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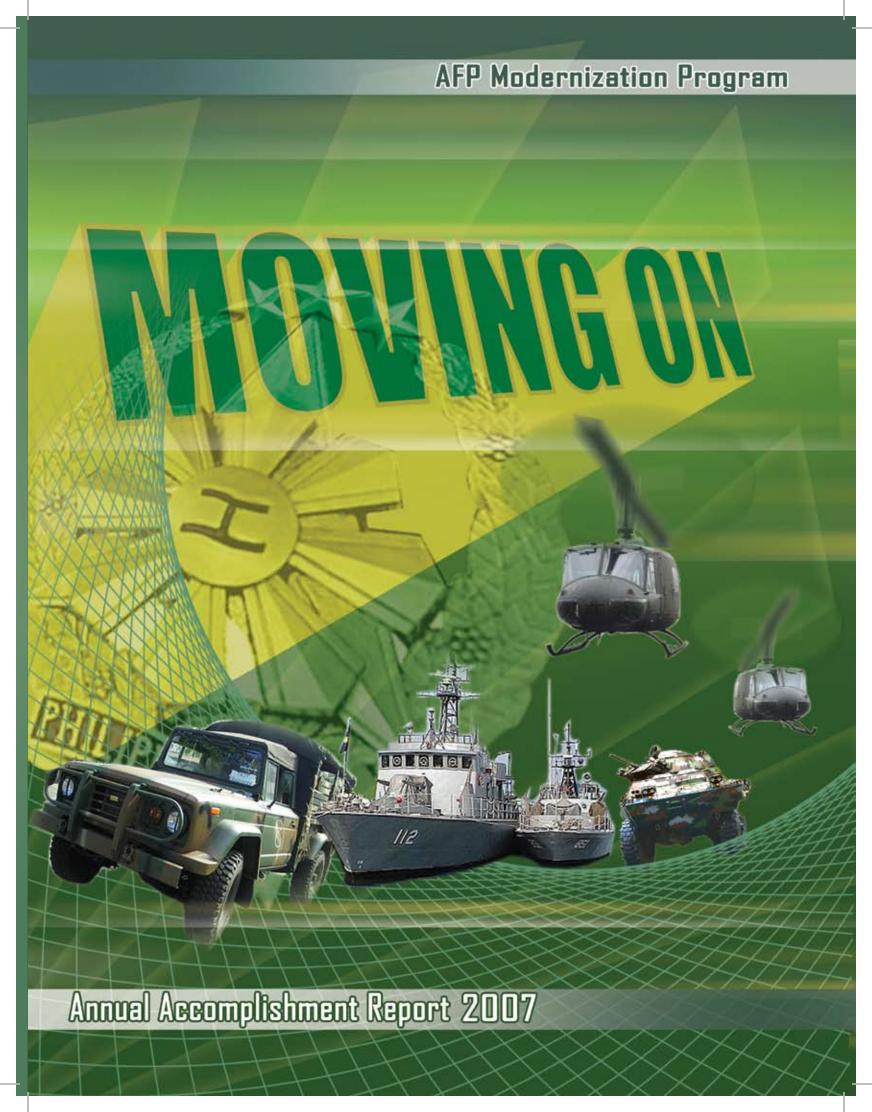
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Message

REPUBLIC OF THE PHILIPPINES **DEPARTMENT OF NATIONAL DEFENSE**Camp General Emilio Aguinaldo, Quezon City



or the past thirteen (13) years since Congress approved Republic Act No. 7898 in 1995, the implementation of the AFPMP has surpassed various stages of constantly changing economic, security and political environment. It has confronted various challenges and indispensable changes such as the 1997 Asian Financial Crisis, shifting priorities from territorial defense to internal security, adjustment in the complex defense procurement process, lack of resources and the formulation of the Philippine Defense Reform Program and the Medium Term Capability Upgrade Program.

Admittedly, these changers contributed to the delay of the program's implementation. However, it also refined the AFPMP to a level that will be responsive not only to the technological advancement of the AFP but more importantly to the current security requirements and the economic situation of our nation.

From CY 1995 to CY 2006, the AFPMP has seen the completion of at least 18 major AFPMP equipment acquisitions and the commencement of the procurement process of other projects. Some of these projects, which were fully realized in CY 2007, have already resulted in improvements for both the individual soldier and the mobility and warfighting capabilities of the AFP as a whole. These improvements are indispensable given the objective of achieving the President's instruction to strategically defeat the communist insurgency by 2010, eradicate the Abu Sayaff and other terrorist groups, and contain the secessionist movement.

I am confident that the AFPMP would help in realizing this objective and the AFP's overall vision of effectively defending our people and the sovereignty of our state.

GILBERT C TEODORO JR Secretary



Message

REPUBLIC OF THE PHILIPPINES

DEPARTMENT OF NATIONAL DEFENSE

Armed Forces of the Philippines

Office of the Chief of Staff

Camp General Emilio Aguinaldo, Quezon City



andated to be the protector of the people and the state, the Armed Forces of the Philippines has always committed itself in adhering to national policy regarding the improvement of its capability. Thirteen years ago, the AFP Modernization Program signaled a turning point in efforts to bring the military to a higher level of effectiveness and competence to defend the sovereignty and patrimony of the Filipino people.

The modernization program provides the AFP guidance with which to gauge its progress in enhancing its capabilities. But is has also shown responsiveness in meeting the demands of national security, able to adapt itself to both internal and external security challenges. Modernizing the AFP proved to be a dynamic process entailing the prioritization of internal security operations.

Now, the AFP approaches another threshold with the impending resolution of various internal security challenges. The defeat of the communist insurgency by 2010, the destruction of the Abu Sayyaf and the attainment of peace with the secessionists are now imminent. Achieving all of these require that the AFP sustains the momentum by building up its capabilities, specifically through the AFP Capability Upgrade Program. The CUP ensures that the individual soldier would fight not on equal terms but with maximum advantage in the way he moves, shoots and communicates.

Indeed, the timeline of the AFPMP is nearing its closing stages. However, the process of enhancing the capability of our armed forces continues. The success of CUP under the greater thrust of the modernization program opens the possibility of further capability enhancement in the future.

HERMOGENES C ESPERON JR
General AFP



Foreword

REPUBLIC OF THE PHILIPPINES

DEPARTMENT OF NATIONAL DEFENSE

Armed Forces of the Philippines

Office of the Vice Chief of Staff

Camp General Emilio Aguinaldo, Quezon City



odernizing the armed forces is no easy task. The act of selecting equipment to be acquired requires an arduous process, which entails specific challenges to be addressed. The strategic environment can change in a blink of an eye. Indeed, a dynamic environment provides the context for the modernization program, requiring the AFP modernization program to re-prioritize the acquisition of vital military equipment.

Aside from this fluid environment, procurement of equipment needs to follow a comprehensive set of rules and processes. The military takes all of this in stride to ensure that the procurement process delivers the right tools in an appropriate manner and with the most efficient use of limited resources possible. Still, the lack of resources continues to be the key constraint in realizing the goals of the modernization program.

What emerges is an armed forces that is able to respond to all forms of challenges and constraints. Modernization is no longer limited to a specific program but has entered the military psyche as a way of life. While working within the strict confines of limited resources, the AFP has nonetheless continued to think out of the box. The AFP has not lost sight of the overarching goal of enhancing the capabilities of the armed forces.

The ongoing Capability Upgrade Program under the AFPMP will sustain our thrust to resolve internal security challenges. Improvements in C4ISR, mobility, firepower and combat support will give the AFP the means with which to decisively deal with chalanges to the security of the Philippines.

The 2007 AFPMP Annual Accomplishment Report is in fulfillment of Section 16 of the Modernization Act of 1995, which requires the submission of annual reports to the President and Congress. However, the report is also an effort to document and inform the public of what the AFP is doing to improve on its ability to pursue its mandate to protect the people and the nation's sovereignty.

ΑΝΤΌΝΙΟ '

ROMERO

Lieutenant General

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Program Overview

Public Act 7898 (RA 7898) or the AFP Modernization Act of 1995 signifies the country's intent to make the AFP a worthy player in any regional or international security arrangement. Since its passage, the Armed Forces of the Philippines has made the modernization act as the core of initiatives to improve its capabilities. Dynamism in the regional security environment meant that the AFP needed to expand and enhance its capabilities in order to respond to the wide spectrum of possible security challenges to include non-traditional concerns such as terrorism. This is to ensure that the AFP's focus on ISO would not result in diminished capabilities for territorial defense. Domestically, modernization would instill in the people increased pride with the armed forces and denies prospective putschists the issue of poor equipage to rationalize their attempts to grab power. In short, a more capable armed forces would be better placed to contribute to nation-building by ensuring security from any internal and external challenges.

