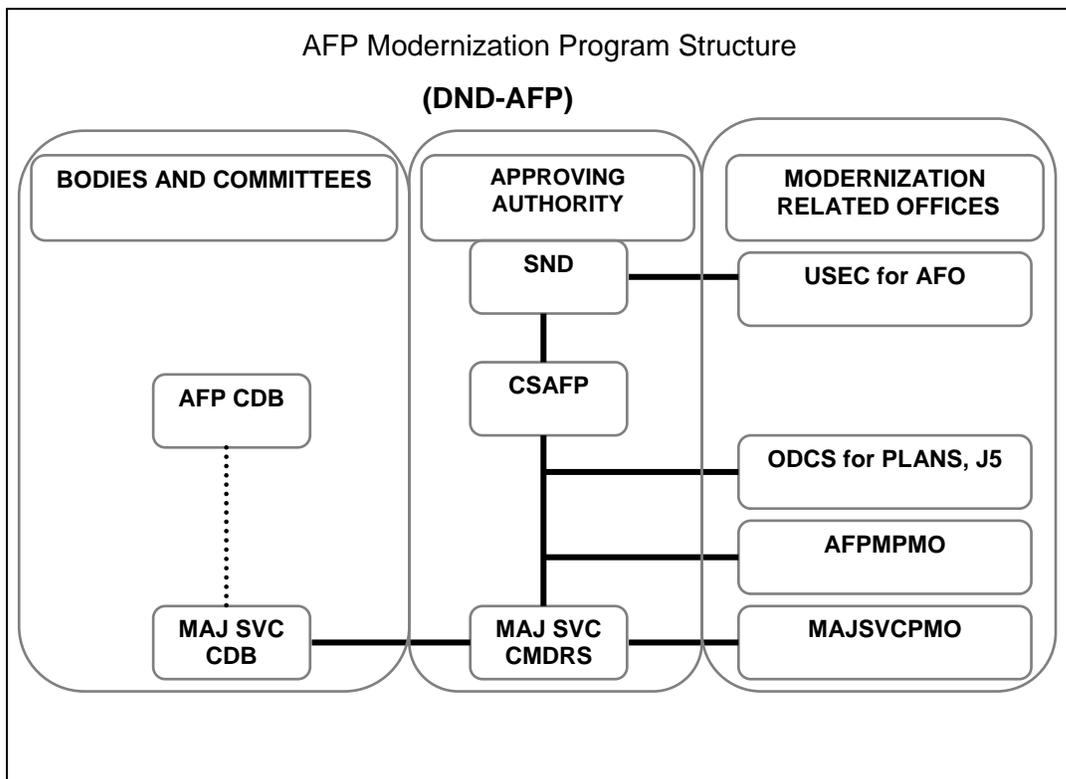


Figure 1. The Structure of the Armed Forces of the Philippines Modernization Program  
 Source: Arnel Basas, Defense Policies in the Implementation of the Armed Forces of the Philippines Modernization Program, Lecture, Quezon City, Philippines, 22 May 2006.

The organization of the AFP modernization program puts heavy emphasis on the role and responsibility of the Chief of Staff, AFP. CSAFP is the alter ego of the SND and is directly responsible for the realization of the program. The fast turnover of CSAFP negatively influenced the accomplishments of modernization projects. Appendix A shows the lineage of the AFP Chief of Staff from 1996 to 2006. During the period 1996 to 2006, the AFP had eleven Chiefs of Staff. From 2001 to 2006 alone, the AFP had seven CSAFP, with the longest tenure of any chief being about one and a half years. To further highlight this fast turnover, in 2002 to 2003, the AFP had four Chiefs of Staff with one having a term of only two-and-one-half months. This fast turnover of the highest military official impedes the implementation of the program. Every time a new CSAFP was installed, a new review of the projects was conducted. Concerns arise when the priority of the incoming CSAFP differs from the outgoing that would lead to project revisions. This may be the reason why from 1997 to date, the AFP modernization program had already sustained four revisions. In the AFP, requirements usually depend on the current leadership. What the current leadership wants is what the AFP needs.

The PM and PMT were also an important factor in the successful implementation of the program. Under the AFPMP, PM, and PMTs are organized at the major service level to formulate the Circular of Requirements (COR) and Bid Evaluation Plan (BEP) for a particular weapon or system considered for acquisition. After formulating both documents, the PMT awaits contract approval for subsequent implementation. In the AFP, PM, and PMT are designated by their respective major services, depending on their qualifications relative to the type and capability of a weapon system being considered for acquisition (Cacanindin and Tingabngab 2003, 23). The AFP has no permanent position

for PMT as stated in the Table of Organization (TO). Members of the PMT are designated as temporary and secondary duty so they perform their function in dual capacity. This arrangement affects the efficiency of PMT members in performing their task. PM and PMT members have their respective primary duties in some other units or offices. Some were even assigned in units outside of Manila and just visited the army headquarters whenever there was a scheduled PMT deliberation. Likewise, considering that this position is temporary and not a permanent position, there is also a fast rate of turnover among PMT members. PM and PMT are immediately dissolved once the contract is implemented (Cacanindin and Tingabngab 2003, 23). Accomplishing a CMTD project often takes years, and the constant changing of PMT members contributed in the delay in the program. As a new member is designated, there is always this adjustment and learning period that goes with it.

In the early years of the implementation of AFPMP, the roles and functions of PM and PMT in the acquisition were not clearly defined nor their importance clearly appreciated in the overall acquisition process. While the equipment acquisition process itself is clear, there is a need to identify and establish the importance of the PM and PMT in the system (Cacanindin and Tingabngab 2003, 24). Given the complexity of acquisition, the role and functions of the PM and PMTs is crucial in overseeing the whole process of acquisition. It is noteworthy to mention, however, that to answer this predicament; DND published Department Order (DO) 13 dated 15 January 2007 amending the organization of the DND BAC Secretariat and the DND BAC Technical Working Group. DO 13 places a heavy burden on the PMT members who will also perform as Technical Officers. Moreover, the enormous task of the PMT now

encompasses the whole acquisition process consisting of the preparation of the COR and BEP, assisting the BAC as Technical Officers during the procurement process and managing the implementation of the project. With these changes, it becomes more apparent to place premium on selecting and designating PMT members. The AFP must professionalize the personnel running the modernization program. Raising the competency level and maintaining a pool of qualified personnel are a must. The AFP must only assign qualified personnel and limit the turnover of personnel manning the program.

Aside from these organizational concerns, another factor that had an impact on the implementation of the modernization program was the availability of sufficient funds. This problem was experienced even during the early years of implementing the program. The total cost of the AFP modernization program as stipulated in JR 28 is 331.62 billion pesos. Under this scheme, the Philippine Congress shall initially appropriate 164.55 billion pesos for the priority sub-program I. Also stipulated is the budget ceiling for the first five years in the amount of 50 billion pesos. It was also stated under the resolution that the said ceiling may be increased commensurate to the increase of the Philippine government's Gross National Product. Despite all these provisions, none were realized during the implementation of the modernization program.

The first ten years of the AFP modernization program highlighted problems related to funding. First, there was the delay in the release of funds. The AFP received the initial fund for the implementation of the modernization program in 2000 amounting to 5.484 billion pesos (AFPMP Annual Report 2002, 11). This amount represented the proceeds from the sale of Fort Andres Bonifacio in 1995. Although the sale transaction of

said property was concluded in 1998, the release of the AFP's share was only made in 2000, a delay of two years. Likewise, the first appropriation from Philippine Congress amounting to 5 billion pesos only came in 2002 (AFPMP Annual Report 2002, 14). The release of this amount, considering 1996 as the start of the AFP Modernization Law, is delayed by six years.

