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# IMPLEMENTING GUIDELINES, RULES AND REGULATIONS OF THE ARMED FORCES OF THE PHILIPPINES MODERNIZATION PROGRAM

*DND DEPARTMENT CIRCULAR NO. 01, March 06, 2000*

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Chapter 1.0. GENERAL PROVISIONS

ARTICLE 1.1. General Policies, Guidelines and Objectives

1.1.1. The Armed Forces of the Philippines (AFP) shall be modernized to a level where it can effectively and fully perform its constitutional mandate to uphold the sovereignty and preserve the patrimony of the Republic of the Philippines.

1.1.2. The AFP Modernization Program shall have the following objectives:

a. 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;

b. To develop its 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;

c. To enhance its capability to fulfill its mandate to protect the Filipino people not only from armed threats but from the ill effects of life-threatening and destructive consequences of natural and man-made disasters and calamities, including typhoons, earthquakes, volcanic eruptions, major accidents in far flung or inaccessible terrain or at sea and from all forms of ecological damage;

d. To improve its 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 substances taking place in or through Philippine territory;

e. To enhance its capability in the conduct of Internal Security Operations (ISO), particularly in the suppression of insurgency and other serious threats to national security;

f. To enhance its capability to fulfill the country's international commitments; and

g. To develop its capability to support national development.

1.1.3. The AFP Modernization Program shall have the following components:

a. Force Restructuring and Organizational Development (Program I);
b. Capability, Materiel, and Technology Development (Program II);
c. Bases/Support Systems Development (Program III);
d. Human Resources Development (Program IV); and
e. Doctrines Development (Program V).

1.1.4. The AFP Modernization Program shall be implemented over a period of fifteen (15) years. However,



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payments for amortization of outstanding multi-year contract obligations incurred under the Program may extend beyond this period.

1.1.5. The AFP shall prepare and periodically update the Five (5) — Year Rolling Plan which contains the list of AFP Modernization Program projects, the future years' defense program reflecting the AFP's action to keep abreast with changing security concerns and advances in technology, and the estimated expenditures and proposed appropriations for each project. The Five (5) - Year Rolling Plan shall cover the fiscal year with respect to which it is submitted and the four (4) succeeding fiscal years. It shall be submitted to the Secretary for approval.

ARTICLE 1.2. Purpose and Coverage

1.2.1. The Implementing Guidelines, Rules and Regulations (IGRRs) prescribed herein are issued pursuant to Section 4 of the AFP Modernization Act and shall govern the implementation of all the programs and projects under the AFP Modernization Program approved by Congress through Joint Resolution No. 28.

1.2.2. Chapter 8.0 of these IGRRs governs the AFP Modernization Act Trust Fund.

1.2.3. These IGRRs contain the implementing rules and regulations for Section 2 of Executive Order No. 201 (2000).

ARTICLE 1.3. Definition of Terms — For purposes of and as used in these IGRRs, the terms hereunder shall be construed as follows:

1.3.1. "AFP" refers to the Armed Forces of the Philippines.

1.3.2. "AFP Modernization Act" refers to Republic Act No. 7898 which was enacted into law on 23 February 1995.

1.3.3. "AFP Modernization Act Trust Fund" or "AFPMATF" refers to the trust fund created under Section 11 of the AFP Modernization Act.

1.3.4. "AFP Modernization Program" or "Program" or "AFPMP" refers to the modernization program submitted by the President of the Philippines pursuant to Section 7 of the AFP Modernization Act and approved by Congress through Joint Resolution No. 28, dated 19 December 1996.

1.3.5 An "Authority to Transfer Fund" or "ATF" is a document issued by AFP-GHQ to an authorized government depository bank (AGDB) authorizing the transfer of cash deposit to the AGDB branches of the Major Services and Government Arsenal to support the funding of the allotment transferred.

1.3.6. A "Bid Evaluation Plan" or "BEP" is a comprehensive document that contains the procedure for the acquisition of an equipment or weapons system, indicating the method of procurement, conduct of prequalification of bidders and the bidding proper up to and including the award of the contract. It includes the method and criteria to be adopted in the evaluation and assessment of bidders' prequalification statements and the method and criteria for the evaluation and assessment of bids. The Bid Evaluation Plan also includes provisions for the integration and evaluation of countertrade proposals.

1.3.7. A "bid security" is provided to the procurement agency to ensure that the successful bidder shall enter into a contract with the agency when awarded the contract within the time specified in the Notice of Award and furnish the required performance security. Its form, amount and other attributes are governed by existing laws, rules and regulations, unless otherwise indicated in these IGRRs.

1.3.8. A "Combo Account" is a combination of savings and current deposit accounts maintained in an AGDB against which all disbursements of AFPMP shall be made. The account is credited to the amount of deposit and is


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charged with commercial checks drawn.

1.3.9. “Circular of Requirements” or “COR” defines the operational and technical requirements of the equipment or weapons system to be procured. It is presented in the context of the National Defense Strategy, the likely operational scenarios, and the doctrines or concept of operations in which such equipment or weapons system shall be employed. It shall likewise include, as applicable, Force Restructuring, Human Resource Development, Base Development, and other support requirements. If the equipment is part of a systems-mix, such as maritime surveillance, which involves air and sea operations, the concept of operations of the systems-mix shall also be stated. Similarly, in the case of equipment or weapons systems, which have to be operationally inter-phased or integrated with civilian agencies of the government (e.g., air defense radar with civilian air traffic control system), the concept of inter-phase or integration shall be incorporated.

1.3.10. “Construction” means all materials and services associated with the site preparation, excavation, erection, building, installation of equipment or materials, decoration and finishing, construction, reconstruction, demolition, repair or renovation of a building, structure or works, as well as services incidental to construction such as drilling, mapping, satellite photography, seismic investigations and similar services provided pursuant to the procurement contract, if the value of those services does not exceed that of the construction itself.

1.3.11. “Contract Negotiation” is the second stage in the procedure for the acquisition of equipment and weapons systems under the capability, materiel and technology development component of the AFP Modernization Program. It involves the bidding process, including the prequalification of bidders and award of the contract.

1.3.12. “Countertrade or countertrade arrangement” refers to arrangements mentioned in Executive Order No. 120 (1993) and its implementing rules and regulations designed to compensate for foreign exchange outflow, open new markets for Philippine products and services, overcome quota and trade restrictions of other countries, and provide for technology transfer to and industrial growth of the Philippines.

1.3.13. “Department” or “DND” refers to the Department of National Defense.

1.3.14. “Doctrine” refers to the fundamental principles by which the armed forces or elements thereof guide their actions in support of national objectives.

1.3.15. “Equipment” refers to all non-expendable items needed to outfit or equip an individual or organization.

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

1.3.17. “Force structure” refers to the number, size, and composition of the units that comprise the defense force.

1.3.18. “GA” or “Arsenal” refers to the Government Arsenal, a bureau under the Department created by Republic Act No. 1884, as amended.

1.3.19. “Implementing Guidelines, Rules and Regulations” or “IGRRs” refers to the guidelines, rules and regulations prescribed in this Department Circular.

1.3.20. A “Major Equipment or Weapons System” refers to one of a limited number of systems or sub-systems, which, for reasons of military urgency, criticality, or resource requirements, is determined by the Department of National Defense as being vital to the interests of national defense and security.

1.3.21. A “manufacturer” refers to an entity which makes, develops, fabricates, assembles, builds or otherwise


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produces an equipment or weapons system. In case of equipment or weapons systems involving sub-manufacturers, the manufacturer for each part or sub-system shall be required to make the undertaking for the availability of after-sales services and spare parts mentioned in item 3.1.1(e) hereunder, in addition to the undertaking of the principal manufacturer.

1.3.22. A “margin of preference” is an additional point or points granted to a bidder which, all other terms and conditions being equal, provides additional proposals considered advantageous to the government. Such margin shall be calculated in accordance with the Bid Evaluation Plan, stated in the bid documents and contained in the record of procurement proceedings.