The objectives of the program are presented in Section 3 of the Modernization Act, to wit:

- 1. To develop the AFP's capability to uphold the sovereignty of and territorial integrity of the Republic and to secure the national territory from all forms of intrusion and encroachment:
- 2. To develop the AFP's capability to assist civilian agencies in the preservation of the national patrimony, including the country's living and non-living marine, submarine, mineral, forest and other natural resources located within its territory and its Exclusive Economic Zone;
- 3. To enhance the AFP's capability to fulfill its mandate to protect the Filipino people not only from armed threats but the ill effects of life-threatening and destructive consequences of natural and man-made disasters and calamities, including typhoons, earthquakes, volcanic eruptions, major accidents in far-flung or inaccessible terrain or at sea from all forms of ecological damage;
- 4. To improve the AFP's capability to assist other agencies in the enforcement of domestic and foreign policies as well as international covenants against piracy, white slavery, smuggling, drug trafficking, hijacking of aircraft and sea craft and the transport of toxic and other ecologically-harmful substance taking place in or through Philippine territory;
- 5. To enhance the AFP's capability to assist the Philippine National Police in law enforcement and internal security operations;

- 6. To enhance the AFP's capability to fulfill the country's international commitments; and
- 7. To develop the AFP's capability to support national development.

Legal Parameters

The Program is the implementation of Republic Act 7898 (AFP Modernization Act), which was signed into law on 23 February 1995. It declares the Philippine policy of wanting "to modernize the AFP to a level where it can fully and effectively perform its constitutional mandate of upholding sovereignty and preserving the patrimony of the Republic".

Legislative approval came with the promulgation of Joint Resolution No. 28. Signed on the 19 December 1996, the program was to be implemented for a period of fifteen years. It approved a Php 50 billion budget ceiling for the program's first five-year period.

On 06 March 2000, the Department of National Defense issued Department Circular Number 01, better known as the Implementing Guidelines, Rules and Regulations (IGRR) of the program. This IGRR was in fulfillment of provisions of RA 7898, which require the prescription of specific policies and procedures to implement the AFP Modernization Act.

Three years later, on 26 January 2003, the Government Procurement Reform Act (RA 9184) took effect, with its corresponding IGRR published eight months later. On 11 September of that same year, Executive Order (EO) 235 was signed, which sought to streamline the rules and procedures concerning defense contracts. The modernization program is also governed by EO 120, which tasks the National Government to utilize counter trade schemes as an additional option for the importation or procurement of foreign capital equipment, machinery, products, goods and services. As for the management of the AFP Modernization Act Trust Fund, the Program is covered by Joint Circular 4-98 of the Department of Finance, Department of Budget and Management and Commission on Audit.

Four years later, Administrative Order No. 169 entitled "Amending the Implementing Guidelines, Rules and Regulations of the Armed Forces of the Philippines Modernization Program" was promulgated to account for changes in the Modernization Program's policy environment. Dated 30 January 2007, AO 169 declares that the AFPMP shall have at its core the Philippine Defense Reform Program. It also emphasizes the goal of defeating the communist insurgents by 2010, eradicating the ASG and containing the MILF as enunciated in the Enhanced National Internal Security Plan.

Substantial portions of AO 169 are concerned with RA 9184 or the Government Procurement Reform Act, including specific instructions/procedures for the conduct of the activities under the procurement process. It also lays out the composition and tasks of bodies that oversee the procurement process.

Priorities and Components

The AFP Modernization Program aims to enhance air, ground, naval and General Headquarters capabilities. Enhancing the AFP's capabilities would enable it to better perform both national defense and peacetime functions. It prescribes the projected size and shape of the Philippine military in terms of personnel, equipment and facilities. It enumerates and prioritizes all modernization projects to be implemented under the five components including the estimated cost of each project.

Developing the AFP's capabilities involves five interlocking components, which includes: Force Restructuring and Organizational Development (FROD); Capability, Materiel and Technology Development (CMTD); Bases and Support Systems Development (BSSD); Human Resource Development (HRD); and Doctrines Development (DD).

AFP Modernization Act Trust Fund

Section 11 of RA 7898 provides for the creation of the AFP Modernization Act Trust Fund (AFPMATF), which is administered by the Secretary of National Defense (SND) and has the following sources of funds, to wit:

- 1. Congressional appropriation:
- Proceeds from the sale, lease, or joint development of military reservations, as may be authorized, including such immovable and other facilities as may be found therein, not covered by the Bases Conversion Development Authority, as provided for in Republic Act No. 7227;
- 3. Share of the AFP from the proceeds of the sale of military camps provided for under Republic Act No. 7227;
- 4. Proceeds from the sale of the products of the Government Arsenal;
- 5. Proceeds from the disposal of excess and/or uneconomically repairable equipment and other movable assets of the AFP and the Government Arsenal:
- 6. Funds from budgetary surplus, if any, as may be authorized by Congress subject to the provisions of Section 8 [of RA 7898]; and
- 7. All interest income of the Trust Fund.

Currently, funds acquired through these sources totaled Php 33.5 billion, as shown in the table below.

| Sources of Funds | Amount (in Million Pesos) |
|--|------------------------------|
| Appropriations from Congress | 20,000.000 |
| Proceeds from sale, lease or joint development of military | |
| reservations | 0.000 |
| Shares from the proceeds of the sale of military camps | 6,945.034 |
| Proceeds from the Government Arsenal | 92.438 |
| Proceeds from the disposal of excess AFP assets | 43.253 |
| All interest income of the trust fund | 410.877 |
| Budgetary surplus for FY 2005 | 5,000.000 |
| Proceeds from Malampaya Natural Gas to Power | 1,000.000 |
| TOTAL | 33,491.602 |

These funds were distributed among the five components as shown below.

| Component | Amount (in Million Pesos) |
|---|------------------------------|
| Capability, Materiel & Technology Development (CMTD) | 25,956.906 |
| Bases Support System Development (BSSD) | 1,569.900 |
| Human Resource Development (HRD) | 150.761 |
| Doctrine Development (DD) | 45.268 |
| Force Restructuring and Organizational Development (FROD) | - |
| TOTAL | 27,722.835 |

Funds amounting to Php 549.516 million, which consist of proceeds from the BCDA, Government Arsenal, disposal of AFP assets and interest income of the trust fund is yet to be approved. Out of this amount, Php 82.900 million has been earmarked for three projects undergoing the approval process as shown below.

| Proposed Year "0" Projects | Amount (in Million Pesos) |
|----------------------------|------------------------------|
| MAVVU | 40.900 |
| COM Center | 10.000 |
| Forward Medics | 32.000 |
| TOTAL | 82.900 |

Php 131.371 million will be used to cover the attendant cost in administering various projects with another Php 5 million for defense research-related materials. The remaining Php 330.23 million will be used for other projects under deliberation.

Transparency and Accountability

As a general rule, projects under the Modernization Program are implemented through competitive public bidding in accordance with the Government Procurement Reform Act of 2003 (RA 9184), its IRR A, as well as other applicable laws, rules and regulations. However, alternative modes of procurement is undertaken in exceptional circumstances, but still in strict compliance with RA 9184.

Different Bids and Awards Committees are tasked to undertake the procurement of various projects depending on the budget for the project. Following EO 235, series of 2003 (Streamlining the Rules and Procedures of Defense Contracts) and EO 240, series of 2003 (Mandating the Undersecretary for Internal Control, DND to Institutionalize Reforms in the Procurement and Fund Disbursement Systems in the DND/AFP), the procurement process for projects below Php 50 million are undertaken by the AFP Bids and Awards Committees (AFP BAC) with the AFP Chief of Staff, approving the contracts. On the other hand, a single DND Bids and Awards Committee is responsible in the procurement of projects with a budget of Php 50 million and above, with contracts approved by the SND.



Past Years in Review

The initial years of the program's implementation involved establishing suitable mechanisms and systems, with functional and organizational structures being established across the Department of National Defense (DND) and the Armed Forces. The implementation of the program, however, became difficult when the Philippines was hit by the Asian Financial Crisis in 1997. This prompted the AFP to concentrate on the legal and economic issues concerning its implementation. The Secretary of National Defense ordered a review of the program to determine the affordability and sustainability of projects as well as compliance with laws, rules, regulations, and implementing guidelines.

Then in 2000, the conflict in Mindanao forced the AFP to shift its priorities from external defense to internal security. Equipment for internal security operations were front-loaded among the 112 projects originally identified in JR 28. In the same period, Department Circular 01 or the Implementing Guidelines, Rules and Regulations (IGRR) of the AFP Modernization Program was approved and the standard operating procedures on significant aspects of the program were revised accordingly.

The succeeding years of the program remained saddled in difficulties due to the tedious procurement process and complex acquisition structure, which considerably slowed down the procurement of the different projects under the program. In 2003, the policy environment began to favor the AFP. Republic Act 9184 or the Government Procurement Reform Act was signed into law. The law prescribed a general procurement procedure for all government agencies along with the use of standard forms for procurement. An Implementing Rules and Regulations Part A (IRR-A) was likewise signed in the same year.

A year later, a new DND planning system came into effect. The Multi-Year Capability Planning System (MYCAPS) and the Philippine Defense Reform Program refined the AFPMP's implementation. It was also in 2004 that President Gloria Macapagal-Arroyo approved the Integrated Priority Project List (IPPL). The IPPL later served as the basis for determining the projects to be prioritized in an 18-year Capability Upgrade Program, which aims to make all defense assets mission capable for any defense mission. Equipment deliveries for 2004 included the Armored Recovery Vehicle, HF/SSB Manpack Transceiver, Diving Suits, Dental Equipment and the upgrade of BN Islander Aircraft.