The second issue related to funding is the insufficiency of the amount released. Section 8 of RA 7898 stipulates that the modernization program shall be based on a ceiling of 50 billion pesos for the first five years, starting 1997 (AFPMP Annual Report 2001, 11). It means that the amount of 10 billion pesos shall be the annual budget ceiling for the program. The delays in the release of funds coupled with the insufficiency of funds reflect the Philippine government's commitment in implementing the AFP modernization program. Funding is a critical factor for the success of the program, and the lack of funding is a major contributory factor in the realization of the different CMTD projects. Other funds were also added to the program in 2001 like the proceeds from the sale of AFP excess assets in the amount of 43.25 million pesos. Also in the following year, the AFP got another share from BCDA worth 271.14 million pesos. Table 3 shows the AFPMP funds that went into the program from 1997 to 2006.

Table 3. Armed Forces of the Philippine Modernization Program Flow of Funds in Million Pesos from 1997 to 2006.

Source	97-99	2000	2001	2002	2003-04	2005	2006	TOTAL
Appropriation	-	-	-	5,000	-		-	5,000
BCDA	-	5,484.00	-	271.14	-	1,053.9	-	6,809.045
Military Camps								
Government Arsenal						81.498	10.94	92.438
AFP Excess Assets			43.253					43.253
Budget Surplus						5,000		5,000
Interest Income						77.574	179.199	256.773
Proceeds from Malampaya							1,000.0	1,000.00
TOTAL								18,201.510

*Source:* Armed Forces of the Philippine Modernization Program Management Office. *Armed Forces of the Philippine Modernization Program Annual Accomplishment Report* (Quezon City, Philippines: Armed Forces of the Philippine General Headquarters, 2006), 3.

The total amount allocated for the program from 1997 to 2006 was only 18.201 billion pesos. Considering the baseline funding of 10 billion pesos as stipulated in JR 28, the total amount released for the program by 2006 should have been 100 billion pesos. The 18 billion allocations for the program was way below the funding envisioned in JR 28. The meager funds received for modernization are being spent in the reprioritized projects. With inadequate funds, the AFPMP's focus is to first restore the ISO priority requirements of the AFP.

The economic condition of the Philippines is directly related to the availability of funds to support the modernization program. For the past several years, the Philippines had experienced budget deficits that greatly affected the availability of funds for modernization. This was a case of guns versus butter. Despite the provision in JR 28, the political leadership opted to support other non-modernization programs of the

government over the AFP modernization. Table 4 gives insight on how the Philippine government gave importance to defense and security as part of the overall government priority concern. Looking at the government's annual appropriations from 1997 to 2005, Education has always received the highest budget. On the other hand, the budget for defense only approximates the budget for infrastructure and highways.

Table 4. Expenditure of Philippine Government in Billion Pesos from 1997 to 2005.

Program	1997	1998	1999	2000	2001	2002	2003	2004	2005
Defense	39.92	51.90	51.57	53.60	56.27	60.24	42.48	45.54	46.04
Agriculture	2.25	2.77	14.06	3.17	3.24	4.19	3.12	3.09	2.92
Health	11.02	13.06	11.34	10.83	11.29	11.50	9.91	10.43	9.83
Education	56.06	78.52	81.67	82.74	91.79	95.29	96.31	107.50	102.63
Infrastructure	53.85	61.92	37.77	52.40	47.51	48.04	52.95	47.19	42.47

*Source:* Department of Budget and Management, National Expenditure Program, [http://www.dbm.gov.ph/dbm\\_publications/all\\_pub\\_2006.htm](http://www.dbm.gov.ph/dbm_publications/all_pub_2006.htm) (accessed 8 June 2007).

One factor that might have influenced the Philippine government to put defense, particularly the AFP modernization program in the back seat, was the signing of the Visiting Forces Agreement (VFA) between the US and the Philippines in May 1999. In brief, the VFA is essentially about the treatment of US armed forces and defense personnel who would be visiting the Philippines to take part in activities covered by the MDT and approved by the Philippine Government. It gives substance to the MDT by serving as the legal framework in promoting defense cooperation between the Philippines

and the US. It is basically an instrument that seeks to make clear rules that will apply whenever members of the US armed forces visit the Philippines for the purpose of joint training, exercises, consultations, exchanges, and the like (Narcise 2003, 6). Although the VFA would not entail the reopening of the US bases in the country, the signing of the VFA renewed the defense ties between US and the Philippines which again resulted to the arrival of Foreign Military Funding (FMF) from the US. After the abrogation of the RP-US Military Bases Agreement, the Philippines did not receive any FMF from 1992 to 1999. It was only in 2000 that FMF started to arrive although the funding was way below the funding before the termination of the US military bases agreement. This additional support did not form part of the modernization program but was utilized by the AFP to support other requirements.

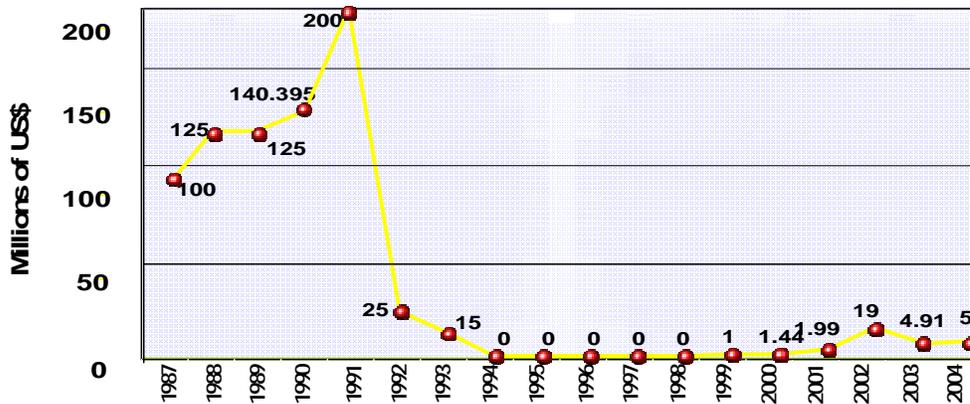


Figure 2. United States Foreign Military Funding Program in the Philippines in United States Dollars

Source: Gerardo P. Catindoy, Procurement Process Under the CMTD Component of AFPMP (Commandant's Paper, Command and General Staff College, Makati City, Philippines, 2007), 3.

The support that the AFP received from the US is undoubtedly a great help. However, this should not be a reason not to vigorously implement the modernization program. The Philippines has already learned her lessons from the past. The over dependence on the US for security during the time of the US bases was one of the reasons why the AFP is in its current state right now. The presence of US troops again in the Philippines and the corresponding support it brings are welcome developments but should not be used as a reason to delay the implementation of the program. It is high time that the AFP develops its own modest defense capability and not totally rely on the support of a foreign power.

As stated by, then Secretary of National Defense, Orlando Mercado, the AFP modernization program is intended to transform the AFP into a credible force, capable of repelling any hostile intrusion into Philippine territory. But without the needed support from Congress, this vision is far from reality. The AFP modernization cannot survive without an assured funding given at the right time and in the right amount. More importantly, the program cannot just depend on the government appropriation considering the poor fiscal position the country is facing. This budget concern necessitates the review of the funding sources for the full and continuous implementation of AFPMP.

Under RA 7898, the AFP Modernization Act Trust Fund (AFPMATF) was created to support the funding requirements of the AFP modernization program. Under this, funds for modernization shall be generated from the following:

1. Congressional appropriation.
2. Proceeds from the sale, lease, or joint development of military reservations.

3. Share of the AFP from the proceeds of the sale of military camps provided under RA 7227.
4. Proceeds from the sale of the product of the Government Arsenal.
5. Proceeds from the disposal excess and/or uneconomically repairable equipment and other assets of the AFP.
6. Funds from budgetary surplus.
7. All interest income of the Trust Fund.

