

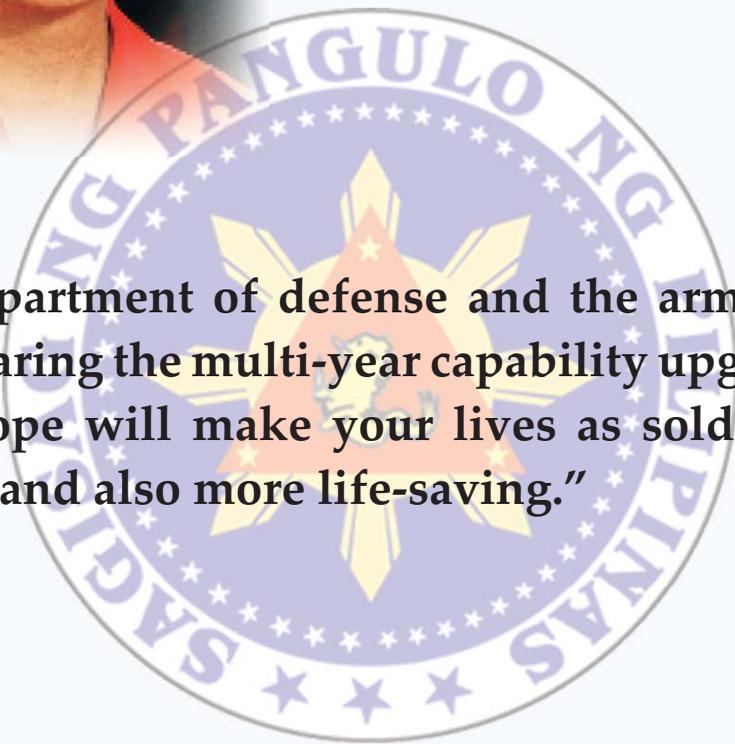
AFP Modernization Program

Sustaining the Momentum

Annual Accomplishment Report 2005



“The department of defense and the armed forces are preparing the multi-year capability upgrade plan that I hope will make your lives as soldiers more efficient and also more life-saving.”



Her Excellency GLORIA MACAPAGAL-ARROYO,
President of the Republic of the Philippines
On the occasion of the 100th Commencement Exercises
of the Philippine Military Academy (PMA)
“Sanlingan” Class 2005

Message



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



The year 2005 marked a significant progress for the AFP Modernization Program (AFPMP), this in spite of the many challenges that confronted the implementation of the program. Signed into law in 1995, Republic Act No. 7898 known as the "AFP Modernization Act" provided the legal basis for a modernization program that was sanctioned by the Philippines Congress through Joint Resolution No. 28. This program aims to modernize the AFP to a level where it can effectively and fully perform its constitutional mandate of defending the sovereignty of the state, and protecting and preserving the patrimony of the people.

While the program has yet to see its full implementation after almost a decade, the Defense Department and the AFP have remained focused on the goal of upgrading the capability of the armed forces. The economic difficulties and financial constraints facing the Philippines may have impeded the development of the program, yet, the AFP Modernization Program continues to be pursued.

As the AFP consistently tries to pursue the implementation of the AFPMP, it becomes equally necessary to inform our political leaders and the public as to what the AFP has accomplished. It is in this regard that this report has been prepared. It is an effort to present the various dimensions of its implementation, as well as situate the program itself in the context of recent developments such as the adoption of a Capability Upgrade Program (CUP) for the AFP.

Avelino J. Cruz, Jr.
AVELINO J. CRUZ 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

The AFP Modernization Program has provided the Armed Forces of the Philippines with a mechanism to enhance its capability in upholding the sovereignty and territorial integrity of the nation. It provides the AFP with the opportunity to shape itself into a compact, efficient and modern force that could address external defense challenges, conduct internal security operations, respond to crises as well as contribute towards the building of the nation.

The program's implementation, however, is not without challenges itself. Limitations in finances, tedious procurement process and constantly changing security environment are but few of the many challenges that have to be faced in implementing the program.

Yet, the people tasked with the responsibility of ensuring that the program's implementation is sustained remain firm in their job of keeping the program on track. They believe that a well-equipped and capable AFP is one of the necessary requisites in building a peaceful, secure and progressive environment for the Filipino. Thus, they continue to pursue the implementation of the program.

True enough, the modernization program for the AFP needs to be pursued. After all, the development of a capable armed forces is both a duty and responsibility the current generation owes to the succeeding generations of Filipinos.


GENEROSO S. SENGA
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

For the past years, the Philippine defense establishment has been implementing a modernization program that aims to make the Armed Forces of the Philippines a force capable of addressing challenges to the country's security. While the original modernization program was focused on meeting external defense challenges, necessary adjustments to the program have been made in the light of the urgency to address internal security challenges.

This arose out of the realization that the success of the modernization program depends on a sound calculation of external and internal challenges as well as timely determination of which among these challenges need immediate concern. Thus, even while the original priority was the development of external defense capability, there was enough flexibility which made it possible for timely adjustments to be made.

Some observers may see the shift in the priority of capability being developed through the modernization program as an indication of the inability of the defense establishment to accurately determine the type of challenges that confronts the armed forces. But the seeming change from a focus on developing the external defense capabilities of the AFP to enhancing its ability in addressing internal security threats is an indication of the flexibility within the armed forces to make needed changes.

Thus, while some of the items and projects identified in the original program will be pursued, it is also expected that the AFP would be ready and flexible enough to make the needed changes. At the end of the day, the success of the modernization program would be judged not by the ability of the armed forces to procure certain equipment included in the Congress-approved program but by its ability to address the challenges that undermine the security and stability of the country.

ARISTON V. DELOS REYES
Vice Admiral AFP
Chairman
AFP Capability Development Board

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Program Overview

Purpose

The submission of the AFP Modernization Program Annual Report for 2005 is the fulfillment of the requirement based on Section 16 of Republic Act 7898, otherwise known as the AFP Modernization Act of 1995, which stipulates that the AFP is required to submit to the President and Congress an annual report containing the progress of the implementation of the program. This 2005 Annual Report is a manifestation of the firm resolve of the organization to accelerate the acquisition of the much-needed equipment and upgrade its existing capabilities. This report reviews the rationale, objectives and basic features of the program and presents detailed accomplishments and updates of the program under each of the five interlocking components. This document also aims to bring to the attention of the executive and legislative branches of the government the issues and concerns that adversely affect program implementation.

Scope

This report consists of eight parts. The first part provides an overview of the program, with a discussion on the objectives, priorities and components, and the AFP Modernization Act Trust Fund. The second part presents the accomplishments of the program for the past years. The third part details the accomplishments of the program for CY 2005. The fourth part discusses the Medium Term Capability Upgrade Program as a significant development. The fifth, sixth and seventh parts contain the assessment, issues and concerns, and recommendations, respectively. The eighth part presents the thrusts for CY 2006.

Rationale and Objectives

For decades, the AFP has virtually engaged all of its resources in internal security operations, since the previous presence of the US forces in the country served as an effective deterrent against external threats. Consequently, the AFP has become less focused on developing its external defense capability to the point that its capability to operate with other armed forces and to address contemporary threats remained in a dismal status and continue to lag behind that of the neighboring countries' armed forces. There is a need, therefore, for the AFP to focus its efforts in building up a capability suited to the changing scenarios of the international security community.

Recent years have witnessed how countries in the region exert effort in projecting credible military power in order to instill regional balance of power. While the Philippines does not intend to join any perceived arms race in the region, the AFP needs to make its present capabilities credible. This is to ensure that the AFP would be able to effectively and efficiently interplay and operate with other armed forces in whatever security alliance. Apparently, a modest modernization program is the first step necessary to gain respect from the Philippines' neighbors and be a worthy member of any security alliance. Once the nation is able to project credible armed forces, it could then work in synchrony with the armed forces of other countries in deterring would-be military adventurism and in performing peace operation efforts for the international community.

In addition, a credible armed force would mean a capable force that could effectively support the government's diplomatic efforts in addressing contemporary security concerns such as territorial conflicts and maritime disputes, as well as threats of transnational nature such as piracy, poaching, smuggling, and environmental pollution.

Evidently, the increasingly dynamic and unpredictable nature of the security environment demands credible armed forces that will ensure overall national security. While diplomacy is the best policy in addressing security concerns, it would prove inadequate without a credible military force behind it.

Section 3 of Republic Act 7898 outlines the objectives of the program as follows:

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 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 (EEZ);
3. To enhance the AFP's 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, 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 has its legal basis on Republic Act No. 7898, otherwise known as the AFP Modernization Act. Signed into law on 23 February 1995, the act declares that it is the policy of the state “to modernize the AFP to a level where it can fully and effectively perform its constitutional mandate of upholding the sovereignty and preserving the patrimony of the Republic.”

Both Houses of Congress approved the program with the promulgation of Joint Resolution No. 28 on 19 December 1996. As provided in the resolution, the implementation of the program shall be over a period of fifteen years. The resolution also approved a P 50 billion budget ceiling for the first five-year period.

As mandated by RA 7898, the Department of National Defense issued Department Circular Number 01 known as the Implementing Guidelines, Rules and Regulations (IGRR) of the program on 06 March 2000. The IGRR prescribes the policies and procedures for the implementation of the program.

On 26 January 2003, the Government Procurement Reform Act (RA 9184) took effect while its corresponding Implementing Rules and Regulations (IRR) was published eight months after its enactment. Executive Order (EO) 235 was signed on 11 September 2003, which prescribes the streamlining of rules and procedures of defense contracts. The program is also governed by EO 120, which directs the National Government to adopt countertrade as a supplemental trade tool with respect to the importation or procurement of foreign capital equipment, machinery, products, goods and services. Additionally, the Joint Circular 4-98 of the Department of Finance, Department of Budget and Management and Commission on Audit prescribes the procedures for the operations of the AFP Modernization Act Trust Fund.

Priorities and Components

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. It also enumerates all modernization projects to be implemented under the five components according to priority and provides an estimated average cost of each project.

The development of AFP capabilities shall be along five interlocking components, namely: 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 Republic Act 7898 provides for the creation of the AFP Modernization Act Trust Fund (AFPMATF), which is administered by the Secretary of National Defense and which has the following sources of funds:

1. Congressional appropriation;
2. 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 and Development Authority (BCDA);
3. Share of the AFP from the proceeds of the sale of military camps provided for under Republic Act 7227 or the Bases Conversion and Development Act;
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 asset 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.

To date, funds acquired through the foregoing sources totaled to only more than P 11 billion, way below the authorized ceiling of P 10 billion each year as the benchmark. The table below shows the status of funds according to various sources identified in RA 7898.

Sources of Funds	Amount (in million pesos)
Appropriations from Congress	5,000.00
Proceeds from sale, lease or joint development of military reservations	-
Shares from the proceeds of the sale of military camps under BCDA	6,677.040
Proceeds from the Government Arsenal	81.498
Proceeds from the disposal of excess AFP assets	43.253
Budgetary surplus	-
All interest income of the trust fund	77.574
TOTAL	11,879.365

The AFP's share from the BCDA for the sale of military camps amounting to P5.4 billion in CY 2000 jump started the implementation of the modernization program. In the succeeding years, the AFP received around P 1.2 billion (P 101 million in 2001, P 271 million in 2002, P 679 million in 2004 and P 141 million in 2005) due to non-sale transactions of BCDA making the AFP's total share amount to P6.6 billion. Another major fund source is the Congress appropriations of P5 billion which came in CY 2002. Although it is stipulated in RA 7898 that the program shall be appropriated based on a ceiling of P 50 billion for the first five years, no other appropriations were subsequently made. Other funds were generated from the sale of excess assets (old equipment) from the Philippine Army and the Navy. These were further complemented by proceeds coming from the Government Arsenal (GA) and interest income of the trust fund. Bulk of the funds went to the implementation of projects in the Revised Reprioritized Project List (RRPL) of February 2004. These were used for completed and on-going projects (P 10.8 billion) and the remaining funds (P 1.073 billion) earmarked for projects in the pipeline.

The following table shows the approved program of expenditure (POE) in the implementation of the five different components of the program:

Component	Amount (in million pesos)
Capability, Materiel and Technology Development (CMTD)	10,075.888
Bases and Support Systems Development (BSSD)	534.422
Human Resource Development (HRD)	150.761
Doctrines Development (DD)	45.268
Force Restructuring and Organizational Development (FROD)	-
TOTAL	10,806.359

The programmed expenditures in the implementation of projects at the major services and general headquarters are shown below:

	Amount (in million pesos)		Total
	Approved POE	POE for Approval	
Philippine Army	3,816.400	-	3,816.400
Philippine Air Force	2,864.950	725.470	3,087.240
Philippine Navy	3,273.843	-	3,273.843
GHQ/AFPWSSUs	851.166	347.536	1,701.882
TOTAL	10,806.359	1,073.006	11,879.365

The utilization of available funds amounting to P1.073 billion which consist of proceeds from BCDA, GA and disposal of AFP assets, and interest income of the trust fund is yet to be approved. Out of this amount, P 946.370 million has been earmarked for the following projects undergoing the approval process and the remaining P126.636 million will be used for other projects under deliberation (See the table below).