Eight projects were completed in 2005. First, the Philippine Air Force (PAF) acquired UH-1H helicopters for the Philippine Air Force and the Philippine Navy (PN) procured generators for its Jacinto-class patrol vessels. The GHQ set-up an E-service portal and a Base Communication Network and acquired medical equipment.

Three programs were pursued jointly and completed by the Philippine Army and the Philippine Marines, which include the deliveries of Force Protection Equipment, Phase 2 of the HF/SSB Manpack Radio and Phase 1 of VHF/FM Handheld Radio projects.

In the same year, the Medium Term Capability Upgrade Program was initiated. The CUP aims to restore at least 70% of the critical capabilities of the AFP needed in conducting ISO, specifically (1) Command, Control, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR), (2) mobility, (3) firepower, and (4) combat support

Five major projects were completed during the following year. These include the Service Life Extension Program (SLEP) for the Air Force's OV-10, an F-27-500 Acquisition, upgrade of the Navy's JCPV weapons systems, shipment of two Patrol Killer Medium from South Korea and Medical Equipment for GHQ (Lots 3 and 5).



Accomplishments for 2007

Force Restructuring and Organizational Development

his component of the AFP Modernization Program involves the development of a "self-reliant and credible strategic defense force" focusing on the reconfiguration and reorientation of the AFP structure to effectively address both external and internal security challenges. Priority is given to shaping the AFP into an organization that maximizes professionalism. In addition, this component also involves streamlining the AFP, necessitating the abolition and merger of certain offices and units. Expectedly, the AFP's focus on ISO played a huge role in reshaping the armed forces as an institution.

GHQ/AFPWSSUs

Cognizant of the role of development in addressing internal security threats, the AFP has recently activated the National Development Support Command on 30 October 2007. The NDSC acts as the coordinating unit to ensure the prompt completion of development projects, across the Philippines, specifically in conflict-affected areas. It aims to implement and promote integrated socio-economic development focusing on identified underdeveloped and depressed areas in the countryside under the Kalayaan Barangays Program of the national government.

Philippine Army

Major studies were undertaken concerning the administrative and operational responsiveness of several Army units. First was a study to streamline its field artillery (FA) units. It was observed that the PA has a structure which is costly to maintain and is ineffective in ensuring career development for FA personnel. Second was a proposal to separate Army engineer units involved in base development from units focusing on civil works. Finally, pilot testing is underway to assess the activation of a provisional CMO Battalion. This battalion is intended to enhance the Army's CMO capability and complement division and brigadelevel CMO initiatives. Currently, the elements of the CMO Battalion (Provisional) are deployed with the PA's Luzon-based Infantry Divisions for the 6-month pilot test.

Philippine Air Force

Aiming to achieve a well-balanced, efficient and more responsive organization for ISO, the Philippine Air Force reactivated the 1st, 2nd and 3rd Air Divisions (ADs). The Air Division is a geographical concept responsible in integrating all air operations efforts in the three main island groups (Luzon, Visayas and Mindanao) to better support the security requirements of the AFP. Effective 01 August 2007, the 1st, 2nd and 3rd ADs were stationed in Cavite Air Base, Mactan Benito Ebuen Air Base and Edwin Andrews Air Base, respectively. The following month, on 01 October 2007, the PAF Personnel Management Center (PAFPMC) was organized to provide effective and efficient personnel management in support of the PAF's mission. It is categorized as an Air Force-wide service support unit.

Philippine Navy

For 2007, the Philippine Navy was able to accomplish three significant projects involving the activation, commission and streamlining of several assets. First, the newly acquired Robinsons R22 Beta II Trainer Helicopter was commissioned on 09 October 2007 to the Naval Air Group. A month later the BRP Paoay (AW-34) was deactivated and decommissioned. Lastly, on 04 December 2007, two (2) Boston Whalers and seven (7) utility boats, which were transferred through the US Presidential Draw Down Program, were activated.



Capability, Materiel and Technology Development

Capability, Materiel and Technology Development is the core component of the AFP Modernization Program, which involves the acquisition and upgrade of appropriate weapon systems and military technology. During the late 1990's, both Republic Act 8551, which returned the conduct of ISO to the AFP from the Philippine National Police and the resurgence of violence in Mindanao prompted the AFP to shift its priority to developing capabilities for addressing internal security challenges. Consequently, the AFP had to re-evaluate and reprioritize the original list of equipment meant to develop the AFP's external defense capability. As a result, systems concerned with the ability of the military to "move, shoot and communicate" were frontloaded.

Completed Projects

For 2007, three major projects were completed, all of which constitute an improvement in the conduct of ground combat operations. These are the PAF's EDA UH-1H Refurbishment, the Light Armor Systems Upgrade Project for the Philippine Marines' V-150 armored personnel carriers and the Philippine Army's Night Fighting System.

| Project Name | Mode of Procurement | Number of Bidders | Winning Bidder | Project Cost (in Million Pesos) | Contract Price (in Million Pesos) | Delivery Date | End-User |
|---|--|----------------------|---|---------------------------------------|-----------------------------------|------------------|-------------------------|
| EDA UH-1H Refurbishment (6 Units) | Government to Government (EDA/FMS) | - | N/A | 472.700 | 442.700 | 09 May 2007 | Philippine Air Force |
| Light Armor Systems Upgrade Project (12 Units) | Public Bidding | 7 | FNSS Savunma Sistemleri AS (Turkey) | 178.000 | 170.821 | 14 July 2007 | Philippine Marines |
| Night Fighting System Phase 1 (Lot 2) IAD- 1440 units LZD-181 units | Public Bidding | 1 | Night Vision System, Inc. (USA) | 63.750 | 55.376 | 07 Sept 2007 | Philippine Army |

government through the US

procurement project Excess Defense Articles (EDA)

government-to-

acquisition

was

The

1H

of 6 refurbished UH-

helicopters

Excess Defense Articles (EDA)

Program. Although coursed through the EDA program, funds from the Modernization Program were used. The Letter of Acceptance was signed by the Secretary of National Defense (SND) as early as 14 December 2003. Five of the helicopters were delivered on 15 August 2006. The sixth and final UH-1H helicopter was delivered on 09 May 2007 along with an additional 10 UH-1H pledged by the US President George W. Bush.

On 05 November 2003, 4 bidders took part in the public bidding for the V-150 Light Armor System Upgrade (LARSU) Project. Cadillac Gage Textron,

Inc. based in the US emerged as the bid winner. The LARSU project involves the mobility upgrade of 12 V-150 armored vehicles by re-fitting the power train with in-line V6 engines. The Chief of Staff, AFP (CSAFP) signed the contract on 01 June 2004 and the SND approved it on 22 August 2004. The refitting was completed on 14 July 2007.

The Night Fighting System (NFS)
Acquisition Project combined 2 previous
projects, the Night Vision Goggles (NVG) and
Night Vision Weapons Scope (NVWS). Public bidding

for the project was opened on 01 September 2005 with the participation of 4 bidders. However, all the bidders were declared ineligible. Another public bidding was subsequently opened on 16 November 2005, with Hanwa Corporation of

Korea and NIVISys of the US being declared as having the lowest calculated bids for Lots 1 and 2, respectively. Post-qualification evaluation later revealed that the winning bidder for Lot 1 failed to meet the set of technical requirements. Lot 2 on the other hand was issued a Notice of Award by the SND on 24 November 2006. The shipment of 1,440 units of Infrared Aiming Device and 181 units of Laser Zeroing Device was completed on 07 September 2007.



Projects under Implementation

| Project Name | Mode of Procurement | Number of Bidders | Winning Bidder | Project Cost (in Million Pesos) | Contract Price (in Million Pesos) | End-User |
|--|---------------------------|----------------------|--|---------------------------------------|--|---|
| Integrated Radio Trunking System | Public Bidding | 4 | Highlander Philippines | 60.000 | 57.190 | GHQ |
| Mobile Communication Network | Negotiated Procurement | 4 | Triton Communication Corp. | 46.500 | 44.640 | GHQ |
| SAW Phase 2 (6540 units) | Public Bidding | 2 | Joint Venture of Hanwah Corporation and S&T Daewoo (South Korea) | 1,727.438 | 1,210.726 | Philippine Air Force Philippine Army |
| Truck, 1 ¼ ton Troop Carrier (651 units) | Public Bidding | 11 | Joint Venture of Hyundai Corporation/ KIA Motors (South Korea) | 1,531.760 | 1,421.855 | Philippine Army |
| JCPV Marine Engineering Upgrade Phase 2 (3 ships) | Public Bidding | 5 | FF Marine Corporation (Philippines) | 370.000 | 353.650 | Philippine Navy |
| PKM In-Country Upgrade (2) | Public Bidding | 7 | Propmech Corporation | 300.000 | 282.000 | Philippine Navy |
| BN Islander Upgrade Project | Public Bidding | 5 | Hawker Pacific (Australia) | 75.000 | 72.000 | Philippine Navy |
| Coast Watch System Upgrade Equipment Acquisition | Public Bidding | 6 | Joint Venture of Scan Marine and Interpacific Tech Ltd. | 60.000 | 53.600 | Philippine Navy |

The Integrated Radio Trunking System (IRTS) is a wireless communication system, which would complement and act as a back-up to the AFP's Fixed and Tactical Communication System using Global System for Mobile Communication (GSM) technology. Public bidding was opened on 25 June 2004. From the 9 prospective bidders, Highlander Philippines was declared as the winner. On 23 January 2006, the SND approved the contract and issued the Notice to Proceed. The project was delivered on 31 December 2007 and will undergo the Technical Inspection and Acceptance procedure prior to its completion.