While the AFPMATF was already established, some of the listed fund sources, particularly those activities that may be classified as income generating, took time to contribute to the trust fund. Proceeds from sale of Government Arsenal products were only realized in 2005. On the other hand, proceeds from the sale, lease, or joint development of military reservations is not yet established and made no effective contribution to the trust fund as of 2006 (AFPMP Annual Report 2006, 3). In addition, there are activities that are similarly listed and classified as trust receipts that are also listed as sources of funds to support the AFPMATF. These are the sale or rental of military land and sale of scraps. This overlap may raise the legal issue on precedence of where the income should accrue (De Leon 2001, 37). As of the moment, however, it seems that the cognizant offices in charged of the modernization program are not yet keen in considering the revenues currently being derived by the units out of these two activities. Although only a relatively meager income from the AFP trust receipt activities is generate, it still would be a great help to implement small ticket items under the AFP modernization program, such as, the formulation of doctrines, bases development, and human resource, and organizational activities.

The serious predicament on the funding deficiency of the modernization program may turn financial planners to fully consider all income generating activities of the AFP to be channeled to the AFPMATF. If the Philippine Congress can not support the program, the AFP must find innovative ways to generate funds to support the realization of the AFP modernization program. More importantly, the AFP must also judiciously utilize the funds made available for modernization. The AFP must refrain from using the modernization funds for non-modernization projects. An example of this was the COA finding in 2003 wherein some funds intended for CMTD projects were spent on regular items, like, office supplies (Chua and Rimban 2007, 4). With meager modernization funds, the AFP should establish strict internal control measures over this fund.

From this concern on funding, the policies that govern the acquisition process have also affected the program. From the time the AFP modernization program was enacted into law in 1995 and subsequently approved by the Philippine Congress through JR 28 in 1996 up to the present, pertinent laws on procurement have undergone a lot of revisions. Executive Order (EO) 40 was issued on October 2001 rescinding EO 302 and EO 262. This new EO consolidates the rules governing procurement of goods and services, civil works, and consulting services by the National Government. Likewise, this EO requires the use of government electronic procurement system. The issuance of EO 40 affected the implementation of the program because the implementing rules and regulations (IRR) of the AFP modernization program under DND circular 01 was crafted in 2000 when EO 302 was still in effect. This predicament resulted to the requests for reconsideration from disqualified or ineligible proponents (AFPMP Annual Report 2001, 15). This change in the law required corresponding changes in the procedure. The AFP

had to constantly revise its procedures to adjust to the provisions of the new procurement law. The evolution of procurement laws and regulations has caused delay in AFPMP implementation (AFPMP Annual Report 2001, 38).

In January 2003, the Government Procurement Reform Act or Republic Act 9184 was passed by Congress. RA 9184 provides for the modernization, standardization and regulation of the procurement activities of the government. Again, the passage of RA 9184 rescinded EO 40. And like the previous problem, its accompanying IRR was only approved in September 2003 (AFPMP Annual Report 2003, 38). The gap between the enactment of the law and the issuance of the corresponding IRR put some CMTD projects in limbo. There were some projects whose bidding procedures followed the provisions of EO 40 but were faced with legal issues in the implementation of the contract when RA 9184 took effect. The acquisition of VHF/FM 2W handheld radios of the army and the upgrade of the V150 armored vehicles of the marines were examples of projects that were affected by this change in procedure (AFPMP Annual Report 2003, 14). As an aftermath, this caused the delay in the implementation of CMTD projects.

There were other issuances that made an impact in the implementation of the modernization program. An EO was issued by President Gloria Macapagal Arroyo on May 2002 which requires that government contracts without public bidding with the amount of 300 million pesos need appropriate approvals from the DOJ and the NEDA (Office of the President 2002, section 3). This order, although in line with the government's program of good governance, adds an additional layer in the procurement process thereby having significant impact on the program's implementation.

The government, however, tried to implement efforts to hasten the implementation of the program as a result of the grievances aired by young disgruntled officers in July 2003, now known as the “Oakwood mutiny.” A policy guidance aimed at expediting the procurement process at the defense and military establishments was issued by President Arroyo under EO 235 to streamline the rules and procedures of defense contracts. This new EO delegated the authority to the SND to sign and or approve government contracts of the Department and any of its bureaus, offices, and agencies. Included in this EO is the delegation of authority given to the CSAFP to sign and or approve contracts of the AFP involving an amount below 50 million pesos. This EO gave way for the creation of a single BAC at GHQ to handle all public biddings within the AFP. EO 235 was followed by EO 240, issued on November 2003, which prescribed the creation of a single BAC at the DND to undertake all public biddings for defense acquisition projects that cost more than 50 million pesos.

The AFP acquisition process is consistent with the provisions of the AFP modernization law. Contract negotiations and equipment acquisition are treated as two sequential but separate steps, each requiring the separate decision of SND. The decision making for equipment acquisition starts at the appropriate service command while contract negotiations start at GHQ. Figure 3 illustrates the stage of equipment acquisition. Under this process of equipment acquisition, project lists are initiated, deliberated, and approved at the Major Service level. Major Service Commanders then indorse the project list to GHQ for further review and validation by the AFP Capability and Development Board for recommendation of CSAFP to SND. The SND then recommends said project list for final approval of the President.

## PROJECT FORMULATION/IDENTIFICATION

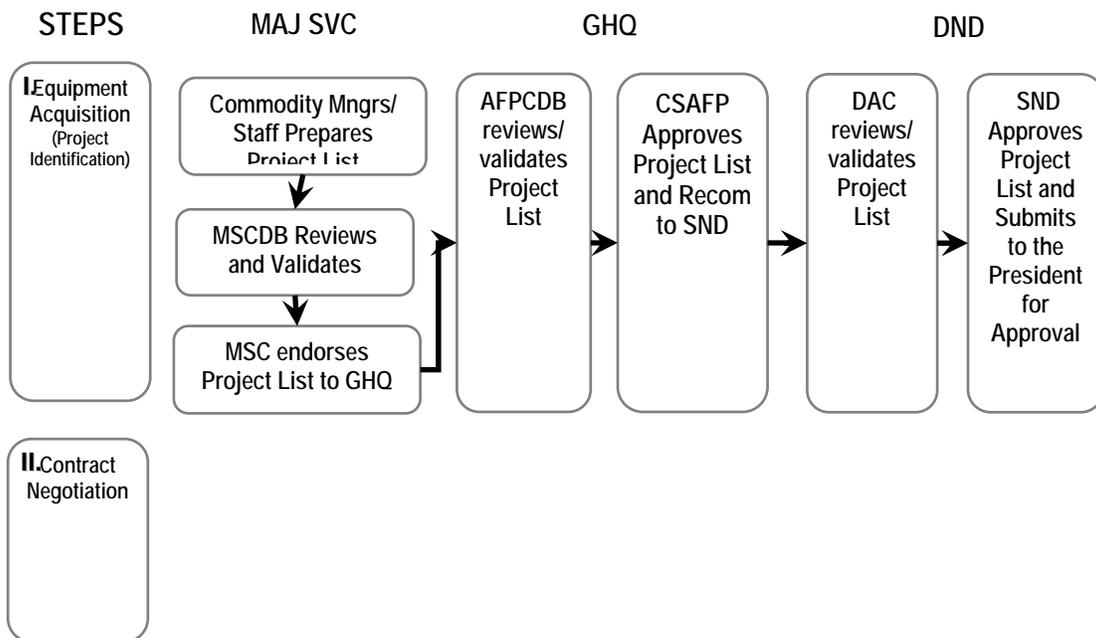


Figure 3. Step 1 of the Armed Forces of the Philippines Acquisition Process  
*Source:* Arnel Basas, Defense Policies in the Implementation of the Armed Forces of the Philippines Modernization Program, Lecture, Quezon City, Philippines, 22 May 2006.