1.3.23. “Modernization” refers to the upgrade of forces, units, equipment, and weapons systems. It includes the development of a self-reliant and credible strategic armed force along the concept of a Citizens’ Armed Forces; the reconfiguration of the Armed Forces of the Philippines structure; the professionalization of the AFP; the undertaking of reforms in the recruitment, training, employment and management of AFP personnel; the development, validation or modification of AFP doctrines; the acquisition and upgrading of appropriate technology and equipment; and the relocation, improvement, and construction of bases and other facilities.

1.3.24. “Multi-Year Obligational Authority” or “MYON” is an authorization by the Department of Budget and Management (DBM) to incur obligations or enter into contracts within the specified amount approved by Congress Joint Resolution No. 28. This will assure that funds are available to cover all payments under the multi-year contracts required each year for the implementation of the projects identified therein.

1.3.25. “National Defense Strategy” is the strategy that prescribes national security and defense policies to meet the objectives, purposes and interests of the nation.

1.3.26. A “Notice of Award” is a formal communication made to the bidder whose bid was determined by competent authorities to be the lowest evaluated responsive bid.

1.3.27. A “Notice of Cash Allocation” or “NCA” is a formal document issued by DBM authorizing DND-AFP to withdraw a specific amount from the servicing bank through the use of Modified Disbursement Scheme (MDS) checks for deposit to a Combo Account maintained in an AGDB.

1.3.28. A “Notice to Proceed” informs the winning bidder when to begin the performance of its obligations under the contract and determines the date of effectivity of such contract.

1.3.29. “Omnibus Forward Obligational Authority” or “OFOA” refers to the comprehensive authority issued by DBM to DND-AFP certifying that funds shall be made available to cover the total cost of the AFP Modernization Program as approved under Congress Joint Resolution No. 28.

1.3.30. A “ procurement agency” for purposes of projects involving the acquisition of equipment and weapons systems under the capability, materiel and technology development component of the AFP Modernization Program, refers to the General Headquarters, AFP (AFP-GHQ). For purposes of projects falling under the other components of the Program, the “procurement agency” shall be the Major Services.

1.3.31. “Regular Force” refers to the force largely or wholly composed of professional soldiers maintained in time of peace to protect the people, secure the sovereignty of the State and the integrity of the national territory. It forms the nucleus for expansion in time of emergency.

1.3.32. “Reserve Force” refers to members of the armed forces who are not in active service but who are subject to call to active duty.

1.3.33. “Secretary” or “SND” refers to the Secretary of National Defense.

1.3.34. “Sophisticated defense equipment and weapons systems” refers to highly specialized types of equipment and weapons systems the procurement of which entails a high level of risk, more management resources and greater complexity; and whose manufacturer is an entity owned or operated by a sovereign State or whose export is restricted or otherwise regulated by the manufacturers government. For purposes of determining ownership under this definition, ownership by a State of at least a controlling interest in the manufacturing entity shall suffice. in instances where the manufacturing entity is owned or operated by more than one State, the guarantee referred to in the term in the succeeding definition shall be provided by all such States.

1.3.35. “Sovereign or government guarantee” refers to a statement or declaration issued by a government guaranteeing that a bidder shall, within the time specified in the Notice of Award, enter into a contract with the Department of National Defense of the Republic of the Philippines and furnish the required security for the faithful performance of its obligations under the contract.

1.3.36. A “Special Allotment Release Order” or “SARO” is a final document issued by DBM to DND-AFP containing the authorization and the amount of obligational authority for the implementation of the purposes/projects indicated.

1.3.37. A “Sub-Allotment Advice” or “SAN” is a document issued by AFP-GHQ to the Major Services to transfer the amount of obligational authority for the implementation of the purposes/projects related to the AFP Modernization Program, except projects involving acquisitions under the capability, materiel and technology development component of the Program, which shall be made at the AFP-GHQ level. The SAA serves as the extension of the obligational authority to each Major Service and the Government Arsenal.

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

1.3.39. “Weapons system” refers to a combination of one or more weapons with all related equipment, materials, services, personnel, and means of delivery and deployment (if applicable) required for self-sufficiency. It is the end item that will be used to perform the operational requirement of the capabilities to be developed (e.g., ship, aircraft, armored vehicle, truck, individual and crew-served weapon, communication set, etc.) or the sub-system/component of the end item (e.g., propulsion engine, fire control system, and armament of a ship; engine of the aircraft; armament of the armored vehicle, etc.).

ARTICLE 1.4. Applicability of Pertinent Laws

1.4.1. Presidential Decree No. 1594, as amended, and its implementing rules and regulations (IRRs) shall cover infrastructure and other construction contracts under the Program.

1.4.2. Unless otherwise indicated in these IGRRs, Executive Order No. 302 (1996), as amended by Executive Order No. 201 (2000), and its IRRs shall govern procurement contracts under the capability, materiel and technology development component of the Program.

1.4.3. Contracts for consultancy services under any of the component programs and projects of the AFP Modernization Program shall be governed by existing laws, rules and regulations, particularly Executive Order No. 164 and the NEDA Board-approved Guidelines on the Procurement of Consulting Services for Government Projects.

Chapter 2.0. IMPLEMENTATION OF FORCE RESTRUCTURING AND ORGANIZATIONAL


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DEVELOPMENT PROGRAM

Art. 2.1. Policy and Objectives

2.1.1. The AFP shall be developed into a compact, efficient, responsive and modern force with the capability to engage in conventional and/or unconventional warfare, undertake disaster relief and rescue operations, and contribute to economic development and perform other non-traditional roles.

2.1.2. The AFP Modernization Program shall provide for the identification, organization, training and development of the reserve force and affiliated reserve units in the AFP, especially in the Navy and Air Force.

2.1.3. The AFP shall be structured for external defense, internal security, and other concerns such as the protection and preservation of natural resources, disaster relief and rescue operations, community development and nation building, and the fulfillment of the country's international, regional and bilateral commitments.

2.1.4. The AFP shall maintain two major components, the Regular Force and the Reserve Force.

2.1.5. The AFP shall maintain the tri-service structure. The GHQ shall exercise direct command and control of joint and combined operations.

2.1.6. The AFP shall organize and develop the reserve force and affiliated reserve units as ready complement of the regular force following the Total Force Concept.

2.1.7. Reconfiguration shall be phased according to priority. Phase-out of regulars shall be complemented with phase-in of qualified reserves.

ARTICLE 2.2. The Regular Force

2.2.1. The Regular Force shall be maintained in time of peace consonant to the actual security needs of the State.

2.2.2. The Regular Force shall be reorganized into a compact force capable of responding to any contingency in time of peace, and providing the base for expansion with the accretion of the mobilized reserve forces in time of war or national emergency.

2.2.3. Reconfiguration and transfer of units shall follow the principle of Area of Operational Responsibility (AOR). Units permanently based thereat shall have primary responsibility for the conduct of any operation in the AOR.

2.2.4. There shall be an appropriate mix of forces for efficient and effective operations. The mix shall be balanced with the flexibility and the capability to respond to a variety of contingencies and situations, both military and non-military, in combat and in the community. The units of this balanced force shall be well integrated to operate as a team and complement each other.

2.2.5. A periodic review of the Table of Organization and Equipment (TOE) and Table of Distribution and Allowance (TDA) shall be implemented to determine the appropriate size of the AFP.

ARTICLE 2.3. The Reserve Force

2.3.1. Pursuant to Section 8, of Republic Act No. 7077, the Reserve Force shall be organized into five (5) components, namely:

a. Army Reserve Component;

d. AFP-Wide Technical Reserve Component; and


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b. Air Force Reserve Component;

e. Affiliated Reserves

c. Navy Reserve Component;

2.3.2. Affiliated reserve units at the national and regional levels shall be organized, administered, employed, and controlled by the AFP in times of war or national emergency, as the President may order.

2.3.3. In time of peace, the Army, Air Force, and Navy Reserve units may be structured for employment in search and rescue, and relief operations particularly during disasters and calamities; protection of natural resources and the environment; intelligence-gathering activities of the AFP; augmenting the existing units of the regular force; and other socio-economic development activities.