The Mobile Communication Network project aims to provide a seamless, secure and cost-effective wireless communications system between end-users' mobile units and base communications stations. It would allow C4ISR support to operations of major AFP units. Notice of Award was issued to Triton Communication on 12 May 2006 after the process of negotiated procurement. The complete delivery of the project is expected to be completed on the first quarter of 2008

The Squad Automatic Weapon (SAW) Phase 2 project is motivated by the Philippine Army's thrust to enhance the firepower of its infantry squads. Chambered to fire 5.56mm ammunition, the lighter SAWs provide small units a weapon comparable to the currently issued M60 machinegun without sacrificing mobility. The SND approved the technical specifications on 07 January 2007 and was followed by the opening of a public bidding on 30 March 2007. Between FN Herstal of Belgium and the joint venture of Hanwha and Daewoo from South

Korea, the latter was declared as the Lowest Calculated Responsive Bid (LCRB). The SND issued the Notice of Award on 15 June 2007 with the Letter of Credit opened on 21 November 2007. The first 700 units arrived on 03 December 2007.



The Jacintoclass Patrol Vessel (JCPV) Engineering Upgrade involves the refurbishment, repair and upgrade of 3 JCPV vessels of the Philippine Navy. Bidding was opened to the public on 23 June 2005. On three separate occasions, the bid was declared as having failed due to the inability of the bidders to meet minimum technical



specifications. A rebidding conducted on 07 October 2007 involved only one eligible bidder, FF Marine Corporation. The contract was signed by the SND on 21 December 2006. By the end of 2007, it was reported that the upgrade of PS-36 was at 32.6% and PS-35 at 23%.



Under the Patrol Killer Medium (PKM)-RP Project, two PKMs transferred by South Korea will be upgraded. Originally planned to be done in South Korea, it was decided that the project be implemented in the Philippines due to the absence of a Korean company to undertake the project in Korea. After the public biding, a Notice of Award was issued to the successful bidder, Propmech Corporation.

However, the upgrade of the two ships have yet to be completed. An endurance run also revealed that the maximum speed requirement remains unattained.

The BN Islander Upgrade Project involves the refurbishment, repair and upgrade of 3 units Britten-Norman Islander fixed-wing aircraft of the Philippine Navy's Naval Air Group. The DND-Bids and Awards Committee (BAC) recommended the termination of negotiations on 01 June 2005 and revision of specifications. It was also decided that only 2 aircraft will be upgraded due to resource limitations. Bidding was opened to the public on 01 March 2006, with Hawker Pacific emerging as the winner. By the end of 2007, it was reported that one aircraft was awaiting the installation of its radar system while the installation to the other aircraft was 90% completed. Upgrade of the third aircraft was deferred for a later date.

A two-stage bidding process was utilized for the Coast Watch System Upgrade. It involved the acquisition of vital maritime surveillance equipment with the joint venture of Scan Marine and Interpacific Tech Limited, to which the contract was awarded. On 21 February 2005, the SND issued the NOA and on 07 July 2006, the NTP was issued. To date, the amendments to the contract are being processed by the AFP Procurement Service.

Projects under Various Stages of the Procurement Process

By the end of 2007, there were 50 other projects under various stages of the procurement process. Eleven of these projects already have their NOAs issued after the successful conclusion of public bidding. These are the (1) Basic Trainer Aircraft, (2) Assault Watercraft, (3) Global Positioning System, (4) Explosives Ordnance Device (EOD) Bomb Suit, (5) APC M113 Acquisition and Upgrade, (6) Binocular, (7) Digital Camera, (8) Radio Broadcast System, (9) Satellite Communication, (10) Fixed Communication System and (11) VHF/UHF Repeater.

| Project Name | Mode of Procurement | Number of Bidders | Winning Bidder | Project Cost (in Million Pesos) | Contract Price (in Million Pesos) | End-User |
|--|------------------------|----------------------|--|---------------------------------------|-----------------------------------|---|
| Basic Trainer Aircraft (18 Units) | Public Bidding | 1 | Joint Venture of Alenia Aermacchi (Italy) and Asian Aerospace (Philipoines) | 622.590 | 621.671 | Philippine Air Force |
| Assault Watercraft (20 units) | Public Bidding | 3 | Joint Venture of Filipinas Fabricator Sales Inc./ Colorado Shipyard (Philippines) | 70.590 | 65.049 | Philippine Army |
| Global Positioning System (3,750 units) | Public Bidding | 5 | Garmin Corporation (Taiwan) | 103.550 | 99.484 | Philippine Army |
| EOD Bomb Suit (28 Units) | Public Bidding | 6 | Med-Eng Systems Inc. (Canada) | 82.350 | 41.686 | Philippine Army |
| APC M113 Acquisition/ Upgrade (6 units) | Public Bidding | 3 | SISTEMLERI A.S. (Turkey) | 150.000 | 139.142 | Philippine Army |
| Binocular (1,550 Units) | Public Bidding | 4 | Willi Hahn Enterprises (Philippines) | 27.350 | 23.242 | Philippine Army, Philippine Marines |
| Digital Camera (84 Units) | Public Bidding | 7 | Joint Venture of Values System Philippines. Inc. and Canon Marketing Philippines | 8.890 | 8.777 | Philippine Army |
| Radio Broadcast System (32 Units) | Public Bidding | 2 | Joint Venture of Kaissar Electronics and Access International | 13.180 | 12.577 | Philippine Army |
| Satellite Communication | Public Bidding | 1 | BayanTel Inc. | 37.000 | 29.885 | GHQ |
| Fixed Communication System | Public Bidding | 1 | Joint Venture of Ceragon Networks (Israel) and Datarail Corp. (Philippines) | 446.000 | 338.899 | GHQ |
| VHF/UHF Repeater (9 units VHF/ 20 units UHF) | Public Bidding | 2 | MS Eleven Int'l. Corp. | 4.820 | 4.547 | Philippine Air Force, GHQ |

Fast-tracking the training and evaluation of prospective military pilots is the intent of the acquisition of 18 brand new Basic Trainer Aircraft with an Integrated Logistics Support (ILS) package. Public bidding was initiated on 27 July 2007 and was won by Alenia Aermacchi S.P.A. of Italy, which offered SF-260 aircraft. Post-qualification tests were conducted from 23-29 September 2007 in Milan, Italy. The Notice of Award was subsequently issued on 06 November 2007.

The Assault Watercraft project was conceptualized as a means to enhance the capability of the Philippine Army to conduct riverine and coastal operations. Bid opening was conducted on 28 February 2007, with three bidders participating. Filipinas



Fabricator Sales Inc. and Colorado Shipyard joint venture was declared as the Lowest Calculated Bidder (LCB). Post-qualification involved the conduct of sea trials from 07-11 May 2007 in Cebu City. The SND issued the NOA on 21 June 2007 and is now currently waiting contract approval from the CSAFP.

The Global Positioning System project started with the approval of technical specifications on 05 January 2007. Public bidding on the project was opened on 06 March 2007 with five participants buying bid documents. However, failure of the initial bid necessitated the conduct of a second bid with Garmin Corporation of Taiwan being declared the Single Calculated Bidder. In-country testing was conducted on 04 July 2007 in Fort Magsaysay, Nueva Ecija. After post-qualification trials in Taipei, the SND issued the NOA on 21 June 2007.

Disarming explosive devices utilized by various threat groups puts Army EOD personnel in high risk situations. Thus, the EOD Bomb Suit project is part of efforts to provide the best protection to these personnel. On 28 March 2007, public bidding for the project was opened, with Med-Eng Systems Inc. of Canada being declared as the Single Calculated Bidder. The successful conduct of the post-qualification process led to the issuance of NOA on 06 September 2007.

Improving the conduct of mechanized infantry operations is the objective of the APC M113 Acquisition and Upgrade Project. Bidding was opened to the public on 05 March 2007. However, the bid failed as the lone proponent, FNSS of Turkey failed to meet eligibility requirements. A second bid was scheduled, with 6 bidders buying bid documents and with FNSS Savunma Sistemleri subsequently declared as the Single Calculated Bidder. The NOA was issued on 21 August 2007. The project is currently in its contracting stage, which entails the preparation of required documents necessary to finalize the procurement process.

Procurement of basic individual equipment is also a priority. On 16 May 2007, public bidding was opened for the procurement of 1,550 units of binoculars. Three prospective bidders bought bid documents and led to the declaration of Willi Hahn Enterprises as the LCB. Post-qualification was conducted from 14 to 16 June 2007. The NOA was issued on 14 September 2007.