Figure 4 shows the preceding step of the acquisition process. After the approval of the project list by the President, the Major Services then creates Project Management Teams (PMT) responsible for developing the equipment’s Circular of Requirement (COR) and Bid Evaluation Plan (BEP). After the Major Service capability development board has reviewed and validated said documents, it is then endorsed to the AFPCDB for confirmation of the approval of CSAFP and further recommends for final approval of SND. At the DND, the documents are further evaluated and reviewed at the Defense Acquisition Center before the approval of SND. After SND’s approval, corresponding Procurement Directive (PD) is now issued.

## COR & BEP APPROVAL

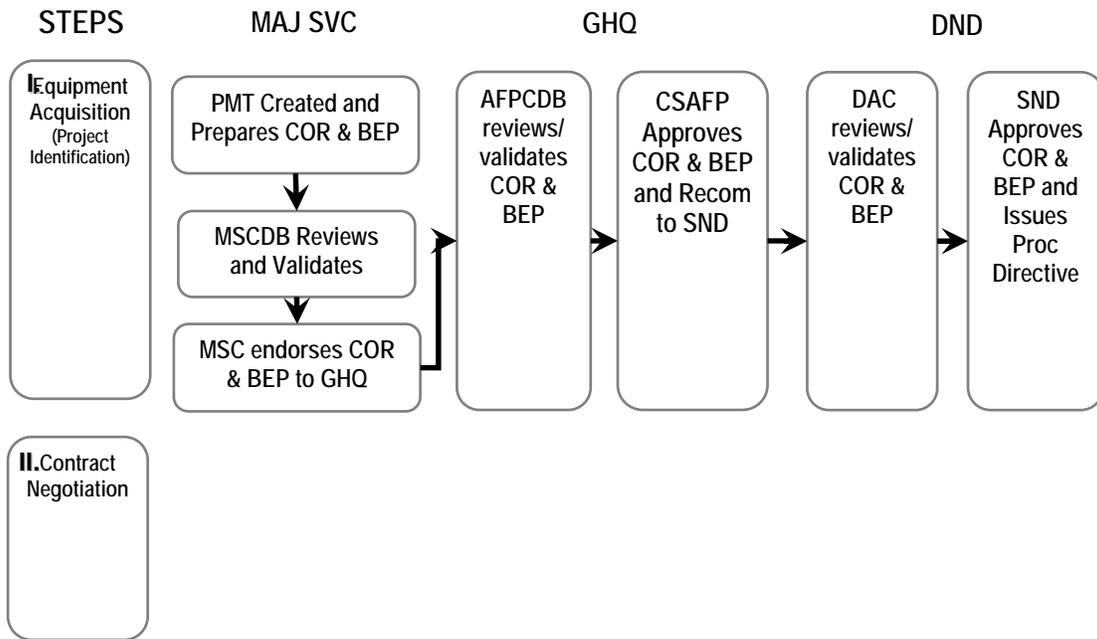


Figure 4. Step 2 of the Armed Forces of the Philippines Acquisition Process  
*Source:* Arnel Basas, Defense Policies in the Implementation of the Armed Forces of the Philippines Modernization Program, Lecture, Quezon City, Philippines, 22 May 2006.

The figure 5 depicts the process flow that occurs in the procurement planning and contracting stage if a project has an Approved Budget for the Contract (ABC) below 50 million pesos. After the PD has been issued, CSAFP directs the AFP-BAC to conduct procurement. Contract negotiation transpires at the GHQ level which ends when the AFP Procurement Service implements the contract.

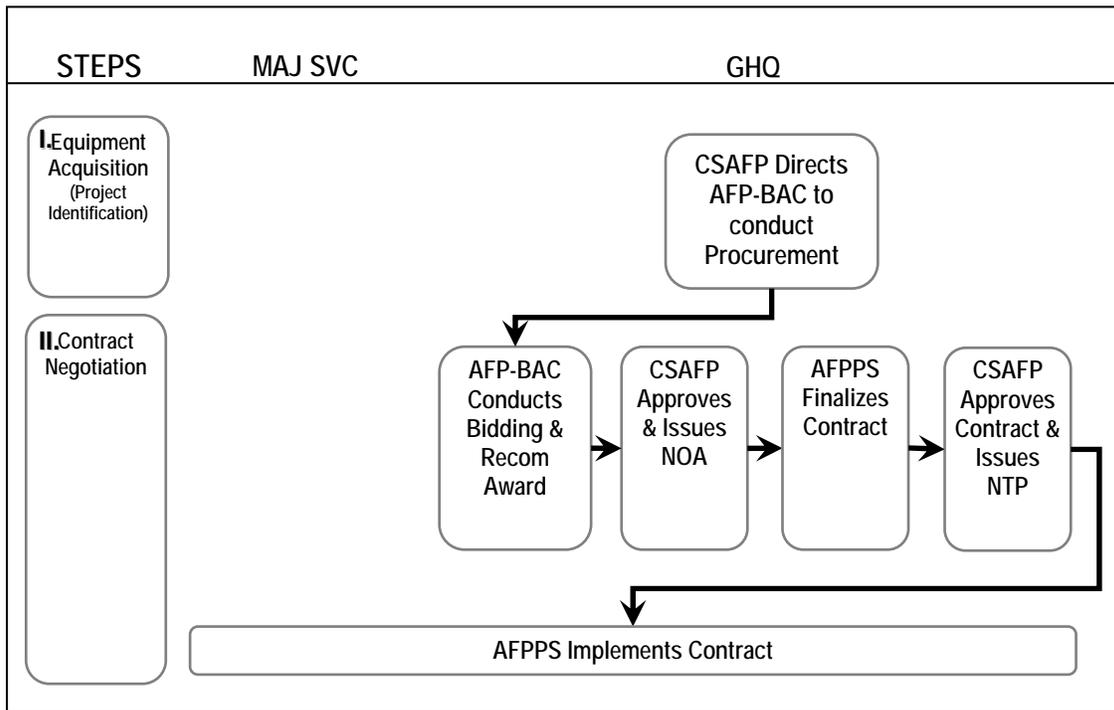


Figure 5. Procurement Planning and Contracting for Projects with Approve Budget for the Contract Below 50 Million Pesos.

Source: Arnel Basas, Defense Policies in the Implementation of the Armed Forces of the Philippines Modernization Program, Lecture, Quezon City, Philippines, 22 May 2006.

On the other hand, the figure 6 shows the process flow that occurs in the procurement planning and contracting stage if the project has an ABC of above 50 million pesos. Under this scheme, the bidding process occurs at the DND. The SND approves and issues the Notice of Award to the winning bidder. The contract goes back to GHQ in order to finalize the contract. Upon issuance by CSAFP of the certification of the availability of funds, the SND signs and approves the contract to proceed. The AFP Procurement Service then implements the contract.