2.3.4. The AFP reserve units shall be structured to enhance their relevance and usefulness to the communities where they are located, and, correspondingly, to enhance the consciousness and appreciation of these communities of the importance of the role of the Reserve Force in the defense of the country and in socio-economic development.

2.3.5. In time of war, the initial requirements of the reserve units shall be sourced from the government and the private sector.

2.3.6. Affiliated reserve units shall be organized from existing government and privately owned corporations with strategic assets, in contiguous locations, for various defense and security purposes.

2.3.7. The AFP shall identify the specific government facilities, utilities, and private companies that are to be organized as affiliated reserve units and designate the major service or GHQ unit responsible for their control.

Chapter 3.0. IMPLEMENTATION OF CAPABILITY, MATERIEL AND TECHNOLOGY DEVELOPMENT PROGRAM

ARTICLE 3.1. Policies and Objectives

3.1.1. The AFP Modernization Program entails the development and employment of certain capabilities that can address the assessed threats. The acquisition of these capabilities shall be governed by the following policies:

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

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

c. No major equipment or weapons system shall be purchased if the same is not being used by the armed forces in the country of origin or used by the armed forces of at least two countries. A later modified version of such equipment or weapons system, or subsystems thereof, provided such modified version is not a prototype, shall be deemed to be the same as the original one for the purpose of this provision and shall qualify for acquisition under the provision of Section 4(b) of Republic Act No. 7898.

d. Only offers or bids from suppliers who are themselves the manufacturers shall be entertained.

e. No supply contract shall be entered into unless such contract provides for, in clear and unambiguous terms, after-sales services and the availability of spare parts. Such contract shall contain an undertaking by the


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supplier that the maintenance services and spare parts for the equipment or weapons system purchased are available for a stipulated period which shall be equivalent more or less to the estimated remaining life span of such equipment or weapons system.

f. Bidders should not be, or have been, associated, directly or indirectly, with persons or firms or any of their affiliates that have been engaged by the Armed Forces of the Philippines or the Government Arsenal or any of the agencies under the Department to provide consulting services for the preparation of the design, specifications and systems used for the procurement of the equipment or weapons system to be purchased, as well as for the evaluation of the technical and other specifications of bids. A statement to this effect shall be included in the prequalification documents to be submitted by every bidder.

g. Equipment Acquisition and Contract Negotiation shall be treated as two sequential but separate steps, each requiring the separate decision of the Secretary. The decision making process for Equipment Acquisition shall start at the appropriate service command and submitted to the AFP Modernization Board, heretofore known as the AFP Weapons Systems Board, while Contract Negotiations shall start at AFP General Headquarters (GHQ) level.

3.1.2. The AFP Modernization Program shall be geared towards the development of the following defense capabilities:

a. Naval defense capability — given the archipelagic nature of the Philippines, the Philippine Navy (PN) shall develop its capabilities for naval defense, amphibious warfare, sealift and transport, and surface warfare; naval gunfire support, detection and maritime surveillance, search and rescue, disaster response as well as capabilities for anti-air, anti-submarine and mine warfare.

b. Air defense capability — The Philippine Air Force (PAF), being the country's first line of external defense, shall develop its air defense capability by acquiring multi-role aircraft, air munitions, avionics, point and area defense missile system, maritime patrol and reconnaissance, and early warning and control system, as well as capabilities for strategic and battlefield airlift and limited ground attack in support of surface forces.

c. Ground defense capability — The fragmented nature of Philippine land territory requires the Philippine Army (PA) to develop its capabilities for ground defense and internal security as well as its capability for assistance to national development, search and rescue operations, relief and rehabilitation, natural resources and environmental protection.

d. General Headquarters capability — The modernization of the AFP further requires the development of the General Headquarters capabilities for command, control, communications, and information systems network.

ARTICLE 3.2. Development of AFP Capability, Materiel and Technology

3.2.1. The AFP shall develop its capabilities to effectively carry out its Internal Security Operations (ISO) and External Defense Operations (EDO). Its EDO shall address the defense needs at the Kalayaan Island Group and provide protection for the country's 200-mile exclusive economic zone (EEZ).

3.2.2. A National Command Center (NCC) shall be developed as the central facility for national command and control.

3.2.3. The AFP shall adopt information technology systems to enhance management.

3.2.4. The development of the defense capabilities mentioned in Item 3.1.2 above shall be undertaken through the acquisition of new equipment and weapons systems from in-country or foreign sources and the upgrading of existing inventories.

3.2.5. Existing inventories with continuing operational utility may be upgraded; provided, that the upgrade cost is


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reasonable compared to the acquisition cost of new equipment or weapons system; provided, further, that the equipment or weapons system to be upgraded is included in the AFP Modernization Program approved by Congress through Joint Resolution No. 28; provided, furthermore, that such upgrade shall follow the procedure laid down in this Chapter.

3.2.6. Considering the high cost of new equipment or weapons system, used equipment or weapons system may be acquired; provided that:

a. The used equipment or weapons system meets the desired operational requirements of the AFP;

b. It still has at least fifteen (15) years service life, or at least fifty percent (50%) of its service life remaining, or if subjected to a service life extension program, is upgradeable to attain its original characteristics or capabilities;

c. Its acquisition cost is reasonable compared to the cost of new equipment; and

d. The supplier shall ensure the availability of after-sales maintenance support and services.

3.2.7. Lend-lease or lease-purchase arrangements for the acquisition of major equipment or weapons system may be resorted to as practicable and advantageous cost-wise from the standpoint of operations and maintenance, among other considerations.

3.2.8. Phase-in of modern equipment shall be synchronized with the phase-out of uneconomical major equipment and weapons systems in the AFP inventory. Considerations shall be focused on cost factors associated with maintaining these assets vis-a-vis re-allocating such funds for the upgrade of other existing equipment. In this regard, a periodic inventory of existing major equipment and weapons systems shall be conducted to identify those equipment or weapons systems for disposal.

3.2.9. The AFP shall incorporate risk management in the implementation of the AFP Modernization Program.

3.2.10. Communication and electronic equipment to be acquired shall, as much as possible, have built-in communication security features and, if applicable, provisions for upgrade considering the rapid advances in technology.

3.2.11. In contracts worth US One Million Dollars ($1 M) or more involving the acquisition or upgrade of equipment or weapons systems from foreign suppliers, the provisions of Executive Order No. 120 (1993) and its implementing rules and regulations shall apply,

3.2.12. All other terms and conditions being equal, bids for procurement contracts that include arrangements for the setting up of local maintenance facilities for the equipment or weapons system being offered shall, along with other similar arrangements, be given a margin of preference.

3.2.13. Acquisition shall, as much as possible, be multi-sourced, without unnecessarily complicating logistics management and support, in order to avoid over-dependence on one or a few suppliers.

3.2.14. As feasible and without impairing mission-essential requirements, major equipment acquisition shall consider civil-military application and interoperability with other government agencies. The selection of equipment to be acquired shall also consider its application in support of economic development.

3.2.15. The AFP shall maximize the use of existing or planned civilian facilities or infrastructure, particularly communications, to supplement AFP requirements and provide the necessary redundancy to existing or planned AFP systems.

3.2.16. For the procurement of defense equipment and weapons systems, sources of funds other than the annual General Appropriations Act shall be explored. In addition, financial strategies shall be devised to address the huge financial outlay required for this component of the Program.

3.2.17. The operation, maintenance, and repair costs of equipment and weapons systems acquired under the AFP Modernization Program shall be included in the annual AFP regular budget proposal.

ARTICLE 3.3. Procurement Procedure Under the Capability, Materiel and Technology Development Component of the Program

3.3.1. The Five (5) — Year Rolling Plan mentioned in Item 1.1.5 shall be the basis for the formulation of the Circular of Requirements (COR) for the equipment and weapons systems to be procured under this component of the Program.