Projects	Amount (in million pesos)
Mobile Audio Visual Vehicular Unit (MAVVU) for CMO	40.900
Communication Equipment for JSOG	138.000
Rehabilitation of COMCENTER	10.000
First Forward Medics	32.000
Basic Trainer Aircraft (18 units)	622.590
Primary Trainer Aircraft (8 units)	60.880
Enhancement of PAF Radio Electrical Instrument (REI) and Precision Measurement Equipment Laboratory (PMEL) Facilities	42.000
Funds for Projects under Deliberation	126.636
TOTAL	1,073.006



Past Years in Review

The first few years of implementing the AFP Modernization Program is best characterized as a period of establishing the suitable mechanisms and fundamental systems. Functional and organizational structures were established at Department of National Defense (DND), General Headquarters (GHQ) and Major Service levels to strengthen the implementation of the program. It was also a time for enriching perspectives and strengthening capabilities and linkages in a variety of areas.

The AFP strived harder in implementing the program owing to the unbridled shift in government priorities and the Asian financial crisis encountered in 1997. Amidst the challenges encountered during the early years of the implementation of the program, the AFP nonetheless moved forward with the five program components.

Towards the end of the century, the AFP concentrated on the economic and legal issues affecting the implementation of the program. Review of the program was mandated by the Secretary of National Defense to ascertain the affordability and sustainability of projects as well as compliance of implementing guidelines with existing laws, rules and regulations.

A volatile situation in Mindanao experienced at the start of the millennium led the AFP to shift its priorities from external defense to internal security concerns. In response to this situation, the AFP front-loaded equipment for Internal Security Operations (ISO) from among the 112 projects originally identified in Joint Resolution Number 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.

Subsequent years were still saddled with difficulties brought about by cumbersome procurement process and complex acquisition structure which considerably slowed down the execution of procurement activities of the different projects under the program. In this light, the AFP accelerated the processes in various stages of equipment acquisition and in other component projects. In 2003, Republic Act 9184 or the Government Procurement Reform Act of 2003 took effect. This aims to streamline the procurement process of the national government, its departments, bureaus, offices and agencies by following a general procurement procedure and using standard forms for procurement. Its corresponding IRR was likewise signed in the same year.

The year 2004 was marked by the changes in policy and strategy of the DND brought about by the introduction of Multi-Year Capability Planning Systems (MYCAPS) and the inputs from the Philippine Defense Reform (PDR) into the new DND planning system.

In the same year, President Gloria Macapagal-Arroyo approved the Integrated Priority Project List (IPPL). The IPPL later served as the basis for determining what projects are to be prioritized in an 18-year Capability Upgrade Program, a program for developing the AFP's capabilities to a level where all its assets are mission capable to carry out its mandated tasks both in wartime and peace time defense conditions.

Moreover, the AFP Modernization Program has gained momentum as six projects with a total project cost of P 702.067 million were completed in previous years. Among the major breakthroughs of the program were the acquisition of Squad Automatic Weapon, HF/SSB Manpack Radio Transceivers, Armored Recovery Vehicle (ARV), Diving Suits, Dental Equipment as well as upgrade of the BN Islander Aircraft. The table below lists the pertinent details regarding these projects.

Project	Mode of Procurement	Number of Registered Bidders	Winning Bidder	Project Cost (in million pesos)	Contract Price (in million pesos)	Delivery Date	End-User
Squad Automatic Weapon (SAW) - Phase I	Public Bidding	11	FN Herstal (Belgium)	122.325	117.432	18 Mar 03	Philippine Army and Marines
HF/SSB Manpack Transceiver - Phase I	Public Bidding	9	Harris Corporation (USA)	445.242	427.432	19 May 04	Philippine Army and Marines
Armored Recovery Vehicle (ARV)	Public Bidding	7	FNSS Savunma Sistemleri A.S. (Turkey)	72.000	55.000	04 Jan 04	Philippine Army
Diving Suit Acquisition	Public Bidding	9	Ophir Defense System Corporation (Australia)	25.000	22.953	26 Aug 04	Philippine Navy
Dental Equipment	Public Bidding	5	Satelec Pierre and New Citizens Rolland Phils	12.500	11.722	18 to 19 Jun 04 (Satelec) 17 Jun to 01 Jul 04 (New Citizens)	GHQ
BN Islander Upgrade - Phase I	Public Bidding	5	Hawker Pacific (Australia)	25.000	24.683	28 May 04 / 02 Jun 04	Philippine Navy

Accomplishments for 2005

Force Restructuring and Organizational Development

This component of the AFP Modernization Program concerns 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 challenges. The professionalization of the AFP’s organizational set-up is therefore the priority area. Streamlining the AFP’ structure, which necessitates the abolition and merger of certain offices and/or units as well as reduction of the armed forces manpower, was previously the priority. But recently, the return to the AFP of the primary responsibility in addressing internal security challenges induced the AFP to carry out appropriate adjustments including the activation of some units.

GHQ/AFPSSWSSUs



For the year 2005, force restructuring at the General Headquarters (GHQ) and relevant AFP Wide Service Support Units (AFPWSSUs) was manifested in the merging of the Office of the Deputy Chief of Staff for Operations (OJ3), Office of the Deputy Chief of Staff for Civil-Military Operations (OJ7) and the Office of the Deputy Chief of Staff for Education and Training (OJ8). The Office of the Deputy Chief of Staff for Comptrollership (OJ6) was also deactivated. The Office of the Deputy Chief of Staff for Materiel Development (OJ9) was reconstituted into the AFP Modernization Program Management Office (AFPMPMO). This reduced the number of coordinating staffs (J-Staffs) from eleven to seven. Consequently, the Office of the Deputy Chief of Staff for Communications and Electronics, formerly OJ11, was redesignated as OJ6 and the Office of the Deputy Chief of Staff for Reservist and Retiree Affairs, formerly OJ10, was redesignated as OJ7.

The AFP Logistics Command and the Office of the Chief Ordnance Chemical Service (OTCOCS) were also deactivated, with the Office of the Deputy Chief of Staff for Logistics (OJ4) absorbing the functions of the OTCOCS.

However, several offices and units were activated. These include the GHQ Resource Management Office (RMO), Management and Fiscal Office (MFO), Office of the Internal Auditor (OTIA) and GHQ Accounting Office. These offices took over the functions of the Office of the Deputy Chief of Staff for Comptrollership. This was meant to ensure that each of these offices would check and balance each other in order to avoid the previous experience where only one office, the former OJ6, was the one in-charge of both disbursing funds and auditing how funds are spent. The AFP Counter Intelligence Group (AFPCIG) and the AFP Procurement Service (AFPPS) were also activated. AFPPS took over the functions of the AFP Logistics Command.

With the deactivation of the Office of the Deputy Chief of Staff for Civil-Military Operations, formerly OJ7, separate and dedicated CMO staffs were also created at the brigade and battalion levels and the equivalent operating units in the Philippine Navy and Air Force. This was meant to improve the operational capability at the tactical level and to ensure that civil-military operations are undertaken in support of operations and intelligence in the fight against insurgency.

The AFP Peacekeeping Operations Center (AFPPKOC) was reorganized and designated as an AFPWSSU and the AFP Pension and Gratuity Management Center (AFPPGMC) was created.

The AFP medical treatment facilities in the Western Command (WESCOM) were also merged. These are the Camp General Artemio Ricarte Station Hospital, Naval Forces West Medical Dispensary and the Antonio Bautista Air Base Hospital. With the merger of these facilities, resources would be integrated and programming for their operation would be synchronized resulting in a more efficient utilization of resources and improved medical capability which would enhance the operational readiness of units within WESCOM's area of operation.

Philippine Army

For the Philippine Army, the Headquarters Philippine Army (HPA) and line units staff were re-organized, engineer units in Mindanao were re-aligned, Division Intelligence Units (DIUs) were deactivated while Military Intelligence Battalions (MIBs) were activated.



Several offices of the Headquarters Philippine Army were deactivated. These are the Office of the Assistant Chief of Staff for Comptrollership (OG6), Office of the Assistant Chief of Staff for Civil-Military Operations (OG7) and Office of the Assistant Chief of Staff for Education and Training (OG8). Three offices were activated taking over the functions of OG6. These are the: Philippine Army Management and Fiscal Office, Philippine Army Resource Management Office and Philippine Army Office of Army Internal Auditor. The Office of the Assistant Chief of Staff for Operations (OG3), OG7 and OG8 were merged with OG3 subsuming the functions of OG7 and OG8.

For the Philippine Army line units, the following were activated: (1) 3rd Mechanized Infantry Battalion (3rd MIB) of the Light Armor Brigade (LABde), (2) 18th Disaster Emergency Assistance and Rescue (DEAR) Company; (3) "India" Battery, 16th Field Artillery Battalion of the 6th Division Artillery Regiment (DAR), (4) "Golf" Battery, 9th Field Artillery Battalion of the 1st Infantry Division, (5) 5th Field Artillery Battalion and 9th Dental Detachment of the 9th Infantry Division, and (6) 10th Scout Ranger Company and 10th Special Forces Company.

Philippine Air Force

For the Philippine Air Force, the Office of the Assistant Chief of Air Staff for Operations (OA3), Office of the Assistant Chief of Air Staff for Civil-Military Operations (OA7) and the Office of the Assistant Chief of Air Staff for Education and Training (OA8) were merged with OA3 absorbing the functions of OA7 and OA8.



The Office of the Assistant Chief of Air Staff for Comptrollership (OA6) was deactivated and its functions segregated into four offices, namely: Air Force Resource Management Office (AFRMO), Office of the Air Force Internal Auditor (AFIA), Air Force Management and Fiscal Office (AFMFO), and Air Force Accounting Office (AFAO).

Also deactivated was the 775th Ready Deployment Squadron under the 770th Special Operation Combat Support Group (SOCSG), 710th Special Operations Wing. Its mission and functions are now performed by the 760th Combat Group. The Antonio Bautista Air Base Hospital was also deactivated.

The territorial defense units have also been downgraded. These include the Air Defense Command being downgraded to Air Defense Wing, the 5th Fighter Wing to the 5th Tactical Fighter Group, and the 580th Aircraft Control Warning Wing to the 580th Aircraft Control and Warning Group.

Likewise, the Office of the Assistant Chief of Air Staff for Reservist and Retiree Affairs (OA7) has been redesignated as Office of the Assistant Chief of Air Staff for Reservist and Force Development and the Reserve Airlift and Tactical Support Group (RATSG) as the Reserve Airlift Tactical Support Center (RATSCEN), Air Reserve Command (ARC).

Several units have been organized. These are the Ready Reserve Airlift and Tactical Support Wing (RRATSW), the 950th Communications, Electronics and Information Systems Group (CEISG), and the 4th Combat Group designated as the 760th Combat Group, 710th Special Operations Wing (SPOW).

The command and control of the Air Power Institute (API) has been transferred from the Commander of the Air Force Education and Training Command to the Commanding General of the Philippine Air Force as a consequence of the API being categorized as an Air Force Wide Service Support Unit (AFWSSU). Also transferred is the administration of the Mariveles Radio Relay Station from the 580th Aircraft Control and Warning Group, Air Defense Wing to the 950th CEISG.

Philippine Navy

For the Philippine Navy, the Office of the Assistant Naval Staff for Comptrollership (ON6) was deactivated. In its place were the activation of the Naval Resource Management Office (NRMO) and Naval Management and Fiscal Office (NMFO). Also deactivated is the Naval Forces West Medical Dispensary.

Several units, however, have been activated. These are Coast Watch Station Tinaca, Naval Task Group Ilog and Naval Detachment Glan. An additional Naval Air Station was also established in San Vicente, Cagayan.



Capability, Materiel and Technology Development

The core component of the AFP Modernization Program is the Capability, Materiel and Technology Development (CMTD) which involves the acquisition of appropriate weapons system and technology and the upgrade of weapons and equipment in the AFP's current inventory. With the return of internal security operations to the AFP from the Philippine National Police (PNP) in 1998 through the enactment of Republic Act 8551 amending the PNP Law and the eruption of hostilities in Mindanao in the late 1990's, the AFP had to shift its priority in developing capabilities for addressing internal security threats. As a result, the AFP had to re-prioritize the original list of equipment meant primarily to develop the AFP's capability in addressing external defense concerns as provided in Joint Resolution Number 28. Consequently, the acquisition and upgrade of the necessary move, shoot and communicate equipment to develop capabilities to address internal threats were frontloaded.

As a general policy and in order to institute transparency and accountability in all acquisition and upgrade projects, procurements are implemented through competitive public bidding in accordance with the Government Procurement Reform Act of 2003 (RA 9184) and its Implementing Rules and Regulations as well as other applicable laws, rules and regulations. In accordance with Executive Order 235, series of 2003 (Streamlining the Rules and Procedures of Defense Contracts) and Executive Order 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 P 50 million are undertaken by the single AFP Bids and Awards Committee (AFP BAC) and the Chief of Staff, AFP approves the contracts, while projects amounting to P 50 million and above are procured by the single Department of National Defense Bids and Awards Committee (DND BAC) and the contracts are approved by the Secretary of National Defense (SND).

Completed Projects

For the year 2005, eight major projects with a total project cost of P 1,689,386,000.00 under this component have been completed. These eight projects are the (1) E-Services Portal for General Headquarters (GHQ), (2) Base Communications Network for GHQ, (3) Medical Equipment Lots 1, 2 and 4 for GHQ, (4) VHF/FM Handheld Radio Transceivers for the Army and Marines, (5) HF/SSB 20 Watt Manpack Radio also for the Army and Marines, (6) Force Protection Equipment for the Army and Marines, (7) UH-1H for the Air Force, and (8) Jacinto Class Patrol Vessel (JCPV) Generators for the Philippine Navy.