The Digital Camera project commenced with the approval of technical specifications and Terms of Reference by the Philippine Army Capability Development Board (PACDB) on 17 January 2007 with bidding opened to the public on 13 June 2007. The first bidding with 7 participants was declared a failed bid, which led to another round of bidding. The joint venture of Values System Philippines Inc. and Canon Marketing Philippines was declared as the Single Calculated Bidder. This was followed by the issuance of the NOA by the CSAFP on 29 October 2007.

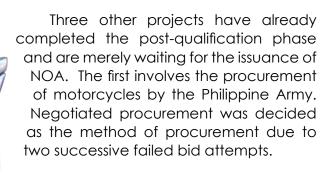
Efforts to win the hearts and minds of the populace through civil-military operations are likely to be enhanced with the acquisition of 32 units of Radio Broadcast System. The RBS is a critical tool in enhancing the capability of units in information dissemination and in undertaking educational campaigns. The NOA was issued on 16 October 2007

The AFP Satellite Communication project is meant to enhance and replace the existing AFP VSAT network, providing cost-effective voice and data connectivity to remote AFP installations. Bidding was opened to the public on 17 January 2006 with BayanTel Inc. as the lone bidder. Notice of Award was signed by the CSAFP on 19 September 2006. As of year-end 2007, components of the system have been installed, allowing the system to operate partially.

Enhancement of the AFP's command and control is the goal of the General Headquarters Fixed Communication System. It is composed of the Visayas-Bicol Communication System and the Mindanao Microwave Communications System, which will provide voice, data and video communications linkages among military bases nationwide. The NOA was issued on 22 May 2007.

Existing use of VHF/UHF handheld and base radios will be enhanced with the acquisition of 29 VHF/UHF Repeater systems for the PAF and GHQ. Aside from linking base and mobile radios, the repeaters would also allow for telephone integration between the Unified Commands and the General Headquarters (GHQ). It was after the conduct of the second round of public bidding held on 25 June 2007 that the MS Eleven Int'l. Corp. was declared the winner and was subsequently declared the Lowest Calculated Responsive Bid. The CSAFP then issued the Notice of Award on 14 September 2007.

| Project Name | Mode of Procurement | Number of Bidders | Winning Bidder | Project Cost (in Million Pesos) | Contract Price (in Million Pesos) | End-User |
|---|---------------------------|----------------------|---------------------------------------|---------------------------------------|--|-----------------------|
| Motorcycle | Negotiated Procurement | N/A | Kawasaki Motor Phil. Corp. | 17.330 | 17.330 | Philippine Army |
| 5W Personal Role Radio Acquisition (3,684 Units) | Public Bidding | 2 | N/A | 520.090 | 302.710 | Philippine Marines |
| Night Fighting System Acquisition Lot 1 Lot 2 (Thermal Imager) Lot 4 (IR Beacon) | Public Bidding | 2 | Night Vision System, Inc. (USA) | 325.380 | 262.061 | Philippine Marines |



On the other hand, the Philippine Marines' 5W Personal Role Radio Acquisition Project was undertaken through public bidding and is waiting for the DND to issue the NOA. Third is the Night Fighting System Acquisition project of the Philippine Marines, which involves deliveries of thermal imagers and infrared beacons

Six additional projects on the other hand have yet to complete the post-qualification process. Three of these projects, namely: the (1) Night Fighting System 2 Project, (2) UHF Communication System and (3) Light Support Watercraft will benefit Philippine Army units. The remaining three projects, which are the (1) Multi-Purpose Attack Craft, (2) Rigid Hull Inflatable Boat and (3) Mortar Acquisition is expected to boost the mobility of the Philippine Navy's maritime units and the firepower of its ground forces, the Marines.

| Project Name | Mode of Procurement | Number of Bidders | Project Cost (in Million Pesos) | Contract Price (in Million Pesos) | End-User |
|--|------------------------|----------------------|---------------------------------------|-----------------------------------|-----------------------|
| Night Fighting System 2 Night Vision Monocular (2,531 units) Infrared Aiming Device (911 units) Laser Zeroing Device (44 units) | Public Bidding | 3 | 617.125 | 372.236 | Philippine Army |
| UHF Commo System Lot 1 (750 Units) Lot 2 (92 Units) | Public Bidding | 2 | 113.294 | 111.047 | Philippine Army |
| Light Support Watercraft | Public Bidding | 4 | 38.830 | 35.300 | Philippine Army |
| Multi-Purpose Attack Craft (2 units) | Public Bidding | 2 | 151.500 | 151.500 | Philippine Navy |
| Rigid Hull Inflatable Boats (2 units) | Public Bidding | 3 | 38.400 | 28.350 | Philippine Navy |
| Mortar Acquisition 81 mm (29 units) 60 mm (55 units) | Public Bidding | 1 | 73.070 | 71.850 | Philippine Marines |

Another eight projects are in the initial stages of public bidding. After three failed bids, the acquisition of Aerial Surveillance Camera for the PAF is up for another round of bidding. The Army's AV Firepower Upgrade and the Air Force's Radio Electrical and Instrument and Precision Measurement Equipment Laboratory (REI/PMEL) Enhancement projects conducted Pre-Bid Conferences on 18 and 19 December 2007 respectively (third pre-bid conference for the REI/PMEL project). On the other hand, the acquisition of 18 units of Cessna T-41 Primary Trainer Aircraft has already started with the pre-bid conference to be scheduled in the future. Technical working groups and project management teams of four other projects which are the Landing Craft Utility, Patrol Killer Medium-ROK Upgrade, RF Signal Emission Test Instrument and Compass are in the process of having their respective bid documents prepared.

Several projects involve the procurement of equipment with very distinct specifications. Thus, in five projects, the AFP resorted to either Limited Source Bidding or Direct Contracting as the appropriate procurement method. These include the Command Management Network System, Audio Video Equipment, Portable Radio Receiver, RF Signal Emissions Test. and the Database and Information System Management project as shown in the next table.

| Project Name | Mode of Procurement | Project Cost | End-User |
|--|------------------------|--------------|---|
| Command Management Network System (3 units) | Limited Source Bidding | 264.71 | Philippine Army |
| Audio/Video Equipment (370 Units) | Limited Source Bidding | 2.72 | Philippine Army |
| Portable Radio Receiver (312 Units) | Limited Source Bidding | 110.12 | Philippine Navy |
| RF Signal Emission Test | Limited Source Bidding | 210.82 | Philippine Air Force, Philippine Army, Philippine Marines |
| Database and Information System Management (1 unit) | Direct Contracting | 7.63 | Philippine Army |

Government-to-government transactions were also utilized in refurbishing existing air assets and acquiring communications equipment. The MD-520MG Upgrade project refers to the delivery of 20 refurbished/enhanced engines to improve the mobility of PAF's MD-520 attack helicopters. On 07 January 2007, the DND BAC cancelled the bidding process and subsequently recommended Negotiated Procurement through FMS based on the guidance of President Gloria Macapagal-Arroyo. The Office of the Deputy Chief of Staff for Logistics then signed the Letter of Offer and Acceptance on 17 December 2007.

Next, DND BAC proposed the procurement of 5W VHF Handheld and 20W HF/SSB Manpack Radios through the FMS program of the US as it would generate savings through volume discounts (10% on the manpack radios and 22% on the handheld radios). The transaction with Harris Corporation was approved subject to the provisions of RA 9184 with funds transferred to the US Treasury Department in order for the implementation of the project to commence.

| Project Name | Mode of Procurement | Selected Supplier | Contract Price (in million Pesos) | End User |
|--------------------------------|------------------------------------|--------------------------|--------------------------------------|-------------------------|
| MD-520MG Upgrade (20 Units) | Negotiated Procurement (FMS) | N/A | 240.00 | Philippine Air Force |
| 5W VHF Handheld | FMS | Harris Corporation (USA) | 1,645.08 | Philippine Army |
| 20W HF/SSB Manpack | FMS | Harris Corporation (USA) | 3,111.64 | Philippine Army |

Eight projects are under various stages of COR/PPMP Formulation and Approval Process. These include 3 Philippine Army projects which are the C4I/GIS, CMO Audio Video System and the Armored Recovery Vehicle Communication System. In the pipeline for the Philippine Air Force are four projects namely, the acquisition of 8 brand new Combat Utility helicopters, 8 brand new Attack Helicopters, Night Fighting System for Aircrew and M3P Cal. 50 Heavy Machine Gun. The Philippine Navy for its part has its SIGINT Equipment Acquisition Project for the Naval Intelligence and Security Force.

One project on the other hand, had its second phase terminated after partial delivery of several units. Bidding for the Hydrographic Equipment of the Philippine Navy consisting of survey equipment (Lot 1) and data processors was opened to the public on 22 June 2004. Out of the seven proponents, De Leon Import and Export and ACW COMPUADD-Philippines won Lots 1 and 2, respectively. Contract for Lot 1 was approved on 20 December 2004 and Lot 2 on 07 January 2005. Survey equipment was received by the Navy on 07 April 2005. However, the contract for Lot 2 was terminated as the joint venture led by COMPUADD failed to deliver the required items. The amount in question will be de-obligated and possibly utilized for other projects.