3.3.2. The Chief of Staff, AFP, shall prescribe the composition and designate the members of the Prequalification, Bidding, and Awards Committee (PBAC) for each project under the capability, materiel and technology development component of the Program, taking into account the inclusion of appropriate legal, financial, technical, and other expertise for a comprehensive prequalification of bidders and evaluation of offers; provided, that the Major Service concerned shall be represented by at least two (2) members in the PBAC.

3.3.3. In the procurement of highly technical and advanced equipment and weapons systems, the services of qualified and experienced procurement consultants may be hired: provided, that the in-house capability of the DND-AFP has first been exhausted or determined to be inadequate: provided, further, that the hiring of consultants shall be in accordance with Item 1.4.3 of these IGRRs: provided, furthermore, that the award of the contract for consultancy services shall, regardless of the amount involved, require the approval of the Secretary.

3.3.4. Whenever applicable, the Joint AFP - Philippine International Trading Corporation (PITC) Countertrade Working Group shall be requested to evaluate the countertrade component of bids or offers and to prepare the countertrade agreements in accordance with Executive Order No. 120 (1993) and its implementing rules and regulations, the Memorandum of Agreement between the Department of National Defense and the Department of Trade and Industry, dated 6 December 1995, and the Memorandum of Agreement between the AFP and PITC, dated 15 May 1996.

3.3.5. The procurement procedure consists of two separate but sequential steps: Equipment Acquisition and Contract Negotiation.

ARTICLE 3.4. Equipment Acquisition

3.4.1. The Equipment Acquisition stage starts at the Major Services level.

3.4.2. The Major Services shall organize their respective Project Management Teams (PMTs), each of which shall be responsible for a single procurement project in all its stages, except the Contract Negotiation stage, from identification up to implementation. PMTs shall be responsible for the formulation of the Circulars of Requirements (CORs) and Bid Evaluation Plans (BEPs).

3.4.3. The AFP Modernization Board, erstwhile known as the AFP Weapons Systems Board, shall review and validate the Circulars of Requirements (CORs) and Bid Evaluation Plans (BEPs). The record of its proceedings shall be appended to its recommendations to the Chief of Staff, AFP and shall contain all the deliberations between the AFP Modernization Board and the Major Service Modernization Board concerned. CORs and BEPs shall be submitted to the Secretary for final approval.

3.4.4. Upon approval by the Secretary, a directive shall be issued to the Chief of Staff, AFP to begin the next step


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of the procurement procedure.

ARTICLE 3.5. Contract Negotiation

3.5.1. The Contract Negotiation stage starts at the AFP-GHQ level.

3.5.2. Upon receipt of the directive mentioned in Item 3.4.4, the Chief of Staff, AFP shall forthwith create a PBAC. Whenever applicable, the AFP shall, prior to the commencement of the bidding, request for a Multi-Year Obligational Authority from the DBM in accordance with the procedure laid down in Item 8.2.3 of these IGRRs.

3.5.3. Due to the urgency of the AFP Modernization Program, all prospective bidders shall be required to submit, as part of their prequalification documents, a statement waiving any right to seek and obtain a writ of injunction or prohibition, or a restraining order against the procurement agency or its PBAC to prevent or restrain the prequalification and bidding processes or any proceeding related thereto, the negotiation and award of a contract to a successful bidder, and the implementation of the contract. Such a waiver shall, however, be without prejudice to the right of a disqualified or losing bidder to question the lawfulness of its disqualification or the rejection of its bid by appropriate administrative or judicial processes not involving the issuance of a writ of injunction or prohibition, or a restraining order.

3.5.4. The list of prequalified and predisqualified bidders shall be submitted to the Secretary for approval. Upon approval by the Secretary, the Chief of Staff, AFP shall notify prequalified and predisqualified bidders within seven (7) days upon notice of such approval. Predisqualified bidders may appeal the predisqualification to the Secretary within fifteen (15) days from receipt of the notice of predisqualification. The Secretary shall act on the appeal within forty-five (45) days from receipt of the appeal. While the appeal is pending, the bidding procedure shall be deemed suspended. The decision of the Secretary on the appeal shall be final and immediately executory.

3.5.5. In the procurement of sophisticated defense equipment and weapons systems, a sovereign or government guarantee shall be allowed in addition to other forms of allowable bid security under existing laws, rules and regulations. A sovereign or government guarantee shall be valid until a contract has been awarded or when a failure of bidding has been declared or when such bidding has been nullified by competent authorities; provided, that if, for whatever reasons, such sovereign or government guarantee is withdrawn at any time prior to the award of the contract, the declaration of a failure of bidding or the nullification of the bidding shall automatically disqualify the guaranteed bidder, unless the latter posts another form of acceptable security within two (2) business days after notice of such withdrawal.

3.5.6. To be acceptable, a sovereign or government guarantee must have the following features:

a. Written on official stationery and bearing the official seal of the issuing Government;

b. Signed by a competent representative or representatives of the issuing government the source of whose authority to sign the guarantee is clearly stated and whose signature or signatures are properly authenticated by competent Philippine consular officials;

c. Declares the ownership interest of the guaranteeing government over the guaranteed bidder or the restricted nature of the equipment or weapons system being offered; and

d. Indicates the duration of the guarantee, which shall conform to the period mentioned in Item 3.5.5.

3.5.7. In view of the inherent complexity in the procurement of sophisticated defense equipment and weapons systems, the periods for the issuance of bid documents, the submission of prequalification statements, the validity of bid securities, the evaluation of bids, the making of a decision whether or not to award a contract, the issuance of the Notice of Award, the approval of contracts, the issuance of the Notice to Proceed, and other similar


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activities may be longer than those prescribed in the implementing rules and regulations of Executive Order No. 302. The extension of such periods shall depend on the degree of complexity of the equipment or weapons systems to be acquired, be indicated in the BEP and stated in the bid documents.

3.5.8. In determining the lowest evaluated responsive bid and in addition to bid evaluation criteria under applicable laws, rules and regulations, the PBAC shall consider the following, which shall be described in the BEP and indicated in the bid documents:

a. The bid price, subject to any margin of preference applied;

b. The cost of operating, maintaining and repairing the equipment, the time for delivery of the equipment, the functional characteristics of the equipment, the terms of payment and of guarantees in respect of the equipment, including the guarantee required in Item 3.1.1(e) of these IGRRs;

c. The effect that acceptance of a bid would have on the balance of payments position and foreign exchange reserves of the country, the countertrade arrangements offered, the extent of local content, including manufacture, labor and materials of the equipment or weapons system being proposed, the economic-development potential being offered, including domestic investment or other business activity, the encouragement of domestic employment, the transfer of technology and the development of domestic managerial, scientific and operational skills; and

d. National defense and security considerations.

3.5.9. The PBAC shall submit to the Chief of Staff, AFP, for endorsement to the Secretary, the ranked list of responsive bids, indicating therein the lowest evaluated responsive bid.

3.5.10. Upon approval by the Secretary, the Chief of Staff, AFP shall issue the Notice of Award to the winning bidder. The Secretary's approval shall include a directive to the Chief of Staff, AFP to finalize the terms of the contract.

3.5.11. The PBAC, assisted by the AFPMPMO, shall prepare and submit to the Chief of Staff, AFP the final contract for endorsement to the Secretary.

3.5.12. Upon signing the contract with the winning bidder, the Secretary shall, whenever Item 8.2.5 hereunder applies, submit the contract to the President for approval.

3.5.13. Upon approval of the contract, the Secretary shall issue to the winning bidder the Notice to Proceed. Provisions in procurement contracts to the contrary notwithstanding, such contracts shall be effective only upon the issuance of the Notice to Proceed.

3.5.14. In the case of multi-year contracts, the Secretary, through the President, shall submit copies of the approved contract to Congress, through the Chairmen of the Senate Committees on National Defense and Security and Finance and the Chairmen of the House Committees on National Defense and Appropriations, to enable Congress to appropriate funds for the contract, pursuant to Section 9(b) and (c) of Republic Act No. 7898.