Public bidding for the GHQ E-Services Portal was opened on 8 June 2004 with a total of twenty bidders participating. Philcox Philippines emerged as the winning bidder. The Chief of Staff, AFP signed and approved the contract on 20 December of the same year. Lot 1 of the project comprising of computer servers, application softwares



and support equipment was delivered on 5 April 2005 by the supplier Philcox and Sun Microsystems Philippines in a joint venture. Lot 2 of the project involving the software development for the Office of the Adjutant General (OTAG) 201 file system and the Office of Ethical Standard and Public Accountability (OESPA) was delivered on 21 June 2005.

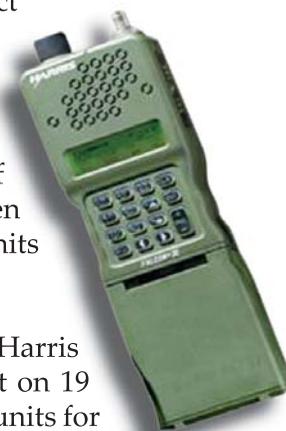
Project	Mode of Procurement	Number of Registered Bidders	Winning Bidder	Project Cost (in million pesos)	Contract Price (in million pesos)	Delivery Date	End-User
E-Services Portal	Public Bidding	20	Phil Cox Phils	30.000	23.800	05 Apr 05	GHQ
Base Communication Network	Negotiated Procurement	3	Triton Communication Corporation	33.000	31.680	25 Feb 05	GHQ
Medical Equipment (Lots 1, 2 & 4)	Public Bidding	19	Lots 1 and 2: RG Meditron Inc. Lot 4: Technomed International Inc.	27.516	26.416	17 Oct 05 09 Sept 05	GHQ
VHF/FM Handheld Transceiver (Phase I)	Public Bidding	6	Harris Corporation (USA)	408.070	391.747	21 Mar 05 (Radio Sets) 21 Apr 05 (Tactical Headsets)	Philippine Army and Marines
HF/SSB Manpack Transceiver I (Phase II)	Direct Contracting	1	Harris Corporation (USA)	338.500	324.960	01 Jun 2005	Philippine Army and Marines
Force Protection Equipment Acquisition	Public Bidding	18	Atlanta Industry/Oriental Industries (Korea)	135.000	129.600	25 Nov 05	Philippine Army and Marines
UH-1H Acquisition Project	Public Bidding	4	Singapore Technologies Aerospace	687.300	659.810	26 May 05	Philippine Air Force
JCPV Generators	Direct Contracting	1	Propmech - Phil	30.000	29.868	20 Jun 05	Philippine Navy

Through negotiated procurement with Triton Communications Corporation, initial contract signing for the GHQ Base Communication Network was done on 19 October 2004 with the Notice to Proceed (NTP) being issued on 22 December of the same year. The items under Milestone 1 consisting of the portable communication system package, UHF communication network, radio dispatch console, fax and data communication system, Global Positioning System (GPS), technical support facility and integrated logistics support package were delivered on 25 February 2005. Items under milestone 2 consisting of the software package were delivered in October 2005. The network is already operational with the end-user.



Opened for public bidding on 08 October 2004 was the GHQ Medical Equipment Lot 1 (radiology equipment), Lot 2 (operating room/anesthesia equipment) and Lot 4 (recovery room/intensive care unit equipment). A total of nineteen bidders took part in the public bidding. Two of the bidders emerged as winners with RG Meditron Inc. taking Lots 1 and 2 while Technomed International Inc. bagging Lot 4. The contract with RG Meditron was signed by the Chief of Staff, AFP on 23 August 2005 and the equipment were delivered completely on 16 November 2005. The contract with Technomed International on the other hand was signed on 25 July 2005 and the delivery of the equipment was completed on 29 November 2005.

For the VHF/FM 2W Handheld Radio Phase 1 project, the competitive public bidding for the project was conducted on 4 September 2003. Six bidders participated with Harris Corporation from the US being declared as the winning bidder. The contract was subsequently approved by the Secretary of National Defense (SND) on 4 June 2004. A total of 1,948 units plus 8 additional free units have been delivered on 26 May 2005. The Army got 1,853 units and the Marines received 103.



Through direct contracting, the SND approved the contract with Harris Corporation, USA for the HF/SSB 20 Watt Manpack Radio Phase 2 project on 19 August 2004 with the items being delivered on 1 June 2005. Of the total 246 units for this project, 231 went to the Army and 15 were given to the Marines.

The Force Protection Equipment (FPE) for the Philippine Army and Marines was procured through public bidding participated by two proponents which was opened on 28 May 2004. The contract for the supply and delivery of the equipment between the AFP and Oriental Industry Ltd. of the Republic of Korea was approved by the SND on 30 September 2004. The Army gets 3,100 sets of vest and helmet and the Marines receives 5,000 units of helmet. The first delivery consisting of 3,936 pieces of ballistic helmets and 200 pieces of armor vests and plates came on 15 October 2005 and the remaining pieces were delivered on 2 December 2005.





Public bidding for the UH-1H of the Philippine Air Force was opened on 10 September 2003 with four bidders participating. Singapore Technologies Aerospace emerged as the winner and the contract was approved by the SND on 3 January 2004. The helicopters were delivered in seven batches, with the first batch of 3 units delivered on 25 August 2004. Delivery of the last batch of 3 units was made on 26 May 2005 completing the purchase of 20 additional units for the Air Force.

The nine units of generators for the Navy's Jacinto Class Patrol Vessel was procured through direct contracting with Propmech-Philippines and the contract signed by the Chief of Staff, AFP on 25 October 2004. All the nine units of generators were delivered on 20 June 2005.



Projects under Implementation

Eight other projects with a total project cost of P 1,965.634 million are being implemented as of 2005. These are (1) Geographic Information System I for General Headquarters (GHQ), (2) Medical Equipment Lots 3 and 5 for GHQ, (3) Service Life Extension Program for the Air Force's OV-10, (4) Hydrographic Equipment for the Philippine Navy, (5) Integrated Radio Trunking System (IRTS) for GHQ, (6) UH-1H Refurbishment (EDA), (7) JCPV Weapons System Upgrade and (8) V-150 Upgrade.

Project	Mode of Procurement	Number of Registered Bidders	Winning Bidder	Project Cost (in million pesos)	Contract Price (in million pesos)	Delivery Date	End-User
Geographical Information System (GIS) I	Public Bidding	8	Integrph/INGR Phils	24.000	22.800	June 2006	GHQ
Medical Equipment (Lots 3 & 5)	Negotiated Procurement	19	Lot 3: Blue Sky Trading Corp., Inc. Lot 5: Technomed International Inc.	9.984	9.584	March 2006	GHQ
OV-10 Service Life Extension Program (SLEP)	Public Bidding	2	Marsh Aviation/Aeromart	256.000	245.760	June 2006	Philippine Air Force
Hydrographic Equipment	Public Bidding	7	De Leon Import and Export & ACW COMPUADD - Phils	4.300	4.128	For contract amendment	Philippine Navy
Integrated Radio Trunking System (IRTS)	Public Bidding	9	Highlander Phils	60.000	57.600	August 2006	GHQ
Acquisition of Refurbished UH-1H Helicopters (EDA)	Government to Government Procurement with US	--	US Government	442.700	442.700	June 2006	Philippine Air Force
JCPV Weapons System Upgrade	Government to Government Procurement with UK	--	QinetiQ Ltd of UK	990.650	959.442	March 2006	Philippine Navy
V-150 Upgrade	Public Bidding	4	Cadillac Cage Textron, Inc. (USA)	178.000	170.880	October 2006	Philippine Navy



Public bidding for the GHQ Geographic Information System Phase I was opened on 7 January 2004. Among the eight bidders that participated, Integraph/INGR Philippines came out as the winner. The AFP received the first phase of deliverables under Milestone 1 consisting of the hardware component on 6 August 2004 and the installation of the hardware, configuration, networking and training were completed on 10 August 2005. An amendatory contract was approved on 16 December 2005 by the Chief of Staff, AFP which prescribes that last remaining item, an airship, is delivered within six months after the contract's approval.

For the GHQ Medical Equipment Lots 3 (laboratory equipment) and 5 (surgical instruments), public bidding was opened on 02 August 2005 with nineteen bidders participating. However, none of them qualified. Thus, in the absence of eligible bidders, the Chief of Staff, AFP approved the AFP Bids and Awards Committee (BAC)'s recommendation that Lots 3 and 5 be acquired through negotiated procurement.

The Service Life Extension Program of the Air Force's OV-10 project consists of twelve overhauled engines, fourteen propellers and an integrated logistics support system. Procured through public bidding where two bidders participated and Marsh Aviation/Aeromart emerging as winner, the contract for this project was signed by the SND on 20 August 2004. The first batch of four propellers and four overhauled engines were delivered on 5 February 2005. Four engines and four propellers were subsequently delivered on 19 September 2005. With the delivery of six propellers on 24 October 2005 which completed the delivery of all the propellers, only the four engines remain undelivered.



Public bidding for the Hydrographic Equipment of the Philippine Navy consisting of Lot 1 (survey equipment) and Lot 2 (data processing) was opened on 22 June 2004. Seven proponents placed their bids and De Leon Import and Export & ACW COMPUADD-Philippines won. The contract for Lot 1 was approved on 20 December 2004 and for Lot 2 on 7 January 2005. The survey equipment component was delivered on 7 April 2005. The supplier has requested for an extension of delivery date for the data processing equipment from 9 February to 30 July 2005, citing the need to replace the model of scanners and computers to newer versions as the original models have been proven defective and obsolete. The proposed models are still being evaluated by the Project Management Team established for this purpose. An amendment of the contract approved by both parties is necessary to effect the changes.

On 25 June 2004, public bidding for the Integrated Radio Trunking System (IRTS) Acquisition project, which is a command and control project, was held. Among the nine bidders that participated, Highlander Philippines was declared as the winner. The Chief of Staff, AFP signed the contract on 14 July 2005.

The acquisition of refurbished UH-1H helicopters is a government-to-government procurement project with the US Government through its Excess Defense Articles (EDA) program. The project involves six aircrafts. Although the acquisition of the helicopters is coursed through the EDA channel, funds from the Modernization Program will be used. The Secretary of National Defense signed the Letter of Acceptance (LOA) on 14 December 2003 and the aircrafts are expected to be delivered in 2006.



Similarly, the Jacinto Class Patrol Vessel (JCPV) Weapon System Upgrade Project is being undertaken through government-to-government contract with the United Kingdom. The project has been awarded to QinetiQ Limited of the UK. The upgrade would enable the three vessels to perform effectively a greater number and variety of missions. With the contract approved by the SND on 24 June 2003, the vessels are dry-docked at Keppel Shipyard in Batangas where 97% of spare parts have been delivered as of 21 December 2005. Estimated date of completion for all three vessels is on March 2006.

Opened to the public on 05 November 2003, four bidders took part in the public bidding for the

V-150 Light Armor System Upgrade (LARSU) Project and Cadillac Cage Textron Inc. of the US emerged as the winner. The project involves the mobility upgrade of twelve units of V-150 Commando vehicles by re-fitting the power train with 6-cylinder in-line internal combustion type engines. The Chief of Staff, AFP signed the contract on 01 June 2004, which was subsequently approved by the SND on 22 August 2004.



Projects under Various Stages of the Procurement Process

There are nineteen projects with a total project cost of P 4,149,211,000.00 under the various stages of the procurement process. These are the following: (1) Coast Watch System, (2) Multi-Purpose Attack Craft (MPAC), (3) F-27-500 Acquisition, (4) Fixed Communication System (FCS) I and II, (5) Satellite Communication, (6) Community Area Network (CAN) I and II, (7) Geographic Information System (GIS) II, (8) APC M113 Upgrade/Acquisition Project, (9) Night Fighting System (NFS), (10) Rigid Hull Inflatable Boat, (11) JCPV Marine Engineering Upgrade, (12) Patrol Killer Medium-RP Upgrade, (13) Patrol Killer Medium-ROK Acquisition/Upgrade, (14) BNI Aircraft Upgrade II, (15) Mobile Communications Network (MCN), (16) 40mm Grenade Launcher, (17) PKM-ROK Shipment from Korea to Philippines, (18) Very High Frequency/Frequency Modulated (VHF/FM) Handheld Radio Transceiver Phase II, and (19) Squad Automatic Weapon (SAW) Phase II.

Among these projects, three have their respective notices of award (NOAs) issued. These are the Coast Watch System, Multi-Purpose Attack Craft (MPAC), and F-27-500 Acquisition.

Project	Mode of Procurement	Number of Registered Bidders	Winning Bidder	Project Cost (in million pesos)	Contract Price (in million pesos)	End-User
Coast Watch System	Public Bidding	6	Scan Marine/ Interpacific Tech Ltd Joint Venture	60.000	57.600	Philippine Navy
Multi-Purpose Attack Craft (MPAC)	Public Bidding	5	Maritime Partner AS (Norway)	151.500	145.440	Philippine Navy
F- 27-500 Acquisition	Negotiated Procurement	2	AeroGlobe Limited, Inc.	95.000	91.200	Philippine Air Force

The Coast Watch System Project underwent a two-stage bidding process with the 2nd bid being opened on 08 September 2004. Among the six bidders involved, the contract was awarded to a joint venture of Scan Marine and Interpacific Tech Limited. The SND issued the NOA on 21 February 2005.