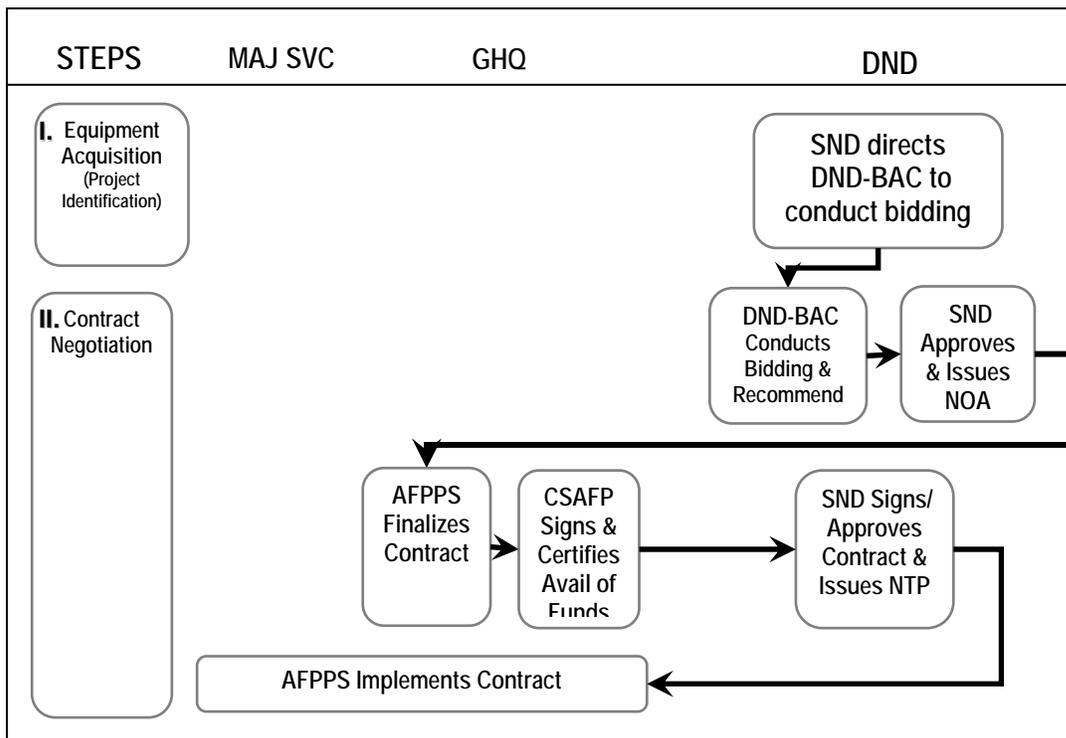


Figure 6. Procurement Planning and Contracting for Projects with Approve Budget for the Contract Above 50 Million Pesos.

Source: Arnel Basas, Defense Policies in the Implementation of the Armed Forces of the Philippines Modernization Program, Lecture, Quezon City, Philippines, 22 May 2006.

In the early years of AFPMP, the AFP and defense officials pointed out that the too lengthy procurement process is one of the reasons for the AFP’s failure to completely implement the AFPMP. Even the Feliciano Commission, which investigated the July 2003 Oakwood mutiny, confirmed the observations when it reported that, “Procurement under the AFP Modernization Program is even lengthier and more complex than the ordinary procurement process.” The commission noted that it took the AFP 23 steps to procure weapons and other defense equipment—from the formulation and issuance of the Circular of Requirements or Bid Evaluation Plan (COR-BEP), to the bidding and award,

and to project implementation. The Feliciano Commission said a substantial bottleneck existed at the initial stages of this process. The COR-BEP is formulated at the headquarters of the different Major Services and then has to go to the AFP GHQ for another round of evaluation before approval is sought from the Department of National Defense or, in certain cases, from the Office of the President.

To illustrate the complexity and tediousness of the equipment acquisition process, the table 5 revealed the timelines of the completed CMTD projects. Basing on the said completed projects, the bottleneck occurred in the bidding and contracting stages of the acquisition process.

Table 5. Armed Forces of the Philippine Modernization Program Project Acquisition Timelines.

Completed Projects	Acquisition Timelines (Calendar Days)			
	COR/BEP Preparation & Approval & Issuance of Procurement Directive by SND	Bidding & Contracting Stages		Project Duration
		Publication of Invitation to Issuance of Notice of Award	Contract Finalization / Approval & Issuance of the Notice to Proceed	
SAW 1	74	318	108	180
HF/SSB Manpack 1	206	397	146	180
VHF/FM HH 1	797	137	189	180
ARV	141	281	327	180
UH-IH (Comm'l)*	23	111	71	365
Force Protection*	17	163	267	180
OV-10 SLEP*	157	122	205	270

\*Procured under RA 9184

Source: Gerardo P. Catindoy, Procurement Process Under the CMTD Component of AFPMP (Commandant's Paper, Command and General Staff College, Makati City, Philippines, 2007), 5.

On the other hand, the Jacinto Class Patrol Vessel (JCPV) project, although underwent negotiated procurement, also took long to be realized. The project had to secure the necessary reviews and approval from the DOJ and NEDA as required under EO 109 for projects involving 300 million pesos and above without Public Bidding (AFPMP Annual Report 2002, 30). For this project, it took almost three years (from the approval of contract to delivery) before it was realized (AFPMP Status 2006, 1). The added layer in the acquisition process as stipulated in EO 109 undoubtedly affected the speedy accomplishments of projects.

To rectify the tediousness of the procurement process, the Department of National Defense issued Department Order 12 on April 2006, creating the BACs and Procurement Service in the AFP. The intent of this order was to create BACs at the Major Service level to fast track the bidding process. The AFP BAC created under EO 235 was renamed GHQ BAC 1 and handled procurement with ABC not to exceed 50 million pesos. While additional BACs were created at GHQ and major services to handle procurements with the amount of 25 million pesos and below (AFPMP Annual Report 2006, 5). However, the impact of this decentralized BACs was not readily realized because they were only operationalized in the later part of 2006. In addition, considering that these BACs will only handle procurements of 25 million pesos and below, its relevance on the implementation of CMTD projects would be minimal since most of the CMTD projects cost more than the 25 million pesos stated ABC ceiling of these BACs.

Since the enactment of the AFP modernization law, many policies have been issued and changed to facilitate the implementation of the program. The constant changing of these policies contributed in the delay in the implementation of the program.

Every time a new policy is created, the AFP has to adjust and adapt to these changes. It can be noted that the DND, the AFP in particular, does not have previous experience in implementing defense acquisition. This inexperience was brought about by the reliance on the US in acquiring military equipment before. During the time of the US military bases, requirements of the AFP were acquired through Foreign Military Sales (FMS) which does not undergo actual defense acquisition process. Basically, the implementation of the AFP modernization program is the first major procurement activity of the AFP. The modernization program is a learning experience and big challenge both for DND and AFP acquisition planners.

The procurement process under the AFPMP is heavily anchored on the provisions of RA 9184, or the “Government Procurement Reform Act,” and its corresponding IRR. RA 9184 consolidated the various procurement laws into a single law, significantly enhancing the government procurement system. These uniform set of rules are applicable for the purchase of ordinary goods and sophisticated defense equipment without distinction, such as bond papers, ball pens, corvettes, surface attack aircraft, night capable attack helicopters, and others.

As stated in chapter 3, this research will also focus on how the CMTD component of the AFPMP was implemented in relation to principles of the Philippine government procurement program. These principles are the following: (1) transparency; (2) competitiveness; (3) streamlining; (4) accountability; and (5) public monitoring. The objective of RA 9184 is to eradicate malpractices, especially graft and corruption in government procurement. Under the AFPMP, all acquisition and upgrade projects were implemented primarily through public bidding (AFPMP Annual Report 2006, 5). As

such, it has addressed positively the principles of transparency, accountability, and public monitoring. The procurement process under the AFPMP and the implementation of the contracts were transparent. Likewise, bid opportunities were widely disseminated through publication of bids in national newspapers. On the other hand, accountability was also established with the SND, CSAFP, and the major service commanders being responsible for ensuring and maintaining a transparent, effective, and efficient procurement system. Public monitoring was also enhanced with the presence of observers, particularly representative from COA, to monitor the procurement process and contract administration.

Regarding the principle of competitiveness, the AFPMP procurement process has still much to be done. The provisions of RA 9184 calls for maximum participation among local and foreign bidders. However, the stringent eligibility requirements will discourage prospective bidders or may disqualify participants during the bid opening, thus, limiting the number of participating bidders. The AFP must exert extra effort to maximize the participation of prospective bidders to ensure competitiveness.