ARTICLE 3.6. Self-Reliant Defense Posture

3.6.1. A self-reliance policy shall, as much as possible, be pursued in materiel and technology development for the country's defense requirements in order to reduce dependence on foreign sources and at the same time boost the local defense industry. Self-reliance for defense entails careful selection to determine the weapons system or components thereof that should be produced locally or acquired from foreign sources.

3.6.2. The series acquisition of major equipment and weapons systems, shall, wherever feasible, provide


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arrangement for the production of the lead item(s) by the foreign manufacturer in the country of origin, and the subsequent production in the country of the rest of the series under such schemes as transfer of technology, joint venture, or co-production. The upgrading of existing inventories shall likewise follow a similar scheme as practicable. To this end, the DND-AFP may, as necessary, require the foreign proponent to team up with the local defense industry.

3.6.3. The development of the following local maintenance capability for major equipment and weapons systems shall be given priority:

a. automotive transport equipment for a complete domestic maintenance and repair capability;

f. armors;

b. missiles;

g. large caliber weapons; and

c. fire control systems;

h. electronic equipment.

d. aircraft;

e. ships;

Such maintenance capability shall either be in-house or with the private sector or both.

3.6.4. Technical skills and tooling shall be acquired to provide a certain level of domestic repair and maintenance capability for sophisticated components of major equipment and weapons systems. Bidders for the equipment and weapons systems to be acquired under this component of the Program shall be encouraged to incorporate proposals for the provision of such skills and training to AFP personnel in their bids.

3.6.5. Policies under the Self-Reliant Defense Posture (SRDP) program pursuant to Presidential Decree No. 415 shall further govern the development of in-country capability for the production and maintenance of equipment and weapons systems to be acquired.

Chapter 4.0. IMPLEMENTATION OF BASES/SUPPORT SYSTEMS DEVELOPMENT PROGRAM

ARTICLE 4.1. Policies

4.1.1. The AFP Modernization Program shall develop permanent bases for land, air, and naval forces along the following guidelines:

> a. The development of the bases shall conform to the National Defense Strategy and the governments socio-economic thrusts;
>
> b. The base development program shall provide systematic relocation for AFP units to enhance their capability in the performance of their mission, adequate support systems and housing facilities to AFP units and personnel, and training grounds for maneuver and territorial forces as well as the reserve components; and
>
> c. Bases and camps shall be developed along standard criteria for space allocations, zoning and efficient correlation of land areas and structure.


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4.1.2. Item 1.4.1 shall apply in the procurement of construction services under the bases/support systems development component of the AFP Modernization Program. Similarly, Item 1.4.3 shall apply in the procurement of consultancy services necessary for the implementation of this component of the Program.

4.1.3. In cases where the procurement of an equipment or weapons system under the capability, materiel and technology development component of the Program requires the construction of bases and/or support systems, the procurement of construction services shall be incorporated with the procurement plan for such equipment or weapons system. The provisions of Item 1.4.1 of these IGRRs shall, however, govern the procedure for the procurement of construction services.

ARTICLE 4.2. Development of Military Reservations, Camps and/or Bases

4.2.1. Priority in the development of bases/support systems shall be the projection and support of forces tasked to provide internal security, air, and naval defense, and to protect the exclusive economic zone (EEZ).

4.2.2. In areas or locations where camps are needed, the AFP may acquire lands through expropriation proceedings or through executive flat, when applicable. Funds required for this purpose shall be sourced from the Bases/Systems Development Program component of the AFP Modernization Program or from regular AFP appropriations.

4.2.3. The AFP shall, in the selection and development of sites for new bases or camps, consider security implications, space allocations, and regional and environmental factors.

4.2.4. A Master Development Plan based on standard criteria for bases and camps shall be made. Each major service shall prepare appropriate base development plans to be submitted to General Headquarters for consolidation and review, and to the Department of National Defense for approval.

4.2.5. Development and construction plans for all new camps, bases and stations of type units and facilities shall have the same design and specification, to differ only in their capacities for service-peculiar requirements.

4.2.6. Base development plans shall, as far as practicable, provide for future expansion arrangements considering the AFP’s defense strategy in the long term.

4.2.7. Consistent with security and strategic requirements, camps and bases shall, to the extent possible, provide for joint use by the different AFP units. Camps and/or bases of major services may be set on common sites for economical utilization of available real estate and for common use of facilities such as airstrips, gunnery and target range, and training areas.

4.2.8. The Master Development Plan shall include on-base housing for military personnel. Such on-base housing may include recreational areas, open spaces, concessionaires, and other community facilities, as practicable.

ARTICLE 4.3. Excess Military Reservations, Camps and/or Bases

4.3.1. Existing military reservations, camps, bases and stations which are not needed to support strategic plans shall be de-established and disposed of through sale, lease, joint development, or through other means, as may be authorized by Congress, the proceeds of which shall be used to finance the AFP Modernization Program in accordance with the procedure laid down in Item 8.3.4 herein.

4.3.2. The AFP shall submit to the Department of National Defense for approval the proposed disposal of excess military reservations, bases, camps, and stations referred to in the preceding paragraph.

4.3.3. Congressional authorization shall be requested by the Secretary of National Defense, through the President, for the disposal of said excess military reservations, bases, camps and stations.


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ARTICLE 4.4. Ecological and Natural Resource Protection and Safety Precautions

4.4.1. In the selection of the actual location of new bases and camps and the construction and operation of the facilities therein, measures shall be taken to preserve the ecological balance of the area and protect the natural environment.

4.4.2. All base development plans shall include an environmental impact assessment section, which shall contain, among others, precautions to insure that toxic materials or pollutants emanating from base activities do not contaminate the environment and that the operation of training areas where live firing shall be conducted do not endanger surrounding communities or destroy the natural environment.

Chapter 5.0. IMPLEMENTATION OF HUMAN RESOURCES DEVELOPMENT PROGRAM

ARTICLE 5.1. Objectives — The Human Resources Development (HRD) component of the AFP Modernization Program shall have the following objectives:

a. To strengthen the patriotic spirit and nationalist consciousness of the military, and respect for people's rights in the performance of their duty,

b. To develop and transform the AFP into a primarily external security-oriented force even as it continues to perform the primary responsibility in the suppression of insurgency and other serious threats to national security;

c. To develop a compact, effective, efficient, and responsive citizen-based force;

d. To implement programs that will enable the AFP to perform its role in environment/resource protection and multinational peacekeeping operations;

e. To convert the AFP into a service- and people-oriented and professionally-united force; and

f. To improve the quality of life of soldiers and their families and reorient the values of all AFP personnel.

ARTICLE 5.2. Development of the AFP Human Resources

5.2.1. The AFP HRD program shall be coordinated with and complement the other components of the AFP Modernization Program.

5.2.2. The AFP HRD program shall give emphasis to the following:

a. Procurement — Priority shall be given to technically qualified personnel to address the needed skills in the AFP. To attain this, the AFP shall strictly enforce the attrition policy to provide vacancies for the procurement of needed skilled personnel.

b. Training — The AFP shall re-orient its training program to conform to the requirements of the AFP Modernization Program. In addition, the AFP shall pursue opportunities to acquire additional knowledge through joint training exercises with other countries.

5.2.3. The HRD Program shall also consider the following roles of the AFP:

a. Military roles — The AFP shall maintain trained and active territorial forces; secure territorial waters, air space, and the 200-mile exclusive economic zone (EEZ); conduct necessary training and education to its personnel; maintain a ready reserve force; participate in war exercises; and engage in military diplomacy through defense cooperation programs with other defense forces.

b. Developmental and Environmental roles — The AFP shall train and develop its personnel in nation-building and environmental protection.


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5.2.4. All programs under the HRD of the AFP shall be forwarded to the Department for approval.

ARTICLE 5.3. Education and Training Programs

5.3.1. The AFP shall keep itself abreast with the advances in technology and shall continually update and develop its personnel in the use of modern technology. Priority shall be given to programs that ensure a high level of proficiency in military skills and expertise at all echelons.