The second stage bid for the Multi-Purpose Attack Craft (MPAC) Acquisition Project was conducted on 08 July 2004 with five project proponents taking part. The SND issued the NOA on 21 February 2005. The contract with the winning bidder, Maritime Partner AS of Norway is currently being reviewed by the AFP.

The F-27-500 Acquisition Project of the Philippine Air Force involves the acquisition of one F-27-500 aircraft with an upgraded engine, greater payload and passenger capacity and equipped with Federal Aviation Authority/International Civil Aviation Organization compliant avionics. The post-qualification report was submitted by the Technical Working Group on 02 August 2005. The DND-BAC declared AeroGlobe as the Lowest Calculated and Responsive Bid on 29 September 2005 and the SND issued the NOA on 17 October 2005.



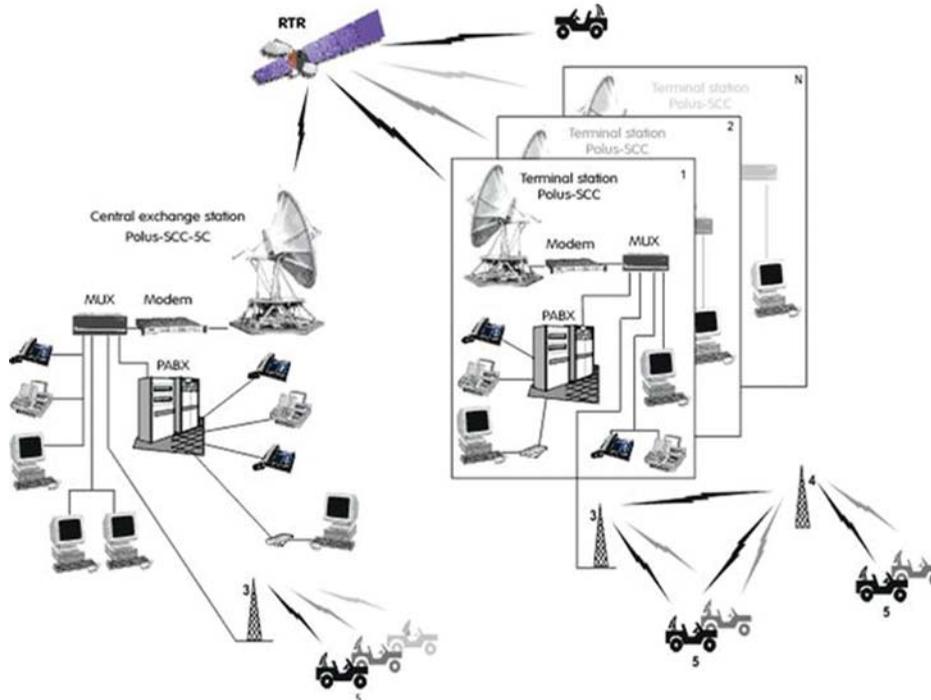
Among the remaining projects currently in the pipeline, eleven will be procured through public bidding and three will be acquired through negotiated procurement. The most advantageous mode of procuring the remaining two projects (VHF/FM Handheld Phase II and SAW Phase II) are currently being studied by the Chief of Staff, AFP as per directions of the SND.

The projects that will be acquired through public bidding are the following:

Project	Mode of Procurement	Number of Registered Bidders	Winning Bidder	Project Cost (in million pesos)	Approved Budget for the Contract (in million pesos)	End-User
Fixed Communication System (FCS) I and II	Public Bidding	16	Under bidding	466.000	447.360	GHQ
Satellite Communication	Public Bidding	16	Under bidding	37.000	35.520	GHQ
Community Area Network (CAN) I and II	Public Bidding	14	Under bidding	52.500	50.380	GHQ
Geographic Information System (GIS) II	Public Bidding	--	Under bidding	20.000	19.200	GHQ
Armor Personnel Carrier (APC) M113	Public Bidding	--	Under bidding	150.000	144.000	Philippine Army
Night Fighting System	Public Bidding	3	Under bidding	428.440	411.302	Philippine Army
Rigid Hull Inflatable Boat	Public Bidding	7	Under bidding	40.000	38.400	Philippine Navy
JCPV Marine Engineering Upgrade	Public Bidding	5	FF Cruz Marine Corporation	370.000	354.000	Philippine Navy
Patrol Killer Medium (PKM) RP Upgrade	Public Bidding	7	Propmech Corporation	300.000	288.000	Philippine Navy
Patrol Killer Medium (PKM) ROK Acquisition/ Upgrade	Public Bidding	--	--	280.750	268.750	Philippine Navy
BNI Aircraft Upgrade II	Public Bidding	5	Under bidding	75.000	72.000	Philippine Navy

The Fixed Communication System (FCS) Project is composed of the Visayas-Bicol Communications System (VBKS) and Mindanao Microwave Communications System (MMCS) with permanently installed telecommunications infrastructure. The project is being procured through a two-stage bidding process. The first stage bid opening was held on 18 March 2005 but the Department National of Defense Bids and Awards Committee (DND BAC) declared the bidders as ineligible and the bidding as failure. The second bid submission and opening of eligibility and technical proposals (1st stage) was conducted on 09 September 2005.

The AFP Satellite Communication (SATCOM) project is meant to enhance and replace the existing AFP VSAT network. With the specifications being approved on 16 December 2003, site survey inspection by bidders/proponents, accompanied by the TWG was conducted on 11 to 22 April 2005. The pre-bid conference was conducted on 16 December 2005.



The Community Area Network (CAN) Project will provide reliable, responsive, secure, and cost effective real time voice, data images, video services that are meant to enhance the AFP's command and control system. On 29 November 2005, the DND-BAC conducted the pre-bid conference with nine prospective bidders participating.

The Geographical Information System (GIS) Phase II will commence after a thorough evaluation and completion of the GIS Phase I project.

The Armor Personnel Carrier (APC) M113 project of the Philippine Army underwent the bidding process in 2003. Unfortunately, the award of the contract to the supplier was withdrawn by the SND on 01 August 2004 due to discrepancies in the technical specification contained in the proposed contract and the original specifications in the bid documents.

The Night Fighting System (NFS) Acquisition Project combines two previous projects, the Night Vision Goggles (NVG) and Night Vision Weapon Scope (NVWS) projects. Public bidding for the project was opened on 01 September 2005 with four prospective bidders participating. However, all were declared ineligible for having discrepancies in their eligibility documents. The bid was re-opened on 16 November 2005.



The Rigid Hull Inflatable Boat (RHIB) Acquisition Project envisions the use of watercraft for offensive and defensive operations. It was initially opened for public bidding on 01 October 2004 with Willard Marine, Inc. being declared as the lone “passed” bidder. However, after the lone supplier failed to submit its financial proposal, the bidding was declared a failure and is now open for public bidding. Thus, the project was set for re-bidding for the third time which was held on 17 November 2005.

The JCPV Marine Engineering Upgrade involves the refurbishment, repair and upgrade of the three JCPV vessels of the Philippine Navy. Public bidding was opened on 23 June 2005. However, the bidding was declared a failure for the third time because of inability of Keppel Phils, Inc, and FF Cruz Marine Corporation to meet the minimum technical specifications. On 07 October 2005, the project was opened for re-bidding. FF Cruz Marine Corporation, the lone bidder, which participated, was declared eligible to bid and its technical and price proposals accepted by the DND-BAC.

The Patrol Killer Medium (PKM)-RP Upgrade project involves the upgrade of two PKM gunboats, namely BRP Bienvenido Salting (PG 112) and BRP Nicolas Mahusay (PG 116). The contract was initially awarded to the consortium of Herma Shipyard (Phils) and CAE of Canada on 17 March 2004. However, on 11 January 2005, the TWG recommended a declaration of failure of bid because of the inability of Herma Shipyard/CAE to post the performance security. The re-bidding was conducted on 07 November 2005 with Propmech Corp being declared as the Single Calculated Bidder (SCB).

The Patrol Killer Medium (PKM)-ROK Acquisition/Upgrade Project involves the acquisition of two PKM vessels from South Korea and their upgrading in the Philippines. It was initially conceived that shipbuilders from the Republic of Korea (ROK) will undertake the upgrade of PKM vessels in Korea and subsequently ship them to the Philippines. Since no Korean Company was interested to undertake the upgrade project as manifested by the failure of first bidding, the AFP recommended to have the vessels shipped first to the Philippines and have the vessels upgraded in the country through another public bidding.

The BN Islander Upgrade Project involves the refurbishment, repair and upgrade of three units Britten Norman Islander Fixed Wing Aircraft of the Philippine Navy. On 01 June 2005, the DND BAC recommended the termination of negotiations and revision of specifications. It also resolved that only two aircrafts instead of three will be upgraded because of limited funds for the project. Invitation for rebidding was posted/published on 02 December 2005 and a pre-bid conference was subsequently conducted on 21 December of the same year.



The three projects to be procured through negotiated procurement are the following:

Project	Mode of Procurement	Number of Registered Bidders	Winning Bidder	Project Cost (in million pesos)	Approved Budget for the Contract (in million pesos)	End-User
Mobile Communication Network (MCN)	Negotiated Procurement	4	Triton Communications Corporation	46.500	44.640	GHQ
40mm Grenade Launcher	Negotiated Procurement	--	Under bidding	12.538	12.036	Philippine Navy
PKM-ROK Shipment from Korea to Philippines	Negotiated Procurement	6	All Transport Network, Inc.	19.250	19.250	Philippine Navy

The Mobile Communication Network project aims to provide communications service support to tactical operations of major AFP units. The Request for Price Quotation (RFPQ) was issued on 10 June 2004 with the post-qualification evaluation conducted on 02 July 2005.

The 40mm Grenade Launcher Acquisition Project for the Philippine Marines is a weapons acquisition project. Although the TWG submitted a revised Request for Price Quotation (RFPQ) to the AFP Negotiating Team (AFPNT) on January 2005, the project is still set for pre-procurement conference.

The bid for the Shipment of Navy's PKM Project was opened on 18 July 2005 but no bids were submitted, prompting a failure of bidding to be declared. The second re-bidding was opened on 02 September 2005 with three proponents participating but discrepancies in the bidders' eligibility documents led to a declaration of the bidding process as a failure once again. After two failed public biddings, a negotiated procurement was conducted with the participation of two bidders on 13 December 2005. All Transport Network, Inc. was declared the Lowest Calculated Bid (LCB).

The two projects currently being studied as regards the most advantageous mode of procuring them are the following:

Project	Project Cost (in million pesos)	End-User
VHF/FM Handheld Phase II	930.839	Philippine Army
Squad Automatic Weapon (SAW) Phase II	613.894	Philippine Army

The VHF/FM Handheld Radio Transceivers Phase II Project consisting of 4,582 units for the Philippine Army was recommended by the AFP to be procured through direct contracting with Harris Corporation, the winning bidder of the project's phase I, which was procured through public bidding. Re-negotiation on the contract price with Harris was conducted on 09 March 2005 for the Phase II of the project. The initial signing of the contract was held on 10 March 2005, with the contract being signed and approved by the Chief of Staff, AFP on 04 April 2005.

Likewise, the Squad Automatic Weapon (SAW) Phase II Project was recommended by the AFP to be procured through direct contracting with FN Herstal of Belgium, the supplier of the Phase I project. FN Herstal of Belgium signed the contract on 13 July 2004 and the Chief of Staff, AFP subsequently signed the contract on 06 September 2004.



On 10 November 2005, in view of the disapproval by the Government Procurement Policy Board (GPPB) of the VHF/FM Handheld Radio Transceivers Phase II and the SAW Phase II contracts on the ground that conditions attendant under direct contracting are not present and that resorting to direct contracting would not result to a more advantageous price for the government, the SND, upon the recommendation of the DND-BAC, returned the contracts to the AFP. The CSAFP was directed to study and recommend the most advantageous mode of procuring radios and the SAW such as, competitive public bidding, Foreign Military Sales (FMS) and government-to-government arrangements, which comply with the provisions of RA 9184 and its IRR and the relevant opinion of the GPPB in order to obtain the best possible price and quality and in the most expeditious time practicable.

Replacement Projects

In 2005, the following seven projects with approved program of expenditures were identified as either non-responsive to the requirements of the AFP to develop its Internal Security Operation (ISO) capabilities or uneconomical to implement: (1) Surface Attack Aircraft (SAA) Acquisition; (2) BO-105 Helicopter Upgrade Phase I; (3) BO-105 Helicopter Upgrade Phase II; (4) Landing Ship Tank (LST) Upgrade; (5) F-27 Aircraft Upgrade; (6) S-76 Helicopter Upgrade and (7) 40mm Automatic Grenade Launcher (AGL) Acquisition. As a result, the implementation of these projects was discontinued and their corresponding budgets re-aligned to other projects.

The following projects replaced those that were scrapped: (1) Night Capable Attack Helicopter (NCAH) Acquisition; (2) 76 mm Ammunition Acquisition; (3) Signal Intelligence (SIGINT) Equipment Acquisition; (4) Landing Craft Utility (LCU) Acquisition. The replacement project for the 40mm AGL is still under deliberation by the Philippine Navy. The replacement projects have a total project cost of P 1,569,590,000.00.