The acquisition of equipment and weapons systems under the AFPMP are mostly sourced from foreign suppliers or manufacturers. So far, all major acquisitions and upgrades completed under the AFPMP were sourced from foreign suppliers. The issuance of the eligibility guidelines for foreign bidders is a welcome development as this will provide clear guidelines on the evaluation of eligibility requirements (Catindoy 2007, 38). Nonetheless, the stringent requirements stipulated in said guidelines may also discourage participation by the foreign bidders in AFPMP procurements thus reducing competitiveness.

The additional eligibility requirement on tax clearance as stipulated in EO 398 is a very recent addition to the requirements not found in RA 9184 and its IRR which is mandatory to both local and foreign bidders. This requirement has become a burden to bidders because they will have to undergo a tedious process at the Bureau of Internal Revenue (BIR). Particularly for foreign bidders, this tax clearance requirement may discourage them to participate in the procurement process if confronted with the bureaucracy at the BIR.

To highlight how the stringent eligibility requirements affect the principle of competitiveness, let us look into the acquisition of Night Vision, Infrared Aiming, and Laser Zeroing Devices with an approved budget for the contract of 411 million pesos.

A failure of bidding was declared during the first bid opening on 1 September 2005 because the four bidders were declared ineligible for having discrepancies in their eligibility documents, such as, failure to use the prescribed form for the export license provision and non-submission of the appropriate financial statement. During the re-bidding on 16 November 2005, two foreign bidders were declared eligible to bid while, one was declared ineligible to participate for failing to secure a tax clearance from the BIR (Catindoy 2007, 41).

Clearly, the stringent eligibility requirements under RA 9184 and other issuances hinder competitiveness in AFPMP procurement activities.

In the aspect of streamlining, the AFPMP procurement process also has its shortcomings. Under this principle, the procurement process must be simple and made adaptable to advances in modern technology (Government Procurement Policy Board, 2007, 6). The organizational structure, policies, and procedures under the AFP

modernization program affect the streamlining of procurement activities. The lengthy AFPMP procurement process discussed earlier runs contrary to the principle of streamlining. Moreover, the mandated procurement policies and processes that are geared towards streamlining remains unimplemented while others are still not fully implemented. Presently, only the electronic bulletin board in the Government Electronic Procurement System (GEPS) is operational, where invitations to apply for eligibility and to bid, bid bulletins, Notices of Award (NOA) and other official announcements are posted by the BAC. The full implementation of the GEPS will help streamline the procurement process as human intervention will be removed because publication of notices, conferences, registration and submission, and opening of bids shall all be done electronically.

The lack of funding and the complex procurement procedures were problems encountered in the early years of the program that affected the realization of the CMTD projects. In terms of funding, it was mentioned earlier in chapter 4 how the projects were affected by the devaluation of the peso. Many projects had to be reevaluated because the price has escalated so much and the initial budget allocation is no longer sufficient to cover the project cost. In addition to funding, the shifting of focus brought about by the transfer of internal security responsibility from the PNP to the AFP changed many of the projects originally lined up under JR 28. With focus now in developing the internal defense capabilities of the AFP, equipment in support of internal security operations were frontloaded. This development prompted the AFP to come up with new listing of projects. As mentioned earlier, from 2000 to 2004, the program had four revisions with the latest approved by the President on 20 August 2004. The original list of projects in

1997 under JR 28 was initially revised in 2000 following the transfer of internal security responsibility from the PNP to the AFP. This was referred to as the Reprioritized Project List (RPL). The program had another revision in 2002 which is the Revised Reprioritized Project List (RRPL). In 2004, another revision was made under the Integrated Priority Project List (IPPL) (AFPMPMO Briefing 2006, 7). These revisions had undoubtedly delayed the implementation of the different CMTD projects.

But the revisions did not end there, in 2004, with the new secretary at the Department of National Defense, the IPPL was revised into an 18-year Capability Upgrade Program (CUP). The program was anchored on the National Military Strategy, the AFP Campaign Plan “Bantay Laya,” the Joint Defense Agenda, and the AFP modernization program IPPL. This new program was not intended to replace the AFP modernization program but rather serves as an initial step in the modernization by first restoring the ISO critical priority requirements as embodied in the AFPMP priority list. This complementary program envisioned to upgrade the capabilities of the AFP to a level where all the assets of the AFP are mission capable to carry out its mandated tasks both in war time and peace time defense conditions (AFPMP Annual Report 2004, 44).

Thus, from the initial 76 projects under the RPL, there are currently only 45 projects under the revised RRPL funded for implementation. Among the projects listed under RRPL: nineteen projects have been delivered into service starting March 2003 to November 2006 in the total project cost of 3.8 billion pesos; five projects are with contracts under implementation with a total project cost of 709 million pesos; and, twenty one projects are in the various stages of the acquisition process in the total project cost of 5.5 billion pesos. These are either for processing of contract, referred to DND or AFP

Bids and Awards Committee, for issuance of acquisition decision memorandum or procurement directive and for processing of COR and BEP (AFPMPMO Briefing 2006, 8). Table 6 shows the nineteen accomplished projects under RRPL.

Most of the projects were only realized in 2005 and 2006. The accomplished projects were totally different from what was originally conceived under JR 28. From the original 112 projects under JR 28, 46 projects were replaced under RPL and 31 more projects from the original RPL were changed when the RRPL was approved (AFPMPMO Briefing 2006, 8). Under the RRPL, emphasis was given on projects that would enhance troop communication, force protection, and firepower.

Appendix B and C show the projects that were affected by the revisions in 2000 and 2002. As discussed in chapter 4, the changes in the Philippine security setting led to the transfer of the ISO responsibility from the PNP back to the AFP that resulted to the reprioritization of the projects. The primary reason why projects were reprioritized was to adjust to the changes in the domestic security environment, particularly in addressing insurgency and the secessionist movement. In addition, it was done accordingly to optimize the limited modernization funds. It is, however, disappointing to note that the revisions of modernization projects has become more of a rule rather than an exemption. As stated in the 2005 AFPMP Annual Accomplishment Report, there is this “continuous need for the AFP to adjust to changes in the overall security environment the Philippine faces.” If the AFP modernization planners find this “continuous need,” then one will be expecting more revisions to come in the future. The program had already undergone four revisions. And every revision introduced is also contributing to the delay in the implementation of the program.

Table 6. Completed Projects Under the Revised Reprioritized Project List.

Projects	Quantity	Project Cost (In Million Pesos)	Delivery date
Squad Automatic Weapon I	402	122.325	18 Mar 03
Armored Recovery Vehicle	1	72.000	04 Jan 04
HF SSB 20W Manpack I	325	445.242	19 May 04
Dental Equipment	2 lots	12.500	01 Jul 04
Diving Suit	40	25.000	26 Aug 04
BN Islander Aircraft Upgrade	1	25.000	08 Oct 04
VHF/FM 2WHH Radios I	1,956	408.070	26 May 05
UH-1H Acquisition	20	687.300	26 May 05
HFSSB 20W Manpack II	246	338.500	01 Jun 05
JCPV Generators	9	30.000	20 Jun 05
E-Services Portal	Lot	30.000	21 Jun 05
Base Commo Network	Lot	33.00	25 Nov 05
Force Protection Equipment	8,100(Vests/Helmets)	135.000	25 Nov 05
JCPV Weapons System Upgrade	3 vessels	990.650	08 Mar 06
Medical Equipment	5 lots	37.500	03 Apr 06
PKM Shipment	2	19.250	26 May 06
OV-10	12 engines, 14 prop	256.000	12 Sep 06
F27-500 Acquisition	1	95.000	31 Oct 06
Integrated Radio Trunking System	1 Lot	60.000	07 Nov 06

*Source:* Armed Forces of the Philippines Modernization Program Management Office, “AFP modernization program: A Presentation to the Committee on House and Means,” Briefing, Quezon City, Philippines, December 2006.