Another two projects were post-disqualified due to inability of proponents to meet technical requirements during post-qualification. These details are reflected in the table below.

| Project Name | Mode of Procurement | Number of Bidders | Winning Bidder | Project Cost (in Million Pesos) | Contract Price (in Million Pesos) | End-User |
|---|------------------------|----------------------|---------------------------------------|---------------------------------------|-----------------------------------|-----------------------|
| 40mm Grenade Launcher | Public Bidding | 3 | Floro Corporation (Philippines) | 160.060 | 159.000 | Philippine Army |
| Night Fighting System Acquisition Lot 1 (Night Vision Goggles & Weapon Scope) | Public Bidding | 2 | Night Vision System, Inc. (USA) | N/A | 236.713 | Philippine Marines |

In addition, several projects experienced delays either due to failed bidding or problems encountered before the post-qualification phase. Two projects which involved the procurement of 76mm Oto Melara ammunition and Night Fighting System Acquisition Lot 3 (Motion Sensor) were declared as failed bids. A second round of public bidding is yet to be scheduled. On the other hand, the Php 1.2 billion Night Capable Attack Helicopter project was shelved due to the discovery of anomalies in the bidding process, which was prompted by protests of one losing bidder (Swidnik Inc. of Poland).

Bases and Support Systems Development

Maximization of the defense facilities is the intent of the Bases and Support Systems Development component of the program. This entails the enhancement of real estate facilities, upgrade of camps through new construction and the refurbishment of existing structures and facilities. It is a tedious process as it involves securing AFP real estate properties, preparation of Master Development Plans and Detailed Architectural and Engineering Plans, going through the procurement process and finally, the construction of the project. By the end of 2007, only seventy-seven (77) out of 240 projects have been completed. Another thirty-seven (37) are currently being undertaken. Majority of the BSSD projects numbering to 126 have yet to be started.

Overall Status of BSSD Projects

| Unit | Total | Completed Projects | On-going Projects | Not Yet Started |
|----------------------|------------|--------------------|-------------------|--------------------|
| GHQ/AFPWSSUs | 33 | 10 | 2 | 21 |
| Philippine Army | 71 | 33 | 8 | 30 |
| Philippine Air Force | 66 | 13 | 5 | 48 |
| Philippine Navy | 70 | 21 | 22 | 27 |
| Total | 240 (100%) | 77 (32%) | 37 (15%) | 126 (53%) |

The sudden increase in the number of projects presented above in the BSSD component can be attributed to the release of PHP 1 billion for AFP housing projects. These additional funds would be used in the construction of 88 housing projects. However, none of the projects have been completed by the end of 2007. Only 19 projects are ongoing, all of which are for Philippine Navy personnel.

| Unit | Total | Completed Projects | On-going Projects | Not Yet Started |
|----------------------|-----------|--------------------|-------------------|--------------------|
| GHQ/AFPW SSUs | 20 | 0 | 0 | 20 |
| Philippine Army | 30 | 0 | 0 | 30 |
| Philippine Air Force | 19 | 0 | 0 | 19 |
| Philippine Navy | 19 | 0 | 19 | 0 |
| Total | 88 (100%) | 0 (0%) | 19 (22%) | 69 (78%) |

GHQ/AFPWSSUs

For the General Headquarters (GHQ), the titling and registration of Camp General Emilio Aguinaldo in Quezon City and the Philippine Military Academy (PMA) at Fort Del Pilar in Baguio City are nearly complete with the submission of all pertinent documents to the appropriate authorities. As for projects funded by the CY 2006 housing fund releases, the bidding for the 20 GHQ/AFPWSSUs projects was scheduled by the AFPBAC on 20 December 2007.

The bidding involves construction of 10-door apartments, 16-door condominiums, single detached units and transient facilities for officers and enlisted personnel. The housing projects will be built at AFP GHQ (1 unit), PMA (1 unit), Presidential Security Group (1 unit) and the headquarters of the various unified commands (2 for NOLCOM, 3 for SOLCOM, 1 for CENTCOM, 2 for WESCOM, 3 for EASTMINCOM and 1 for WESTMINCOM). Enlisted personnel will also be housed in a 16-door condominium planned for the AFP Medical Center. Finally, 2 single detached units for officers will also be constructed at the Western Command. However, bidding was postponed until the Office of the Chief Engineer has the funds for the reproduction of plans.

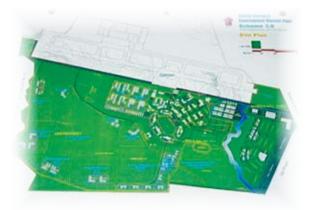
Philippine Air Force

The Philippine Air Force has reported progress in its thrust to modernize its bases and support facilities. Notices to Proceed were issued to 2 projects. These include a Deep well with a submersible pump inside Villamor Air Base. On the other hand, 5 projects are ongoing, most of which involve the construction of either enlisted personnel (3 units) or officers (4 units) housing. Supplemental Procurement Plans (SPPs) were also approved for two projects (i.e. relocation survey of 9 Air Force bases and the formulation of Master Development Plans. The CY 2006 housing fund on the other hand involves the construction of 4 units of 16-door condominiums for its officers and enlisted personnel in Villamor Air Base. Housing projects will also be constructed in various airbases (Fernando, Basa, Benito Ebuen, Edwin Andrews and Antonio Bautista).

Philippine Army

BSSD-related activities by the Philippine Army were marked by worthy accomplishments, with 80.49% of the projects funded by CY 2002 and CY 2003 releases completed. The remaining activities are boundary surveys of Camps Capinpin, Aquino and Lapu-lapu, which are now



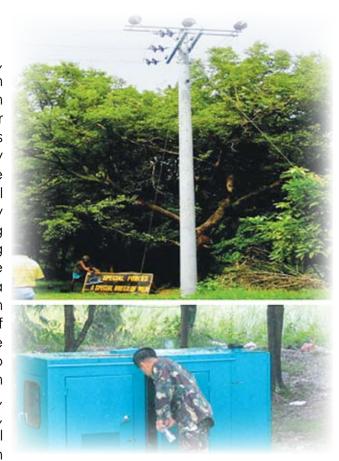




with the Department of Environment and Natural Resources (DENR) for evaluation. The CENTCOM's boundary survey is nearly finished with the survey awaiting DENR approval. Formulation of the Conceptual Master Plan for Camp Lapu-lapu was also put on hold due to proposals to relocate CENTCOM's headquarters. On the other hand, CY 2006 housing projects for the Philippine Army are still in its initial stages. The SPP for the 30 projects was approved on 28 December 2007. These include 10 units of 10-door apartments. Currently, the bidding documents are in the process of being formulated.

Philippine Navy

For the Philippine Navy, significant gains were also made in improving facilities and structures in both naval and marine bases. Repair and rehabilitation of existing structures were also undertaken. Recently completed are Phase 1 of the rehabilitation of water and electrical distribution systems and the supply depot warehouse in Naval Operating Base Ulugan; Phase 1 of concreting the road network of Marine Base Ternate; and the construction of a hydrographic building in Fort San Felipe. The 19 Housing projects of the PN are also being started, in the following areas, namely: Bonifacio Naval Station, Naval Forces Northern Luzon, Naval Forces Southern Luzon, Naval Forces Western Mindanao, Marine Barracks Zamboanga, Naval Forces West and Naval Forces Eastern Mindanao.





Human Resource Development

The Human Resource Development component of the AFP Modernization Program involves the recruitment, training, employment and management of AFP officers, enlisted men and civilian employees. This component aims to make the AFP more capable of performing its traditional role in national defense and other non-traditional role in national defense like environment protection and disaster preparedness and management by focusing on the conduct of appropriate training and education programs.

GHQ/AFPWSSUs

For the 2007, GHQ and AFPWSSUs continued to perform its mandated functions to pursue human resource development. These includes activities related to career development, personnel procurement, reserve force development and work life quality system enhancement. Among the initiatives pursued by GHQ and AFPWSSUs are those involving the provision of immediate and ample medical care to soldiers in harms way. Linkages with professional groups such as the Philippine Medical Association and the Philippine Hospital Association were strengthened. Also noteworthy is the construction of an advanced trauma facility in Jolo, Sulu.

Philippine Army

For this year, the Philippine Army's human resource development program focused on three projects, the Automated Fire Direction Center System (AFDCS) and Phases 2 and 3 of the Personnel Information System (PIS). The AFDCS underwent project evaluation from 7-12 May 2007 along with the tentative submission of its PCR. As for the PIS, Phase 2 is ongoing in its training and deployment phase regarding both hardware and software components. Phase 3 of the project is continuing its scanning of records after the completed deployment of the necessary hardware and software.

Philippine Air Force

Significant events for the PAF's HRD efforts involved four projects. First, Phase 1 of the PAF Personnel Management Information System was completed, which allows for the seamless integration, automation and monitoring of personnel. The PAF has continued sending its personnel to schooling in Aerosystem Engineering to improve the conduct of Air Base Planning and expedite the crafting of Master Development Plans in fulfillment of the Modernization Program's BSSD component. The Air Force has revalidated funding for Air Weapons Controller Training, which was delayed due to the prioritization of ISO. Lastly, the completed PAF Training Needs Analysis is now being utilized to determine the education and training requirements of the PAF.