Project	Mode of Procurement	Project Cost (in million pesos)	End-User
Night Capable Attack Helicopter	Public Bidding	1,262.500	Philippine Air Force
76 mm Ammunition	Public Bidding	62.090	Philippine Navy
SIGINT Equipment Acquisition	Public Bidding	25.000	Philippine Navy
Land Craft Utility (LCU)	Public Bidding	200.000	Philippine Navy
40 mm AGL Replacement Project	Public Bidding	20.000	Philippine Navy

The Night Capable Attack Helicopter Acquisition replaced three (3) Philippine Air Force projects namely: (1) Surface Attack Aircraft (SAA) Acquisition, (2) F-27 Aircraft Upgrade and (3) S-76 Helicopter Upgrade. The replacement project is under-going evaluation at the Department of National Defense prior to recommendation for approval by the President. The Circular of Requirements (COR) and Bid Evaluation Plan (BEP) were approved by the AFP Capability Development Board (AFPCDB) on 26 August 2005 and will be made the basis for the preparation of the bid documents for the conduct of public bidding.

The 76 mm Ammunition and SIGINT Equipment Acquisition projects replaced the Philippine Navy's BO-105 Helicopter Upgrade Phase I and Phase II projects. The re-aligned projects were approved by the President on 07 November 2005. The Philippine Navy is currently preparing the COR and BEP for the two projects prior to the conduct of public bidding.

The Landing Craft Utility (LCU) Acquisition replaced the Landing Ship Tank (LST) Upgrade project of the Philippine Navy. Also, the replacement project is under-going evaluation at the Department of National Defense prior to endorsement to the President for approval. The COR and BEP were approved by the AFP CDB on 14 October 2005.

The replacement project for the 40 mm AGL acquisition project is still being studied by the Philippine Navy prior to endorsement to the GHQ.

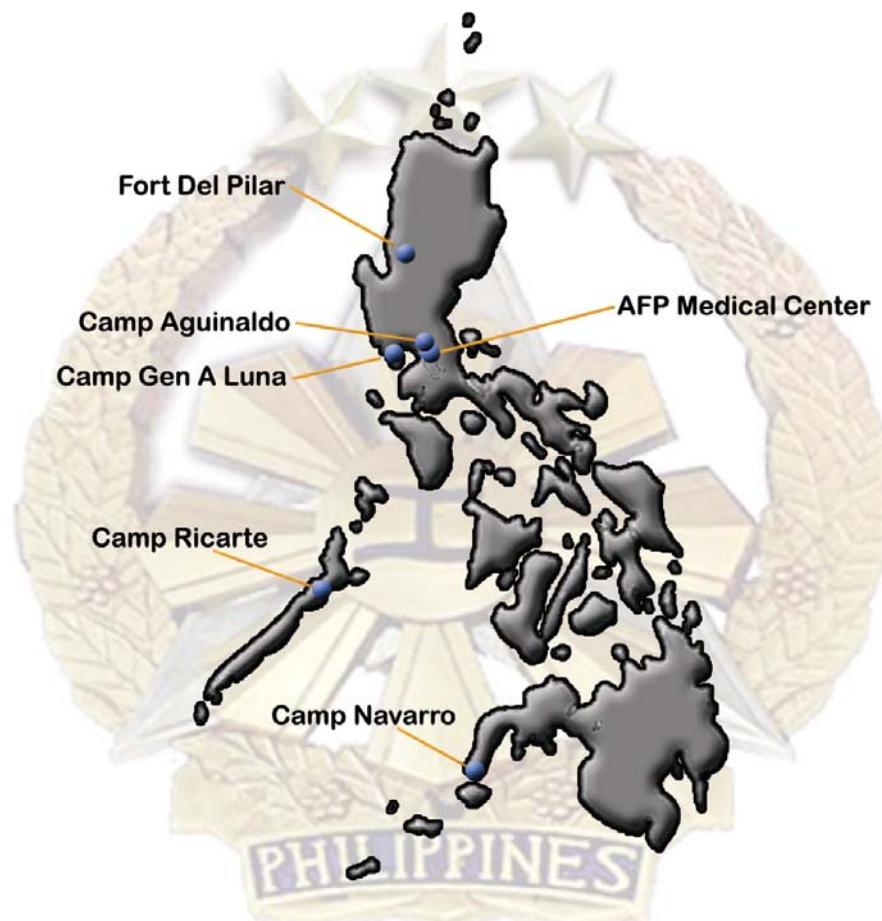
Recapitulation of Projects with Approved Program of Expenditure

	Project Cost (in million pesos)
Previously Completed Projects (6)	702.067
2005 Completed Projects (8)	1,689.386
Projects Under Implementation (8)	1,965.634
Projects Under Various Stages of the Procurement Process (19)	4,149.211
Replacement Projects (5)	1,569.590
TOTAL	10,075.888

Bases and Support Systems Development

The Bases and Support System Development concerns the maximization of defense facilities. This entails the enhancement of real estate facilities, upgrade of camps through new constructions and the refurbishment of existing buildings and facilities.

For the General Headquarters, the development of six camps is under its responsibility. These are the following: (1) Camp General Emilio Aguinaldo in Quezon City, (2) AFP Medical Center in Quezon City, (3) Camp General Antonio Luna (Government Arsenal) in Bataan, (4) Camp Ricarte in Palawan, (5) Camp Navarro in Zamboanga City, and (6) Fort Del Pilar in Baguio City.



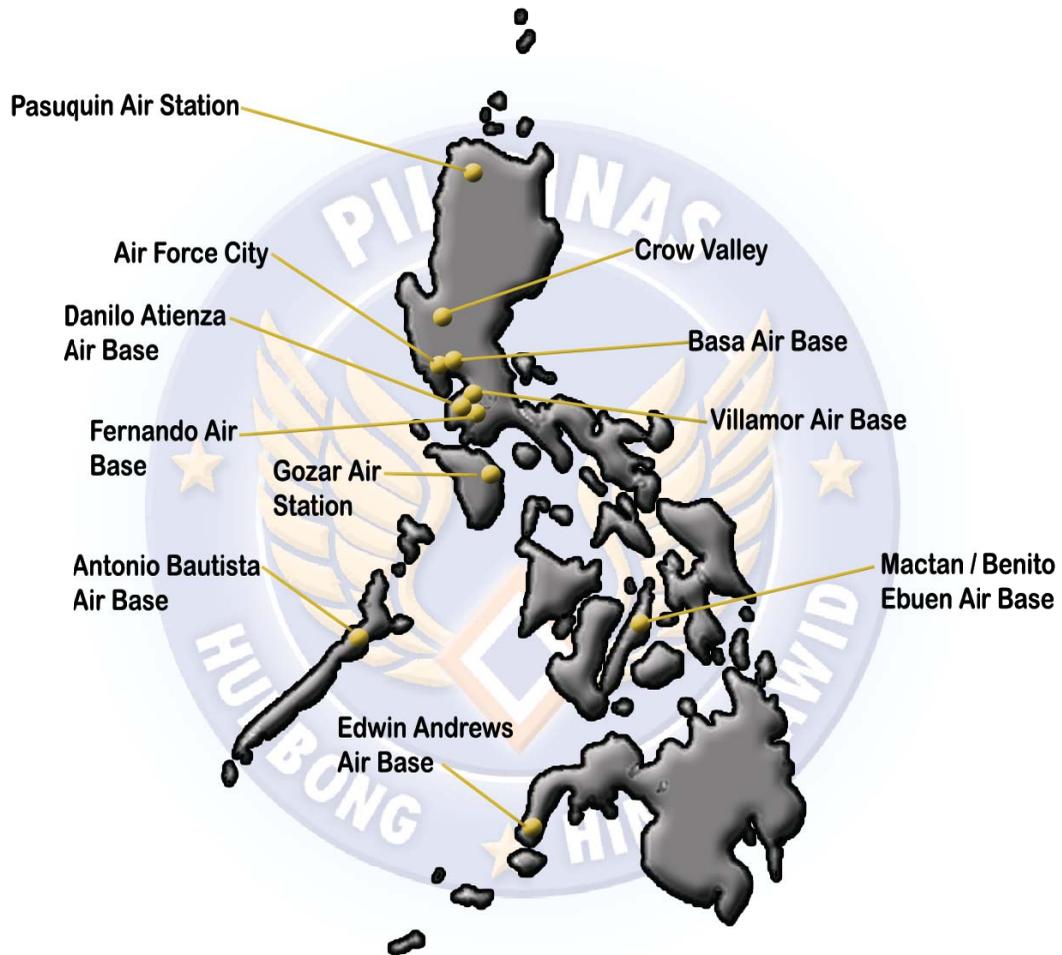
For the Philippine Army, Joint Resolution Number 28 provides for the development of sixteen military reservations under the Army's Modernization Program, with thirteen being programmed and an additional three not originally listed in the priority list being included. These are the following: (1) Camp Aquino in Tarlac City, (2) Camp Capinpin in Rizal, (3) Tulay na Lupa Military Reservation in Camarines Sur, (4) Camp Natividad in

Bukidnon, (5) Camp Evangelista in Cagayan de Oro City, (6) Camp Sang-an in Zamboanga del Sur, (7) Camp Lapu-lapu in Cebu City, (8) Camp Daza in Western Samar, (9) Camp Peralta in Capiz, (10) Mayapay Military Reservation in Agusan del Norte, (11) Fort Magsaysay in Nueva Ecija, (12) Camp Siongco in Maguindanao, (13) Camp dela Cruz in Isabela, (14) Camp Tecson in Bulacan, (15) Camp Riego de Dios in Cavite, and (16) Camp O'Donnel in Tarlac.

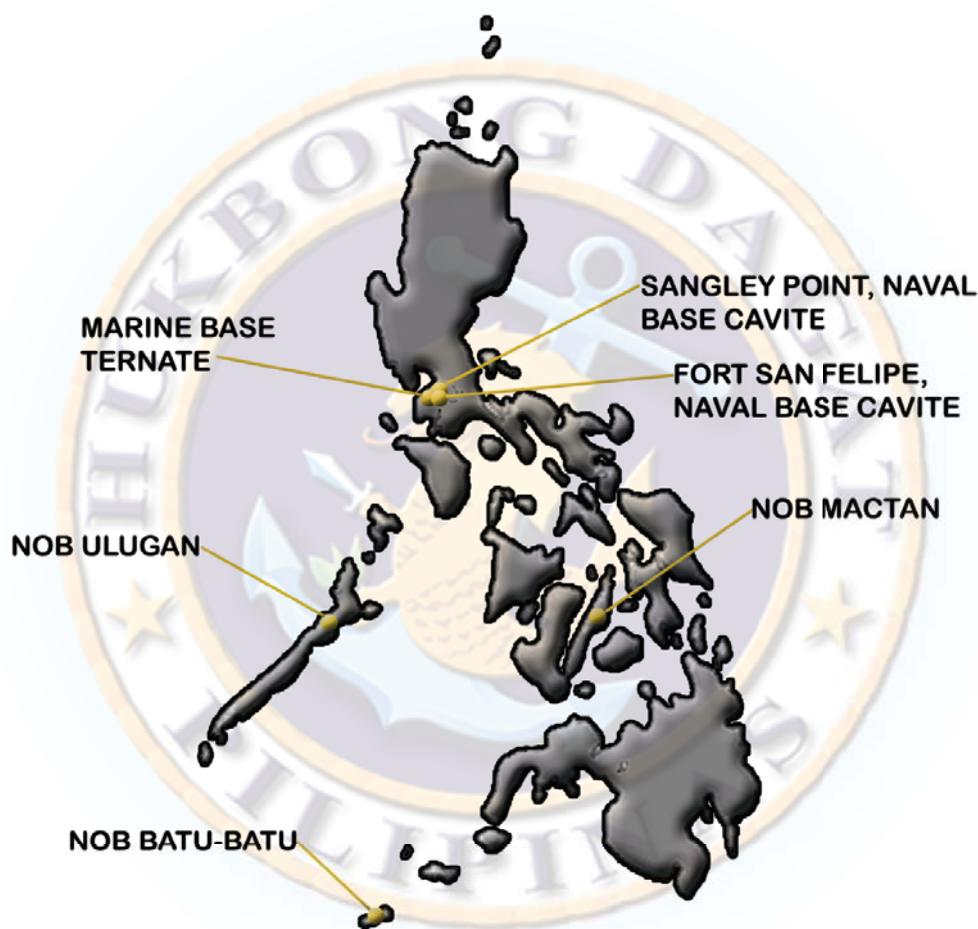


Three of these camps are for the Rapid Deployment Forces (RDF), eight for infantry divisions, three for engineering brigades, one for the Training and Doctrines Command (TRADOC) and one for the First Scout Ranger Regiment (FSSR). Camps occupied by Philippine Army units are given priority in line with the AFP's current priority of conducting internal security operations. With regard to the thirteen programmed camps, six are in Luzon, three are in the Visayas, and four are in Mindanao.

For the Philippine Air Force, eleven camps are programmed for development. These are the following: (1) Colonel Jesus Villamor Air Base in Pasay City, (2) Pasuquin Air Station in Ilocos Norte, (3) Gozar Air Station in Lubang Island, (4) Crow Valley in Tarlac, (5) Antonio Bautista Air Base in Palawan, (6) Edwin Andrews Air Base in Zamboanga City, (7) Basa Air Base in Pampanga, (8) Mactan/Benito Ebuena Air Base in Cebu City, (9) Danilo Atienza Air Base in Sangley Point, Cavite City, (10) Fernando Air Base in Lipa City, (11) Air Force City in Clark, Pampanga.