The implementation of the AFP modernization program had rough sailings. Many factors were instrumental in the delay in its implementation. The AFP is continuously experiencing the birth pains of implementing the program. For the AFP, it remains to be a big challenge and a continuous learning process. In the next chapter, conclusions and recommendations in the implementation of the AFPMP will be outlined with the end in view of coming up with solutions that will help hasten the implementation of the AFP modernization program.

## CHAPTER 6

### CONCLUSIONS AND RECOMMENDATIONS

“We want to harness the younger generation of AFP officers . . . by sharing with them a vision and the hardware to achieve it.”

President Gloria Macapagal Arroyo  
On the occasion of the 71<sup>st</sup> AFP Anniversary  
Camp General Emilio Aguinaldo  
21 December 2006

The AFP modernization program, particularly the CMTD component, has encountered many obstacles during its implementation. Because of these challenges, CMTD component has not attained its set goals and objectives. According to its original mandate, the CMTD component is geared towards the development of the AFP’s naval defense, air defense, ground defense, and general headquarters capabilities. Except for a few acquisitions to enhance the troop communication, force protection, and firepower, much of the envisioned capabilities, particularly for the air force and navy, have yet to be realized.

The AFPMP has not fully advanced since its implementation in 1997 due to different factors. These factors include funding, shifts in priorities and programs, lengthy acquisition process, changes in procurement policies, and assignment of key personnel. The first factor is funding. The fund of AFPMP is highly dependent on government allocation and has no fixed budget out of the General Appropriations Act (GAA). Also, there is irregular funding contribution/share from other sources, particularly BCDA. This problem on funding is directly related to the economic condition the Philippines is facing. During the past years, the country has been plagued with budget deficits and slow

economic growth. With the current economic condition, there is no assurance that the Philippine Congress will fund AFPMP annually. If this will remain, the AFPMP cannot be continuously and fully implemented in the fifteen-year period stipulated by law. From the approval of JR 28 in 1996, it is already eleven years into the program and the Philippine Congress allocation has not even reached 10 percent of the sub-program I requirements.

The funding deficiency of the AFPMP is a serious concern. The inadequacy of funds and the non availability of regular funds affect the AFP's decision to undertake multi-year contracts. More so, the uncertainty of the availability of funds disrupts program implementation and affects the planning timeline for the projects. It is noteworthy to mention, however, that efforts are being made to initiate the approval of some bills in the Philippine Congress that will generate funds for modernization. The proposed amendments to RA 7898 would make the modernization program a continuing program by providing annual appropriation of not less than 0.3 percent of the country's GNP (AFPMP Annual Report 2006, 28). However, this bill was passed in 2003, and it is still pending in Congress up to this date.

With this predicament, AFP planners and resource managers need to come up with innovative ways to tap other sources of funds to fully operationalize and effectively support the realization of the modernization program. To generate the needed funds, the AFP must maximize the effectiveness of the seven sources of funds identified under the AFPMATF. In relation to this, it must revisit the income from trust receipt collections of units to augment the modernization funds. These include income from the disposal of scraps and other unserviceable equipment. Funds can also be sourced by incomes

generated from the operation of the different AFP owned golf courses, officer's clubs, and rentals from concessionaires. Income from these activities and from other income generating activities of the AFP must be channeled to the AFPMATF to support the implementation of the modernization program. Although funds that may be generated from these sources may be meager considering the requirements of the CMTD projects, they still can augment in the implementation of other modernization projects, such as, the formulation of doctrines, bases development, and human resource and organizational development. Likewise, in the absence of the pending bills, the AFP must include in its proposed annual budget an amount for modernization program projects. In order to sustain the implementation of the modernization program, what is needed is the support from Congress in terms of regular appropriations as well as the passage of the pending bills supporting the implementation of the modernization program. A regular allocation is what the program needs to attain its set goals and objectives. The AFP must also maximize its use of all available funds for modernization by a realistic, prioritized, and comprehensive approach to planning and implementation. The AFP must be credited for doing its best to implement the CMTD projects despite this problem on funding.

Another factor that contributed to the delay in the implementation of CMTD projects was the shifting of priorities and programs. At times, this shift was brought about by the changes in the security environment, like what happened in 2000 with the escalation of hostilities in southern Philippines. This mission shift, from external to internal operations, led to further changes in focus, items, and priorities. In some cases, however, the change in military and civilian leadership also brought about changes in the projects lined up for implementation. Although the human behavior behind this is

recognize, these revisions can be minimized if the CSAFP and major service commanders have a longer tenure. The pending bill in Congress that will give fixed tenure of three years for CSAFP and two years for major service commanders will somewhat address this factor.

There is a great possibility that the security threat situation in the Philippines will not change for the next ten years. By this time, the needed requirements to support the ISO campaign must have already been determined to lessen the occurrence of revisions in the program that impedes the implementation. There must be a deliberate attempt to identify the needed requirements based on the AFP's present capabilities and the mission to be accomplished. Planning for procurement of new systems might be ambitious at this stage considering the economic condition of the country. The competing desire to develop external defense capabilities must be thoroughly weighed. In the absence of an immediate external threat, the focus of the AFP should remain in the improvement of internal defense capabilities considering that the real and greater threat is internal. Internal security operations and the protection of the country's exclusive economic zone must be the focus of the AFP modernization program.

The successful implementation of the AFP modernization program will help improve the internal security problems of the country. Likewise, the absence of internal development in the country is likely to worsen rather than improve the country's internal security situation. With this predicament, Congress must balance its efforts in supporting the developmental programs of the government and in financing AFP modernization program projects.

The lengthy process of acquisition, particularly the adoption of RA 9184, is another contributory factor in the delayed implementation of the modernization program. Going back to the principles of government procurement, the AFPMP procurement process still has to improve on the competitiveness and streamlining principles. Primarily, the eligibility requirements impact heavily on the competitive nature of the procurement. The stringent eligibility requirements may discourage prospective bidders or disqualify participants during the bid opening, thus limiting the number of bidders and hindering competition. Moreover, other measures still need to be promulgated to ensure streamlined AFPMP procurement activities. The full implementation of the GEPS will contribute in the streamlining of the procurement process.

Although RA 9184 is relevant in preventing corrupt government procurement practices, its restrictive procedures contributed to the delay in the implementation of CMTD projects. The implementing rules and regulations are not applicable and or adaptable to AFP financial transactions because of the peculiarity and uniqueness of the military organization compared with other government agencies. Recall that RA 9184 outlines the same procedure in procuring any item a government agency wanted to buy, from a common item like paper to a highly technical weapon system.

Aside from the lengthy process, the constant changes in the procurement policies were also a major cause of delay. From the inception of the AFPMP, several changes in policies were published. Changing policies and procedures have greatly contributed to the further delay in the program implementation. As a result, BAC is consistently making adjustments in procurement procedures. There is a need to refresh the BAC and PMT members to ensure compliance to the new policy.

To address these factors that cause delay in the implementation of the modernization projects, the DND/AFP must come up with a separate and distinct procurement process for defense acquisition that will simplify the acquisition process under the AFP modernization program. This procurement process must also take into consideration the principles of the Philippine government procurement program. In order to hasten the defense acquisition, the AFP must also explore other procurement strategies. Among these strategies are the joint-acquisition scheme, lease-purchase, and government to government procurements.