Philippine Navy

Through the efforts of the Naval Modernization Office, the Navy successfully conducted the Project Management Seminar, which was held in April 2007. Its objective was to train existing and future members of Project Management Teams of the Philippine Fleet and the Philippine Marine Corp in skills needed from project conceptualization to completion. Naval Standard Operating Procedures Nos. 1 and 2 were also promulgated by the NMO. Naval SOP No.1 prescribes the duties and responsibilities of each member of the PMT. On the other hand, Naval SOP No.2 deals with the responsibilities of commanders and end-users regarding acquisition projects.

The Navy's Sub-Committee on Human Resource Development acting on a proposal of the NMO, has also started a review regarding the skills rating for personnel. This is an effort to come up with objective parameters to measure the capabilities of Navy personnel and determine whether new PN skill ratings need to be developed to ensure proper and efficient operation of new assets and equipment acquired by the Navy



Doctrines Development

The Doctrines Development component involves developing, validating and modifying doctrines so that they can serve as the foundations for the "development, employment and deployment" of the Armed Forces of the Philippines.

As of 31 December 2007, a total of 172 AFP doctrine manuals are at various levels of development as shown in the table below. There were a total of 9 manuals published with an additional 17 promulgated by the CSAFP. Twelve manuals are waiting the CSAFP's promulgation after being granted approval and interim publication by the Major Services. Another 74 manuals are being reviewed and evaluated including those at the Major Services. Currently, 2 doctrines are undergoing revision and 58 are being formulated by their respective proponents.

| Stage | GHQ/ AFPWSSUs | PA | PAF | PN | Total |
|----------------------------------|------------------|----|-----|----|-------|
| Published | 9 | - | 0 | - | 9 |
| Promulgated | 2 | 15 | 0 | - | 17 |
| Approved and Published (Interim) | - | 6 | 4 | 2 | 12 |
| Review, Test and Evaluation | 11 | 13 | 18 | 32 | 74 |
| Formulation | 11 | 16 | 18 | 13 | 58 |
| Revision | - | 0 | 2 | 0 | 2 |
| Total | 33 | 50 | 42 | 47 | 172 |

GHQ/AFPWSSUs

For 2007, the CSAFP promulgated and published two manuals for the GHQ/AFPWSSUs. These are the AFP Rules of Engagement for Intelligence Operations and the Special Advocacy on Literacy/Livelihood and Advancement for Muslims (SALAAM) Manual. The General Headquarters also undertook repair and refurbishment of the AFP Doctrine Development Center Library.

Philippine Army

For 2007, the CSAFP promulgated 15 doctrine manuals for the Philippine Army, which includes the Army's Doctrine Development Strategy. The other manuals are concerned with combat (PA Light Armor Operations and Infantry Operations), combat support (PA Engineer Operations, PA Field Artillery Operations, PA Air Defense Artillery Operations) and combat service support (CSS) units (PA CSS Operations and CEIS).

Two manuals concerning healthcare (PA Hospital Infection Control Manual, PA Standard of Nursing Practice) are also being reviewed. The Philippine Army is also evaluating three manuals regarding force sustainment issues, which are the PA Logistics, Personnel Management and Comptrollership manuals. The Platoon Infantry Operations Manual is also undergoing test and evaluation at the different line units of the Army. Finally, the Army has also exerted efforts in crafting two manuals regarding force development, which are the PA Education and Training and Reserve Force Development manuals.



Philippine Air Force

While there have been no new approved doctrine manuals for the PAF for 2007, the review, testing and evaluation of 18 manuals continues to progress. These include 9 PAF doctrine manuals for (1) Communication, Electronics and Information Systems, (2) Air Operations, (3) Air Logistics, (4) Plans and Doctrine (5) Tactical Airlift Operations, (6) Rotary Wing Night Operations, (7) PAF Attack Helicopter Operations, (8) Personnel Management and (9) UH-1H Night Flying Operations. Also being evaluated are 3 operational doctrines (Combat Search and Rescue, Peace Support Operations and Internal Security Operations), 2 Minimum Equipment Lists (for C-130 and F-27 aircraft) and a doctrine concerning PAF Tactical Operation Groups 8, 10 and 11.

Philippine Navy

Funds used by the Philippine Navy for doctrines development came from the Navy's share from the sale of scraps of the Government Arsenal in CY 2000 and the proceeds of sale from some portions of Fort Bonifacio by the Bases Conversion and Development Authority.

Currently in the process of review are 21 manuals. These include the Philippine Navy's Basic Doctrine, Naval Comptrollership, Naval Civil-Military Operations, Naval Shipyard and Repair, Naval Reservist Administration, Naval WCEIS Maintenance Policy, PN Education and Training, Naval Air Operation, Maritime Search and Rescue, Project Management, Electronic Warfare, Maritime Patrol of EEZ, Integrated Logistics Support, SEAL Operations and EOD doctrine. Some of the doctrines were formulated specifically for the Philippine Marines, which include the Marine Special Operations, Light Armor Operations, Marine Field Artillery Operations and the Force Reconnaissance doctrines. The entry of automatic grenade launchers (AGL) into the Navy's Table of Organization and Equipment (TOE) also prompted the crafting and review of the AGL employment doctrine, and its corresponding technical manual.

Aside from the formulation of doctrines, the AFP has also instituted changes regarding the facilities and organizational arrangements needed for this modernization component. Revitalization of the AFP Doctrine Development Center is seen as a means to address the slow-paced doctrine development of GHQ and AFPWSSUs. This entails the separation of the AFP Doctrine Development Center from the AFP CGSC with the requisite publication of its general and specific functions. A comprehensive inventory of AFP doctrines was also concluded, where it was determined that there are a total of 398 manuals archived by the AFPDDC library.

Significant Developments

he accomplishments for 2007 were the fruit of previous years' efforts. Completed projects under 5 components were indispensable for the improved conduct of ISO in line with the 2010 goal of achieving the strategic defeat of the communist insurgency. Under the CMTD component, three completed projects have directly impacted on the individual warfighter. The CUP's focus on restoring the AFP's core capabilities has been substantially accomplished.

Relative improvements in mobility and warfighting capabilities are the result of 3 completed projects. Deliveries of 12 V-150s under the LARSU program and 10 refurbished UH-1H helicopters have improved the ability of the AFP to move its forces. The ongoing 1 ½-ton Troop Carrier project with its partial delivery of 100 units has provided essential mobility capabilities to forward units. On the other hand, completion of the Night Fighting System Phase 1 Lot 2 has improved the AFP's ability to find and fix enemies' location at night and in the most adverse circumstances. This is complemented by the improvements in firepower with the arrival of the first 700 units of SAWs. Both projects have ensured that AFP units, particularly elite units would be able to fight with greater advantage over the insurgents advantage.

There were several changes reported in the FROD component of the program. The AFP's commitment not only to national security but also to provide support to national development has led to adjustments in its organizational structure. The activation of the National Development Support Command was prompted by the desire to complete development projects under the Kalayaan Barangays Program of the national government. To facilitate better command and control for air operations, the Philippine Air Force reactivated its 1st, 2nd and 3rd Air Divisions (ADs) covering the island groups of Luzon, Visayas and Mindanao; respectively.

Under the BSSD component, a single look into the AFP's efforts may seem to yield modest results. However, 2007 heralded the start of some of the 88 housing projects funded by the government's Php 1 billion budget surplus. It is expected that the morale of Navy personnel would improve due to the 19 ongoing housing projects for the service.

Doctrines development has also experienced a boost with the CSAFP's promulgation of 2 GHQ/AFPWSSUs manuals and 15 doctrine manuals for the Philippine Army, which includes its Doctrine Development Strategy. The AFP also undertook repair and refurbishment of its Doctrine Development Center Library.

Assessment, Issues, & Concerns

ased on the information presented, The AFP Modernization Program's thrust to develop a more capable Philippine military has only resulted in modest gains. Still, while there were only a few projects completed for the year, this was compensated by the fact that more projects are being implemented compared to previous years. For example, in 2007, the Philippine Navy reported a larger number of projects which were approved, implemented and completed. These projects are almost all instrumental in the conduct of ISO.

Yet there remain several challenges to be addressed. Even with the priority given by the national leadership, project implementation still continues in a slow pace, delaying the issuance of vital equipment to the frontlines. Indeed the primary challenge faced by the program is the unavailability of funds. With minimal funds allocated, there remains the problem of slow processing in the opening of Letters of Credit and the issuance of Notices of Award and Notices to Proceed. Likewise, milestone payments also experience delays in processing. All of these result in stalled projects, causing costs to escalate, problems to crop up and having both PMTs and proponents becoming disinterested. The credibility of both parties is often adversely affected. Overpricing is a likely result as project proponents hike prices to hedge against payment delays.

Even if funds are allocated for actual project implementation, there still remains the possibility of unavailability of administrative funds for projects. Thus, modernization offices at all levels are compelled to source funding requirements from other sources that can disturb scheduled expenditures. Funds used by the different Project Management Teams are critical in ensuring that the AFP is able to adequately identify the technical specifications that will meet its requirements based on available technology and systems in the market. Technical Inspection and Acceptance Committee (TIAC) inspections are also delayed due to lengthy processing requirements. Lack of funding support to the AFP Procurement Service also means that the AFP is less able to act on complaints regarding issues such as contract disputes.