For the Philippine Navy, the following bases and naval stations are being developed: (1) Naval Operating Base Ulugan in Puerto Princesa City, (2) Naval Operating Base Batu-Batu in Tawi-Tawi (3) Marine Base in Ternate, Cavite, (4) Naval Operating Base in Lapu-Lapu City, (5) Naval Base Cavite in Sangley Point, Cavite City, and (6) Naval Base Cavite, Fort San Felipe (FSF) in Cavite City.



The development and upgrade of camps and the facilities is a tedious process. The AFP has to go through certain processes involved in developing any real state property such as identifying the boundaries of AFP property and securing special patent, titles or registry of military reservations. As of December 2005, only 49 (35%) of the total 140 projects initially identified under this component have been completed; 27 (19%) are currently being undertaken, while almost half (64) are yet to be started. The table below shows a summary of the total number of projects, the number of completed projects and on-going projects disaggregated in terms of GHQ/AFPWSSUs and the three major services.

Summary of Status for BSSD Projects

	Total Projects	Completed Projects	On-going	Not Yet Started
GHQ/AFPWSSUs	13	6	6	1
Philippine Army	41	29	12	0
Philippine Air Force	44	3	0	41
Philippine Navy	42	11	9	22
Total	140 (100%)	49 (35%)	27 (19%)	64 (46%)

As regards the camps assigned for development by the GHQ, a civilian contractor (Katimbang Surveying Company) was hired to identify the boundaries of six camps for development. The topographic surveys of the six camps have been completed in previous years and by 2005, all the pertinent documents have been submitted to the Department of Environment and Natural Resources (DENR) and the Register of Deeds for the issuance of Special Patent/Titling/Registration of these military reservations.

In addition, the terms of reference of the conceptual master plan/master development plan for the AFP Medical Center has been submitted in 2005 by the AFPMC to the general headquarters for evaluation.

In the development of the Philippine Army-assigned camps, four main projects have been undertaken namely topographic survey, selective fencing, crafting of conceptual master plans, and land development. For 2005, topographic surveys have been completed in the following camps: (1) Fort Magsaysay in Nueva Ecija (27 August 2005), (2) Camp Dela Cruz in Isabela (27 August 2005), and (3) Camp Sang-anm in Zamboanga Del Sur (11 November 2005).

Selective fencing has been completed for Camp Daza in Western Samar (765 linear meters) and Camp Natividad in Bukidnon (66 meters). The project administrators have presented their project completion reports for these projects to the Philippine Army Capability Development Board on 11 April 2005 and 11 November 2005, respectively.

With regard to the conceptual master plans, the Philippine Army Capability Development Board has approved the CMPs for Camp Sang-an in Zamboanga Del Sur and Camp Siongco in Maguindanao on 11 February 2005 and 13 September 2005, respectively. The CMPs for the following camps have been presented to the Philippine Army Capability Development Board: Camp Daza in Western Samar (17 June 2005), Camp Lapu-Lapu in Cebu City (21 October 2005), Camp Peralta in Capiz (23 November 2005) and Camp O'Donnel in Tarlac (23 November 2005). The CMPs are now for review by the Bases and Support Systems Development Committee.

Land development has been undertaken for Camp O'Donnel in Tarlac. Phase 1 of the project involving the construction of a 1.4 kilometer concrete road from the provincial highway to the Light Armor Brigade area has been completed and the Project Administrator has submitted the project completion report on 28 July 2005. On the same date, the project completion report of Phase II of the project involving the construction of 4.62 kilometer perimeter fence has been submitted.

As regards the air bases for the Philippine Air Force, the Project Procurement Management Plans/Supplemental Procurement Plans regarding the original or relocation surveys for its camps except the Danilo Atienza Air Base in Cavite City and the Air Force City in Clark Air Base, Pampanga are currently being prepared. A Terms of Reference (TOR) for public bidding as the mode of procurement for consulting services is also being prepared.

On 19 December 2005, pre-bidding of certain projects for the various air bases was held. These are waste disposal system for Colonel Villamor Air Base, improvement of Crow Valley, maintenance shed for the 205th aircraft in Edwin Andrews Air Base in Zamboanga,

upgrading of water distribution system, multipurpose/mess hall for the 355th Aviation Engineering Wing and equipment maintenance shed in Basa Air Base, upgrading of water distribution system for Fernando Air Base, and multi-purpose hall of the Air Reserve Command in Air Force City, Pampanga.

The Philippine Air Force also proposed the inclusion to the AFP Modernization Program of the following: deep-well with 15 HP submersible 25,000 galloons for Colonel Jesus Villamor Air Base, aircraft shed for Marcheti in Edwin Andrews Air Base, one 10-door apartment for officers in Basa Air Base, quadruplex officers quarters and one 10-door enlisted personnel apartment in Mactan/Benito Ebuena Air Base, one 5-door enlisted personnel apartment in Danilo Atienza Air Base in Cavite City and one 10-door enlisted personnel apartment in Fernando Air Base in Lipa City.

For the Philippine Navy, the following projects are currently on-going. These are the construction of supply depot warehouse and rehabilitation of water and power system for Naval Operating Base Ulugan; rehabilitation of transient officers' quarters, communication building and medical/dental building for Naval Operating Base Batu-Batu; construction of perimeter fence as well as concreting and asphaltting of the base road network for Marine Base in Ternate.

The Philippine Navy proposed the inclusion of several projects to the AFP Modernization Program. These are the following: rehabilitation of fender pile cluster for Naval Operating Base Ulugan; and installation of water distribution system, rehabilitation of electrical distribution system and construction of 50,000 galloons capacity water tanks with booster pump for Naval Operating Base Batu-batu. Also awaiting approval is the detailed architectural and engineering plan of the shore power and lighting facility for Naval Operating Base Ulugan and the proposed construction of concrete pier for Naval Operating Base Batu-Batu.

On 17 November 2005, the Supplemental Procurement Plans for certain projects pertaining to Naval Base Cavite in Sangley Point are now with the AFP Bids and Awards Committee. These are the following: (1) construction of four 10-door apartment enlisted personnel quarters, (2) construction of four 10-door apartment officers quarters, (3) preparation of Site Development Plan (SDP) on Detailed Architecture and Engineering Plan (DAEP) for ground and utility development, (4) demolition works at officers quarters and enlisted personnel quarters sites.

The supplemental procurement plan for the projects pertaining to Naval Base Cavite in Fort San Felipe has also been submitted for approval but was returned to the Philippine Navy for corrections regarding variations in the approved program of expenditure and modes of procurement. These are the following projects: (1) construction of 10-door apartment for enlisted personnel, (2) construction of a 10-door apartment for officers, (3) water system, (4) elevated water tanks, (5) ground water tanks, (6) shore power facility, and (7) master development plan.

In the meantime, certain projects in Naval Operating Base Ulugan are still on hold pending the release of funds resulting from the revalidation of their respective special allotment release orders (SAROs). These are the following: (1) rehabilitation of water and power system (Phase II), (2) construction of base administration building, (3) rehabilitation of ammunition dump building, and (4) installation of navigation buoys.

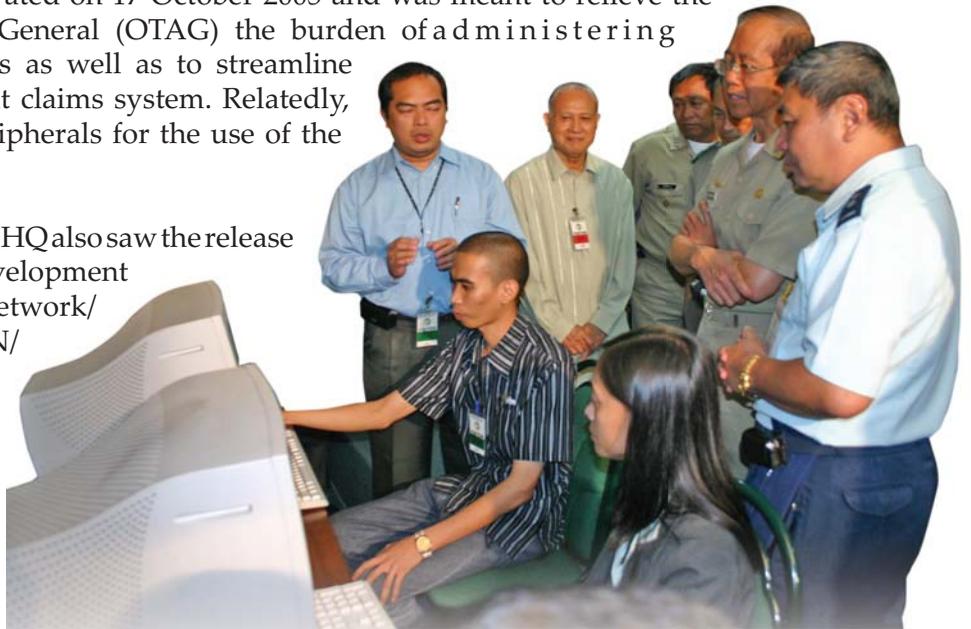
Human Resource Development

The Human Resource Development component of the Modernization Program involves the recruitment, training, employment and management of AFP officers, enlisted men and civilian employees. The training and education programs under this component aim to make the AFP capable of performing its traditional role in national defense and other non-traditional roles like environmental protection and disaster preparedness and management.

GHQ/AFPWSSUs

For the year 2005, the General Headquarters (GHQ) facilitated the processing of the required documents for the creation of relevant Human Resource Development (HRD) units and procurement of equipment and other items needed to enhance the capacity of these units and offices. One such office is the Pension and Gratuity Management Office (PGMC) which was activated on 17 October 2005 and was meant to relieve the Office of the Adjutant General (OTAG) the burden of administering benefit claims of retirees as well as to streamline the process of the benefit claims system. Relatedly, computer units, and peripherals for the use of the OTAG were acquired.

During the year, GHQ also saw the release of funds for software development namely local area network/ wide area network (LAN/ WAN) connectivity, virtual private network (VPN) solutions, and on-line enrollment and registration services. Funds were also released for training on database administration, document management system, administration and security systems and filing system.



The provision of effective and efficient medical services to military personnel indirectly contributes to human resource development. In this regard, the acquisition by the GHQ and other AFPWSSUs of various medical apparatuses for radiology, anesthesia, operating room, intensive care unit and recovery facilities contributes towards the development of the AFP's human resource. Relatedly, the GHQ, in coordination with the Major Services, was also able to improve PHILHEALTH collection. As a result, the reimbursement collection doubled for the year. Proceeds of the collection and other funds from trust receipts were utilized to support the improvement of AFP medical services.

Philippine Army

For the Philippine Army, human resource development is composed of: (1) career development and (2) worklife quality improvement. Under the career development dimension, three projects have been initiated. These are (1) personnel information system, (2) automated fire direction center system and (3) management trainings.

As regards the personnel information system Phase II, the necessary software has been developed as early as 23 November 2005 and the necessary equipment totaling to seventy personal computers and one generator set has been procured. The system is currently being tested and would soon be ready for use by the Army Adjutant General (OAAG), Information Management Office (OMA) and the Army Personnel Management Center (APMC).

The automated fire direction center system (AFDCS) has been tested on 26 May 2005 and 3 September of the same year in Fort Magsaysay in Nueva Ecija. The appropriate equipment numbering to around 28 notebook computers with installed AFDCS software have been issued to the field artillery battalions. A User's Training program for field artillery battalions has also been completed on 23 November 2005.



As regards the management training program, more specifically the Philippine Army Leader Development Program, full scholarship for a bachelor of science degree was granted to three officers and scholarships for a masters degree were likewise accorded to two officers, who finished their respective courses in 2005.

Under worklife quality improvement, the following projects have been initiated: (1) field entertainment and information dissemination system, (2) Discipline, Law and Order (DLO) Automated Clearance System, and (3) Philippine Army wide area network connectivity.



As part of the field entertainment and information dissemination system, 775 units of direct-to-home satellite dishes have been procured and distributed to field units. Starting on 24 January 2005, the broadcast on selected shows/programs have been shown in Dream TV of Channel 13. Around eighteen hours of the total twenty-six hours of broadcast have been completed and the remaining eight hours of airtime commenced to be shown on Channel 52 starting on 12 December 2005.

The Commanding General of the Philippine Army approved the Philippine Army Discipline, Law and Order (PADLO) Clearance System on 12 January 2005 which paved the way for the procurement of the necessary equipment composed of fifty-three personal computers, seven scanners and a database server. Technical inspection was conducted on 13 September 2005 and commensurate project completion report was submitted on 11 October 2005.

For the Philippine Army wide area network, VSATs and servers have been installed to the following Army units: nine infantry division headquarters, Special Operation Command (SOCOM), First Scout Ranger Regiment (FSRR), Light Armor Brigade and the Army Reserve Command. The policies and guidelines for the utilization of these equipment have been published on 23 February 2005 and technical inspection was conducted on 19 July 2005. The appropriate project completion report was subsequently submitted on 25 August 2005.

Philippine Air Force

For the Philippine Air Force, four major projects were undertaken under this component. These are the Aerosystem Engineer Course, Air Weapons Controller Course, Training Needs Analysis and Personnel Management Information System.