5.3.2. Responsiveness to present and future requirements of the AFP Modernization Program shall be the primary consideration in selecting local and foreign education and training programs for AFP personnel.

5.3.3. To carry out the objectives of the HRD program, the following specific education and training programs shall be pursued:

a. Programs for the maintenance of the equipment and weapons systems to be acquired under the AFP Modernization Program, to ensure a sustained high level of operational readiness;

b. Technical programs geared towards the development of an in-house capability to develop and produce, through innovation or invention, equipment and weapons systems for the AFP;

c. Training programs in electronics and information technology to update and upgrade existing capabilities of personnel and to cope with the rapidly changing imperatives of the information age;

d. Management training programs to achieve greater efficiency in the utilization of resources, both human and material;

e. Training programs in nation-building and environmental protection;

f. Training programs in peacekeeping operations; and

g. Exchange training programs with ASEAN member-countries and other countries to develop confidence building and interoperability among armed forces of these countries.

5.3.4. The capabilities of AFP institutions to train, educate and undertake research and development shall be continuously updated and enhanced.

Chapter 6.0. IMPLEMENTATION OF DOCTRINES DEVELOPMENT PROGRAM

ARTICLE 6.1. Policy — The new imperatives of the AFP Modernization Program require the review, evaluation and validation of the existing set of doctrines in the AFP. Towards this end, the Department of National Defense and the AFP shall generate, evaluate, consolidate and formalize doctrines; conduct periodic review and validation of doctrines through field application, testing and exercises; and disseminate and inculcate approved doctrines at all levels of command.

ARTICLE 6.2. Development of AFP Doctrines

6.2.1. The Doctrines Development Program shall cover all the strategic, operational and tactical aspects to include intelligence; command, control and communication; logistics; and administration for the application of ground, air and sea forces in independent or joint operations.

6.2.2. The Doctrines Development Program shall be designed to complement all the components of the AFP Modernization Program. It is specifically aimed at validating existing doctrines and formulating new ones in anticipation of changes in strategic, operational and tactical procedures that shall result from the AFP Modernization Program.


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6.2.3. The National Defense Strategy shall be the strategic framework for the formulation of doctrines.

6.2.4. Doctrines to be formulated shall adapt to the domestic setting while considering interoperability with the armed forces of other countries.

6.2.5. In formulating doctrines, the AFP shall consider the dynamic interactive relationship of strategy and doctrines, on one hand, and force posture and resources, on the other.

6.2.6. The formulation of doctrines shall also consider the experiences of the armed forces of other countries to validate military theories or ideas.

6.2.7. The AFP shall enhance its structures and procedures for Doctrines Development.

6.2.8. The Chief of Staff, AFP shall be the approving authority for operational and tactical doctrines.

6.2.9. The Secretary shall be the approving authority for strategic doctrines.

Chapter 7.0. MODERNIZATION OF THE GOVERNMENT ARSENAL

ARTICLE 7.1. Policies

7.1.1. The Government Arsenal shall develop its production capabilities to enhance self-sufficiency in the country's defense requirements. Towards this end, the Government Arsenal shall be effectively utilized in the production of basic weapons, ammunitions and other munitions for the use of the AFP and the Philippine National Police (PNP). Products in excess of AFP and PNP requirements shall be sold and/or exported.

7.1.2. The Government Arsenal may use such production facilities as it may acquire under the AFP Modernization Act, or as it may arrange, under joint venture, co-production or similar agreements, with local and foreign entities.

ARTICLE 7.2. Development of the Government Arsenal

7.2.1. Solely for purposes of implementing its modernization projects under the AFPMP approved by Congress through Joint Resolution No. 28, the Government Arsenal shall be governed by rules similar to those applicable to AFP Major Services, both in terms of procurement procedures as well as in the handling of funds.

7.2.2. The Government Arsenal may enter into joint venture, co-production, or other similar schemes for its modernization with local and foreign entities having the capital, technology, and access to international markets.

7.2.3. The Government Arsenal shall be developed to manufacture ammunition and basic weapons for the AFP and the PNP. In the mean time that this capability is being developed, it shall continue to provide the small arms ammunition requirements of the AFP and the PNP.

ARTICLE 7.3. Sale and/or Export of Excess Products — Products in excess of the requirements of the AFP and PNP shall be sold or exported in accordance with existing provisions of law. The proceeds of the sale of Government Arsenal products shall go to the AFP Modernization Act Trust Fund, pursuant to Section 11 (d) of the AFP Modernization Act and in accordance with the procedure laid down in Item 8.3.4 herein.

Chapter 8.0.

ADMINISTRATION OF THE ARMED FORCES OF THE PHILIPPINES MODERNIZATION ACT TRUST FUND (AFPMATF)

ARTICLE 8.1. Purpose — This Chapter governs the administration of the AFP Modernization Act Trust Fund (R.A. No. 7898), created under Section 11 of the AFP Modernization Act, and implements Joint Circular No. 4-98


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issued by the Department of Budget and Management, Department of Finance and Commission on Audit, dated 22 December 1997.

ARTICLE 8.2. General Guidelines

8.2.1. The Secretary of National Defense (SND) shall be the administrator of the Armed Forces of the Philippines Modernization Act Trust Fund (AFPMATF). As such, the utilization of funds in the AFPMATF shall require the approval of the SND.

8.2.2. AFP-GHQ, through DND, shall, immediately after the issuance of this Department Circular, request DBM for the issuance of an Omnibus Forward Obligational Authority (OFOA) covering the entire AFPMP as approved by Congress under Joint Resolution No. 28.

8.2.3. No multi-year contract for the procurement of goods, equipment and services under the AFPMP shall be entered into without a Multi-Year Obligational Authority (MYOA) issued by DBM.

a. AFP shall explicitly consider the budgetary implications of multi-year contracts during the project design and contract negotiation phases.

b. Before the start of the bidding process or, where applicable, negotiation for negotiated procurement, the procurement agency shall request for a MYOA from DBM. In no case shall the Secretary enter into a contract without such MYOA.

c. The request for the issuance of a MYOA shall include, among others, the following:

i. Estimated amount of the multi-year obligation;
ii. Projected payments for subsequent years; and
iii. Expected amount of revenues to be generated, in addition to other sources of funding, to cover the multi-year obligation.

8.2.4. The AFP Modernization Financial Program shall specify the yearly cash flow requirements for the payment of principal, interest and other related expenses in the acquisition of modernization equipment and weapons systems such as, but not limited to, Freight Expense, Consultancy Services Expense and Administrative Expense in the conduct of Bidding and Bid Evaluation; provided, that Administrative Expense shall not include salaries and allowances.

8.2.5. All contracts under the AFPMP worth Fifty Million Pesos (P50,000,000.00) or more, whether multi- or single-year, shall be submitted to the Office of the President, through DND, for approval.

8.2.6. Except for the interest income of the Combo Accounts for the AFPMP, all funds intended for the AFPMATF from whatever source shall be deposited with the Bureau of the Treasury (BTr) pursuant to E.O. 338.

8.2.7. AFP-GHQ, Major Services and GA shall maintain separate books of accounts for the AFPMATF.

8.2.8. AFP-GHQ shall open and maintain a separate MDS account for the AFPMATF.

8.2.9. AFP-GHQ, Major Services and GA shall respectively establish and maintain Combo Accounts with an Authorized Government Depository Bank (AGDB) to hold the funds transferred to them for the payment of obligations incurred under the AFPMP. AFP shall enter into a Memorandum of Agreement (MOA) with such AGDB to facilitate the transfer of funds from the AFP-GHQ to the Major Services and GA. The MOA shall specify, among others, that the transfer of funds shall be done through the issuance of an Authority to Transfer Fund (ATF).

8.2.10. Upon the termination of the AFPMP, the books of the AFPMATF shall be closed and the balances of


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Assets and Liabilities Accounts shall be transferred to the General Fund (101) of the agencies concerned.