This slow pace of equipment acquisition is mostly the result of the cumbersome procurement process, which starts from Circular of Requirements (COR) formulation to the contracting phase. Delays are often experienced in the processing of documents such as contract amendments. Simple matters like changing formats or typographical errors are referred to PMTs, requiring substantive "turn-around" time.

It must also be pointed out that some projects involving sophisticated technologies face delays in the bidding process due to the complex nature of equipment to be procured, which requires in-depth technical knowledge. In some cases, there is the inability of suppliers to comply with project requirements (i.e. post-disqualification of 40m Grenade Launcher, Light Support Watercraft and Night Fighting System Acquisition) after being declared as the lowest bids.

Delays in projects in the CMTD component can also be a result of inadequate definition of specification requirements by the various PMTs. This is compounded by personnel problems in PMTs and Technical Working Groups (TWGs). Positions in TWGs are not properly filled up and lack the required number of personnel. Continuity of effort is also disrupted by the fast turnover of PMT/TWG members in different projects.

All of these issues exposed the AFP to the possibility of acquired equipment to be rendered obsolete even before it is issued. For instance, communications equipment like the Army's 5W and 20W radios started in CY 2000, are yet to be delivered. The SAW and Troop Carrier Projects of the Army would have had greater impact and resulted in tremendous capability enhancement had the initial deliveries been more numerous. Wholesale issuance to units would off-balance the enemy, with a more piecemeal deployment allowing them more time to adjust their tactics.

As for the BSSD component, the AFP's efforts to maximize utilization of its properties are hounded by legal issues. Land being a scarce resource means that the AFP would often find itself locked in court proceedings against individuals and entities intent on appropriating military property (in the form of real estate) for themselves.

As for the Human Resource Development component, the AFP has yet to fully leverage improvements in information and communications technology. The main culprit hindering human resource development efforts involves connectivity issues. For instance, the Army Wide Area Network cannot support the interconnectivity required to fully tap the potential of its developed software.

It has also been observed that Doctrines Development has been considered as a peripheral modernization component. The Philippine Air Force points out that the main constraint in the doctrine-related projects is the lack of funds. It was also reported by the Philippine Army that from 2005 to 2007, there were no available funds allocated for doctrines development, which contributed to the slight delay in manual-related activities. Slow completion of doctrine projects that were funded is also hampered by the fact that DD project members have their primary duties to attend to and are often rotated/reassigned to other units. Thus, both funding and personnel issues hinder the AFP's efforts to keep up to date existing doctrine in response to the emerging trends in warfare and military technology. Symptomatic of this problem is the observation that most PN acquisition projects are undertaken without doctrinal basis.

Nonetheless, the President's marching orders for the fast-tracked implementation of the AFPMP, particularly the CUP should serve as impetus to hasten the completion of mission essential equipment for ISO. Taken seriously, such an instruction would likely result in the completion of projects. The expected upsurge of project completion in the coming year such as the Philippine Navy's PKM In-Country and BN Islander Upgrade projects will likely hasten the decline of internal threats and uplift the morale of the armed forces in line with the 2010 goal to defeat the insurgency.

Recommendations

The single most important recommendation of the AFP is to push for a more streamlined procurement process. This would ensure that the time-table for the issuance of the notices and other funding issues as set forth by existing guidelines follow those prescribed by RA 9184. Time should be assigned corresponding valuation so delays can be seen in the proper light and would help inhibit cost overruns. This is in recognition of the fact that addressing red tape and onerous processing procedures in the issuance of payment for milestone work completion would augment the capacity of offices in maintaining the workflow to process documents. It must also be emphasized that the Circular of Requirements is a critical part of any acquisition project from its inception. Careful crafting of CORs ensures that the AFP gets the right equipment that suit its needs.

Lobbying for increased CUP funding should also be pursued. It must be emphasized that the CUP is just an effort to recover at least 70% of the AFP's critical capabilities. Presenting requests for additional funding as a means to merely maintain a capability status quo is more viable rather than allowing such proposals to be seen as an expanded modernization initiative.

It should also be recognized that the work done by various Project Management Teams entails the possession of sufficient technical know-how. Thus, prospective members of any PMT must go through a strict selection process, to determine whether an individual has the skills for the job. This entails providing PMT members additional incentives (e.g. prioritization in schooling/short courses). The current system which requires PMT members to continue to work on their duty details in their original units should be revised in order to allow PMT members to concentrate solely on their modernization projects. In addition, the AFP needs to follow the provisions of AO 169 that call for PMT members to stay with their projects until it is completed to ensure continuity.

There should also be expeditious action on pending documents. Offices concerned should take the initiative in undertaking immediate correction of minor deficiencies at BAC/TWG levels. These should only be a one-time determination of deficiencies by consolidating all issues raised by various processing/approving offices. Administrative funds be allocated on a per project basis and provided without delay. This also includes revision in the processing of orders and the allocation of funds for TIAC inspections. Additional fund releases to the AFPPS should also be considered to fulfill its mandated CUP tasks effectively, efficiently and on time.

As for the other components, the following steps are worth considering. The legal issues surrounding BSSD require the continued focus of the AFP so as not to lose by default. It is recommended that retainer lawyers be included in any BSSD-related TWG. Tapping human resources on the other hand requires full-use of information technology. Thus, there is a need to increase the AFP's connectivity capability. Finally, the doctrine development should given new allocations to ensure the responsiveness of AFP doctrine.

THRUSTS FOR CY 2008

n the coming year, the AFP will continue several policies, which it has previously pursued in recent years, until they result in desired outcomes.

First, the AFP intends to continuously push for the sufficient allocation of funds as prescribed by the Modernization Act. It cannot be denied that the Php 20 billion appropriated by Congress over the course of the program constitute a substantial amount and have resulted in gains for the armed forces. However, the amount released for over a period spanning more than a decade is still way below the Php 50 billion ceiling for the first 5 years of the Program. Of course, the AFP also recognizes supplemental resources it receives such as the additional Php 1 billion released in 2006 that came from the national government's budgetary surplus.

Next, the AFP will also lobby for other legislative initiatives that would facilitate the implementation of the program and generate additional funds. These include proposed amendments to RA 7898 (AFP Modernization Act of 1995) and RA 7227 (BCDA Act of 1997), creation of the Military Real Estate Development Authority, allocation and transfer of funds to the AFPMATF from the share of the national government on all taxes, royalties and charges paid by the Malampaya Natural Gas to Power (MNGP) Project, BIR collection of capital gains and value-added taxes from real estate sales.

Third is to promote the DND and AFP's interest in matters involving the BCDA that could be translated into additional revenues for the program. Revenues can come from the lease of NAIA Terminal III, transactions between the BCDA and the Fort Bonifacio Development Corporation, shares from the Heritage Park Project and securitization of AFP's future receivables from BCDA and funds from JUSMAG and the Navy Officers Village Association, Inc.

Fourth is to push for the transfer of the interest earned by the trust fund from the Bureau of Treasury to the AFPMATF. On 31 March 2004, the Bureau of Treasury informed the DND/AFP that a net interest accrual amounting to Php 1.31 billion was recorded between June 2000 to December 2003. Unfortunately, the Bureau of Treasury could not transfer the said interest income to the AFPMATF because it has no basis doing so according to the Department of Finance (DOF) and Department of Budget Management (DBM). Thus, a technical working group was created to review DOF, DBM and COA Joint Circular 4-98 which stipulates the rules and regulations on the proper handling/administration.

Finally, the AFP plans to push for the exemption from payment of taxes of the trust fund's interest earnings. As pointed out in the preceding discussion, the idea of having a trust fund is to ensure maximal and sustained availability of funds for projects under the program because the trust fund would generate additional revenues through its interest earnings. Thus, subjecting the interest income of the trust fund to taxes decreases the amount of funds, which can hinder the progress of the modernization program.

In addition to these initiatives, studies are likewise being conducted on the possible utilization of portions of military camps not covered by the BCDA Law. These could be utilized either by lease, joint development, or sale to generate additional funds to support the modernization program. Sixteen camps viable for commercial purposes have been identified. These are Camp General Emilio Aguinaldo, Fort Magsaysay, Camp San Andres, Cavite Naval Base, Marine Base Ternate, Camp Antonio Luna, Basa Air Base, Camp Aquino, Camp Adduru, Camp Ola, Camp Downes, Camp Lapu-lapu, Mactan Air Base, Camp Evangelista, Camp Kabaritan and Fernando Air Base. Likewise, the DND and the AFP are carefully evaluating proposals from private entities for the lease or joint venture of Basa Air Base, Crow Valley, Poro Point, Clark Air Base and Sangley Point to name a few.

Meanwhile, the defense department and the AFP will continue to pursue the CUP to further sustain the overall thrust of enhancing the capability of the armed forces. The President's policy pronouncement of upgrading the capability of the AFP in an expeditious manner and the 2010 goal to end the insurgency would likely hasten project completion. The AFP's adherence to accountability and transparency measures would mean that necessary hardware reaches the frontlines in the appropriate manner.