Under the Aerosystem Engineer Course Project, the first and second batches with seven students each have completed their Diploma in Urban and Regional Planning (DURP) in 2004. Seven of them (4 and 3 from the 1st and 2nd batches respectively) are pursuing a Master's Degree in Urban and Regional Planning. The Air Force is now processing the next batch of officers who will undertake a degree on urban and regional planning.

The Training Needs Analysis, which is meant to determine the education and training requirements of the Philippine Air Force in terms of facilities, faculties and curricula has been pursued, with the project aimed for completion by the 3rd Quarter of 2006. This is in spite of the recomposition of the membership of the Project Management Team as a result of its previous members being assigned outside the Philippine Air Force Headquarters.

Likewise, the Personnel Management Information System, which is meant to develop a complete computerization plan for the seamless integration, automation and monitoring of military and civilian personnel-related data, has been pursued. The project is set to be completed by the 2nd Quarter of 2006.

The Air Weapons Controller Training Project, however, has been delayed as a consequence of the refocusing of priority from external defense operations to internal security operations as well as the passage of Republic Act 9184 or the Government Procurement Reform Act of 2003.

Philippine Navy

For the Philippine Navy, its human resource development program was originally subdivided into (1) human resource management system review and development program and (2) skills development program. Most of the projects fell under the skills development program and the rest fall under the morale and welfare enhancement program of the human resource management system review and development program.



Currently the focus was limited to the following categories: (1) career development, (2) personnel procurement, (3) work life quality enhancement and (4) reserve force development. All the projects under the Navy Modernization Program have been completed successfully. For the year 2005, two projects have been completed. These are the Logistics Management Course and the Local Area Network Course. These courses have been completed with twenty and twenty-five students, respectively.

Doctrines Development

Doctrines Development refers to the need of developing, validating or modifying doctrines so that they can serve as the foundations for the “development, employment and deployment” of the Philippine forces. The development of appropriate doctrines is therefore essential if the AFP were to effectively fulfill its mission. The commander-in-chief herself acknowledged the importance of doctrines. In her address to the AFP during its anniversary celebration in 2001, she stressed that “doctrines can ... serve as the basis of how the AFP can be modernized...” and called on the AFP to “formulate its own national military doctrine based on the Philippine situation”.

Doctrines are a “body of principles ... based on accumulation of knowledge gained through experience, study, analysis, and test ... [and] is considered [as] the best way of doing things.” As a body of principles, doctrines develop over time. Codifying them into various manuals, therefore, could not be done overnight. A great number of the doctrines and manuals whose formulation has commenced in previous years continue to be in the process of being formulated or written.

GHQ/AFPWSSUs

For the year 2005, the following doctrines and manuals were initiated: (1) AFP Doctrine for the Provost Marshal General, (2) Doctrine for the Chief Special Service, (3) Doctrine for General Headquarters and Headquarters Service Command, (4) Doctrine for Civil Relation Service Operations, and (5) Doctrine for Philippine Military Academy Operations.

By the end of 2005, the AFP Strategic Planning Manual (AFPM2-5), the AFP Military Strategy for Combating Terrorism Manual (AFPM2-5-X), and the AFP Doctrine for Joint Operations (AFPM3) have been completed and are ready for publication.

The Communication Plan “SangBigkas”, AFP Technical Reserve Manual, Affiliated Reserve Manual, and the Command, Electronic, Information System Service Doctrine Handbook are currently undergoing review and formulation.

With the Secretary of the AFP Doctrines Board are the initial drafts of the following doctrines: (1) AFP Doctrine for Reservist and Retiree Affairs (AFPM2-10), (2) AFP Doctrine for the Quartermaster General, and (3) AFP Nurse Corps Primer (AFPM2-1-X).

Meanwhile, several doctrines have been put on hold as a result of the re-organization that took place within the Armed Forces of the Philippines. These are the (1) AFP Logistics Manual (AFPM2-4), (2) AFP Comptrollership Doctrine Manual (AFPM2-6), (3) AFP Doctrine for Civil Military Operations (AFPM2-7), (4) AFP Doctrine for Education and Training Manual (AFPM2-8), (5) AFP Doctrine for Communication, Electronics and Information System (AFPM2-11), (6) AFP Doctrine for Strategic and Special Studies, (7) AFP Management Policy on Ordnance and Chemical Service (AFPM2-4-X).

Philippine Army

For the Philippine Army, the Doctrine Center of the Training and Doctrines Command (TRADOC) completed on 17 March 2005 the validation and accreditation of nine reference materials. These are the M-60 Machinegun, M-249 Machinegun, Machinegun Marksmanship, M-240B Machinegun, Army Core Philosophy, Counter-Mobility Operations, Public Affairs, Battery Commander's Handbook, Non-Commissioned Officers Guide.

These were subsequently published along with the following doctrines which have been previously validated bringing to fourteen the number of reference materials that were printed and published in 2005. These are the (1) Philippine Army Doctrine Development Manual, (2) Philippine Army Doctrine Development Strategy, (3) Writers and Editors Guide, (4) Philippine Army Nursing Manual, and (5) Information Kit for Fixing Initiative.

The Commanding General of TRADOC also approved on 14 September 2005 the interim publication of five operational manuals. These are the Engineer Officer Career Handbook, Public Affairs Operations, Engineer Counter-Mobility Operations, Dental Service and Disaster Operations Manual. The software development of Doctrine Center System was also completed on 21 November 2005.

In addition, three manuals have been initiated in 2005, namely the Army Aviation Rules of the Air, Training Exercise Manual and the Standards of Nursing Practice. A draft of the aviation rules manual has been completed in 2005 while the nursing practice manual is now for testing and evaluation of the Doctrines Committee of TRADOC. The training exercise manual is currently being developed.

Philippine Air Force

For the Philippine Air Force, the merger of some air staffs resulted in consequent changes in the Doctrines Development Program of the Air Force, particularly the transfer of responsibility for doctrines development. The primary responsibility for doctrines development was transferred from OA8 to OA3 and then to OA5. The PAF Doctrines Development System was revised and subsequently approved by the Commanding General, PAF on 25 November 2005.

Nonetheless, by the end of 2005, the following doctrines have been published. These are the PAF Intelligence Manual, PAF Reservist and Retiree Affairs Manual, Comptrollership Manual, and National Development Related Document.

The following are undergoing review: (1) PAF Basic Doctrine, (2) PAF Air Operations Doctrine Manual, (3) Air Logistics Manual, (4) Plans Doctrine Manual, (5) Civil-Military Doctrines Manual, (6) Communications, Electronics and Information System (CEIS) Manual.



Scheduled for formulation are the following: (1) Internal Security Operations, Special Operations, (2) Peace Support Operations, (3) N-22 Tactical Doctrine for Weapon System, (4) PAF Special Operations, (5) Air Force Combat Search and Rescue, (6) F-27 Aircraft Operations Guide and Minimum Equipment List, (7) C-130 Minimum Equipment List, (8) Tactical Air Lift Operations, (9) Air Force Tactical Helicopter and Support Operations.

Philippine Navy

For the Philippine Navy, the Surface Warfare Doctrine has been approved and promulgated by the Flag Officer in Command (FOIC) on 11 March 2005. These are the Philippine Navy Basic Doctrine, Marine Special Operations Doctrine and the Maritime Search and Rescue Doctrine. The Naval Air Operations Doctrine is awaiting approval by the FOIC.



Meanwhile, the following doctrines are up for deliberations: (1) Maritime Patrol of the Exclusive Economic Zone Doctrine, (2) Seal Operations, (3) Electronic Warfare, (4) Philippine Navy Education and Training, and (5) Weapons Communications, Electronics and Information System (WCEIS).

The first formulation of the following doctrines is on-going. These are the (1) Explosive, Ordnance and Demolition, (2) Integrated Logistics Support, and (3) Defense of Ports and Harbors.

The first draft of the Project Management Doctrines, Comptrollership Doctrine, and Ships and Yards Doctrine have been completed while the first drafts of the Personnel Management, Intelligence, Naval Operations, and Plans and Programs have been finalized. The second draft of the Reservist and Retiree Affairs Doctrine has been completed and the third draft of the civil-military operations doctrines is currently on-going. The formulation of the Doctrine on Logistics has been put on hold.

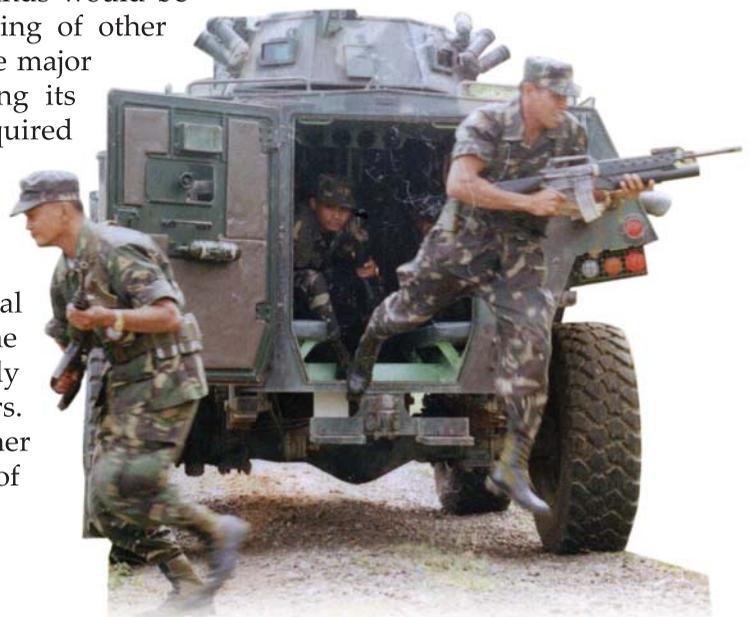
Significant Development

In 2005, the Medium Term Capability Upgrade Program (Mid-term CUP) was conceived. A six-year program originally proposed in early 2005, the AFP Mid-term CUP aims to restore at least 70% of the critical capabilities of the AFP which are needed in conducting ISO. These capabilities pertain to (1) command, control, communications, computers, intelligence, surveillance and reconnaissance (C⁴ISR), (2) mobility, and (3) firepower. These capabilities are prioritized because they contribute significantly in the fight against insurgency or in the conduct of ISO. Specific targets have been set for each year so that equipment are gradually acquired. This would enable the AFP to attain the desired enhanced capability by the end of six years. In late 2005, the originally proposed CUP was revised to focus on retraining and retrofitting twelve army battalions and two marine battalions each year as well as enhancing the Air Force's attack and helicopter squadrons.

For a period of six years, a total of 84 infantry and marine battalions will be equipped and trained, which means providing them with equipment for C⁴ISR, mobility, fire power and combat support. In addition, a national training center will be established to provide for the training needs and requirements associated with the program.

Towards this end, it has been proposed that the amount of P5 billion be allocated annually for the said program. It must be emphasized, however, that the development of these critical capabilities does not only entail the acquisition of platforms. Personnel training and doctrines development as well as of the necessary support systems are equally important. Thus, an integrated logistics support system for at least six years would be incorporated in the contracts regarding the projects under the AFP Mid-term CUP. In addition, P 3.5 billion for operation and maintenance of these equipment for a period of six years is also necessary.

Even with the required P3.5 billion for the operation and maintenance of the newly acquired equipment under the Mid-term CUP, no substantive additional funds would be required given the expected decommissioning of other AFP assets within the next years. Each of the major services of the AFP would also be devising its own strategy for supporting the newly acquired equipment. In overall terms, funds for the program may come from unobligated funds or savings from the appropriations of the defense department provided for in the General Appropriations Act, supplemental budget, reserves of the AFP being held by the budget department, which is approximately 10% of the AFP appropriation, among others. Revenues could also be generated from other sources such as the lease of idle real estate of the AFP and other cost-cutting measures.



Assessment

The vision of developing a capable and effective Philippine military is gradually taking shape with the completion in 2005 of eight major projects under the CMTD component of the modernization program as well as with the projects completed under the four other components.

With the CMTD projects alone, the delivery of handheld and manpack radios as well as force protection equipment for the Army and Marines has improved their capability to conduct operations. For the Philippine Air Force, the delivery of 20 UH-1H helicopters and the upgrading of its OV-10 aircrafts through the overhaul of its engines and installation of new propellers has enhanced the operational capability and readiness of the Air Force. The nine generators for the Navy's Jacinto Class Patrol Vessel have also contributed to the enhancement of the Navy's capability. Several other projects are also currently in the pipeline, with a great number already having contracts awaiting approval.

Nonetheless, observers may be correct in pointing out that the program's implementation has been relatively slow. It must be understood though that the seeming slow pace of the program's implementation is shaped by three major factors. First is the systemic tediousness of implementing a modernization program. Second are the difficulties in funding the program. And third is the continuous need for the AFP to adjust to changes in the overall security environment the Philippines faces.

Indeed, the process of modernizing the armed forces could be aptly described as tedious. Developing bases, formulating manuals are not done overnight. More importantly, acquiring and procuring defense equipment is complex and caution is extremely necessary to ensure that funds for projects are spent judiciously and appropriately. It was also noted that the implementation of Republic Act 9184 (Government Procurement Reform Act) has indirectly meant a slower phase in undertaking certain projects as the new procurement system was put in place.

Not only is the process tedious, the AFP has also been faced with financial constraints and limitations. And although efforts are being exerted by the Defense Department and the AFP to generate funds for the modernization program, related programs continue to hang in the balance. Support from the public as well as other departments of the governments therefore is necessary.