8.2.11. The approved Special Budget and the receipt and transfer of funds for the AFPMATF and all transactions involving the Trust Fund shall be recorded in the books of accounts of fund 172 based on the journal entries prescribed in Annex "A" of DBM-DOF-COA Joint Circular No. 4-98.

8.2.12. In addition to the rules and regulations promulgated herein, the disbursement of funds from the AFPMATF shall be subject to existing budgeting, accounting and auditing rules and regulations.

ARTICLE 8.3. Procedural Guidelines

8.3.1. At the beginning of each budget year, AFP-GHO shall submit to DBM, through DND, the following:

a. A Special Budget reflecting the total appropriations authorized for the AFP Modernization Program in the annual General Appropriations Act (GAA) and other funding sources. Such Special Budget shall include the following: Work Plan, Financial Plan and Cash Program (Annexes 1, 2 and 3, respectively, of DBM-DOF-COA Joint Circular No. 4-98).

b. The Comprehensive Work Program and Financing Program for the projects under the AFP Modernization Program, as approved under Congress Joint Resolution No. 28, to guide DBM in the annual programming of funds. The Comprehensive Work Program and Financing Program shall be updated regularly by DND, in consultation with DBM, in accordance with the Rolling Plan of the AFPMP and the fiscal program of the national government.

8.3.2. Funds appropriated through the GAA:

a. Upon receipt of the Special Allotment Release Order (SARO) from DBM covering the appropriation and allotment under the Special Account in the General Fund (Fund 172), and the Journal Voucher (JV) drawn by the BTR-NCAD, AFP-GHQ shall record the appropriations, allotment and income/fund transfer in its AFPMATF books of accounts under Fund 172.

b. AFP-GHQ shall issue a Sub-Allotment Advice (SAA) to the Major Services and GA, transferring the appropriation and allotment covered by the SARO in the preceding paragraph. AFP-GHQ shall draw a JV for each of the Major Services and GA to take up the SAA in the books of AFPMATF.

c. The Major Services and GA shall record in their respective AFPMATF books of accounts for Fund 172 the SAA based on the JV received from the AFP-GHQ.

d. Based on the Notice of Cash Allocation (NCA) received from DBM, AFP-GHQ shall issue an MDS check for deposit to its Combo Account. Obligations incurred under the AFPMP shall be paid with commercial checks drawn against this Combo Account.

e. The MOA entered into between AFP-GHQ and the AGDB shall govern the transfer of cash from the AFP-GHQ Combo Account to the Combo Accounts of the Major Services and GA. The cash transfer shall be recorded in accordance with the JV and ATF issued by AFP-GHQ.

f. The usual accounting procedures in the incurrence of obligations as well as the recording of corollary entries shall be followed.

8.3.3. Share from the sale of military reservations covered by the Bases Conversion Development Act (RA 7227, as amended by RA 7917):

a. Upon receipt by AFP-GHQ of the JV from the BTr, transferring the share of AFP in the proceeds of the sale of the military camps remitted by the Bases Conversion and Development Authority (BCDA) from Special Account (Fund 170) in the General Fund to AFPMATF (Fund 172), AFP-GHQ shall record the share from sale


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of camps in the AFPMATF books of accounts.

b. AFP-GHQ, through DND, shall request DBM for the use of the proceeds from this fund source in accordance with the approved Special Budget, and the issuance of the SARO and NCA.

c. The applicable procedure outlined in 8.2.2(b) to (f), inclusive, shall be followed in recording the transfer of appropriation, allotment and cash from this source.

8.3.4. Proceeds from the sale of the products of the Government Arsenal (GA); the sale, lease or joint development of military reservations, including immovables and other facilities found therein, not covered by the Bases Conversion Development Act (RA 7227, as amended by RA 7917); and the disposal of excess and/or uneconomically repairable equipment and other movable assets of the AFP and GA:

a. The sale of the products of the Government Arsenal (GA); the sale, lease or joint development of military reservations, including immovables and other facilities found therein, as may be authorized by Congress, not covered by the Bases Conversion Development Act (RA 7227, as amended by RA 7917); and the disposal of excess and/or uneconomically repairable equipment and other movable assets of the AFP and GA, shall, whenever applicable, be governed by the rules on public auction and public bidding, as the case may be, of government assets so as to generate maximum revenues for the government.

b. Proceeds from these sources shall be properly receipted and recorded as income in the disposing agency's books of accounts. The corresponding reduction in assets, when applicable, shall likewise be entered into its books of accounts.

c. The disposing agency shall deposit the proceeds with BTr for the account of the AFPMATF. In depositing the proceeds, the depositing agency shall indicate in the deposit slip the Agency Code and Fund Code of the AFPMATF (Fund 172).

d. The depositing agency shall forward a copy of the validated deposit slip to AFP-GHQ, which shall record the income in AFPMATF's books of accounts.

e. AFP-GHQ, through DND, shall request DBM for the use of the proceeds from this fund source in accordance with the approved Special Budget, and the issuance of the SARO and NCA.

g. The applicable procedure outlined in 8.2.2(b) to (f), inclusive, shall be followed in recording the transfer of appropriation, allotment and cash from these sources.

8.3.5. Interest Income:

a. The interest income of the Combo Accounts as well as its increments shall be recorded in the respective books of the AFP-GHQ, Major Services and GA based on the Monthly Bank Reconciliation Statements.

b. At the end of each year, the Major Services and GA shall transfer all interest and other income of their respective Combo Accounts to the AFP-GHQ Combo Account through bank transfer.

c. In utilizing interest income of the Combo Accounts and its increments, AFP-GHQ, through DND, shall request DBM for the issuance of the covering SARO based on the approved Special Budget and credit advice from the bank. For purposes of utilization of this fund source, the SARO shall suffice since a NCA is not necessary as the cash requirement will be charged against the cash deposit in the Combo Account.

d. The AFPMATF interest income as well as its increments, or a portion thereof, may be invested by the AFPMATF Management Committee created hereunder, subject to the approval of the Secretary of National Defense.

e. The interest income of the AFPMATF shall, pursuant to Commission on Audit (COA) rules and regulations


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and the recurring provision in the annual General Appropriations Act, be invested only in allowable government securities.

8.3.6. The Secretary, upon the recommendation of the Chief of Staff, AFP may request the President for the utilization of budgetary surplus and savings, if any, for the AFPMP. For this purpose, the AFP shall incorporate in its proposed annual budget a provision authorizing the utilization of the agency's surplus and savings for AFP Modernization Program purposes. The utilization of such budgetary surplus and savings shall be in accordance with existing laws, rules and regulations.

8.3.7. The Secretary, upon the recommendation of the Chief of Staff, AFP, may request the President for authority to utilize any unused AFP appropriations for the AFP Modernization Program.

ARTICLE 8.4. AFPMATF Management Committee

8.4.1. An AFPMATF Management Committee, whose members shall be appointed by the Secretary, is hereby created to assist the SND in the administration of the AFPMATF. It shall perform the following functions:

a. Determine, subject to the approval of the Secretary, which of the allowable government securities yields the greatest returns for the purpose of investing therein the interest income of the Combo Accounts for the AFPMP;

b. Undertake studies on how to generate resources to fund the AFP Modernization Program and implement, subject to the approval of the Secretary, the findings of those studies;

c. Advise the Secretary on the management and utilization of the AFPMATF; and

d. Perform such other functions as may be assigned by the Secretary.

8.4.2. In the performance of its functions, the AFPMATF Management Committee shall be assisted by the Defense Modernization Office, which shall create a division to provide secretariat support for the Board.

Chapter 9.0. MANAGEMENT OF THE AFP MODERNIZATION PROGRAM

ARTICLE 9.1. Responsibility for the Implementation of the AFP Modernization Program

9.1.1. The Secretary is the administrator of the AFP Modernization Program and shall exercise his functions through the Chief of Staff, AFP, unless otherwise indicated in these IGRRs.

9.1.2. The Chief of Staff, AFP and Director, GA shall be responsible for the implementation of the AFP Modernization Program in their respective agencies.