In the implementation of the program, the assignment of officers as PM, PMT, and TWG members was also a critical factor. Basically, the program puts heavy emphasis on how the PM, PMT, and TWG members can efficiently carry out their functions. The program requires the dedication of personnel equipped with appropriate skills and training to perform these tasks. Defense acquisition is an intricate activity and the AFP must enhance the level of competency of personnel manning the program. The AFP must invest in training and must maintain a ready pool of qualified personnel for the program. The AFP must also be deliberate in assigning personnel to these positions. These positions must not be performed as a collateral duty. Project Managers and, if possible, Project Management Team members must not be rotated or reassigned until the completion of a project. The reassignment of critical personnel disrupts the continuity and thus delays the implementation of CMTD projects. To assist the AFP in the realization of the modernization program and to help bridge continuity gaps, hiring of civilian personnel and consultants must be considered. Consultants would be a big help

considering that the AFP does not have the technical expertise particularly in the acquisition of weapons systems and other modern equipment.

To further enhance the implementation of the AFP modernization program, several areas for further study can be pursued. Other fund generation initiatives must be explored. The AFP must continuously look for innovative ways to generate funds for the AFP modernization program. Study must be made on how to maximize the seven sources of funds identified under the AFPMATF. In addition to this, other procurement strategies, like joint-acquisition scheme, lease-purchase, and government to government procurements should also be studied.

The implementation of the AFP modernization program has encountered several obstacles. After twelve years, the AFP is still experiencing the birth pains of implementing the program. For the AFP, it remains a big challenge. The recent pronouncement of President Gloria Macapagal Arroyo on January 2007 is a welcome development. President Arroyo vowed to complete the modernization of the AFP by 2010 (Office of the Press Secretary 2007, 1). Although this seems an ambitious goal, the aggressiveness shown by the President must be fully supported by the AFP to hasten the implementation of the program. The successful implementation of the AFP modernization program will need the commitment of the AFP, the Philippine Congress and the government leadership.

## APPENDIX A

### LINEAGE OF THE CHIEF OF STAFF, ARMED FORCES OF THE PHILIPPINES

Name	Year	Length of Tenure
Gen Arnulfo G Acedera Jr	28 Nov 96-31 Dec 97	1 yr and 1 month
Gen Clemente C Mariano	01 Jan 98- 01 Jul 98	6 months
Gen Jocelyn B Nazareno	01 Jul 98- 08 Jul 99	1 year
Gen Angelo T Reyes	08 July 99- 17 Mar 01	1 yr and 8 months
Gen Diomedio P Villanueva	17 Mar 01- 18 May 02	1 yr and 2 months
Gen Roy A Cimatu	18 May 02- 10 Sept 02	4 months
Gen Benjamin P Defensor	10 Sep 02- 28 Nov 02	2 months
Gen Dionisio R Santiago	28 Nov 02- 08 Apr 03	5 months
Gen Narciso A Abaya	28 Apr 03- 29 Oct 04	1 yr and 6 months
Gen Efren L Abu	29 Oct 04- 15 Aug 05	10 months
Gen Generoso S Senga	15 Aug 05- 21 July 06	11 months

*Source:* TSgt Rose Queruela, Office of the Chief of Staff, Armed Forces of the Philippines, Camp Aguinaldo, Quezon City, Philippines. Electronic mail received by author, 7 September 2007.

APPENDIX B

CY 2000 AFPMP REVISED REPRIORITIZED PROJECTS LIST

PARTICULARS	BUDGET (Million Php)
<b>PHILIPPINE ARMY PROJECTS</b>	
VHF/FM Radio Hand-held**	753.589
HF/SS8 Radio Manpack**	392.352
Armored Personnel Carrier (APC) M113 Upgrade Acquisition*	150.000
Night Vision Goggles (NVG)	51.840
Night Vision Weapons Scope (NWS)	5.500
Force Protection Equipment Acquisition***	5.500
Armored Recovery Vehicle (ARV)	72.000
Squad Automatic Weapon (SAW)**	487.119
<b>Sub-total</b>	<b>2,129.000</b>
<b>PHILIPPINE AIR FORCE PROJECTS</b>	
Surface Attack Aircraft (SAA)	1,180.000
F-27 Upgrade	56.500
<b>Subtotal</b>	<b>1,236.500</b>
<b>PHILIPPINE NAVY PROJECTS</b>	
Jacinto Class Patrol Vessel (JCPV) Weapon Systems Upgrade	808.000
Landing Ship Tank (LST) Upgrade	251.650
Islander Aircraft Upgrade	25.000
Helicopter Upgrade	52.090
Armor Assets Upgrade (V-150)	58.000
Bases Development	103.370
Squad Automatic Weapon (SAW)	23.100
HF/SS8 20W Manpack**	72.390
VHF 2W Handheld**	21.320
Force Protection Equipment Acquisition	35.000
40mm Grenade Launcher	12.538
Multi-Purpose Attack Craft (MPAC)	151.500
<b>Sub-total</b>	<b>1,610.958</b>
<b>GHQ/AFPWSSUs PROJECTS</b>	
Fixed Communications System (FCS)	316.000
Special Purpose Communications System	
Mobile Commo Network	46.500
Base Commo Network	33.000
Integrated Radio Trunking System (IRTS)	66.000
Information System	
AFP Community Area (CAN) Phase 1	28.000
AFP Geographic Information System (GIS) Phase 1	24.000
<b>Sub-total</b>	<b>507.500</b>
<b>GRAND TOTAL</b>	<b>5,483.958</b>

\*New Project, not listed under JR 28   \*\*Joint Army Marines Project

Source: Armed Forces of the Philippines Modernization Program Management Office, *AFP modernization program annual accomplishment report* (Quezon City, Philippines: AFP General Headquarters, 2003).

APPENDIX C

CY 2002 AFPMP REVISED REPRIORITIZED PROJECTS LIST

<b>PARTICULARS</b>	<b>QTY/LOT</b>	<b>BUDGET (Million PhP)</b>
<b>PHILIPPINE ARMY PROJECTS</b>		
VHF/FM 2W Radio Handheld		564.000
HF/SSB 20W Manpack		319.000
Night Vision Goggles (NVG)***		160.000
Force Protection Equipment Acquisition*/**/**		94.500
Squad Automatic Weapon (SAW)		226.00
Bases and Support Systems Development (BSSD)		140.00
Human Resource Development***		66.00
Doctrines Development		17.00
	<b>Sub-total</b>	<b>1,586.50</b>
<b>PHILIPPINE AIR FORCE PROJECTS</b>		
UH-1H Acquisition (to include ILS)		686.30
OV-10 Upgrade (SLEP)		256.00
UH-1H Upgrade /Refurbishment*/**		442.70
F-27 500 Acquisition		95.00
Master Development Plan (MDP) Formulation		40.00
S-76 Upgrade		26.00
<b>PHILIPPINE NAVY PROJECTS</b>		
Jacinto Class Patrol Vessel (JCPV) Weapon Systems Upgrade***		131.00
JCPV Machinery Upgrade		400.00
Aircraft Upgrade		
Islander Aircraft Upgrade		75.00
Helicopter Upgrade		35.00
Armor Assets Upgrade		120.00
Bases Support System Development		99.00
Diving Suit		25.00
Patrol Killer Medium (PKM) Upgrade		600.00
Coast Watch System		60.00
Kevlar Rigid Hull Inflatable Boats***		40.00
<b>GHQ/AFPWSSUs PROJECTS</b>		
FCS (Phase 2)		150.00
Information System		44.50
Health Equipment		50.00
Satellite Communication***		37.00
<b>GRAND TOTAL</b>		<b>5,000.00</b>

Source: Armed Forces of the Philippines Modernization Program Management Office, *AFP modernization program annual accomplishment report* (Quezon City, Philippines: AFP General Headquarters, 2003).

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