The AFP itself had to continuously adjust to changes in the external and domestic security setting prompting it to make necessary changes as regards what capability (external defense capability or capability for internal security operations) to develop in the short or medium term even as it pursues a long term modernization program. Making a choice on what to prioritize is needed given the limited resources made available to the armed forces. Thus, while the original modernization program was geared for developing the external defense capability of the AFP, the armed forces had to make the necessary adjustments and focus on enhancing its internal security operations capability in the light of a resurgence of threats to the domestic security of the Philippines.

Issues and Concerns

The systemic tediousness of the process involving the procurement of defense-related equipment is a key challenge for the AFP as it implements its modernization program. Related to the defense acquisition process is the absence of an Implementing Rules and Regulation (IRR) on Multi-year Obligation Authority (MYOA). An IRR on MYOA is needed because big-ticket items require multi-year contracts. Without it, the AFP cannot embark on projects that require multi-year payment schemes. This delayed the implementation of capital equipment projects in the program. The continuing need to adapt to a changing security environment requiring a change of priority in terms of equipment to acquire is another challenge faced by the Philippine military.

But the more fundamental challenge in regard to the implementation of the modernization program pertains to ensuring that funds are made available for the program. Although the program was jump started with the AFP's share from the Bases Conversion Development Authority (BCDA) for the sale of military camps amounting to P 5.4 billion in CY 2000 and the AFP's share grew to a total of around P 6.6 billion for the years 2001, 2002, 2004 and 2005, the sustained availability of funds remains a question. Even with the appropriated P5 billion which came in 2002, the other funds generated from the sale of excess assets (old equipment) from the Philippine Army and the Navy, proceeds from the Government Arsenal and interest income of the trust fund from the Development Bank of the Philippines (DBP) and Land Bank of the Philippines (LBP), the amount currently available for modernization-related projects is not sufficient.

In fact, the amount of P 11.6 billion, which has been made available from the various sources identified in RA 7898 is way below the authorized ceiling of P 10 billion each year as the bench mark. A big proportion of the amount currently available has been used for completed and on-going projects and remaining funds have been earmarked for pending projects in the pipeline. It must also be noted that although it is stipulated in RA 7898 that funds for the program shall be appropriated based on a ceiling of P 50 billion for the first five years, no other appropriations were subsequently made.

What is critical therefore as regards the sustained implementation of the program are the following: (1) support from the House of Representatives and the Senate for the early passage of proposed legislative measures that would ensure that funds are available for the program, (2) regular appropriations for the program, and (3) renewed participation of other relevant agencies of the government for the resolution of certain legal, technical and financial issues.

Recommendations

The tediousness of the procurement process has slowed down the pace of acquisition of equipment. But this is necessary to ensure that limited resources are spent with transparency and accountability. This is something that the AFP recognizes. Similarly, the change of priority from external defense related equipment to those that enhance the AFP's capability to conduct internal security operations may have, to a certain extent, caused some delays in the procurement of certain equipment. But this is needed if the AFP were to effectively perform its mandate of ensuring the security of the Philippines.

What must be done, however, is for the IRR on MYOA to be formulated to enable the AFP to undertake projects requiring multi-year payment schemes as well as execute the relevant contracts properly. More importantly, funds for the sustained implementation of the program need to be made available. As previously noted, although efforts are being exerted by the Defense Department and the AFP to generate funds for the modernization program, related programs continue to hang in the balance.

Thus, what is needed is for Congress to approve the proposed amendments to related legislations, namely RA 7898 (AFP Modernization Act of 1995) and RA 7227 (BCDA Act of 1992) as well as passage of new legislations that would pave the way for the generation of additional funds to support the program.

The proposed amendments to the RA 7898 seek to make the AFP Modernization Program a continuing program and provide for a base annual appropriation to be based on a percentage (not less than 0.3%) of the latest official Gross National Product (GNP). Other issues such as integration with the Self-Reliant Defense Posture (SRDP) Program, expansion of sources of funding, adoption of a simplified Defense Acquisition System, and exemption from all fees, taxes, duties and assessments are addressed by amendments contained in House Bills 1255 and 1450 introduced by Representative Reylyna G. Nicolas and Representative Mauricio G. Domogan, respectively.

On the other hand, proposed amendments to RA 7227 or the BCDA Act of 1992 seek to increase the AFP share from the sale, lease and joint venture agreements involving military camps under the BCDA Law from 35% to 72.5%. This is relevant since the proceeds from the sale of military camps is one of the sources of funds for the AFPMATF. Although RA 7227 was initially amended by RA 7917 in February 1995 which increased the AFPMP share from 32.5% to 35%, several proposed amendments were filed at the Senate. These are Senate Bills 971, 1282, and 1759 introduced by Senators Jose Ejercito Estrada, Rodolfo Biazon and Ramon Magsaysay Jr., respectively. However, among the bills filed, Senate Bill 971 seem to provide the optimal advantage to the DND and AFP. It stipulates the retention of military reservations deemed vital to national defense; exemption from all forms of national and local taxes and deduction of transactional expenses; increase in the AFP shares from the net proceeds of converted base lands from 35% to 55%; AFP's participation in the decision-making process for the disposal of former base lands; and retroactive effect of the Law from the passage of RA 7227.

Meanwhile, another major legislative fund generation effort being pursued by DND and AFP is the creation of the Military Real Estate Development Authority (MREDA). The main purpose of the proposed government-owned corporation is to raise revenues for the modernization program. This will ensure a maximum share of all net proceeds in the disposal of AFP real estate properties not covered by BCDA Law. The proposal is being supported through House Bill 1471 authored by Representative Mauricio Domogan, House Bill 1256 authored by Representative Reyline Nicolas and Senate Bill 1759 introduced by Senator Ramon Magsaysay Jr. These bills are currently up for deliberation.



In addition, Senate Bill 1855 introduced by Senator Luisa P. Ejercito Estrada will enable the allocation and transfer of funds to the AFPMATF from identified sources. The proposed law will not only cover the share of the national government on all taxes, royalties and charges collected from Malampaya Natural Gas-to-Power (MNGP) Project but also collections of capital gains and value-added taxes from the sale of real properties made by the Bureau of Internal Revenue (BIR). It is envisioned that the proceeds from these taxes will go a long way in supporting the implementation of the program.

Thrusts for CY 2006

Taking off from the points raised in the previous section of this report, the AFP intends to pursue the following thrusts for the year 2006. First is to continuously push for the allocation of funds by Congress. The Secretary of National Defense himself has identified the implementation of the modernization as one of the four policy thrusts that the Defense Department would focus on. Republic Act 7898 provides for the appropriation of P10 billion annually for the first five years of the program. The program is now on its 10th year since it was approved by Congress through Joint Resolution Number 28 in December 1996. Yet, only P 5 billion has been appropriated for the program.

Second is to pursue other legislative initiatives that would facilitate the implementation of the program as well as generate more funds for projects under the modernization program. These include the proposed amendments to RA 7898 (AFP Modernization Act of 1995) and RA 7227 (BCDA Act of 1992), creation of the Military Real Estate Development Authority (MREDA), allocation and transfer of funds to the AFPMATF from the share of the national government on all taxes, royalties and charges collected from Malampaya Natural Gas-to-Power (MNGP) project, collections made by the Bureau of Internal Revenue (BIR) of capital gains and value-added taxes from the sale of real estate properties.



Third is to promote the Defense Department's as well as the AFP's interest on the following matters involving the BCDA that could be translated into additional revenues for the program. These include (1) lease of NAIA Terminal III, (2) transaction between BCDA and Fort Bonifacio Development Corporation (FBDC), (3) share from the Heritage Park Project, (4) potential funds from the Southside Homeowners Association, Inc. (SHAI) & Navy Officers Village Association, Inc. (NOVAI) areas, and (5) securitization of AFP's future receivables from BCDA.

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 and AFP that a net interest accrual amounting to P1.31 billion was recorded from June 2000 to December 2003. The P5.4 billion BCDA remittance for the trust fund earned interest which was reckoned upon issuance of the Special Allotment Release Order (SARO) issued by the Department of Budget and Management (DBM) on 30 May 2000. However, the Bureau of Treasury could not transfer the said interest income to the AFPMATF because it has no basis and per comment from Department of Finance (DOF) and DBM on the issue. To this effect, a Permanent Committee will review DOF-DBM-COA Joint Circular Number 4-98 which stipulates the rules and regulations on the proper handling/administration of the trust fund to conform to RA 7898. The DND/AFP is also contesting the reckoning date for the computation of interest earned, from the issuance of SARO to the actual remittance in March 1995. If this will materialize, computations of initial interest earned will more than double.

In the meantime, while these initiatives are being pursued, studies are likewise being conducted on the possible utilization of portions of camps not covered by the BCDA Law either through lease, joint development or sale to generate additional funds to support the modernization program. Sixteen camps viable for commercial purposes were identified namely: Camp General Emilio Aguinaldo, Fort Magsaysay, Camp San Andres, Cavite Naval Base, Marine Base Ternate, Camp General Antonio Luna, Basa Air Base, Camp Aquino, Camp Adduru, Camp Ola, Camp Downes, Camp Lapu-Lapu, Mactan Air Base, Camp Evangelista, Camp Kibaritan, and Fernando Air Base. Similarly, the DND-AFP is carefully evaluating proposals from private entities for the lease or joint venture of Basa Air Base, Crow Valley, Poro Point, Clark Air Base and Sangely Point to name a few.

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RADM JORGE G NECESITO AFP

Vice-Chairman:

BGEN ERNESTO D BOAC AFP

Member:

CAPT RAFAELITO R SACDALAN PN (GSC) (until 31 Oct 05)

BGEN FRANCISCO A VILA JR AFP (from 01 Nov 05)

2005 AFP Capability Development Board

Chairman:

VADM ARISTON V DELOS REYES AFP

Honorary Member:

MGEN EDILBERTO P ADAN AFP (until 12 Oct 05)

LTGEN SAMUEL B BAGASIN AFP (from 13 Oct 05)

Vice-Chairman:

MGEN ROMEO D ALAMILLO AFP

Members:

MGEN GABRIEL M LEDESMA AFP

RADM ABRAHAM R ABESAMIS AFP

MGEN CHRISTIE B DATU AFP

RADM MATEO M MAYUGA AFP (until 24 Oct 05)

MGEN HORACIO S TOLENTINO AFP (from 25 Oct 05)

RADM TIRSO R DANGA AFP

MGEN PEDRO CESAR C RAMBOANGA JR AFP

MGEN ANTONIO O ANCIANO AFP

BGEN CHARLIE F FAYLOGA AFP (from 06 May 05)

MGEN EDWIN H VARGAS AFP (until 18 Apr 05)

MGEN RAUL D RELANO AFP (from 07 Jun 05)

MGEN ANTONIO L ROMERO II AFP

BGEN MANUEL F LLENA JAGS AFP

Member/Secretary:

MGEN REYNALDO D RIVERA AFP (until 21 Jul 05)

CAPT RUPERTO RICO C BORROMELO PN (MNSA) (from 22 Jul 05)

2005 AFP Capability Development Planning Committee

Chairman:

MGEN ROMEO D ALAMILLO AFP

Vice-Chairman:

BGEN JOSE T BARBIETO AFP (until 10 Jul 05)

COL REYNALDO O PAMBID PA (GSC) (from 11 Jul 05)

Members:

COMMO EMILIO C MARAYAG AFP

BGEN NATHANIEL C LEGASPI AFP

BGEN VICENTE L GUERZON AFP (until 02 Feb 05)

BGEN ISAGANI C CACHUELA AFP (from 03 Feb 05)

BGEN JOSE ANGEL A HONRADO AFP (until 13 Feb 05)

BGEN JAIME B BUENAFLORE AFP (from 14 Feb 05)

BGEN ZOILO R BENAVIDEZ JR AFP

BGEN MICHELANGELO H SISCAR AFP

COL CESAR A DELA PEÑA PN (M)

BGEN JOSE V CAMPO AFP (until 12 Apr 05)

COL ESTEBAN A CASTRO PAF (GSC) (from 13 Apr 05)

COL ROMEO V POQUIZ JR PAF (GSC) (until 18 Apr 05)

COL ROY O DEVERATURDA PAF (GSC) (from 19 Apr 05)

COL RAOUL J REYES PA (GSC) (from 26 May 05)

COL OSCAR H RABENA PAF (GSC)

CAPT ROLAND S RECOMONO PN (GSC)

COL CARIDAD J AGUILAR JAGS

Secretary:

MAJ FERNYL G BUCA PAF

TWG/PMT Head of Completed Projects in 2005

E-Services Portal

Base Communication Network

Medical Equipment

VHF/FM Handheld Transceiver (Phase I)

HF/SSB Manpack Transceiver (Phase II)

Force Protection Equipment Acquisition

UH-1H Acquisition Project

JCPV Generators

LTC JOSE M JEREOS JR PAF

LTC PEDRO A SUMAYO PA

COL REYNALDO IRENIO DV LIPAT JR MC (GSC)

COL ELMIR S DELA CRUZ (SC) PA

COL ELMIR S DELA CRUZ (SC) PA

COL ARNOLFO B PALMEA (GSC) PAF

COL EMERALDO C MAGNAYE (GSC) PAF

CAPT ZYRIL D CARLOS PN (GSC)



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