9.1.3. The Chief of Staff, AFP and Director, Government Arsenal (GA) shall issue further instructions, including standard operating procedures (SOPs), to implement these IGRRs in the AFP and GA, respectively.

ARTICLE 9.2. Organization and Functions

9.2.1. A Defense Modernization Office (DMO) is hereby created at the Department of National Defense to supervise and monitor the implementation of the AFP Modernization Program. All AFP Modernization Program-related documents requiring the approval of the Secretary shall be addressed directly to the Secretary of National Defense (attention: Defense Modernization Office). The DMO shall be under the supervision and report to the Office of the Undersecretary for Operations. It shall be headed by a Director and have the following functions:

a. Provide secretariat support for the Secretary in the administration of the AFP Modernization Program;


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b. Coordinate the approval processes of all modernization-related programs and projects at the DND level,

c. Provide staff support for the AFPMATF Management Committee; and

d. Perform such other functions as may be assigned by the Secretary.

In addition to the division mentioned in Item 8.3.2, the DMO shall have such other divisions as may be necessary for the effective performance of its functions.

9.2.2. The AFP Modernization Board (AFPMB) shall serve as the advisory body of the Chief of Staff, AFP in the implementation of the AFP Modernization Program and shall, among others, have the following functions.

a. Advise the Chief of Staff, AFP on matters concerning AFP Capabilities development under the AFP Modernization Program,

b. Review and validate the result of studies or evaluations with respect to the capabilities recommended to be developed by the Major Services, GHQ, and AFPWSSUS;

c. Cause the review of current AFP Capabilities vis-a-vis the AFP Modernization Program to determine their validity, relevance, responsiveness to current and future mission requirements; and,

d. Undertake such other functions as the Chief of Staff, AFP may direct.

9.2.3. The Modernization Boards of the Major Services and GHQ/AFPWSSUs shall serve as the advisory body of their respective Major Service Commanders in the implementation of the Major Service Modernization Program and shall, among others, have the following functions:

a. Advise the Major Service Commanders on matters concerning the development of their respective capabilities under the AFP Modernization Program;

b. Review and validate the result of the studies with respect to the development of certain capabilities.

c. Cause the review of the Major Service Modernization Program to determine their validity, relevance, responsiveness to current and future mission requirements; and,

d. Undertake such other functions as the Major Service Commanders may direct.

9.2.4. The AFP Modernization Program Management Office (AFPMPMO) shall assist and advise the Chief of Staff, AFP in the management and implementation of the AFP Modernization Program and in the generation of funds for the AFP Modernization Act Trust Fund. The AFPMPMO shall, among others, have the following functions:

a. Formulate plans and strategies for the implementation of the AFP Modernization Program;

b. Coordinate the approval processes for AFP Modernization Program projects at the AFP level;

c. Monitor the conduct of prequalification of bidders, the bidding process, and funding of projects;

d. Conduct operations research and develop systems to enhance utilization of resources and procedures in the implementation of projects;

e. Evaluate and conduct analysis on the financial aspect of modernization projects vis-a-vis availability of funds in the AFP Modernization Act Trust Fund;

f. Conduct continuing studies on the use of the AFP real estate properties to generate funds;

g. Prepare updates on the implementation of the AFP Modernization Program;

h. Coordinate with various staffs and other agencies on all matters relative to the implementation of the AFP Modernization Program;

i. Assist the AFP Modernization Board and other similar modernization-related bodies created at the AFP level in the performance of their functions;

j. Provide staff support during the evaluation and deliberation of the project for implementation and shall keep a record of the approved projects for reference;

k. Whenever applicable, coordinate with the Joint AFP-PITC Counter-Trade Working Group for the evaluation of counter-trade proposals and preparation of counter-trade agreements,

l. Monitor, through the Major Service Program Management Offices, the implementation of procurement contracts and submit periodic reports to the Chief of Staff, AFP;

m. Provide administrative support to all committees or bodies created by the Chief of Staff, AFP to implement the AFP Modernization Program; and

n. Maintain records of the AFP Modernization Program

9.2.5. The Major Service Modernization Program Offices shall assist and advise their respective Commanders in the management and implementation of the Major Service modernization projects and shall, among others, have the following functions:

a. Update implementing plans of the Major Service modernization projects;

b. Coordinate the approval processes for AFP Modernization Program projects at the Major Service level;

c. Prepare updates on the implementation of the Major Service modernization projects;

d. Coordinate with various staffs, including the Project Management Teams, and other agencies on all matters relative to the implementation of the Major Service Modernization Program;

e. Maintain records of the Major Service modernization projects; and

f. Provide support to the Major Service Modernization Board.

9.2.6. The creation, composition and functions of the Prequalification, Bidding and Awards Committees (PBACs) for construction and equipment and weapons systems acquisition projects, as well as the Prequalification, Evaluation and Awards Committees (PEACs) for consultancy services shall be governed by existing laws, rules and regulations, unless otherwise indicated in these IGRRs.

9.2.7. The Government Arsenal shall, in accordance with Item 7.2.1 above, create the appropriate and necessary body or bodies parallel to those mentioned in Items 9.2.3 and 9.2.5 for the implementation of the modernization projects of the GA.

ARTICLE 9.3. Reportorial Requirements

9.3.1. The Chief of Staff, AFP shall submit to the President and Congress, through the Secretary, an annual report containing the progress of the implementation of the AFP Modernization Program.

9.3.2. The Secretary shall submit to Congress each year at or about the time that the President’s budget is submitted to Congress the Five (5) - Year Rolling Plan mentioned in Item 1.1.5.

9.3.3. The following reports shall be submitted:

a. The Chief of Staff, AFP shall cause the preparation and submission to the DBM and Accounting Office,


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COA, through DND, of all financial reports required under NBC No. 436, dated 28 December 1994; NBC No. 422, dated 27 February 1991; COA Circular No. 92-89E, dated 04 March 1992; Joint Circular No. 9-81A, dated 30 November 1983; and COA Circular No. 96-006, dated 02 May 1996, on quarterly reports.

b. The Chief of Staff, AFP shall also cause the preparation and submission to DBM and Accountancy Office, COA, through DND, of a quarterly consolidated report on the AFPMATF.

9.3.4. The Chief of Staff, AFP shall submit to the Secretary an annual report on the status of the AFPMATF to serve as basis of the SND's annual report to the President and Congress. Such report shall be submitted not later than the end of the first quarter of the succeeding year.

9.3.5. The AFPMATF Management Committee shall submit a quarterly report of its operations to the Secretary. Such report shall be submitted not later than the last day of the first month of the succeeding quarter.

Chapter 10.0. MODIFICATION OF THE AFP MODERNIZATION PROGRAM

ARTICLE 10.1. Guidelines

10.1.1. To meet unforeseen national security emergencies, the Secretary shall recommend to the President the modification of the AFP Modernization Program through substitution or revision of a component project therein. "Substitution or revision of a component project" includes, among others, changes in program schedules, number of equipment or weapons systems to be acquired, and capability mix.

10.1.2. The determination of the existence of a national security emergency that warrants the modification of the Program shall be made upon the recommendation of the Chief of Staff, AFP.

ARTICLE 10.2. Report on the Modification — The President, upon the recommendation of the Secretary, shall report to Congress any modification made to the AFP Modernization Program within thirty (30) days.

CHAPTER 11.0. Final Provisions

ARTICLE 11.1. Separability Clause — If any provision of these Implementing Guidelines, Rules, and Regulations should be declared invalid by a competent court or tribunal, the remaining provisions hereof, unaffected thereby, shall remain valid and binding.

ARTICLE 11.2. Repealing Clause — All orders, circulars, memoranda and other department issuances inconsistent with this Department Circular are hereby repealed or modified accordingly.

ARTICLE 11.3. Effectivity — This Department Circular shall take effect fifteen (15) days from the date of its submission for publication with the National Administrative Register, University of the Philippines Law Center.

Adopted: 06 Mar. 2000

(SGD.) ORLANDO S. MERCADO
Secretary


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